1. The Chairman said that the matters for discussion by the Committee at this meeting were listed in PREP.COM(86)3. He suggested that they be taken up in the order indicated in that document, except that notification and surveillance might be more usefully taken up before functioning of the GATT system, as this would avoid unnecessary duplication.

ARTICLE XVII

2. The Chairman recalled that though the subject had not appeared in the 1982 Work Programme, it had been raised in the Senior Officials' Group (SR.SOG/10, pages 1-3). It had been suggested in that forum that the provisions of Article XVII should be subject to analysis and improvement, with particular reference to the principle of non-discrimination and the improvement of market access and negotiating opportunities for developing countries. The adequacy of GATT rules and procedures on state-trading enterprises had also been raised in the Committee on Agriculture, the Group on Quantitative Restrictions and Other Non-Tariff Measures and the Council. He noted that Article XVII obliged CONTRACTING PARTIES to notify the operations of state-trading enterprises but doubted whether the notification procedures had worked sufficiently well to permit a serious assessment of the extent to which obligations relating to state-trading enterprises were being adhered to.

3. The representative of Chile stated that Chile wished to see the operations of state-trading enterprises being conducted in accordance with the principle of non-discrimination and solely on the basis of commercial considerations, equal opportunity being given to firms of the other contracting parties to participate in the transactions under conditions of free competition. Chile believed that the objectives and provisions of Article XVII were not being fully respected. Though there were notifications made, there was no mechanism for examining them or identifying possibilities for trade liberalization. State-trading enterprises represented a non-tariff barrier which could have a significant negative influence on the exports of contracting parties generally and, in particular, those of the developing countries. The problem was of general interest as most contracting parties, including Chile, had such enterprises. It should, therefore, be taken up as a subject for negotiation in the new round.
4. The representative of Poland stressed the need to understand and interpret the individual provisions of the General Agreement in a balanced and unequivocal manner. A number of important articles of the General Agreement, for example Articles I, VI, XI, XIII, XVI, XIX and XXIV, were in urgent need of clarification, and some of these deserved precedence over Article XVII as possible subjects of examination. In this context he believed that the subject should be seen more as part of a general review of the efficacy of the GATT system than as a separate issue for negotiation in the new round.

5. The representative of the United States said he would address at a later stage the question whether individual subjects should be treated in the context of regular GATT work or in the new round. He agreed that there was need to review the operation of a number of GATT articles, including Article XVIII, so as to arrive at clearer understandings on their application. In respect to Article XVII, the United States had responded to the notification requirements despite conceptual uncertainties. A clearer definition of state-trading was needed to permit better implementation of Article XVII. Contracting parties should also examine the obligations contained in the article with the objective of relating them to current trading practices. Such an examination should, inter alia, consider ways to improve the effectiveness of the notification requirements, possibly through the mechanism of periodic reviews of the notifications. The United States supported the Chilian proposal.

6. The representative of Canada also supported Chile's initiative. Given that an important objective of the new round would be to strengthen the multilateral trading system by reinforcing GATT rules where necessary, Canada was prepared to join in a review of the operation of Article XVII. The overall purpose of such a review should be to consider the adequacy of the existing provisions in terms of preserving negotiated market access conditions in the changing trading and economic environment. The review should cover the import and export activities of state-trading enterprises and should focus on the concepts of commercial consideration and adequate opportunity to compete with a view to ensuring that these concepts were meaningfully and effectively applied. In joining such a review, Canada would expect that the question of government procurement, presently excluded from Article XVII, would proceed on its own course.

7. The representative of Hungary, reacting to the Chilean proposal, said he understood Article XVII as being relevant to both state enterprises acted on the basis of government instructions or to privately owned enterprises benefitting from government monopolies. He took exception to the view of Chile that the mere existence of state trading enterprises constituted barriers to trade. In this context he recalled the report by the Committee under the Legal and Institutional Framework of the GATT submitted in March 1964 (L/2281, paragraphs 8 and 10) according to which "there was nothing in Article XVII which prevents a contracting party from establishing or maintaining state trading enterprises, nor does the GATT sanction
discrimination against state trading enterprises which are, in this regard, placed on the same basis as any other enterprises". On the basis of the findings of this Committee he argued that it was clear that not the existence per se of such enterprises was relevant under Article XVII but rather the impact of their operations on trade. Under Article XVII contracting parties maintaining state trading enterprises were obliged to ensure that their economic activities were motivated solely by commercial considerations. Consequently any eventual further work in the GATT on Article XVII should be limited to the examination to what an extent contracting parties lived up to this obligation. He shared the view of many other contracting parties that concerns about the operation of individual Articles were better taken up under the broad framework of the functioning of the GATT system. However, in the new round priority might better be given to the implementation of some of the basic provisions of the General Agreement whose functioning had been even less satisfactory than that of Article XVII.

8. The representative of Israel expressed support for the proposal put forward by Chile. He felt that the most appropriate way of tackling the problem of state-trading enterprises was the approach suggested by the delegation of Canada.

9. The representative of Cuba supported the views expressed by the delegation of Poland and Hungary. An examination of the articles of the General Agreement which presented more serious problems of implementation than Article XVII would probably imply the convening of a special conference to review the working of the General Agreement itself; this was not the intention of the new round. Article XVII was intended to provide solutions to problems which might arise through the operations of state-trading enterprises maintained by contracting parties. If particular contracting parties had specific problems in these areas, they could initiate consultations or negotiations with the contracting party or parties concerned rather than seeking to include the subject as an item for negotiation in the new round.

10. The representative of Japan felt it was appropriate to address this issue in the preparatory phase of the new round. He agreed with Chile that the meaning and coverage of the term "state enterprise" in Article XVII:1(2) of the General Agreement was not clear, which made the notification methods adopted by contracting parties somewhat arbitrary. There were also instances of contracting parties not abiding by their notification obligations. Meaningful improvement in the implementation of the article was not possible without removing existing ambiguities, including a more precise definition of state enterprises. Before addressing these fundamental problems there was also a need to consider the present status of notifications and problems encountered in the implementation of the Article, and to consolidate the available data. The general question of Article XVII was closely related to the improvement of the GATT mechanism on notification, consultation and surveillance. It could also be examined in the context of non-tariff measures to be dealt with in the new round.
11. The representative of Czechoslovakia recalled the views expressed by his delegation in the Senior Officials' Group. Czechoslovakia was opposed to the inclusion of the subject in the new round. The proposal put forward by Chile had not received sufficient support from delegations. No major complaints had been heard regarding the implementation of Article XVII nor reports of any consultations regarding improvements that were considered necessary or desirable. While Article XVII, like other other articles, was not perfect, the existing mechanism and procedures enabled contracting parties to deal with any problems that were encountered. State-trading per se could not be regarded as being an obstacle to trade. Moreover, the examination and review of the functioning of other more basic articles of the General Agreement constituted a task of greater priority. The examination of Article XVII, if at all necessary, would be better held under the general exercise pertaining to the functioning of the GATT system rather than an individual item by itself.

12. The representative of Romania shared the reservation of other delegation about discussing the question of Article XVII as a separate topic in the new round. There were several other articles of the General Agreement whose implementation was not satisfactory and which might be taken up under a general discussion relating to the improvement and strengthening of the GATT system, including the areas of notification and surveillance.

13. The Chairman said that the secretariat would prepare a summary of the main points made in the discussions on Article XVII.

ARTICLE XXIV

14. The Chairman recalled that, while Article XXIV was not a subject of the 1982 Work Programme, it had been suggested in the Senior Officials' Group that its operation should be reviewed in the new round (SR.SOG/10, pages 2 and 4). Difficulties of interpretation of some of its provisions had become apparent both in the examination of customs unions and free-trade areas and in certain dispute cases.

15. The representative of Chile recalled that the problems had been outlined in the report "Trade Policies for a Better Future". His delegation was concerned that the provisions of Article XXIV had been interpreted in such a way as to permit agreements which eroded the principle of genuine multilateralism embodied in the most-favoured-nation clause. As a staunch defender of economic integration, his country did not call for the abrogation of this Article but simply for its implementation in the spirit in which it had been drafted.

16. The representative of Colombia associated himself with the statement of the representative of Chile.
17. The representative of Japan noted that important provisions had been written into Article XXIV against the danger of the dilution by regional arrangements of the principle of non-discrimination. Yet many interim arrangements under Article XXIV did not adhere strictly to the criteria laid down or were presented as faits accomplis before consultations with contracting parties could take place. The new round would provide an opportunity to reaffirm the aims and spirit of the provisions of Article XXIV. The review procedures should be strengthened to ensure conformity of regional arrangements with these provisions and to examine their relationship of these with other GATT provisions. Referring to the recent enlargement of one Article XXIV arrangement, he called for the immediate elimination of its discriminatory elements.

18. The representative of the Republic of Korea expressed concern over the erosion of the most-favoured-nation principle and the damage to the interests of developing countries caused by regional arrangements which did not conform fully with the provisions of Article XXIV. Regionalism should be opposed in the interest of free and open international trade.

19. The representative of the United States expressed sympathy for the recommendations in the report "Trade Policies for a Better Future". His authorities did not agree with certain current interpretations of Article XXIV, particularly with respect to the rights of third parties, and supported an examination which would enable the CONTRACTING PARTIES to decide how the provisions of Article XXIV could be better applied.

20. The representative of the European Communities drew attention to the importance of Article XXIV for his delegation. It had allowed the GATT to take into account the diversity of its contracting parties and the strength of certain links, both historical and geographical, between countries. Under the provisions of this Article, a very valuable series of procedures and practices had been built up. While he would not claim that Article XXIV was any more perfect than other GATT provisions, it had introduced an important element of flexibility. Noting that other contracting parties were also having recourse to the provisions of this Article, he advocated maintaining it in its present form. As also in the case of Article XVII, he saw no real case for examining it in isolation, though it might be looked at in the context of a general review of the functioning of the GATT, without any form of commitment to renegotiate any part of the GATT or to institute new procedures. The two issues of regional agreements (Article XXIV:4-10) and of provincial governments within federal entities (Article XXIV:12) might have to be looked at separately. He emphasized that Article XXIV was an exception to Article I and could not be interpreted otherwise.

21. The representative of Chile feared that this exception to the most-favoured-nation clause was becoming the rule: for this reason it needed to be re-examined and modified.
22. The representative of Canada viewed the recommendations of the report "Trade Policies for a Better Future" in the broader context of a GATT credibility crisis, brought about by the proliferation of exceptions and deviations from basic GATT rules. A review of the operation of Article XXIV should respond to this challenge.

23. The representative of Finland, on behalf of the Nordic countries, noted that there may have been certain problems relating to some arrangements notified under Article XXIV. However, this did not mean that its principles and provisions should be questioned. He did not feel that this should be a subject for the proposed negotiations, but would not a priori preclude any Article from a possible general review of the functioning of the General Agreement.

24. The Chairman proposed that the secretariat prepare a note summarizing the discussions so far. Some delegations suggested that it should contain, in addition, some statistical information on the flow of trade under Article XXIV compared to that under Article I, including GSP trade flows. Others felt that a statistical exercise was not appropriate. The Committee agreed to the Chairman's original proposal and also that he should report to the Committee in due course on the feasibility of a statistical study.

RE-NEGOTIATION OF CONCESSIONS (ARTICLE XXVIII)

25. The Chairman said that this matter had been raised in the Senior Officials' Group and the discussions were recorded in SR.SOG/10, pages 2 and 4 and SR.SOG/11, page 17; it had not figured in the Ministerial Work Programme. Two distinct issues had been raised in relation to Article XXVIII. The first was the definition of suppliers' rights for the purpose of renegotiations under Article XXVIII. On this a proposal had been made by one delegation to the effect that an additional principal supplying right should be accorded to the exporting country for which trade in a specific product had the most importance. A first substantive discussion of this proposal had taken place in the Tariff Committee on 14 February 1986. The second issue arising under Article XXVIII was the concern felt by some delegations about the effect of routine invocations of Article XXVIII:5 on the security of tariff bindings. The invocation of this paragraph permitted a contracting party to withdraw or modify existing tariff concessions at any time in the following three-year period. There had been a clear tendency for the number of invocations to rise over the years, although the number of actual renegotiations had remained quite small. These two issues were linked with the questions dealt with in the Committee's earlier discussion on tariffs.

26. The delegate of Switzerland stated that Article XXVIII and the rights to negotiate under it were part of the general balance of rights and obligations under the General Agreement. Article XXVIII gave rights to negotiate essentially according to the absolute share of imports by volume, in the market of the importing country. These rights tended to be concentrated for historical reasons on a restricted number of countries, and a growing number
of suppliers had no negotiating rights. The principal suppliers were not necessarily those countries with the most important stake in exporting to the market in question, in terms of the importance of the trade to their economies. It was in order to take this element into consideration and to re-establish an appropriate balance of rights and obligations that the Swiss proposal had been made. Switzerland wished to have the possibility of discussing the present Article XXVIII and of adding provisions to it. This should be done on the basis of criteria as simple as possible, but taking due account of the relative interests of the exporting countries and not only of the importing countries.

27. The delegate of Peru said that her delegation considered it to be appropriate to review the criteria on the basis of which rights to negotiate had been granted, which has resulted in the fact that negotiating rights had been concentrated on a small group of countries. Article XXVIII and Article XXVIII bis did not maintain an appropriate balance as they only took into consideration the importance of import shares in a given market. It was necessary to eliminate this asymmetry in order to take into consideration the interests of exporting countries generally and, in particular, the interests of the developing countries which practically never had the right of negotiator. Note 5 to Article XXVIII:1 granted a right to negotiate according to the importance of a given product within total exports of a contracting party, and to this should be added the criterion of a country's exports of a given product as a percentage of the total exports in that sector. She agreed with the delegate of Switzerland that it would be appropriate to review Article XXVIII so as to take into consideration the interests of all contracting parties, not only those that had a very large trade volume, but our proposal is different.

28. The delegate of Canada referred to previous discussions where it had been noted that the invocation of Article XXVIII:5 had been increasing although the need for renegotiation of particular bindings might not have been apparent at the time of invocation. This situation had led to expressions of concern over the security of bound tariff concessions. Available evidence indicated that actual renegotiations of bindings had been limited in number, and it would appear that the disciplines contained in Article XXVIII had been sufficient to deter its abusive use so far. Nonetheless, situations had arisen recently which had pointed to the existence of shortcomings in the rules for determining trade impairment and compensatory adjustments. This was particularly relevant in the case of new products or products entering a new market. A review of the operation of Article XXVIII should aim to clarify and improve the rules on the determination of compensatory adjustments in order to enhance the security of market access conditions.

29. The delegate of Hungary shared the preoccupations put forward by the Swiss delegation. The present criteria attached to initial negotiating rights resulted in permanent and serious handicaps for small countries. An appropriate review of these criteria was therefore necessary.
30. The delegate of Korea stated that Article XXVIII had been established to provide all contracting parties with flexibility as regards tariff concessions. However, benefits under this Article had been concentrated on certain big contracting parties. If this situation continued, the credibility and the stability of the GATT system would be further undermined. Korea was of the view that the criteria for negotiating rights under Article XXVIII should be supplemented in such a manner as to ensure equal opportunity for all contracting parties and to prevent misuse of this Article.

31. The delegate of Japan stated that the effective operation of Article XXVIII was essential in order to maintain the results of trade liberalization achieved in past tariff negotiations. It was therefore worthwhile to review the provisions of Article XXVIII in the new round. Such a review should contain, for instance, rules for compensation for new products which had only recently appeared in international trade or whose recorded trade volumes were negligibly small.

32. The delegate of Argentina supported Peru's suggestion within the general context of a possible revision enabling developing countries and small suppliers to have access to the rights established in Article XXVIII. There were several possibilities in Article XXVIII:5 for action of this type.

33. The delegate of Uruguay agreed with what had been said concerning the shortcomings of Article XXVIII. Its present wording led to a situation which was favourable to some suppliers and excluded others. Since Article XXVIII was drafted, the world economic situation had changed considerably; a number of developing countries had become important exporters of products which they did not export initially. There were often import restrictions applicable to these products, generally of the non-tariff type and this on many markets of significant importance. There were products of great importance to developing countries on which the import statistics did not accurately reflect either the potential of these countries to supply the markets in question, or the actual access to those markets. The position of Uruguay was that there would have to be a revision of Article XXVIII in the new round.

34. The delegate of Czechoslovakia said that although disputes had not arisen often in regard to Article XXVIII, its implementation had given rise to some problems. Attention should be paid to proposals aimed at strengthening some of the basic functions of the Article, like securing the stability of concessions, as well as at clarifying or possibly updating the definition of principal supplier. The interest of the countries for which the export of goods towards a given destination was the most important in terms of their economies should not be neglected in the attribution of negotiating rights. The operation of Article XXVIII should therefore be reviewed at an appropriate juncture of the new round.
35. The representative of the European Communities said that the number of Article XXVIII renegotiations conducted by the Community over the years had been very small, notwithstanding the fact that the renegotiation of concessions was intimately related to the number of obligations accepted by individual contracting parties. The larger countries had in general taken on the largest number of obligations in terms of tariff bindings, and it naturally followed that those countries would more often need to have recourse to Article XXVIII in order to secure the flexibility which was an essential counterpart to the obligations undertaken in the tariff area, and to Article II. In the Community's view, Article XXVIII had functioned well, compared to other articles of the GATT. The bulk of negotiations had been settled amicably and few disputes had arisen, although some of these negotiations had dragged on too long. On the question of negotiating rights under Article XXVIII:1, the Community had over the years adopted a practice which was equitable and practical. It was hardly practicable to negotiate or renegotiate a concession with more than the principal supplier and possibly the holder of the initial negotiating right, while taking into account other suppliers that had a substantial interest. The Community had not engaged in routine invocation of Article XXVIII:5 but if there was a need for recourse to that provision, it would be justified as long as the procedures were properly followed. Since Article XXVIII had worked well overall, the Community did not see a need to single it out for separate review, except possibly in the context of an overall discussion on the operation of the General Agreement.

36. The delegate of Chile supported Switzerland's proposal, with the amendments suggested by the Peruvian delegation, i.e. that small suppliers, particularly from developing countries, be given the right as principal negotiating partners in order to safeguard their interests when a concession was withdrawn. The abusive application of Article XXVIII:5, with a large number of contracting parties reserving their rights to negotiate, had reduced the value of the three-year period during which concessions were firm, without prejudice to the escape clause in Article XXVIII:4. The stability of a concession was very much part of its value and had to be restored.

37. The delegate of the United States agreed with the EEC that Article XXVIII had worked well for the GATT over the years, unlike some of the articles which had been discussed previously. There did not appear to be conflicting interpretations as to its use. The US therefore was not convinced that there was a need to re-examine the basic obligations under Article XXVIII. However, if Article XXVIII was to be examined in the new round, the examination should include consideration of the adequacy of its existing provisions in relation to new products.

38. The delegate of Switzerland stated that it could not be said that Article XXVIII had worked in an entirely satisfactory way. It had never been proposed that existing negotiating rights shall be replaced nor that they be extended to a considerable number of countries, but that a balance be found between the rights attributed from the point of view of the importer and rights granted from the point of view of the exporters. It was not
impossible to negotiate with two or three countries rather than with only one. A proposal had been made, and it should be examined in the negotiations. Proposals concerning new products and how to treat them from the point of view of possible compensation in the case of tariff unbinding deserved attention, as well as possible abusive use of Article XXVIII:5. The problem was probably not so much the reservation as such but rather an avalanche of unbindings in the case of some countries.

39. The Chairman concluded that it would be useful for further work for the secretariat to produce a short summary of the issues raised. He wondered whether the question of Article XXVIII could not be dealt with under the more general item of tariffs.

40. The delegate of Switzerland saw some difficulty with the Chairman's idea because revising an article of the GATT was a different exercise from negotiations on the exchange of specific tariff concessions, which was a case of implementing the rules contained in Article XXVIII. The two issues should therefore be kept separate.

FUNCTIONING OF THE GATT SYSTEM

41. The Chairman said that this subject touched on every aspect of the Committee's work. It was obvious that the proper functioning of the GATT system required, among many other things, clear and agreed rules, effective dispute settlement procedures and efficient arrangements for notification and surveillance. He suggested that the Committee devote its time on this subject to a discussion of matters which did not arise elsewhere. In the Senior Officials' Group discussions, for example, considerable attention was paid to the question of closer involvement of Ministers in the work of the GATT. Some points were also made on the related issue of the institutional framework of the GATT.

42. The representative of the European Communities said that the points mentioned by the Chairman for consideration under this item were essentially procedural in nature and as such could not properly deal with important questions of substance. Whilst the GATT system might be said to be holding its own, it was not clear for how much longer this would be the case. The system had evolved over the years and now needed to be reviewed and perhaps its application improved in various ways. A number of developments, all in themselves compatible with the provisions of the General Agreement, were cumulatively undermining and eroding the system. These included waivers, some of which had been in force for many years and disequilibrium in the balance of rights and obligations among contracting parties occasioned by differences in levels of tariff bindings. Furthermore, while the increasing accommodation of the interests of developing countries in the GATT, notably through the introduction of Part IV and the Enabling Clause, may be said to be a positive development, the application of special and differential treatment provisions in too static a fashion was a source of tensions and, ultimately, a threat to the satisfactory functioning of the system. These
were among the considerations which made it necessary to examine the balance of rights and obligations among contracting parties. Such an examination conducted in an open and not excessively formal manner, would lead to agreed undertakings on what could reasonably be expected of individual contracting parties. In a setting of this nature, contracting parties could even take up for consideration, if they so desired, such questions as the interpretation and application of Article XXIV, including, naturally, its paragraph 12.

43. The representative of Bangladesh noted that this subject was closely linked with others, such as standstill, rollback, safeguards and treatment of developing countries. The importance of a well functioning GATT system was underscored in the Ministerial Declaration of 1982, when it was agreed to make determined efforts to create a renewed consensus in support of the GATT system, so as to restore and reinforce confidence in its capacity to ensure a stable and predictable trading environment. This decision was taken in the face of growing disregard for GATT disciplines and the accentuation of certain shortcomings in the GATT system. The latter state of affairs had not improved since 1982, and this had particularly adverse effects on the weaker trading nations and the least-developed countries, who were faced with formidable problems. It was therefore essential to take effective measures to improve the functioning of the GATT system. He recalled that the Leutwiler report had put forward a number of proposals for addressing the problems facing the international trading system. It would be worthwhile to pursue some of these proposals, particularly those relating to increased transparency, the establishment of clearer and fairer rules in all areas, including agriculture, textiles and subsidies, safeguards, dispute settlement procedures, and the relation between trade and financial policies. In regard to the suggestion in the report concerning more frequent Ministerial Meetings, he said that it would be important to prepare such meetings carefully, and be clear as to their purpose. He also emphasised the importance of effective and efficient surveillance and monitoring machinery for maintaining the credibility of the GATT system and ensuring economic well-being and stability for all nations.

44. The representative of Zaire said that one of the objectives of the future trade negotiations should be strengthening of the legal framework of the General Agreement. The credibility of the General Agreement had been weakened by the proliferation of exceptions and waivers from its basic rules. It sometimes appeared that observance of the GATT rules was the business of small trading countries. Developed countries had adopted a series of measures that were inconsistent with the General Agreement and were notified to GATT. All measures affecting international trade should be reported to the GATT. It was necessary that the contracting parties worked together to strengthen GATT, and to secure observance of the rules governing international trade. It was also necessary to strengthen the rôle of GATT as a forum for permanent negotiation. For that purpose, it was important to have in GATT, upon completion of the proposed negotiations, a permanent body
to examine and supervise application of the measures adopted. That was the only way to make GATT credible and strengthen the functioning of the system. In addition, the suggestion to hold periodic Ministerial meetings to allow more active participation by senior officials in the work of GATT was deserving of close consideration. The Leutwiler Report identified a preference for market sharing, growing recourse to bilateralism, and a frequent lack of transparency in the formulation of trade policies as trends which were dangerous to the system. All of them reflected resistance to change, and since change was the very source of growth, there was a risk that these factors would weaken and render less flexible the world economy.

