REPORT OF THE CONSULTATIVE GROUP OF EIGHTEEN
TO THE COUNCIL OF REPRESENTATIVES

Introduction

1. The present report is submitted to the Council of Representatives in accordance with that part of the terms of reference of the Consultative Group of Eighteen which provides that the Group "shall submit once a year a comprehensive account of its activities to the Council" (document L/4204).

2. As agreed by the Group of Eighteen the present report has been prepared and submitted by the Chairman of the Group on his own responsibility.

3. Since it last reported to the Council in November 1976 (L/4429) the Consultative Group of Eighteen has held one meeting - on 22-23 September 1977. For the purposes of this report the Group's activities are summarized under the following general headings:

   I. Recent developments in trade policies and international trade
   II. Trade measures taken for balance-of-payments purposes
   III. The international trading system and the rôle of GATT - dispute management
   IV. World trade in agricultural products
   V. Definitive application of the General Agreement
   VI. Other matters.

I. Recent developments in trade policies and international trade

4. Under this item the Group reviewed the current situation and problems in international trade. As background material the Group had before it the introductory chapter of the secretariat report "International Trade 1976/77".
5. The principal theme of the Group's discussions was the growing incidence of protectionist measures and the related threat of a retreat from the principles and practices of a free and open trade system. It was generally observed that the international economy had entered a new and complex phase in which structural problems arising from rapid changes in comparative advantage, persistent balance-of-payments deficits and acute sectoral unemployment did not lend themselves to traditional approaches or solutions. The view was expressed that the principal problem confronting countries was how to promote adequate and sustainable rates of economic growth and that a key factor in this regard was the creation of a climate of confidence in which investment could be expanded. It was agreed that the vigorous pursuit of the Multilateral Trade Negotiations by all participants and the achievement of substantial results in the near future, was essential to the restoration of confidence and to the sustained growth of investment and thus to the curbing of protectionist tendencies. It was noted in this connexion that while trade liberalization was an essential condition for the balanced recovery of the world economy it was also essential that complementary efforts should be made in the monetary and financial sectors to find solutions to the acute problems faced in particular by the developing countries. It was also noted that many trade restrictive measures had had a disproportionate and sometimes discriminatory impact on the trade and growth prospects of developing countries, and that this was one of the most important threats to international co-operation in GATT and elsewhere.

6. Suggestions made in the course of the Group's discussions were that arrangements should be sought in the current round of negotiations to permit a continuing movement forward towards the negotiation of more liberal trade policies, and that an overall review of the activities and policies of GATT should be undertaken to define the areas in which the General Agreement could be made more responsive to the needs of developing countries. The Group also considered a suggestion concerning possible arrangements to keep track of and examine existing and newly-imposed trade restrictions so that governments, in carrying out their responsibilities as contracting parties to the GATT, would have at their disposal a precise picture of developments and trends in international trade and in the multilateral trading system itself.

II. Trade measures taken for balance-of-payments purposes

7. Under this item the Group continued its discussions on the subject of improvements in the procedures relating to trade measures taken for balance-of-payments purposes, and on the interrelated question of improvements in the current working relationship between the GATT and the IMF. The Group also exchanged views on the procedures for balance-of-payments consultations with developing countries.
8. At the third meeting of the Group in June 1976 it had been agreed that the secretariats of the GATT and the IMF should work out jointly the practical means for improving co-ordination between the two institutions. A series of discussions were subsequently held between management and senior officials of the GATT and the IMF on possible measures, within the context of existing arrangements, to improve co-ordination in four broad areas, namely: exchange of information; ways of ensuring that trade considerations were adequately taken into account by the Fund in the conduct of its activities; the nature and content of the reports provided by the Fund under GATT Article XV; and, the co-ordination of the two institutions in their respective jurisdictions. At the September 1977 meeting of the Group the Director-General outlined a number of improvements in working arrangements resulting from these discussions. These included the earlier availability of the Fund's findings, arrangements for the IMF representative to be present a few days before GATT consultations to discuss the Fund's findings and the balance-of-payments position of the consulting contracting party. Arrangements have also been made for more frequent informal discussions between management and senior staff of each institution which would permit both sides to follow more closely their activities in areas of mutual concern and, as a consequence, to pursue more co-ordinated policies.

