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To: Members of the Executive Board

From: The Acting Secretary

Subject: Forty-First Session of the CONTRACTING PARTIES to the GATT

Attached for the information of Executive Directors is a report by the Fund observers on the Forty-First Session of the CONTRACTING PARTIES to the GATT, held in Geneva from November 25 to 29, 1985.

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INTERNATIONAL MONETARY FUND

Forty-First Session of the
CONTRACTING PARTIES to the GATT

Report by the Fund Observers 1/

December 23, 1985

The forty-first session of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade was held from November 25-29, 1985 under the chairmanship of Ambassador F. Jaramillo of Colombia. 2/ The meeting focused on the establishment of the Preparatory Committee for a new round of multilateral trade negotiations. The CONTRACTING PARTIES also examined and adopted the report of the GATT Council of Representatives. 3/ Without discussion, they adopted the reports of the GATT Committee on Trade and Development and the MTN Committee and Councils. 4/ The Fund observers at the meeting were Carlos E. Sanson and C.F.J. Boonekamp.

On October 2, 1985, a Special Session of the CONTRACTING PARTIES agreed to establish a Senior Officials Group to examine the subject matter and modalities of the proposed new round of negotiations. 5/ The Chairman reported that a wide-ranging exchange of views had taken place, but that the Group had not been able to reach agreement on a report to the CONTRACTING PARTIES. 6/ Accordingly, the CONTRACTING PARTIES agreed to discuss issues raised in the Senior Officials Group as part of the review of activities of the GATT. 7/

The representatives of Argentina, Brazil, Egypt, India, and Yugoslavia indicated that they could support the establishment of the Preparatory Committee, provided that sufficient attention was given to the issues of standstill and rollback, safeguards, and the concerns of developing countries in the process leading to the launching of the new

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

2/ GATT documents CGT/200/40-1 and L/5885.

3/ GATT document L/5909.

4/ GATT documents L/5913 (Committee on Trade and Development), L/5808/Add.3 (Status of Acceptances), L/5890 (Technical Barriers to Trade), L/5903 and Corrs. 1-2 (Government Procurement), L/5902 (Subsidies and Countervailing Measures), L/5897 (International Meat Council), L/5904 (International Dairy Products Council), L/5912 (Customs Valuation), L/5884 (Import Licensing), L/5880 (Trade in Civil Aircraft), and L/5901 (Anti-Dumping Procedures).

5/ GATT document L/5876. The report of the Fund observer at the Special Session is contained in SM/85/285 (10/25/85).

6/ GATT document L/5917.

7/ The summary records of the discussions in the Senior Officials Group are to be found in GATT documents SR.SOG/1-12.

round. Largely on the grounds that the exchange of information on trade in services had not progressed far enough to warrant a decision by the CONTRACTING PARTIES on the need for multilateral action in this area, they opposed direct preparations for negotiations on services. However, they were willing to agree to a decision by the CONTRACTING PARTIES to continue the exchange of information on services, and felt that the current absence of a consensus for future negotiations on trade in services should not hinder the preparatory process for negotiations on subject matters within GATT competence. The representatives of several other developing countries agreed that the exploratory process on services should continue, but thought this should not prevent the early establishment of the Preparatory Committee, without explicit preconditions. They nevertheless felt the Preparatory Committee should accord priority to the needs of developing countries, standstill and rollback commitments, and safeguards. The representatives of industrial countries, particularly the United States, urged the immediate establishment of the Preparatory Committee, without preconditions and prejudgments of its work. All issues of concern should be open for discussion in the Preparatory Committee so that it could prepare the agenda and organizational structure for comprehensive negotiations that would lead to trade expansion and liberalization.

The review of activities of the GATT was concluded with the following agreements:

I. The CONTRACTING PARTIES decide that:

- the Preparatory Committee is established to determine the objectives, subject matter, modalities for and participation in the multilateral trade negotiations, taking into account the elements of the 1982 Ministerial Work Programme and the views expressed in the Group of Senior Officials;
- the Preparatory Committee is open to any contracting party or country which has acceded provisionally to the GATT;
- the Preparatory Committee will prepare by mid-July 1986 recommendations for the program of negotiations for adoption at a Ministerial Meeting to be held in September 1986; and

II. the CONTRACTING PARTIES,

- in pursuance of the 1982 Ministerial Decision on Services, and
- in accordance with the Agreed conclusions adopted by the CONTRACTING PARTIES on November 30, 1984, decide to invite contracting parties to continue the exchange of information undertaken in pursuance of the Agreed conclusions of November 30, 1984, and to prepare recommendations for consideration by the CONTRACTING PARTIES at their next Session.