45. The representative of Turkey said that the proposed round of multilateral trade negotiations should also address the question of institutional arrangements. The GATT's rôle as a forum for discussing problems related to international trade had been undermined by the lack of a satisfactory framework for overseeing the fulfilment of contractual obligations. While developing countries were required to account for their actions through regular consultations with the Balance of Payments Committee, the same obligation did not apply to the developed countries, which only reported on a once and for all basis to the Committee on Trade and Development on the measures which they had taken in fulfilment of their commitments under Part IV of the General Agreement. Although the Part IV consultations had been useful, this procedure had to be complemented by a more effective and binding mechanism. The fact that a growing share of international trade was taking place in the so-called "grey area" had also reduced the capability of the CONTRACTING PARTIES to monitor the implementation of obligations arising out of the GATT. He said his delegation was also troubled by the difficulties met by small countries in defending their interests against major trading powers. The only sanction provided in the General Agreement was the withdrawal of concessions, and the effect of such a measure was negligible when taken by a small country against a large one. It was therefore necessary to take measures to reinforce the rule of law. The ideas contained in the relevant proposals of the Leutwiler report represented a good starting point.

46. The representative of Japan said that the most serious problem facing the GATT system was the danger of a loss of credibility as the rules under the General Agreement were increasingly ignored or evaded. A first priority of the new round should be to re-establish a multilateral trading system based upon the GATT rules so as to restore confidence to the world business community. Thus, the new round needed to accomplish three major tasks. First, to ensure that trade problems were resolved within the GATT system. Second, to improve and where necessary supplement existing GATT provisions so that the GATT system can deal with present and future problems facing the world economy. Third, to work out mechanisms to ensure strict compliance of contracting parties with the provisions of GATT. The strengthening of surveillance was one measure required to carry out these tasks. Another important area for action was an improvement in the GATT decision-making processes. Despite the growth in the number of contracting parties of the GATT, the decision-making process had been left to the annual
session of the CONTRACTING PARTIES and the meetings of the Council. The question of how to make the decision-making process more smooth and functional should be addressed in the new round. One idea in this regard was the possibility of strengthening the functioning of the Consultative Group of Eighteen.

47. The representative of Uruguay said that the strengthening of the multilateral trading system and GATT as an institution, the rollback of all measures which were obstacles to international trade, the improvement of access to markets, and the fulfilment of commitments assumed under the General Agreement, including the principle of non-discrimination and special and differential treatment for developing countries, were not merely matters of detail or abstract trading concepts, but were basic elements of the GATT system. The strengthening of and improved adherence to, the principles and rules of the General Agreement must be basic negotiating objectives if an adequately functioning trading system was to be assured and a basis established for the exchange of concessions within the framework of the General Agreement. GATT had seriously lost credibility and it was necessary to recover this credibility if the GATT was to continue as an effective organisation for promoting international trade. Concessions were worth nothing if they were not respected or were gradually diluted as a result of failings in the system of GATT rules and disciplines. The satisfactory functioning of the GATT system was a pre-condition for his country's participation in the negotiations. The improvement of monitoring and surveillance mechanisms was important, but not sufficient. Dispute settlement procedures must be improved in order to guarantee the rule of law in international trade.

48. The representative of Australia said that certain basic considerations should inform the discussion of the functioning of the GATT system. These were as follows:

- it was necessary to reflect changing realities in the world trading environment;
- changing realities in the global trading environment should be anticipated;
- the focus of discussions should be to reassert the key elements of the General Agreement.

There were five points to be considered in regard to changing realities in the world trading environment. First, since the General Agreement came into force a large number of developing countries had become contracting parties. They represented a new set of interests with which the General Agreement had had to contend. Second, a group of countries with centrally planned economies had become contracting parties to the GATT. This represented a different set of interests with which the General Agreement had had to contend. Third, there was the emergence and expansion of the European Communities as a trading entity. The advocacy of this trading block of their
common trading interests had had a major impact on the operation of the General Agreement. Four, there had been a significant enlargement of that group of countries which relied substantially on trade for developing their national economies. Sometimes countries in this category if they were developing were called "newly industrialising countries". For the purposes of the GATT what was significant was that they joined the ranks of those other countries which relied substantially on trade for their national growth. Five, there had been a shift in the trading environment such that the focus of activity in global trade had become less trans-Atlantic and more trans-Pacific and trans-Asian. With future possible accessions to the GATT, it was clear that this was a phenomenon which would continue and would be a key element in the trading environment. Against this background of changing realities, discussion in the new round on the functioning of the GATT system needed to address the machinery of the GATT. Two essential areas should figure in such a discussion. The first was the question of achieving Ministerial involvement in the activities of the GATT. This was a subject upon which Australia had spoken regularly and often. Specific proposals would be put forward on this matter at the appropriate time. It was necessary to proceed carefully in this matter, especially in view of the concerns and apprehensions expressed by some contracting parties. It was also important to avoid proposing any trivialisation of the responsibilities of Ministers. Consideration should be given to how most to benefit from the devotion of Ministers' time to the issues before the contracting parties to the GATT. The second general question in regard to the machinery of the GATT concerned the councils and steering bodies or committees which may be established to take the GATT into the next decade. The essential point here was that whatever kind of body may be considered, it would be essential that all types of trading entities which the GATT had among its membership were represented. The other major issue which should be considered for discussion in the new round in relation to the functioning of the GATT system was the need to reassert the key elements of the General Agreement. His country agreed with a previous speaker who had identified waiver practices and different levels of consolidated tariffs as two serious shortcomings in the functioning of the GATT system. An important third element was the need to restore to the GATT system the process of arbitration of disputes. The decline of the arbitral function of the GATT had had as serious an affect in undermining the General Agreement as had the exclusions from the GATT of major areas of trade.

49. The representative of Switzerland said that international trade, as well as monetary and financial arrangements, had undergone many significant changes since the inception of GATT forty years ago. The effects of these changes could be seen in economic structures, in economic and social relations, and in international and national institutions. These changes had had a profound impact on the functioning of the GATT system and should be reflected in the results of the negotiations, both in relation to the system of rules and to their implementation. It was also important to recognise that the GATT trading system did not operate in a vacuum. There was a need to ensure better coordination of trade policy with other aspects of economic policy, in order to address problems effectively in a complex and interdependent world. At the same time, trade policy should not be expected to solve problems outside its purview. It would also be useful to examine the institutional aspects of efforts to coordinate different areas of economic and commercial policy.
50. The representative of Canada said that the improved functioning of the GATT system had been a central and recurrent theme in all the subjects so far discussed in the Preparatory Committee. There was clearly a need to improve the operation of the GATT in a number of key areas. This should be a basic objective for the negotiations if the latter were to deal effectively with the broad range of trade problems currently facing contracting parties and permit the GATT once again to become a powerful instrument for maintaining security of access and promoting trade liberalisation. He proposed that the next round of negotiations should have as an objective the examination and review of such questions as security of market access and dispute settlement. Another important aspect of this examination should be the scope for greater ministerial participation in, and direction of, GATT affairs. He noted that this particular issue was the subject of a recommendation in the Leutwiler Report.

51. The representative of Jamaica said that this topic should find a prominent place in the new round of trade negotiations. It was a subject in itself and was related to several other subjects which had been discussed in the Preparatory Committee. A discussion of the functioning of the GATT system should focus, inter alia, on the following points: first, the GATT trading system assumed that liberal trading policies contributed to general welfare; second, there was a preference within the GATT framework to rely on market forces, both in relation to public and private entities; and third, there was a close relationship between trade and monetary and financial policies of a macro-economic nature. These points had not always been in the forefront of contracting parties' minds, and it was necessary, in the light of changing circumstances, to test these assumptions against the realities of economic relations. The functioning of the GATT system was to be seen in the context of the preamble to the General Agreement, which spoke about raising standards of living, ensuring full employment, a large and steadily growing volume of real income and effective demand, and so on. Furthermore, in any new round of negotiations the provisions of the General Agreement should be reviewed and/or revised where appropriate. The actual implementation of the articles of the General Agreement was another issue. Despite generally shared assumptions about the advantages of an open trading system, contracting parties had resorted to policies which had gone exactly in the opposite direction of sound economic thinking as regards the benefits of international trade. With respect to institutional questions, he noted that there were almost fifty mechanisms in the GATT, including approximately eight committees, some twenty working parties or groups and seven panels. In addition, a large number of bodies had been created to deal with the Tokyo Round codes. Thus, when examining the functioning of the GATT system, the GATT's internal mechanisms should be considered. Looking at GATT as a forum, there was great scope for improvement in the decision-making process, including in respect of transparency. In any effort to improve the functioning of the GATT system, it was essential to ensure that the system was coherent, effective, and efficient, and that it responded to the interests of all contracting parties and not only to a few of them. There was also a need for harmony between the GATT system and monetary and financial systems and policies.
52. The representative of Czechoslovakia said that as a contracting party highly dependent on international trade, his country attached great importance to the preservation and reinforcement of the present multilateral trading system based on the m.f.n. principle and non-discrimination. The proliferation of exceptions and deviations from basic GATT rules over the years and the stress created by the strength and persistence of protectionist forces were undermining the credibility of GATT and eroding its disciplines. The efficient functioning of the international trading system could not be viewed in isolation from wider issues, such as general economic policies, stability in monetary and financial fields, a favourable overall economic climate, economic security, and the avoidance of restrictive economic and trade measures based on political considerations. Contracting parties also needed to take measures in these spheres in order to preserve and strengthen the multilateral trading system.

53. The representative of Austria said that the work of the Preparatory Committee and the negotiations themselves should lead to a better functioning of the GATT system. The efficient functioning of the GATT system could not be seen as a negotiating objective as such, but as a prerequisite for the promotion of world trade. A strong multilateral trading system was in the interests of both developed and developing countries. New initiatives were necessary in order to revitalise the GATT and maintain, strengthen and enlarge the multilateral trading system. In order to improve the functioning of the GATT system, procedural improvements must be accompanied by positive action in areas of substance where problems have emerged. An appropriate balance of rights and obligations must be restored among contracting parties in order to check the danger of erosion of the GATT system. This could be a fundamental purpose of the new multilateral trade negotiations.

54. The representative of the United States said that the time was ripe for improving the functioning of the GATT system. Trade had obviously expanded and the GATT, as an institution and system, had grown substantially over the years. This growth, however, had been achieved in a rather haphazard fashion with each new round adding to the structure. The new round presented the opportunity to examine the functioning of the GATT system and agree upon ways to improve it so that it could better further the interests of the international trading system. One idea which had been floated was that with the growing complexity of the system, there was a need for some kind of mechanism to facilitate the coordination and organisation of GATT's present and future work. One way of achieving this would be to redesign and redefine the rôle of the Consultative Group of Eighteen for these purposes. Another idea which had been floated was that of greater Ministerial involvement in the GATT. When this idea, which the Leutwiler Report supported, was first mentioned in the Senior Officials' Group, his delegation had some reservations, fearing that such meetings might become routine and sterile. After further consideration, his delegation was now prepared to explore ways to increase Ministerial involvement in the GATT. There may also be other ideas for improving the functioning of the GATT which could usefully be examined. Additionally, several delegations had referred to an asymmetry or
a lack of balance between rights and obligations in the GATT. Part of the problem lay in the fact that each contracting party perceived or pretended that its trading partners were reaping the benefits of the General Agreement while avoiding the obligations. Many in the United States strongly believed that it may be accurate to say that the system faced its present difficulties partly because of this perception, or at least that this perception increased the tensions and difficulties in managing the system. What many were seeking in a new round was to achieve a better balance so that when the new round was completed a balance of rights and obligations would have been established: (1) that guaranteed the security of concessions; (2) that translated concessions into increased trade, (and this could not be over-emphasised); and (3) that promoted contracting parties, individually and collectively, to believe it was in their interest to defend the General Agreement and to adhere to its rules. It was within this context that his delegation interpreted and supported the statements on asymmetry and balance of rights and obligations. Finally, he said he shared the concern expressed by the Ambassador of Australia about the decline in the GATT's rôle as an arbiter, and hoped that this rôle could be improved and strengthened.

55. The representative of New Zealand said he was concerned about what the political arm of governments thought of the GATT. If the GATT could not work to secure justice for small countries, which were in the majority, then the GATT could not work properly at all. There was a sense of drift in the organisation. The Ministerial meeting in September offered a valuable opportunity to reverse this drift and inject an new drive and impetus into the GATT. If all that could be produced in September was a few well-repeated platitudes, then the future of the GATT would be open to question.

56. The representative of Singapore said that as developing countries climbed up the developmental ladder, their needs to ensure further growth and development increased and became more complex. There were both internal and external aspects to this process. The internal aspects of development, which included good government, correct policy decisions, social cohesion, and so on, were not within the purview of GATT. On the external side, one of the key sectors for development was trade. Part IV of the General Agreement recognised this special need of developing countries, but the contribution of developed countries in this regard should not be static. Developmental schemes to assist developing countries in promoting their exports should be examined regularly with a view to ensuring that the trade needs of developing countries, be they least-developed or more developed, were constantly catered to so that the latter might continue up the developmental ladder. A mechanism should be put in place to ensure that schemes such as GSP were constantly improved, both in regard to conditions of market access and product coverage, for the benefit of all developing countries. In regard to earlier references to the balance of rights and obligations under GATT, he noted that developing countries among the world's top twenty exporters were also among the world's top twenty importers. This was indicative of a balance, and if developed countries opened their markets to exports from developing countries, and improved the implementation of Part IV to take account of the changing needs of developing countries, they could expect to increase their exports of manufactured goods to developing countries.
57. The Chairman said that he had received a communication from the Commission of the European Communities, requesting the inclusion among the issues to be taken up by the Preparatory Committee an item called "Balance of benefits drawn by Contracting Parties from the GATT System". He proposed to the Communities that instead of adding an item to the list of subjects before the Committee, this question could be dealt under the functioning of the GATT system.

58. The representative of the European Communities said that he accepted the Chairman's proposal, but wished to emphasise that his authorities regarded the question of the balance of benefits drawn by contracting parties from the GATT as a central element for negotiation in the new round. A very small number of contracting parties had found a way to obtain benefits from the GATT system which far exceeded their contribution to the system. The new round would fail if it did not address this problem from the start. Although it was not obvious from examining existing trade barriers, there was seemingly an impenetrable barrier between the internal market of these contracting parties and the outside world. This was clearly to the detriment of other contracting parties. It was achieved without contravening the letter of the GATT, but nevertheless posed a great danger to the trading system. This situation had led to a proliferation of "grey area" measures and to trade diversion. It had also led to artificial increases in production capacity and had disturbed the normal process of structural change in response to changes in competitiveness. If this problem was not dealt with in the new round, the system would not survive. It was not only a problem for large trading countries, but for all contracting parties, and especially the economically weaker ones. Since the growing imbalance in the share of benefits from the GATT system did not derive from simple infringement of the letter of the GATT, it was essential to examine the rules and the way they operated in order to establish how this situation had come about. If this exercise were not undertaken, there was an increasing risk of recourse to self-defensive actions, or worse, to bilateralism. Both were inimical to the system. For the European Communities, this was the first priority in the new round as far as substance was concerned.

59. The representative of Japan said that he could not accept the alarming picture that the European Communities had painted of the imminent demise of the GATT. It was disconcerting to hear a major trading entity imply that a complete change in the trading rules was necessary if the system were to survive. After many years of struggle and hardship, some countries had succeeded in showing that they were capable of competing effectively under the GATT system. Countries in Asia, and in Latin America and Africa as well, had benefitted greatly from the GATT, and had pushed the development process forward through their hard work despite the problems and difficulties they had faced. Any attempt to dismantle the GATT now would deal a fatal blow to the economic development prospects of developing countries. As far as balancing benefits and obligations was concerned, the GATT itself was a device which provided for negotiations to ensure an appropriate balance. Negotiations of that nature, however, were very different from a wholesale attempt to rewrite the rules of the GATT.
60. The representative of New Zealand said that he could agree with some of the remarks of the representative of the European Communities in so far as they applied to trade in agriculture. It was true that the inequitable treatment of agriculture had artificially inflated production and distorted competition, that internal markets had been isolated, and that the tensions so created were threatening the foundations of the system. He said it was time to redress these problems and provide improved opportunities for trade in agricultural products for developed and developing countries alike.

61. The representative of the European Communities said that he had recognised a real risk to the Communities in raising this matter, but the time had come for contracting parties to explain their problems so that joint efforts could be made to find solutions. What the representative of New Zealand had said about trade in agriculture might have some validity, but the problem went well beyond that. At this stage, all that the Communities sought was adequate discussion in the new round of the problem which had been raised so that it could be dealt with. There was no intention to prejudge the outcome. Since Japan had responded to the first intervention, he wished to refer to Japan's trade surplus, which amounted to some US$120 billion on a cumulative basis from 1981 to 1985. This figure illustrated the problem. Moreover, why had Japan undertaken eight autonomous liberalisation packages if not at least partially in recognition of a problem?

62. The representative of Argentina said that his delegation had taken note of the concern expressed by the representative of the Community, and of what he had said about the consequences of a failure to remedy the situation. He said that this problem was not the first priority for his country in the new round, but he understood the Community's interest in raising it. He took note that the Community believed there was an imbalance at the very root of the trading system but it did not concern developing countries. This imbalance should be corrected. This was a point which his government would take into account, and it was understood that this matter would be further discussed at an appropriate time.

63. The representative of Japan said that he had mentioned his country illustratively. It would be a mistake to assume that Japan was unique. There were many other countries similar to Japan moving rapidly in the same direction. As far as statistics were concerned, a cursory look at the balance of payments figures for the 1970's and 80's showed that like other countries, Japan was not permanently in surplus, but often recorded huge deficits. On the other hand the EC has and is recording surpluses with large figures. It should not be overlooked that socio-economic rigidities exist in parts of the world, which if left unsolved would nullify benefits which otherwise could be gained by negotiations. It would likewise be destructive to look for drastic Jacobin solutions.
64. The representative of the European Communities said he was not seeking a substantial discussion of this matter, but merely requesting that it be included in the negotiations. He wished to know whether this request was supported by Japan. He quoted senior Japanese government sources which spoke of a growing perception in Japan that it should increase imports, particularly of manufactured goods, and of a growing perception in Japan of a need to rectify the lower propensity to import than to export, through lowering market barriers and promoting structural change. He wondered whether the Japanese delegation shared this perception.

65. The representative of Japan said it was precisely these perceptions correctly apprehended by the Japanese leaders, which would change the situation, but it was not correct to quote them out of context, that is for the object of rewriting the rules of GATT.

66. The Chairman said that the secretariat would prepare a short note in order to focus the next discussion of this item.

NOTIFICATION AND SURVEILLANCE PROCEDURES

67. The Chairman said that the record of discussions in the Senior Officials' Group on this subject was contained in SR.SOG/6, page 6, SR.SOG/10, pages 1 and 5-7 and SR.SOG/11. He noted that earlier discussions in the Preparatory Committee had made clear the great importance attached to this subject by many delegations. Although there was a very close link between the two functions, in his view it would make for greater clarity to deal first with notification. The secretariat and many delegations had long felt that there was much room for improvement in notification procedures, and in the use made of notifications received, notwithstanding the efforts made in the past to establish a more coherent system, and in particular in the 1979 Understanding. The establishment of the Trade Policies Division in 1983 had been motivated in part by recognition of the need to improve the quality of notifications and to streamline notification requirements. The secretariat had compiled a complete list of all existing notification requirements which in his opinion made the need for streamlining alarmingly obvious, and would be ready, with the agreement of contracting parties, to put forward suggestions for improving the quality, consistency and general usefulness of the notification system. Apart from the efficiency of the system, it had also a more fundamental political aspect. Two questions which were essentially political, were how to ensure that contracting parties fully complied with their notification obligations and what practical purposes the notification and surveillance process was supposed to serve. This led inevitably to the question of surveillance, since the only real purpose of notification requirements was to make effective surveillance possible. The importance of surveillance had been stressed in connection with nearly every subject so far discussed in the Committee, and some interesting proposals had been made on surveillance in the Senior Officials' Group. The obvious question which had to be addressed was what should follow from surveillance in terms of practical action. Another question which had preoccupied some delegations was whether existing surveillance activities were commensurate
with an appropriate balance of rights and obligations among contracting parties. He wondered if the time had not come to consider how each country's national policies related to its GATT commitments. The Committee might also usefully consider what new elements the new round might bring to this subject. Would contracting parties wish to take advantage of a new round to rationalise existing obligations, to add any supplementary understandings to those which exist now, or to fill any gaps in the present requirements or in follow-up action? In the ordinary course, improvements in notification and surveillance procedures did not necessarily involve negotiation. However, there could be instances where changes in those procedures would affect the balance of rights and obligations between contracting parties. It was also clear that negotiations on specific subjects might well give rise to new obligations to notify, and that any standstill commitment would need to be monitored.

68. The representative of Australia stated that the integration between trading economies depended vitally on the transparency and predictability of trade policies, and on conformity with the rules governing the trading system. The GATT had always provided for the notification of relevant policies and for the surveillance of those policies by contracting parties, and the 1979 Understanding had extended these notifications to include "trade measures affecting the operations of the General Agreement". The special Council sessions established to review developments in the trading system had also been charged with monitoring the implementation of paragraph 7(i) of the 1982 Ministerial Declaration. These notification and surveillance measures had improved transparency and had contributed to a more accurate assessment of the extent to which GATT rules had been respected. Over the forty years of GATT's existence the rules had fostered lower barriers to trade, and adjustment to changing patterns of trade and production, which continued to be the best policies for economic growth. However, the pace of economic change and the possibility of conflict between policies had increased commensurately with the size of commercial exchanges and their importance to national income in many GATT member countries.

As an institution the GATT must adapt to the changing trading environment, and the forthcoming round of negotiations would be the next important step in this process. The report "Trade Policies for a Better Future" proposed two ways of improving the surveillance function of the GATT:

- a system of regular reviews of individual contracting parties' trade policies (recommendation No. 8), and
- establishment of a permanent body in GATT to give continuous high level attention to problems in international trade (recommendation No. 14).

The focus of the surveillance role should be on persuading contracting parties to respect GATT obligations more fully and thus to exert influence on domestic protection policies. Building on the existing Tokyo Round "Understanding" and the Leutwiler report, he outlined a new surveillance mechanism which could be established in the course of the new round. First,
each contracting party would be invited to make an annual quantitative assessment of the trade impact of its policies according to an agreed reporting format and using established and simple econometric and statistical procedures. Secondly, the GATT secretariat would be given the resources to enable it to participate in the surveillance of specified policies and their trade effects. Thirdly, annual reviews of national trade policies should be conducted for a small number of larger trading countries, with less regular reviews of the smaller trading countries. The reviews should be based on the assessments made by the contracting party whose policies were under review as well as additional assessments made by the secretariat according to criteria to be agreed. These more intensive reviews would focus on the conformity of particular trade measures with contracting parties' GATT obligations.

Other contracting parties would have the right to reverse notify measures as at present. By focussing on specific and regular country and policy reviews, some of the weaknesses of the existing surveillance mechanisms should be avoided. Appropriate arrangements would have to be made for circulating contracting parties' annual reports and for conducting the more intensive reviews of a small number of countries. An enhanced surveillance rôle for the GATT based on the principles outlined above would represent an evolution of the institution's rôle consistent with its traditions but responsive to the greater expectations which contracting parties had approaching the new round of negotiations.

