Introduction

1. The Consultative Group of Eighteen held its twelfth meeting on 15 July 1980. An Annotated Provisional Agenda was circulated in document CG.18/W/40 and a list of participants in CG.18/INF/12.

Agenda

2. The Group adopted the following agenda:

   (i) Structural adjustment and trade policy.
   (ii) The trade policy aspects of the North-South dialogue.
   (iii) The current economic situation and its implications for trade policies.
   (iv) Other business.

The Group agreed to take Item 3 first.

Opening remarks of the Chairman

3. The Chairman said that since some of those who normally attended the Group's meetings from capitals had found it impossible to come to this meeting, it had exceptionally been convened at the level of permanent representatives, with the benefit of some visitors from capitals also. The next meeting, expected in October, would as usual be at the level of representatives from capitals.

4. The Chairman added that it was important to maintain the character of the Group as a forum for discussion and free exchange of views. To this end, long statements prepared in advance should if possible be avoided; the secretariat would be pleased to circulate a written statement should any member wish to treat a particular subject at greater length.
5. In introducing this agenda item the Chairman recalled that, in the GATT Work Programme adopted by the CONTRACTING PARTIES at their thirty-fifth session, the Consultative Group of Eighteen was requested to examine the question of structural adjustment and trade policy further and to advise the Council, and also through it, the Committee on Trade and Development, on the modalities for carrying out further work in this area, taking into account the continuing rôle of the Committee on Trade and Development. He further recalled that at its last meeting the Group had begun its examination of the subject and that it had before it a secretariat paper listing themes for discussion (CG.18/W/37) and a paper distributed at the request of Ambassador Hill of Jamaica in which a Committee on Structural Adjustment was proposed (CG.18/W/39). In order to help the Group to clarify the issues involved and to come to a consensus on the approach to structural adjustment problems in GATT the secretariat had prepared a second paper on structural adjustment in the light of the comments made at the last meeting (CG.18/W/41). He informed the Group that the Committee on Trade and Development had examined at its last two meetings the question of how to organize its work in this area and that the hope had been expressed in the Committee that the Group would make sufficient progress with its discussion in the area so that the Committee could determine how it may continue its own examination of this issue at its next meeting in November.

6. The members of the Group centred their comments under this agenda item on the new secretariat paper (CG.18/W/41), which deals with the process of structural adjustment, adjustment policies and the rôle of GATT in the area of structural adjustment. Most speakers agreed with the secretariat's description of the adjustment process and adjustment policies. One member thought however that the statement in the paper that adjustments to import competition represented in general only a minor part of the resource reallocations in a growing economy was not quite correct in the case of small, open economies in which adjustments to import competition were often a major element in the overall adjustment process. He agreed that, as stated in the secretariat paper, high rates of inflation produced uncertainty which inhibited new investments but he thought it was also true that expansionary policies, by stimulating economic activity, could help to improve the adjustment process.

7. Another member said that the secretariat paper's assertion that adjustment costs were always temporary while the corresponding benefits were permanent was only true if the costs and benefits were seen from a global perspective. For a particular region adjustment costs could very well be permanent if no alternative employment or investment opportunities existed. He also stressed that not all adjustments were beneficial from the point of view of the world economy. Adjustments to import competition that benefitted from export subsidies did not for instance necessarily generate benefits. Adjustments to distorted competition from abroad were in general politically
unacceptable because they were viewed as creating unfair burdens. The pursuit of fair trading practices, and the formal commitment to fair trading practices by all contracting parties, including the developing countries, was therefore an essential element of a well functioning international adjustment process.

8. Several comments on Ambassador Hill's proposal to establish a Committee on Structural Adjustment were made. A number of delegations indicated their broad support for the proposal; others expressed reservations. One member said that the suggestion that the Committee examine only developed countries' trade measures did not seem balanced. The examination in the Committee of measures that were already subject to GATT rules and under the jurisdiction of existing GATT bodies could weaken the present legal and institutional structure of the GATT.