9. The Group exchanged views on the current procedures for balance-of-payments consultations with developing countries, and in particular on whether the simplified procedures adopted in 1972 were an exception to the full procedures adopted in 1970 in the sense that, while the simplified procedures would in practice normally apply to balance-of-payments consultations with a developing country, another contracting party might nevertheless require as of right that the full procedures should be followed. This was a matter which had been raised in the Council at the meeting of 26 July 1977 (C/M/122). Some members of the Group considered that the two sets of procedures should be regarded as alternatives and that the decision as to which was to be followed should be a matter for consensus. Some other members expressed the view that while in practice the simplified procedures had usually been applied, either because the position of the consulting country was already well known or for reasons of an administrative nature, the full procedures should nevertheless apply if a country whose trade was affected by the measures taken considered that it had an interest in a full consultation. One suggestion in this regard was that bilateral or plurilateral consultations between the parties concerned should precede consideration of the matter in the Balance-of-Payments Committee, and that the country seeking a full consultation should state its reasons for doing so. It was also suggested that the administrative and other difficulties encountered with the full procedures might be alleviated if the GATT secretariat were to assist the country concerned in preparing for the consultations.
III. The international trading system and the role of GATT - dispute management

10. In its further discussions on the general subject of dispute management the Group exchanged views on the operation of the current procedures, with particular reference being made to what was described as the failure thus far in two recent cases, involving the principal recourse under Article XXII (the working party procedure) and Article XXIII (the panel procedure), to arrive at definitive conclusions concerning the conformity of certain practices with the General Agreement. It was suggested that such impasses in the operation of the current procedures undermined the authority of and the respect for the General Agreement and that prompt action should be taken to remedy the situation.

11. With regard to the general question of improvements in this area one view expressed was that progress would not be realised by codification of procedures but was rather a matter of promoting co-operation between contracting parties within the framework of existing arrangements. In this general context a number of areas were mentioned where improvements, on an unwritten basis, might be considered. These included the criteria to be followed in deciding which of the available procedures should be adopted in a particular case; the selection of panel members; arrangements regarding consultations with the parties concerned before the final adoption of a panel's report; and, the advantages and disadvantages of uniform time-limits as a means of minimizing delay in the operation of the existing procedures.

IV. World trade in agricultural products

12. Following a general exchange of views at its two previous meetings on world trade in agricultural products the Group, at its September 1977 meeting, discussed the problems for world agricultural trade arising from the disruptive overspill of high cost surplus production into world markets on the basis of a memorandum presented by one member. Further discussion is to be deferred until after the conclusion of the Multilateral Trade Negotiations when the Group might revert to the subject of world trade in agricultural products and review the situation in the light of the outcome of the negotiations.

V. Definitive application of the General Agreement

13. At its fifth meeting the Group discussed the question of the definitive application of the General Agreement on the basis of a memorandum presented by one member. It was suggested in the memorandum that the Multilateral Trade Negotiations would probably result in the conclusion of certain multilateral agreements, particularly in the non-tariff field, and that the incorporation in domestic legislation of the obligations thus assumed would lead to a fuller and stricter application of the General Agreement in the various fields of application of such multilateral agreements. The question was accordingly raised whether it would not be opportune to give similar effect to all provisions of the General Agreement by applying it as a whole on a definitive basis under Article XXVI.
14. In the preliminary exchange of views on the memorandum, support was expressed for the suggestion that the General Agreement should be applied on a definitive basis and for the view that it would be opportune to take the matter up in the context of the Multilateral Trade Negotiations. Several members said that both the stability of international trade and the credibility and prestige of the GATT would be enhanced if all contracting parties were to apply the GATT definitively. One member stated that his authorities had long supported definitive application of the General Agreement under Article XXVI subject to specific reservations which might be necessary because of existing legislation but noted that such reservations would be at a minimum or even unnecessary if negotiations on measures which were inconsistent with the GATT were successfully concluded in the MTN. The view was also expressed that the question of definitive application was part of a wider complex of issues related to the status of GATT provisions, including the provisions of Part IV and the status of arrangements and agreements which were derived from waivers or derogations such as the generalized scheme of preferences.

VI. Other matters

15. Since the last meeting of the Group in September 1977 members have taken the opportunity in informal consultations to express their personal views on the value of the Group's activities on the basis that, in considering this report and in reviewing the situation with regard to the constitution and future of the Group, members of the Council would expect to have the benefit of such views. These views have accordingly been included in the present report for the purposes of information only, and their inclusion is not intended to prejudice the position which those contracting parties which are members of the Group might ultimately adopt with respect to the Group's future.

16. All members believed that the activities of the Group in the period since its inception had been useful and justified the continuation of the Group's work. In this connexion it was mentioned that the opportunities provided by the Group for free and frank exchanges of view between high level representatives on a wide range of matters of interest to the international trading community had been particularly valuable. It was also noted that the difficulties currently affecting international trade and trade relations were liable to continue for some time and that in these circumstances the Group, in accordance with its terms of reference, had an important rôle to play in promoting trade policies that were consistent with the General Agreement and in helping to forestall sudden disturbances that could represent a threat to the multilateral trading system and to international trade relations generally.