He proposed the following draft text for inclusion in the Ministerial Declaration:

"Ministers recognised that, at the international level, trade policies and domestic policies which impinge on trade, should be more open. This would promote respect for GATT obligations and permit more widespread appreciation of the benefits of liberalization and economic adjustment. They decided that an enhanced surveillance mechanism based on quantitative assessments of trade policies and other policies with trade effects against the background of GATT obligations should be established in the course of the negotiations. They decided that the GATT secretariat should be given resources to participate in these assessments."

69. The representative of Colombia recalled earlier statements by his delegation that there was an asymmetry between the review of measures and policies adopted by developing countries and those adopted by the developed countries. A proposal similar to that of Australia had been made by his delegation in the Senior Officials' Group. Colombia therefore supported the Australian proposal, which should be examined in detail. It should be stressed that many developing countries were already subject to surveillance by the Committee on Balance-of-Payments Restrictions. In setting up a mechanism such as that proposed, care should be taken to ensure that it would not deteriorate into a mechanical and sterile exercise, as had happened to the surveillance function carried out in the Committee on Trade and Development in pursuance of the 1982 Ministerial Declaration.
70. The representative of New Zealand supported the objectives on notification and surveillance procedures outlined by Australia. With regard to the proposal that each contracting party would be invited to make an annual quantitative assessment of the trade impact of its policies according to an agreed reporting format, it would be necessary to be as specific as possible on the format. On the rôle of the secretariat and the question of annual country reviews, the proposed assessments by the secretariat should again be very clearly defined from the outset. The delegation of Australia had suggested that an enhanced surveillance mechanism should be established in the course of the negotiations, and New Zealand supported this as an essential element in strengthening GATT's legal and institutional framework. In the context of a standstill, however, he emphasized the need for early establishment of effective notification and surveillance procedures to monitor the implementation of standstill undertakings: it was not possible to wait two or three years for these to be established in the new round. The Australian proposal was presumably aimed at the wider and more medium-term question of strengthening the legal framework of GATT. He welcomed the Chairman's offer that the secretariat should put forward ideas on streamlining notification procedures and on surveillance and compliance and stressed the need for some additional mechanism, more than a mere rationalization of existing procedures.

71. The representative of Argentina said that the question of surveillance was of concern particularly within the context of a commitment on standstill and rollback. Referring to the Australian proposal, he too sought clarification of the possible rôle of the secretariat and its link to the surveillance of undertakings on standstill and rollback. Since the proposal referred to the Leutwiler report, it would be necessary to examine the extent to which the proposal was linked to the recommendations in the report; Argentina was not fully satisfied with all of the recommendations put forward in that report. They believed, however, that there were possibilities to continue examining this subject. While thanking Australia for this proposal, he agreed with New Zealand on the need for further clarification and definitions with regard to notification, evaluation, the rôle of the secretariat, etc. in the proposed mechanism.

72. The representative of the European Communities regarded the question of notification and surveillance as an important problem which was linked to other subjects to be taken up later. Concerning notifications, the Community agreed that contracting parties should comply with their notification obligations. There were however a considerable number of notification obligations which were not fulfilled, and thus before creating any new obligations, the present situation should be clarified. Here too, the Community agreed, at least in part, with the proposals which had been made by Australia and others. For the Community, it was essential to have useful notifications based on a well-defined scheme; some "cleaning-up" might be necessary. Reacting personally to the Australian proposal, he noted that the secretariat's rôle in surveillance had already been strengthened a very short time ago, and that fairly good results were evident in the reports that had
been prepared for the Special Council's meetings; this was a field which GATT could usefully develop. The proposal concerning annual reviews of national trade policies of individual contracting parties did not seem desirable. Similar reviews carried out in other organizations had not led to satisfactory results, and repetition of such an exercise in the GATT, with its ninety contracting parties, was to be avoided. Furthermore, concentration on the national policies of the larger trading nations would again be creating an imbalance of rights and obligations among contracting parties; it would be the countries which had assumed a maximum of obligations whose policies would be subject to review, while others would escape. While open to discussion, the European Communities were generally against a case by case review of national policies. Surveillance should be global and periodic and should cover all policies and measures known for the period under consideration. What was needed was a rationalization of the work of the GATT bodies which carried out surveillance, to reduce duplication of work and multiplication of documentation. The bi-annual special Councils could form the basis of a good surveillance mechanism.

73. The representative of Japan said that one of the most important tasks of the new round would be to strengthen the surveillance mechanism to ensure strict compliance with GATT obligations. There were already numerous fora in the GATT which carried out some surveillance of the trade policies of contracting parties; indeed, the GATT system itself could be interpreted as an effective system for surveillance of trade policies of contracting parties to prevent protectionism. The existing surveillance mechanisms in the GATT, however, were not truly effective. First, surveillance by various GATT bodies had been neither regular, systematic nor well coordinated. Secondly, the rôle of the GATT secretariat had been limited. Thirdly, the results of surveillance had not been systematically made public. Fourthly, comparative study of trade policies, particularly compliance with GATT rules by each contracting party, had not been made available. Therefore, serious efforts by contracting parties to liberalize trade had been left unnoticed in many cases. His delegation proposed that in the new round, serious efforts should be made to work out an effective surveillance mechanism. To that end, the accumulated expertise of the GATT secretariat should be fully utilized, and the rôle of the special Council should be strengthened. The review should also be carried out systematically and regularly and its results should be made public.

74. The representative of Norway said that the Nordic countries felt that the notification requirements were essential in securing transparency in the trading system and to permit meaningful surveillance of its developments and were therefore essential to the functioning of the GATT system. The fact that these requirements were not satisfactorily adhered to should be a source of concern to all contracting parties. Furthermore, the information provided in notifications often differed considerably both in quantity and quality. There was also reason to doubt whether all notifications were put to the proper use. The new round would inevitably have to focus closely on notification and surveillance. For this purpose it would appear useful to have before the Preparatory Committee a complete list of notification
requirements, including the type of multilateral follow-up. A similar list had been circulated as an annex to document C/W/471. While recognizing that the question of notification and surveillance in many cases would have to be dealt with as an element of the negotiations on individual items in the new round, there was also an obvious need to continue the broader discussion of how GATT requirements in this area could be best formulated, implemented and reviewed. Care should be taken to avoid unnecessary duplication of work. To the extent that options emerged which might require negotiations among contracting parties, the new round would be the appropriate context.

75. The representative of Canada said that the maintenance of an effective notification and surveillance system was essential to the operation of the international trading system and particularly for its transparency. For this reason, Canada was prepared to join others in reviewing these notification requirements in the context of the new round with a view to clarifying and streamlining the procedures so as to preserve the benefits expected to accrue to all out of these negotiations. Welcoming the initiative taken by the Australian delegation to put forward some specific ideas on this issue, he said that, although further clarification might be needed on certain aspects of this proposal, it represented a useful and timely contribution to the work of the Committee.

76. The representative of India recalled that the importance of monitoring and surveillance had also been emphasized by the 1982 Ministerial Declaration. He referred to the statement made by the representative of Argentina who had pointed out the importance of an appropriate monitoring and surveillance mechanism for a meaningful and effective commitment on standstill and rollback. Secondly, the remarks by Colombia on the existing asymmetry in monitoring and surveillance were most appropriate and his delegation endorsed the Colombian proposals made at the 1984 Council. Drawing attention to the statements made by India at the 1985 CONTRACTING PARTIES, he agreed with the view that there should be a qualitative improvement of the monitoring and surveillance function of the special Council sessions.

77. The representative of Switzerland said that the proposals made on this subject, in particular the Australian one merited careful examination. The problem of notification and surveillance should find a place in relation to the functioning of the GATT system. Any misunderstanding should be avoided. Notification and surveillance did not constitute the GATT system. In the absence of certain criteria or rules, to be established in common, the value of notifications and, in particular, of surveillance would be illusory. Subject to that reservation, he fully agreed that the present system of notifications and surveillance required a certain rationalization. This did not mean that it would suffice to eliminate what was not working properly, as had been suggested; it was rather an improvement of the system that was needed. Notifications and surveillance should be standardized and regular. Surveillance could not be carried out in the abstract. In order to make it more objective and effective, it should be carried out according to rules which had been set up in advance. The results could well be published.
78. The representative of Egypt stated that proper notifications and effective surveillance would certainly contribute to the strengthening of the GATT system. Since the inception of GATT there had been an absence of such measures. In order to strengthen the credibility of the trading system, it would be necessary to accept and put into operation scrupulously the rules for notification and surveillance. Experience over the years had demonstrated the lack of effectiveness of the surveillance rules where they were applied. A clear example of this was the textiles field.

79. The representative of Australia thanked those, particularly Argentina, Colombia, New Zealand, and Switzerland, who had given initial, positive reactions to his proposals for a permanent surveillance mechanism in the GATT. Recognizing that there might be an imbalance in the surveillance of the policies of different contracting parties under present GATT practices, he said that, if the surveillance of developing country policies under the balance-of-payments provisions of GATT were more onerous and targeted, then it seemed to be a good reason to take steps to correct that imbalance and set up a uniform system of surveillance of the trading policies of all contracting parties. In reply to the question asked by the representative of New Zealand and others, he stated that the general surveillance proposal put forward was different from a surveillance mechanism for a standstill and rollback commitment. This latter proposal would have a special focus and would come into operation from the date a new round commenced. In response to remarks made by the representative of the European Communities, he said he was particularly glad that his remarks had been personal reactions. If they were to be taken as EEC policy, at their face value, he would have had to characterize them as close to opposition to an effective, uniform and comprehensive surveillance mechanism for GATT. With reference to the unsuccessful attempts at establishing national assessment mechanisms in other fora, he said that the reasons for this lack of success had to be found before rejecting a proposal that had initially been supported by a number of contracting parties. The representative of the European Communities had also inferred that the proposal would focus on the major trading partners, arguing that other contracting parties might escape surveillance. Given the emphasis of the proposal on the coverage of all contracting parties, he was sure that the EEC with some reflection would arrive at a much more supportive position. Finally, recalling that the EEC had previously supported a surveillance mechanism in the context of a standstill, he suggested that a permanent surveillance mechanism which would survey the results of a new round was of a similar importance for building confidence.

80. The representative of Yugoslavia, agreeing that the notification and surveillance procedures should be improved, shared the views of the Colombian representative that there was an imbalance in rights and obligations between developing and developed countries. Notification and monitoring of standstill and rollback commitments would also be important. Finally, Part IV consultations in the Committee on Trade and Development also needed improvement.
81. The representative of Uruguay, recalling that his delegation had on other occasions stressed the importance of appropriate notification and surveillance mechanisms in the context of standstill and rollback, expressed again concern on these matters and about existing mechanisms in GATT. Better mechanisms were absolutely essential for greater transparency and efficient functioning of the General Agreement.

82. The representative of the European Communities, in response to comments made by the representatives of Switzerland and Australia, stated that they supported rationalization and improvement of the system, but opposed a double standard for surveillance, where national policies and measures of the major trading countries would be subject to annual review and those of smaller countries to less regular review. They objected to a review of measures on a country-by-country basis. Trade measures taken by all contracting parties should be reviewed annually, twice or three times a year. He added that the rôle of the Preparatory Committee was limited to deciding on a surveillance mechanism, to apply during the new round, for possible standstill and rollback commitments. As for the period after the new round of negotiations, it would be up to the Trade Negotiations Committee to decide, if need be, on a mechanism for surveillance of the results of the new round and, more generally, of the functioning of the GATT.

83. With regard to the list of notification requirements compiled by the secretariat, the Chairman said that it was more detailed than the one referred to by the representative of Norway. The list which dealt with both surveillance and monitoring would be useful in any further discussion on the subject of streamlining the existing procedures. He suggested that the secretariat prepare, as a basis for further deliberations, a summary of the discussions on the subject, making a distinction between the problem of surveillance linked to standstill and rollback commitments and the more general aspects of the question.

COMPENSATORY TRADE

84. The Chairman recalled that the subject of compensatory trade had been dealt with in the Senior Officials' Group and that the point of view expressed on that occasion by one delegation appeared in SR.SOG/10, page 2. There was no reference to compensatory trade or countertrade in the General Agreement, but there was a reference to it in the Agreement on Government Procurement. The subject had been discussed by the Consultative Group of Eighteen in April 1984.

85. The representative of Chile said that his Government was particularly concerned with barter trade rather than compensatory trade in general. Barter trade was growing in importance, and the problem should be discussed against the background of Articles I, II and XVII of the General Agreement. He expressed the desire of his Government to achieve greater transparency in barter agreements and to establish a suitable body to protect the interests of the contracting parties.
86. The United States' representative supported the Chilean suggestion. His Government viewed countertrade as inimical to an open multilateral trading system and attempted to discourage its use particularly under government-mandated countertrading arrangements. The Government in particular opposed those forms of countertrade, such as offsets, which acted in a trade-distorting manner similar to investment performance requirements. He restated his Government's position that government-mandated countertrade ran counter to fundamental GATT principles, notably in Articles I, II and XVII, while recognising that there had been no formal finding that countertrade was a violation of the GATT. He therefore considered that further work on the issue in GATT was warranted.

87. The representative of Argentina recalled that the Consultative Group of Eighteen discussed countertrade in 1984 on the basis of a note prepared by the secretariat whose conclusions were relatively clear. There was no GATT decision that this type of trade was in contravention of GATT rules and in Argentina's view it was not necessary to set up a special body to protect the interests of contracting parties in this matter. He felt that the topic of compensatory trade did not merit any particular attention at this time.

88. The representative of Zaire pointed to the rapid increase in the number of countries - of all levels of development and all types of economic system - having recourse to countertrade. Nevertheless, it was extremely difficult to assess the statistical importance of the phenomenon and thus to form a view as to its suitability for inclusion in the new round. The growth of countertrade among developing countries was in his opinion largely a reaction to the difficulties caused by mounting protectionism. It could be expected that if the negotiations succeeded in solving the problems of non-tariff barriers, tariff escalation, the grey zone, the application of Part IV and of trade in tropical products and certain resource-based products, countertrade would lose much of its attraction.

89. The representative of Switzerland said that his Government was concerned by the proliferation of compensatory trade, which tended to eliminate multilateralism in trade. This was a problem which deserved consideration in the context of the negotiations, or at least in the course of ordinary GATT activities. In certain situations, which should be identified and analysed in detail, compensatory trade might seem to be necessary, particularly in cases where there would be no deal otherwise, but in general its proliferation was extremely dangerous and the causes for it should be examined. These causes might arise in the exporting country, but might also be found in the importing country: certain forms of protectionism could only be overcome in certain cases by resort to countertrade. The subject should be included among the topics for the multilateral trade negotiations.

90. The representative of Canada said that government-mandated compensatory trade, and other countertrade practices had undoubtedly become a growing factor in the global trading environment. Countertrade, whatever its justification, distorted the multilateral flow of goods and services, prejudiced the export opportunities of small- and medium-sized firms and dealt inefficiently with the economic and financial constraints it attempted
to resolve. In addition, countertrade practices tended to remove trade from the normal purview of GATT disciplines and were not subject to any meaningful transparency requirement nor to consultative procedures to respond to any problems that might be created for third parties. This would therefore be an appropriate issue for inclusion in the multilateral trade negotiations with a view to developing stronger disciplines, including in particular greater transparency.

91. The representative of the European Communities said that several speakers had emphasized the increasing importance of various forms of countertrade in international trade flows. He said that where countertrade was the result of an agreement between private companies, it was clear that the GATT was not competent to address the issue. If governments were involved, either by signing compensatory trade agreements themselves or by compelling firms to do so, then the question arose as to whether the governments in question were complying with relevant GATT provisions. In document CG.18/W/80, the secretariat had provided some interesting information on the relation between GATT provisions and countertrade. He said his authorities were as yet undecided whether this was a subject for negotiations or would be better dealt with in the GATT's normal programme of work.

92. The representative of Japan said that compensatory trade distorted the free flow of international trade and entailed discrimination between countries. He considered therefore that from the viewpoint of the spirit of the GATT, which pursued the maximum economic benefit out of free economic activities, countertrade was not a desirable form of trade. He believed that it was useful to explore, during the course of the new round, measures to review countertrade which carried the elements of trade distortion.

93. The representative of Peru said that compensatory trade should not be a topic for negotiation in the new round, nor did it deserve the particular attention of the Preparatory Committee. This type of trade was a reflection of specific situations in the international economy resulting from protectionism, debt and balance-of-payments problems. Many developing countries were compelled to trade in this manner in order to overcome serious problems of indebtedness and liquidity shortage. The GATT secretariat had prepared a document for consideration by the CG.18, which showed that countertrade did not violate any GATT rules. Even the need for dealing with it within the context of GATT was doubtful, and particularly so within the Preparatory Committee since there was no concrete idea about what might be negotiated on the subject. Any contracting party believing that its interests were being affected by this type of trade had available all necessary means within GATT to defend its position.

94. The representative of Brazil said he was reluctant to give support to the idea that countertrade was an issue which would deserving consideration in a possible round of trade negotiations, and agreed that the increase in countertrade was the result of specific circumstances. It was difficult to be sure whether compensatory trade was discriminatory or whether it diverted
or distorted trade because it was not clear that in the absence of countertrade there would in fact be more trade with other nations. He agreed with the conclusions of the document prepared by the secretariat for the CG18, specifically with its final paragraph, number 64. The proposals which had been made by the delegation of Chile were based on the assumption, which his delegation could not accept, that countertrade as such was illegal and should be a matter for strict surveillance by the GATT. The proposal that countertrade should be subject to notification and surveillance was not in line with normal GATT procedures, because transparency in GATT had to do with official trade policy measures and not with specific contracts or operations undertaken in the normal course of trade. In the view of his Government compensatory trade should at most be a matter to be considered in the normal GATT work programme.

95. The representative of Uruguay said that the statements made by Argentina, Zaire, Peru and Brazil covered his views. The General Agreement contained a sufficient number of provisions under which specific problems arising from compensatory trade could be examined. This was not a subject which should be awarded any priority and it was not desirable, in the view of his Government, to include it in a possible new round of trade negotiations.

96. The representative of Ghana said that his delegation was not opposed to the issue of countertrade being examined, but suggested that a serious examination of the motivation for such trade was needed. Some of the agreements on countertrade were an inevitable outcome of protectionism as well as of debt or balance-of-payments problems faced by developing countries, and of the fact that some contracting parties lacked access to adequate external financing. Any examination of the problem of countertrade should therefore also take into account the factors which motivated it.

97. The representative of Yugoslavia said that the increase in countertrade had been the result of the fact that many countries, particularly developing ones, were unable to secure normal access to markets for their products and to earn enough foreign exchange from exports to service their debt. Once these difficulties had been overcome, there would be no need for countertrade, and the attainment of this goal would be facilitated by the proposed new round of trade negotiations as well as by appropriate parallel action in the monetary and financial areas, particularly with regard to the debt burden of developing countries. He agreed with the statements in the secretariat document CG18/W/80 that countertrade was not in itself inconsistent with the provisions of the General Agreement and the Codes. Any problems which might arise from compensatory trade could be resolved within the framework of existing GATT provisions.

98. The representative of Cuba said that his delegation seconded fully the statements made by the representative of Argentina as well as by the representative of Peru and Brazil.
99. The representative of Malaysia said that because resort to countertrade often provided a means to achieve trade which could not otherwise take place, its potential trade distorting effect should not be exaggerated. He recalled that countertrade had been resorted to for a number of reasons, of which the availability of foreign exchange was one of the most important. Under such circumstances, countertrade could expand trade. Compensatory trade did not appear to merit treatment as a separate subject in the new round: the arguments so far advanced for doing so were not convincing, particularly since countertrade did not violate any provision of the General Agreement.

100. The representative of Chile recalled that his Government asked for three things with respect to countertrade: (a) to ensure that trade carried on in this manner was in conformity with Articles I, II and XVII of the General Agreement; (b) to ensure transparency of countertrade agreements; and (c) to establish an appropriate body to see to it that the rights of the other contracting parties were safeguarded.

101. The representative of Hungary said that countertrade was not a governmental policy in his country; it was for individual enterprises to decide whether or not to resort to this practice. He considered that one aspect of this matter which it would be worthwhile to pursue in the GATT would be an analysis of the causes of the emergence and proliferation of countertrade. The use of countertrade would diminish to a great extent once the real causes, i.e. restricted market access possibilities resulting from protectionist pressures, were removed. The proposal which had been submitted by the delegate of the EEC was worth considering.

102. The representative of Jamaica drew a distinction between compensation trade which was undertaken by governments and compensation trade between private enterprises, which was in effect a form of restrictive business practice. Contracting parties should keep open the possibility of examining to what extent restrictive business practices resulting from compensatory trade might have an impact on trade which ought to be sanctioned under the General Agreement - i.e. trade which is free of the kinds of restrictions produced by voluntary export restraints or organized marketing arrangements. A recent OECD report on competition and trade policies pointed out that even though voluntary export restraints were generally conceived as an instrument of trade policy they fell squarely in the domain of competition law when such arrangements were entered into on an industry-to-industry basis and not between governments. In a number of cases, restrictive business practices were in close correlation with restrictive trade policies and the major issue therefore was how to bring under surveillance and control the increasing involvement of governments through de facto acceptance, encouragement, or even compulsion of restrictive business practices adopted by enterprises. Small- and medium-size enterprises in developing countries were certainly not as well placed to engage in compensatory trade as many of the large industrial enterprises and even the financial enterprises in the major developed contracting parties. At this stage we should keep an open mind as to the precise GATT Articles which might be relevant to compensatory trade and as to the relationship of this subject to restricted business practices.
103. The representative of Czechoslovakia said that countertrade was a matter more for the normal activities of GATT than for the new round of negotiations. The general rules of the GATT and the codes negotiated under its auspices on measures that restrict imports or subsidize exports, appeared sufficiently broad to cover also those cases in which import protection or export subsidization resulted from governmental practices, requirements, or inducements to engage in countertrade.

104. The representative of Argentina referred to the distinction, made by the Community, between agreements among firms and agreements among governments, and hoped that the Community did not have the intention to leave aside important agreements between companies, such as for example those concerning sales of aircraft involving Boeing, Airbus or Mirage. He wondered under what heading the Community would propose to deal with agreements between firms. Many government-to-government agreements concluded by developing countries covered trade worth only a few million dollars, whereas a good number of agreements among large firms of developed contracting parties referred to much more significant trade flows. The suggestion made by the representative of Jamaica, to take up the issue of compensatory trade in the context of restrictive business practices was particularly appropriate for large multinational enterprises.

105. The Chairman suggested that it would perhaps be useful for the Committee to have the opportunity to look at the secretariat document CG/18/W/80 dealing with compensatory trade, which would be made available to any delegation who so wished. He also noted that it would be possible to come back to the discussion of compensatory trade at a later stage.

TRADE IN HIGH-TECHNOLOGY GOODS

106. The Chairman recalled that the matter of trade in high-technology goods had been addressed on various occasions in the past five years: in the Council, in the sessions of the CONTRACTING PARTIES, in written statements on the proposed new round of multilateral trade negotiations, and in the Senior Officials' Group (SR.SOG/10, pp.9-12). However, no specific proposals for action in the proposed new round had yet been made. The Committee might examine whether it would be sufficient for questions arising on this matter to be dealt with in the context of negotiations on the implementation of particular trade-policy instruments such as tariffs, subsidies, quantitative restrictions and other non-tariff measures, or whether they required more specific attention.