9. It was also suggested by some representatives that the enormous attention paid to structural adjustment issues in North/South relations was excessive. Various studies had clearly shown that imports from developing countries caused few adjustment problems in the industrialized world. The main factor causing adjustment problems was the steep rise in energy prices. Growth, which had in the past been linked to higher rates of energy consumption, now had to be achieved with a more economical use of energy. The adjustment issue needed to be examined as it presented itself now, namely with a focus on energy.

10. One member said that, after the Kennedy Round, countries had adopted adjustment assistance schemes designed to mitigate the effects of import liberalization. Such trade-oriented schemes did not seem to be the problem today. What caused concern were the industrial aid schemes implemented for purely domestic reasons such as the promotion of employment or the development of a region. The fact that these schemes served domestic purposes but had foreign trade implications added to the complexity of the issue.

11. While there was a wide consensus in the Group that the GATT had a rôle to play in the area of structural adjustment, members expressed only very tentative thoughts on what exactly the task of GATT in this area should be. One member said that there were in the secretariat paper three notions regarding GATT's rôle which deserved attention in the future examination of the issue, namely the phasing-out of selective supports which serve to frustrate adjustment, the exchange of information on adjustment problems and the review of emerging developments which may affect further trade liberalization in particular sectors. Another member suggested that annual reviews of sectors sensitive to import competition might be held and that ultimately some principles for adjustment policies for such sectors could be formulated and monitored by a GATT body. The object would not be to make contracting parties surrender their right to take safeguard action but to ensure that policies were pursued which obviated the need to resort to GATT's safeguard
clauses. Domestic economic policies, which, had an increasing impact on international trade, needed to be taken into account and the possibility of drafting rules and principles relating to the international implications of such policies should be considered.

12. Other members had reservations regarding these suggestions. A point made by several members was that the issue of structural adjustment was closely linked to domestic economic policies, not trade policies in the traditional sense; this raised the question of the extent to which the GATT as a trade organization could deal with the issue. The same question arose when the structural adjustments resulted from purely domestic factors such as technological changes. Some members expressed doubts as to whether reviews in GATT of information on developments affecting particular sectors in difficulties were appropriate. It was preferable to solve trade problems through general rules such as those contained in the GATT and the MTN codes rather than through sector reviews. If such reviews were to be concluded with specific policy recommendations by the GATT, as suggested in Ambassador Hill's paper, countries might find that their legitimate resort to the GATT safeguard provisions was called into question.

13. There was wide agreement in the Group that further reflection was needed to decide on the institutional and procedural arrangements for further examination of the issue of structural adjustment, but that an effort should be made to come to a consensus on this question at the next meeting of the Group in October. Several suggestions on institutional and procedural arrangements were made. One idea, widely supported in the Group, was that the Group might recommend the Council to establish a working party with the task of identifying the role of GATT, if any, in the area of structural adjustment. The members who made this suggestion stressed that structural adjustment was not merely a North-South issue and, while the Committee on Trade and Development had a role to play in this area, the institutional arrangements should be such that the global nature of the issue could be taken into account. Support was also expressed for the proposal of Ambassador Hill that a Committee on Structural Adjustment be established which would be open to contracting parties and developing countries participating in the work of the GATT (CG.18/W/39). Another suggestion was that the Committee on Trade and Development revive its Group of Experts on Adjustment Assistance Measures which had last met in 1972.

14. The Group agreed to meet informally at the level of local representatives on 23 September 1980 to consult further on the matter with a view to enabling representatives at the formal meeting in October to consider more specific proposals. Several members suggested that the secretariat prepare a paper for the informal meeting which would describe the past work of GATT and of other international organizations in the area of structural adjustment and outline possible procedural and institutional arrangements for further dealing with this issue.
15. In concluding the debate the Chairman noted that the members of the Group had concentrated their remarks on the adjustment process and policies in general and on institutional questions. What had been missing in the debate were specific proposals on exactly what, if anything, the GATT should do in the area of structural adjustment. However, in order to take a decision on any institutional arrangements it was necessary to develop a common idea of any possible GATT tasks in this area. He suggested that the members of the Group further reflect and consult on this question before the informal meeting on 23 September 1980.