After the adoption of the decision, the Chairman of the CONTRACTING PARTIES made the following remarks, for the record:

"It has emerged from the debate that the questions of standstill and rollback, treatment of developing countries, and safeguards should constitute important issues for the work of the Preparatory Committee;" and

"It is the Chairman's understanding that countries which are negotiating for accession to GATT may also attend the Committee as observers. Countries which have already formally requested accession will thus be able to attend the first meeting of the Committee."

Decision I established the Preparatory Committee, without preconditions or prejudgments of its work. Thus, if it chooses, the Preparatory Committee can make recommendations to the Ministerial Meeting on the question of trade in services. Decision II requires the continuation of the exchange of information on services. The two decisions are independent of each other, and there is no formal linkage between the exchange of information on services and the work of the Preparatory Committee. The Chairman's remarks on participation in the Preparatory Committee allow Mexico observer status in that Committee. During the course of the debate, the representative of Mexico formally requested Mexico's accession to the GATT. The representative of China stated that his Government was actively engaged in a process of preparation for "the resumption of China's membership in the GATT."

1. Activities of the GATT

In his opening remarks, the Chairman had asked contracting parties to keep three points in mind. ^{1/} First, that the international economic situation and the prospects for world trade were deteriorating, not improving. Second, that, in the present circumstances, protectionist pressures were not going to diminish or be easy to fight indefinitely without support from the GATT, the guardian of the open trading system. Third, that 1985 had seen a willingness to seek coordinated and imaginative solutions to problems in the debt and monetary fields, and that, while these actions would support the smoother operation of the trading system, they were clearly not a substitute for the badly needed improvements in the trading system itself. He concluded by stating that it was now time for the CONTRACTING PARTIES to decide how they could fulfill their responsibility for the future of the system.

The representative of the United States said that the problems currently faced by the international trading environment could not be ignored or dealt with in a piecemeal fashion. Contracting parties had to meet the challenge posed by these problems and, to this end, he urged that the Preparatory Committee, without preconditions, be established to

^{1/} GATT document GATT/1376.

determine the subject matter and modalities for comprehensive new negotiations that would address the interest of all countries in a pragmatic and collaborative spirit. His Government believed that the treatment of developing countries and the question of standstill during the negotiating process should be discussed in the Preparatory Committee, so that a Ministerial Meeting could take appropriate decisions on these matters. As to the negotiations, he felt each country should be free to choose those issues on which it would negotiate. Such a procedure would allow countries to pursue negotiations on issues of interest to them, while ensuring that the overall structure of the trading system was significantly improved.

The representative of Australia supported the establishment of the Preparatory Committee, with a direction to complete its work by July 1986 so as to allow a Ministerial decision in September 1986 to formally launch a new round of trade negotiations. The Committee should be formed without preconditions, and important questions such as standstill should be addressed in the context of launching the negotiations. In giving general guidance to the Committee's work, he felt the negotiations should encompass measures which restrain or distort trade in all areas, should have broad participation, and should aim for the liberalization of trade and the strengthening of the multilateral system and the GATT. In this respect, he drew particular attention to the need to address problems in trade in the agricultural, steel, and textile sectors, to adhere to safeguard rules, and to develop a multilateral framework for trade in services.

The representative of the European Communities pointed to an urgent need to establish the Preparatory Committee, in an endeavor to move forward the process leading to the new round of negotiations. An important issue for this Committee would be to develop a meaningful and equitable commitment to standstill to apply during the negotiations. In view of the difficulties of developing countries, he thought there was a case for examining how best to apply the provisions of Part IV of the GATT in an equitable and evolving way. Services, in the opinion of the Communities, should have a place in the new round, but they recognized that Ministers, in launching a new round, would need to decide on this matter.

The representatives of Austria, Canada, Japan, New Zealand, Norway on behalf of the Nordic countries, Spain, and Switzerland expressed the view that an essential step in arresting protectionism was to establish the Preparatory Committee to lay the groundwork for the early commencement of new global trade negotiations that would address the interests and concerns of all parties. No preconditions should be attached to the establishment of the Committee, nor should its work be prejudged. The representatives of Austria, Norway for the Nordic countries, and Spain felt that the continuation of the 1982 Ministerial Work Programme constituted an obvious starting point for the new round and that, to build confidence in the negotiations, contracting parties should make every effort not to impose new protectionist measures. The representative

of Switzerland stressed that, owing to the complexities involved, the necessary objectives and modalities designed to address negotiations on trade in services should be carefully developed. The representatives of Spain and Switzerland asked that the Preparatory Committee examine the GATT legislative framework with a view to improving the functioning of certain GATT articles, such as that on safeguards, which no longer provided adequate trade disciplines.