107. The representative of the United States noted that many of the barriers affecting trade in high-technology goods were neither new to international trade in general nor unique to this sector. However, the wide economic benefits to be derived from this dynamic industry were threatened by increasing trade frictions. The US believed that a desirable outcome of negotiations would be not a "high-technology agreement" but a package of improvements to several existing GATT instruments in the following areas: government procurement; technical barriers; high tariffs; dispute
settlement; protection of intellectual property; rules of origin. The problems fell into two major categories. First, there were general deficiencies in the GATT such as: remaining high tariffs; the operation of the dispute-settlement mechanism; the application of certain GATT rules in ways that might allow tariffs to preempt trade in new products; and the need for more effective multilateral discipline in the intellectual property area. Second, there were shortcomings in certain MTN Agreements with regard specifically to trade in high-technology goods, for example: gaps in the coverage of the Agreement on Government Procurement; the need for greater transparency under the Agreement on Technical Barriers to Trade to limit the negative trade impact of regional or bilateral standards agreements. The effectiveness of existing disciplines could be limited by developments in the world economy and the pattern of trade. The new round would provide an opportunity to strengthen and improve these disciplines and make them more responsive to the changing international environment, for the benefit of all contracting parties.

108. The representative of the European Communities underlined the importance of the high-technology sector in providing industrial societies with a genuine opportunity to carry out structural adjustment. GATT should recognise this without, for example, encouraging the proliferation of cartels. He could accept the "horizontal" approach advocated by the representative of the United States, which was to deal with the problems of trade in high-technology goods not as a separate subject but in the various areas in which they arose. This would, for example, be a reasonable approach in the case of rules of origin. He did not see that there were problems with the dispute-settlement mechanism specific to the high-technology sector.

109. The representative of Argentina recalled that the position of his delegation had already been clearly stated on other occasions. He took note of the change of position by the United States delegation. However, he also noted that there was doubt about GATT competence in some of the areas in which the United States delegate would now wish to address problems of trade in high-technology goods. He would revert to the matter at a later stage.

110. The representative of Poland referred to the negotiation, reported in the "Financial Times" (17 March 1986), of an agreement between Japan and the United States on a global price and production-costs monitoring system for semiconductor chips. This would entail the monitoring of exports to third countries and, thus, a new element of extra-territoriality in United States protection. He felt, therefore, that not sufficient was understood about the implications of treating trade in high-technology goods as an item for the proposed new round of negotiations. More would need to be known before decisive steps could be taken.
111. The representative of Japan noted that, while high technology was a powerful force in the world economy and in world trade, there was growing pressure on a national level for governmental intervention to foster the development of this sector. There was thus an increasing need to establish an international framework governing trade in high-technology goods. His delegation considered that, as a first stage and on a priority basis, there should be a unified approach to the examination of such problems in this trade as tariffs, trade restrictions, technical barriers and government involvement.

112. The representative of Canada repeated his delegation's view that better and more secure market access should be a major focus of the proposed negotiations. This should apply to all sectors. His delegation could therefore support the proposal for a "horizontal" approach to the problems of trade in high-technology goods.

113. The representative of Sweden, on behalf of the Nordic countries, underlined the difficulties in arriving at a clear-cut definition of "high technology". However, this sector was a key to further industrial development and it was essential that its expansion should not be hampered by trade restrictions. In the proposed negotiations, trade problems relating to this sector should be dealt with under the general headings adopted, for example tariffs and non-tariff barriers. Thus, specific difficulties with respect to some of the MTN Agreements could usefully be followed up in the context of those Agreements.

114. The representative of Brazil did not feel that anything in the long-standing debate on trade in high-technology goods provided a convincing argument for treating this as a separate subject in the proposed negotiations.

115. The representative of Jamaica noted that several statements indicated that the problems of trade in high-technology goods could be addressed within traditional areas such as tariffs, non-tariff measures, the MTN Agreements, etc. However it was not clear whether it was intended to have a sector negotiation which was market oriented or one which was sector specific. Several issues needed to be explored further: sector negotiation; the need for an agreement on trade in high-technology goods as opposed to amendment of existing agreements; multilateral or plurilateral coverage of such agreements; product-coverage of the sector; the difficulties relating to market access; the modalities for possible liberalization; the role of subsidies for research and development and export promotion; state trading. His delegation felt that a case had not yet been made for inclusion of this topic in the proposed negotiations. He hoped that the issues would be clarified before the Committee finalized its work. He recalled that, in an earlier meeting of the Council, his delegation had requested the circulation of studies on high technology undertaken by the group of seven industrial nations. His country was interested in sharing in the benefits accruing from high technology, but he wished to understand how the issues fitted into the framework of the GATT.
116. The representative of the United States agreed with the representative of Brazil, that trade in high-technology goods should not be a separate agenda item for the proposed negotiations. However, it was one of the angles from which all parts of the proposed negotiations should be viewed, since the free flow of high technology was in the interests of all.

117. The representative of Czechoslovakia noted that trade in high-technology goods offered promising possibilities in terms of economic growth, structural adjustment and technological progress. Care should be taken not to raise or maintain import or export barriers in this field. Governments and businesses were now in the process of adjusting to rapid technological change and the opportunity should be seized to encourage competitiveness and redress imbalances. GATT should be concerned with keeping channels open for trade in high-technology goods. A more balanced general trade flow would follow, together with a wider range of traded products and services. He reserved the right to revert, at a later stage, to the opening statement by the representative of the United States.

118. The representative of India noted that the intention of the United States was now not to include this subject as a separate item on the agenda of the proposed negotiations. Two important matters of substance needed to be considered. If it was a question of giving a higher priority to one particular sector of goods embodying high technology, then it was necessary to establish first that such a sector could be defined, and second that it deserved a higher priority. His delegation felt that a large number of traditional areas deserved very high priority and he needed therefore to be convinced of the case for trade in high-technology goods.

119. The representative of the United States indicated that his opening statement had been meant as a confidence-building step in response to one made earlier in the meeting by the representative of India.

120. The representative of Yugoslavia reiterated her delegation's position that trade in high-technology goods could not be a separate subject in the proposed negotiations. She noted with interest the opening statement by the representative of the United States. She feared, however, that this was a circuitous way of leading the Committee and the proposed negotiations into areas that were not within the competence of GATT and thus to contributing to the further balkanization of GATT.

121. The Chairman said that the summary records would indicate the points which had been made in the discussion.

TRADE-RELATED INVESTMENT MEASURES

122. The Chairman recalled that discussions on this question in the Senior Officials' Group were recorded in SR.SOG/10, pages 10-13. The subject had also been discussed by the Consultative Group of 18 in 1981, and in the context of the preparations for the 1982 Ministerial Meeting.
123. The representative of the United States noted that many countries had expressed their concern regarding the preservation of the role of the GATT, its contribution to world growth and its effectiveness in guiding the international trading system, as well as to the need to anticipate changing realities in the international trading system. This was the United States' reason for defining a GATT role in the area of foreign direct investment. The new round would be attempting to expand international discipline over trade-distorting and protectionist measures. The participants should work to increase discipline over investment measures which diverted trade and investment flows at the expense of other contracting parties, in contravention of a major objective of the GATT - the elimination of discriminatory treatment in international commerce - and at the expense of sustainable economic growth and liberalization. By addressing this issue the GATT would be moving logically on non-tariff measures agreements, which were negotiated to preserve the trade liberalization created by successive reductions in tariffs. He recalled that in 1955, the GATT CONTRACTING PARTIES adopted a resolution on treatment of investment in member countries which, inter alia, recognized that increased foreign capital flows, in particular into underdeveloped countries, would facilitate the objectives of the General Agreement by stimulating economic development whilst rendering it less necessary for such countries to resort to import restrictions. The contracting parties also recommended using their best endeavours to create conditions calculated to stimulate the international flow of capital, and suggested the need to promote bilateral and multilateral agreements relating to opportunities and security for investment. Moreover, a GATT panel ruled in 1983 that local purchase requirements, levied on an investor as a condition of establishment, artificially reduced imports and were contrary to the concept of national treatment in Article III:4 of the GATT. He referred to several GATT articles which, in his view, applied to investment-related policies in addition to Article III:4: in particular, Articles II, XI, XIII, XVI, XVII and XVIII. The United States did not view the issue of investment as an issue with only one solution. It believed that certain practices and issues were trade distortive in a manner identical to those already covered by specific articles of the GATT. A process should be established to bring such practices under control and gradually reverse their proliferation. With regard to broader investment-related issues, the United States believed there was a real link, previously recognized by the GATT in 1955, in terms of the overall objectives of the GATT rather than its specific articles. GATT should therefore also undertake a specific examination of performance requirements in the light of Articles II, III, XI, XIII, XVI, XVII and XVIII and the overall objectives of the GATT. Such practices had become institutionalized, were proliferating and were increasingly becoming a tool used by countries competing for export markets. They distorted trade among all producers of the affected goods, developing as well as developed. Less-developed economies were particularly dependent on open world markets, and therefore were particularly susceptible to the distortions caused by performance requirements. These should be brought under control fast so that the momentum for their proliferation could be broken. Sector by sector
expansion of these practices was unacceptable. This issue directly affected both developed and developing countries. The United States believed that the new round should take it up with a view to developing standards disciplining the use of performance requirements. This objective was reasonable and no different from the principles which applied to the practices mirrored by performance requirements, i.e., import quotas and export subsidies. Just as with GATT rules in those areas, the needs and development objectives of developing countries would be taken into account. However, as recognized in the 1979 Framework Agreements, such special criteria should be of a temporary nature consistent with improvements in economies.

124. The representative of Japan stated that the function of foreign investment and the close relationship between trade and investment must be recognized in considering the future role of GATT. Foreign investment was closely related to the development of trade patterns, through the creation of a basis for competition and changes in industrial sectors. It also contributed to the growth of the world economy, in particular to the long-term development and reduction of the debt burden of developing countries, through promoting trade, creating jobs and transferring technology. In addressing the issue, trade-related measures such as export and local content requirements on investment should be examined urgently, in the light of relevant provisions of the GATT and considering concrete cases which caused trade distortions. Japan believed it useful to consider this issue in the new round, and to elaborate rules for application of relevant provisions of the GATT to such measures in order to provide greater uniformity and certainty in this field.

125. The representative of Jamaica said that the statement made by the United States helped to clarify some of the issues. However, it was not clear whether the intention was to regulate private foreign direct investment within the GATT - distinguishing between public and private foreign direct investment. He recalled an earlier statement by another delegation that countertrade undertaken by private enterprises was not to be regulated in the GATT. He asked whether it was intended, as in previous cases, to establish a separate arrangement or Code, and then to identify areas of market access and to outline liberalization modalities. He wondered whether the United States saw this as a separate issue or, as in the case of high technology goods, as a "lens" for focusing discussion in other areas. The points made by the representative of the United States, while pertinent and relevant, did not lead him to any conclusion at this stage on whether such measures could or should be included in a new trade round.

126. In reply, the representative of the United States said that investment was seen as an issue deserving its own treatment. The United States believed that it was appropriate for the GATT to examine government policies affecting private direct investment. Most investment was private investment, just as most trade was private trade; the GATT related to the framework of how government policies affect that trade. The GATT should examine ways to regulate government policies which negatively affect private investment and
its trade implications. The United States' representative added that broader investment issues, such as right of establishment, national treatment in all respects, transfers, etc. had affected and would in future have even greater effects on growth and the ability to expand capacity for the production of goods competitive on world markets. Right of establishment provided access to important distribution channels vital to trade in goods. This in turn had a critical effect on the capacity for growth in world trade, a primary concern of the GATT. The contracting parties had recognized this in 1955 when they adopted the resolution on treatment of investments. The principles of that resolution were just as relevant today, in particular its recognition of the relationship between the increased flow of investment and the objectives of the General Agreement. Foreign direct investment offered the potential to expand productive capacity. Individually, countries were increasingly recognizing the relationship between levels of foreign direct investment and the treatment given to investors; this was reflected in the growth in bilateral investment treaties. He suggested that a framework regarding national treatment and right of establishment, binding only on the signatories, might be considered. He hoped that all participants would see the value in examining, from the trade perspective, the broader issues of foreign direct investment. GATT discussion of issues such as national treatment, or rights of establishment, did not represent a frontal assault on national sovereignty; OECD countries had reconciled the need to adopt these principles with national sovereignty concerns, while developing countries had also successfully reconciled the need to reconcile such principles with national sovereignty, in the bilateral treaties mentioned earlier. Each of those instruments recognized the need to except certain sectors from the broader national treatment principle, in order to protect national interests and retain essential independence.

127. The representative of Ghana thanked the representative of the United States for his proposal, one of whose objectives was to encourage direct foreign investment in developing countries. However, he wished to highlight a formidable problem encountered by Ghana in this field. Ghana had recently adopted a liberal investment code. Ghana's promotional efforts had shown that investment flows into the export-oriented sectors of the economy were largely a function of the willingness of a trading partner to absorb their exports. There were many sectors in which developing countries, including Ghana, had a comparative advantage and which should have an attraction for direct foreign investment. But lack of assured markets and of security of access for the products of these sectors had meant a loss of potential investment. The problem could not, therefore, be divorced from the general problem of protectionism.

128. The representative of Argentina reiterated that, despite having listened with great attention to the explanations given by the representative of the United States, his delegation still believed that GATT had no competence over this subject. Furthermore, any action which would tend towards regulation in this field would only be used in order to limit the freedom of action of governments. The attitude of his government has been recently stated in full detail to the United States representatives through the highest authorities on the trade side. Argentina insisted that this subject was not one for negotiation.
129. The representative of Canada noted his country's heavy dependence on an open and well-functioning international market in terms of both trade and investment flows. Important relationships existed between trade and investment matters. Canada was already a party to international understandings in the investment area. Such understandings provided a balanced framework to deal with the issues. Some activities in the GATT had also had a direct bearing on certain aspects of Canadian investment policy. Canada had fully accepted the conclusions of the 1983 Panel report addressing some of these investment questions. Although it was not clear to his delegation at this stage what could be realistically negotiated in the new round on trade-related investment measures, Canada was prepared to join with others in discussing these matters and in working towards a comprehensive agenda for the negotiations.

130. The representative of Sweden, on behalf of the Nordic countries, said that the Nordic countries recognized the link between international trade and investment issues. Trade-related investment measures could, in certain circumstances, have important trade effects. While the General Agreement did not address investment issues as such, some GATT provisions could have a bearing on certain trade-related investment issues. Minimum export performance requirements, for instance, might result in export subsidization, which could be addressed under the Subsidies Code. The Nordic countries would approach the issue of whether or not investment issues should be considered in the new round with an open mind. However, since this complex issue had only recently been proposed as a negotiating item it would seem necessary to analyze the problems involved more thoroughly before deciding how to proceed further.

131. The representative of Brazil reiterated that the question of trade-related investment measures was not an issue for the GATT. The position of the Brazilian delegation had been explained at length in the Senior Officials' Group. Even if it were possible to prove that measures affecting foreign direct investment could have distorting effects on trade, this would not be enough to bring the matter into GATT's jurisdiction. Many other policies which might have trade distorting effects were not part of the GATT agenda. The basic competence of GATT remained to deal with trade in goods and matters outside it should not be introduced. Moreover, the relationship between foreign investment and trade was complex. Foreign direct investment could be used for many purposes including promotion of import substitution, or directly to promote exports. This issue should not be dealt with in GATT or in the proposed new round of negotiations.

132. The representative of Zaire noted the complexity of the subject. A full discussion of it would involve matters such as transfer of resources and know-how, the establishment of development policies, political risks, and so on. The question of investment could not be separated from the internal policies of a country, in particular from its attitude towards private enterprise. Investment was always associated with trust or confidence, as already noted by the representative of Ghana. He questioned how far GATT
could enter into a discussion on such a vast and complex subject. In relation to trade-related performance requirements, he wondered what subjects would be included in the discussion. A number of areas such as countertrade, training, innovation, the interdependence between the private and public sectors, abusive practices, and freedom of enterprise had close relationships with investment. The intentions of participants must be clearly spelled out. He therefore welcomed the statement made by the representative of the United States on this issue, which was an attempt to open up the debate.

133. The representative of India recalled the views expressed by his delegation in the Senior Officials' Group. He reiterated that investment issues were not within the competence of GATT, and therefore that investment régimes could not be a subject for negotiations in the GATT, in the new round or elsewhere. Investment was not an appropriate issue to be raised in the proposed Ministerial Declaration. The relationship between investment and trade was more often than not competitive, rather than complementary. Foreign investment often substituted for trade, instead of promoting it. Investment was therefore entirely a different kind of issue; even if the relation to trade were taken into account, there was no ground for discussion of it in the context of the new round and in the forum of GATT. Moreover questions relating to investment, particularly multilateral aspects of foreign direct investment, were being addressed appropriately by a forum of the World Bank. A convention known as the Multilateral Investment Guarantee Agency had already been formed. There was therefore no reason why these issues should be discussed in GATT. Investment was to be considered in a much larger context which would raise issues far beyond the narrow confines of trade, barriers to trade or promotion of trade.

134. The representative of Malaysia noted that a number of issues relating to investment, apart from that of performance requirements, had been raised. From the standpoint of developing countries, notions such as national treatment and the right of establishment raised many implications. Businesses in developing countries were, generally speaking, not well placed to compete with those from developed countries, especially transnational companies. National treatment would therefore prejudice local enterprises in developing countries. Government policy towards foreign investments, especially among developing countries, was aimed at national economic and social development, irrespective of the merits of a multilateral discipline on investment. He questioned how many developing countries would be prepared to subordinate national or regional interest for a multilateral system. Investment was a matter between the host authorities and the foreign entrepreneur concerned, in cases where such investment required authorization for establishment or to qualify for incentives from the host county; thus, rules and regulations governing foreign investments were the concern of the host government. Any country had the right to accept or invite any foreign partner it desired to establish a particular enterprise within its territory, just as any firm could invest where it was welcome. Government-to-government investment agreements had become instruments which could provide the security against national appropriation, or guarantee of remittance of profits, that
investors would seek. The role of foreign investment was to expand economic activities, including trade; local content requirements were normally directed towards greater use of locally manufactured goods, with the aim of increasing manufacturing, industrialization and thus trade. It was too early to say that investment issues would merit multilateral treatment in GATT at this stage.

135. The representative of the European Communities said that the Community was currently examining the question whether foreign direct investment, and in what form, might be a subject for inclusion in the new round. If the proposal were to include such issues as right of establishment and transfer of resources, it seemed to him that there was no obvious case for including these issues. Similarly, the practices of private companies in conducting their cross-frontier investment policies did not seem to be a subject suitable for inclusion in the new round. However, in the more specific case of trade-related investment measures, he would question the claim that there was no room for GATT to be concerned. TRIMS could and did distort trade, and therefore were of concern to the GATT, which in its present form already addressed these questions to a very considerable, though perhaps not sufficient, degree. The questions of local content and performance requirements were of particular concern in this respect. Both these issues required further examination in order to come to a view as to whether more could be done in trade negotiations, rather than in the normal work of the GATT. He suggested that, if the subject were to be viewed as "Investment-Related Trade Measures," few would doubt that it was within the purview of the GATT.

136. The representative of Egypt expressed doubts regarding the inclusion of the issue in the new round. Though Egypt had a very liberal investment policy and he was well aware that foreign investment had a bearing on international trade, in common with many other factors, his delegation did not think it should be a subject for negotiation in the new round. He agreed with the statements made by Ghana and Zaire.

137. The representative of Brazil noted that, at a previous meeting, the representative of the European Communities had given a message of caution to the effect that adding the words "trade-related" was not a sufficient basis for the inclusion of a topic in the MTNs. He found that there had been a great deal of evolution in the Communities' position, but the stand they had originally taken appeared more logical.

138. In reply, the representative of the European Communities said that, whilst there could be a case that investment issues as such had no place in the GATT, investment related trade issues appeared to be very much the business of GATT. This did not imply at this stage that it should necessarily be a subject for negotiation, but that it was GATT's business could not be easily denied.
139. The representative of Yugoslavia gave her opinion that negotiations on conditions for direct foreign investment were not within GATT's competence. Her delegation did not think it could be included in the list of subjects for the new round.

140. The representative of Cuba agreed that the topic went beyond the mandate of GATT. She reminded participants of the statement made on the subject at the recent Caracas meeting by ministers of the Latin American countries.

141. The representative of Colombia stated that his delegation also believed that the topic was alien to GATT and should not be included in the new round.

142. The representative of Uruguay stated that investment, as well as the relationship between trade matters and monetary and financial matters, were of transcendent importance for developing countries particularly. The points raised by the representative of the United States were very important. A global consideration of these problems was necessary. For example, for Latin American countries with high indebtedness per capita, such as Uruguay, trade was the only chance to confront the debt problem. While investment and development, at a time when international flows of capital were drying up, was an important topic, it should be considered in conjunction with the question of its impact in generating trade. The problem of protectionism, which currently stood between developing countries and success in foreign investment, deserved particular consideration. These topics should be considered globally and together; this approach went well beyond the more limited terms of reference of the GATT. The issues should be debated in suitable fora in which the overall picture and the interrelationship of the different questions could be examined.

RESTRICTIVE BUSINESS PRACTICES

143. The Chairman recalled that this topic had been discussed recently in the Senior Officials Group (SR/SOG/9, p.4) and also, in 1980, in the Group of Eighteen.

144. The representative of India said that among the subjects which his delegation believed most appropriate and urgent for consideration in the proposed negotiations were restrictive business practices, particularly those adopted by the transnational corporations in the international trading system. Previous rounds of negotiations in the GATT had rightly concentrated on the tariff obstacles to trade: the latest one had concentrated in addition on non-tariff barriers. These two areas had been addressed, though not with full success, at least in terms of instruments and mechanisms, fairly adequately. The next important barrier to trade to which this institution should logically move was restrictive business practices, which should form an important area for negotiations in a new round. The trade distorting effects of restrictive business practices had been recognised repeatedly. The Havana Charter contained a chapter aimed at controlling restrictive business practices which had not been adopted. The founding fathers of the European Communities, in adopting the Treaty of
Rome in 1957, recognised that without eliminating restrictive business practices at the enterprise level as Articles 85 and 86 of that Treaty sought to do, abolishing inter-community tariffs and non-tariff barriers would not be sufficient to create a true common market. In 1980, in adopting the set of multilateral agreed equitable principles and rules for the control of restrictive business practices, the United Nations General Assembly had unanimously recognised that restrictive business practices could adversely affect international trade, and that such practices could impede or negate the realization of benefits that should arise from the liberalization of tariff and non-tariff barriers affecting international trade, particularly those affecting the trade and development of developing countries. It was therefore surprising that the GATT should not contain specific rules dealing with restrictive business practices. Since the Havana Conference there had been a considerable move towards increased concentration in world trade, and the emergence of giant transnational corporations. The phenomenon of in-house trade had reached such dimensions that it was generally accepted that some 34-40 per cent of world trade took place between affiliated corporations, and that more than 50 per cent of world trade was in the hands of a limited number of large transnational enterprises from the developed countries. Restrictive business practices in international trade were nowhere under the discipline of multilateral control. The existence of these practices had been highlighted even in GATT annual reports; in particular the 1984/85 report contained a very comprehensive reference to the prevalence of these practices and their adverse effects on trade liberalization. Thus market sharing or price-fixing practices formed part of the vast area of restrictive business practices used by enterprises to restrain trade. There were instances in which legislation such as on anti-dumping was utilized by enterprises in order to impose certain restrictive business practices and this added to the problem of implementation of multilaterally agreed disciplines, for example, in regard to anti-dumping. In this light his delegation was of the view that the time had come to ensure that rules and disciplines of the multilateral trading system be also applied to restrictive business practices, particularly those practiced by transnational corporations. Restrictive business practices were merely a more subtle form of protectionism, and they negated the rights and obligations contained in the General Agreement. For the infringement of rights of contracting parties through protectionist action by governments relief was available in the General Agreement, although in practice its effectiveness was a different matter. However, where contracting parties were adversely affected and their rights infringed by restrictive business practices, there was no relief at present. While restrictive business practices were by and large controlled within most developed market-economy countries, these practices were not covered by national legislation when their adverse effects were felt outside the national territory. Moreover, in the last years a more permissive attitude in many countries towards restrictive business practices had been emerging. Earlier rounds of MTN's had dealt with tariffs and non-tariff barriers; therefore, the next logical step for GATT, taking into account the changing trading environment, was to make a serious effort to provide such relief on the same pattern as was applicable to other cases of infringement of GATT rights. His delegation reserved the right to present more detailed proposals in this regard in due course.
145. The representative of Sri Lanka endorsed the basic elements of the statement made by the Ambassador of India on this matter. The subject of restrictive business practices had earlier been discussed in the GATT and in 1960 the CONTRACTING PARTIES had adopted a Decision establishing arrangements for consultations. These consultation provisions had not however been invoked by any contracting party since their adoption. The main international discussions in recent years on restrictive business practices had taken place in UNCTAD. This had led to the adoption, in 1980, of a set of multilaterally agreed principles and rules for control of restrictive business practices. At a review conference in 1985, it was however pointed out by developing countries that there had been continued and intensified use of restrictive business practices in international trade transactions. There was increasing acceptance in recent years of a close link between trade policy measures and restrictive business practices. Faced with the demand for increased protection by industries in difficulties, there had been increased resort to grey-area measures such as voluntary export restraints. A major issue, therefore, that international trading rules would have to grapple with, was how to bring under surveillance and control the increasing involvement of governments through de facto acceptance of the restrictive business practices adopted by enterprises.

