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To: Members of the Executive Board
From: The Secretary
Subject: Special Session of the GATT CONTRACTING PARTIES

Attached for the information of Executive Directors is a report by the Fund observer on a Special Session of the GATT CONTRACTING PARTIES held in Geneva from September 30 to October 2, 1985.

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INTERNATIONAL MONETARY FUND

Special Session of the GATT CONTRACTING PARTIES

Report by the Fund Observer 1/

October 23, 1985

Introduction and summary

The GATT CONTRACTING PARTIES met in Special Session from September 30-October 2, 1985 under the chairmanship of Ambassador F. Jaramillo of Colombia. 2/ The agenda for the Special Session was an "Examination of the subject matter and modalities of a proposed new round of multilateral trade negotiations in the light of the GATT Work Program and priorities for the 1980s as contained in the Ministerial Declaration of 1982 and the continuing consideration of changes in the trading environment so as to ensure that the GATT is responsive to these changes." 3/ The Fund observer was Richard Eglin.

General statements were made by contracting parties in plenary meetings on their positions with respect to a new round of multilateral trade negotiations. The representatives of Argentina, Brazil, Egypt, India, and Yugoslavia supported a new round on trade in goods, but maintained their previous opposition to the consideration of trade in services under the General Agreement and, hence, to the inclusion of trade in services in the agenda of a new round. The representatives of several other developing countries stressed the low priority they attached to trade in services relative to the pressing need for trade liberalization in goods, but they nevertheless confirmed their willingness to participate in a new round with a broad and flexible agenda. The representatives of industrial countries, and particularly the United States, emphasized the urgent need to begin a new round without preconditions set on its scope and coverage, and argued that trade in services needed to be brought under the auspices of the General Agreement if the GATT were to continue to play the central role in the international trading system.

1/ Documents referred to in this report are on file in the Secretary's Department.

2/ GATT/AIR/2190.

3/ GATT document Spec(85)47.

The Special Session concluded with the following agreement:

The CONTRACTING PARTIES meeting in Special Session agree that:

- a preparatory process on the proposed new round of multi-lateral trade negotiations has now been initiated;
- in order to further this process, a group of senior officials, open to all contracting parties, is established; it will meet for the first time on 14 October.
- this group will report to the CONTRACTING PARTIES at their November session;
- at that session of the CONTRACTING PARTIES, a decision will be taken on the establishment of a Preparatory Committee to prepare the basis for the launching of a new round.

It is understood that:

- the senior officials' group will examine the subject matter and modalities of the proposed negotiations in the light of the GATT Work Programme and priorities for the 1980's as contained in the Ministerial Declaration of 1982 and the continuing consideration of changes in the trading environment so as to ensure that the GATT is responsive to these changes;
- the work of the senior officials' group will not prejudice the ongoing work of the GATT in terms of the 1982 Work Programme, and will not prejudice the work on services in terms of the 1982 and 1984 decisions and agreed conclusions of the CONTRACTING PARTIES; the November session will also receive reports on this ongoing work.

The general debate

In an introductory statement, the Chairman of the CONTRACTING PARTIES noted that a majority of contracting parties had voted in favor of the request by the United States, dated July 26, 1985, to convene a Special Session to initiate discussions on the subject matter and modalities of a new round of multilateral trade negotiations. ^{1/} He

^{1/} The request of the United States was contained in GATT/AIR/2180.

called attention to the views expressed in the GATT Council debates of June 5-6 and July 17-19, 1985 as background to the U.S. request, and to written statements by some contracting parties on a new round of trade negotiations. ^{1/} His informal consultations prior to the Special Session had indicated that a wide degree of consensus existed among contracting parties on the need for a new round, inter alia in order to carry the 1982 Ministerial Work Program on to a new phase. He called on the Special Session to consolidate the consensus by examining how the Work Program and new trade negotiations could be linked.

The representative of the United States said that agreement to launch a new round of multilateral trade negotiations was urgently needed in order to arrest the drift toward protectionism and the erosion of the multilateral trading system. A new round was also the only way to make further progress on the Ministerial Work Program. His Government had requested the convening of a Special Session of the CONTRACTING PARTIES because some contracting parties had insisted as a precondition that a new round should exclude inter alia trade in services, before they could give it their support. Setting preconditions was unacceptable to the United States, and he was pleased to note that 65 other contracting parties had supported the U.S. request for a Special Session. He hoped that organizational details of the new round could now be worked out. He did not expect the Special Session to reach agreement on the subject matter and modalities of the negotiations, but only to start discussions.

The representative of Australia characterized the new round as the only way to implement much of the Ministerial Work Program, and to stimulate governments to review their domestic policies and strengthen their production bases through trade liberalization. Each contracting party had priority areas of trade that it wished to see liberalized, and through multilateral negotiations these priorities could be realized in a balanced way. Trade in services was not a priority area for Australia.

^{1/} The reports of the Fund observers on these GATT Council meetings are contained in SM/85/183 and SM/85/231. The written statements of contracting parties are contained in the following GATT documents: Developing countries L/5647 and L/5848; 24 developing countries L/5818 and Add.1; ASEAN countries L/5848; Australia L/5824; Austria L/5849; Brazil L/5852; Canada L/5834 and L/5836; Chile L/5850; EFTA countries L/5804; European Communities L/5835; Japan L/5833; Korea L/5851; New Zealand L/5831; Nordic countries L/5827; Switzerland L/5837; United States L/5838 and L/5846.