The representatives of Chile, Hungary, Israel, Malaysia, Poland, Singapore on behalf of the ASEAN countries, South Africa, Sri Lanka, Tanzania, Thailand, Uganda, and the United Kingdom for Hong Kong called for the establishment of the Preparatory Committee, without preconditions, as a vital sign that all contracting parties were intent on liberalizing the multilateral trading system and strengthening the GATT. They recognized that differences existed among contracting parties on substantive issues, but felt that these should be addressed in a new round of negotiations which, inter alia, should build on the foundations laid by the work on the 1982 Ministerial Work Programme. The representatives of South Africa, Sri Lanka, and Uganda spoke in favor of continuing the exchange of information on services.

The representatives of Bangladesh, Colombia, Cuba, Czechoslovakia, Korea, Nicaragua, Nigeria, Pakistan, Peru, Romania, Turkey, and Zaire concurred on the need to establish the Preparatory Committee, but felt it was essential for all contracting parties to implement a standstill and to commit to a rollback of all protectionist measures before a new round of negotiations was launched. It was particularly important for industrial countries to take these steps, as they needed to bolster the confidence of developing countries in their commitment to trade liberalization. There could be no question of paying to remove measures that were not justifiable under the GATT. The rollback of such measures could not be the subject of negotiations; the parties that had resorted to them should remove them unilaterally. An appropriate starting point for the deliberations of the Preparatory Committee would be the issues raised by the 1982 Ministerial Work Programme but not implemented. Priority issues on which the Committee should prepare recommendations for the Ministerial Meeting were the strengthening of safeguard disciplines; the implementation of developed countries' commitments under Part IV of the the GATT; the liberalization and return to GATT rules of trade in agricultural products, tropical products, textiles and clothing, steel, and footwear; and the reduction, especially in favor of the least developed countries, of tariffs and nontariff measures. Trade in services was not yet vital for many of the countries, but they did not want to preclude discussions by the Preparatory Committee in this area, as they felt the Committee should prepare an agenda for the new round that would encompass the interest of all contracting parties. Most representatives felt the investigation of trade in services should continue on a parallel--but not linked--track with the deliberations of the Preparatory Committee. The representative of Korea thought that trade in services should be brought under the GATT. The representatives of Jamaica and Uruguay shared many of the views of the above speakers, but felt that, in agreeing to the Preparatory Committee, all contracting parties should commit to a standstill on protectionist measures.

The representatives of Argentina, Brazil, Egypt, India, and Yugoslavia reaffirmed their support for a new round of negotiations, based on the guidelines in the 1982 Ministerial Work Programme. They indicated agreement on establishing the Preparatory Committee to elaborate, within the framework of the GATT, the objectives, subject matter, modalities, and timing of a new round. In preparing for negotiations, contracting parties should commit themselves firmly to a standstill on all restrictive measures not in strict conformity with the GATT. This commitment should take place as early as possible--in any event, before the negotiations are launched. The Preparatory Committee should lay the basis for a time-bound rollback of all protectionist measures inconsistent with the GATT, especially those affecting developing country exports. The Committee should also give top priority to elaborating the elements of a comprehensive agreement on safeguards, and to ensuring that the special and differential treatment of developing countries under Part IV of the GATT is implemented effectively in all fields of the proposed negotiations. They could not agree, however, to immediate and direct preparations for negotiations on services. It had not been established that services were legitimately within the ambit of the GATT. Moreover, there were problems of definition, and the data base remained inadequate. Before the CONTRACTING PARTIES could decide on the appropriateness of multilateral action in this area, all aspects of services, particularly those relating to developing countries, had to be studied in depth and in cooperation with other relevant international organizations. In this context, they were ready to agree to continued exploratory and analytical work on trade in services. A decision to that effect by the CONTRACTING PARTIES would constitute a legal basis for continued consideration of bringing services within the GATT.