146. The representative of Argentina agreed with India and Sri Lanka as to the conceptual justification for the introduction of this topic within the GATT framework. As India had said, this was a logical step in the work of the organization, if the GATT indeed wished to address itself to obstacles to trade, after having spent earlier rounds dealing in a rather unsatisfactory way with trade barriers of the tariff and non-tariff variety. Argentina supported the consideration of this topic in a future round.

147. The representative of Jamaica recalled that there had been a decision of the CONTRACTING PARTIES in 1959 dealing with an examination of the problem of restrictive business practices over the period 1954 to 1959, and, in 1960, arrangements for consultations on restrictive business practices. When Jamaica had raised the question in the Consultative Group of Eighteen following the adoption of the UNCTAD set of principles and rules there had been no support for an examination of how the GATT could enforce more effective disciplines in this area. There was a relationship between voluntary export restraints, orderly marketing arrangements and other export-restraint arrangements entered into at a governmental level. But over and above the restraints effected by agreement between governments were export restraint arrangements at industry level, a number of which had been instanced in an OECD report, involving automobiles, machine tools, electronics and the like. It would seem possible to define disciplines which not only restrained distortion caused by governmental action, but which applied to distortion caused by private enterprises. As there was growing interaction between restrictive business practices and restrictive trade policy measures, attention needed to be given to this subject. It would be useful to examine, inter alia, whether commitments and undertakings could be made more binding
and whether consultation obligations could be made more effective by permitting Article XXIII to be invoked when advantages which contracting parties could reasonably expect under the General Agreement were being nullified or impaired by restrictive business practices. Jamaica believed that an a priori case existed for inclusion of this subject since the bulk of international trade was through private entities, it was important that the implications of restrictive business practices for further trade liberalization and expansion be examined.

148. The representative of Egypt said that use of restrictive business practices by transnational companies had increased since the decline of traditional non-tariff barriers, and had restricted the flow of trade, had endangered the flow of trade especially in developing countries. Restrictive business practices were acts of enterprises which through abuse of dominant market positions limited access to markets or otherwise unduly restrained competition. This was likely to have adverse effects on international trade, particularly that of developing countries. The main discussion in recent years on restrictive business practices at international level had taken place in UNCTAD. As a result of this work the United Nations Conference on Restrictive Business Practices had approved in 1980 the set of multilaterally agreed principles and rules for control, which had been adopted by the General Assembly in 1980. His delegation attached great importance to a full discussion of this item in the next round.

149. The representative of Bangladesh supported the statement of India on this subject. Restrictive business practices had assumed increasing importance as trade restrictive measures. These practices had negative consequences for world trade and development, and as such should be effectively controlled. They should be given attention in the new round in order to achieve the objectives of liberalization and expansion of world trade.

150. The representative of Yugoslavia shared the view that the negative impact of restrictive business practices on international trade in goods was very serious. The restrictive business practices of transnational corporations combined with trade policy measures inconsistent with GATT had harmful effects on the trade of developing countries, hindered structural adjustments and limited market access and export earnings. In the new round of multilateral trade negotiations this subject should be included, in order to examine its legal and practical aspects and to find ways and means to bring it under GATT discipline.

151. The representative of the United States said that, as previous speakers had noted, as recently as 1980 an internationally agreed code on restrictive business practices had been adopted. If there was any need for further work on that code, and the United States were certainly not persuaded that there was, the GATT was obviously not the place to do it. Secondly, some speakers had alleged that voluntary export restraints and other import limitations fell within the scope of restrictive business practices. That was nonsense.
Grey-area measures were certainly important subjects for the new round but these were governmental actions which would be taken up in, for example, negotiations on safeguards; they were not actions by commercial enterprises which might be considered restrictive business practices. The United States did not consider that a negotiation on restrictive business practices could be justified by reference to these governmental actions. Such an exercise would merely duplicate other activities in GATT.

152. The representative of Indonesia said that it was within the competence of the Committee to decide whether restrictive business practices should be discussed or not. It would seem consistent with the GATT's purpose of raising standards of living and eliminating discrimination in international trade that they should be. The December 1980 Resolution No. 35/33 of the General Assembly had included a reference to the need to ensure that restrictive business practices do not impede or negate the realisation of benefits that should arise from the liberalisation of tariff and non-tariff barriers, particularly those affecting the trade and the development of developing countries. Presumably the proposal that this subject should be discussed in the new round reflected the fact that the commitments adopted in the General Assembly and elsewhere had not been fully implemented by governments. It might be possible for the Contracting Parties to promote the implementation of the set of rules and principles, perhaps by establishing notification procedures on the use of restrictive business practices in important export transactions. On these grounds, she supported the inclusion of this subject in the new round.

153. The representative of the European Communities speaking on a preliminary basis, said that the suggestion that restrictive business practices might be included in the new round could be said to be opening up a new grey area, since there was a considerable lack of clear information as to what the practices in question were and the extent of governmental involvement in them. The GATT had recognised in 1960 that restrictive business practices could have a negative impact on trade. The Community was particularly interested in those practices which restricted access to primary products and to the markets for primary products. As to the possible inclusion of this subject as a separate item in the new round, the Community had not yet reached a firm view. By way of preliminary comment however, it seemed that the question at issue here was the interface between government and business. Leaving aside the question of GATT's competence in this area, and accepting that it was not the function of the GATT to modify the UNCTAD Code, it was worth asking whether GATT could usefully examine the subject and take action on it. It would not in any case seem appropriate for the GATT to concern itself with purely private activities, as opposed to the involvement of government in restrictive business practices. Though at this stage he would be favourably disposed to an examination of governmental involvement in these practices, perhaps with a view to some form of agreed undertaking, he would not think it useful to repeat the attempt made in 1954 - 1960 to introduce the provisions of Chapter 5 of the Havana Charter as a binding obligation.
154. The representative of Brazil said that he started from the assumption that the activities of multinational companies in general contributed to the growth of international trade. However it had to be recognised that in the pursuit of profit they might deviate from what should be the appropriate rules. On the domestic level this was perfectly well recognised and most countries, particularly those which contained the headquarters of multinational companies, had anti-trust legislation precisely to guard against the possibility that such companies could in certain circumstances violate the basic principles of competition. At the time of the negotiation of the Havana Charter there had been a strong feeling that in order to promote genuine trade liberalisation, it would not be sufficient to rely on rules for the conduct of relations solely between governments; for this reason the Havana Charter contained a chapter dealing with the activities of multinational companies. Since that time multinational have grown larger and more important in international trade, and it therefore seemed in order to return to this issue to see whether ways and means could be found to ensure that the activities of these companies were not impeding and distorting trade. Brazil was not sure if this was a matter for immediate consideration in a possible round of negotiations. If it were decided that it was necessary to regulate such activities internationally, amendment of the General Agreement might be required. However, the need to give some priority to consideration of this issue must be recognised, particularly in the light of recent indications that legislation under consideration in certain countries would free the international operations of multinationals domiciled there from the constraints of internal anti-trust legislation.

155. The representative of Jamaica said that the discussion had revealed what seemed to be an unwarranted defensiveness, given the very early stage of the consideration of this subject. Given the enormous growth in international trade since the 1960's, and the fact that international corporations had been a major instrument of this expansion, he hoped that minds would not be closed to the possibility of re-examining the restrictive business practices. In 1960 the CONTRACTING PARTIES had recognised "that business practices which restrict competition in international trade may hamper the expansion of world trade and economic developments in individual countries and thereby frustrate the benefits of tariff reduction and removal of quantitative restrictions or may otherwise interfere with the objectives of the General Agreement on Tariffs and Trade". If that could be stated in 1960 there seemed no reason why the matter could not be examined with an open mind in 1986.

156. The representative of Uruguay said that since restrictive practices had been included in the Havana Charter, there seemed no doctrinal reason why this should not be considered within GATT. The UNCTAD Code on the subject did not cover with sufficient precision all the questions relevant to the GATT, and had not led to any practical solutions. It was clear that multinational companies could have an important influence on trade flows, and there were many specific cases in which restrictive business practices had been implemented by private sector organisations with the tacit consent of the government concerned. It was for this reason that their examination in GATT would be useful, even if the involvement of governments was not always
easy to demonstrate. At a time when there seemed to be a wish to extend
GATT's competence beyond its traditional domain it would seem appropriate to
include restrictive business practices. In principle all private sector
activities which could be controlled by governments could legitimately be of
consideration to the GATT, since they could always have an impact on trade and on
the interests of other governments. It would seem reasonable to carry out a
first examination of the subject in terms of its impact on trade flows as
soon as possible, leaving until later a decision on how to deal with it —
whether in the context of the new round or otherwise.

157. The representative of Israel said that to his country the question of
restrictive business practices, and particularly the improvement of inter­
national regulation in this area, was of real importance. The UNCTAD Code
had not been effective, and Israel supported the view that this subject might
usefully be dealt with in the new round. The argument that since restrictive
business practices were dealt with in the Havana Charter they were a
legitimate concern of the GATT would also apply to services, since Article 53
of the Charter prescribed certain procedures with respect to services. It
might also be noted that Article 12 of the Charter, on International
Investment for Economic Development and Reconstruction, dealt with foreign
private investment.

158. The representative of India pointed out that the reference made by the
representative of Israel to services in the context of restrictive business
practices was not quite relevant. His delegation has traced the origins of
the discussions on services in the Preparatory Conference for the Havana
Charter at length in the Special CONTRACTING PARTIES' Session as well as in
the Senior Officials' Group. The Chairman of the relevant Committee had
ruled that services did not fall within the purview of the mandate of the
Committee in terms of the ECOSOC Resolution. On the other hand, his
delegation had raised the question of restrictive business practices in the
context of the General Agreement, i.e. in relation to trade in goods, and
this was the context in which the matter had repeatedly been discussed in
GATT.

RELATIONSHIP BETWEEN THE NEW ROUND AND MONETARY AND FINANCIAL DEVELOPMENTS

159. The Chairman recalled that the discussion of this subject in the Senior
Officials' Group was recorded in SR/SOG/10, pages 9-19, and SR/SOG/11, pages
11-17. There was clearly a relationship between this question and that of
the effect of exchange rate fluctuations on trade, which the committee had
discussed earlier. He remarked that both of them might perhaps be seen as
part of the context in which the new round would take place rather than as
subjects for negotiation in their own right.

160. The representative of Peru said that the general objectives of the
proposed new round reflected the desire of the CONTRACTING PARTIES to enter
into a new stage. If trade was to be the motor for economic growth
throughout the world and particularly in developing countries, a reordering
of monetary and financial relations was needed. Taking into account the
close relationship between development, trade, money and finance, substantial changes in the present rules for international co-operation should be undertaken with a realistic attitude. Trade liberalization would be to no purpose if parallel efforts were not made to reform the international monetary system, and conditions were not created to permit new flows of finance which could allow the developing countries to solve their serious external debt problems. The crisis resulting from external indebtedness went beyond the particular interests of the Latin American countries, to affect the interests of the whole international community. It was difficult to conceive how the world economy could move into a phase of expansion if the developing countries, which had the greatest potential for growth, continued to be unable to generate the export earnings necessary to service their external debt and to permit the growth of their economies, because of transferring massive financial resources to developed countries as debt service payments. In her view, the debt crisis was an expression of the improper functioning of the international monetary and financial system. An in-depth reform of the system would facilitate a solution of the debt problem. Immediate decisive action was called for to reduce real interest rates to levels compatible with the economic development requirements of developing countries; to eliminate fluctuations in exchange rates, which cause sudden changes in price systems and in relative competitive positions in the world markets, creating uncertainty in trade and in the world economy; and to avoid artificial over-evaluation of currencies, which increased debt and the cost of imports for developing countries. In the field of development financing, the need for greater flexibility in the conditions laid down by international financial organizations, new financial assistance on better conditions and a wider and broader basis of resources from international organizations was unavoidable. Reform of the international organizations dealing with monetary and financial problems was also necessary. GATT also had a significant role to play vis-a-vis the debt problem, i.e., to assist the developing countries by providing special treatment in areas of interest to them, in order to extend their trade opportunities and increase their export earnings, so as to provide an impetus to their growth and development. She recalled that the achievement of higher standards of living and full employment as well as an increasing level of real earnings and effective demand were among the objectives of GATT as stipulated in the preamble of the General Agreement. On this particular aspect, Peru had made concrete propositions for the application of special and differential treatment for developing countries which would help them to emerge from the present stagnation and crisis, and if possible, to participate in the new round. The Preparatory Committee should recommend the ministers to propose the convocation of a "United Nations Conference on International Monetary and Financial Aspects" with the objective of creating a new international monetary order which would be more fair, more balanced and more appropriate, and which would guarantee reciprocal treatment and eliminate the inequalities of opportunities and resources existing today between industrialized and developing countries, and enable the latter to enjoy conditions necessary for development.
161. The representative of Cuba called attention to the deterioration of the generally accepted principles and rules of international trade, as well as the increase in protectionism, which had prejudiced the interests of developing countries, and about which less-developed contracting parties had expressed their severe concern. There had been a substantial decline in their export earnings, which were now insufficient for them to face their international payment obligations and meet the requirements for their economic and social development. It was therefore necessary to put an end to obstacles hindering better access for these countries to export markets, particularly in the developed countries. Progress in trade liberalization should go hand in hand with similar progress in the monetary and financial sectors. Solutions to the imbalances which originated in the international monetary and financial structures were immediately required, and it was imperative to increase the flow of resources to developing countries, particularly from official sources, and for measures to be taken to halt the deterioration of commodity prices. All of this called for overall long-term analysis; short-term measures should be taken on the basis of long-term objectives and not vice-versa. The Caracas Declaration had linked the repayment of foreign debt to sustained economic development. A general reform of the present world monetary and financial system was required. Ministers should therefore convene an international conference on monetary and financial resources for development, aimed at promoting international co-operation and protecting the international economy, particularly the economies of developing countries, and doing away with the constant deterioration of developing countries' terms of trade, unjust financial practices, extreme interest rates and the overvaluation of some currencies.

162. The representative of Turkey said that although his country unfailingly fulfilled all of its debt servicing and repayment requirements on time, Turkey believed that the proposed new round of MTN's should be accompanied by measures which would facilitate the flow of fresh financial resources to developing countries as well as by steps to ensure a more stable monetary system. The effect of even minor increases in interest rates on the debt service burden of developing countries could sometimes reach catastrophic dimensions and thus endanger the very stability of the financial system. The same could be said for erratic fluctuations in exchange rates. Although these issues were not directly related to the trading system, no effort made in the direction of strengthening the international trade structure would produce lasting results if the persistent problems in the monetary and financial fields were not tackled effectively and in parallel. Removal of restraints faced by exports from the developing countries would make it easier for them to bear the burden of their debts. The recommendations to be submitted to the Ministerial meeting should include a call for effective parallel action in the monetary and financial spheres and draw attention to the linkages between problems in these areas and those of market access.
163. The representative of Zaire said that his delegation supported the view that a close link existed between development, trade and the international monetary and financial situation. The GATT should examine the effects of exchange-rate fluctuations on international trade. The proposed trade negotiations could not deal directly with questions bearing on the international monetary and financial system, but it would be appropriate to examine in parallel, in the appropriate fora, all questions linked to reform of the international financial and monetary system. Such an examination should not be limited to a small group of countries, because appropriate action needed to be agreed upon on a multilateral basis in order to improve the international monetary and financial environment. This examination would also need to take account of the serious debt situation facing developing countries. Developed contracting parties, which were creditors of developing countries, should make an effort to ensure that the adjustment required of developing countries did not prejudice their national development. A solution to the problem of foreign indebtedness of developing countries required concrete and effective measures on the part of developed countries to stabilize exchange rates, bring down interest rates on international financial markets, and achieve significant trade liberalization.

164. The representative of Argentina agreed that the link between monetary and financial matters and trade was clear, as was the link between these questions and the development of developing countries. The CONTRACTING PARTIES could not separate solutions to trade problems from those to other questions, and should therefore support ideas being put forward elsewhere for action in these spheres. For many developing countries, monetary and financial problems limited their development and their more active participation in trade. The high cost of servicing debt meant that there was a net export of capital from many developing countries, which was increasing more rapidly than their export incomes. He supported other speakers who had referred to the need to reform the world monetary and financial system, and the proposal made in document L/5818 that the contracting parties should recommend parallel action on these matters, and particularly on debt, in the proper monetary and financial fora. Contracting parties should undertake to ensure that all illegal measures were eliminated, that there would be substantial trade liberalization in all sectors, especially for developing countries, barriers to whose trade should be dismantled. The accumulation of restrictions on products whose trade is managed or indeed controlled - textiles, for instance - should be avoided. Participants should bear in mind that heavily indebted developing countries would be unable to solve their debt problems, even in part, unless their exports could increase.

165. The representative of Brazil shared the views expressed by previous speakers and in document L/5818 on this issue. As his delegation had indicated on many occasions in sessions of the CONTRACTING PARTIES, as well as in Council meetings, trade liberalization, both in terms of stopping and reversing protectionism and of enlarging access to markets by new trade negotiations, was of utmost importance for Brazil. This resulted not only from Brazil's interest in promoting economic growth on the basis as much as possible of an economy open to foreign trade, but also from the urgent need
confronting Brazil to generate the very large trade surplus required for the servicing of its external debt, which consumed, in interest payments alone, around 40 per cent of Brazil's export earnings. External indebtedness was consequently, for Brazil, a matter of the highest importance, and a problem whose solution required intensified international co-operation in the fields of money and finance as well as that of trade. The effort to adjust should not be the responsibility only of the indebted countries, but also of the creditor nations as a matter of fairness as well as of common interests. It was clear, furthermore, that trade liberalization, as a very important end in itself, could only be credible and effective if an improvement was also earnestly sought in the overall world economic environment, through measures to be adopted both at the national and at the international level. In consequence, Brazil hoped that a review and reform of the international financial and monetary system could be conducted in appropriate fora to be agreed upon by all interested countries. Finally, the Brazilian representative stressed that his delegation should a decision to be taken to pursue, in GATT, an in-depth examination of all the effects of exchange-rate fluctuations on international trade, in order to enable a correct evaluation of the value of concessions exchanged in a possible new round of multilateral trade negotiations.

166. The representative of Bangladesh underlined the close interlinkages among the problems of development, trade, money and finance. A substantial expansion of market access was crucial to the generation of export earnings necessary to service the huge external debt of the developing countries and to ensure revival of growth in these countries. This should be a key objective of the new round. Trade liberalization could be meaningful and effective only if imbalances in the monetary and financial spheres were corrected. Reform of the international monetary and financial system should therefore be undertaken in parallel with trade negotiations. Such a reform should cover the problems of the decline in flows of financial resources to developing countries, increasing debt liabilities, high real interest rates, and shrinking liquidity, among others. Some progress has been achieved recently towards finding a solution to these problems, but much more needed to be done to make the financial and monetary system truly responsive to the needs of developing countries in order for them to benefit from any trade liberalization. While an exchange of views on the reform of the international monetary system had started in a limited fashion among industrialized countries, it should be expanded to the entire international community in order to achieve progress and complement the new round of trade negotiations. It was necessary to examine further in GATT the effects of exchange fluctuations on international trade, as part of the role of the international monetary and financial system in order - among other things - to realise the trade liberalization objectives of the new round.

167. The representative of Poland also emphasized the inseparable link between international trade and the monetary and financial system. For many contracting parties, including Poland, this link was felt primarily through a conflict between debt servicing requirements and keeping markets as open as possible. The new round must not fail to address the issue of the inter-relationship between trade and indebtedness, which had long since acquired a global dimension. This would be an essential component of any efforts to
reassert a greater role of the GATT in the management of the world economy. More positive and constructive GATT involvement in this area required at least two lines of action. First, a recognition of the specific situation of the indebted countries and their particular needs in terms of access to export markets; second, a closer working relationship with the multilateral monetary and financial institutions to help achieve a greater measure of consistency in approaches to the formulation of general economic policies and trade policies in countries affected by severe balance-of-payments constraints.

168. The representative of Romania reiterated the position taken by his delegation in the Senior Officials' Group (SR/SOG/3, page 6-7). Everyone was aware of the link between trade and monetary problems. The debt problem had become so serious that it needed a global solution. An international conference on the world monetary and financial system might help to provide a solution. It would not really be expected that monetary and financial problems could be solved in GATT; however, the success of a new round would depend to a large extent on the way in which the debt problem could be solved, on which Romania had made some concrete proposals in various international bodies. GATT was not the forum where this complex set of problems could be resolved. However, the importance of the need to find a global solution based on a long-term strategy must be stressed. A world conference should be attended by all countries, by international banks and financial institutions, in fact by all parties concerned.

169. The representative of Sri Lanka recalled that the GATT secretariat's report on International Trade 1984/85 had recognized the link between trade policy and macro-economic management in stating that for the smooth functioning of the trading system well designed monetary and fiscal policies were essential, just as effective trade rules and open markets were essential for macro-economic management. It was necessary to initiate a parallel process in the appropriate fora to review and reform the international financial and monetary system. Such a process must deal with problems such as the debt situation, the declining flows of financial resources to developing countries, high real interest rates, and the stringency of liquidity. It was necessary to follow convergent macro-economic policies in the monetary and financial spheres in order to complement the work to be undertaken in GATT. He also supported the proposal for an in-depth examination in the GATT of the effects of exchange rate fluctuations on international trade.

170. The representative of the European Communities noted that the present discussion duplicated to some degree that on erratic fluctuations of exchange rates, although the question was placed in a wider setting. It was now almost a commonplace that there was a substantial and important link between developments in the financial and monetary sphere and trade policy. Any progress in the trade area could be undermined by abrupt and erratic movements in exchange rates, by the problems associated with indebtedness and by those associated with capital flows to the developing world. As recently as the fortieth session of the CONTRACTING PARTIES, that view had been shared by relatively few, but developments in the last year or so, particularly changes of attitude in the United States and by finance ministers operating in their own groups, had demonstrated the linkages clearly. Neither the GATT nor the
new round could directly address these problems, which formed part of the wider context in which trade negotiations would take place. The new round could only be part and parcel of a wider operation: in itself it could scarcely address, let alone resolve, all the problems of economic relationships between countries. It was the Community's view that only a multi-polar approach to problems, including issues of importance in the monetary and financial area, could satisfactorily resolve the difficulties confronting the international community.

