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**CANADA AND THE URUGUAY ROUND
OF
MULTILATERAL TRADE NEGOTIATIONS**

BACKGROUND MATERIAL

MULTILATERAL TRADE NEGOTIATIONS

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ROYAL COMMISSION ON THE ECONOMIC UNION AND
DEVELOPMENT PROSPECTS FOR CANADA
(THE MACDONALD COMMISSION)

CONCLUSIONS AND RECOMMENDATIONS

The global environment presents Canada with enormous challenges and opportunities. Rapid growth of imports from the developing countries, a changing trade-policy environment and domestic pressures on our trading partners for new protection imperil Canadian jobs. By contrast, growth and technical progress abroad offer us new export opportunities and chances to benefit from access to cheaper and higher-quality products than we can produce. As Commissioners noted at the beginning of this Part, the challenge is one of change, adaptation and adjustment; the opportunities may be unlimited. In light of these developments, however, the choices Canadians must make are difficult.

We Commissioners have been frequently reminded, in the course of our task, that Canada's domestic economy is largely defined by its relationship to the wider global economic system. Canada's last Royal Commission on our economic prospects captured this point:

Something of Canada's essence is defined by its external relations. Much of its economic structure can be explained only in terms of its external trade...
The ships loading lumber on Vancouver Island or aluminum ingots on the Saguenay are reminders of how deeply our material well-being is involved in the prosperity of other countries, even outside the boundaries of North America.

Canada's economic development, then, as well as our government's economic development policies, are significantly affected by conditions beyond our borders. As a relatively small, "open" economy, Canada is particularly vulnerable to outside influences on its trade and economic performance. In order to foster stability and predictability in some of these external forces, successive Canadian governments have sought to develop formal rules for conducting relationships with our trading partners. The pursuit of this objective has always involved an essential problem: How are we to reconcile conflicting priorities among national objectives and the requirements of a stable international economic system? To resolve inherent conflicts has required a continual process of negotiation and compromise at both the domestic and the international level. Governments have often had to adjust and put to positive use the constant tension between the forces of economic protection and trade liberalization.

For almost forty years, Canada has pursued a largely multilateral approach to its foreign economic policy; indeed we have been one of the strongest supporters of the multilateral system centred on the GATT and the International Monetary Fund. This approach was the most effective way to improve and secure access for our products and to instil order, stability and predictability into that process. Even on the import side, we have found that we must negotiate multilaterally to open our own market, in exchange for access to foreign markets. This action has proved a useful tool of industrial policy and has allowed for orderly adjustment of the economy through foreign competition.

To a great extent, Canadian trade policy has been, and will continue to be, developed as a trade-off between the business objective of securing improved access to foreign markets, the economic need to promote efficiency and competitiveness in the domestic economy, and the political need to maintain our sovereignty and freedom of action. The international trade and payments system largely determines the design and use of particular policy instruments. For Canadian producers and investors, there are several tests of this international system. Can our government successfully improve market access for those sectors where Canadian production is, or can be, competitive in world markets? Will it maintain current access available to Canadian producers? Will it protect producers from unfair or injurious foreign competition? Because private sector investment is necessary for growth and job creation, Canadian producers need to be confident that their access is secure, and that foreign governments will not move to frustrate the efforts to market Canadians goods abroad.

The multilateral system of rules is intended to facilitate decisions favouring adjustment and to penalize decisions favouring protection, but it needs political will to make it work. Between 1973 and 1979, the Tokyo Round of trade negotiations provided a framework for organizing political will. The negotiators sought to reduce trade barriers and to move the ongoing management of trade relations in the direction of freer trade. For the past six years, however, there has been no such framework.

A new round of GATT negotiations may be initiated, to concentrate on elaborating world trade law and removing remaining barriers to world trade, and to provide a basis for organizing political will to resist protection. The results of a future GATT negotiation are not certain, however, nor are they just around the corner. A new round of negotiations requires complex coordination and revolves largely around the interests of three or four players: the United States the European Community, the less-developed countries (LDCs) as a group, and perhaps, Japan. Canada can make an important contribution, but we cannot control either the agenda or the outcome. Even to influence the outcome

requires adroit negotiators. The Community is reluctant to come to the table. The United States is eager, but as yet has no negotiating authority. The LDCs are willing, but insist on some problematic pre-conditions and do not agree on the agenda. Japan is willing, but largely because a new round would facilitate management of its trade relations with the United States and the European Community.

Canada's economic growth is critically dependent on secure access to foreign markets. Our most important market is the United States, which now takes up to three-quarters of our exports. More, better and more secure access to the U.S. market represents a basic requirement, while denial of that access is an ever-present threat. We are extremely vulnerable to any strengthening of U.S. protectionism. Early bilateral negotiations with the United States could provide opportunities for the two countries to negotiate reduction or elimination of tariff and other barriers to cross-border trade, at a pace and on a scale not likely to be achieved multilaterally in a further GATT round. Such negotiations could also be used to win agreement on rules designed to deal with special or unique problems affecting cross-border trade; they would provide a more secure shield against a U.S. policy of protection.

The pursuit of Canada-U.S. free trade is not at odds with efforts to strengthen and improve the existing multilateral framework. Rather, Commissioners see it as a complementary approach, involving concentration of our efforts and scarce resources on our most important market. We see multilateral negotiations proceeding in parallel. In our view, such a two-tiered approach is the best way to ensure that Canadian industry will win sufficient access to foreign markets to invest and grow with confidence. At the same time, it will allow us to open our market in an orderly fashion and thus ensure that trade policy does its part in encouraging the development of a more competitive and more productive economy.

Commissioners see negotiations with the United States as neither panacea nor disaster, but as a prudent course which will help to make us richer and, by making us richer, strengthen the fabric of our country and increase our self-confidence. While this course may initially make Canada more dependent on the U.S. market, it will offer our nation a more secure relationship and thus make us less vulnerable. Ultimately, it should strengthen and diversify our economy, achieving for us goals that we have long sought, but which have eluded us, largely because our domestic manufacturing sector has been too weak to attain them.

Negotiations leading to freer trade, whether pursued bilaterally or multilaterally, will be of little use if they are not supported by the right domestic

policies. Our support for freer trade, therefore, depends in no small way on the recommendations Commissioners develop later in this Report. These recommendations should contribute to strengthening the competitiveness and productivity of Canada's domestic economy. Trade policy alone will not be enough.

.....

We believe that the approaches we recommend below will help to strengthen our country. They will allow Canadians to pursue the gradual transition from a staple economy to a fully-industrialized modern economy, living in harmony with, but distinct from, our friends and allies.

The Commission presents what might stand as the strongest argument for free trade - and the subtlest. It does not just argue that the benefits outweigh the costs. It goes further, and argues that what have always been counted as dangers will actually prove to be advantages.

One claim against free trade, for example, is that it would tie the Canadian economy even more tightly as client and supplier to the dominant U.S. market. On the contrary, says Macdonald. Free trade would improve productivity, and better productivity would expand Canada's ability to trade with the rest of the world.

Ottawa Citizen, September 7, 1985

RECOMMENDATIONS

Having carefully considered the analyses presented above, Commissioners make the following general recommendations.

- Canadians have benefited from and contributed to the multilateral system of trade and payments developed primarily in the last 40 years, and we should continue to support that system as the main stay of our foreign economic policy. Canada is sufficiently strong and independent, however, to pursue bilateral initiatives, including better economic relations with the United States, within the framework of multilateral relations.

- Canadian import policy in general should be based on a recognition of its costs to consumers and the costs of delaying adjustment. Canada should minimize any new protection, reduce protection gradually as part of bilateral or multilateral negotiations, and accelerate adjustment processes.
- Export promotion should be pursued aggressively and with greater reliance on private sector mechanisms, but the degree of subsidization this may involve should be within internationally accepted rules and practices.

INTERNATIONAL TRADE

International trade is the life-blood of the Canadian economy. It is a major contributor to Canadian growth, jobs and real incomes. In view of the changing nature and patterns of international trade, Canadians are now confronted with several options in formulating trade policy. This Commission has identified three major approaches, each of which has several variations. Canada might:

- Maintain its present policy. It might keep to the level and type of protection currently in place, but make selective efforts both to improve access abroad and to protect Canadian industry on a limited case-by-case basis.
- Participate actively in a new round of multilateral trade negotiations under the auspices of the GATT, in order to improve and secure our country's access to foreign markets, to open up our own market, and to strengthen the legal framework for international trade.
- In addition to taking the initiative for the elimination of trade barriers at the multilateral level, open negotiations with the Government of the United States to reach an agreement on a substantial reduction of barriers, tariff and non-tariff, between Canada and the United States.

This Commission rejects any generalized move toward greater protection or toward import substitution as a general policy to insulate Canadian producers from the international economy. This approach, while perhaps the most comfortable in the short term, would lead, in the longer term, to major inefficiencies in the national economy, a loss of jobs and lower incomes, and would contribute to an erosion of the multilateral system. In our view, a policy of maintaining the status quo would carry the serious risk of taking Canada backwards to a more protectionist position.

Commissioners recommend that multilateral trade negotiations under the GATT remain a central theme of Canadian trade policy; thus Canada should move

quickly to define its objectives for the forthcoming round. The GATT has served Canada well, and our nation's participation in further strengthening this international system of co-operation is a general insurance policy for the future. Broadly stated, Canada's objectives should include.

- A more ordered world trading environment: that is, sufficiently stable, predictable and transparent international trade relations to instill a degree of business confidence that will lead to job-creating investment
- More secure access to our major markets, particularly the U.S. market
- Improved opportunity for the further processing of our natural resources before export, by reducing foreign barriers to manufactured goods
- Improved access and trading conditions for agricultural and fishery products
- An improved framework of international rules which will encourage orderly adjustment in the Canadian economy.

Commissioners recommend that the Government of Canada, at the same time it undertakes an initiative at the multilateral level to eliminate trade barriers, open negotiations with the Government of the United States to reach agreement on a substantial reduction of barriers, tariff and non-tariff, between Canada and the United States. Such an agreement would have to stand within the terms of Article XXIV of the GATT, and it would provide for a reduction of barriers between the two countries, but would leave each country with freedom of action to maintain separate trading policies with other economic partners. We do not recommend a more intensive arrangement such as a common market or an economic union, where even closer integration would take place between these two economies.

- Commissioners recommend that Canada negotiate a legal arrangement with the United States which incorporates strong safeguards to limit spill-over from the arrangement and thus to protect substantive policies, such as those pertaining to culture and defence, which are functionally unrelated to trade in goods and services. Indeed, a policy that creates no linkage should be explicitly confirmed in order to avoid surprises if the Government of Canada, as we recommend, were to pursue a more aggressive policy of support for indigenous cultural expression as a concomitant of a bilateral trade initiative.

- Commissioners recommend that this legal arrangement attempt to regulate three general types of barriers that currently restrict trade between the two countries. We recommend that
 - Tariffs be phased down to zero over a period of perhaps ten years. Effective rules of origin must be developed.
 - An approach should be developed to use measures of contingent protection as follows:
 - For measures governing "fair" trade (such as safeguard action) and "unfair" trading practices (such as dumping and countervailing-duty proceedings), enforcement would be shifted from national administrative tribunals to a new Canada-U.S. intergovernmental body established under the arrangement; this body would be known as the "Canada-U.S. Trade Commission" (CUSTC).
 - Detailed codes of national conduct would be required to govern resort to other non-tariff measures such as discriminatory federal and state government/procurement practices, product standards and federal customs, classification rules and administrative procedures. Again, these matters should be subject to review of the CUSTC.

- The Commission holds that a free-trade arrangement should incorporate explicit provisions which reflect the proportionately greater costs of adjustment that Canadians will face. The Canadian economy needs more time for adjustment than does the U.S. economy. We therefore recommend a two-track approach to phasing in the tariff cuts to allow U.S. rates of duty generally to be reduced either at a faster rate or earlier than Canadian tariffs. The Canadian government should quickly develop strategies for adjustment which are compatible with the framework of adjustment assistance proposed in Part V of this Report, that is, the new Transitional Adjustment Assistance Program. The emphasis of government programs should be on assisting workers to adjust to new employment opportunities. In addition, a reoriented industrial policy, as set out in part III, will encourage the flexibility and growth orientation required by a freer-trade environment.

- This Commission recommends that the Government of Canada urge the Government of the United States to implement the free-trade arrangement by amending U.S. federal and, if necessary, state legislation to conform to the arrangement, and that they do so under a "fast track" procedure which would require Congress to pass implementing legislation within 90 days of the President's formal declaration that he intends to sign an international agreement binding the United States. We also recommend, however, that a formal treaty eventually be struck once both governments have had sufficient experience with the arrangement.

- This Commission recommends that negotiations in Canada proceed on the basis of a broadly based, federal-provincial consensus, and that provinces be prepared to give legislative assent to the provisions of the arrangement, in keeping with the high degree of consultation that will be required to achieve federal-provincial consensus. We also recommend that in the longer term, Canadian governments establish a federal-provincial constitutional procedure: sections of the treaty that impose obligations on provinces would come into effect across Canada when two-thirds of provincial legislatures, representing at least half of Canada's population, passed resolutions in support of the treaty.

- This Commission recommends the formation of a three-tiered Canada-U.S. intergovernmental institution to provide basic executive and administrative decisions; technical staff services; adjudication of complaints and appeals under the agreement. We further recommend the following mechanisms:
 - A committee of national officials at the ministerial level to be responsible for the enforcement of the agreement's obligations
 - A supporting body of officials known as the "Canada-U.S. Trade Commission" (CUSTC) to manage non-tariff barriers, but subject to appellate review by the Ministerial Committee
 - A standing arbitral panel with binding powers as a board of last resort, to resolve disputes arising from conflicting interpretations of the agreement. Such a panel would consist of two Canadians, two Americans and one neutral member to be chosen by the members of the panel.

- International trade and industrial policy are inextricably linked. In Canada, there is the added dimension of cultural and social implications. To undertake successful negotiations on freer trade with the United States will require an extraordinary management effort by the Government of Canada. Commissioners, while making no specific recommendation on how best to prepare the way for the negotiations, wish to express concern that the current federal departmental structure does not appear to provide the degree of integration required to carry out a major negotiation of this kind. It may be that an Office of the Special Trade Negotiator should be established, and that the incumbent should report directly to the Prime Minister.

REPORT ON PUBLIC CONSULTATIONS BY THE MINISTER FOR INTERNATIONAL TRADE*

The Discussion Paper, *How to Secure and Enhance Canadian Access to Markets*, served as a catalyst to a consultative process that took the Minister for International Trade to fifteen cities across Canada, including Vancouver, Calgary, Edmonton, Saskatoon, Winnipeg, London, Kitchener, Toronto, Sudbury, Montreal, Quebec City, Moncton, Halifax, Charlottetown, and St. John's. Undertaken during the period between March 18 and May 3, 1985 the consultations normally involved a confidential meeting with private sector representatives, an open public meeting and a speech to a business group. The Minister for International Trade saw all his provincial counterparts in their respective provinces save his Saskatchewan colleague. Private meetings were held with regional labour leaders in Vancouver, Toronto and Montreal. Whereas the consultations addressed both market access and export financing questions, this report addresses market access only.

During the month of May, the Minister for International Trade met privately with sixteen national trade associations including the Canadian Chamber of Commerce, the Canadian Pulp and Paper Association, the Fisheries Council of Canada, the Canadian Federation of Agriculture, the Grocery Products Manufacturers of Canada, five cultural associations (Canadian Independent Record Production Association, Association du disque et de l'industrie du spectacle québécois, Canadian Film and TV Association, Association of Canadian Publishers, and Canadian Periodical Publishers), the Canadian Petrochemical Producers Association, the Canadian Manufacturers Association, the Canadian Export Association, the Canadian Association of Consumers, the Canadian Labour Congress, and the Business Council on National Issues. The Canadian Federation of Independent Business was undertaking a membership survey on market access questions and did not wish to participate in consultations until this was complete, i.e., in early summer.

Numerous letters were addressed to the Minister for International Trade on the Discussion Paper. Less than 40% contained sufficient detail or commentary to be considered briefs. Approximately half the letters came from Ontario; Quebec and Alberta each accounted for 10%; and British Columbia 7%. About 20% of the submissions came from national associations.

Throughout the consultative process all regions encouraged active Canadian participation in the emerging Multilateral Trade Negotiations (MTN). With

* This report was prepared following Minister Kelleher's initial, extensive, Canada-wide consultations concluded at the end of May, 1985.

specific reference to Canada-U.S. trade options, the West and the Maritimes strongly supported broad bilateral free trade and urged the Government to move rapidly to negotiations. The West expressed concern that the "window of opportunity" would close unless Canada took an early initiative. It stressed the importance of trade opportunities in the rapidly growing Pacific Rim markets and emphasized that Canadian trade restrictions affecting these countries would harm our export potential.

In the Atlantic provinces, many expressed strong concern regarding U.S. contingency protection measures as they affect lumber, agriculture and fisheries, as well as "Buy America" procurement provisions. They also addressed problems of single-industry communities and regions and higher labour costs confronted by Canadian manufacturers.

In Quebec, the consultations in Montreal echoed the broad support heard in the Western and Atlantic provinces for early negotiation of a comprehensive trade agreement, including from representatives of the clothing and textile sectors. In contrast, in Quebec City such views were muted by concerns of small businessmen over the adjustment impact of increased import competition. The Quebec Chamber of Commerce submitted a detailed written brief favoring a comprehensive trade agreement with the United States.

In Ontario, the response was more cautious. Whereas the majority view strongly favoured broad trade liberalization and better discipline on non-tariff measures, it was also emphasized that action on inter-provincial trade barriers must be integral to this process. Serious doubts were expressed by some on the ability of Canadian industry to compete with the United States, given higher costs notably of labour, smaller plants and a heavy degree of foreign ownership, leading to the hypothesis that some firms might disinvest in Canada under a liberalized trade regime.

Consultations with business highlighted the importance of seeking improved access to export markets for Canadian primary agriculture, fisheries, resource- and energy-based products as well as for a broad range of machinery, equipment and other manufacturing products. The significance of enhancing the security and predictability of export access conditions, particularly by reducing the vulnerability to the U.S. import contingency protection system, was a major concern across the country. Particular import sensitivities appeared in the areas of agricultural and processed food products, paper products, specialty chemicals and plastics, shipbuilding and offshore drilling equipment, auto parts, furniture, textiles and clothing, footwear and cultural products. Import penetration concerns were evident in meetings with the Canadian Pulp and Paper Association as well as with the various cultural associations.

The focus of the ministerial consultations was on the U.S. market. However, some sectors, in particular agricultural, fisheries, resource products and petrochemicals also gave considerable priority to the need actively to seek offshore markets especially in the Pacific Rim and Europe.

Senior labour representatives in Vancouver, Toronto and Montreal agreed with the need for Canada to improve its competitiveness but stressed that two-thirds of Canadian market demand was domestic rather than export-oriented. The Canadian Labour Congress was particularly concerned over the employment impact of increased competition, either from newly industrialized countries or the United States, and the effect bilateral and multilateral trade liberalization would have on unemployment, structural readjustment of the Canadian economy, medicare, bilingualism, social policies, health and safety regulations, and collective bargaining practices generally. Labour tended to argue in favour of investment and job protection provisions so as to ensure "good, secure, well-paying jobs at home and not just entrepreneurial access". It also argued that the flow of technology must be intrinsic to any negotiation to ensure that Canadian industrial capacity did not become obsolete. Attention was also drawn to the importance of trade in services as labour perceived future job creation to lie predominantly in the services area.

PROVINCIAL GOVERNMENT ATTITUDES

Provincial governments strongly urged the federal government to take early initiatives to secure and improve Canadian exports to the U.S. and to work toward a new MTN at an early date to further their global market interests. The Regina First Ministers' Conference supported multilateral negotiations and movement towards a process of negotiation with the U.S. but with prudence. On May 28, Federal-Provincial Trade Ministers agreed that there is "an urgent need for a comprehensive agreement to secure and expand our access to the U.S. market". The Ministers also recognized that any negotiations should be based on mutual advantage. Provinces generally felt that sectoral studies would be crucial, that impact studies should be accelerated, that studies should be shared and that provinces should participate actively in the preparatory and negotiating phases. They also argued in favour of transition periods for sensitive sectors and a clear commitment to adjustment measures when necessary and where appropriate.

Whereas Quebec, as well as the Western and Atlantic provincial governments desired to see the federal government proceed with negotiations on a comprehensive trade agreement with the United States as soon as possible, the Ontario government was more cautious in its approach. Ontario's concerns focussed on import surges in high technology, possible disinvestment in

Canadian industry, the employment impact and U.S. pressures for harmonization in other areas of economic and social policy. It considered that non-trade policies would need to be addressed, including interprovincial barriers, R&D tax incentives and the promotion of global product mandating. Manitoba's support for exploration of a comprehensive agreement was "conditional upon an extensive period of adjustment being provided for industry sectors and workers adversely affected".

The four Western Premiers at their mid-May meeting in Grande Prairie, joined in supporting a proposal to examine the benefits and disadvantages of a comprehensive Canada-U.S. trade liberalization agreement, provided there was full provincial participation in all stages of negotiations and conditional upon adequate adjustment measures for adversely affected workers and industrial sectors. They also reaffirmed their interest in a new MTN, and outlined their objectives emphasizing both the importance of the U.S. and the Asia-Pacific area. Premier Lougheed of Alberta had visited Washington D.C. in early May. He provided a first-hand report to the Prime Minister in a letter of May 14 in which he urged the government "to initiate a new and comprehensive bilateral free-trade agreement with the United States" and signal its intention by mid-September, or "the opportunity will probably be lost for many years".

The Minister for International Trade's suggestions for provincial involvement in the preparatory phase were accepted, namely the establishment of single focal points in Ottawa and the provinces to ensure ongoing two-way communication, meetings of federal and provincial officials in June, July and September, 1985 and meetings with individual provinces on request. The question of provincial involvement in negotiations themselves was set aside until such time as decisions were taken to actually proceed to negotiations.

Canadian policies are almost never directed against the United States or its interests. They are directed toward strengthening a country of middle rank, not yet fully industrialized and competing with difficulty with both much larger and more integrated economies and much smaller and less costly ones.

Gordon Robertson, "The United States and Problems of Canadian Federalism," in Canada and the United States: Enduring Friendship, Persistent Stress, Edited by Charles F. Doran & John H. Sigler.

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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MULTILATERAL TRADE NEGOTIATIONS,
SOME INITIAL CANADIAN VIEWS

The following communication, dated 8 July 1985, has been received from the delegation of Canada, with the request that it be circulated to all contracting parties.

1. Canada regards the new Multilateral Trade Negotiations (MTN) as both a challenge and an opportunity to find forward-looking solutions to the current and emerging problems facing the international trading community. Canada is approaching the MTN with a sense of urgency and importance to fight protectionist threats, to enhance the rule of law in international trade and to restore the momentum towards further trade liberalization.

2. With an economy highly dependent on international trade, Canada attaches a high priority to a further opening of national markets to international competition and to dealing with market access and trade-related issues which have adverse impact on the prospects for new productive investments in internationally competitive industries. To the extent Canada is able to expand access to international markets it will be prepared to make its contribution to enhancing a more efficient international allocation of resources and to facilitate the necessary structural adjustments.

3. The MTN will provide an opportunity to enhance Canada's economic co-operation and trading relationships with developing countries within the multilateral framework. Canada is convinced that the new MTN can significantly advance the trade and economic development interests of developing countries. The benefits which the more industrially advanced developing countries derive from open world markets are undeniable as are the risks that these channels may be gradually closed.

4. The negotiations should cover products in all sectors, the full array of non-tariff and tariff measures as well as trade in service issues. A major focus should be on the strengthening of the institutional framework of the multilateral trading system and on the ways and means of securing the value of negotiated market access conditions. At this stage, Canada considers that no sector nor issue should be excluded from the scope of the negotiations.

