PREPARATORY COMMITTEE

Having completed a preliminary exchange of views on the various subjects that might be included in a new round of multilateral trade negotiations, the Preparatory Committee, at its meetings of 14–16 April and 5–7 May, concentrated on the way in which each subject, if included, would appear in the Ministerial Declaration. The discussion covered the objectives of negotiating on each subject, the specific problems to be resolved and the way in which the negotiations would be conducted. The Committee’s discussions were based on papers prepared by the Secretariat as well as some by delegations on particular subjects. They thus became more specific, prior to the stage of preparation of the draft Ministerial Declaration.

At its April meeting, the Preparatory Committee discussed commitments concerning standstill and rollback of protectionist measures, safeguards and the treatment of developing countries. In May, it dealt with trade in agricultural products, dispute-settlement procedures, tropical products, quantitative restrictions and other non-tariff measures, Tokyo Round arrangements and agreements, structural adjustment and trade policy, trade in counterfeit goods, textiles and clothing, export credits for capital goods, problems of trade in certain natural resources products, exchange rate fluctuations and their effects on trade, services, Articles XVII, XXIV and XXVIII of the General Agreement, the functioning of the GATT system, countertrade, trade in high-technology products, trade-related investment measures, and the relationship between the new negotiating round and monetary and financial developments.

The Committee also discussed the modalities and institutional arrangements for holding the negotiations.

Creating a favourable trading environment

Speaking before the Development Committee of the OECD on 17 April, Arthur Dunkel, Director-General of GATT, indicated that the discussions in the Preparatory Committee reflected an understanding that an undertaking by GATT members against the use of new protectionist measures and efforts to phase out illegal restrictions must be a part of the trade policy environment for successful new multilateral trade negotiations.

The Council of Ministers of the Organisation of Economic Co-operation and Development, which has repeatedly called for the launching of a new round of multilateral trade negotiations, reaffirmed on 18 April its conviction that all countries, developed and developing alike, had an interest in seeing the negotiations start as soon as possible. In its communiqué, the Council stressed the importance of effective commitments in favour of the standstill and rollback of protectionist measures so as to create favourable negotiating conditions and promote the achievement of the general objectives of the negotiations, namely a greater liberalization of world trade.

COUNCIL

Morocco expected to become 92nd Contracting Party

At its meeting of 22 May, the Council gave the green light to the accession of Morocco to the General Agreement, subject to satisfactory conclusion of Morocco’s tariff negotiations with its trading partners. What the Council actually did was adopt the report of a Working Party which, following the usual procedure, had examined the consistency of Morocco’s trade policy with the General Agreement. At the same time, it approved a draft protocol, recommended by the Working Party, governing the terms of Morocco’s accession and a draft decision by the Contracting Parties under which Morocco would be able to proceed with its accession. The decision will be submitted to a postal vote under the procedures of Article XXXIII, which requires a two-thirds majority, after all the contracting parties are informed of the results of the tariff negotiations. Those negotiations, which took place alongside the Working Party’s examination, have already been concluded with some of Morocco’s partners and are well advanced with others. (continued on p. 4)
TEXTILES

Negotiations under way on the future of the Multifibre Arrangement

Discussion on the future of the MFA, which had started in December 1985, continued at the meeting of the Textiles Committee on 3 April. At the same time, informal consultations were held and have continued on such specific questions as market access, duration of a new arrangement, the products it would cover, rates of growth of quotas and the elements of flexibility which it would contain.

Textiles were also discussed in other GATT bodies. There was an exchange of views in the Preparatory Committee on the question of the possible relationship between the discussions on the future of the MFA and the preparatory work for a new round of multilateral trade negotiations. The Working Party on Textiles and Clothing continued, at its March meeting, to examine modalities for liberalization in the sector.

The European Community was among the parties to the Arrangement which had been able, last December 1, to provide only preliminary indications concerning their position. The EEC representative explained that, at the Textiles Committee meeting in March 1986, the Council of Ministers of the Community had adopted directives for negotiation on the future régime for textiles and clothing. This had enabled the Commission to conduct parallel negotiations on the MFA legal framework and on bilateral agreements with supplying countries. He stated that the EEC intended to introduce a certain amount of flexibility both in the Arrangement and in bilateral agreements, and to grant special treatment for the least-developed countries, small suppliers, new entrants and cotton producers. He believed that the new protocol should include a commitment by all participants to contribute to liberalization in the sector commensurate with their level of economic development. The representative of the EC also wished to see recognition of the possibility of consultation in the case of a surge of imports in sensitive products, as well as a link between the growth rate of consumption of textiles and clothing and the risk of market disruption. He felt that the new Arrangement should contain provisions concerning fraud and counterfeiting.