2. Reports of the GATT Council of Representatives

The discussion of most of the items contained in the Council's report to the CONTRACTING PARTIES was brief, as delegations had already expressed their views at the meetings of the Council during the year. ^{1/} The few items discussed are described below. At the end of the deliberations, the CONTRACTING PARTIES adopted, as noted, the report of the Council, the report of the Committee on Trade and Development, and the individual reports relating to the MTN Agreements and Arrangements.

a. Safeguards

The Chairman of the GATT Council reported that it had become common opinion that work on safeguards had to continue, and that some contracting parties had called for a reconvening of the Safeguards Committee.

The CONTRACTING PARTIES agreed that the Safeguards Committee should report at the 1986 session of the CONTRACTING PARTIES.

^{1/} Regular reports to the Executive Board by the Fund observers on meetings of the GATT Council during the year are contained in SM/85/6 (1/3/85), SM/85/85 (3/11/85), SM/85/94 (4/2/85), SM/85/144 (4/16/85), SM/85/168 (6/12/85), SM/85/183 (6/26/85), SM/85/231 (8/14/85), and SM/85/284 (10/25/85).

b. Trade in agriculture

The report of the Committee on Trade in Agriculture requested that the CONTRACTING PARTIES recommend that the Committee continue to elaborate a number of approaches for possible future negotiations aimed at achieving greater liberalization in trade in agricultural products. ^{1/} The representatives of Australia, Hungary, and New Zealand thought that the Committee should work quickly to assist the Preparatory Committee in laying the basis for the new round of negotiations. The representatives of Argentina, Brazil, Chile, Cuba, Egypt, India, Nicaragua, Pakistan, Uruguay, and Yugoslavia felt that the Committee, in continuing its work, should accord priority to establishing clear understandings on phasing out agricultural subsidies, more favorable market access for the exports of developing countries, and enforcing GATT rules and disciplines.

The CONTRACTING PARTIES adopted the report of the Committee.

c. Quantitative restrictions and other nontariff measures

In forwarding the report of the Group on Quantitative Restrictions and Other Non-Tariff Measures to the CONTRACTING PARTIES, the Council had noted that the report foresaw further work in this area and, if this work were to be done, it would be necessary to provide for appropriate institutional arrangements, such as the continuation of the Group. ^{2/} Accordingly, the Council had suggested that the CONTRACTING PARTIES take a decision on this matter. The representatives of Argentina, Chile, Cuba, Czechoslovakia, Egypt, India, Nicaragua, Pakistan, Peru, the United Kingdom on behalf of Hong Kong, Uruguay, and Yugoslavia expressed disappointment that, in contrast to the 1982 Ministerial Mandate, the Group's report showed little progress in eliminating restrictions or bringing them into conformity with the GATT. Further work in this area could only be supported if the Group had as its first priority the unilateral elimination of restrictions that are inconsistent with the GATT, and not, as suggested, a periodic review of restrictions with a view to achieving progress in eliminating the measures. The Group's recommendation would risk legitimizing the restrictions maintained by industrial countries. The representatives of Israel and Senegal supported the continuation of the work of the Group, but agreed that the focus of the work should shift to the elimination of quantitative restrictions. The representatives of Australia and the European Communities favored the periodic reviews as necessary for the continued surveillance of restrictions.

The CONTRACTING PARTIES adopted the Group's report and instructed the Group to oversee the implementation of the 1982 Ministerial Mandate, to keep the Council informed, and to report at the 1986 session of the CONTRACTING PARTIES. For the record, the Chairman of the CONTRACTING PARTIES stated that the Council would oversee the work of the Group.

^{1/} GATT document L/5900.

^{2/} GATT document L/5888.

d. MTN agreements and arrangements

The Chairman of the Council reported that his consultations had shown that some developing countries faced difficulties in acceding to the Subsidies and Countervailing Measures Code. 1/ Acting on his recommendation, the CONTRACTING PARTIES agreed to establish a Working Party to examine the obstacles that members face in accepting the Code.

e. Trade in counterfeit goods

The Council had discussed the report of the Group of Experts on Trade in Counterfeit Goods without being able to make a determination on the advisability of multilateral action within the GATT on trade in counterfeit goods. The Council looked to the CONTRACTING PARTIES to review the matter. 2/ The representatives of Argentina, Brazil, Cuba, Egypt, India, and Nicaragua said that the GATT's sole mandate was to liberalize trade in goods; any future work on trade in counterfeit goods should be left to the World Intellectual Property Organization, which was the competent organization to deal with it. The representative of Jamaica supported the continued examination of the problems posed by counterfeit goods in the appropriate forum. The representatives of the European Communities, Switzerland, and the United States stressed that, since counterfeit goods were traded, the matter fell fully within the competence of the GATT.