5. Canada wants to underline the importance it attaches to the Work Programme undertaken by the Contracting Parties to reflect the priorities

established by the Ministerial Declaration of 1982. In Canada's view, however, various elements of this Work Programme are unlikely to be brought to a satisfactory conclusion outside of the context of the new Round of negotiations. Bringing the Work Programme to a satisfactory conclusion should thus be a high priority of the new negotiations.

6. The following paragraphs give a general indication of Canada's initial approach and attitudes on the main questions which, in its view, should be included on the MTN agenda and set out Canada's preliminary overall objectives and priorities in the negotiations. These objectives and priorities primarily reflect a desire to: halt protectionism and seek further expansion of access to markets; develop new rules of conduct for agricultural trade; seek tighter disciplines on the use of subsidies and on contingency protection measures; develop a framework for trade in services; and strengthen the effectiveness of the rule of law and non-discrimination governing international trade.

A. Halting Protectionism and Improving Market Access

7. The maintenance of open trading channels and the further improvements of access to export markets are vital to Canada. They are also essential elements for the intensification and strengthening of trading relationships within the multilateral trading system. Canada urges further improvement in market access conditions on as broad a basis as possible in terms of both products and markets, including in respect of customs duties. This should include the prospect of total tariff elimination in particular product areas.

8. This objective is central to restoring the confidence of the business communities in the determination and capacity of contracting parties to halt erosion of the open trading system, to reduce the risks of accelerating protectionism and to restore trade liberalization momentum. A broadly-based market opening effort would offer the prospect of significantly advancing the economic development and trade interests of both developing and developed countries.

9. Improved market access conditions in respect of agricultural and food products, fisheries, industrial resource (non-ferrous metals and forest products) and energy-based (petrochemicals) industries and related equipment and services, a range of advanced-technology and transportation equipment as well as trade in some services will be of particular Canadian interest. These sectors are still facing important barriers or trade-distorting measures in Canada's major markets, for example in the form of tariffs (often still relatively high or with escalation), quantitative restrictions, restrictive government procurement practices or subsidies of various sorts.

10. A major element of market opening measures should concern the extension of the existing GATT Agreement on Government Procurement to include entities which are the main purchasers of products not now subject

to international competition such as urban transit, telecommunications power-generating and transmission equipment, as well as services contracts. Canada would be interested in exploring the possibility of an early conclusion of the ongoing negotiations aimed at substantially enlarging the coverage of the Government Procurement Agreement.

11. Canada will be prepared to join with others in an examination of possible co-ordinated actions aimed at limiting special measures of protection which have been introduced in sectors facing particular international competitive difficulties.

B. Developing New Rules for Agricultural Trade

12. In the area of agriculture, Canada will seek to bring substantially all this large area of international trade more effectively under the discipline of contractual rights and obligations and to obtain an improved balance within the framework governing agricultural trade as between all major participants. Canada will be working for the development of new, fair, predictable and effective rules on export and domestic subsidies as well as on measures such as variable levies, quantitative restrictions and export restraints.

13. These new trading rules should apply equally to all major importers and exporters and relate to third country export markets as well as import markets. They should, of course, take account of production and trade characteristics in agriculture, including the desirability of limiting the overall costs of various support programs for national treasuries. The new rules should be accompanied by the acceptance of a degree of tariff bindings more comparable to what has been achieved in respect of industrial products.

C. Tighter Discipline on Contingency Protection Measures and Subsidies

14. The benefits of trade liberalization and of tariff bindings achieved in previous negotiations risk being seriously undermined by the uncertainties associated with the use of various contingency protection measures, concerning both fair and unfair trade. There is a need to enhance the predictability of access to major world markets for producers who have sought to adjust to the substantial reduction in their protection, brought about by previous negotiations, by introducing major changes to their production facilities so as to achieve the benefits of greater specialization and economies of scale. More secure and predictable access to markets is a crucial element in order to create a reasonable degree of confidence in the business community to justify major new investments oriented to international markets.

15. The new MTN should seek to develop an integrated international understanding to bring greater discipline to the use of all forms of safeguards actions, whether emergency import relief action under GATT Article XIX, or other measures such as voluntary export restraints and

orderly marketing arrangements. This should include the question of how safeguards measures could possibly relate to undertakings on structural adjustment by the protected industries.

16. There must also be a review of existing rules concerning subsidies and countervailing measures with an aim to increase the discipline on those subsidies which are harmful to the trade interests of contracting parties including subsidized export credits and subsidies affecting trade in agricultural products, as well as an attempt to broaden international agreement on the definition and measurement of subsidies and to improve the rules, procedures and conditions governing recourse to countervailing measures.

D. A Framework for Trade in Services

17. Given the increasing significance of services in international trade Canada attaches considerable importance to the development of a new trading framework to provide a mutually beneficial set of rules and principles to govern trade relations in services, - much as the GATT has done over the last decades in respect of trade in goods for the benefit of all contracting parties. This is an area where the international trading community has an opportunity to influence the elaboration of the basic rules of the road before trade in services either becomes a subject of confrontation in bilateral trade relations or the ground rules are in effect determined unilaterally by national legislation and practice.

18. The development of a new trading framework for services should, to the extent feasible and appropriate, explore the possible application of such basic principles as non-discrimination, national treatment and transparency in national regulations. The eventual status of a new instrument to govern trade in services should not be prejudged at this time.

19. Canada does not have any firm view, at this stage, as to whether the development of a new international framework for trade in services should eventually be of a comprehensive nature, whether its scope and coverage should be applicable to a selected number of sectors or whether it should be applied differently to particular sectors. Canada is flexible as to most appropriate and practical arrangements for eventually conducting negotiations in respect of trade in services. It can accept the notion that negotiations on trade in services be conducted in parallel with negotiations on trade in goods, provided they are conducive to achieving reasonable mutual balance of overall benefits in the global MTN context, they can be properly coordinated and the negotiation process can be appropriately serviced by the GATT secretariat.

E. Strengthening the Effectiveness of the Rule of Law and Non-discrimination

20. The cumulative impact of the proliferation of exceptions and deviations to the basic GATT rules over the years, and the stresses cre

by the strength and persistence of protectionist forces in major GATT countries are seriously undermining the credibility of the GATT itself. There are strong perceptions that the GATT is not equally respected by all its members and that it is becoming a constraint to, rather than a powerful instrument for, trade liberalization. There are also concerns that the inherent balance of rights and obligations under the GATT is being seriously altered and that it is running a serious risk of gradually becoming a less relevant instrument for dealing with new issues facing the international trading community and for managing trade relations.

21. This credibility challenge is of practical and fundamental importance for Canada because it affects the principal instrument available to Canada to preserve the achievement of past trade liberalization efforts and to manage Canada's trade relations with most other countries. It is also a collective challenge which should be met in the new MTN by seriously reviewing such fundamental questions as non-discrimination, national treatment, security of market access and dispute settlement. This should also include scope for greater Ministerial participation in and direction of GATT affairs.

F. Conduct and Management of the Negotiations

22. There are a number of considerations relating to the conduct and management of the negotiations which will need to be addressed, once the objectives of the various countries which have an interest in the negotiations are known. At this stage, it would seem appropriate to comment on a distinction which has often been made in discussions about the GATT Work Program between the so-called "traditional" issues and the "new" issues. It is not clear how useful this distinction is in practice, since the relevance of those issues for purposes of trade negotiations is how they impact on international trade flows. For instance, trade action in some of the so-called new areas such as patent infringement can have a direct prohibitive effect on the flow of goods thus placing such measures in the activity of "traditional" issues. Clearly a new round should seek to deal with all the key issues of interest to the trading countries which are expected to make a contribution to the success of the negotiations.

23. One important consideration concerns the relationship between trade and monetary questions, in particular the impact of exchange rate developments on trade flows. Canada supports the deployment of sustained and intensified efforts to address the problems of the international monetary system, but the improvement in the functioning of the monetary system should not be a pre-condition for the trade negotiations nor should this be pursued within the GATT.

24. The trade negotiations should be conducted on the basis of overall reciprocity of mutual advantage. An appropriate contribution to the resolution of trade problems should be made by all participants. This contribution should be commensurate with the benefits which participants obtain from open international markets, with their economic strengths and

with their interest in achieving a strengthened and more effective multilateral trading system. There should also be appropriate arrangements to allow countries having observer status in GATT to participate in the MTN if they are prepared to contribute to the achievement of the overall objectives of the negotiations.

25. Finally, Canada recognizes the importance to adhere effectively to existing commitments to ensure that contracting parties act in full conformity with GATT rules and principles. The capacity to resist protectionist pressures will clearly be a major factor in creating a favourable environment to enter into the new Round. At the same time, moving diligently to launch the multilateral trade negotiations remains the most effective way of improving the prospect for contracting parties successfully fighting back protectionism.

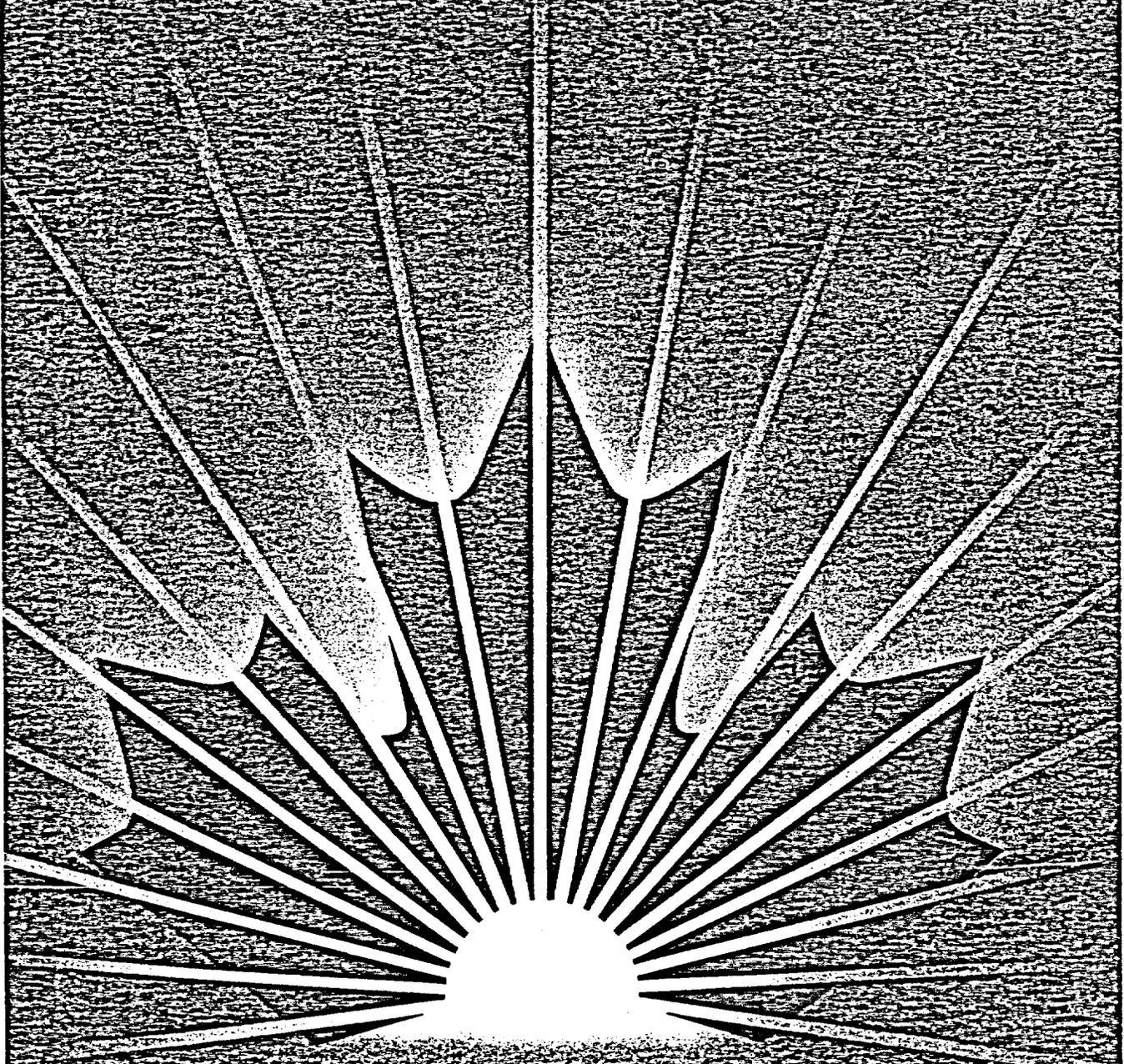
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THE WORLD OUR MARKET

CANADA, GATT, AND THE URUGUAY ROUND



TRADE - Securing Canada's Future

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THE WORLD OUR MARKETUPDATE

Since the publication of The World Our Market, a number of significant changes have taken place.

- On March 31, 1988, the Honourable John Crosbie was appointed Minister for International Trade. The portfolio carries with it responsibility for implementation of the Canada-U.S. Free Trade Agreement and for Canada's participation in the Multilateral Trade Negotiations.
- The membership of the GATT has increased since publication of this brochure. The addition of Lesotho brings the number of contracting parties to 96.
- There have also been developments with respect to Canada's participation in--and hosting of--international trade meetings. Accordingly, the last two paragraphs of page 3 should now read as follows:

During 1987 and 1988, Canada participated in a number of high-level international meetings, which served to reinforce political commitment to the new round of negotiations. In 1987, these included Agricultural Traders in Ottawa in May; the Venice Economic Summit in June; and, in December, the regular session of GATT's Contracting Parties in Geneva. In 1988, ministers attended an informal meeting in January of trade ministers and private sector representatives, mainly from Asia, in Bali, Indonesia; a meeting of the Cairns Group in Bariloche, Argentina, in February; and a meeting of more than 25 developed and developing country trade ministers at Lake Constance in the Federal Republic of Germany in March.

In June 1988, Canada hosts the Economic Summit in Toronto, with the MTN in general, and agriculture in particular, high on the agenda. We have been active participants in a number of international meetings leading up to the Economic Summit, the April meeting of Quadrilateral Trade Ministers in British Columbia being a key step in this process. But the prime MTN focus in 1988 will be the MTN Mid Term Review Conference to be held at ministerial level in Montreal in December. It will review developments to date, tie down substantive progress in the several negotiating groups and provide political impetus and direction for the final two years of the negotiations.

- Finally, the second sentence of paragraph 2 on page 5 should read as follows:

Meanwhile, stocks have doubled and are now equivalent to two years' world trade volume.



TRADE:
Securing
Canada's
Future

extérieur

Canada

Minister for International Trade



Ministre du Commerce extérieur

Canada

MAKING THE WORLD CANADA'S MARKET

Canada has a vital stake in the international trading system. Three million Canadian jobs and one-third of all we produce depend on markets outside Canada.

Canada has always believed that the General Agreement on Tariffs and Trade (GATT) is the best available institution for ensuring that global trade is as free and fair as possible. Even as the government engaged in negotiations with the United States it maintained its strong commitment to the GATT "track" of its trade policy. As one of the 23 founding members of the GATT, Canada has a long-term commitment to that institution and the rules it has put in place.

The world has changed significantly since the GATT was created in 1948. Successive rounds of multilateral negotiations have eliminated many of the tariff and non-tariff barriers which used to impede international trade. Freer international trade and the technological revolution in transportation and communications have combined to create a truly global economy.

Canada has prospered in the global economy. Today, however, new and insidious forms of protectionism in foreign markets are threatening the interests of our farmers, manufacturers and service industries. Therefore, Canada has played a leading role in bringing the 95 member-nations of the GATT back to the table for a new round of negotiations, launched at a Conference of Ministers in Punta del Este, Uruguay, September 1986.

We have produced this brochure so that all Canadians can better understand the GATT, the stakes for Canada in the Uruguay Round of Multilateral Trade Negotiations, and Canada's approach and objectives.

A handwritten signature in cursive script that reads "Pat Carney".

Honourable Pat Carney
Minister for International Trade

The GATT

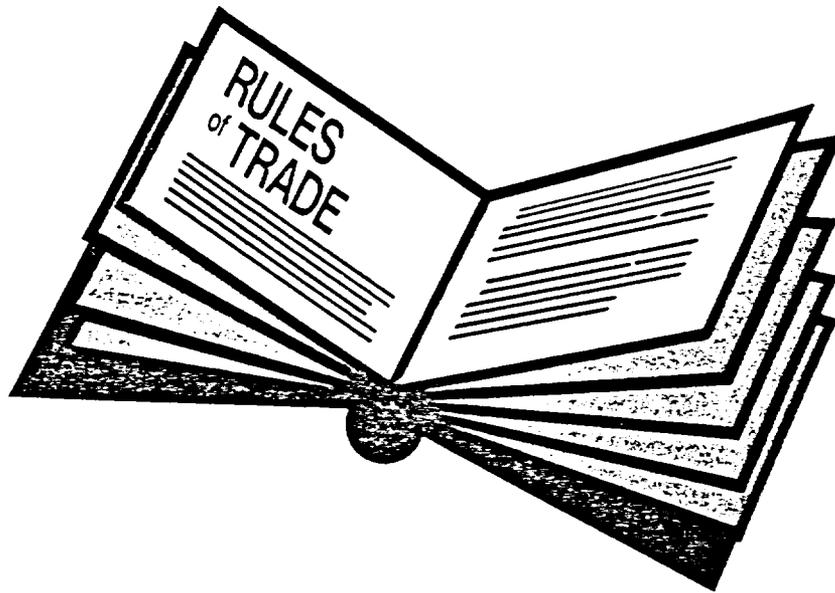
The General Agreement on Tariffs and Trade (GATT) is the cornerstone of the world trading system and of Canadian international trade policy.

Canada was one of the 23 founding members of GATT in 1948 and has played a leading role in building GATT and establishing the rules which now govern 80 per cent of international trade. Today, the GATT has 95 member-nations. (See Appendix)

Canada is committed to the GATT. The bilateral agreement sought by Canada and the United States, for instance, was consistent with Article XXIV of the Agreement which allows signatories to negotiate free-trade areas.

GATT Contracting Parties (member-nations) are now engaged in the GATT's eighth major round of negotiations, known as the Uruguay Round, which began in Punta del Este, Uruguay in September 1986.

Canada believes that the Uruguay Round provides an excellent opportunity to resist protectionist threats, to promote the rule of law in international trade, to strengthen the multilateral trading system and to restore momentum in liberalizing world trade.



The importance of GATT

The General Agreement is the only multilateral instrument that sets out the rules for international trade. Its basic aim is to promote international trade by reducing or eliminating tariff and other barriers. The GATT is a forum in which countries can discuss and resolve their trade problems and negotiate expanded trading opportunities.

The 800 per cent growth in the volume of international trade since the Second World War is evidence of GATT's success.

The GATT has responded to changes in the world economic scene, including shifts in the relative economic strengths of nations, the growing influence of developing countries in international affairs and the creation of regional or preferential economic groupings. It has also responded to changing patterns of trade and investment, and to emerging new issues such as services and intellectual property.

Seven rounds of negotiations have taken place under GATT auspices since 1948, each a milestone on the path to a liberalization of world trade. The most recent, the Tokyo Round, ran from 1973 to 1979 and resulted in several

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important international agreements. In addition to significant tariff cuts, the Tokyo Round brought greater discipline to the use of non-tariff barriers such as import licensing, government subsidies, customs valuations, technical standards and government purchasing policies.

As early as 1981, with the world in the worst economic recession since the 1930s, Canada and a group of other countries began thinking about a new round of negotiations. This, they agreed, was needed to counter severe and growing protectionist pressures, and to move forward with trade liberalization. They also believed that it was necessary to strengthen the GATT, because member-nations were increasingly ignoring or evading its rules.

Fearing a trade war and recognizing the need for liberalizing trade, the GATT countries launched the current round of multilateral trade negotiations (MTN) in September 1986.

The ministerial declaration, which formally launched the Uruguay Round, indicates that this new round of negotiations will be the most far reaching and comprehensive ever undertaken. The Punta del Este Declaration states the following important political commitments:

- to halt the introduction of new protectionist measures and to promote policies that will remove barriers to trade;
- for the first time in GATT history, to include objectives for across-the-board negotiations on agriculture;
- to reduce or eliminate tariff and non-tariff barriers in order to improve market access;
- to include negotiations on "new" (in the context of GATT negotiations) issues such as trade in services, trade-related intellectual property matters and trade-related investment measures; and
- to reinforce and extend the mandate of the GATT.

After preliminary planning sessions, 14 separate negotiating groups began meeting in January 1987, and have since made generally satisfactory progress. Their goal is to complete the first phase of the negotiations by the end of 1987. These preliminary discussions will pave the way to substantive negotiations in 1988, which should be completed by 1990.

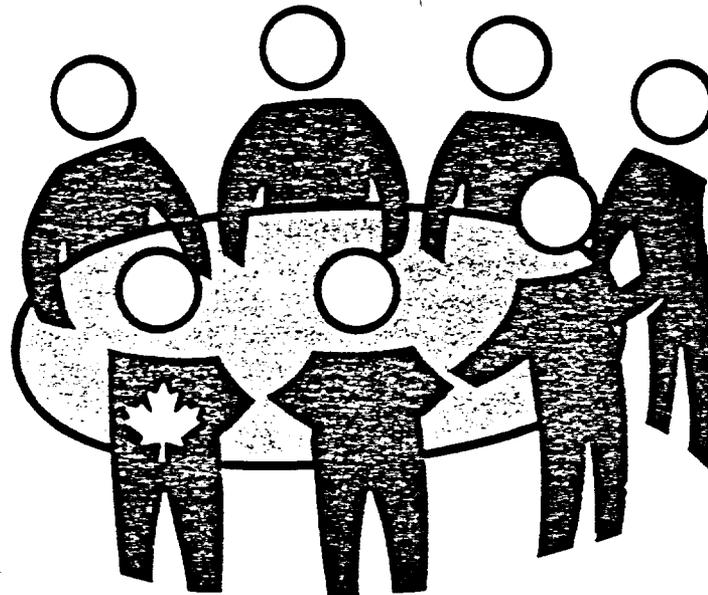
During 1987, Canada participated in a number of high-level international meetings, which seemed to reinforce political commitment to the new round of negotiations. These included a meeting of Trade Ministers in New Zealand in March; the meeting of Quadrilateral Trade Ministers (Canada, USA, Japan and the EEC) in Japan in April; the Organization for Economic Co-operation and Development (OECD) Ministerial Meeting in Paris in May; the Cairns Group Meeting of Agricultural Traders in Ottawa in May; and, most recently, the Venice Economic Summit in June 1987.

In June 1988, Canada will host the Economic Summit in Toronto, at which the MTN in general and agriculture in particular will be high on the agenda. We will be active participants in a number of international meetings leading up to the Economic Summit. A key step in this process will be a meeting of Quadrilateral Trade Ministers, which Canada will host in the Spring of 1988.

Canada's Objectives in the Uruguay Round

The Canadian economy runs on trade. Consequently, Canada's top priority is to improve and to secure access to markets around the world. If the Uruguay Round is successful, trade barriers will be lowered and international trade rules will be clearer and more effective. This would mean increased economic activity and employment in Canada.

What follows is a detailed explanation of Canada's five objectives.



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Canada seeks to resist protectionism and keep existing trade channels open. Canada also seeks to improve market access conditions on as broad a front as possible, as they relate to products and markets, and to tariff and non-tariff barriers.

Canada believes that tariffs should be completely eliminated or substantially reduced in order to restore confidence in the GATT's ability to halt erosion of the open trading system, to curb the resurgence of protectionism and to restore momentum to trade liberalization. Such an achievement would significantly advance the economic development and trade interests of both developing and developed countries.