He proposed that senior-level trade officials meet to begin discussion on the subject matter and modalities of negotiations. These officials should report in November to the CONTRACTING PARTIES' meeting, which could then establish a formal preparatory committee for a new round. ^{1/}

The representatives of Austria, Canada, the European Communities, Japan, New Zealand, Finland on behalf of the Nordic countries, Spain, and Switzerland supported an urgent start to new trade negotiations, with parallel consideration to be given to a standstill and rollback of protectionist measures. It was not necessary to take a decision on the subject matter of negotiations before agreement was reached on holding a new round, and they supported the timetable proposed by the representative of Australia for preparations leading up to the establishment of a formal preparatory committee in November. They stressed that by agreeing to participate in negotiations countries would not be tied to accepting the result of the negotiations; thus it was unreasonable for any contracting party to block the wishes of the majority to start a new round by placing preconditions on the scope of negotiations. The representatives of Canada and the European Communities also welcomed the statement made by the Group of Five Ministers of Finance and Governors of Central Banks, following their meeting on September 22, 1985, as leading the way to the restoration of a stable international monetary and trade environment; this should be complemented by concerted action under the GATT to reverse recent protectionist tendencies.

The representative of Switzerland added that there was a need to update and broaden the General Agreement in conjunction with the launching of a new round, in order to incorporate areas of international trade that were not currently covered and to improve the functioning of certain GATT articles that no longer provided adequate trade disciplines. The international economic environment, and particularly the exchange rate system, had altered radically since the GATT was originally drafted, and the system of trade rules needed adaptation to reflect this.

The representatives of Chile, Colombia, Hungary, Jamaica, Korea, and Singapore on behalf of the ASEAN countries said that they had supported the convening of the Special Session with a view to breaking the deadlock on the launching of negotiations on trade in goods. They were committed to participating in a new round, which should take as

^{1/} The GATT has no established formal procedure for launching a trade negotiation. In the 1973-79 Tokyo Round trade negotiations, a Preparatory Committee, established in 1973, developed a framework for the negotiations which was adopted as the Tokyo Declaration by ministers of 71 contracting parties meeting in Tokyo in September 1973. See GATT document Spec(85)46, 11/26/85.

its starting point the issues contained in the 1982 Ministerial Work Program, but careful preparation of the subject matter and modalities of negotiations was required. A new round should be preceded by the implementation of a standstill and rollback of protectionist measures by industrial countries so as to build the confidence of developing countries in their commitment to trade liberalization. Measures that were not justifiable under the GATT could not be the subject of negotiation, and should be removed at once. Priority in the new round should be given to unfinished business from the Tokyo Round, in particular the implementation of commitments by industrial countries under Part IV of the GATT ^{1/}, and to liberalization of traditional areas of trade that were of interest to developing countries, such as agricultural products, tropical products, and textiles and clothing, as well as to the reduction of tariff escalation and of nontariff measures. Trade in services was not a priority concern for their countries, but they acknowledged that it was becoming an important area of international trade, and they did not accept that it should be unconditionally excluded from the agenda of a new round. The representatives of Chile and Korea considered that new multilateral disciplines should be developed to bring trade in services under the GATT, while the representatives of Colombia and Jamaica felt that further study was needed before the issue of GATT competence in this area could be determined. All of these speakers supported the agenda of preparations for a new round that had been proposed by the representative of Australia.

The representatives of Argentina, Brazil, Egypt, India, and Yugoslavia supported a new round of negotiations on trade in goods that would give priority to areas of particular concern to developing countries and lead industrial countries to implement their Tokyo Round commitments under Part IV of the GATT. Parallel action was needed to improve the functioning of the international monetary system and to stabilize commodity prices. The most pressing areas of concern for the international trading system had been recognized in the Ministerial Work Program, and it should form the basis for a new round. However, industrial countries were blocking progress on trade liberalization and on improving the functioning of the trading system in traditional areas of GATT competence by insisting on the inclusion of new areas of trade, particularly services, high technology goods, and counterfeit goods, for which GATT was not the appropriate forum. They had substantive difficulties, at the current level of development of their economies, in negotiating concessions with industrial countries on services. They were investing in their own service sectors, for which initially high

^{1/} Part IV of the GATT includes an undertaking by industrial countries to strive to reduce trade barriers affecting developing countries and to refrain from establishing new ones.

protection would be required; if this were denied to them, they would be unable to develop their own comparative advantage in these sectors. Also, some service sectors in developing countries, such as commercial banking, were an inseparable part of national macroeconomic policies and governments could not permit multilateral decisions to interfere with them. Their position was therefore that there did not exist a legal basis for extending the GATT outside its traditional areas of competence, and they opposed time-consuming deliberations on whether new areas of trade should be brought under the GATT while the multilateral trading system continued to erode and protectionist tendencies in trade in agricultural and manufactured goods remained acute. They were committed to participating in a new round as long as it remained squarely based on the multilaterally agreed guidelines for improving the world trading system that were contained in the Ministerial Work Program established in 1982.