Speaking for the developing countries, the representative of Colombia expressed the hope that the current negotiations would lead to a phase-out of the restrictive régime in the sector over an agreed time-frame; in his view the restrictions were no longer justified, given the recent improvement in the textile industry of a number of importing countries. He recalled that at their meeting in Beijing in early March, textile-exporting developing countries had protested against pressures for a continuation of restrictive régimes. Hence developing countries felt that, if progress was to be made, the new régime should provide for progressively higher growth rates, non-discriminatory treatment for developing countries, reduction of restraints and product coverage, removal of ambiguities, effective surveillance, measures to ensure preferential treatment for small suppliers, new entrants, cotton and wool exporters, more favourable treatment for the least-developed countries without prejudice to the trade interests of established suppliers, and the phase-out of restrictions.

Several developing countries also stressed that, at a time when the possibility of liberalizing trade by launching new multilateral trade negotiations was under discussion, it would be inconsistent for countries in favour of that initiative to adopt an attitude in the textiles sector that was still more restrictive than in the past, for that would create serious doubts concerning the commitments they might assume in favour of liberalization.

The representative of Japan confirmed that the basic objective should be a liberalization of the Multifibre Arrangement but he felt that allowance must also be made for possible problems confronting some importing countries. Modifications to be made in the protocol to tackle those problems should be balanced by the introduction of some more liberal elements.

Speaking on behalf of the Nordic Countries, the representative of Norway said that while the long-term aim should be a return of the textiles sector to GATT rules, the only feasible solution for the time being was an extension of the Multifibre Arrangement, taking into account the special problems of countries with small markets, high import penetration by foreign suppliers and a low level of domestic production. Some more liberal elements could be introduced in the application of the MFA, even if they were not explicitly formulated in the protocol. The Nordic countries were aware of the importance of trade in textiles for the launching of a new round of multilateral trade negotiations and felt that the longer-term future of textiles should be dealt with within the framework of those negotiations.

The representative of Canada favoured a renewal of the MFA for a period of 4 to 5 years. He did not think that the current MFA had contributed to an orderly growth of imports into Canada at a time when the domestic market was stagnant. The Textiles Committee agreed to hold its next meeting on 5 and 6 June.

Hong Kong
91st Member of GATT

On 23 April, Hong Kong became a contracting party to the General Agreement. GATT rules have applied to Hong Kong since 1948 and Hong Kong has enjoyed full autonomy in the conduct of its external commercial relations. However, up to now, its interests have been represented by members of the United Kingdom delegation.

A declaration by the Government of the United Kingdom was necessary for Hong Kong to become a contracting party under Article XXVI: 5(c) of the General Agreement. At the same time, the Government of the People's Republic of China also confirmed, in a separate declaration, that as from 1 July 1997 the Special Administrative Region of Hong Kong would continue to meet the conditions required for it to be deemed a contracting party to the General Agreement under the provisions of Article XXVI: 5(c).

In 1985, Hong Kong was the world's fourteenth biggest exporter and fifteenth biggest importer in terms of the value of international trade.

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1 See FOCUS No. 27.
Trends in international trade in 1985: temporary slowdown?

In a first assessment of trade and economic trends in 1985, the GATT Secretariat notes in particular that the past year has seen sizeable changes in a number of key factors in the world economy: declines in the prices of many primary commodities, particularly a sharp decline in the spot price of petroleum; the depreciation of the United States dollar against other major currencies; and the decline of interest rates in the world's main financial centres. These developments occurred against a background of moderating inflation in most OECD countries.

The GATT economists believe that recent price and exchange rate developments should stimulate economic activity, in particular in the industrial countries and in those parts of the developing world which are less dependent on the production and trade of primary commodities. They point out, however, that this must be qualified in three respects. First, the interaction of the price and exchange rate changes, coupled with other continuing developments in the world economy, is so complex that it is difficult to predict the full repercussions of these changes on national economies, let alone on individual groups of producers and consumers. Secondly, there is still considerable uncertainty regarding future trends in exchange rates, in interest rates and in petroleum and other key prices, and this may slow down the speed with which production and trade will respond. Thirdly, the benefits resulting from the changed economic environment will not always come painlessly. Responding to pressures for adjustment in patterns of production and trade created by improved opportunities can place nearly as great a demand on a country's ability to change as adjusting to reduced opportunities.