Specifically, Canada wants to improve market access for:

- agricultural and food products;
- other natural resource products (non-ferrous metals and forest products and fisheries);
- energy-based (e.g. petrochemical) industries and related equipment and services;
- a range of advanced-technology and transportation equipment; and
- trade in services.

Important barriers or trade distorting measures impede our exports in these sectors. For example, in spite of tariff cuts in previous GATT rounds for certain processed products, Canada now faces increased tariffs on these products in some of its major markets. Moreover, our exports continue to be impeded by non-tariff barriers such as quotas and restrictive import licensing.

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Measures to open markets further should include applying the existing GATT Agreement on Government Procurement to other government entities which are main purchasers of products not now subject to international competition. These include urban transit, telecommunications and power-generating and transmission equipment, and certain services purchased by governments.

In recent years, world farm production, much of it stimulated by excessive subsidization, has increasingly outstripped world demand. Since 1981, world wheat prices have fallen by almost one-half. Meanwhile, stocks have increased by 85 per cent and are now equivalent to two years' world trade volume.

The international community is in general agreement on the underlying causes of this crisis: the incentive to over-produce that farm support programs give to farmers.

Over the past decade the problems have been exacerbated by a slowdown of demand and by increases in supply stemming from the use of advanced farming technology and resulting expanded production in some developing countries.

Farmers exposed to artificially low world prices have suffered financially. As a result, the costs of farm support programs have increased sharply and now constitute a major drain on many national treasuries. The impact on many developing country exporters is particularly severe.

All industrialized countries have contributed to the current world agricultural crisis. The European Economic Community (EEC), under the impetus of various subsidies in its Common Agricultural Policy, has been transformed from a cereals-deficit region into a significant exporter of cereals. Similarly, the U.S. in response to EEC export subsidies, stepped up its use of export subsidies, an approach which tends to drive world prices down still further. In the name of "Food Security", the Japanese have been reluctant to open their high cost market. Consequently, Canada and other efficient producers have been drawn into a costly agricultural war.

Over the past two years there has been growing agreement by the world community on the need for collective reform in this area. Canada has been influential in shaping this consensus by seeking:

- the inclusion of agriculture on the agenda of the Economic Summits of 1986 and 1987;
- consultations among the major wheat exporting countries;
- with Australia, meetings of the "Cairns Group" of developed and developing agricultural exporting countries;
- the inclusion in the Uruguay Round, for the first time in GATT negotiations, of all agricultural policies affecting trade; and
- the publication of a major OECD study on agricultural policies and trade, and the adoption by OECD Ministers of a set of principles for international reform.

The Venice Summit of June 1987 reaffirmed the OECD agreement and gave impetus to the new GATT Round as the framework for achieving fundamental change.

In the Uruguay Round, Canada will push for trade liberalization and the development of fair, predictable and effective rules on export and domestic subsidies, as well as on measures such as variable levies, quantitative restrictions, export restraints and technical barriers.

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Securing
Market Access:
Tighter Disciplines
in Contingency
Protection
Measures and
Subsidies

Canada and
the "new"
GATT
Issues

More secure and predictable access to markets is crucial to the business community in justifying major new investments related to international trade.

The benefits of trade liberalization and of binding tariff agreements achieved in previous GATT Rounds can be seriously undermined by the use of contingency protection measures related to both fair and unfair trade.

A major aim of the current negotiations is to develop an international consensus on the use of "safeguard measures" such as: emergency import relief under GATT Article XIX, voluntary export restraints and orderly marketing arrangements. Also to be discussed is the impact of safeguard measures on the structural adjustment of industries protected by those measures.

Existing rules related to subsidies and countervailing measures must also be reviewed. Canada is seeking increased discipline in the use of subsidies that harm the trade interests of contracting parties: for instance subsidized export credits and subsidies that affect trade in agricultural products. Canada will also work to achieve wider international agreement on the definition and measurement of subsidies and to improve the rules, procedures and conditions that govern recourse to countervailing measures.

Three "new issues", each important in terms of Canadian interests, are on the agenda at the Uruguay Round: trade in services, trade-related investment and intellectual property rights.

Trade in services

Services represent non-merchandise trade, such as consulting of all types, information processing, transportation, insurance, etc. This category, now representing 20 per cent of the value of world trade, is becoming increasingly important. Accordingly, Canada believes that it is necessary to develop a new framework of rules governing trade in services, comparable to the framework of rules for trade in goods; and to seek ways to reduce the barriers to more efficient use of service inputs at all levels.

The wide range of domestic regulatory practices involved makes this a particularly complex area. However, such basic principles as non-discrimination, national treatment and transparency in national regulations need to be explored. The Uruguay Round gives the international trading community a chance to elaborate the basic rules of the game before trade in services becomes a subject of increasing confrontation in bilateral trade relations.

Intellectual property rights

Canada supported the inclusion of intellectual property rights in the Uruguay Round because it recognizes the importance of innovative and creative activity as an effective part of the international trade system. Intellectual property needs adequate legal protection which does not directly or indirectly create trade barriers. Canada's objective will be to ensure that intellectual property rights are dealt with in a manner which expands trade and the investment and economic development associated with trade.

Trade-related investment

While recognizing that national authorities must be able to influence the direction of investment under defined circumstances, Canada supports the

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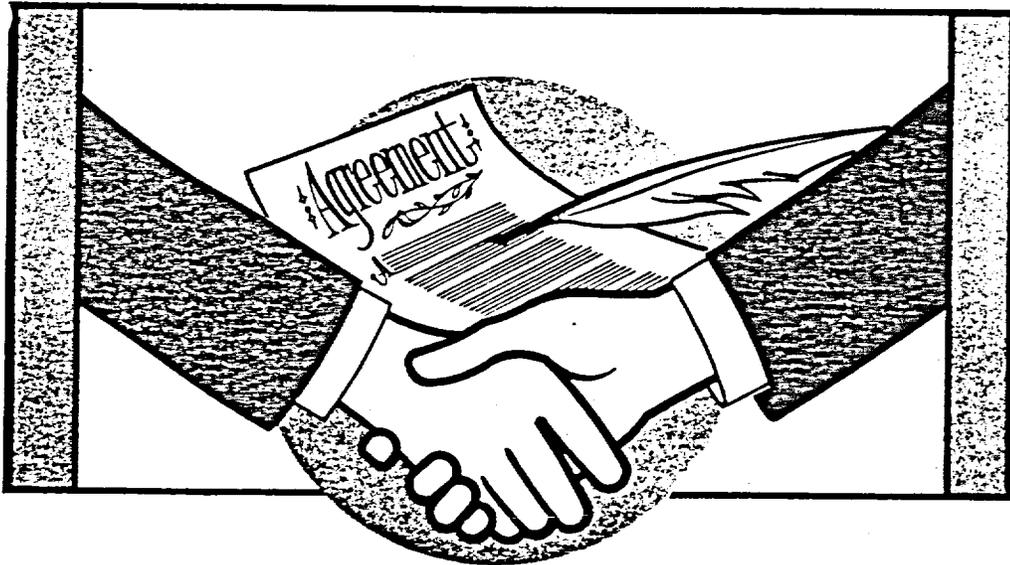
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continuing liberalization of the international investment regime. Among the trade-related investment measures being discussed in the Uruguay Round are the imposition of specific export targets or levels of domestic purchasing as a condition of investment approval.

The proliferation of exceptions and deviations to GATT rules over the years, combined with strong and persistent pressure by protectionist forces in major GATT countries are seriously undermining the credibility of the GATT itself. Canada recognizes the GATT's vital importance to the world community as the primary instrument available for preserving gains already made in trade liberalization. Canada also recognizes the GATT's importance to the management of our trade relations with most other countries.

Canada, therefore, attaches major importance to the development of an effective and improved dispute settlement mechanism. It favours expansion of the role of the GATT from that of an organization administering a world trade agreement, to one with responsibility for managing international trade policy issues.

All GATT members have an interest in strengthening the GATT system. Among the issues to be addressed in this context are a more effective surveillance and trade policy role for GATT, increased involvement at the ministerial level and enhanced cooperation with other economic organizations, notably the International Monetary Fund and The World Bank.



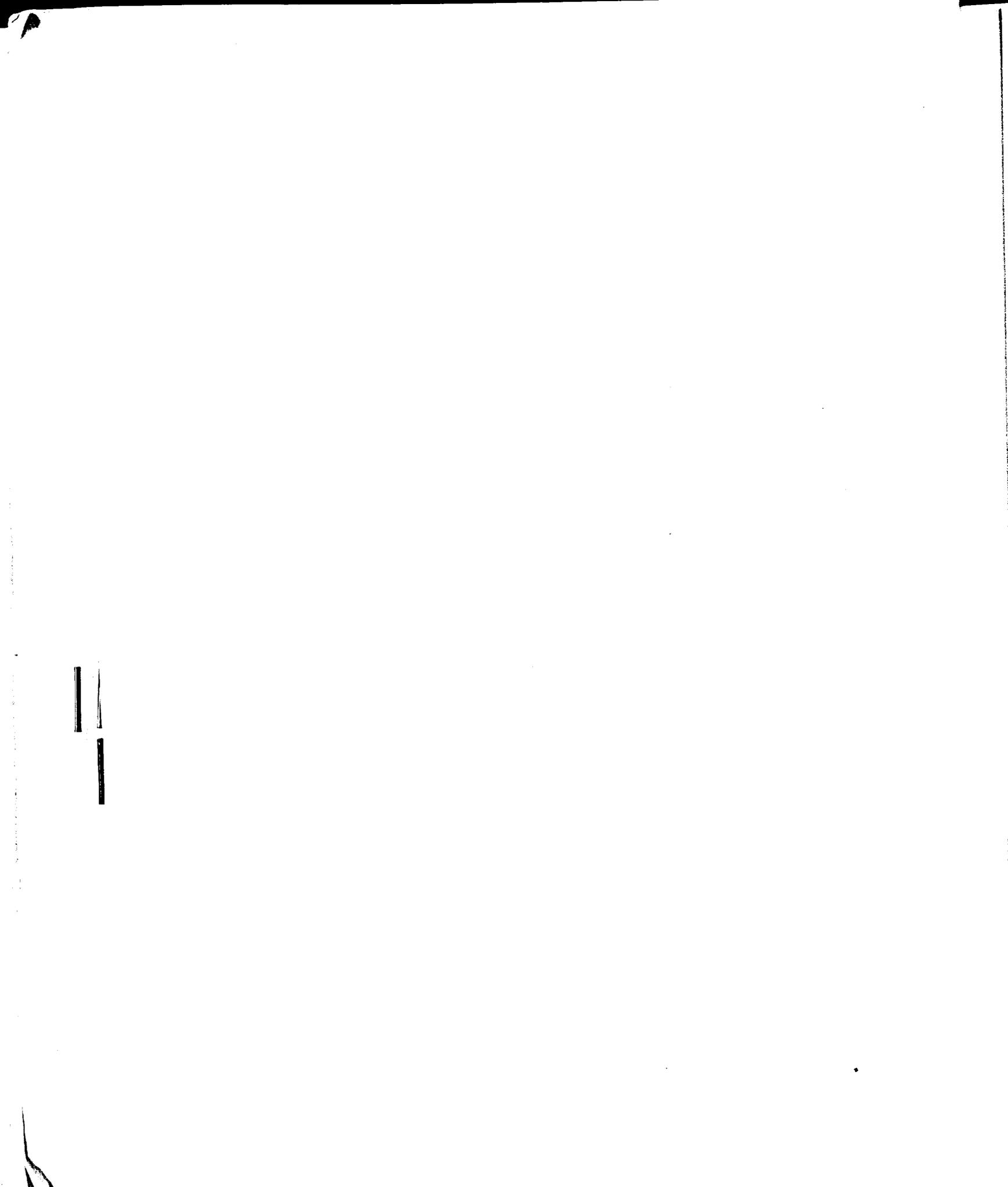
In the Uruguay Round, Canada is once again playing an influential role in shaping the rules of international trade. This activist role reflects the government's commitment to restoring momentum in the liberalization of world trade.

Streng
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Membership*
of 1987

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Austria	Guyana	Pakistan
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*Contracting Parties to the GATT



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Speaking notes for
the Honourable Pat Carney,
Minister for International Trade,
to the 43rd Session of Contracting
Parties of the GATT

GENEVA

December 1, 1987.

Minister for
International
Trade

Ministre du
Commerce
extérieur

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Mr. Chairman,

I am honoured to address this Session of the Contracting Parties, marking the 40th Anniversary of the General Agreement on Tariffs and Trade (GATT). And I bring greetings from Simon Reisman, my compatriot and GATT founding father who greatly regretted having to miss this occasion.

Canada is among the top seven world traders. We live on trade. Thirty percent of our national income comes from trade. The jobs of a quarter of our work force depend on trade. To grow and prosper, Canada has no choice but to look outward. It was therefore natural for Canada to be a founding member of the GATT.

In the past few weeks, the world's two largest trading partners have initialled a major Free Trade Agreement. Some may now ask how deep is Canada's commitment to the GATT and to the Uruguay Round.

The answer, Mr. Chairman, is "very deep". The GATT was and is the cornerstone of Canadian trade policy. I reaffirm the commitment Canada has repeatedly made to the multilateral trading system - and to its further liberalization and strengthening through the Multilateral Trade Negotiations (MTN).

A reinforced GATT and successful MTN are essential to global economic health. Canada has trade interests around the world and all our bilateral relationships would be hurt if the GATT and the MTN were to collapse. The GATT remains the bulwark of all Contracting Parties, notably including the smaller ones.

Our Government's trade policy is, therefore, to pursue outward-looking liberalization and growth along two important tracks, intended to build bridges, not barriers. These tracks are both multilaterally with our partners in the GATT, and bilaterally with the United States.

Our Agreement with the United States is fully consistent with the GATT. Indeed, its close linkage with the GATT is clearly set out in the first article of the text. The Agreement also deals with several of the new issues - services and trade-related investment measures.

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At the same time, Mr. Chairman, global interdependence is today's reality - a reality brought sharply into focus by the volatility of world stock markets and exchange rates in recent weeks, coming on top of the pressing debt problems facing many countries represented here. As governments, we must be under no illusion; we must deal effectively with this wide range of inter-related issues.

Interdependence requires cooperative bridge building. This is a message that Canadians deliver in many forums, including the recent Francophone and Commonwealth Summits in Canada, and soon at the Economic Summit we will host next year.

Forty-five Commonwealth leaders representing a broad range of developed and developing countries agreed in their Vancouver Declaration on Trade that in the Uruguay Round "we will work for a balanced outcome to develop a more open, viable and durable multilateral trading system to promote growth and development".

Mr. Chairman, this 40th Anniversary Session of the Contracting Parties also marks the end of the first year of the Uruguay Round. The work of the negotiating groups here in Geneva reflects the spirit of last year's historic Punta Del Este Declaration. We haven't done badly.

But we must do more. The realities of today's market place and the demands of growth and development require that we press on with determination. We must indeed demonstrate progress - to still the sceptics and to assure traders and investors that governments are serious about tackling protectionism and liberalizing trade.

Mr. Chairman, I would like to outline briefly Canada's priorities in the Uruguay Round under five headings.

First, strengthening the GATT System.

Exceptions and deviations to GATT rules have proliferated over the years. We need to strengthen the rule of law. We need to transform the GATT from an organization that administers an international trade agreement to a more active policy-oriented institution. The GATT must strengthen its linkages with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Ministers have a special role to play in moving the GATT in these directions.

Second, developing new rules and better access for agricultural trade. The Uruguay Round must achieve basic reform of trade distorting agricultural policies. Agricultural subsidies and trade barriers damage agriculture producers in all countries. None of us can afford their spiralling cost.

Canada is deeply committed to progress in this area. As an active member of the Cairns Group and host of the Ministerial meeting last May, we fully support the Group's proposal recently submitted. And we have contributed a proposal of our own elaborating our ideas in a number of important respects.

Third, improving and securing market access.

These issues have been the key element of GATT negotiations over the past 40 years and represent a major objective in this Round. Canada wholeheartedly supports, and is committed to contribute to, maximum trade liberalization through improved market access for all types of goods, from natural resource based products to high technology. To ensure that concessions today are not lost tomorrow, we must also provide that security of access is strengthened.

Fourth, the new issues. Canada believes that for the multilateral trading system to remain vital and relevant, it must have the ability to resolve the trade issues of tomorrow. Problems related to trade in services, and the trade related aspects of intellectual property and investment measures are creating tensions in the world trading system. The Uruguay Round needs to find ways to resolve these issues multilaterally and increase the flow of such trade to our mutual benefit.

Fifth, the greater participation and integration of developing countries into the GATT. Canada is committed to working with developing countries in this Round to ensure that the results include those issues of importance to them. Clearly, at the same time it is essential that each country, particularly the newly industrializing countries, become more fully integrated into the multilateral trading system and take on appropriate obligations for its effective operation.

We also recognize that in order to participate fully in the Uruguay Round some developing countries need assistance of various kinds. Canada has already taken initiatives to achieve this objective through, for example, the financing of the GATT trade policy course in Canada and through bilateral efforts with developing countries. We are now proposing to expand this work in cooperation with other countries and through international organizations.

Mr. Chairman, we have set a heavy agenda for ourselves - but no heavier than international economic circumstances require. Canada believes it will be essential to take stock of developments in the negotiations, to note the progress and to provide the impetus for the concluding phase of the Round. Such a ministerial review might best be held by the Trade Negotiations Committee toward the end of next year. Ministers are currently discussing this idea.

Mr. Chairman, I wish to state that Canada would be pleased to host such a meeting.

But whatever may be the collective wish in that regard, I renew Canada's pledge to full and active cooperation in our common endeavour to renew and rebuild, to construct a more open, a more secure, a more mutually beneficial multilateral trading system.

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The Per Jacobsson Lecture
Washington, D.C.
September 27, 1987

Interdependence: Vulnerability and
Opportunity

by

Sylvia Ostry

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Interdependence: Vulnerability and
Opportunity

Mr. Chairman, distinguished guests, ladies and gentlemen.

It is a great honour and privilege for me to deliver the 1987 Per Jacobsson Lecture. The letter of invitation suggested that I might say something about the multilateral trading system so that is what I intend to do. Looking at the list of lectures since 1964, I realized that this was the first time this topic had been the focus of discourse. That omission may be interpreted in many different ways -- which I leave to the audience -- but for me it is another welcome sign of growing awareness of interdependence, the theme of my lecture.

The word interdependence has been overworked in recent years but that is because it captures such an insistent aspect of our reality.

Interdependence has two separate but related aspects: the increasing economic linkage among countries through trade and financial flows and, at the same time a

NOTE: The views expressed in this lecture are those of the author and do not necessarily represent the policies of the Government of Canada.

slightly different concept, i.e. the complex interrelationships between major influences on the world economic system, present and foreseeable. What interdependence entails is amplified risk, and -- since knowledge usually lags behind complex change -- amplified uncertainty. More profoundly, interdependence means that opportunities for joint gains are enhanced but vulnerability is also greatly magnified.

I want to elaborate on the notions of linkage and of interrelationship as they occur in the multilateral trading system and, more specifically, in aspects of the Uruguay Round, the most important negotiations since the formation of the GATT and, without doubt a watershed. But before I do that, I must recall the background for you.

The Punta Declaration of September 1986 which launched the Uruguay Round took interdependence for granted when it stressed the need for "concurrent action" to make the international monetary system work better and increase the flow of resources to developing countries. To put it baldly, the Uruguay Round on its own cannot preserve the multilateral trading system.

In the absence of necessary overall changes in policy the abuse of trade policy will only worsen the imbalances and the disorder in exchange markets. Trade policy is no substitute for macro policy. This audience is well aware of the effects, especially during the 1980's, of the exchange rate system on trading patterns and protectionist pressures. Further, the debt of the middle income countries, whose imports shrank by one-quarter over the 1981-86 period, contributed significantly to the U.S. trade deficit. If the multilateral trading system is to be rebuilt and strengthened, progress in multilateral surveillance and coordination of policy among major industrialized nations is necessary; so is the growth-with-adjustment strategy to address third world debt problems. But these conditions, though necessary, will not be sufficient in themselves. I don't intend to deal with such issues on their own since they have been well rehearsed by my predecessors and in many other places.

Yet -- and I fear this is not well understood by those who focus mainly on macro conditions and policies -- the "not sufficient" is as important as the "nécessary". Indeed, the wellspring of protectionist pressures in the OECD, and the rise of the "new protectionism" since the

early 1970's, has been mainly "micro" in origin. The new protectionism reflects incapacity or unwillingness to adjust to ongoing structural change. It is aggravated by supply shocks and by a hostile and turbulent macro environment.

Even without further supply shocks the pressures for adjustment will not abate. What is more, as I shall argue, the world economy faces an unprecedented conjuncture of forces for structural change which capture the two aspects of interdependence, vulnerability and opportunity. Before I go into that I should like to take a brief look at the new protectionism.

The New Protectionism

It sounds like the title of a magazine article -- the new feminism; the new lifestyle; the new skirt-length. But this time it really is new. The new protectionism, because it takes the form of domestic or border non-tariff measures, has been difficult to quantify. There have been plausible estimates of the impact of border measures such as quantitative restrictions, and voluntary export restraints, orderly market arrangements (often GATT-illegal). They suggest

that as much as one-fifth of OECD manufacturing imports were affected by 1980, a quadrupling over the 1970's. In addition, over the same period, the OECD notes a marked increase in domestic industrial subsidies in member countries -- a doubling, in fact, in the share of such transfers in the operating surplus of the manufacturing firms affected. In agriculture, the ballooning of domestic transfers in the industrialized countries has reached monstrous proportions, thus achieving for this sector a dubious distinction as the cautionary tale of political short-termism and economic myopia.

Since 1980, the move to managed trade has not abated. Indeed, despite the so-called porousness of many of the non-tariff measures, during the 1980's the most rapidly increasing protectionist actions have been that subset of NTB's most likely to have the most restrictive effects. There has also been a rise in what is called U.S. "process protectionism," i.e. the increasing use of quasi judicial mechanisms to discourage imports or provoke export restraint. Further, the scope of managed trade has expanded in terms of both industry and country coverage. The protectionist measures applied by the OECD countries after 1980 were mainly directed against exports from each other and from the Newly Industrialized Countries (the

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NIC's). In absolute terms, however, non-tariff barriers are significantly more prevalent on imports from developing countries. This is mainly because of the importance of agricultural products and textiles and clothing in the exports of the developing countries.

The new protectionist measures have a number of characteristics which make them particularly threatening to the system. They create a political constituency for their maintenance in both the importing and exporting countries through the generation of scarcity "rents". By fostering trade diversion, both geographic and product-oriented, they build in a dynamic for extension. Often designed to provide a breathing-space for adjustment, they are seldom successful.

The effects on the system are even more damaging. Precisely because they are less transparent and less easily comprehended than are tariffs they evoke little public reaction as the system is slowly transformed. But the new protectionism, by violating the basic principles of the GATT, weakens external counterpressure to domestic protectionist demands. GATT itself loses authority. In sum, there is little in the history or analytics of managed trade which promises

self-correction. There is thus no escaping the need to deal with the political economy of structural adjustment, both at home and internationally, if we are to halt and reverse the erosion of the multilateral trading system. This is especially true in view of the powerful structural changes now overtaking the world economy.

I want to talk about the
Sources of Structural Change

The strong pressures for adjustment in the OECD since the 1970's came from several sources: the rise of the NIC's and the increasing challenge from Japan; continuing technological change, especially in information technology; severe commodity and oil shocks; and the breakdown of the Bretton Woods system of fixed exchange rates. The process of structural adaptation, difficult under the best of circumstances, was impeded by a number of government actions. Imposed mainly during the 1960's and early 70's, these measures had the unintended effect of impairing the capacity to adjust. The degree of impairment, it's true, varied significantly from country to country, being more acute in Europe than in the U.S. or Japan. Slower growth in the 1970's and the deep recession of the 1980's also inhibited mobility and adaptability.