171. The representative of Uruguay said that an operational link should immediately be established between monetary and financial matters and trade questions. Parallel progress could thus be achieved in the sectors of monetary and financial negotiations, in which participation of developed and developing countries should modify the present system, and aim at a more effective and fairer world framework. There could not be an adequate solution to the foreign debt problem of a great many countries unless it were recognized that the opening of markets was an essential element in meeting the problem. Foreign debt critically affected both financial and trade relations. The problem could only be solved through concerted action by creditors and debtors, with a significant improvement in the export prospects of developing countries. Increased access to markets was a necessary condition for positive action on the foreign debt issue. However, while the foreign debt of developing countries was growing continuously, their export earnings were falling dramatically. Growth prospects were jeopardized by the rigidities due to financial commitments, while the value of exports was declining due to protectionist measures, which had been denounced strongly but to which solutions were yet to be found in GATT. The new round must make a positive contribution to the solution of the debt problem of developing countries, and the only way to do so was to provide access to markets which up to now had been closed.

172. The representative of Egypt said that there were clear linkages between international trade and monetary and financial problems - including the problem of indebtedness and liquidity shortage which, along with protectionism, had obliged some countries to engage in compensatory trade. Egypt therefore supported the suggestion that before the launching of the new round a commitment should be undertaken to start a parallel process of review and reform of international monetary and financial developments, including flows of concessional funds, in the appropriate fora. The GATT should for its part examine in depth the repercussions on international trade of the problems of indebtedness and exchange rate fluctuations.

173. The representative of Yugoslavia recalled that her delegation's initial position on this subject had been stated in document L/5818. Yugoslavia agreed with what had been said by previous speakers on the importance of this problem for the new round, and on the necessity of parallel action in the trade field and the monetary and financial fields. It was necessary to create confidence that, in parallel with trade negotiations, adequate ways and means would be sought to settle the debt problems of developing countries, and to review and reform the international financial and monetary system. With respect to exchange rate fluctuations and their effects on international trade, there was a need to undertake an in-depth analysis within the GATT, to make possible a proper evaluation of the results to be achieved in the proposed negotiations.
174. The representative of the United States agreed that a sound and stable international monetary system was necessary for and was in its turn supported by an open and healthy international trading system. The United States and other countries which played an important role in the monetary system had recently increased their cooperation in this sphere and were continuing to work on ways of improving the functioning of the international monetary system. In view of the relationship between monetary developments and trade, it seemed to him that the best contribution that participants in the GATT could make would be to continue and bring to fruition the present effort to initiate a new round of negotiations designed to improve the functioning of the international trading system, while continuing to support complementary efforts in the monetary sphere.

175. The representative of Jamaica noted that the complex and close linkage between a stable trading environment and developments in the monetary and financial fields had important effects on developing and industrialized countries alike. Any attempts to improve the international trading system in an eventual new trade round would have to be accompanied by parallel efforts to monitor and strengthen the monetary and financial environment in which international trade is conducted. This parallel exercise should take account of the macro-economic domestic policies of developing countries and of trade policy measures at the industry or sector levels, and should have inputs from all parties to ensure that all interests would be covered. A commitment to such an exercise would contribute to ensuring consistency and harmony between the functioning of the GATT system and the monetary and financial system, and would build much needed confidence among all contracting parties.

176. The representative of Switzerland agreed that there was a very close link between the evolution of trade flows and that of world monetary and financial relations. He regretted that up to now there had not been any institutionalized mechanism for co-operation between the institutions in charge of the trading system and the monetary system. The consequences of indebtedness, for example, were significant and had an effect on the proper functioning of the trading system. Contrary to the balance-of-payments crises between 1965 and 1975, when countries which had devalued received new loans in strong currencies to assist them through the transitional period, during which their imports continued to increase, the present crisis obliged indebted countries to adjust by reducing their imports in order to achieve a surplus in their balance of trade. This had very damaging effects on their development and led to a general reduction in trading opportunities for all countries. It was important to recognise both the possibilities and the limits of trade and trade policy in contributing to monetary and financial problems. The GATT could not afford to ignore the economic environment in which trade took place, since adequate arrangements in the monetary and financial fields were a precondition for a properly functioning trading system.
177. The representative of Tanzania stated that many important items on the agenda for the new round had a direct bearing on financial and monetary issues. For example structural adjustment, for an economy which was fundamentally primary producing, required the assurance of adequate financial flows to enable it to move towards the desired structure of processing and manufacturing, plus compensatory financing during the period of transition when export prices in real terms had become negative in relation to the cost of imports. Where an economy had carried out desirable adjustments in order to become competitive on the basis of comparative advantage, but where export products faced restrictions on imports, the resulting liquidity constraints needed to be addressed if indebtedness was not to defeat the purpose of the initial structural adjustment. Those countries involved in minerals production would also need much greater understanding in their efforts to establish marketing arrangements supported by adequate funds, in order to stabilize production at economic levels. The impact of volatile exchange rates and interest rates was all too familiar. Detailed analytical work was needed both by contracting parties and the GATT secretariat to ensure that the interrelationships between the new round and monetary and financial issues were placed in a proper perspective before the launching of the new round.

178. The representative of India emphasized his delegation's support for the views expressed in L/5818. While this topic might not be similar to the other issues which had been discussed for inclusion in an agenda for the proposed multilateral trade negotiations, it was essential that appropriate recommendations be adopted by Ministers, clearly recognizing and emphasizing the integral link between development, trade, money and finance. He also supported further work in GATT on the effects of exchange rate fluctuations on international trade. Solutions to imbalances whose origins lay in monetary and financial areas should not be sought in trade negotiations. Parallel efforts in appropriate fora on the subject of money and finance, with the widest participation of all interested parties were also needed.

179. The Chairman, in concluding the discussion, noted that several speakers had raised the question of a possible study by the secretariat, but not all the proposals made for further analysis in this area had been exactly the same. The secretariat would examine these requests, and the Committee could revert to this matter at a later stage.

MODALITIES AND INSTITUTIONAL ARRANGEMENTS FOR THE NEW ROUND

180. The Chairman said that the discussion in the Senior Officials' Group on the subject of modalities was recorded in SR/SOG/11. These discussions had covered several subjects which the Preparatory Committee had already considered separately, notably including standstill and rollback. He suggested that the Committee should now focus on the guiding principles of the negotiations, priorities, practical arrangements for the negotiations and their duration. Under guiding principles for example, one might wish to refer to non-discrimination, reciprocity, mutual advantage and the treatment
of developing countries. As to priorities, consideration could be given to the treatment of different subjects in terms of a time frame for negotiation, or in terms of the question whether negotiations in specific areas should take place simultaneously or sequentially. Questions arising under practical arrangements would be largely of an administrative and institutional nature; for example, what would be the terms of reference of a trade negotiations committee and would any other bodies be established for the negotiations. Techniques of negotiation, on the other hand, would be a matter to be considered under each specific subject for negotiation rather than in general terms. Some of these matters would have to be agreed upon in the preparatory process, while others would await the actual negotiations.

181. The representative of Switzerland said that the most important element of modalities was the methodology of negotiations; together with the objectives, these were capital elements of the Committee's activities on which it was bound to take decisions. The organisation of the negotiations would give clear indications as to their true purposes which should strike a proper balance between rights and duties of contracting parties. With these concerns in mind the Swiss delegation had submitted an outline of modalities for negotiations in document L/5883. Future negotiations should be carried out by a negotiating committee which would distribute and coordinate the work in three sections on the basis of the nature and objective of the subject involved. The first section would be devoted to the multilateral trade system per se, in the form of confirmation of some of its rules, the improvement of other rules, and if necessary the addition of new provisions. Its purpose would be to strengthen the system by consolidating its present field of application while also extending its scope to some situations which were not now covered. Thus updated, the system would make relations between governments more stable and predictable. It would abolish the grey area, open the way to new progress in the organisation and renew confidence in the business world. Another section of negotiations would be devoted to problems of market access. It would allow for an exchange of concessions through classical negotiations as in earlier rounds. It would appear feasible to implement certain results from the negotiations before the exercise as a whole was completed. In the light of the relationship between the trade, monetary and financial sectors, another section of the new negotiations would have the objective of establishing links between the multilateral trade system and existing mechanisms in other international economic fora. This would aim to ensure that trade policies would have their proper impact without being impeded by external influences. It would also provide the institutional means to ensure the proper functioning of the international economic and financial system.

182. The representative of Japan said that Japan's views on the modalities of negotiations for specific items, including standstill and rollback and special treatment of developing countries, had already been presented. On the points raised by the Chairman, beginning with the timeframe, Japan's view was that a final target for the conclusion of the new round should be the year 1989. The negotiations should be considered as a single undertaking. The various elements should basically move forward together, while consideration should be given to the possibility of early implementation of agreements reached,
according to the progress of the negotiations. The negotiations should be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity, while basically observing the most-favoured-nation principle. As to institutional matters, the Ministerial Meeting should establish a trade negotiations committee to elaborate and implement trade negotiation plans. This committee should also supervise the progress of the negotiations, and should be open to all countries participating in the negotiations. Its first meeting should be held as early as possible, not later than 1 November of this year.

183. The representative of Canada said that in considering modalities it should be kept in mind that some questions which will affect the atmosphere and the context of negotiations could be settled to a great extent by the Preparatory Committee, particularly the question of standstill. Canada had also referred earlier to confidence-building measures as a means of creating the right conditions for ambitious negotiations that would be able to reach important decisions. Concerning the three sections mentioned by the representative of Switzerland, it was clear from public statements by Canadian businessmen that they were concerned above all with safety of market access. This was closely related to the first two sections mentioned by the Swiss delegation, which concerned the improvement and strengthening of the trading system. Market access in fact related to the entire list of subjects to be dealt with here in drawing up the agenda for negotiations. Very specific sectoral questions, as well as points of a horizontal nature such as tariffs, would certainly arise. However, as suggested by the representative of Japan, Canada felt that this should be one global negotiation, and it was not really clear whether the proposal of the Swiss delegation suggested that the round should be compartmentalized. Canada would be very cautious about any proposal which would result in compartmentalization of various aspects of the negotiations. Concerning the calendar, Canada had no hard and fast views. The agenda would be complex and very ambitious and should be staggered over a certain period of time. But for these negotiations to be seen as relevant and capable of solving what are seen as serious and urgent problems, we could not set a calendar which would be spread over too long a period.

184. The representative of the United States limited his comments to the overall conduct of the negotiations. He agreed that the establishment of a Trade Negotiations Committee by the ministers was necessary, and expressed the hope that the Preparatory Committee could agree on the establishment of a number of subsidiary negotiating subsidiary groups, with a short statement in the ministerial declaration of the basic objectives of each one. If this could be achieved prior to the ministerial it would permit an early start of substantive negotiations which should be a common objective. In defining the negotiating process, the United States would like to allow for the possibility of, and perhaps even encourage, the completion and implementation of some results early in the Round. Though this had not been the usual course of past negotiations, given the wide range of considerations and issues likely to be negotiated in the new round there should be scope for a different approach, one that encouraged the negotiation of issues of interest to all. The early
implementation of agreed results on, for example, institutional issues, including dispute settlement, could provide confidence-building impetus to other aspects of the negotiations as well as signalling to the world trading community that progress was being made in the GATT. In general the United States believed that a calendar should be established that would enable the negotiations to move forward expeditiously.

185. The representative of the European Communities said that while he appreciated the intellectually fascinating approach of the Swiss proposal, his delegation's approach was perhaps a bit more pragmatic. His delegation had identified four areas relevant to the modalities to the negotiations which would have to be addressed in the following order: scope and coverage; objectives - both general and specific; methodology; and structure of the negotiations. Defining the scope of the negotiations would involve deciding what would and would not be covered. The overall objectives of the Tokyo Declaration were still applicable but perhaps a little outdated. Other overall objectives should be sought based on the three concepts of structures, competitiveness and growth, thus leading to a strengthening of the multilateral trading system. He was ready to develop these ideas further in informal discussion. Specific objectives confirming these global objectives would then have to be formulated for each topic. The methodology concerned the ways in which different items were to be handled. In this context he recalled that his delegation had presented a diagram of concentric circles illustrating the means by which contracting parties would decide on reaching different levels of commitment for different items, for example: items leading to contractual commitments on which concessions would be exchanged on the basis of certain principles such as, although not necessarily including, non-discrimination, reciprocity, mutual advantage, taking account of differential and more favourable treatment of developing countries; items leading to agreed undertakings, for example standstill and rollback; and those items which were not within the operational jurisdiction of the GATT and which might be referred to the permanent GATT institutions, such as exchange rate fluctuations. Concerning structure, the negotiations should be a single operation to be conducted concurrently and whose results would be implemented simultaneously. This global negotiation would result in a new balance, of both rights and obligations and of benefits for contracting parties. His delegation envisaged a single trade negotiating committee which might establish sub-groups or sub-committees as required by the complexity and diversity of subjects to be covered. In this context, the secretariat must be given the necessary resources to make available current data and statistics to enable the negotiations to proceed. He requested that consultations be conducted on this matter and that the Budget Committee be made fully aware of the needs and problems in this area. Negotiations in certain areas would be seriously hampered if all this could not be achieved.

186. The representative of Pakistan said that the success or failure of a new round of multilateral trade negotiations would depend on a number of factors, notably including the modalities and institutional arrangements. If modalities were carefully devised and faithfully followed, the success of the negotiations might be ensured. On the other hand, ill-devised modalities or failure to observe them would certainly lead to failure. In Pakistan's view
the modalities should cover four important aspects: the character of the
negotiations, their coverage, ground rules, and surveillance and monitoring.
As to the character of the negotiations, they must be truly multilateral in
character, and treated and conducted as such by all participants. The
experience of the Tokyo Round in this respect was not a happy one. Though
bilateral consultations and negotiations are an essential part of multilateral
negotiations, most major negotiating decisions in the Tokyo Round were taken
by two or three leading participants, outside Geneva, and presented to the
Trade Negotiations Committee at a late stage as a delicate balance which other
participants were not allowed to disturb. The majority of participants were
thus not involved in the negotiations and were not permitted to influence the
outcome even on subjects in which they had a real interest. This experience
must not be repeated. The negotiations in the new round should be conducted
in a multilateral framework, in GATT and with the participation of all
interested parties. Agreements should be developed with the involvement of
all participants, not presented by two or three countries or a "take it or
leave it" basis. Closely linked to this was transparency in negotiations,
where again the Tokyo Round experience was unfortunate. Most delegations of
developing countries in that Round remained in the dark on what was happening
on many important issues. The new negotiations should be conducted in a fully
transparent way. As to coverage, the new round should not be loaded with so
many subjects as to make the negotiations unmanageable. The subjects to be
covered should be decided by consensus, the basic criterion for inclusion
being wide interest among participants. The subjects for negotiation would
fall in three broad categories: First, traditional subjects of market access,
like tariffs, quantitative restrictions and other non-tariff measures and
tropical products; secondly, sectoral subjects like agriculture and natural
resource products; and thirdly, GATT rules and procedures, such as safeguards,
subsidies and dispute settlement procedures. From the discussion so far, it
was evident that the criterion of interest by a large number of contracting
parties would be met by subjects such as tariffs, quantitative restrictions,
tropical products, agriculture, non-tariff measures, safeguards, dispute
settlement procedures, and treatment of developing countries. Other
subjects that met this criterion might also be considered for inclusion.
Finally, the negotiations should cover all products and barriers of interest
to developing countries. The ground rules for negotiations should be
elaborated at the outset and should be designed to advance the objectives of
the negotiations. The rules in the area of tariffs should provide for
negotiations on the basis of a formula of general application as item-by-item
negotiations would be too slow and cumbersome and yield limited results. The
formula to be agreed should take care of the problems of high tariffs and of
tariff escalation. Similarly, in the area of quantitative restrictions, an
across-the-board formula approach would be more likely to achieve meaningful
results. The rules applicable to negotiations in areas such as safeguards,
subsidies and dispute settlement should provide that negotiated texts would be
adopted by the respective negotiating groups and then by the Trade Negotiations
Committee on the basis of consensus. Another vital ground rule for negotia-
tions would be the principle of relative reciprocity. It should be clearly
provided in advance that the developing countries will take part in the
negotiations on the basis of the provisions of Part IV, particularly Article XXXVI, paragraph 8 and on the basis of paragraph 5 of the Enabling Clause. Developing countries should not be required to make concessions which are inconsistent with their development, financial and trade needs. Finally, an adequate surveillance and monitoring mechanism would be necessary to ensure that the negotiations did not deviate from the agreed objectives: for example, the Trade Negotiations Committee, apart from its principal function of guiding and supervising the negotiations, might be entrusted with the task of surveillance and monitoring. The Trade Negotiations Committee should meet more frequently than its Tokyo Round predecessor, preferably once every month, and at the beginning of each meeting it should carry out a surveillance exercise. This might cover whether: standstill and rollback commitments were being honoured and implemented; the negotiations were conducted transparently and multilaterally; the negotiations were moving in the direction of objectives agreed by the Ministers; all areas of negotiations were getting appropriate attention; special and differential treatment for developing countries was being considered; and the negotiations were moving according to the stipulated time frame. In regard to institutional arrangements we might follow the Tokyo Round precedent by providing for a Trade Negotiations Committee which in turn might set up different negotiating groups. Participation in the Trade Negotiations Committee and the groups should be open to all countries taking part in the negotiations.

187. The representative of Bangladesh said that the modalities of the proposed negotiations should be defined in such a way as to ensure full achievement of the objectives of the negotiations. These modalities should meet the requirements of each contracting party and should benefit all. To this end, it would be necessary to ensure that the negotiating process to be established did not relate the negotiations to merely an exchange of concessions between the major suppliers and ignore the small suppliers and more particularly the least-developed countries. In considering all objectives, the principle of special and differential treatment of developing countries should be applicable and therefore would have to be included as a modality for negotiations. In defining the modalities for negotiations it would be necessary to take account of the Ministerial work programme and the priorities determined in that programme. The modalities should ensure the participation and benefit all the developing countries, including the least-developed countries. For the least-developed countries, the relevant provisions could be seen in paragraph 7(iv)(b), paragraph 3 of the 1982 decision on GATT rules and activities relating to developing countries and paragraph 3 of the Annex to the Ministerial Declaration of 1982. Early implementation of the provisions of the Ministerial Declaration relating to the facilitation of trade of the least-developed countries within the context of special and differential treatment for the developing countries would contribute to confidence and therefore to the success of the new round. As regards the structure of the negotiations reference could be made to the Tokyo Round, which was envisaged as a single undertaking, the various elements of which were moving together. A Trade Negotiations Committee was established during the Tokyo Round which was given the task of elaborating the trade negotiating plans and establishing
appropriate negotiating procedures, including special procedures for negotiations between developed and developing countries. This negotiating committee was also given the job of supervising the progress of the negotiations. This or a similar type of arrangement would seem appropriate for the forthcoming negotiations. As regards the duration of the negotiations, it would be necessary to have a clear picture of their scope to be able to establish a definite structure and duration.

188. The representative of Australia said that he was inclined to agree that the Swiss proposal, though tantalizingly interesting, might cause time to be spent in debating the approach rather than in achieving substantive results. The EEC's presentation of the negotiations as a series of concentric circles seemed on the other hand to be a useful way of organizing our thoughts. However, references to the precedented value of the Tokyo Declaration were disturbing. The Tokyo Declaration was a particularly unfortunate precedent in view of the lapse of time between the Tokyo meeting and the start of negotiations, and was best forgotten. If the Trade Negotiations Committee were to be given responsibility for setting up sub-groups and — as seemed to be threatened — for deciding in detail the mandates for some negotiations, it would not be surprising if it proved impossible to begin substantive negotiations before the end of 1987 and possibly even later. That would be a dismal prospect, and it was within this Committee's powers to avoid letting it happen. But to use the Tokyo Declaration and procedures as a model would guarantee repetition of the Tokyo Round experience. There were attractions in focusing the declaration on the subjects to be included in the round and leaving some of the more difficult problems to the Trade Negotiations Committee: some difficult issues were not susceptible to being prepared in time to enable substantive negotiations to begin even three or four months after the inauguration of a Trade Negotiations Committee. But the answer would be to divide the list of issues which had been discussed in earlier sessions of the Preparatory Committee into two categories; those issues which were primed or ready for substantive negotiation, and those which were yet to be primed. Nothing prevented the opening of negotiations on subjects where substantive work could begin immediately, while on other subjects the first objective would be to reach agreement on how they were to be tackled. However the declaration were to be organized, the work should not be allowed to be dragged down to a lowest common denominator with all subjects placed on the level of the subject least ready for negotiation.

Proposals had been made as to how subjects might be categorised in the declaration, not on the basis of readiness for negotiation but according to type. The Swiss proposals suggested a distinction between rule making and market access, and the Community had spoken in similar terms. Australia found merit in the Canadian suggestion that it would be simpler to have a single general category covering all subjects for discussion. Some subjects could not be clearly ascribed to rule-making or access. What mattered would be the amount of time and commitment that people gave to the subject matter. In order to create a firm discipline, the Declaration should set a terminal date for the initial stage of the work of the Trade Negotiations Committee, after which substantive negotiation would begin.
189. The representative of Argentina endorsed the views of a group of developing countries concerning the principles and topics to be accorded priority in the new round, as stated in document L/5818. Decisions on standstill and rollback, on the conclusion of a safeguards agreement in the first stage of negotiations, and on modalities for the implementation of special and differential treatment, would have to be reached prior to the negotiation. Other topics would be included on the basis of consensus; in this context, his delegation believed that the new round should include agriculture, natural resources, tropical products and should cover both tariffs and non-tariff measures. The results of negotiations on topics of priority for developing countries should be implemented as they were reached. There were some areas of particular importance to developing countries, such as tropical products, where there had been substantial preparation and a solution could be reached rapidly. Concerning the conduct of the negotiations, he was not convinced that the traditional practice of swapping concessions would be appropriate as the negotiations in the new round would have to be more global and broader based in scope.