The CONTRACTING PARTIES directed the Council to review the matter at the appropriate time.

f. Textiles and clothing

The Council had forwarded the report of the Working Party on Textiles and Clothing to the CONTRACTING PARTIES for consideration and appropriate action. 3/ The representative of Korea, for the developing country exporters of textiles and clothing, supported by the representatives of Argentina, Bangladesh, Egypt, Hungary, India, Indonesia, Nicaragua, Pakistan, Peru, Philippines, Turkey, the United Kingdom for Hong Kong, and Yugoslavia, thought the report showed that not enough progress had been made, and that the Working Party should intensify its efforts to liberalize trade in textiles and clothing, consistent with GATT principles and objectives. The observer for China hoped that the Textiles Committee's deliberations on the future of the MFA and the work of the Working Party would be complementary, to achieve the goal of liberalization. The representative of Switzerland favored provisional continuation of the MFA, with a final decision on its existence to be taken in the context of the new round of negotiations. Both he and the United States representative thought there was scope for further study by the Working Party on the liberalization of trade in textiles and clothing.

1/ GATT document L/5832/Rev.1.

2/ GATT document L/5878.

3/ GATT document L/5892.

The CONTRACTING PARTIES agreed that the Working Party should continue to examine the modalities for the liberalization of trade in textiles and clothing, including its ultimate return to the GATT, and that it should report on the matter to the 1986 session of the CONTRACTING PARTIES.

g. Problems of trade in certain natural
resource products: fish and fisheries products

The Council had agreed to forward the report of the Working Party on Fish and Fisheries Products to the CONTRACTING PARTIES for adoption. ^{1/} The representatives of India and Senegal thought any future negotiations on liberalizing trade in these products should not seek to link access to markets and access to marine products. The representative of Canada said a resolution of problems in this area should be sought in the new round of negotiations. The representative of the European Communities felt that all factors affecting trade in fish and fisheries products, including access to resources, should be discussed and negotiated.

The CONTRACTING PARTIES adopted the report of the Working Party.

h. Other Council matters

The CONTRACTING PARTIES considered the report of the Chairman of the CONTRACTING PARTIES on the exchange of information on trade in services which he had organized. ^{2/} Discussion, which was brief, mirrored that reported under "Activities of the GATT." The CONTRACTING PARTIES adopted the Chairman's report.

The Director-General reported that his consultations on the composition of the Consultative Group of Eighteen were continuing, and that he would report on the matter at the next regular Council meeting. ^{3/}

In discussing the activities of the Textiles Committee, the representative of Korea, on behalf of the developing country exporters of textiles and clothing, supported by Egypt, India, Pakistan, Sri Lanka, the United Kingdom for Hong Kong, and the observer for China, expressed concern about the textile protectionist bills before the United States Congress which, if enacted, would endanger the new round of negotiations, violate the GATT and the MFA, and undermine the multilateral trading system. ^{4/} The representative of the United States noted that the bills had not yet been enacted and that the U.S. Administration was determined to resist protectionist pressures.

^{1/} GATT document L/5895.

^{2/} GATT document L/5911.

^{3/} GATT document L/5887.

^{4/} GATT document Com.Tex/41.

The representative of the European Communities announced that the import deposit scheme recently enacted by Greece would be notified to the GATT shortly, and that it was prepared to consult on the matter with the Committee on Balance of Payments Restrictions. 1/

The CONTRACTING PARTIES voted to adopt a decision authorizing the Government of Pakistan to maintain in force the rates of duty provided in its revised customs tariffs, pending the completion of negotiations for the modification or withdrawal of concessions in the schedule of concessions, until December 31, 1986. 2/ They also voted to extend the waiver allowing the Government of Turkey to maintain, as a temporary measure, a stamp duty on certain imports until December 31, 1987. 3/ The CONTRACTING PARTIES decided that the Government of Egypt could maintain in effect the temporary "Consolidation of Economic Development Tax" on bound duties at rates not exceeding those in force on February 27, 1980 until December 31, 1990. 4/ It was also decided to extend further the period of validity for the participation of the Government of Tunisia in the work of the CONTRACTING PARTIES until the Government of Tunisia accedes to the General Agreement under the provisions of Article XXIII, or until December 31, 1986, whichever date is earlier. 5/

1/ GATT documents BOP/R/145, 146, 147, 150, 151, 152, 153, and 154.

2/ GATT document L/5875.

3/ GATT document L/5897.

4/ GATT document L/5866.

5/ GATT document L/5894.