In the earlier postwar decades, when a major industrial transformation took place, the unprecedented surge in real growth made the process of structural adaptation appear almost effortless, much of the reallocation of resources coming out of the growth margin rather than out of someone else's hide. The virtuous circle of the golden decades is familiar: the dismantling of protectionist barriers in goods and capital markets both fed and was nourished by increasing investment, technology transfer and productivity. The consequent robust and sustained rise in growth both facilitated and was enhanced by structural adaptation through improved market signals from the international economy. Since the new protectionism functions to inhibit the flexible response of markets to price signals, the growth of economies is also checked. Slower growth begets slower growth.

The rise of the new protectionism and other symptoms of malaise such as high levels of structural unemployment reflect the "unfinished business" of adaptation to the structural changes of the 70's and early 80's. Unfortunately, the world won't stand still while we tidy up.

Indeed, that other inheritance from the past -- -- the gross external imbalance in the OECD and the debt of the developing countries -- while macro in origin will require more than macro policy changes in the industrialized world and in the NIC's. It will also, require unprecedented structural adaptation in both the OECD and the developing countries. Such structural adaptation is essential if world growth is to be sustained and the multilateral trading system preserved. The required switch in resources within the U.S. economy from domestic absorption into the export- and import-competing sector will entail massive sectoral and regional reallocation of the labour force. It will also demand historically unique levels of investment both from domestic and foreign sources. (It is worth noting that in the course of these adjustments investment flows may well dwarf trade flows yet no multilateral disciplines exist to improve predictability and resolve disputes.)

The opposite structural changes are needed in the surplus countries, Japan and Germany and also from the NIC's. Because of ever-closer linkage, the effect on the non-OECD world of these changes in external balances will also be very significant. The reason is clear: by mid-decade the U.S. was absorbing over half of Latin

American and one-third of East Asian exports.

Protectionist pressures will shift with changing current account positions. The riddle of the 1990's will be: deficit, deficit, who wants the deficit? Let us hope Lord Lever is wrong in remarking: "It used to be said that when America caught a cold the rest of the world got pneumonia. The way we are going, when America gets well the rest of us will get influenza."

How structural adaptation is to be achieved in confronting global imbalance over the coming years has been widely debated by finance and trade ministers and their policy advisors. Less noted and certainly less integrated in that policy debate has been another development. Since the late 1970's, the pace and nature of change in information technology has evolved into a new technological revolution, one of Schumpeter's "creative gales of destruction." This type of pervasive change in technology does not occur often, perhaps two or three times in the past 150 years. As in each instance of transformation to a new "techno-economic paradigm", it will impose far-reaching change in the structure of industrial output and skills, the organization of production as well as the international division of labour.

It is indeed this unique conjuncture of circumstances -- the major imbalances in the world economy and the onset of a new technological revolution -- which represents the double aspect of interdependence, the magnification of vulnerability and opportunity. The opportunity is that the information-technology revolution creates the potential for a quantum leap in overall productivity and growth which could ease the transition to a more sustainable pattern of external balances and global debt. This could be the way back to the longed-for virtuous circle. But it is contingent on the structural change necessary for its diffusion both at home and internationally. And therein lies the vulnerability. For the risks of impeding adjustment are magnified by this technological transformation. The information revolution, again uniquely, entails a trend to ever-greater international integration of production, services and markets. In this way it provokes further resistance to changes in the international division of labour. As we shall see, this was a major consideration in the launch of the Uruguay Round to which I now turn.

The Uruguay Round

The Uruguay Round was, as I have said, launched in Punta del Este in September 1986. The event was rightly

greeted as new evidence of the improved international economic cooperation which had begun a year earlier at the Plaza Hotel. The Plaza meeting was followed by the Bank/Fund meetings in Seoul, with its unveiling of the Baker initiative on debt, and the blessing of multilateral surveillance at the Tokyo Summit in May. These welcome events improved the atmosphere for the Uruguay launch but it must be admitted that a powerful spur to action in Punta was fear. Coleridge's aphorism is apt; "Fear gives sudden instincts of skill." It was not only the steady, largely invisible, systemic erosion of the GATT that moved the assembled trade ministers to begin the negotiations. It was also the very visible and growing external imbalances, with the accompanying protectionist fury of the U.S. Congress, and nightmare visions of "hard landings", which concentrated minds early that morning.

A serious flaw in decisions inspired by crisis is that delay as the crisis builds may allow time for obstructions to a genuine solution. A multilateral trade negotiation has been a traditional remedy, by and large successful, for diverting or deferring protectionist claims in all countries. The U.S. had been trying to launch a new round since the end of 1982. As we have seen, over the ensuing years, protectionist pressures and

actions had flared up, sapping the credibility of the GATT and thereby weakening the potential countervailing force of the negotiation. Thus the reasons for the delay in the launch are important to understand in assessing prospects for the Round itself.

The ostensible reason for delay was the opposition of the G-10, a small group of developing countries led by Brazil and India which, largely on legal grounds, opposed the inclusion of the so-called new issues of trade in services, intellectual property and investment. I shall discuss this shortly. But G-10 opposition could probably not have prevented a launch had the three major trading powers -- the U.S., Japan and the European Community -- been able to agree on timing. The apparent disagreement between the U.S. and the E.C. largely stemmed from the political and institutional complexity of the trade policy formulation process of the Community. The process is inevitably cautious and lengthy, especially when important policy differences exist among member states as they do in agriculture.

There is nothing new about the impact of domestic policy formulation processes on strategic aspects of international decision-making. The troubled birth of the

GATT itself reflects the hostility of the U.S. Congress in the late 1940's to the Charter of the International Trade Organization, the I.T.O. But the significance of this phenomenon is very different today, in a world that lacks an undisputed hegemon. Professor Kindleberger points to the heart of the matter when he argues that international public goods -- in this instance, the liberal multilateral trading system -- will tend to be underproduced in the absence of world leadership. And, as I hope to show before I have done, it is also the core issue and key challenge of the Uruguay Round.

Returning to the major hitch in launching the talks, i.e. conflict over the inclusion of the "new issues", especially services; it seemed to me that though the debate was couched in legalistic and procedural terms, the real issues were of a most basic economic and political nature. These issues should be understood not only because of their intrinsic importance but also because they illustrate the interrelationship of trade, debt and development. For the sake of brevity let us focus on trade in services. The question is worth a diversion.

Trade in Services

Behind the clash over discussing trade in services were two basic concerns. One had to do with fear of a trade-off between goods and services i.e. fear that the developed countries would not open (indeed might further protect) their markets for Brazilian and Indian goods without demanding in return some service penetration into the Brazilian and Indian markets. The Punta compromise was: negotiations inside the GATT for goods, outside the GATT for services, but under one overall negotiating committee and within the same time frame. The formula reflects an unresolved conflict.

The notion of "no trade-off" is understandable in political terms in view of the new protectionism in goods markets and the marked deterioration in agriculture. It is more puzzling in economic terms. It implies a static concept of economic development which would be unique to this sector and, would therefore be unlikely. Even now, the potential in certain service industries of the East Asian NICs and of Brazil and India themselves is clear enough. Fear of trade-off also presupposes a watertight compartmentalisation of sectors -- resources, goods, services -- which doesn't exist today and will rapidly

vanish in the future as industry and sector boundaries blur. In all sectors services are key inputs to production and essential complements to trade. Commingling rather than compartmentalisation is the more appropriate image.

The second concern of the G-10 about trade in services is more important. It originates in a fundamental tenet about the respective roles of governments and markets in the development process. In the judgment of the G-10 spokesmen, certain key service industries -- telecommunications or financial services, for example -- represent the "commanding heights" of future growth and development and therefore must be guided by government. This G-10 view of the critical importance of government control gained force from the consideration that establishing a multilateral discipline on services would inevitably involve confronting the equally sensitive issues of investment and protection of intellectual property. (It will also involve consideration of the temporary movement of labour where political sensitivities are exposed on the side of many developed countries.)

This development aspect of the clash over trade in services should be assessed not simply in GATT terms,

but in the much broader context of the growth-with-adjustment debt strategy. Thus, for example, a prime structural impediment to the restoration of creditworthiness and growth in many of the heavily-indebted countries are shallow and inefficient capital markets. Among economists and in Fund/Bank circles there is widespread agreement that improved financial markets are essential for mobilising domestic savings, improving the efficiency of domestic investment, securing new equity capital and the repatriation of flight capital, facilitating debt-equity swaps and other financial options. Indeed the older model of development economists -- that effective financial intermediation was a consequence of development -- has been turned upside down, now stressing that it is a prerequisite of development. Yet no trace of this analytical framework surfaced during the prolonged debate on services among trade officials at the GATT. Nor, on the other hand, is there a coordinated strategy of financial market reform in developing countries, involving the GATT in cooperation with the Fund and Bank, in utilising opportunities offered by the Uruguay Round negotiations on services. But more of this later.

The example of financial markets is too narrow to-- illustrate fully the breadth of interrelationship inherent in the services issue. For the most part the growth of service trade to its present share of more than one-fifth of total world trade has reflected the expansion of trade in goods and the growth of international investment and financial markets as a whole.

But if we look to the future, services should be considered in the radically different context of the information revolution. The revolution began in the manufacturing sector in a cluster of technological advances (micro electronics, fibre optics, communications and computer technology). But the main trend of the transformation is rapidly turning to services, as the shift from "hard" to "soft" technologies accelerates. Moreover, the trend to increasing international integration which is inherent in the information revolution is likely, at least for a time, to enhance the role of the multinational enterprise as a carrier of leading-edge technology. Access to this new generic technology and the flows of capital by which it will in considerable part be transferred will become a prime determinant of growth and development around the world. For this reason an "infant industry" approach to strategic

service industries will prove increasingly costly and inappropriate. This point is especially important for developing countries since the new technology is labour-energy- and materials-saving. Developing countries, which in previous Rounds have not played a major role, have suffered to some extent as a consequence. Hence it is vital that they participate actively in the present negotiation. Otherwise they are likely to suffer again.

Finally, it must not be assumed that the contentiousness of the services issue is confined to developing countries. Services are subject everywhere to varying degrees of government regulation. They impinge directly on sensitive issues of national sovereignty and differences of opinion about the role of government. Such issues and differences will have to be taken into account in negotiating multilateral disciplines. In the end, more effective international cooperation is the only way in which constraints on national action imposed by interdependence can be compensated.

Now, after this rather lengthy detour on the rocky road to Punta I want to conclude with some thoughts on a few core issues of the Round, those relating to strengthening the GATT system.

Strengthening the GATT System

Despite - or perhaps because of - the unpropitious economic and political mise en scene for the Punta meeting, the agenda for the Uruguay Round is the most comprehensive and ambitious in the history of GATT. The negotiating groups which were established last January cover the full range of items necessary to improve market access. They deal with agriculture as a central concern for the first time in 40 years. They cover multilateral disciplines for trade-related intellectual property rights, trade-related investment measures and international trade in services. They will update and strengthen GATT trading rules and GATT itself as an institution. In addition, they provide for a mechanism to resist new protectionist measures and phase out existing ones over the course of the Round.

All these agenda items are important. A major round of liberalization would provide a welcome stimulus to world growth. An improvement in the trading rules governing temporary import protection or "unfair" trade practices would greatly enhance predictability and hence improve the investment climate. A successful negotiation in agriculture would reduce the grotesque distortions in

trade which exact such a heavy toll from consumers and producers around the world. This is essential for developing countries such as Argentina whose export earnings have been devastated by the subsidy war. And so on, down the list.

But I want to concentrate on the key systemic aspects of the Round. In the Punta Declaration these aspects are titled Functioning of the GATT System (and, inevitably, the negotiating group is called FOGS, an unattractive and, one hopes, inappropriate acronym). If the GATT system is not fundamentally strengthened there is a high probability that, over the long haul, it will continue to crumble and the gains in liberalization and growth from the Uruguay Round prove transitory. So these are the international public goods issues: there's no reciprocity involved. These public goods will either be provided by governments in active cooperation or not at all. In effect, this aspect of the Uruguay Round provides a real life experiment testing the hypothesis, now widely asserted, that international public goods will not be provided in a world without an undisputed leader.

The two vital components of GATT reform and renewal that I want to describe are first, strengthened

relationships with the Bretton Woods institutions and, secondly, surveillance of trade policies.

To begin with the
Relationship with the Fund and Bank.

The drafters of the GATT fully recognized the need for policy coordination between the Fund and the ITO which was to replace the General Agreement. When the third leg of the tripod of postwar multilateral institutions collapsed, the extensive provisions for coordination lapsed with it. There was only one exception: the exemption provided for use of quantitative restrictions to deal with balance-of-payments problems requires consultations with the IMF. This exception in fact exemplifies the need for reform. The balance-of-payments articles reflect a world of fixed exchange rates, and views of the external adjustment process long since abandoned by economists and by the Fund itself.

There is a major and timely opportunity in the Uruguay Round to spell out new provisions for effective coordination with the Bretton Woods institutions. In recent years, in response to the debt crisis, there has

been an evolution in the process of coordination between the Fund and the Bank and this process should be extended to the GATT.

Thus, for example, trade policy reform is a key component of the growth-with-adjustment approach to debt and some means of ensuring the continuing participation of the GATT should be developed. (More immediately, such reform could be encouraged by providing "credit" in the Round for measures adopted in conjunction with a Fund or Bank programme.)

But this is only half the story. Emphasizing structural adjustment policies in the developing countries requires a symmetrical approach in the developed countries. There is no regular surveillance of adjustment or micro policies in either developed or developing countries which complements the Fund's surveillance activities. If trade policy surveillance is implemented as a result of the Uruguay Round (a proposal I will discuss shortly) this, too, would call for more effective coordination among the three institutions which together constitute the present regime for managing interdependence.

Finally, strengthened coordination between the GATT and the financial institutions is not only desirable in itself. It should also help reinforce the process of consultation within countries between trade and finance ministers. The need for institutional change in the policy-making process both at home and internationally is perhaps nowhere so acute as in trade policy. This is an important consideration in the other key component of FOGS, trade policy surveillance.

Surveillance

The birth defects of GATT account for the attenuation of institutional relationships. It is these defects which largely explain the absence of regular analytical and evaluative reviews of a member country's trade policies: a micro policy counterpart, in effect, to the Fund's macro mandate. Inadequate secretariat resources and the absence of a designated policy forum at both official and Ministerial level are symptoms of the flawed and ambiguous "constitution".

Yet the old saying "where there's a will there's a way" is not without substance. As the new protectionism increased, violating the basic principles of the original

agreement i.e. non discrimination and use of the price mechanism or tariff, no country had a strong incentive to expose its trade-related domestic or border policies to regular scrutiny and discussion. This reluctance may have been increased by the legal nature of the GATT and the difficulty of ensuring that frank policy discussions did not result in invoking the legal obligations of the Contracting Party.

The components of an effective policy-based surveillance mechanism would have to include an enhanced analytic capacity in the Secretariat; a designated policy forum at both the official and Ministerial levels; a link with the rules-based surveillance of the dispute settlement procedure and, desirably, improved transparency of domestic trade policy-making procedures in member countries.

The issue of structural change and structural adjustment should be the theme of the reviews in their analytic and policy evaluative content. I need hardly remind you of the contentiousness of this approach in, for example, defining the policy scope to be surveyed.

The purpose of surveillance would be to exert peer group pressure, at the senior official and Ministerial levels, for policy adjustment and adaptation. It would do this by highlighting the impact of trade-related policies on the country's domestic performance, on other countries' trade opportunities, and on the system as a whole.

Peer group pressure may seem a weak reed to cope with the forces for structural change in the world trading system but, in effect, it is a counterpart of multilateral surveillance in the Fund or the OECD or the G7. There is no neat set of rules which may be found to guarantee "automaticity" in any of these places. And just as the breakdown of the post-war consensus macro paradigm of how the macro economy works has made macro policy coordination more difficult since the 1970's so, today, the new "strategic trade policy" is providing a theoretical rationale for sophisticated forms of protectionism. This weakening of the consensus micro paradigm will doubtlessly make trade policy discussion more ambivalent and inconclusive -- but also much more realistic than the stirring trade pledges of yesteryear.

A valuable complement to effective trade policy surveillance in the GATT would be reform of domestic policy making in member countries. Because losses from structural change are highly concentrated and benefits widely diffused, improving public understanding of the full economic effects of protectionist measures, i.e. greater openness, could mobilize counterpressure.

Thus, the report of the group of "wise men" commissioned by GATT Director General Arthur Dunkel recommends a "protection balance sheet" designed to inform the public of the costs and benefits of trade policy actions. A recent study group chaired by Olivier Long, under the auspices of the Trade Policy Research Centre, proposes that domestic institutional reform, to increase transparency and reduce fragmentation of decision-making along sectoral lines, be included in the Uruguay Round. This could be achieved, for example, by negotiating the broad objectives for these institutions whose focus would be the domestic economy-wide impact of all forms of industrial assistance.

The relationship would have to be spelled out between policy-based surveillance and the rules-based surveillance linked to the dispute settlement function of

the GATT. Improvement of the process for settling disputes in the GATT is in itself a high priority for the Round. It is essential to improve predictability for business decisions and also for reasons of fairness. Effective machinery to settle disputes is the best guarantee for middle-sized and smaller countries against unilateral or collusive action among the major trading powers.

The two forms of surveillance should reinforce each other. As I suggested, in order to encourage frank and broadly-based discussions, policy surveillance must be distanced from the legal mechanisms of the GATT. But distance does not mean isolation. Quite the contrary. Effective policy surveillance might be able to anticipate serious trade friction and perhaps help prevent it. For example, over many years the steadily growing number of disputes centred on agriculture clearly signalled the need for basic reform. Or, let me cite a more recent example: the Japanese-U.S. microchip dispute. I don't think it unreasonable to speculate whether that dispute should be taken as an early warning of more to come in the high technology sector. An analysis of the problem in economic terms would at a least highlight the pertinent policy questions relating to industries with steeply declining

cost curves, rapid obsolescence and major externalities. The discussion would likely not yield a simple answer about a particular rule, in this instance the anti-dumping one. But it might help to decide whether this specific dispute was unique in itself or potentially systemic, and thus required further action.

Indeed some experts on the multilateral system, such as Miriam Camps and William Diebold Jr., have suggested taking the policy-rules relationship one step further. Thus policy surveillance, as the agriculture and micro-chip examples imply, could evolve into a means of more frequent updating and extension of the rules via the designated Ministerial forum.⁽¹⁾

The framers of the original GATT could not possibly have foreseen the world of the late 20th century. Indeed, roughly once a decade, rounds of negotiation have served as a means not only of liberalizing markets but also of refining and strengthening the trading rules. This will also be an important item in the Uruguay Round. But in today's world

(1) The New Multilateralism, Council on Foreign Relations, New York, 1983. See also Richard Blackhurst, "Strengthening GATT Surveillance of Trade-Related Policies", Bielefeld Conference, June, 1987.

of rapid change and uncommon strains in the international economy the shape of the future is shrouded in uncertainty. This could well argue for building into the GATT system an option of more frequent review and adaption based on the surveillance mechanism at Ministerial level.

Conclusion

We have considered the implications of interdependence as they manifest themselves in the multilateral trading system, and have looked more closely at the way they affect the Uruguay Round.

The Uruguay Round offers both a challenge and an opportunity not just for trade ministries but for government policy as a whole. The outcome will affect growth, exchange rates and debt, the terrain of Finance Ministers and Central Banks. Reform of the GATT is important to the effective functioning of the Fund and the World Bank as, indeed, both institutions have strongly demonstrated in the Uruguay negotiations.

The challenge has come at a period of unique transformation in the world economy. The transformation is multi-faceted: the global imbalances; the information

revolution; the unsettled and unsettling state of the discipline of economics; the emergence of a multipolar world. To meet the challenge and seize the opportunity of this GATT Round will require changes in both domestic and multilateral decision-making. The alternative to making these changes will be the emergence of a world trading system which no government planned or desired. The manifold pressures for adjustment will not abate. The genie is out of the bottle and the genie is blind. Governments should have vision.

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NOTES FOR AN ADDRESS

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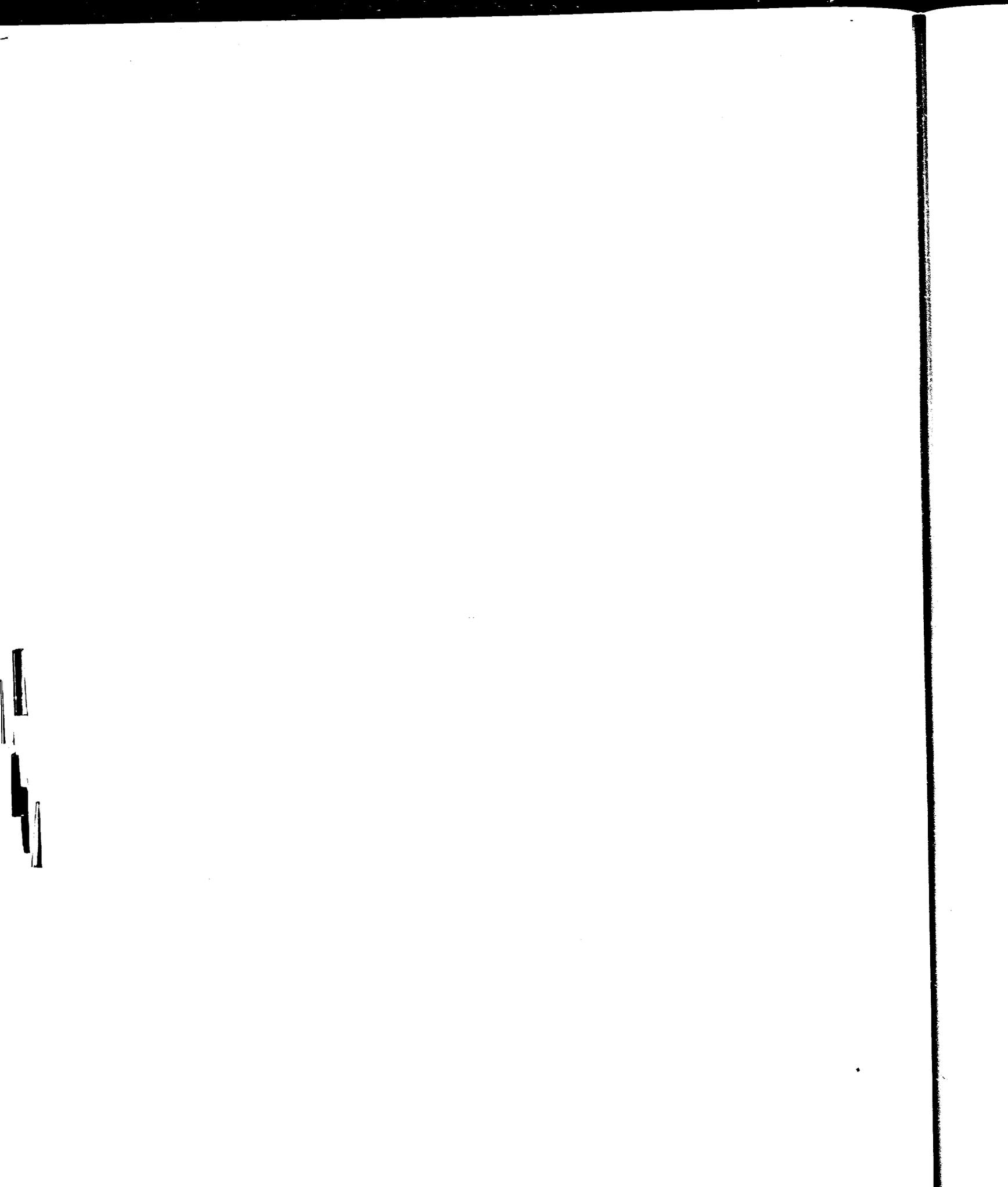
TRADE NEGOTIATIONS - CANADA'S TWO-TRACK APPROACH

The Lipton Speaker Series - MBA Program
University of Toronto

Park Plaza Hotel
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Canada



TRADE NEGOTIATIONS - CANADA'S TWO-TRACK APPROACH

I am pleased to be here to talk to the Faculty of Management. I know what an honour it is to be chosen as a speaker for the Lipton Series. It is not often that one gets the opportunity to talk to a group of students, academics and businessmen all in one place. But I will acknowledge that your very diversity posed a real problem for me in choosing an appropriate topic. Of course I will address the subject of trade, but the focus of my remarks may surprise you. I will talk to you this evening about the relationship between the Canada-United States Free Trade Agreement, and the multilateral trade negotiations in Geneva under the auspices of the GATT.