190. The representative of Chile said that the following considerations were relevant under the discussion of modalities: the negotiations must reflect the interests of all contracting parties; progress in some areas should not necessarily be conditioned by progress in others; special programmes should be established to improve market access in all sectors, particularly the mineral, forestry and fisheries sectors; negotiating modalities and techniques should be specific to each area of negotiations; the organisation of the negotiations must reflect the special interests of developing countries, particularly those facing large foreign debts and those affected by natural catastrophes; tariff and non-tariff measures which were not in conformity with the General Agreement should not be the subject of negotiations. The commitments contained in the 1982 Ministerial Declaration, and the results achieved under the work programme, should serve as the starting point for the negotiations. It was essential that contracting parties fully respected standstill and rollback commitments. For these purposes, it was necessary to define carefully the operational aspects of these commitments and ensure their adequate surveillance. The standstill commitment should cover quantitative restrictions, variable levies, the Multi-Fibre Arrangement, export subsidies, grey-area measures, Article XXVIII (renegotiations), existing safeguard measures, unbound tariffs and exceptions covered by Article XXV and certain Protocols of Accession. A rollback commitment should cover all measures not in conformity with the General Agreement. This commitment was essential since countries should not continue to benefit, or expect negotiating currency, from the application of GATT-inconsistent trade-distorting measures. The rollback commitment should apply with immediate effect in favour of developing countries and the phasing-out of remaining measures should be undertaken in a transparent fashion over a limited time. The GATT secretariat should be responsible for monitoring such a commitment. As far as tariffs were concerned, a formula similar to that of the Tokyo Round should be established, which would emphasise the reduction of tariff escalation and cover all tariffs. Emphasis should also be placed on the removal by developed countries of the so-called negative preferences from which developed countries suffered in certain markets. Negotiations on non-tariff measures should cover all such measures, and eliminate them or bring them into conformity with the General Agreement.
191. The representative of Sweden on behalf of the Nordic countries said that the negotiations should in principle be seen as one undertaking, and the objectives for all issues should be put forward in parallel. It should be recognized that the issues to be negotiated were of varying importance to individual participating countries and at different levels of preparation. All elements however would have to be taken into account when accessing whether the results of the round were balance. The negotiations should be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity. Participants should jointly endeavour in the negotiations to achieve by appropriate methods an overall balance of advantage at the highest possible level. While it was difficult to say anything about the time frame without knowing the agenda for negotiations, the Nordic countries felt that a time frame for negotiations, limited to three or at maximum four years, should be established. As to the organization of negotiations, a single Trade Negotiations Committee should be established by the Ministerial Declaration and be given the overall responsibility for the conduct and coordination of the negotiations. It would be up to the Trade Negotiations Committee, on the basis of the subject matters listed in the Ministerial Declaration, to set up the detailed structure of negotiating groups. The Trade Negotiations Committee must also elaborate and put into effect the negotiating procedures. The Director-General of GATT should be the Chairman of the Trade Negotiations Committee.

192. The representative of Korea said that some small countries might not be able, because of the limitation of manpower, to participate in all the negotiating groups. It was important that the interests of these countries should not be adversely affected by their inability to attend the negotiations on all subjects. A decision to accede or adhere to any possible future agreement should not be based on a fear of potential damage to that country's particular interests due to its non-participation; rather the widest possible adherence to agreements on each subject should be induced by offering positive benefits. His delegation believed that the issue of the coverage of the negotiations could be resolved easily. The modalities used in negotiating on each subject should be formulated by the negotiating group of each particular subject and should be consistent with the overall objectives of a new round.

193. The representative of New Zealand said that his delegation's objectives, guiding principles and priorities for the new round had been set out in document L/5831 of 5 July 1985. He agreed with the representatives of Australia and the United States that the ministers should establish a Trade Negotiations Committee to oversee and coordinate the negotiations. However, rather than having the Trade Negotiations Committee spend its first year trying to agree specific objectives, modalities and procedures, he hoped the Preparatory Committee could accomplish this in the next few months. For example, the Preparatory Committee could propose subsidiary negotiating groups on certain issues, with terms of reference to be agreed by ministers. The Preparatory Committee rather than the Trade Negotiations Committee should also agree on specific objectives for the individual items. He agreed with the representative of the United States that negotiations on some items should
proceed and be concluded in accordance with their own momentum rather than having to wait until negotiations on all topics had been concluded. There was also a need for a body to monitor standstill and rollback commitments. Finally, starting and termination dates for the negotiations should be set; New Zealand suggested 1 November 1986 as the starting date and no more than three or four years as a time-limit for completion.

194. The representative of Yugoslavia said that the modalities of the negotiating process must provide for maximum transparency to ensure that the experience of previous rounds, in which the majority of countries were not included in the negotiating process, would not be repeated. The modalities of the negotiation would have to be examined and defined individually for each subject of the new round. The modalities for the implementation of standstill and rollback commitments should be determined and agreed on a priority basis. Modalities for applying special and differential treatment to developing countries should be concretized and implemented in all areas of the negotiation. This was not negotiable and nor should it be questioned in any way. Other issues meriting consideration would include the improvement of the international monetary and financial systems and the resolution of the problems of commodity prices and of least-developed countries' debts. Concerning priorities of the negotiations, her delegation believed that the safeguard system was the first priority, followed by subjects still outstanding from the Tokyo Round negotiations.

195. The representative of Czechoslovakia said that among the modalities for achieving the objective of trade liberalization and expansion should be the reaffirmation and fulfilment of the commitments already accepted by the GATT, in particular those concerning the MFN principle, non-discrimination, standstill and rollback. This reaffirmation was necessary in order to ensure the credibility of the GATT and of the new round. The negotiations themselves should, in principle, move forward on the basis of as wide a consensus as possible without invisible linkages and blockages which would hinder progress in individual sectors. A Trade Negotiating Committee should be established to conduct the negotiations. Given the complexity of subjects, subsidiary bodies also should be established. At this stage, his delegation had no firm view regarding the duration of the negotiations. While the agenda was rather complex and ambitious, and would undoubtedly require considerable time, it would be appropriate to establish a time frame for the negotiations.

196. The representative of Hungary agreed with the position of the Swiss delegation that the purpose of the new round was to strengthen the GATT trading system. However, he wondered whether there should be separate approaches for the confirmation and/or improvement of the basic rules of the system and for consideration of problems of market access, as he believed that these two issues were closely related. He agreed with Australia that the precedent of the Tokyo Declaration should not necessarily be followed: the new declaration should reflect the current problems of the trading system, which were more difficult and more closely interrelated than those during the Tokyo Round. It should also emphasise some of the basic principles of the GATT, such as non-discrimination or m.f.n., since it was generally recognized
that the new round should strengthen the multilateral trading system. While it would be difficult to know whether these principles could be applied to some new fields, such as services, which might or might not be included in the negotiations, there were some pressing trade problems which should receive priority attention during the negotiation and to which they certainly applied. The recommendations of the Preparatory Committee should be as concrete as possible on these important subjects and the elaboration of objectives should not be left to the Trade Negotiations Committee. The negotiations should be open to all interested countries.

197. In reply to comments made on his earlier intervention, the representative of Switzerland emphasized that the strengthening and possible deepening or extension of the system would be necessary to ensure that further "liberalization" would not be accomplished by bilateral pressure and thus be illusory. The strengthening of the system was a common benefit, not to be paid for by any conditions or market access. If a distinction were not drawn between rule-making and market access, weaker parties would be at a disadvantage in the negotiations because in order to achieve a strengthened system they would have to pay in terms of market access. Concerning the third element in the Swiss approach, GATT could not simply sit back and say nothing concerning the economic monetary and financial environment in which world trade took place. There should be one single negotiation to be handled by a negotiating committee. However, sub-committees could be set up to deal with different topics, which could be grouped according to the three approaches suggested by his delegation.

198. The Chairman said that the secretariat would attempt to synthesize in a short note the views which had been expressed on the subject of modalities.

PARTICIPATION IN THE MULTILATERAL TRADE NEGOTIATIONS

199. The Chairman pointed out that different formulas regarding participation had been applied in past round of negotiations.

200. The representative of Switzerland said that it would only be possible to make a decision on participation in the negotiations when their content was more clearly established. If the purpose of the negotiations were to reinforce or improve GATT rules, then they should be limited to members of the GATT. If their purpose were something more extensive, then other modes of participation could well be envisaged. Depending on how the negotiations were organized, additional ad hoc participation could be considered for certain specific aspects of the negotiation.

201. The representative of Japan said that one of the most important objectives of the new round would be an improvement of the trade environment of developing countries, in view of the serious difficulties, including debt problems, which many developing countries now faced. Participation in the forthcoming new round should therefore be open not only to contracting parties, but also to developing countries which are not contracting parties of GATT.
202. The representative of Colombia recalled that the formula used for the Tokyo Round on participation was that the negotiations should be open to all developing countries, whether members of GATT or not. This was a wise formula as it enabled some developing countries, including Colombia, to join GATT in a much easier way than would be the case in other circumstances. Bearing this in mind, and bearing in mind that it would be very difficult to go back on what was done for the Tokyo Round, it would seem right on this occasion to adopt a similar formula.

203. The representative of Argentina said that it was very difficult to make a decision at this early stage, with a whole series of elements still to be defined. Many options were open, merely regarding participation, but also regarding possible approaches to the negotiations themselves. Some delegations favoured a more global approach, while others were in favour of an approach which would allow us to advance case by case and topic by topic. Some delegations had also placed much emphasis on the idea that GATT should renew or renovate itself, anticipating future events in the trade area, with so many options available it was very difficult to decide on participation now.

204. The representative of Poland reiterated his delegation's position that the new round should be open to all interested countries which would be ready to commit themselves to the liberalization of world trade.

205. The representative of Jamaica agreed that this matter could be addressed more meaningfully when more is known about the format and content of the negotiations themselves. However, if what would be undertaken in a new round is a reform of the General Agreement, which had the effect of redefining the rights and obligations of contracting parties, then it might perhaps be best to limit participation to contracting parties themselves. We should always bear in mind that proposals made in this forum were far reaching and participants must give a commitment to accept certain obligations if they wished to take part in the negotiations.

206. The representative of Austria agreed, in principle, with the remarks made by the Swiss delegation that it is perhaps premature express firm views on participation, before having a final view on the format of the conference. However, at this stage he would reiterate that Austria believed that the broadest possible participation in such negotiations would be advisable, including not only contracting parties but also those countries which have provisionally acceded to GATT, those which have initiated procedures for accession, those which apply GATT de facto and other interested developing countries.

207. The representative of the European Communities also agreed in principle with the statement of Switzerland, but added that the Community's present thinking was that participation should be confined to five categories of countries: first, contracting parties; secondly, countries which have already initiated procedures for accession to the General Agreement; thirdly, countries which have provisionally acceded to the Agreement; fourthly, countries which apply the General Agreement on a de facto basis; and finally, countries which were formerly contracting parties.
208. The representative of Czechoslovakia said that in his country's view participation in these negotiations, it should be open to as many countries as possible. The Tokyo Round participation formula seemed to be appropriate, and it could be perhaps be applied also in the new round.

209. The representative of Bangladesh generally supported the proposal that as in the Tokyo Round, the negotiations should be open to all countries interested in participating. This would contribute to making negotiations truly multilateral and global. However, his delegation could accept the proposal that a final decision be deferred to a later date, when a clearer picture of the scope of negotiations and of the type of obligations to be undertaken by the participating countries would be available.

210. The representative of the United States agreed that the question of participation was related to the types of matters to be negotiated, and to the modalities for those negotiations. For example, if participation in the negotiations was open to countries other than contracting parties, as in the Tokyo Round, would it be appropriate for such countries to negotiate on institutional questions or matters relating to interpretation of GATT Articles? If negotiating items were grouped along the lines suggested by the Swiss delegation, or in some other manner, might the participation in each of the groups differ according to the subject matter? The US also encouraged wide participation in these negotiations and were willing to explore with others the means for encouraging such participation. We should also decide how to handle requests for observer status, such as from other international organizations, and also upon who should participate in the Ministerial Meeting. In the US view, those non-contracting parties that would be invited to participate in a new round should also be asked to participate in the Ministerial Meeting in September.

211. The representative of Barbados said that Barbados would prefer to see participation in the new round open to as wide a group as possible. This view was based on the concern that the objective or one of the objectives of the new round should be to strengthen the multilateral trading system and to make it more open: to confine the negotiations to contracting parties would hardly be consistent with this objective. On the point of participation in the Ministerial Meeting in September, Barbados believed that this should be confined to contracting parties.

212. The representative of Australia expressed the hope that all contracting parties would participate in the new round. The final decision on who should participate would depend on the issues and the manner in which they were negotiated. If the fundamental text of the General Agreement were to be negotiated the question would arise whether the involvement of non-contracting parties would be appropriate. As a general principle, however, Australia agreed that the negotiations should be open to all contracting parties, to those who have begun the negotiating process or those who intend to resume their membership of the GATT. Non-contracting parties wishing to participate in the negotiations should be invited to participate in the launch of those negotiations.
213. The representative of Korea said that it goes without saying that the new round would be open to all contracting parties. Any other country wishing to participate in the new round should say so, but participation should be on the basis of invitation. Criteria for invitation could be agreed. In order to ensure the widest possible and enthusiastic participation of contracting parties, it must be made clear that the existing rights of contracting parties would not be compromised or affected by their inability or unwillingness to take part in any endeavour designed to bring the GATT into new areas of activity.

214. The representative of India explained that on the question of modalities and participation his delegation had not thought it necessary to take the floor earlier partly because it appeared somewhat premature to discuss details before having a decision on the main elements, and given that the Ministerial Meeting could take place only in September. However, on the question of participation in negotiations, the Tokyo Round formulation would perhaps be a good guide when we come to decide on the participation in the light of a decision on launching the new round - which still had to be taken.

215. The representative of Canada said that like other delegations they were very conscious of the importance and sensitivity of the question of participation and of its inter-relationship with other fundamental questions. It was therefore desirable to be very cautious and prudent, keeping in mind the shared purposes of success in the proposed round and the greatest possible benefit to the trading system. In Canada's view it was important at this stage not to take any decision which might prejudge that kind of issue.

216. The Chairman undertook to ask the secretariat to list the different points of view expressed in this debate on the question of participation in order to clarify issues for later discussion.

OBJECTIVES OF THE NEW ROUND

217. The Chairman recalled that the discussion of the objectives of the new round was recorded in SR/SOG.1 and SR/SOG.2. He suggested that it was important to distinguish between the overall objectives of the new round and the objectives which might be agreed for negotiations on specific subjects. The Ministerial Declaration should make clear objectives of the new round in a convincing and coherent manner so that business circles and public opinion generally would understand and support what the negotiations are expected to achieve. The discussions in the Senior Officials' Group and the reference to objectives in the written statements submitted by delegations in 1985 showed a considerable degree of convergence on this subject.

218. The representative of Sri Lanka supported the statement in document L/5818 that the negotiation should aim at strengthening GATT disciplines and improving market access. A principal objective of the proposed negotiations should therefore be to preserve and strengthen the multilateral trading system and the GATT itself. The negotiations would also provide an opportunity to enhance the rôle of law in international trade and to reinforce GATT
disciplines. Among the GATT principles which particularly needed to be strengthened and enforced were those related to non-discrimination and differential and more favourable treatment of developing countries, which were required to ensure greater equity and symmetry in the rights and obligations of contracting parties. Strengthening of the GATT would require, inter alia, improved dispute settlement arrangements, a comprehensive safeguard mechanism and an enhanced notification and surveillance system. A further objective should be the expansion of trade through liberalization to improve market access on as broad a basis as possible; in this context, priority attention should be given to liberalization of products of interest to developing countries, to ensure a substantial increase in their foreign exchange earnings, and expansion and diversification of their exports. A better balance between developed and developing countries would result from this improvement in conditions of market access for products of interest to developing countries.

219. The representative of Korea said that in his delegation's view the objectives of the new round should be: to reverse protectionist trends in world trade; to strengthen and restore confidence in the multilateral trading system; to establish, under the auspices of the GATT, a broader framework of rules and disciplines dealing with the new and emerging issues in world trade; and to serve the economic development of developing countries through promotion of trade. He agreed with the Chairman's view that the objectives of the new round should be clear, specific and meaningful to world public opinion.

220. The representative of Bangladesh said that the main aim of the new round should be the expansion and greater liberalization of world trade, which he recalled had also been the objectives of the Tokyo Round but remained largely unfulfilled. These objectives had been reflected in paragraph 6 of the Ministerial Declaration of 1982 and remained valid for the new round, particularly in the face of an unprecedented upsurge in protectionist measures in disregard of GATT discipline.

221. The representative of Turkey expressed the strong belief that the principal objective of the proposed new round must be to ensure liberalization in international trade. Like other countries, Turkey had suffered in recent years increasing difficulties in expanding her exports because of the protectionist barriers erected by her principal trading partners. At the same time the policy of import liberalization which she had followed in order to ensure the most efficient use of her own resources had benefited those same trading partners, whose exports to Turkey had risen quickly. The credibility of the trading system could not be maintained if such situations were allowed to persist indefinitely. Unless those industrialised countries which pursued the most harmful protectionist policies were ready to make genuine efforts at trade liberalization, the new round would fail. The consequences of failure would be catastrophic for the whole trading system. Trade liberalization could take many forms. Since the question of tariff peaks remained unresolved and products of particular interest for developing countries such as textiles met with the highest tariff protection in many industrialised countries, conventional negotiations aimed at tariff reductions would still have a rôle
to play. However, non-tariff measures of many kinds were much more frequently resorted to as an instrument of protection, and the new round should effectively address these issues. The round must also aim at strengthening the rules of the GATT. Turkey attached particular importance to the competitive subsidization by the major trading powers, which had increasingly harmful effects for third countries whose resources did not allow them to take part in such a mutually harmful exercise. GATT disciplines in this sector must be strengthened. Finally, the question of "grey area" measures, which affected an ever-larger proportion of world trade, must be handled effectively and brought under the ambit of the GATT. Since the basic philosophy of the General Agreement was that when required, protection should be effected through tariffs, the replacement of grey area measures by a more transparent and non-discriminatory mechanism such as tariffs would greatly increase the stability and credibility of the international trading system.

222. The representative of Cuba supported the statement of objectives in document L/5818. The essential objectives of the proposed new round would include the liberalization of trade in goods, the elimination of obstacles which blocked the exports of developing countries to industrialised markets and the improvement of the multilateral trade system, which would imply elimination of discriminatory and illegal trade measures. The principles stated in the Ministerial Declaration of 1982 should also be an aim of the new round, since they had not yet been complied with. The new round must reaffirm and give greater legal validity to paragraph 7(iii) of the Ministerial Declaration.

223. The representative of Hong Kong confirmed his delegation's view that the two main objectives should be to promote liberalization of trade and to revitalise the multilateral trading system. While liberalization should be a continuing process, intensified efforts in the context of the new round must establish a credible process of liberalization that would produce visible and tangible results. Strengthened adherence to the fundamental principles of GATT, especially non-discrimination and the m.f.n. principle, was necessary to revitalise the multilateral trading system; the new round should not become a pretext to dilute or evade the disciplines of these vital principles. Safeguards was a key subject and the need for a comprehensive understanding on its application, on the basis of the m.f.n. principle, was now a matter of urgency. The conclusion of such an m.f.n.-based safeguards agreement would encourage progress on many other subjects, for instance, the eventual return of textiles and clothing to the application of GATT rules under strengthened GATT disciplines.

224. The representative of Switzerland said that his delegation believed that the new negotiations were designed to reinforce the system, firstly in order to bring about conditions in which existing protectionist measures could be rolled back, secondly in order to establish conditions which would make more extensive measures of liberalization practicable, and thirdly, in order to endow GATT with machinery enabling it to strengthen international economic cooperation.
225. The representative of Jamaica identified four objectives. Firstly, the new round should contribute to trade liberalization and expansion by liberalising tariff and non-tariff measures. Secondly, it should contribute to reinforcement of and greater adherence to the basic principles and objectives of the GATT. Thirdly, it should result in an adaptation of the General Agreement where necessary, which could entail reform both of the General Agreement itself and of the GATT as an institution. Fourthly, the results of a new trade round should contribute to greater confidence in the multilateral trade system and to a macro-economic environment conducive to trade liberalization as a whole, and to growth and development in developing countries.

226. The representative of Hungary said that his country's position concerning the objectives of the new round had remained unchanged since it had been stated in the Senior Officials' Group and the Special Session of the CONTRACTING PARTIES, despite the deteriorating conditions for trade, especially in agriculture, in the intervening period.

227. The representative of Chile said that the objectives of the new round should be ambitious, durable and based on a vision of the trading rules that would be needed in the future. As trade was a source of wealth the GATT might help begin the process of redressing the imbalance between rich and poor countries. Liberalisation of trade in goods, which was necessary for the growth of world trade, involved concrete measures which should constitute the major objectives of the new round. These included: implementing the provisions of the General Agreement, for which it was essential to set up and bring into operation an appropriate dispute settlement mechanism; ensuring real multilateralism (which was currently impaired by numerous exceptions) which entailed multilateral disciplines, fair negotiations and appropriate safeguard mechanisms; liberalising trade in agricultural products and in textile products; eliminating tariff escalation; eliminating the principal forms of protectionism and indiscriminate application of subsidies; improving or amending existing GATT provisions and disciplines in line with the objectives already mentioned; full implementation of the commitments in paragraph 7(i) of the 1982 Ministerial Declaration; and transparency. All the above objectives would have to take into account the situation of developing countries. To that end, standstill and rollback must be made effective. It would also be necessary to safeguard benefits deriving from the GSP, which could be eroded unless the relevant preferential margins were adjusted. The specific objectives of the new round would include; improving market access by the lowering and binding of all customs' tariffs; strengthening the application of Articles I and XI particularly in respect of quantitative restrictions, other non-tariff measures and so-called "grey area" measures. The most-favoured-nation clause must be strengthened. The use of export subsidies must be prohibited on all products, but for certain carefully defined exceptions. In addition, provisions should be established to regulate the safeguard mechanism, in strict observance of the principle of non-discrimination. The dispute settlement system would also have to be strengthened. Regarding individual sectors, priority must be attached to textile trade and to trade deriving from natural resources such as fisheries, mining and forestry products.
228. The representative of Czechoslovakia said that the negotiations should lead to: trade liberalization and expansion; further substantial improvement in market access conditions; a reinforcement of the basic principles and objectives of GATT, in particular that of m.f.n. treatment; and assuring the proper and more efficient functioning of the multilateral trading system. Trade liberalization and improvement of market access should be as broad as possible in terms of both products and measures. It should cover both tariff and non-tariff barriers and in particular quantitative restrictions. Reinforcement of GATT principles and objectives should be directed at both the realization of existing obligations and commitments and the reversal of the erosion of GATT rules and principles. The efficient functioning of the multilateral system should, inter alia, ensure effective protection and enforcement of the rights of contracting parties. These overall objectives of the new round should not be viewed in isolation from the objectives of the General Agreement, which fully retained their validity. The objectives should outline the precise perspectives and goals for the new round and make the trading system more credible and efficient without changing GATT's basic structure.

229. The representative of Japan said that the negotiations should aim at the expansion and ever-greater liberalization of world trade - thereby promoting structural adjustment in each country, achieving greater world economic prosperity, and improving the standard of living and welfare of the people of the world. These objectives could be achieved, inter alia, through: improvement in and strengthening of GATT rules with a view to reinforcing the free, non-discriminatory multilateral trading system; further reduction and elimination of trade barriers; improvement in the trade environment for the developing countries; response of the General Agreement to the new issues in the changing world economic and trade structures. The institution of the GATT should also be reinforced as the foundation for the achievement of these objectives.

230. The representative of the United States said that his delegation had identified four major types of objectives that appeared to underlie the opinions expressed by many Contracting Parties about the perilous state of the multilateral trade system and the ways in which it might be preserved and strengthened by a new round. First, negotiations were needed to strengthen and restore confidence in GATT as an institution relevant to the problems of the current trading environment and capable of dealing with those of the future as they arose. His delegation thus agreed on the need to restore credibility to the multilateral trading system based on the General Agreement, as stated by the developing countries in document L/5818, and on the need to evolve an international trading system from the new round which would enhance economic growth and trade potentials in the 21st century, as stated by the ASEAN countries during the Special Session. Secondly, negotiations were needed to resist protectionism and eliminate protectionist measures now in place; a continuing process of trade liberalization and better guarantees of secure access to foreign markets would help resist the protectionist pressures which were evident to varying degrees in all Contracting Parties. In this context, the US believed that contracting parties should not seek to improve
their negotiating positions by increasing levels of protection or trade-distorting measures during the negotiations and agreed with the statement made by the Nordic countries at the Special Session last September that strict observance of the standstill commitment and the implementation of the rollback commitment would enhance the process and would make the new round more credible. Thirdly, the rules of the system must be strengthened and expanded to ensure its continued relevance and credibility. He agreed with the representative of Australia that the GATT rules must address changes which had already occurred in the world economy and anticipated those to come. Under the rubric of strengthening the rules would be included the strengthening of the existing deficient rules on, for example, safeguards and agriculture, and would also include the increasingly important issues of services, investment, and protection of intellectual property rights. Finally, trade liberalization should lead to growth for all countries. This had been a fundamental objective of the GATT since its inception, and was recognised in its preamble. While these concepts could be organised in a number of ways, his delegation hoped for a concise statement of objectives emphasising the common intention to strengthen the multilateral trading system as the best means to meet the urgent challenges being faced today.