Item 2 - The trade policy aspects of the North-South dialogue

16. Introducing this item, the Chairman referred to the Special Session of the UN General Assembly which would convene from 25 August to 5 September to launch the global negotiations, one of whose components was international trade relations. Certain elements of the Work Programme adopted by the CONTRACTING PARTIES to GATT were clearly relevant to the North-South dialogue. The secretariat had drawn up a short annotated list of these points in the belief that it might be useful for participants in the North-South dialogue to be informed of those parts of GATT's Work Programme which have a bearing on North-South issues. This list was now available to members of the Group and other interested delegations. The Chairman suggested that in discussing this item, the Group should bear in mind the specificity of GATT's functions, and the fact that its successes had been due to concentration on concrete problems rather than theoretical or general issues.

17. All members agreed that in the current uncertain state of the global negotiations it was difficult to form a clear view of the contribution which might be made by the GATT. This would be easier to judge in the light of the results of the Special Session, and it would accordingly be more rewarding to discuss this subject in detail at the Group's October meeting. However, in a short preliminary discussion the following points were made.

18. Some members said that a possible rôle for GATT in the global negotiations would be to provide technical support for negotiations on concrete trade issues. However, the decision as to the forum in which such negotiations would take place, whether in the GATT or elsewhere, would be considerably influenced by the current state of GATT's activities; the GATT should therefore engage in a work programme that would clearly be relevant to the global negotiations. It had earlier been suggested that such a programme would include the full implementation of the MTN results, further trade liberalization, an agreement on safeguards and the question of structural adjustment.

19. One member said that, given the necessary political will, and adequate policy guidelines, there was no reason why negotiations should not take place in GATT between major rounds. The Tokyo Round had left outstanding a number
of issues of importance to developing countries and a resolution calling for the completion of negotiation on these issues had been adopted at UNCTAD V. The desire of the South to continue negotiations was clear; an announcement by the countries of the North that they would be willing to continue negotiations in GATT would constitute a significant support for GATT's rôle as an effective forum of negotiation in the 1980's. Mere continuation of GATT's ordinary work might lend support to the view that the global negotiations in their entirety should be undertaken elsewhere.

20. Another member said that GATT could make no useful contribution to the North-South dialogue because it was concerned solely with the negotiation of marginal changes through the existing structure of world trade. It had proposed no new rules or principles of international trade which might promote the effective integration of developing countries in the world trading system, and had shown no interest in the New International Economic Order. Of the issues currently before the Consultative Group only structural adjustment had any relevance to the North-South dialogue, but even here GATT could make no contribution on such questions as development, growth, financial flows and monetary issues. GATT might, however, be able to make a technical and analytical contribution towards bringing the rhetoric of the dialogue down to earth.

21. Other members took the view that the implementation of GATT's Work Programme would itself be a most important contribution to the success of the global negotiations. GATT should remain the major forum for trade negotiations, based on its experience of three decades of trade liberalization and its traditionally pragmatic and responsible approach to trade problems.

22. One member said he could not accept the dangerously simplistic notion that trade issues could or should be considered only in a North-South context, which ignored the complex inter-relationships which existed in world trade. GATT should deal with issues of concrete interest to all countries. He recognized the scale of the problems facing developing countries, but these were real, not theoretical, problems such as the reduction of obstacles to trade in agricultural products and the elimination of quantitative restrictions, which interested all participants in world trade. Their solution, which could not be achieved through generalizations, would benefit particularly the developing countries, who were very vulnerable to imprecise trade rules.