In the heat of the debate about the Canada-U.S. F.T.A. many Canadians have overlooked the fact that Canada is engaged in a major way, as a major player in the Uruguay Round in Geneva. And you have almost certainly forgotten that my job as Chief Negotiator for Canada extends to both sets of negotiations. Dr. Sylvia Ostry, whom I am fortunate in having as my Deputy for the GATT round, has of course carried the brunt of that task while I devoted my main effort to the Canada-U.S. Agreement. It is important, I believe, not to lose sight of the fact

that Canada is engaged in a two-track effort to enhance our trading opportunities and to fight protectionism - that there is an intimate relationship between the bilateral and the multilateral efforts, both in subject matter and in organization - and that a successful Canada-U.S. Agreement can make an important contribution to the success of the world effort and Canada's role in it.

Before I get into the substance of these two sets of trade agreements, let me say a brief word about the world economic setting - in which these trade initiatives are going forward.

It will not come as news to this audience to observe that the range and complexity of economic and financial problems confronting the world today can hardly be described as a hospitable climate for trade liberalization.

The large and persistent fiscal and trade deficits in the United States have brought in their train stronger protectionist pressures than we have witnessed for many decades. The stresses and strains in world commodity markets, particularly in agriculture and energy, have unleashed destabilizing forces in the form of beggar-thy-neighbour policies hurtful to all of us, and not least of all to the developing countries who can ill afford it. Debt

burdens embracing virtually the whole of the third world, and consequent financial defaults send shudders through the international banking community. Flowing from these forces, currency instability and more recently the severe shocks to stock markets around the world, are rude reminders of what may befall us if each of us seeks cover in inward-looking and protectionist policies. This may all sound alarmist to you, but we should not forget that it happened before - and it can happen again. Fortunately we do have some of the answers today. We do know that the erection of trade barriers will make things worse not better for all of us and therefore each of us. The question is whether we, together with our trading partners, and most importantly the Big Three - U.S. - Japan Germany - will confront the underlying structural causes of imbalance - and not merely their symptoms. This is the context in which we must view the trade challenges of today.

It is in this context that Canada has emerged among the strongest proponents of trade liberalization for our own good and that of the rest of the world. And we have done more than talk about it. Internationally, we are pushing forward with the GATT round as one of the leading countries. Bilaterally, we have negotiated a historic free trade agreement with the United States.

The F.T.A. which Prime Minister Mulroney and President Reagan signed on January 2 is the biggest trade deal ever negotiated between two countries. It covers more than \$200 billion of trade in goods and services. It is also the most far-reaching in coverage. It removes all tariffs. It substantially liberalizes non-tariff barriers. It incorporates significant sectoral arrangements for agricultural, automotive and energy trade. It breaks new ground in the regulation of trade in services. It liberalizes rules governing investment. It eases the restraints on the movement of people across the border who are engaged in trade in goods and services and in investment. Not least, it establishes mechanisms for the resolution of disputes, unprecedented in any other free trade area or any other trade agreement - bilateral or multilateral.

I believe that the F.T.A. is a good deal for Canada. I believe it is also a good deal for the United States. Trade liberalization is not a zero sum game: when a good agreement is struck, both sides win. And that is the case here.

But let me emphasize that this agreement is the logical continuation of the trade liberalizing policies Canada has followed continuously and consistently

for more than a half-century. Throughout this period, we have led the way to increased liberalization of trade, on a global or GATT basis where this was possible; and on a bilateral basis with our major trading partner where this seemed to be the right way to move things more effectively toward our objectives.

I took part in the creation of the General Agreement on Tariffs and Trade and the first round of tariff negotiations in 1947. I have been involved in successive Rounds of GATT tariff cutting and in the elaboration of common rules to govern world trade. The positive results of the removal of trade barriers and the establishment of the rule of law to govern trade relations are clear for all to see. I participated in the negotiations of defence production sharing agreements with the U.S. and led the Canadian team that negotiated the Canada-U.S. Auto Pact in 1964. Of the Auto Pact I would like to say that the strongest opponents of that day are now embracing it as if it was their creation.

Perhaps we would do well to recall that at the time the Government decided to propose to the United States that we enter into talks looking to a free trade agreement - that is, in the summer of 1985 - there was no multilateral trade negotiation underway, although both Canada and the United States were seeking to initiate a new GATT round. Indeed, the same meeting of Ministers which authorized a proposal to the United States for a bilateral agreement, also agreed to the basic

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elements of the Canadian position for a multilateral trade negotiation under the GATT - elements which provide the basis of our position today in Geneva.

It should be recalled that Canada played an active and influential role in the talks which led to the Punta del Este Declaration launching the Uruguay Round in September 1986, and has continued in a leadership role as the actual negotiations got underway in Geneva. As recently as last December in Geneva, The Honourable Pat Carney, Minister for International Trade, reaffirmed Canada's commitment to the multilateral trading system and to its further liberalization and strengthening through the multilateral trade negotiations. "The GATT" she said "was and is the cornerstone of Canadian trade policy".

This Government has insisted from the outset that a bilateral agreement with the United States would have to be consistent with Article XXIV of the GATT, which, as you know, provides for the establishment of free trade areas between pairs or groups of countries provided they conform with established trade liberalizing principles. Now that the Canada-U.S. F.T.A. has been successfully negotiated and is available for scrutiny,

it is clear for all to see that this Agreement is, to an unprecedented degree, a classical free trade arrangement in conformity with the GATT. It goes well beyond other such agreements which have been brought before the GATT in that it covers services, investment and trade-related personnel movements. It attains the objective of freeing up bilateral trade and commerce without imposing barriers against other countries.

Indeed, it is widely accepted that the F.T.A. will be helpful to the Geneva negotiations in a number of ways. It shows that, despite protectionist pressures in the U.S. and elsewhere determined efforts can defeat such tendencies and produce major trade liberalization. It breaks new ground in the services and investment areas, and it has achieved substantial gains in the agricultural sector which has defied progress in the GATT and elsewhere for many decades. We have clearly set some good examples for the world. Think of what the consequences might have been for the GATT round if the two largest and closest trading partners had failed to reach an agreement.

Signing this agreement constitutes a vital breakthrough in the difficult fight against protectionism which has been creeping up on us over the past few years. As such it signals to Governments around the world that protectionist

forces need not be successful, that the fight is worth pursuing, that dramatic and positive trade results can be achieved with hard work, persistence and goodwill.

I would now like to comment more specifically on some of the particular subjects covered in the two-track negotiations. In doing so I believe it will become clear that not only have we been working largely from the same agenda in both initiatives, but that there are useful linkages between them and important lessons to be learned by us and our trading partners.

Let me begin with market access. With the United States, the basic provision of the agreement is that all tariffs on cross-border trade are to be removed within 10 years, with about half being eliminated either in the first year or within the first five years. We have also put in place a number of measures to secure the access we have won. Access issues have of course been the key element of GATT negotiations over the past 40 years. Again in the Uruguay Round they represent a major objective. The Government has indicated that it supports maximum trade liberalization through improved market access for all types of goods, from natural resource based products to high technology. To ensure that concessions gained today are not lost tomorrow, it is also the stated

aim to provide for firmer commitments, improved monitoring procedures and more effective dispute settlement mechanisms.

One important element of improved access should be government procurement. In our bilateral negotiations, we have obtained a useful enlargement of the access we had obtained earlier under the GATT code. But we would, for our part, have been prepared to go much further were the U.S. willing to do so. We will have another opportunity in the new GATT round and intend to avail ourselves of it. Accordingly, the negotiations in the Uruguay Round on government procurement hold the potential for considerable benefits for Canadian suppliers, not only offshore but also in the United States.

One sector which has rightly come in for a good deal of attention is agriculture. Our bilateral Agreement provides, as on all goods, for the elimination of agriculture tariffs over a 10-year period. I might note this is in contrast to many other free trade agreements in various parts of the world which got nowhere on agricultural trade. There is also a very positive liberalizing section dealing with trade in livestock and meats. At the same time, both Canada and the U.S. recognized that

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agricultural trade involves many other players particularly the European common market countries and Japan; and that it is through multilateral agriculture trade negotiations that we can deal more effectively with many of the barriers that distort trade. We shall press hard to secure better access for our agricultural products to foreign markets on a long term basis. Under the F.T.A. we have committed ourselves to prohibit export subsidies to one another but we have also agreed to collaborate in the multilateral trade negotiations and elsewhere to try to bring order into the international markets. This is a top priority for Canada.

This audience will be aware that an important part of the Uruguay round is how to deal with the so-called new issues: Services, Investment and Intellectual Property. All three were put on the table in both sets of negotiations. The F.T.A. contains impressive results on Services and trade related investment measures that will be important for Geneva. On Intellectual Property our bilateral negotiations were not successful. It turned out after long and hard negotiations that the U.S. was insistent on using their laws as the norm; and unless we accepted their model, the U.S. was not prepared to limit its present

unilateral powers in an agreement with Canada. It was therefore agreed that both countries will try again in the Uruguay Round. The stated goals in Geneva are to clarify GATT provisions and elaborate new rules and disciplines, and to develop a multilateral framework of principles and rules for dealing with international trade in counterfeit goods.

On Services, the F.T.A. contains a set of principles to govern future regulatory measures in the services industries on both sides of the border. The new code enshrines the principle of non-discrimination and sets rules with respect to national treatment, right of establishment, right of commercial presence and the transparency of laws and rules. Any future regulations by either side, either at Federal or Provincial/State levels will be governed by those rules. There are also three model sectoral agreements which roll back restrictions in tourism, enhanced telecommunications and the architectural profession.

Trade in Services is also one of the principal subjects for negotiations in Geneva. While I am not so naive as to think that our bilateral Agreement with the U.S. can simply be transported to Geneva as the basis for the

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the imposition of performance requirements as a condition for investment, and it has been agreed that these trade related investment issues will be an important part of the negotiations in Geneva.

A good deal has been said in public about the dispute settlement provisions of the F.T.A. The general dispute settlement provision provides essentially a non-binding GATT-type panel procedure, albeit bi-national, modified and enhanced. If either country feels the other has taken some action inimical to its interests, there will be formal consultations. If they are unable to resolve the issue, there would be a panel review. Its findings would have considerable moral weight, and in most instances its findings would be accepted. If not, the offended party could seek compensation either of a positive kind or by withdrawing equivalent concessions. With regard to emergency safeguard measures, it was agreed that where there are differences that cannot be resolved through consultations, there would be resort to a bi-national panel with binding powers.

With regard to countervail and anti-dumping, the bilateral negotiations were not successful in working out a common set of definitions and rules. In particular we were not able to agree on a definition of permissible

and non-permissible subsidies. The U.S. sought to apply to Canada stricter rules than they were prepared to accept for themselves and furthermore were not prepared to bind the states. Obviously, we could not accept such an unbalanced proposal. We agreed to work together over the next 5 - 7 years to define rules for fair trade and the disciplines applicable to anti-dumping and countervail. We will also be working in Geneva as part of the MTN on many of the same issues and try to improve on the present provisions with respect to subsidies, countervail and anti-dumping which most GATT members believe to be inadequate in their present form.

But we did make an important break-through in the F.T.A. on a method for dealing with disputes affecting dumping and countervailing cases. The two governments have agreed to a unique dispute settlement procedure that guarantees fair interpretation and impartial application of their respective anti-dumping and countervailing duty laws. We have provided for greater accountability by regulators and investigators. In effect, we have established a watchdog to ensure that the laws are interpreted fairly and applied properly and that there is no arbitrariness in the application of those laws.

Either Government may seek a review of an anti-dumping or countervailing duty determination by a bi-national panel with binding powers. Disputes with the

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United States will be assessed on the basis of U.S. law; those with Canada on the basis of Canadian law. Since this joint review will replace existing rights of review and appeal to our respective courts, this procedure will not add yet another level of litigation to the already complex and costly system of trade remedy law. Moreover, by virtue of their composition, these panels will be oriented toward practical, commercial policy considerations rather than fine points of law.

The success of this procedure will not be counted in the number of times it is invoked, but in the number of petitions it discourages and the number of politically inspired decisions it halts. That is the essence of a successful watchdog.

For the first time ever, the Americans have accepted the idea that a bi-national institution with a chairman chosen by both parties will be the ultimate appeal against sanctions by them under their law. Canada has, of course, accepted the same discipline. This is a formidable achievement and many other countries have signalled an interest in similar arrangements.

I would like to make two points on the bilateral dispute settlement provisions. One is that although we did not achieve everything we asked for, they give us significantly more than we have at present

and more than there is in other free trade agreements. Secondly, they provide a useful, indeed important, signal for the MTN talks. An improved dispute settlement system is one of the critical objectives set in the Uruguay Round to strengthen the GATT multilateral trading system. I believe that there will be much to be learned from the F.T.A. in this respect as in others. Indeed, trade policy commentators both public and private have singled out this element of the F.T.A. as one with positive implications for the Uruguay Round.

I would like to mention one other key feature of the F.T.A. which should help Canada achieve improved results in its negotiations with third countries during the GATT round. In past rounds we have, under the chief supplier rule, had to concentrate much of our energies on those parts of the negotiations related specifically to our trade with the U.S., our largest trading partner. This was especially true for specific trade barriers such as tariffs and quantitative restrictions. This constraint will largely disappear since we have dealt with bilateral barriers in the F.T.A. This opens the door to significantly broader possibilities for negotiation of a larger and more meaningful deal with other significant trading partners,

such as the European Community, Japan and many newly industrialized countries of the Third World. We must assume that those countries' interest in negotiating with us will have been whetted by the two-way trade concessions that we have incorporated in the F.T.A., and which they would no longer be automatically entitled to under the most-favoured-nation provisions. To get such concessions they would have to bargain directly with us and pay for separately in good negotiable coin.

Some people would have you believe that the multilateral GATT approach and the Canada-U.S. F.T.A. approach are mutually exclusive or are substitutes one for the other. Nothing could be further from the truth. The fact is the one re-inforces the other; that they are complementary. Many other countries have pursued this two-track approach in the past. Indeed, Canada and the U.S. are among the few exceptions. Through the F.T.A. the U.S. and Canada are doing no more than catching up with the other in availing themselves of clear rights under GATT to develop two-way trade with our principal trading partner.

The Government has indicated that it does not intend to sit on its oars simply because it has negotiated a free trade agreement with the U.S. Quite the contrary. We do not hold with a North American fortress mentality. The goal is to enhance Canadian trade worldwide. We wish to expand our trade and secure that trade with all countries.

Indeed, there are a number of issues which can only be dealt with effectively at the international, multilateral level. I have mentioned agricultural trade and procurement. Subsidies may fall into this class as well. There are others. The systemic issues we face because of the major economic problems I referred to earlier illustrate that no country however large, no Government however important, would be immune from a failure to tackle and resolve these problems.

A successful GATT round to complement a successful Canada-U.S. F.T.A. will provide Canada with a strong foundation for our future growth and prosperity. This is the rationale for our two-track approach to trade. This is why Canada is committed to work with other countries in the GATT and elsewhere to construct a more open, more secure, more mutually beneficial world trading system.

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April 14, 1988.

MINISTER CROSBIE TO HOST THE QUADRILATERAL TRADE

MINISTERS MEETING IN APRIL POINT, B.C.

The Minister for International Trade, the Honourable John C. Crosbie, will host a Quadrilateral Trade Ministers meeting in April Point, British Columbia, April 15-17.

Other participants will be the United States Trade Representative, Ambassador Clayton Yeutter, European Communities Commissioner, Mr. Willy de Clercq, and Japanese Minister for International Trade and Industry, Mr. H. Tamura. This will be Minister Crosbie's first Quadrilateral Trade Ministers Meeting. Minister Crosbie met Ambassador Yeutter on April 12 and will have bilateral discussions with Minister Tamura in the morning of Friday, April 15 and Commissioner De Clercq on April 19.

Discussions at this Quadrilateral meeting will focus on the Uruguay Round of Multilateral Trade Negotiations. The meeting will provide Ministers an opportunity for an informal exchange of views on the progress in the negotiations being conducted in Geneva under the auspices of the General Agreement on Tariffs and Trade.

The Quadrilateral Trade Ministers Meeting is one of several important opportunities for discussion of the progress in the Uruguay Round in the lead-up to the Montreal Mid-Term Review Conference in December.

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Minister for
International
Trade

Ministre du
Commerce
extérieur

Canada

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QUADRILATERAL TRADE MINISTERS MEETING

BACKGROUND

Ministers responsible for International Trade of Canada, the United States, the European Community and Japan have met on a regular basis (two or three times a year) since 1982. The last Quadrilateral meeting took place in Kashikojima in April 1987.

The idea of ministerial discussions on trade was first raised during the preparations for the 1981 Ottawa Economic Summit, against the background of the experience developed during recent multilateral trade negotiations (Kennedy Round and Tokyo Round). The first Quadrilateral Trade Meeting was held in January 1982 at the initiative of then United States Trade Representative, Mr. William Brock. The objective was to provide an opportunity for informal discussions among the participants on international trade and trade-related economic developments, and trade prospects and problems of common interest.

During three days they are spending in British Columbia, the Ministers and their officials will review the progress made so far in the Uruguay Round of multilateral trade negotiations.

The Honourable John C. Crosbie, Minister for International Trade chaired a weekend meeting of the Quadrilateral Trade Ministers at April Point Lodge on Quadra Island, B.C., April 15-17, 1988. Attending were Willy de Clercq, Commissioner, External Relations for the European Community, Minister Hajime Tamura, Minister of International Trade and Industry, Japan and Clayton Yeutter, United States Trade Representative. The meeting reviewed in detail the status of the multilateral trade negotiations now underway in the GATT.

Agriculture was a key item in the meeting. Mr. Crosbie, who led discussion on this subject, expressed the view that there is an urgent need for early and substantial results by the time of the Ministerial meeting of the 96 member GATT to be hosted by Canada in Montreal the week of December 5, 1988. He outlined the Canadian proposals for short-term relief and longer-term agricultural reform.

Canada has placed very high priority on these multilateral negotiations. Mr. Crosbie noted that they are the most ambitious in the history of the GATT and will set the rules for the multilateral trading system into the twenty first century. It was essential, he said, that we seize this opportunity to achieve the maximum liberalization possible. Because of the free trade agreement between Canada and the United States, Canadian industry will become increasingly competitive globally and it is therefore imperative, Mr. Crosbie added, "that our

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industry have the best possible access to European, Japanese and other world markets".

Finally, Mr. Crosbie indicated that if these negotiations are to succeed it was essential that Ministers continue to provide strong direction and impetus. He was therefore pleased that he and his colleagues would be meeting again directly after the Toronto Summit in Minnesota at the invitation of Clayton Yeutter.

The Quadrilateral followed the bilateral meetings Mr. Crosbie had last week with Mr. Yeutter in Washington and with Mr. Tamura in Vancouver. This coming week, Mr. Crosbie will be meeting in Ottawa with Arthur Dunkel, Director General of the GATT. On Tuesday he will review our trade relationship with the European Community in a meeting with Mr. de Clercq.

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MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

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MTN.GNG/NG5/W/19

20 October 1987

Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on Agriculture

Original: English/
French -

PROPOSAL BY CANADA REGARDING THE MULTILATERAL
TRADE NEGOTIATIONS IN AGRICULTURE

The purpose of this note is to set out Canada's views on the conduct of the negotiations on agriculture. It has been developed in the light of the preparatory work carried out by the GATT Committee on Trade in Agriculture (CTA) and draws on the recent work of the OECD as regards the linkages between domestic agricultural policies and agricultural trade reform.

Background

Recent international meetings have revealed broad agreement on the imperatives surrounding agricultural trade reform. Most, if not all, governments are convinced that: fundamental agricultural trade reform can only occur if there is a parallel reform of domestic policies (in particular a shift to production-neutral, and more market-oriented support); major reforms are easier to implement if they are carried out on a multi-commodity basis and are perceived to be part of a generalized move to improve the agricultural trading system; adjustments should be phased-in progressively over time and governments should retain some flexibility in the choice of policy instruments (support systems vary widely between countries and it is not necessary to achieve homogeneity in agricultural policies in order to achieve agricultural trade reform).

The three major elements of agricultural trade reform which the Punta del Este Declaration identifies (access, subsidies and technical regulations) are inseparable, in the sense that failure to deal effectively with one element is likely to prejudice any gains which may be negotiated in the other areas. Just as the value of access concessions can be impaired by domestic import replacement subsidies, so can access commitments be subverted by the imposition of technical regulations as disguised barriers to trade.

The linkages between the different instruments of national agricultural policies, the linkages between commodities, the diverse nature of the policy instruments and the disparate range of commodity interests of contracting parties, all argue in favour of a comprehensive approach to the negotiations.

Past GATT negotiations have revealed clearly the limitations of a commodity specific, request and offer approach. The experience of seven previous rounds suggests that adoption of a request and offer approach would doom the agricultural negotiations in the Uruguay Round to failure.

The credibility of the GATT's applicability to agricultural trade is severely strained by the large number of exceptions and waivers and by the absence of rules to deal with such important agricultural trade measures as: variable import levies, "voluntary" export restraints, minimum import price systems and "unbound" tariffs.

The effectiveness of the GATT's dispute settlement machinery has been severely jeopardized by the vague, unpredictable and, hence, virtually unenforceable rules on agricultural subsidies. The rules on subsidies thus far have been effect-oriented. The current rules are unsatisfactory in that they do not provide any guidelines to the subsidizing countries on what is internationally acceptable behaviour. Moreover, they place on the affected party the onus to seek redress and to demonstrate injury after the damage has been done.

The work of the CTA and the OECD clearly reveals that disciplines need to apply to all subsidies affecting trade, domestic as well as export subsidies. The Punta Declaration requires the phased reduction of the negative effects of all direct and indirect subsidies affecting agricultural trade.

Proposal

The conclusion Canada draws from the foregoing is that the political will necessary "to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines" is beginning to emerge. However, in order to achieve the objectives set out in the Punta del Este Declaration, Canada is convinced that the only negotiating approach which holds any real prospect for success is one which encompasses all GATT members, all agricultural commodities and all trade distorting measures -- in short, a comprehensive approach.

In Canada's view such a comprehensive approach must deal with two interrelated issues: (1) improve and secure access and reduce trade distorting subsidies, and (2) provide national policy makers with equitable, predictable and enforceable international rules against which national agricultural policy decisions could be taken.

More specifically, Canada proposes the adoption of a comprehensive approach which would result in:

- the elimination of all subsidies which distort trade and of all access barriers, over a period to be negotiated; as an initial phase of this process, and consistent with the above goal, a major reduction in all trade-distorting subsidies and a major improvement in secure and predictable access should be phased-in over, say, five years.
- the provision of equitable rights and obligations among contracting parties, such that all exceptions and waivers would be phased-out, access under each tariff line would be bound, and variable import levies, minimum import price systems and all other measures affecting access to markets would be brought under the purview of effective and enforceable GATT disciplines.