231. The representative of Yugoslavia said that the main objective of in the new round should be the preservation and strengthening of the GATT system in the interests of all contracting parties. The special position of developing countries should also be taken into account. The system should effectively contribute to the expansion of international trade through the elimination of protectionism and discrimination, improved market access and further liberalization of trade in goods. Bearing in mind the interrelationship between trade, monetary and financial problems and the fact that the strengthening of the multilateral trading system alone could not achieve the above mentioned objectives, Yugoslavia favoured parallel actions, particularly in the areas of money, finance and commodities. To ensure sustained general growth and development, and in particular the accelerated development of developing countries, an important objective of the negotiations must be to secure additional advantages for developing countries in international trade and a more balanced distribution of advantages from trade expansion. The developing countries should substantially increase their export earnings in order to be able to accelerate their economic growth and development and to service their debts.

232. The representative of Brazil said that the exercise undertaken in the Senior Officials' Group and in the Preparatory Committee so far had led to an extensive examination of the issues placed before contracting parties within the perspective of a renewed liberalization effort through multilateral trade negotiations. The Preparatory Committee had chosen to look first into the subject matter of possible multilateral trade negotiations before considering the general objectives of such an endeavour. The comprehensive debate on subject matter had occasionally pointed, however, to some aspects of the present world trade scenario which in fact bore relevance to a discussion on the objectives of a future trade round in GATT, notably in the debate on standstill, rollback, safeguards and treatment of developing countries, and in the discussions on the question of structural adjustment, among others.
Brazil now wished to synthesize elements touched upon in its previous statements and to present a view of what the aims of a joint undertaking by contracting parties in the present world trade environment should be. Under the topic "treatment of developing countries" Brazil had briefly considered the results of the Tokyo round and the state of world relations since then from a developing country perspective. It was important that contracting parties undertake a critical assessment of the results of the last round of trade negotiations and subsequent developments in the international trading system - not to minimize the achievements of GATT in liberalizing trade and strengthening the multilateral trading system - but to learn from experience and to channel efforts towards tasks which would effectively bring improvements from which all should benefit.

A concern in this context, widely shared by other contracting parties, stemmed from the fact that while trade barriers (primarily tariffs) were being liberalized and new trade disciplines were being introduced in the wake of the Tokyo round, a parallel and contrary process entailing a serious erosion of the GATT was taking place. Notwithstanding improvements in the performance of major market economies in general, trade restrictive actions and pressures for protectionist measures had not decreased, and the tendency towards managed trade through a variety of mechanisms remained uncontrolled. The increased complexity of GATT had not necessarily promoted a greater degree of equity, as was testified by the persistence of discriminatory practices in sectors of vital importance to developing countries. Moreover, it had been pointed out that some Codes originally intended to act as antidotes to unfair trade practices were being resorted to in a protectionist manner as unfair as the measures they were intended to offset. This overall picture had led Brazil to raise some questions in connection with the Committee's discussions on structural adjustment and trade in textiles.

It was a matter for serious reflection for developing contracting parties whether a new all-encompassing multilateral round of trade negotiations would deserve their support in the absence of clear indications that discrimination against their exports would end, or that they would not be unduly restricted either through mechanisms unforeseen by GATT or through a misuse of GATT. A further matter for reflection would be whether to add yet greater complexity to the legal framework and create new disciplines when the existing rules were being either misused or disregarded. It must also be seriously asked whether further liberalization efforts could have any significance when the degree of liberalization attained in earlier rounds was being threatened by difficulty in reaching agreement on a reliable and effective safeguard clause. His delegation had thus concluded that the objectives of future efforts in GATT must be to ensure an effective and verifiable halt in the process of erosion of the multilateral trading system. A firm, credible commitment to standstill would help, but would need to be reinforced by a systematic effort to dismantle, independently of any negotiations, restrictive trade measures presently in place which did not find legal justification under any existing GATT provision. The third element in attaining the objective of a return to GATT, as a step in achieving liberalization and a strengthened trading system, would be the negotiation of a safeguards agreement capable of assuring that
recent tendencies towards managed trade would be replaced by the actual application of GATT principles, particularly the most-favoured-nation clause, to all areas of trade in goods. Objectives must be adapted to reality. Contracting parties should not shy away from a realistic diagnosis of the ills of the present environment but should commit themselves to restoring GATT as the effective instrument for trade relations among contracting parties that it should be. Without a commitment to standstill and rollback and an agreement on the safeguards problem, efforts towards liberalization might not produce quantifiable gains for contracting parties. Without such commitments the necessary confidence in the multilateral trading system might not be sufficiently strong for attempts at devising new obligations under GATT to appear credible or useful.

233. The representative of Zaire said that while the new round must serve the needs of all contracting parties, its primary objective should be to end the asymmetrical trading relations between developed and developing countries. In the light of the present unfavourable economic climate, developing countries must benefit from special and differential treatment in the negotiations, which must also contribute to the implementation of the 1982 Ministerial Work Programme. The commitment of the contracting parties to a standstill and rollback would be the first demonstration of the political will necessary to transform the economic environment. The negotiations must not only expand international trade but also reinforce the credibility of the multilateral trading system.

234. The representative of Pakistan said that the objectives of any negotiations in the GATT could not differ from those of the General Agreement itself. The overall objective of a new round should be the expansion and liberalization of world trade through the elimination or reduction of trade barriers. The new round should improve and strengthen the GATT trading system for the benefit of all contracting parties. Despite Part IV of the GATT and the earlier rounds of trade negotiations, developing countries had not really benefited from the expansion and liberalization of trade brought about by GATT. The gap between standards of living in developed and developing countries had not narrowed, but widened; countries had remained in the early stages of development; the share of developing countries in world trade was still very small; the prices of their commodities were declining and they faced acute balance-of-payments problems and heavy debt burdens. Developing countries hoped that the new round would make the trading system more responsive to their needs as well as more stable, predictable and equitable. Therefore, one of the foremost objectives of a new round should be the rapid promotion of trade and development of developing countries. The new round should aim at accelerating the expansion of exports of developing countries through the total elimination of barriers facing these exports in different markets. Since the developing countries would continue to need special and differential treatment, negotiations should strengthen and reinforce the existing relevant provisions and elaborate similar provisions in other areas. The specific objectives of the new round should include: a substantial reduction of high tariffs, particularly those facing exports of developing countries, and especially tariffs on textiles and clothing; complete duty-
free and quota-free entry for tropical products in developed countries; elimination of quantitative restrictions inconsistent with GATT and particularly those affecting exports of developing countries; a comprehensive, legally-binding understanding on safeguards based on the MFN principle; meaningful liberalization in agriculture by bringing it fully into the multilateral trading system; and improvement and modernization of certain GATT rules, for example those on subsidies.

235. The representative of Egypt said that the objectives of the new round had already been set out in the GATT Work Programme established in the Ministerial Declaration of 1982. His delegation confirmed its views, which had been expressed in the Senior Officials’ Group, as well as those stated in association with other developing countries in documents L75744 and L/5818. Solutions for the problems identified in those documents should form the main areas which the new round should address. In addition, the new round should aim at reversing the increasing trend towards protectionism; strengthening and restoring confidence in the GATT system through further reinforcement of its rules; and increasing market access for the exports of developing countries to give them a better chance to remedy severe trade deficits.

236. The representative of Peru said her main objectives of the General Agreement remained valid. Under the present circumstances, it was essential not only to liberalize trade, but also to strengthen the multilateral trading system and the disciplines incorporated in the General Agreement. An undertaking in the areas of standstill and progressive rollback of trade barriers was necessary to restore confidence and credibility in the system as well as in the new round, and should lead to freer and more equitable trade for all contracting parties. In addition, differential and more favourable treatment in favour of the developing countries must be strengthened to help promote substantial development of their trade to enable them to reimburse their debts.

237. The representative of Nigeria said his delegation continued to subscribe to the views expressed by developing contracting parties in document L/5818. The new round must restore symmetry in trading relations between developed and developing countries, and achieve genuine trade liberalization within the framework of the multilateral trading system based on the General Agreement. A starting point in attaining these essential objectives would be for major contracting parties to reaffirm, in advance of the actual negotiations, commitments already undertaken. The agenda for actual negotiations should focus on issues and areas on which the contracting parties shared the widest consensus. Priority should be given to traditional themes of the General Agreement. Discussions should be geared towards achieving accelerated progress on such long-outstanding issues as tropical products, textiles and agriculture as well as dismantling trade-distorting measures in violation of the General Agreement. In addition, contracting parties must make a political commitment to effectively end the continuing violation of the GATT system. An effective monitoring and surveillance mechanism should also result from the negotiations. In order to ensure maximum participation of all contracting parties, the negotiations should encompass a manageable number of subjects,
including, in addition to agriculture, manufactured and semi-processed goods and other resource products. The new round should also guarantee market access to the exports of developing contracting parties and ensure equitable prices for those products. The techniques and modalities for the negotiations should be designed to the fullest extent possible to permit quantification of the application of GATT provisions and special and more favourable treatment for developing countries. The new round should also attempt to bring into reality the provisions of Part IV of the General Agreement.

238. The representative of Uruguay agreed with the representative of Pakistan that the global objectives of a possible new round could not diverge from those of GATT. Thus the broadest objective of a future round would be to improve the standard of living and well-being of peoples by means of trade liberalization through progressive dismantling of obstacles to trade and improvement of the multilateral trading system. Compliance with previous GATT undertakings, specifically standstill and rollback commitments, constituted prerequisites for, rather than objectives of, any negotiation. While his delegation saw standstill as a non-negotiable precondition for a new round, "rollback" needed to be defined concretely, with very specific deadlines on specific measures. This would be the subject of consultation prior to the negotiations and would be strictly supervised throughout the negotiation. A second general objective was the strengthening of, and compliance with, the principles and rules of the General Agreement. This was necessary to restore credibility to the system and to ensure that newly negotiated concessions would be respected. A third important objective was to improve the situation of developing countries. This would entail substantially improved access to world markets for their exports and a very significant increase in these exports so that they might successfully manage their foreign debt, while maintaining growth rates consistent with stability and their development and internal security needs. Finally, keeping in mind the overall objectives, specific objectives would have to be developed for a number of items, including, for example, agriculture, tropical products and subsidies.

239. The representative of Canada said his delegation had set out its initial views on objectives for the new round last July, during the Senior Officials' Group and throughout the work of the Preparatory Committee. He agreed that there was a considerable degree of convergence beginning to emerge on the objectives for the negotiations. In order to set the overall objectives in a broad context and make them understandable and relevant to those with an interest and stake in the trading system, his delegation suggested that the overall objectives be grouped around the following six major headings: economic growth and structural adjustment; trade expansion and liberalization; stability of the trading and investment environment; strengthening and updating the multilateral trading system; enhancing the trading prospects for all participants; and improving the balance of rights and obligations under GATT including, for instance, in agriculture.
240. The representative of Sweden on behalf of the Nordic countries said the envisaged new round was a basic element in efforts to maintain and reinforce the multilateral trading system. It would strengthen the credibility of the multilateral trading system, and thus would help governments to resist protectionist pressures. A general and overriding objective for the new round should be to ensure that international trade could play its proper rôle as an engine of economic growth, and to promote structural adjustment. The more specific aims of the negotiations should be to: promote further trade liberalization, taking into consideration the legitimate interests of all countries; strengthen and further develop the rules and provisions of the multilateral trading system; and adapt the GATT system to emerging and new trade issues.

241. The representative of Nicaragua said that his country's position concerning the objectives of a new round had already been set out. He also supported document L/5818. One of the main objectives of the new round would be to make world trade more dynamic by strengthening the multilateral trade system, liberalizing access to markets and improving and increasing the participation of developing countries in world trade. A strengthening of GATT machinery should precede the negotiations and should be accomplished by bringing about compliance with the undertakings relative to standstill and rollback contained in paragraphs 7(i) and 7(ii) of the 1982 Ministerial Declaration. He agreed with Uruguay that these issues were not negotiable but were technical conditions for the new round.

242. The representative of Australia said that the overall objective of the negotiations should be trade liberalization for all participants. However, different types of problems impeding liberalization would require different approaches: for example, a bilateral offer/request approach would be appropriate for negotiations on tariffs while a multilateral approach would be appropriate for negotiating multilateral solutions to major obstacles restricting and distorting trade. Measures to be negotiated would include: subsidies; other non-tariff measures; the "special" rules for sectors like agriculture, textiles and tropical products (including waivers and derogations); the abuse or avoidance of safeguard rules; and dispute settlement mechanisms which could be frustrated by the disputants. Contracting parties should commit themselves to a fixed time-frame within which these obstacles would be eliminated. He cautioned that while some contracting parties had cited "the expansion of trade" as an objective of the new round, this objective could be achieved by measures which did not liberalize trade. His delegation hoped and expected however that trade liberalization would inevitably lead to an expansion of world trade.

243. The representative of Austria said that the main objective of the new round was to implement the basic objectives established in the preamble of the GATT, which still remained relevant. The new round must therefore revitalize GATT and maintain and strengthen the open multilateral trading system. Further, the new round must examine: whether the present GATT rules were capable of responding to the changes in the international trading environment which had transpired since GATT was established; to what extent certain existing rules might require adaptation; or whether new rules were necessary.
244. The representative of New Zealand distinguished between two categories of objectives for the negotiations, i.e. general objectives, or goals which would apply across the board and form the basis of the negotiations; and specific objectives which would be consistent with and develop the overall objectives with somewhat greater precision. In the context of the present discussion, objectives concerned the overarching principles that might guide the negotiation. In developing the views that his delegation had put forward in document L/5831, he identified the following eight basic categories around which specific negotiating objectives could be grouped: increasing market access; reducing trade distortions; strengthening the security and stability of expectations; reasserting the principle of non-discrimination; eliminating areas of inequitable treatment of sectors; promoting structural adjustment; meeting growth and development needs; and enabling the GATT to respond to new developments in international transactions.

245. The representative of India agreed with previous speakers that the objectives of the General Agreement itself, as well as those contained in the 1982 Ministerial Declaration, were adequate to cover the possible objectives for a new round. He questioned whether the preparatory process would generate the necessary political will to halt and reverse the trend to protectionism and the tendency to seek solutions outside GATT rules, and to restore and strengthen the GATT rules and the credibility of the system. His delegation was more interested in concrete and meaningful action such as, for example, ensuring predictable, stable and improved market access for the exports of developing countries. Document L/5744 had said that, for developing countries and for smaller trading nations, a system based on multilaterally agreed rules provided the best insurance against arbitrary and unilateral action. There was therefore a need to ensure commitment to the multilateral trading system and the avoidance of such arbitrary and unilateral solutions. He re- emphasized the importance of the confidence-building measures enumerated in document L/5818, namely credible commitments on standstill, rollback and safeguards and action in areas of particular interest to developing countries.

246. The Chairman noted the numerous references to the convergence of views concerning the objectives of a new round and said that the secretariat would attempt to bring these points together in a note. The end of the discussion on the objectives of the new round also constituted the end of the first phase of the Committee's proceedings.

ADDITIONAL SUBJECTS

247. The Chairman invited delegations to raise any additional matters which they wished the Preparatory Committee to consider.

248. The representative of the United States said that his authorities wanted the Preparatory Committee to address as an additional item the subject of worker rights. He said that questions relating to international labour standards or worker rights were relevant to many of the issues the Committee had so far discussed, such as safeguards and structural adjustment. There had been growing concern in the United States that competitive advantage in trade
sometimes derived from repressing the rights of workers. Examples of this which had been cited were the failure of some countries to afford to their labour forces internationally recognized worker rights, such as freedom of association, and the right to organize and bargain collectively. The United States congress had added worker rights criteria to legislation covering the Carribean Basin Initiative, the Generalized System of Preferences and the Overseas Private Investment Corporation. While not being wedded to any particular approach, the United States believed that worker rights should be considered in the new round in some way. This could be done, for example, by incorporating worker rights into the discussion of other issues such as safeguards, or by setting up a working party to examine the relationship between labour standards, GATT Articles and Codes, and international trade. GATT rules presently allowed trade to take place under any labour conditions no matter how repressive they were. Countries at every level of development should be able to provide their workers with certain rights. Trade based on the denial of worker rights did not benefit workers in either exporting or importing countries. The United States did not intend to impose its wage standards on the rest of the world, nor to deny the legitimate comparative advantage of developing countries. Rather, the United States sought to ensure that trade expansion was not an end in itself, and that it benefited all workers in all countries and contributed to the basic objectives of the GATT.

249. The representative of India recalled that in the course of the discussions on natural resource products his delegation had reserved the right to raise the subject of commodity prices and price stabilization. He noted that this question had been addressed under Part IV of the General Agreement but little had been done to fulfil the commitments undertaken in Part IV. The question of commodity price stabilization had assumed particular significance in recent times and it was necessary to examine how the GATT could constructively address this problem. One way of doing this would be to focus on the problem of commodity price stabilization in the context of the commitment contained in Part IV. In this manner, the subject could be treated separately. The relevant areas very much within the competence and experience of GATT came to mind in this context. These were subsidies and tariff escalation. Subsidies had affected the prices of commodities adversely and action in this matter could ensure more stable and remunerative prices for producers. The problem of tariff escalation had traditionally been examined simply as a tariff question or else in a sectoral context. From the perspective of Part IV commitments, however, tariff escalation was also relevant to commodity price stabilization and to the need to ensure that export earnings from commodities in their processed and semi-processed forms were remunerative to producers, particularly from developing countries. In this light of these considerations, his delegation wished to include this subject in the discussions of the Preparatory Committee and in the recommendations to Ministers.

250. The representative of the European Communities said that time was needed for consultations before fully responding to India's proposal. He noted, however, that this problem had been raised at the 1982 Ministerial meeting by the Côte d'Ivoire and subsequently discussed in the Committee on Trade and Development. In that context, the Communities had referred to the work that was being done in UNCTAD on the question of commodity price stabilization. He
said that even if he did not agree fully with the manner in which the problem was formulated, he acknowledged that there was a problem which warranted discussion. It was important, however, to ensure that these matters were not addressed in one international institution in a manner which undermined the efforts of another.

251. The representative of Uruguay said that an important part of the solution to the problem of commodity prices was to be found in the elimination of protectionist measures, which were artificially shrinking the markets for these products. While agreeing with the European Communities that the competence of UNCTAD should not be infringed, this problem should be examined in greater detail. His delegation would, in the meantime, keep an open mind on how the matter should be addressed.

252. The representative of New Zealand said that it was not only developing countries that were suffering from problems in the commodities area, and from problems of subsidies and tariff escalation. These problems certainly needed to be tackled in the new round, but they could not be solved purely in terms of Part IV. It was necessary to reflect on where commodity problems should be tackled in the new round, since they cropped up in many areas, including agriculture, tropical products, and natural resource products.

253. The representative of Chile said that India's proposal deserved further discussion and analysis. Chile had always maintained that all issues involving trade could and should be discussed in the GATT.

254. The representative of Zaire said that there was no reason why GATT should not examine the trade aspects of commodity problems, and it was clear that the question of price stabilization was linked to the conditions of trade. Moreover, the drop in the real price of commodities had brought about balance-of-payments problems and impaired the development plans of developing countries. Since it was the same governments talking to each other in different international institutions, there was no need to impair the possibility of effective action on this very important matter by being excessively concerned about institutional competence.

255. The representative of Australia said that the list of subjects for consideration by the Preparatory Committee was a comprehensive one incorporating all requests from contracting parties. Therefore the discussion of India's proposal at this juncture concerned its substance and not its addition to the list. The proposal merited careful consideration and clearly related to a number of areas before the Committee. He said he might have some reservations about the need for stabilization arrangements, but it was clear that some key commodity prices were not higher because trade was not allowed to take place in the way which it should.

256. The representative of Gabon said that price stabilization for commodities was a very important issue, in particular for developing countries. For this reason, the Indian proposal merited careful consideration.
257. The representative of Brazil said that the problem raised by India was a very important one for developing contracting parties, as well as for a number of other contracting parties. He said that his delegation would like to have another discussion on this issue after further reflection.

258. The representative of Côte d'Ivoire said that a number of problems which were not of GATT competence had been raised. As far as the commodity price stabilization problem was concerned, the GATT could stimulate and encourage other organizations which were dealing with the issue.

259. The representative of Ghana supported the retention of this item on the Committee's agenda. Further discussions would clarify the issues involved and make it possible to determine whether GATT's further consideration of the matter would lead to a duplication of work being undertaken elsewhere.

260. The representative of the European Communities said that the Communities recognized this problem and had more or less permanent discussions and consultations on commodity price issues with the Lomé Convention countries. He recalled that when the Tokyo Round was launched in 1973 one of the objectives stated was to bring additional benefits to the trade of developing countries, including, where appropriate, through measures designed to obtain stable, equitable and remunerative prices for primary products. In his earlier intervention, he had stated that he needed to consult his own authorities before taking a position on this matter, adding that although he was favourably disposed towards the proposal in the first instance, it was necessary to proceed cautiously in the matter of the competence of different international institutions.

261. The representative of Malaysia expressed appreciation for the introduction by India of this very important subject into the Committee's discussions. In the present situation of extremely depressed commodity prices, and in view of the important rôle that commodities played in the Malaysian economy, he wished this subject to be examined further by the Committee.

262. The representative of India said it was unnecessary to dwell upon the urgency of the commodity problem. It was a matter of extreme importance for a large number of contracting parties. Article XXXVI of the General Agreement provided a clear basis for considering the matter in the GATT along the lines previously suggested. He said that concern for initiatives and work in UNCTAD was always uppermost in his mind and that he valued the contribution that UNCTAD had made over the years. It was certainly not his intention to preempt or reduce the significance of initiatives taken in UNCTAD, but there were certain issues which were within the competence of GATT, particularly in the areas of subsidies and tariff escalation. The focus of attention should be in terms of paragraphs 4 and 5 of Article XXXVI. He suggested that the Committee on Trade and Development might be the appropriate forum in which to discuss this matter, and such discussions and any conclusions could then be fed back into the GATT.
263. The representative of Nigeria said that this was a very important subject that deserved the attention of the Committee. He fully supported the proposal made by India. The recent developments in the oil market had clearly illustrated the importance of commodity prices to a country like Nigeria.

264. The representative of Switzerland said that there seemed to be a general feeling that the forthcoming negotiations should deal with all problems that were relevant to trade. This was a good sign, since each party had the right to seek the inclusion of any subject relevant to trade in the negotiations. By extension, it was inconsistent for contracting parties to support the inclusion of only those topics which interested them and to refuse to deal with others because they were not related to their own immediate interests.

265. The Chairman said that before the next meeting the secretariat would circulate papers on safeguards, agriculture, tropical products, treatment of developing countries, quantitative restrictions and other non-tariff measures, and structural adjustment in order to facilitate the Committee's further discussion of these matters. He also encouraged delegations to submit contributions on any subjects. In addition, the secretariat would try its hand at producing ideas for the outline of a draft Ministerial Declaration. At the suggestion of some delegations, Committee members wishing to make an assessment or overview of the Committee's work so far would be invited to do so at the beginning of the next meeting. In regard to the question of the venue of the Ministerial Meeting, he said that informal consultations were still taking place.