BACKGROUND NOTE FOR THE MEDIA

This note is intended to provide a basic background to the forthcoming meeting of Ministers in Punta del Este, Uruguay. It has been produced for the use of the media. It does not seek to make an assessment of issues before the meeting and is not, in any way, meant to prejudice the position of individual Contracting Parties or the outcome of the meeting itself.

1 September 1986

MULTILATERAL TRADE NEGOTIATIONS
THE NEW ROUND

What is a trade round?

The concept of multilateral trade negotiations, or trade rounds, has undergone considerable development since the early days of the GATT. In the 1940s and 1950s, trade rounds were simply large-scale negotiations between GATT countries aimed at reducing the levels of tariffs (customs duties) between them. In fact, tariff reductions were achieved through essentially bilateral negotiations between major traders in the products covered and the results made available to all other GATT countries through the operation of the 'most-favoured-nation' rule of the General Agreement. In this way, the average level of tariffs imposed on non-agricultural products by industrial countries has fallen from the high immediate post-war levels to about 13 per cent in the early 1960s and around 4 per cent now.

Beginning with the 'Kennedy Round' (1964-67) and especially in the case of the Tokyo Round (1973-1979), the rounds have become far more complex and, consequently, lengthy. While tariff negotiations have remained an important element, such was the early success in reducing the general level of tariffs, particularly among industrial countries, that the emphasis moved to non-tariff barriers. Thus, in the Tokyo Round a wide
range of agreements were reached covering problems like dumping, subsidies, technical barriers to trade (the unfair use of standards, testing and certification procedures, for instance), restrictive government procurement procedures and unfair systems of customs valuation and import licensing.

Essentially then, a trade round is an opportunity for GATT countries to negotiate trade rules and exchange concessions in a variety of areas and to be in a position ultimately to present a package of trade benefits to their respective publics and legislators.

What is the advantage of a trade round?

It should be kept in mind that the GATT is a permanent negotiating body. Reductions in trade barriers and restrictive trade practices may be exchanged, disputes arbitrated and general trade issues discussed on a day-to-day basis in the many representative councils and committees that exist to oversee the operation of the GATT. A trade round comprises, negotiations expressly aimed at creating new agreements or exchanging concessions in a more comprehensive fashion.

The advantages of negotiating in a trade round context are many:

- participants can secure advantages across a wide spectrum of issues;
- concessions, which would otherwise be difficult to justify in domestic political terms, can be made more easily in return for a package of benefits;
- issues affecting the functioning of the GATT - for instance the interpretation of existing rules - which GATT countries in general have previously found difficulty in tackling in isolation may be more easily resolved within a package.

(It is worth noting at this point that the very concept of benefits and concessions is open to a variety of interpretations. For instance, the view is held by economists that a country which reduces its own tariff is not making a concession to others but giving itself a benefit - by ensuring
the more efficient use of its own resources. Politically, however, it has been the practice to regard the acceptance of a tariff reduction as a concession made to others.)

But more than just negotiating advantages are at stake in launching a trade round:

- it would be an opportunity for improving and strengthening the rules underpinning the multilateral trading system;

- stricter observance of GATT rules and disciplines would strengthen the trading system, thus stimulating investment, job creation and economic growth by reducing uncertainty and making future access to foreign markets more predictable;

- developing nations can gain advantages through a trade round which might not otherwise be available. In the present circumstances, this is especially important for heavily indebted countries.

Why a new trade round now?

Seven years after the completion of the Tokyo Round many of its results are still being implemented or further developed. Some of the non-tariff agreements have proved very effective and have been accepted by a considerable number of GATT countries. Some have been expanded through further negotiations. This process is likely to continue. In particular, it is hoped that more developing countries will be able to accede to the agreements.

Nevertheless, despite the 'unfinished' business of the Tokyo Round, there has been a growing feeling in recent years that a major initiative is necessary if the trade rules of the General Agreement on Tariffs and Trade are to be restored to full effect and credibility, and thereby to give businessmen the confidence to trade and invest.

It is generally accepted that the GATT rules, as they are, no longer command the necessary degree of political respect. The trends towards bilateral agreements and market-sharing arrangements negotiated outside the
GATT are often cited as examples of the growing disregard for GATT rules. A deeply disturbing trend for many countries is the growth of subsidized competition in world trade.