A negotiating technique which could achieve the objectives of the Punta del Este Declaration would include:

- the use of a single measure which converts all access barriers, administered price systems and trade distorting subsidies into a single aggregate "trade distortion equivalent" (TDE). The TDE would be based on the OECD "producer subsidy equivalent" measure but would omit those elements which by agreement would be deemed to have a neutral impact on trade (e.g. direct income transfers unrelated to production). Such a measure could, for example, be reduced by (x) percent, over five years, in aggregate for each contracting party; for each major commodity group for each contracting party the reduction would have to be at least (x-10) percent over five years so as to ensure that all major product groups are dealt with equitably. Exclusion of production neutral income transfers from the calculation of TDE's should assist in encouraging the development of national agricultural policies which are more market-oriented and less trade distorting. In calculating TDE's, "credit" could be given to those countries which effectively limit the output eligible for direct or indirect income transfers.
- agreement to introduce no new trade restrictions or trade distorting subsidies;
- agreement to enshrine in the GATT rules which would clarify what practices would be permissible within the overall framework set out above, including which counteraction practices would be allowed;

- strengthened commitments to prohibit the use of technical regulations as disguised trade barriers, encouraging the use of international standards where possible, and agreeing to minimize the trade effects where harmonization of technical regulations is not feasible.

Canada recognizes that the development of a new and untried negotiating technique such as the TDE runs the risk of slowing down the negotiations. Since this risk increases with the complexity of the approach, Canada is of the view that the simplest possible approach is preferable.

The above elements are part of an integral whole which cannot be separated. Canada proposes that agreement be sought in the first instance on the nature of the negotiating technique to achieve trade liberalization, i.e. define the elements to be included in the "trade distortion equivalent" and the appropriate base period against which to measure reductions. Following agreement on the depth of cut and the phase-in period, which would be accompanied by a binding commitment not to introduce any new import barriers or trade-distorting measures, the second stage would involve each country tabling a proposed implementation plan indicating in detail how it proposes to implement its commitment to reduce the "trade distortion equivalents" by the specified percentage. It would also then be necessary at an appropriate time to consider differential and more favourable treatment for developing countries as provided for in the Punta del Este Declaration.

Since negotiations on improved rules are regarded as an integral part of the comprehensive approach, draft texts would need to be prepared for consideration at the same time a decision was taken on the depth of the "trade distortion" cut.

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May 10, 1988

NEGOTIATION OF A MULTILATERAL AGREEMENT ON TRADE IN
SERVICES: A WORKING HYPOTHESIS

BACKGROUND

1. The Punta del Este Ministerial Declaration launched negotiations aimed at the establishment of "a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors, with a view to expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting economic growth of all trading partners and the development of developing countries. Such framework shall respect the policy objectives of national laws and regulations applying to services and shall take into account the work of relevant international organizations."

2. Canada supports the goals of these negotiations to expand, make more transparent and progressively liberalize trade in services. We believe that the removal of trade barriers and the creation of an open, predictable and stable trading environment for services can contribute to the economic growth and development of all countries.

3. In this regard, the Punta Declaration emphasizes the need to promote the development of developing countries as one objective to be pursued through negotiating a Trade in Service Agreement. Canada recognizes the importance of this commitment. At this stage, developing countries are in the best position to make proposals to reflect this goal. (We have noted and welcome the proposal by Argentina which we intend to examine further within the flexible and practical approach suggested in this working hypothesis.)

PURPOSES

4. This paper sets out a working hypothesis for the Trade in Services negotiations. It does not purport to be a complete text of an Agreement or necessarily to incorporate all elements that should be included in the Agreement, for example with regard to principles and rules. However, we hope that an approach along the lines set out in this working hypothesis could serve as a basis for moving the negotiations forward. The working hypothesis seeks to take account of several key considerations:

First, regulatory measures that affect foreign service providers cannot be as readily distinguished from other regulatory measures by tracking their enforcement at the border as can regulatory measures affecting foreign goods;

Second, protection of domestic industries, while it may be economically inefficient, cannot realistically be eliminated overnight. A progressive approach to removal of trade distorting or restrictive barriers is thus required;

Third, there is a need to ensure flexibility and respect for differences in national policy and regulatory objectives in services sectors, consistent with the desire to create an open, predictable and stable trading environment;

Fourth, an agreement on trade in services would need to involve benefits for and contributions from all its participants.

5. In the light of discussions of conceptual issues in the GNS, the proposed working hypothesis should be sufficiently comprehensive and flexible to allow all interested parties to participate meaningfully and to the fullest extent. It is set out in 2 parts: A) an outline of the structure for an Agreement on Trade in Services; and B) some comments on the process of negotiations;

PART A: POSSIBLE STRUCTURE FOR A TRADE IN SERVICES AGREEMENT

6. Canada suggests that a Trade in Services Agreement would need to include at least four main elements:

- * a set of principles to provide a framework for further market access undertakings and trade liberalization measures, as well as implementation of the Trade in Services Agreement;
- * a set of rules concerning, in particular, transparency and non-discrimination requirements;
- * institutional arrangements and procedures to ensure effective multilateral surveillance and enforcement of the Agreement and timely resolution of disputes as well as to provide arrangements for further market access trade liberalization;
- * an exchange of specific market access undertakings and trade liberalization measures, which would determine the practical scope of the Agreement.

Framework Principles

7. Agreed principles would lay out the framework within which further market access undertakings and ongoing liberalization of trade in services would be effected. Those principles would address for example national treatment and the behaviour of monopolies.

8. The issues involved in a principle of "national treatment" lie at the heart of the services negotiations. There are different degrees of "national treatment" which the negotiations may seek to define as precisely as may be possible. However, if services negotiations are to result in liberalisation of trade and a beneficial increase in commercial flows, they will ultimately have to involve exchanges of bound "concessions" eliminating or reducing barriers (or classes thereof). This is the subject of the market access section below,

9. Conceptually, there may be a legitimate distinction to be made between the prudential or safety, for example, purposes of certain regulations, and the possible anti-competitive or restrictive effects. The regulations should in principle have an effect which is non-discriminatory among domestic and foreign service providers and, accordingly, trade inhibiting impacts would be open to the services negotiations. We are, however, sceptical as to whether elaborate machinery need be set up to examine all regulations in vacuo. Rather, if this distinction is generally accepted, it should simply be applied in the course of the negotiations, recognizing that there is often overlap between the two.

10. How to treat monopolies would appear under this heading rather than the next, insofar as it involves an economic negotiation over degrees of openness, the results of which would, again, be set out in the national schedules.

11. There may be other principles which should be considered for this category.

Rules

12. The main rules would cover transparency of national laws, regulations and practices, and non-discrimination among the participants to the Agreement. Rules once agreed would be automatically applied and not be the subject or "locus" of negotiations (though they could be the subject of complaints e.g. over alleged nullification or impairment).

13. Once the Agreement is adopted, national laws and regulations that affect the operation of the Trade in Services Agreement would be published. Participants would be required to publish official notice of any measure that would impose a new or changed requirement or restriction relating to traded services. Any participant that considers such a measure by another participant to nullify or impair benefits of the Agreement would also be entitled to notify it. The measures could be challenged under the Agreement only if there had been a binding through the exchange of concessions.

14. MFN treatment would also be a basic requirement. It is the cornerstone of the GATT and would need to become a correspondingly key element of any agreement on services. This would mean that although the exchange of concessions (whether commitments on existing measures or on future measures) would generally be negotiated bilaterally or plurilaterally, the concessions would be implemented on an MFN basis to all parties to the Trade in Services Agreement.

15. There should also be a requirement that bilateral concessions between a party to the Agreement and a non-party to the Agreement be extended automatically to all parties to the Agreement. This would ensure that the Agreement was the "best deal" available to each party and would encourage wide participation.

16. Another area for possible consideration at a suitable point would be that of exceptions, e.g. provisions allowing the parties to adopt or enforce measures to protect public morals, to protect human, animal or plant life or health or to secure compliance with laws or regulations that are not inconsistent with the Agreement. The general exceptions should not allow parties to use such measures to circumvent their commitments with disguised restrictive measures.

17. There may be other types of rules which should be agreed for inclusion.

Institutional Provisions

18. Institutional provisions would be incorporated to make the Agreement work effectively and equitably as well as to resolve disputes in a timely manner. Procedures for dispute settlement would be required to deal with situations of denial of negotiated benefits and other instances of nullification and impairment of benefits.

19. Consultations on any matter affecting the operation of the Agreement would be provided for in the Agreement. Mechanisms for multilateral surveillance of the policies of the parties to the Agreement in relation to the rules of the Agreement, notably transparency, and to concessions incorporated into the Agreement, would also be included.

20. Provisions would be required for the modification of schedules, and negotiations by the parties, with a view to the further liberalization of barriers to trade in services.

Market Access Undertakings

21. The practical scope of the Agreement would be determined by the exchange of specific market access undertakings and of trade liberalization measures. The undertakings could potentially relate to any measure used to

inhibit trade in services. For the purposes of illustration, market access undertakings could include:

- (a) concessions on measures relating to traded services, i.e., those essentially produced in the territory of one country and provided in the territory of another country;
- (b) concessions relating to commercial presence, establishment, and national treatment for enterprises providing services once they were established;
- (c) impediments to information and payment flows; and
- (d) impediments to temporary movement of business personnel.

Concessions could also incorporate commitments made in other international agreements, where these were compatible.

22. The undertakings could take the form of bindings of existing measures (or classes of measures) with a commitment not to make the existing measures more trade restrictive; or the removal in part or in whole of measures (or classes of measures) which have been the subject of a (cross) notification, plus a binding of the new situation and a commitment not to make it more trade restrictive in future.

23. While the exchange of concessions (whether commitments on existing measures or on future measures) would generally be negotiated bilaterally or plurilaterally, all parties to the Trade in Services Agreement would have to contribute appropriately to the exchange of concessions, which would then be implemented on an MFN basis to all parties to the Agreement. In practice these negotiations would establish the scope of the Agreement with concessions incorporated in each participant's national schedule annexed to the Agreement.

PART B: PROCESS OF NEGOTIATIONS

24. In order to ensure that a Trade in Services Agreement demonstrate its value and produce mutual economic benefits from the outset, work should avoid theoretical debates and proceed expeditiously and pragmatically. Canada proposes to move ahead in parallel on each of the areas identified in this paper.

25. However, the subject of market access undertakings and liberalisation has to date received relatively little attention, yet will in the Canadian view inevitably be critical to success and should therefore be given greater priority.

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26. Under this working hypothesis, there would be two key requirements for participation in the services negotiations, with particular reference to the exchanges of market access undertakings:

First, the collection of a body of information on participants' barriers to trade in services is essential. This would in principle largely be provided by the participants themselves.

Second, in order to participate under this hypothesis, countries would also need to agree to a mode of negotiation that will ensure that there would be an opportunity to cross notify each others' barriers and answer fully all enquiries on various regulatory regimes.

27. Such information is essential to the development of definitive interest lists and implementation plans and to the accurate description of concessions. The work of the GNS to date on identifying and classifying barriers to services trade, including the Canadian contribution MTN.GNS/W/14, is a starting point. But far more needs to be done to allow the negotiations to get underway seriously this year.

28. Proposals have been made for a freeze to be effected as part of the negotiations. Canada is attracted to this idea. It would help in preventing any participant from instituting (or altering existing) measures so as to give itself an advantage in the negotiations. However, the issue is clearly related to that of transparency, as without a generally available picture of what is being frozen, the scope for misunderstandings and disputes is discouragingly high.

29. In order to accommodate the wide range of interests among participants, there should be no attempt at the outset to constrain the scope with respect to coverage, or with respect to types of factor flows which could be subject to negotiations. While some parties may choose to exclude certain types of factor flows or specific sectors or measures from their own offers for the exchange of concessions, each party would make such decisions on the basis of its own negotiating objectives, and could still decide to respond to another party's expression of interest in a non-offered item.

30. In addition to the work aiming at actual measures of liberalisation of trade, negotiations should also proceed in the other areas identified. In particular, the framework principles, once agreed, should prove especially helpful to the access negotiations. The other two areas discussed above should not lag either, as they will have an important bearing on the nature and extent to which parties would be prepared to commit themselves in the Agreement.

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DATE: November 9, 1987

U.S. HOPES FOR EARLY TRADE ACCORDS IN URUGUAY ROUND

It is a pleasure to be back in Geneva. I am grateful to the Centre for Applied Studies in International Negotiations for providing me with this opportunity to discuss one of the most important challenges facing the world economy -- the Uruguay Round of multilateral trade negotiations.

The negotiators will be called upon to exercise their skills at the highest possible level if they are to succeed; I am confident that they will rise to the challenge just as an earlier generation of negotiators did 40 years ago.

Later this month, I will return to Geneva to join in the celebration of the 40th anniversary of the General Agreement on Tariffs and Trade (GATT). At that time, I plan to outline a vision for the future of the world trading system. Today, I will speak more specifically about the current challenge of the Uruguay Round and the progress we must make in 1988 in order to make the broader vision possible.

GROWTH THROUGH TRADE

Imagine what the original GATT negotiators must have thought as they gathered together to create a new international trade system. In their lifetimes they had witnessed the two most destructive wars in history; a Great Depression that, propelled by a plague of protectionism, had eroded the very fabric of their societies; the rise of aggressive totalitarian regimes, stimulated in large part by economic unrest; and a dramatic increase in economic and

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political isolationism that had turned their world into chaos.

The lessons of that period must have been clear -- that the nations of the world, as interdependent members of the international community, need rules and codes of conduct to facilitate their economic relationships.

The creators of GATT applied these lessons as they developed a new trading system. The General Agreement on Tariffs and Trade became a set of principles and disciplines to promote global economic growth through expanded trade. The signatories promised to disavow the protectionist practices of the 1930s when nations had tried in vain to prosper at the expense of each other. Renouncing the beggar-thy-neighbor approach, which had succeeded only in impoverishing everyone, the GATT members fashioned a system in which all nations could grow and prosper together.

As we survey the 40 years since the GATT was founded, we can view it as an enormous achievement. All nations have benefited from lower tariffs and reduced trade barriers, and international trade expanded dramatically. As trade increased, so did economic growth. Expanded trade has provided rising prosperity for developed and developing nations alike. Some have become prosperous far beyond their expectations.

Yet despite the obvious benefits of open markets, the international trading system is beset today by serious problems. Increasingly, countries are using export subsidies and non-tariff import barriers to achieve advantages over their competitors. There are those who prefer not to compete internationally, those who want only to export, and those who think trade barriers will give them the edge. In short, the beggar-thy-neighbor approach is making a comeback.

This is an alarming trend. It has a corrosive effect on the system because one such action begets another. Fifty years ago, an escalating trade war contributed to the deepening and lengthening of a worldwide depression. Today, in an ever more interdependent world, a comparable trade war would be even more disastrous. The tremors that have rocked the financial markets in recent weeks are a sobering reminder of the fragile nature of the international economic system.

URUGUAY ROUND PROGRESS

To counter these disturbing trends, the world is turning once again to the GATT, seeking growth through trade expansion, and trade expansion through negotiation.

During this first year of the Uruguay Round we've made significant progress. Remarkably little time has been wasted as the negotiating groups have gone about their business in a purposeful manner. We're moving much faster than during a comparable stage of the Tokyo Round.

I am particularly pleased with the true multilateral nature of the negotiations. Many nations -- not just a few -- are contributing to the process. These countries reject such narrow classifications as "developed" or "developing" and "north" or "south". They repudiate ideological debate in favor of pragmatic discussion. Too much is at stake to indulge in rhetorical bombast.

The Punta del Este process succeeded because nearly all participants played an active role, even those who were initially reluctant to launch a new round. The same will prove true of the Uruguay Round itself. For the round to succeed, everyone must participate actively. The world has become too interrelated for any nation to sit on the sidelines.

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But we should not be too self-congratulatory. As we approach the end of the initial phase of the Uruguay Round we need to accelerate the pace. Nations that have not yet come forward with proposals should act without delay so that we will be able to begin comprehensive negotiations next year, as called for in the Trade Negotiating Committee's negotiating plan. We in the United States look forward to negotiating earnestly, beginning next January.

THE OUTLOOK FOR 1988

We should be able to make real progress in a number of Uruguay Round areas by the end of next year. The United States is willing to accelerate its efforts on all fronts and to give special attention to any issue that can be dealt with expeditiously. We believe there are at least several candidates for expeditious treatment.

Agriculture

The crisis in world agriculture threatens the well-being of all nations. Many countries feel a desperate need to reform their agricultural policies, yet none can do so unilaterally. Developing countries who cannot afford expensive farm policies find themselves caught in the crossfire of developed countries, who are bloating their own national budgets with costly support programs. These wasteful practices are the source of constant conflict between trading partners. We need to reach a multilateral understanding on how to move in parallel to reform our programs, thereby creating expanded opportunities for trade in agriculture products.

Establishing discipline for trade in agriculture is one of the U.S. major Uruguay Round objectives. We have proposed a complete end to all barriers and trade-distorting policies. The time to act is now; if we fail to move

quickly, pressures will build globally for even more protectionist and predatory actions.

We are heartened by the real work that has been done in this area so far. Numerous countries are actively involved in the negotiations. We are pleased that the European Community, the Cairns Group and Canada have all tabled proposals. While there are parts of these proposals with which we disagree -- particularly the community's proposal which contains far too little reform -- we welcome the vigorous, committed participation of these nations in the negotiating process.

Tropical Products

Since most tropical products are, in fact, agricultural, work in that negotiating group is inextricably linked to the work in agriculture. The U.S. proposal to end all barriers and trade-distorting policies in agriculture encompasses a broad range of products ("tropical" and otherwise) of great interest to the developing countries. In addition, we would like to explore with our negotiating partners the possibility of expediting the elimination of barriers and distortive policies for certain tropical agricultural products. We will be tabling a proposal to this end within a few days. The widespread recognition of the need for rapid progress on agricultural and tropical products would suggest that all the ingredients are in place for early results in this area.

Non-Traditional Issues

A number of issues are being negotiated in a GATT context for the first time during the Uruguay Round. These issues are such an important part of the future of international commerce that they can no longer be ignored. On these issues, we are at the start of a long and complex process of discussion and negotiation. Nevertheless, we

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think concrete results can be achieved, and in fact must be achieved, in the near future.

Trade in services, for example, is the fastest-growing sector of international commerce, yet there are no GATT disciplines applicable to it. We need to make tangible progress on services in order to give the international business community confidence that we are willing to tackle issues of relevance to them. As we have been working on services since the 1982 GATT ministerial meeting, there is no excuse for not being able to devise a framework agreement soon. We ought to get it done.

The protection of intellectual property is another issue that needs to be addressed with urgency. Unless clear and enforceable rules for preventing the piracy of patents, copyrights and trademarks are developed, conflicts in the area will inevitably increase. If they cannot be resolved multilaterally, they'll inevitably be resolved bilaterally or unilaterally. Similarly, investment issues are increasingly related to international trade. We must have rules that prohibit national investment policies from restricting or distorting trade.

Institutional GATT Issues

Virtually every nation realizes that we must strengthen the GATT as an institution. This is an area in which much discussion has already taken place during the past few years. The issues are not complicated; we should be able to make early and rapid progress on them. Strengthening GATT now will help us address more difficult issues later. The sooner we act in this area the better.

The institutional issues confronting us are well-known. We must find a better way to settle our disputes; they should not be allowed to linger indefinitely. We need effective surveillance of the practices and policies of GATT

members so that the views of the international community are given greater weight in domestic policy-making. We should institutionalize a greater role for ministers, thereby giving the GATT additional stature while also bringing their broader political and economic perspectives to the process. And we need to strengthen GATT's relationship with the international organizations responsible for international monetary and financial issues, which will lead to mutually reinforcing international economic policies.

These changes would benefit all countries. They will shore up the GATT, hopefully making it easier for governments to resist protectionism. That in turn will help provide a stable foundation for economic growth, which the world desperately needs. Strengthening GATT as an institution will allow people and firms throughout the world to put their faith in trade as an instrument of growth.

Other Issues

These, of course, are not the only issues which are important to us. Issues that relate to trade in manufactured products remain a high priority for the United States. Although tariffs will not be the primary focus of the Uruguay Round negotiation, they will be a significant concern for us. In today's trading environment, tariffs must be reviewed in conjunction with non-tariff barriers.

Negotiations on the various MTN codes and agreements are also priorities for the United States. Some of these negotiations pre-date the Uruguay Round and we see no reason why important improvements cannot be achieved in such areas as government procurement, standards and subsidies.

We are not forgetting the traditional issues, and we expect substantial progress toward trade liberalization in these areas as well as in the new issues. At the end of

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the round, we expect that all countries, including the LDCs, will have increased their obligations to the GATT system. They will then be more active in the development of trade policy globally and in the management of the GATT.

One final issue that concerns us is that of respect for internationally recognized labor standards. We are well aware that this issue could be used as a guise for protectionist actions -- that outcome must clearly be avoided. We believe, however, that a frank and sober examination of this issue in the GATT could serve to diminish protectionist pressures.

How to Proceed

We will have an opportunity to discuss all these issues in greater detail at the annual meeting of the GATT contracting parties during the week of November 30. I plan to come to this meeting, and I understand that a number of other trade ministers will be here as well. I look forward to stimulating and productive discussions at that time. We should be able to review how far we've come in the Uruguay Round and establish a clear understanding of where we're going in 1988.

We should also give serious consideration to a ministerial level mid-term review, as was foreseen in the Punta del Este declaration. Such a meeting, which presumably would be held in late 1988, could review progress made in the first two years, officially approve any agreements reached, and provide the encouragement and political momentum to bring the entire exercise to a successful conclusion at the earliest possible date. We see no reason why this cannot be done within the four-year timeframe that was originally contemplated.

Conclusion

Launching the Uruguay Round was a major milestone for the GATT but it was only the first step of a long process. Our challenge now is to sustain and build momentum. Business and political leaders world-wide must have confidence that we are making substantial progress toward a stronger GATT. If we lose that confidence, and if it seems to them that the Uruguay Round is becoming derailed, the threat of protectionism will increase.