23. The Chairman concluded that there was general agreement in the Group that it would be premature at this stage to attempt to determine the possible contribution of GATT to the North-South dialogue. If so desired, the Group could come back to this issue at the October meeting, in the light of the results of the Special Session. In the meantime the CONTRACTING PARTIES would pursue their immediate tasks of implementing the MTN results and GATT's Work Programme; these included some matters of importance in the North-South dialogue, of which it would be useful for participants in the dialogue to be aware.
Item 3 - The current economic situation and its implications for world trade

24. The Group had before it a short note (CG.18/W/42) prepared by the secretariat to help the Group focus its discussion.

25. The Chairman said there was virtual unanimity among forecasters as to the sombre prospects of the world economy in the short term. It was all the more essential that trade should continue to expand, and that governments should hold the line against any actions that would increase uncertainty about market access. The political courage shown in the conclusion of the Tokyo Round had been an important example.

26. It was agreed that this was an important subject which should be discussed in detail at the Group's next meeting, at which a new paper by the secretariat, taking account of points made in the present discussion, would be available. There was general agreement on the gravity of the current economic situation.

27. Several members made the point that the special difficulties of developing countries, in particular their heavy burden of debt, could not be alleviated, and might indeed be intensified, by financial and monetary measures of the kind now being canvassed in a number of international organizations. Only through the expansion of their export earnings could the payments position of such countries be restored and any increase of protectionism would make this very difficult. New coherent proposals for the improvement of market access and the increase of trade flows were urgently needed. The revised paper should take account of the contribution made by developing countries, by opening their markets, to maintaining the dynamism of world trade. It should also consider the conditions necessary for realistic and sustainable growth; periods of boom should not necessarily be taken as an index of normality.

28. One member described his country's efforts, through reform of the pricing system, to impress the true facts of the international economic situation on its business enterprises and, through deflationary measures and the development of competitive sectors, to increase its competitive strength. These efforts were being hampered by the restriction of access to major markets.

29. Other members said that the danger of protectionist action should not be exaggerated; alarmist prophecies could be self-fulfilling. Heads of government had recently stated their determination to avoid protectionism and, in contrast to earlier recessions, governments were not seeking to export their problems but on the whole were responding to them through macroeconomic measures. The effects of the recession in the industrialized countries were nevertheless serious; major structural problems in the areas of energy and employment would require urgent measures of adjustment. The
Consultative Group of Eighteen should state clearly that the recession was caused not by imperfections in the trading system but by two factors — inflation and the energy crisis — which were only tenuously connected with trade issues and in whose resolution trade measures could play some part, but not a decisive one.

30. In concluding the discussion, the Chairman agreed that the secretariat would prepare a further paper for the next meeting of the Group but warned that the Group should not mistake its function. It was a forum for the exchange of ideas and a source of advice to the CONTRACTING PARTIES. It should not become a study group, nor should the secretariat seek to emulate the comprehensive surveys of the world economic situation already carried out elsewhere.

Item 4 - Other business

31. It was proposed that the following subjects should be taken up by the Group at its next meeting:

(i) **Trade in services.** It was suggested that the secretariat should prepare a short note recording the volume of international trade in services and outlining some of the related issues now under examination in other fora such as the OECD. On the basis of this study the CG.18 might consider whether to recommend that work be undertaken in GATT on this subject.

(ii) **Restrictive business practices.** It was suggested that it would be useful for the secretariat to prepare a study of the agreement recently negotiated on this subject in UNCTAD, drawing the attention of the Group to any implications it might have for the General Agreement.

(iii) **Implementation of the MTN.** The secretariat was requested to prepare a report on progress to date in the implementation of the MTN.

(iv) **Export restrictions and charges.** The secretariat was requested to prepare a study on the incidence and trade impact of export restrictions and charges as a basis for future discussion in the Group, taking account of statements made on this subject in the Trade Negotiations Committee and other MTN Groups.

(v) **Rules of origin.** Notice was given that the trade impact of rules of origin would be raised at the Group's next meeting.

(vi) **Dispute settlement.** The member for the United States undertook to provide a discussion paper on this subject as the basis for an exchange of ideas in the Group.