Factual highlights

The value of world merchandise exports were estimated at $1.910 billion in 1985, an increase of less than one per cent over 1984.

The volume of world merchandise exports is estimated to have increased by 3 per cent in 1985, a rate equal to the average for the past decade but only one-third of the 9 per cent increase in 1984. However, as the GATT economists note, it is not uncommon for a year of particularly strong trade expansion to be followed by a distinct slowdown in the growth rate of world trade. Thanks to a number of favourable elements in the current situation, the slowdown last year is likely to turn out to have been a pause similar to those that occurred in 1970/71 and 1977, after which the growth of world trade accelerated again.

GATT economists predict that if the general expectation of a moderate increase in the rate of economic growth in the industrial countries in 1986 turns out to be correct, the volume of world trade could increase by between 4 and 5 per cent this year.

The volume of exports of agricultural and mining products declined in 1985, which meant that the 5 per cent increase in exports of manufactured goods was the only source of strength in world trade.

There was a decline in the value of imports and exports of developing countries, due to a lower level of trade among developing countries and between developing countries and industrial countries: this was a key factor accounting for the slowdown in the growth of world trade last year.

Developing economies in South-East Asia experienced a substantial deterioration in their trade performance: for example, in Indonesia, Malaysia, the Philippines and Thailand, both exports and imports fell by 5 to 13 per cent and by 10 to 24 per cent, respectively.

Most of the heavily indebted developing countries returned to the worrisome path of import-contracting adjustment in 1985.

SERVICES

Further discussions on services were held in GATT at meetings on 24–26 March and 17–18 April. These meetings are held in accordance with the Decision of the Contracting Parties of 28 November 1985, which asked for the continuation of the exchange of information begun in November 1984 and the preparation of recommendations.

The discussions were centred on four topics: (1) a study by the UNCTAD secretariat on services and the development process, dealing inter alia with dependence, transnational corporations, infant industries, information flows and regulations; (2) issues and concepts related to regulations affecting international transactions in services, on the basis of a GATT Secretariat paper; (3) the conceptual framework; and (4) statistical problems and methodology.

Among other things, the GATT analysis examines the possible definitions of an international transaction in services, as well as types of existing national and international regulations relating to transactions in services. Analysis of international services transactions raises a number of questions, especially that of whether or not the absence of a consistent set of international regulations governing such transactions is a source of difficulty for services industries, and if so, why. At the meeting of 17–18 April, the participants began discussing various questions identified by the paper, and in particular: how important is a study of various types of international transactions for purposes of determining the appropriateness and desirability of multilateral action in such matters? Are the complexity and diversity of existing national regulations the central problem facing services industries internationally or is it the current level of protection which those regulations afford against various forms of market access? Are there reasons for applying regulations governing both the domestic sale of services and international transactions in services? Are they different from the reasons for applying regulations governing trade in goods? Are such reasons generic, transaction-specific or sector-specific?

The following meeting, on 12–13 May, was devoted to a discussion of the characteristics of services and of certain key services activities, in particular trans-border flows and the role of transnational enterprises in the services sector.
Once the decision is adopted, the Protocol of Accession will be opened for acceptance. Thirty days after acceptance, Morocco will become a contracting party to the General Agreement, probably the 92nd.

Morocco has been following GATT’s activities for several years as an observer. Its representatives pointed out that the country had already made an independent effort to liberalize access to its market.

The Council went on to adopt the sixth report of the Working Party on trade with Hungary. In keeping with Hungary’s Protocol of Accession, the Working Party held consultations on Hungarian imports and exports and on developments in Hungary’s trading relations. The Working Party dealt in particular with the quantitative restrictions which the European Economic Community continued to apply to certain Hungarian exports and recommended that the two trading partners hold bilateral consultations on the subject. The consultations, which took place in March 1986, clarified certain points but failed to reconcile the views of the EEC and Hungary on the question of whether such restrictions are discriminatory and contrary to Article XIII of the General Agreement and to the terms of Hungary’s Protocol of Accession. While Hungary considers them discriminatory, the EEC argues that they apply equally to several other contracting parties and are therefore not subject to the obligation of elimination under Hungary’s Protocol of Accession. Several countries felt that the EEC’s interpretation of what constituted discriminatory quantitative restrictions was wrong and that the time had come to do away with the restrictions in question. In addition, the representative of Hungary told the Council that the enlargement of the European Community had aggravated the impact of the Community’s quantitative restrictions and reserved all of his country’s GATT rights in that context. The Council took note of the various statements made.