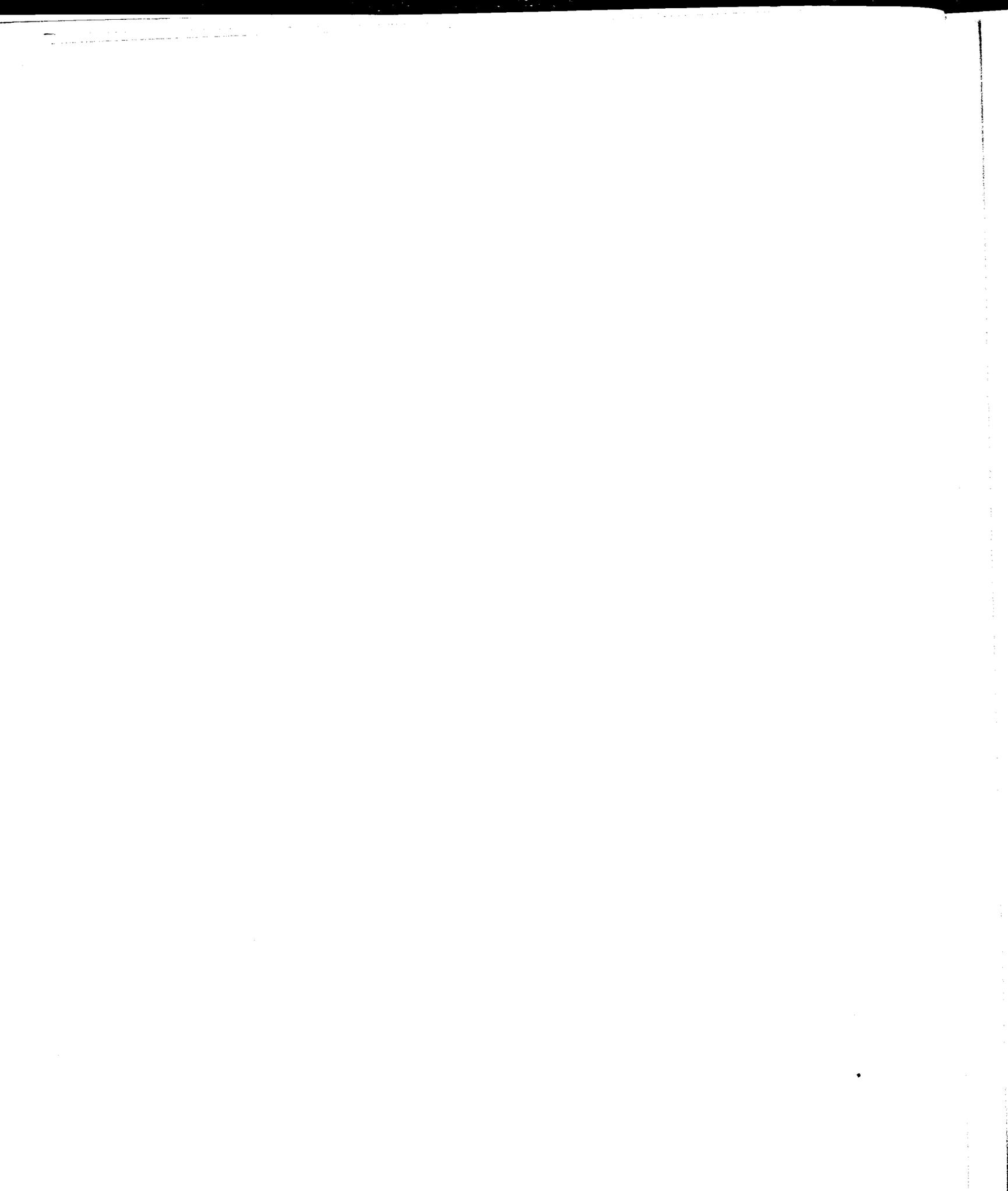
There is no going back to the pre-Uruguay Round status quo. We either move forward to a stronger international trading system or retreat to a world of increasing bilateralism and protectionism. We're on the right course. There are difficult political choices ahead, to be sure, but if we collectively demonstrate international leadership, the Uruguay Round will be the most significant and rewarding negotiation of the post-war period.

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**EMBARGO: 2 P.M. - 5 MAY 1988
[CHECK AGAINST DELIVERY]**

ADDRESS BY

WILLY DE CLERCO

EC COMMISSIONER

FOR EXTERNAL RELATIONS AND TRADE POLICY

AT THE NATIONAL PRESS CLUB

CANBERRA

5 MAY 1988

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LADIES AND GENTLEMEN,

THIS IS THE SECOND TIME I HAVE HAD THE PLEASURE OF ADDRESSING THE NATIONAL PRESS CLUB. THE FIRST TIME WAS ON THE OCCASION OF OUR 1986 MINISTERIAL CONSULTATIONS. THESE TALKS, ALTERNATING AS THEY DO BETWEEN CANBERRA AND BRUSSELS, NOW DATE BACK NEARLY 10 YEARS AND THEY CONFIRM THE CONTINUITY, THE REGULARITY AND THE EXPANSION OF OUR CONTACTS.

AND THEY DO NOT STOP THERE. PRIME MINISTER HAWKE HAS BEEN A WELCOME GUEST AT THE COMMISSION. SEVERAL OF MY COLLEAGUES AND MEMBERS OF YOUR GOVERNMENT HAVE REGULARLY MET, AND MINISTER DUFFY AND I HAVE SEEN EACH OTHER SEVERAL TIMES IN INTERNATIONAL TRADE FORUMS AROUND THE WORLD AND WILL CONTINUE TO DO SO.

LET ME MENTION TOO THE VISIT LAST WEEK TO FIVE AUSTRALIAN CITIES OF THE EUROPEAN PARLIAMENT'S DELEGATION FOR RELATIONS WITH AUSTRALIA, ALSO THE VISIT OF EUROPEAN PARLIAMENT PRESIDENT, LORD PLUMB, AND THE FACT THAT THE EUROPEAN COMMUNITY, PLUS SIX OF ITS MEMBER STATES, COMPRISE THE LARGEST INTERNATIONAL PRESENCE AT EXPO '88.

ALL THIS SHOWS THAT WHATEVER DIFFERENCES MAY AT TIMES HAVE CLOUDED THE RELATIONSHIP, IN REALITY OUR LINKS HAVE GONE FROM STRENGTH TO STRENGTH. I AM PARTICULARLY PLEASED TO BE ABLE TO SAY THIS IN YOUR BICENTENNIAL YEAR IN WHICH YOU CELEBRATE 200 YEARS OF EUROPEAN SETTLEMENT. IN THE NAME OF THE EUROPEAN COMMISSION, I SHOULD LIKE TO CONGRATULATE AUSTRALIA ON ITS HISTORIC ACHIEVEMENTS: IN THAT TIME, THE CULTURAL, POLITICAL AND ECONOMIC BONDS BETWEEN EUROPE AND AUSTRALIA HAVE GROWN IMMEASURABLY, ENHANCED BY THE EXTREME SACRIFICES OF TWO WORLD WARS, THROUGH HUMAN LINKS CREATED BY MIGRATION AND BY THE SHARING OF THE SAME IDEALS OF FREEDOM AND DEMOCRACY.

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I AM HAPPY TO ANNOUNCE, IN A SEPARATE STATEMENT TODAY, THAT THE EUROPEAN COMMUNITY HAS AWARDED, FOR YOUR BICENTENNIAL, 3 SCHOLARSHIPS FOR YOUNG AUSTRALIANS TO STUDY AT THE EUROPEAN UNIVERSITY INSTITUTE IN FLORENCE.

MODERN COMMUNICATION TECHNIQUES HAVE NOW BROUGHT US CLOSER TOGETHER THAN EVER BEFORE, AND YOU MAY BE PLEASED TO KNOW THAT BECAUSE OF THIS - JUDGING FROM FILMS, TV, NEWSPAPERS, MAGAZINES AND BOOKS - AUSTRALIA, THE AUSTRALIANS AND THEIR LIFESTYLE HAVE BECOME INCREASINGLY POPULAR IN EUROPE. THIS IS ONE OF THE REASONS WHY THE NUMBER OF CANDIDATES FROM EUROPE FOR IMMIGRATION TO THIS COUNTRY HAS GONE UP IN RECENT YEARS.

EC-AUSTRALIA RELATIONS

BUT LET US LOOK MORE CLOSELY AT THIS RELATIONSHIP, AND IN PARTICULAR AT WHAT EUROPE HAS TO OFFER AUSTRALIA. THE EC CONTINUES TO BE ONE OF AUSTRALIA'S MAJOR TRADING PARTNERS. AS A MARKET, THE COMMUNITY ABSORBS 16 % OF TOTAL AUSTRALIAN EXPORTS AND RANKS SECOND ONLY TO JAPAN. FOR SOME OF YOUR PRODUCTS, THE EC MARKET IS EVEN MORE SUBSTANTIAL: FOR EXAMPLE WE TAKE 62 % OF AUSTRALIA'S HIDES AND SKIN EXPORTS, 32 % OF YOUR FRUIT AND VEGETABLES, 30 % OF YOUR TEXTILE FIBRES AND 21 % OF TOTAL AUSTRALIAN COAL EXPORTS. AS A SUPPLIER WE ARE NUMBER 1 ON THE AUSTRALIAN MARKET, AHEAD OF BOTH THE U.S. AND JAPAN.

AS THE FOREMOST FOREIGN INVESTOR IN YOUR COUNTRY, THE COMMUNITY ACCOUNTS FOR ABOUT ONE THIRD OF FOREIGN CAPITAL ENTERING AUSTRALIA, THAT IS OVER 54 BILLION AUSTRALIAN DOLLARS OUT OF A TOTAL OF 150 BILLION. AND THIS ROLE IS EXPECTED TO DEVELOP FURTHER.

ONLY RECENTLY, YOUR MINISTER FOR INDUSTRY, TECHNOLOGY AND COMMERCE, SENATOR BUTTON, ANNOUNCED THE APPOINTMENT OF A TRADE COMMISSIONER SPECIALIZING IN INVESTMENT, TO BE BASED IN EUROPE. I UNDERSTAND THAT YOUR GOVERNMENT IS DEVISING AN INVESTMENT STRATEGY FOR EUROPE. THIS MOVE IS OF COURSE WELCOMED BY EUROPEANS.

I HAVE ALREADY SPOKEN OF OUR RELATIONSHIP AS AN EXPANDING ONE. INDEED, BILATERAL ISSUES BETWEEN THE EC AND AUSTRALIA EXTEND BEYOND TRADE AND INVESTMENT TO AREAS LIKE SCIENCE AND TECHNOLOGY. WHEN I LAST VISITED AUSTRALIA, SENATOR BUTTON AND I SIGNED AN ARRANGEMENT ON SCIENCE AND TECHNOLOGY COOPERATION AND I AM HAPPY TO NOTE THAT OUR PARTNERSHIP IN THIS AREA IS PROGRESSING WELL. ALREADY WE HAVE SHARED OUR ADVANCEMENTS IN AREAS SUCH AS TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY, BIO-TECHNOLOGY AND OTHER FIELDS. OTHER SPHERES OF COOPERATION WHICH ARE EVOLVING SATISFACTORILY INCLUDE THE SPACE INDUSTRY, WHERE OUR ARIANE-SPACE LAUNCHERS HAVE ALREADY PUT AUSTRALIA INTO SPACE, ALSO TRANSPORT, COMMUNICATIONS AND MINERALS PROCESSING.

ALSO LET US NOT FORGET DEVELOPMENT EFFORTS IN THE PACIFIC. HERE OUR RELATIONS SHOULD BE SEEN IN THE WIDER CONTEXT OF OUR COMMON STRATEGIC INTEREST IN THE PACIFIC REGION, THIS YEAR THE COMMUNITY IS RENEGOTIATING A FOURTH LOMÉ CONVENTION LINKING US WITH 66 DEVELOPING COUNTRIES THROUGHOUT THE WORLD, EIGHT OF WHICH ARE YOUR PACIFIC NEIGHBOURS. WE ARE ENCOURAGED BY THE ONGOING COORDINATION OF OUR RESPECTIVE DEVELOPMENT PROGRAMMES.

I THEREFORE THINK THAT WE HAVE REASON FOR SATISFACTION AND OPTIMISM CONCERNING THE EC/AUSTRALIAN RELATIONSHIP. OF COURSE EVEN THE BEST OF FRIENDS HAVE DIFFERENCES OF OPINION, THERE IS NO NEED FOR ME TO TELL YOU THAT AUSTRALIA IS NOT AN ADMIRER OF THE COMMON AGRICULTURAL POLICY AND THAT THE COMMUNITY FOR ITS PART HAS NOT EXACTLY APPLAUDED AUSTRALIA'S HIGH PROTECTION LEVELS IN THE INDUSTRIAL SECTOR - AND I REFER HERE NOT ONLY TO TARIFFS BUT ALSO TO QUOTAS AND OTHER NON-TARIFF MEASURES.

THESE BARRIERS HAVE MADE IT DIFFICULT FOR OUR MANUFACTURERS OF TEXTILES, CLOTHING, SHOES AND MOTOR VEHICLES TO DEVELOP THEIR EXPORTS TO THE AUSTRALIAN MARKET. THE SITUATION WAS FURTHER AGGRAVATED FOLLOWING THE MARKED DEPRECIATION OF THE AUSTRALIAN DOLLAR SINCE MID 1985.

WE ARE THEREFORE PLEASED TO SEE THAT MOVES ARE UNDERWAY IN AUSTRALIA TO REDUCE THESE EXCESSIVE PROTECTION LEVELS. WHILE WE BELIEVE THEM TO BE STILL TOO HIGH, WE CERTAINLY REGARD THEM AS A MOVE IN THE RIGHT DIRECTION.

AND WHAT ABOUT OUR COMMON AGRICULTURAL POLICY ? I AM HAPPY THAT COUNTRIES LIKE AUSTRALIA RECOGNIZE THAT THE AGRICULTURAL REFORMS UNDERTAKEN BY THE COMMUNITY, IS A STEP IN THE RIGHT DIRECTION AS WELL. BUT, TO BE QUITE FRANK, WE LIKE TO THINK THAT IT IS MORE THAN THAT. LET ME TELL YOU WHY.

REFORM OF THE CAP

OVER THE LAST FIVE YEARS WE HAVE REDUCED AVERAGE FARM SUPPORT PRICE IN REAL TERMS BY ABOUT 10%. WE HAVE IMPOSED PRODUCTION QUOTAS AND THRESHOLDS WHICH TRIGGER PRICE CUTS, TAXES AND SUPERTAXES. WE HAVE WIDENED THE MESHES IN THE SAFETY NET OF OUR BUYING UP SCHEMES WITH THE RESULT THAT ACTUAL MARKET PRICES FOR PRODUCTS LIKE BEEF AND CEREALS HAVE FALLEN WELL BELOW SUPPORT PRICES IN SOME SECTORS. SUCH MEASURES NOW APPLY TO ALL MAJOR PRODUCTS.

THERE ARE MANY MORE EXAMPLES TO INDICATE THE EXTENT OF OUR REFORMS. OUR MEASURES HAVE BROUGHT US TO THE BRINK OF WHAT IS POLITICALLY AND SOCIALLY ACCEPTABLE. DESPITE 16 MILLION UNEMPLOYED, OUR FARMERS ARE LEAVING AGRICULTURAL PURSUITS AT THE RATE OF 380,000 A YEAR. THAT MEANS - ROUGHLY SPEAKING - EVERY 2 MINUTES ONE EUROPEAN FARMER OR FARMWORKER LEAVES THE LAND.

WE KNOW THAT WE ARE AT THE START, NOT AT THE END OF OUR REFORM. GROWING COMPETITION ON WORLD MARKETS AND BIG PRODUCTION INCREASES REFLECTING TECHNOLOGICAL BREAKTHROUGHS LEAVE US - LIKE ALL OTHER AGRICULTURAL EXPORTERS - NO OTHER CHOICE. WE ARE ON RECORD AS SAYING THAT WE AGREE WITH A FURTHER CONCERTED PROGRESSIVE AND SUBSTANTIAL REDUCTION OF SUPPORT LEVELS. BUT I MUST STRESS THE WORD "CONCERTED". IT HAS BEEN WIDELY RECOGNISED THAT THE AGRICULTURAL PROBLEM IS WORLDWIDE AND CAN ONLY BE OVERCOME IF ALL PARTIES CONCERNED CONTRIBUTE COLLECTIVELY TO A SOLUTION.

IN OUR VIEW THIS MEANS FIRST OF ALL THAT WE MUST ACT TOGETHER AS QUICKLY AS POSSIBLE AND TAKE EMERGENCY MEASURES IN ORDER TO STABILISE WORLD MARKET CONDITIONS.

ONLY IF ALL PARTIES PUT THEIR HOUSE IN ORDER, CAN WE CREATE AN ATMOSPHERE OF CONFIDENCE CONDUCTIVE TO NEGOTIATIONS LEADING TO FURTHER REDUCTIONS OF SUPPORT LEVELS IN THE LONG TERM. CONFIDENCE IMPLIES OF COURSE THAT EFFORTS BY THE ONE SHOULD NOT BE UNDERMINED BY ACTIONS OF OTHERS, ESPECIALLY THOSE WITH A HIGH LEVEL OF SUBSIDIES.

WE APPRECIATE THE SUPPORT FROM AUSTRALIA AND ITS FRIENDS IN THE CAIRNS GROUP FOR OUR CONCEPT OF IMMEDIATE AND SHORT TERM MEASURES. BUT UNFORTUNATELY THIS CONSTRUCTIVE ATTITUDE DOES NOT PREVAIL EVERYWHERE: THE INCREASED EXPORT ENHANCEMENT PROGRAMME OF THE UNITED STATES AND THE REDUCTION OF THEIR SET-ASIDE PROGRAMME, WHILE WE ARE DOING THE OPPOSITE, COME PARTICULARLY TO MIND.

SUCH ACTIONS ARE NOT HELPFUL IF WE WANT TO ACHIEVE A LASTING IMPROVEMENT IN AGRICULTURAL WORLD MARKETS. TRYING TO FORCE REFORM UPON THE COMMUNITY WILL SIMPLY NOT WORK. REFORM, HANDLED REALISTICALLY AND COLLECTIVELY, WILL HAVE OUR SUPPORT.

THE SINGLE EUROPEAN MARKET

BUT, HOWEVER IMPORTANT AGRICULTURAL REFORM MAY BE, LET ME TURN TO A WIDER AMBITION OF THE COMMUNITY. I AM REFERRING TO THE OBJECTIVE OF COMPLETING A SINGLE EUROPEAN MARKET BY 1992. LIKE AGRICULTURAL REFORM, THE REALISATION OF THIS SINGLE MARKET IS AN IMMENSE INTERNAL CHALLENGE, BUT IT ALSO HOLDS MANY PROMISES BOTH FOR OURSELVES AND FOR OUR PARTNERS IN THE WORLD.

FROM THE INTERNAL COMMUNITY VIEWPOINT, 1992 WILL REPRESENT THE DISMANTLING OF PHYSICAL FRONTIERS, THAT IS THE ELIMINATION OF CUSTOMS POSTS AND CHECKS ON GOODS, AND THE ABOLITION OF TECHNICAL BARRIERS TO TRADE. IT WILL ALSO LEAD INTER ALIA TO THE

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APPROXIMATION OF TAXES IN THE MEMBER STATES. IN ALL, NEARLY 300 PROPOSALS WILL HAVE TO BE ADOPTED AFTER NEGOTIATION, ONE BY ONE WITH OUR TWELVE MEMBER GOVERNMENTS.

BUT IT IS A WORTHWHILE EXERCISE, BECAUSE THE UNIFIED MARKET WILL BE A REAL SHOT IN THE ARM FOR THE EUROPEAN ECONOMY. ACCORDING TO THE RECENT STUDY PREPARED FOR THE COMMISSION, THE COMPLETION OF OUR INTERNAL MARKET BY 1992 WILL INCREASE THE OVERALL WEALTH OF OUR ECONOMY BY 4.25% TO 6.5% OF OUR GROSS NATIONAL PRODUCT.

IN SOME IMPORTANT SECTORS, LIKE ENERGY, TRANSPORT, BANKING AND INSURANCE, SIGNIFICANT COST AND PRICE REDUCTIONS MAY BE ACHIEVED. AS FOR EMPLOYMENT, ABOUT 5 MILLION NEW JOBS COULD BE CREATED. ALL THIS WOULD BE IN ADDITION TO NORMAL ECONOMIC GROWTH. COMPETITION AMONG ENTERPRISES ON A LARGER UNIFIED MARKET WILL GIVEN THEM A BETTER CHANCE TO SURVIVE AND EXPAND THAN ON A NARROW NATIONAL HOME MARKET. INDUSTRY AND THE SERVICES SECTOR HAVE ALREADY STARTED TO ORGANISE MERGERS OR JOINT VENTURES TO REACH THE "CRITICAL MASS" REQUIRED TO COMPETE ON THE WORLD MARKET.

HOWEVER, THE SINGLE EUROPEAN MARKET WILL BENEFIT NOT ONLY EUROPEANS, BUT FOREIGN FIRMS AS WELL. 1992 IS GOING TO BE GOOD NEWS NOT ONLY FOR EUROPEANS, BUT ALSO FOR OUR TRADING PARTNERS.

EXPORTERS IN AUSTRALIA WILL FIND THEMSELVES SELLING INTO A SINGLE MARKET OF 320 MILLION CONSUMERS WITH A UNIFORM SET OF NORMS, STANDARDS AND PROCEDURES. THEY WILL NO LONGER HAVE TO FACE TWELVE DIFFERENT SETS OF REQUIREMENTS OR BORDER CONTROLS BETWEEN ONE OF OUR MEMBER STATES AND ANOTHER. FOREIGN FIRMS, LIKE COMMUNITY OPERATORS, WILL ENJOY ECONOMIES OF SCALE AND GREATER MARKETING FLEXIBILITY.

THERE WILL ALSO HOWEVER BE SOME CHALLENGES : EXPORTERS TO THE EC WILL FACE MORE COMPETITION FROM COMMUNITY FIRMS. SINCE CLEARLY A PRIMARY GOAL OF THE SINGLE EUROPEAN MARKET IS TO REINFORCE THE COMPETITIVENESS OF EUROPEAN INDUSTRY. OBVIOUSLY THE SINGLE MARKET OFFERS OPPORTUNITIES BUT NO GUARANTEES. VERY MUCH WILL DEPEND ON THE DYNAMISM OF INDIVIDUAL FIRMS - COMMUNITY AND FOREIGN - IN SEIZING THEM.

SOME PEOPLE SUSPECT THAT THE EC MIGHT USE THE COMPLETION OF THE SINGLE EUROPEAN MARKET TO INCREASE EXTERNAL PROTECTION. MY RESPONSE TO THAT IS A CLEAR "NO". THE UNIFIED MARKET WILL NOT IN ITSELF HAVE ANY EFFECT ON OUR EXTERNAL TARIFF POSITION. OUR SINGLE MARKET IS NOT MEANT TO BE AN OBSTACLE TO THE OPEN AND LIBERAL TRADING SYSTEM. ON THE CONTRARY, IT IS A POSITIVE CONTRIBUTION TO THE EFFORTS, SUCH AS UNDERTAKEN IN THE URUGUAY ROUND, TO STRENGTHEN AND STREAMLINE THE SYSTEM.

URUGUAY ROUND

LIKE AUSTRALIA, WE ATTACH THE GREATEST IMPORTANCE TO PROGRESS IN THE URUGUAY ROUND. TO DATE THE COMMUNITY HAS PLAYED A DYNAMIC ROLE AND WE OURSELVES ALSO APPRECIATE THE ACTIVE ATTITUDE TAKEN BY AUSTRALIA.

THE POSITION OF THE COMMUNITY HAS ALWAYS BEEN, AND REMAINS, THAT PROGRESS MUST BE MADE ON A BROAD FRONT IN ALL NEGOTIATING GROUPS IN GENEVA. OTHERWISE, WE WILL NOT BE ABLE TO RESPECT THE LETTER AND THE SPIRIT OF THE PUNTA DEL ESTE DECLARATION WHICH SAYS THAT THE URUGUAY ROUND IS A GLOBAL EXERCISE IN WHICH ALL PARTICIPANTS MUST FIND THEIR ADVANTAGE.

THIS SEEMS A TRUISM, LIKE THE STATEMENT THAT PROGRESS IS ONLY POSSIBLE IF ALL PARTICIPANTS STICK TO THE EXISTING RULES, IF THEY ARE TO BE CREDIBLE WHEN CLAIMING THE NEED FOR NEW, MUCH MORE AMBITIOUS RULES. THESE TRUTHS NEED TO BE REPEATED AGAIN AND AGAIN. IN THIS CONTEXT, THE U.S. ATTITUDE, FOR INSTANCE, RAISES BIG QUESTION MARKS, NOT ONLY IN FARM TRADE BUT ALSO IN FIELDS SUCH AS TELECOMMUNICATIONS.