In March 1985, at the request of the Director-General of the GATT, an independent group under the chairmanship of Mr. Fritz Leutwiler, then Chairman of the Swiss National Bank and President of the Bank for International Settlements, produced a report on the future of the trading system, "Trade Policies for a Better Future". Among the group's conclusions was the following:

"We support the launching of a new round of GATT negotiations, provided they are directed towards the primary aim of strengthening the multilateral trading system and further opening world markets. The present accumulation of important trade policy issues in need of resolution is such that we believe a new round is now needed and should be launched as soon as possible."

Developments in GATT towards a new trade round

GATT trade ministers last met in November 1982, in Geneva. Their meeting and its resulting declaration provided the substantial basis for a new trade round in the form of a work programme covering most of the outstanding areas of difficulty in international trade policies. However, while that work programme was pursued comprehensively in the period to the end of 1985 it proved impossible to move to the stage of concrete negotiations on many issues.

This impasse stirred a quickly growing number of GATT countries to support the idea - proposed originally by the United States and Japan - of a new trade round for the late 1980s. The original proponents had argued that the very fundamental problems facing the trading system could only be resolved in the context of a multilateral trade negotiation. They considered that the GATT needed to be brought up to date, perhaps extended, to cope with the trading world of the 1980s, and that further progress with the 1982 work programme would only be possible in the context of a new round.
Not all countries found such views easy to accept. Many developing countries stated that existing commitments should be properly implemented before any new round could have credibility. At the same time, a debate was engaged on whether or not the GATT should take on certain non-traditional areas for negotiation. The United States and, subsequently, other industrial countries proposed, for instance, that GATT member countries should negotiate in the field of trade in services. This proposition was strongly opposed by a number of developing countries.

Following a specially-convened Session of GATT's Contracting Parties, in late September 1985, a Senior Officials Group was established charged with examining the subject matter and modalities of the proposed negotiations. The work of that group helped the regular Session of Contracting Parties in November 1985 to give, in effect, the green light for the substantive preparations for a new trade round to begin.

The Preparatory Committee

The Contracting Parties established a Preparatory Committee under the chairmanship of Mr. Arthur Dunkel, Director-General of GATT. It was given the task of preparing recommendations on the launching of a new trade round for consideration at a Ministerial Meeting to be held in September 1986.

The Committee discussed the objectives, subject matter, modalities for and participation in a new round at a series of meetings between January and 31 July. Over thirty individual items for inclusion as negotiating items on the agenda of a round were proposed and discussed. Early on, following invitations from a number of GATT countries, the Preparatory Committee decided that Punta del Este would be the venue for the Ministerial Meeting to start on 15 September.

The Committee ended its work by agreeing to forward to the Ministers three proposals - each of which would have the effect of launching a new trade round - for their consideration.
What might be in the new round?

Of course, until the Ministers have met and made a positive decision there is formally neither a trade round nor an agenda. However, it is possible to see from the three proposals the wide spread of subjects which might be treated in the round.

Each of the proposals include commitments on a 'standstill' on new trade measures inconsistent with GATT obligations and on the 'rollback' or 'phase out' of existing inconsistent measures. They all recognize the importance of securing a new 'safeguards' understanding – covering emergency protection against imports – and the need to negotiate in the area of agricultural trade. They each recognize the principle of special treatment for the developing countries and the need for negotiations covering tropical products. There are a number of other common features including a tariff negotiation, the question of textiles and clothing trade and trade in natural resource products.

Among the issues still to be tackled are the nature of the commitments to be entered into and whether trade in services, trade-related aspects of intellectual property rights and trade-related investment measures – the so-called non-traditional items – should be included in the round.

The Ministerial Meeting

Ministers will begin their meeting on the afternoon of Monday, 15 September in the Hotel San Rafael, Punta del Este, Uruguay. The meeting will be a Session of Contracting Parties at Ministerial level. It will be opened by President Julio Maria Sanguinetti of Uruguay and chaired by Mr. Enrique V. Iglesias, Uruguay's Minister of Foreign Affairs.

The meeting is expected to last for most of that week and to culminate in the adoption of a Ministerial Declaration launching GATT's eighth round of multilateral trade negotiations.

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