The Council adopted the report of the Working Party which examined the 27th annual report of the United States on its import restrictions on certain agricultural products (cotton, peanuts, dairy products, sugar and certain sugar-containing articles) applied under Section 22 of the Agricultural Adjustment Act. This report is submitted under the terms of the waiver granted by the 5 March 1955 Decision of the Contracting Parties.

Several members of the Council expressed their concern at the fact that the waiver had been in effect for 31 years. The Council also took note of the 28th annual report of the United States on measures taken during the period from October 1984 to September 1985. Additional restrictions had been introduced in March 1986 on sugar-containing products. The Council established a Working Party, whose terms of reference and chairmanship were to be determined after consultation.

The European Community requested the Council to establish a Working Party under Article XX, paragraph 2 of the General Agreement to hold consultations on practices by Japan that were affecting the world market for copper ores and concentrates. The EEC recalled that it had already complained about those practices on several occasions both in the Council and in the Working Party on Natural Resources Products. The representative of the Community stressed that his request was being made not to settle a trade dispute but to secure an examination by a technical group. The representative of Japan provided information on the organization of the copper market in Japan, emphasizing that what was involved were private trade practices not covered by the GATT. He opposed the formation of a Working Party. The Council agreed to return to the question at its next meeting and asked its Chairman to hold consultations in the meantime.

The representative of Hungary drew the Council’s attention to the suspension by the European Community of its imports of fresh food products, particularly of live animals and meat, mainly from countries or areas within a given zone. He pointed out that while Article XX of the General Agreement permitted the adoption of measures necessary to protect human health, it also provided that such measures must not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevailed or a disguised restriction on international trade. He stated that his authorities had furnished regular information on levels of radioactivity and had shown all the co-operation needed in that regard. He reserved the rights of Hungary under the General Agreement. The European Community indicated that the measures concerned were simply precautionary and therefore temporary, and would be lifted as soon as examination of the data furnished by the countries concerned could show that there was no danger and thereby reassure European consumers.

In addition, a number of countries informed the Council of their concern regarding measures taken by their trading partners and of associated bilateral consultations. Japan indicated that it had concluded its negotiations under Article XXVIII with the United States and the European Community on the subject of leather and leather products. The Japanese representative pointed out that, despite the arrangement, the United States had introduced a retaliatory measure in March 1986 against these products. Japan reserved its rights under the General Agreement. Brazil informed the Council of its request for consultations, under Article XXIII: 1. with the United States concerning the introduction by the latter of an additional duty on ethyl alcohol not for human consumption and concerning the alleged existence of subsidies for United States producers of ethanol for use as fuel.

Also, the Director-General of GATT informed the Council of the unfavourable and worrisome impact that the budgetary decisions taken by the United Nations General Assembly will have on the pensions of members of the Secretariat and the fluctuations in the exchange rate of the dollar, on salaries.

**Renewed appointment of Arthur Dunkel as Director-General**

At a meeting held on Thursday, 15 May, the GATT Council unanimously decided that the appointment of Mr. Arthur Dunkel as Director-General be renewed for a further period of three years as from 1 October 1986. Arthur Dunkel has been Director-General since October 1980.

**Coming GATT activities**

Tentative schedule of meetings for June:

- 16–18 Informal meeting on government procurement
- 17–18 Council (special session on the development of the international trading system, followed by the regular session)
- 19 Committee on Government Procurement
- 19–20 Textiles Surveillance Body
- 19–20 Working Party on the Accession of Mexico
- 20 Group on Quantitative Restrictions and Other Non-Tariff Measures
- 23–26 Preparatory Committee
- 23–24 Committees on milk powders, milk fat and cheeses
- 27–30 Services

**July**

- 1 Committee on Tariff Concessions
- 2 Textiles Committee
- 7–8 Textiles Surveillance Body
- 15 Council
- 21 Textiles Committee

The schedule of meetings of the Preparatory Committee and the Textiles Committee have not yet been determined for July.