IT HAS BEEN OUR CONSTANT POSITION THAT THE FORTHCOMING MID-TERM REVIEW IN CANADA SHOULD PROVIDE AN OPPORTUNITY FOR POLITICAL ASSESSMENT OF ACHIEVEMENTS TO DATE AND FOR INJECTING THE MOMENTUM NEEDED IF THE URUGUAY ROUND IS TO REACH ITS DEADLINE OF 1990. AS FAR AS EARLY RESULTS ARE CONCERNED, TROPICAL PRODUCTS ARE CERTAINLY A CANDIDATE - ALL THE PARTICIPANTS IN PUNTA DEL ESTE FELT THAT THIS SECTOR SHOULD RECEIVE PREFERENTIAL TREATMENT. THE OTHER AREAS SHOULD BE THE SUBJECT OF AN OVERALL EVALUATION, BUT NATURALLY SOME WILL RECEIVE CLOSER ATTENTION THAN OTHERS. THESE ARE AGRICULTURE, SERVICES, INTELLECTUAL PROPERTY AND INSTITUTIONAL QUESTIONS. AND WE MAY ADD SAFEGUARD CLAUSES AND TEXTILES, WHICH APPEAR TO BE A PRECONDITION FOR THE PARTICIPATION OF CERTAIN DEVELOPING COUNTRIES.

WE DO NOT EXCLUDE THAT SOME RESULTS MIGHT BE ACHIEVED THIS YEAR ON THESE ISSUES, BUT WE DO INSIST THAT ANY MOVE OF THIS KIND SHOULD IMPLY AT THE SAME TIME SATISFACTORY PROGRESS ON ALL OTHER QUESTIONS. WE MUST BE AWARE OF PREMATURE DISCUSSION OF THESE IDEAS IN THE ABSTRACT. WE WANT THE MID-TERM REVIEW TO BE A SUCCESS, SO LET'S AVOID AROUSING EXCESSIVE EXPECTATIONS.

EC-AUSTRALIA MINISTERIAL CONSULTATIONS

IN YESTERDAY'S MINISTERIAL CONSULTATIONS, AND IN THE CONTEXT OF THE CURRENT WORLD ECONOMIC SITUATION, WE AND THE AUSTRALIAN GOVERNMENT CONCURRED ON THE NECESSITY TO IMPROVE THE EFFECTIVENESS OF THE GATT AND TO MAINTAIN THE MOMENTUM OF THE URUGUAY ROUND.

THERE WAS AGREEMENT TOO ON THE NEED FOR BALANCED PROGRESS IN THE NEGOTIATIONS IN ALL SECTORS INCLUDING AGRICULTURE WHICH - WHILE IMPORTANT FOR THE REVIEW AT MONTREAL - CANNOT BE CONSIDERED IN ISOLATION.

AT THE SAME TIME WE HAD AN EXCHANGE OF VIEW ON OUR BILATERAL TRADE, AND NOTED EACH OTHER'S CONCERNS. WE THEN PROCEEDED TO A REVIEW OF THE INTERNATIONAL SITUATION AND CONFIRMED THAT WE LARGELY SHARED THE SAME POSITIONS.

LADIES AND GENTLEMEN,

IN SUMMING UP, I NOTE THAT AUSTRALIA AND THE EUROPEAN COMMUNITY ARE BOTH WORKING ON A DIFFICULT RESTRUCTURING OF THEIR ECONOMIES. WE KNOW THAT WE HAVE NO CHOICE : IT IS THE PRICE WE MUST PAY TO STAY AHEAD IN A RAPIDLY CHANGING WORLD, AND IT IS THE DUTY WHICH FOLLOWS FROM THE RESPONSIBILITIES WE HAVE - AS DEVELOPED COUNTRIES - TOWARDS THE INTERNATIONAL ECONOMIC AND TRADING SYSTEM.

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AN ADDRESS BY HIS EXCELLENCY,
AMBASSADOR TOMOHIKO KOBAYASHI

Special Economic Advisor to
to the Minister for Foreign
Affairs of Japan

A Public Lecture as Part of
the Municipal Program on the
1988 Toronto Summit.

Thursday, May 5, 1988
George Ignatieff Theatre
15 Devonshire Place
Trinity College
University of Toronto

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THE TORONTO SUMMIT AND THE URUGUAY ROUND

I feel very honoured to be given an opportunity to speak this evening before such a distinguished audience at the prestigious University of Toronto. Toronto, as everyone knows, plays a central role in the conduct of economic activity in Canada, and most Japanese businessmen in Canada work in this city enjoying to the full the warm hospitality of its people and government. And, next month, Toronto plays host to the most important event in international economic relations- the Economic Summit of Seven Major Industrialized Nations! So, you can easily see why I am all the more honoured and pleased to be here with you today.

This evening, I will try my best to tell you how Japan sees the Toronto Summit and the Uruguay Round of the Multilateral Trade Negotiations of the GATT, what we expect from them and how Japan intends to make its modest contribution to those important events by discharging its responsibilities as a major economic power in the world today.

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(The Toronto Summit)

1. The Economic Summit of Seven Major Industrialized Nations is a forum where the leaders of the Free World can discuss freely the major issues confronting the world economy with a view to enhancing cooperation and policy coordination mainly in the fields of macroeconomics, trade, and science and technology. From time to time, those leaders take up political matters (such as terrorism), but the major focus rests on economic matters.

The Heads of State or Government are free to take up any issue they wish for they are 'almighty'!, but I would be surprised if, this year, they did not discuss at least the following five problem areas:

(1) Macro-economic policy coordination (economic growth, unemployment, the stability of monetary and financial markets, budget deficits and fiscal policy, etc...);

(2) The fight against trade protectionism and the impetus to be given to the Uruguay Round Negotiations;

(3) Relations with the developing countries, particularly the "N.I.C.s";

(4) The indebtedness of the developing countries;

(5) The reaffirmation of the political solidarity of the nations sharing the same basic value system.

I would, therefore, like to take some time out now to touch upon these issues.

2. International society is today in the throes of massive structural changes. The rapid development of new technologies such as information and telecommunications, and the expanding role of multinational corporations are typical factors contributing to these changes. This dynamic process is creating an unprecedented level of interdependence in the world economy.

This new economic environment is fostering new industries and new employment opportunities, thereby stimulating economic activity in both developed and developing countries, and providing us with significant opportunities for future growth. The rising level of economic interdependence will also be an important factor in building the foundations of global political stability and in maintaining world peace.

It is also true, however, that these fundamental changes now taking place in our economic structures constitute a severe challenge for us. We must devise an appropriate response to this challenge.

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Today, the policies of one country have an immediate and extremely profound impact on the economies of other countries, and it is vital that all nations give full consideration to the international compatibility of their policies. However, the process of international policy coordination requires the implementation of policies that frequently cause considerable pain on the domestic political front. And serious conflicts between the spirit of international cooperation and narrowly-defined national interests within individual countries can constitute a hurdle to coordination at the international level. So truly effective policy coordination is only possible through the relentless efforts of policy makers in each country.

Although the economic performances of the advanced nations are following a sustained- albeit gradual- growth trend, inflation has stabilized at a low level, and there are indications of significant progress in the alleviation of external imbalances in the world economy, the world economic situation still contains some potential dangers. The market has given us a sharp warning about these dangers in the form of last October's "Black Monday". The most serious problems in this connection are America's budget and trade deficits and mounting foreign debts, and the underlying uncertainties that these factors are causing in the world's monetary and financial markets. It will not be possible to find a cure for these serious problems overnight. But, some of the positive effects of the adjustment in exchange rates are at last being manifested in the form of recent increases in U.S. exports.

3. The rising global trend toward protectionism is the second major threat to the world economy.

The omnibus trade bill adopted by the U.S. Congress is highly protectionist in that its basic philosophy stems from "unilateralism", "bilateralism" and "reciprocity", which are negations of the fundamental principles and spirit of the GATT- i.e., the "open and multilateral trading system." There is a genuine concern about the serious impact that this legislation could have on the free and multilateral trading system that has been the foundation of world economic prosperity since World War II.

Of course, the immediate task of policy coordination is not something to be undertaken by the United States alone. It is essential that the other industrialized nations play an active part in this process. Indeed, it is only through consistent and credible policy efforts by all the major industrialized nations that it will be possible to overcome these serious difficulties, maintain market confidence and ensure the smooth flow of goods, services and capital.

The European economy has recently shown a remarkable surge of vitality. Europe's task now is to build on this momentum and work to expand domestic demand, particularly in West Germany, while actively adapting to a new era through economic structural adjustment.

It is particularly gratifying to notice that Canadian economic performances continue to be among the best of the major industrialized countries, members of the Economic Summit.

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Japan must obviously play an important role because of its massive current account surplus and vigorous economic performance. We have succeeded in shifting from export-led growth to a domestic demand-led growth pattern which will lead to a steady reduction in the current account surplus. Effectively, real G.N.P. growth in 1987 was 4.2%; the contribution of domestic demand to this figure was 5% while exports contributed "minus 0.7%". The current account surplus for fiscal 1987 is estimated to have fallen by around \$10 billion. There has also been a sharp increase in the level of manufactured imports, which have risen from 24% of total imports in 1981 to over 44% in 1987 (and, for 1988, probably 50%). The New Economic Plan, soon to be finalized, will further reinforce the aforementioned policy directions.

(Debt Problems)

4. Growing international economic interdependence and the advent of a truly global economy have created a situation where events in developing countries may have a serious impact on the economies of the developed nations. This is particularly true in the case of the indebtedness of many developing countries. By the end of 1987, the aggregate figure of these countries' debts reached \$1,200 billion which, because of the problem of the solvency of many of the indebted developing nations, constitutes a grave threat, not only to the developing countries, but also to the entire international financial system.

International institutions such as the World Bank and the I.M.F. have worked strenuously to avert crises through cooperation with the governments and central banks of debtor and creditor nations and private banks. Since the autumn of 1985, the case-by-case approach has been accompanied by a strategy proposed by the U.S. Treasury Secretary James Baker, the so-called "Baker Plan", which encourages debtor nations to "grow out of debt" through economic growth. The appropriateness of this basic strategy has been repeatedly reaffirmed in economic declarations released at several previous Summits.

But the problem now is how to set in motion a "virtuous cycle" in which the recovery of creditworthiness through international financial cooperation and the self-help efforts of the debtor nations prompts a spontaneous increase in the flow of capital from private banks into indebted developing countries. A new concept that has been employed recently to supplement and reinforce existing debt strategies is the "menu approach", which involves the use of various financial techniques to alleviate existing debt burdens and boost the inflow of new capital. Some progress has already been made with this approach in Mexico, where a scheme to convert debt into national bonds has been implemented under a U.S. initiative.

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However, all of these efforts have not yet been fully successful in setting in motion the "virtuous cycle" I mentioned above. No panacea in dealing with the serious debt problems of developing countries has as yet been found. So this will doubtless be a topic of discussion at the forthcoming Summit.

As far as Japan is concerned, it has been actively cooperating in this area through substantial financial contributions to the I.M.F., the World Bank and other development banks, through a three-year program to recycle some \$30 billion in surplus funds into developing countries and through an expansion of its O.D.A.. We intend to further expand our policy efforts of this type in the years to come.

5. Another important question concerns our relations with the emerging N.I.C.s and their role in the overall restructuring of the world economy.

The N.I.C.s, particularly the Asian N.I.C.s, have achieved remarkably dynamic economic growth, led by a strong and rapid expansion in the exports of their manufactured products. Their economic growth rate estimates in real terms amount to 13% for South Korea, 10.6% for Taiwan, 12.0% for Hong Kong, and 6 or 7% for Singapore. In 1986, South Korea and Taiwan registered current account surpluses of \$4.6 billion and \$16.2 billion respectively. The mounting surpluses of these and other countries in this group and the increasing competitiveness of their industrial products have led to increasing international pressure for them to accept a greater degree of responsibility, commensurate with their degree of development, for the management of the world economy. The economic declaration of the Venice Summit last year and recent G-7 communiqués contain frequent references to the need for the N.I.C.s to work toward the correction of external imbalances through cooperation in such areas as the adjustment of exchange rates to reflect economic fundamentals, and the acceleration of import and financial market liberalization.

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The importance of these messages is, of course, obvious, but the question is how to convey them with maximum effect to the N.I.C.s. The effectiveness of one-way communication from forums in which the N.I.C.s themselves cannot participate is limited. We need to work, as well, through an honest dialogue with these developing countries, toward the development of a relationship that takes full account of their political and economic diversity and in which both the advanced nations and the N.I.C.s can cooperate constructively in the management of the world economy.

In this process, the advanced industrialized nations must realize that the N.I.C.s, through their growth, are injecting vitality and dynamism into the world economy, and that the advanced nations themselves need to foster an international division of labour with the N.I.C.s through ^{both} increased efforts to open up their own markets to the products of these countries and through structural adjustments in their own economies and industries. How the discussions on this subject will evolve during the Toronto Summit will be of particular interest to Japan, which is the sole Asian nation among the Summit participants.

(The Uruguay Round)

1. Now, I should like to deal with trade issues, which are closely interrelated with macroeconomic problems, and especially with the Uruguay Round of the GATT multilateral trade negotiations.

Sluggish economic growth and high unemployment in many industrialized countries combined with persistent trade and current account imbalances have often led to serious trade friction and unilateral or bilateral protectionist measures which are not consistent with established international rules. Indeed, the open, free and multilateral trading system of the GATT, based on non-discrimination and national treatment, has come under serious strain. Moreover, the traditionally neglected area of trade in agriculture has begun to attract world-wide attention because of the devastating effects of export subsidy wars. In addition, there are emerging new areas which are becoming more and more important in world trade: trade in services, the trade aspects of intellectual property rights problems and trade-related investment measures.

All these compelling reasons led to the launching of the Uruguay Round multilateral trade negotiations in September 1986 with the Ministerial meeting held in Punta del Este, Uruguay. This new round aims not only at further trade liberalization, but also at establishing new GATT rules if necessary, based upon a review of existing GATT rules in light of new developments in world trade in the 40 years since the original agreement. In other words, our task is to use the Uruguay Round to strengthen, adjust and expand the system of open and multilateral trade of which GATT is the foundation, and to create a solid basis for the continued expansion of world trade into the 21st century.

2. During 1987 and early this year, negotiators concentrated their major efforts on the identification and clarification of problems and issues in connection with 15 negotiating items (tariffs, non-tariff barriers, tropical products, agriculture, textiles, safeguards, dispute settlements, the functioning of the GATT, trade in services, intellectual property rights, trade-related investment measures, etc....) primarily through the presentation of submissions by participating nations. While this work has produced some meaningful results as regards a number of items, it is important at this point to get into real negotiations on substantive issues in order to be in a position to produce some concrete results when the Trade Negotiating Committee of the U.R. meets in Montreal this December for a mid-term review at the Ministerial level. Of course, presently, it is not yet clear what the specific content of this mid-term review will be, but, at the very least, it will be necessary to take stock of progress during the first half of the scheduled 4 year Round and provide policy orientation for the second half.

But this is only a minimum. For Japan, it is essential that the mid-term review in Montreal produce credible, concrete results in some specific negotiating areas. Likely candidates for early results could include the improvement of the dispute settlement procedures, particularly the speeding up of panel formalities, the strengthening of GATT functions through the incorporation of mechanisms for the surveillance of national trade policies into the GATT structure, and the question of tropical products, which was singled out as a priority issue in the Punta del Este Ministerial declaration.

Besides these items, many participants of the Uruguay Round wish to see some concrete results in such areas as intellectual property rights, trade in services and agriculture. We know that "agriculture" is one of the priority items for Canada; but it is one of the most difficult areas as well.

3. At present, agricultural products are treated differently under the GATT rules compared with manufactured goods; for example with regard to export subsidies and quantitative restrictions on imports. Quantitative restrictions on the import of farm products are tolerated by the GATT under certain conditions, such as the existence of policies restricting the production of certain products. Export subsidies, which are, in principle, prohibited for manufactured goods, are also permitted. (This has led to the current subsidy war between the E.C. and the U.S..)

Japan has been maintaining "residual import restrictions" on 22 agricultural items, some of which have been judged illegal under the GATT. However, in reality, even those big and so-called "efficient producers" like the U.S. and Canada maintain import restrictions on agricultural products. The United States, which some 30 years ago obtained waivers of its GATT obligations for its quantitative import restrictions on agricultural products, continues to maintain import restrictions on 14 items, among them dairy products, peanuts, meat and sugar. The E.C. protects its agricultural market through a variable import levy system which has the same effect as quantitative import restrictions, while Switzerland has maintained specific quantitative restrictions recognized in its ^{Protocols of Accession} to the Gatt Protocol. Canada also has residual import restrictions on a number of items, including butter, cheese and condensed milk. As you can see, we are all sinners in the field of agricultural trade. If a country like Canada or the U.S., which has a vast territory and which can develop its agriculture on so-to-speak "no man's land", has real difficulty in freely importing foreign agricultural products, how about agriculture in a country like Japan? Japan, which has a population six times the size of Canada's, has ^{for its agriculture} an area only 15% that of the state of California!! You can easily imagine why agricultural problems in Japan are far more difficult than in Canada or in the United States.

It is precisely because of the factors mentioned above that, in the context of the Uruguay Round, we need to review the existing rules and various mechanisms that affect market access and subsidies and bring them all together under a common set of rules. However, in doing so, the legitimate desire of nations with extremely low levels of food self-sufficiency to ensure a stable supply of basic food items from local production should be taken fully into consideration.

There were virtually no controls on subsidies when the present decade began and, during the early 1980s, the United States and the E.C. dramatically expanded budget allocations for price and income support in the agricultural sector, allocations increasing 9.5 times in the United States and 2.0 times in the E.C. between 1980 and 1986. This produced a structural over-production situation triggering the notorious export subsidy war. Japan, which is the biggest net importer of foreign agricultural products in the world, has, of course, no export subsidies but it should be noted that it actually reduced its domestic subsidy payments by one-third during the same 1980-86 period. In any event, the important thing is to reach long-term solutions by establishing a stronger set of rules regarding agricultural subsidies together with a further liberalization of market access.

To begin with, as an emergency measure, we have advocated the freezing of export subsidies followed by their phased reduction and eventual abolition through negotiation. It is our earnest hope that, through strenuous efforts by negotiators during the remaining part of this year on this most difficult issue of trade in agriculture, we will be in a position to say something concrete and constructive when the Ministers meet in Montreal in December for the Mid-Term Review.

4. Now, trade in services. In view of the growing importance of trade in services, we must establish a stable foundation for the future development of trade in this important new area. It is also evident from some of the trade conflicts that have occurred in recent years in such fields as banking, telecommunications and construction that nations need a multilateral arena in which to reconcile their respective interests.

Unlike the trade in goods, the nature of the trade in services varies widely from sector to sector. Moreover, trading patterns are not limited to border trade since services can also be provided through a commercial presence. This means that the trade in services must be governed by rules which contain different elements according to specific sectors. However, we believe that there should also be a common set of principles applicable to all the sectors of the traded services (such as "non-discrimination", "national treatment", "transparency", "dispute settlement procedures", etc....)

5. As is the case of trade in services, the trade aspects of Intellectual Property Rights are another important new area that is not sufficiently covered under GATT rules. However, the protection of Intellectual Property Rights will have an increasingly important effect on international trade as high technology commodities come to have a growing share of the trade of a large number of countries. This is a difficult area indeed for, as is true of the case of trade in services, many developing countries are reluctant to accept stringent new GATT rules at their present stage of development. But we believe that if, in the trade field, an appropriate level of protection of I.P.R. is assured, this will be in the interests of the developing countries themselves as investment flows and the transfer of technology to the developing countries could be facilitated accordingly.

6. I said earlier that the multilateral trading system is now facing serious challenges. The Uruguay Round represents a golden opportunity to enhance the free and open multilateral trading system of the GATT. A stronger and broader system of multilateral rules is essential in terms of providing the greatest possible scope for the development of world trade and the world economy. In this connection, through the Uruguay Round negotiations, we will have to do our best to ensure a fuller integration of developing countries into the free, open and multilateral trading system of the GATT.

These are the major reasons why the Toronto Summit and the Uruguay Round are so important to Japan.

By way of conclusion, I would like to convey to you my own best wishes and those of the people of Japan on the occasion of the Toronto Summit. Its undoubted success can only further strengthen the links between our two great countries.

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TEXT OF THE SPEECH MADE BY THE PRIME MINISTER,
THE HON. R.J.L. HAWKE, A.C., M.P.,
TO THE CONTRACTING PARTIES OF THE GATT IN GENEVA
ON 22 OCTOBER 1987

Director-General
Excellencies
Ladies and Gentlemen

I want at the outset to express my thanks for the opportunity you have given me to speak about issues of immense importance - the profound problems besetting world trade today. I have spoken on this subject in many forums, but I am very conscious of the fact that, as representatives of your countries professionally responsible for trade negotiations, you constitute an exceptionally expert body.

I do not today intend to talk to you about matters of technical detail, important though those are of course in the negotiating process.

I want to talk to you on a broader scale, as the Prime Minister of a country deeply concerned not just with the precise terms of trade negotiations but with the whole trend of what is happening in international trade and with the direction in which I believe we should be heading.

For many of us in western society the decade of our forties can trigger that troubling period of self-appraisal known as mid-life crisis. It can lead to aimlessness and a loss of self esteem. But handled with maturity it can be a positive experience: It can lead to reinvigoration and a renewed sense of purpose. I believe that the GATT, which this year celebrates its 40th birthday, has entered a period akin to a mid-life crisis. Forty years is certainly long enough to reduce an institution to irrelevance if there is no process of introspection, of reappraisal and, if necessary, of redirection.

It is my belief that nothing short of a fundamental rethink of domestic policy settings by all economies, and especially by the largest industrial economies, can remedy the current malaise in the world trading system.

And I believe too that the rules of world trade must also be reformed. For without a growth-oriented trading system - associated, I might add, as the founders of GATT recognised, with an efficient financial system - the imbalances will be corrected only with severe economic cost and, stemming from that, mounting social and political tension.

The simple fact is that since GATT was formed - and even since the last review of GATT - the world has moved on. If we want to see GATT remain relevant to the world's economic needs, it needs to move with it.

The challenge confronting all of us as members of GATT is to use the period of reappraisal afforded by the Uruguay Round to provide a stable base for free and fair world trade for decades to come - just as the original contracting parties did 40 years ago. That reappraisal must also provide the foundation from which we can maximise equitable low-inflation world economic growth.

The need is great. Time is short. The costs of failure are high.

I am by nature an optimist but I must say that present indications suggest that there is a long way to go before this urgency is properly reflected in the actions of some of the largest trading nations.

Today then, as the leader of a nation thoroughly committed to the cause of liberalising world trade, I want to impress upon you the necessity to take up this cause as a matter of highest priority.

And so that the theoretical validity of my argument is backed by an immediately applicable course of action, I want to announce new proposals which I believe show the way forward.

These new measures are of two kinds: They further demonstrate the commitment of my government to make what changes are needed to further liberalise trade with Australia, and they demonstrate the commitment of a number of countries, brought together in the Cairns Group, to work towards change at the international level.

Resolution of the difficulties facing the world trading system is not, and must not be allowed to be, a matter exclusively for the major trading nations. Smaller trading countries have a vital interest in the outcome and have a legitimate right to be represented forcefully at the negotiating table.

As you know the rationale for the GATT was set out in the 1941 Atlantic Charter. The intention was to ensure that, after the war, all countries "great or small, victor or vanquished" would enjoy "access on equal terms to the trade and to the raw materials of the world."

The contracting parties of the GATT, who came together some six years later after protracted but inconclusive negotiations to establish a more permanent regime of management, had fresh in their minds the experience of the 1920's and 1930's.

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These were years in which the younger manufacturing nations were inhibited in trade by bilateral arrangements among the traditional European traders, and by other barriers to trade, investment and technology. World growth suffered. So, too, did world harmony. The tensions created by these "beggar thy neighbour" policies came to a head in the global conflict of World War 2, with its incalculable cost in economic destruction and human misery and suffering.

Forty years ago the parties to GATT appreciated the importance of having a framework of rules that provide fairness, non-discrimination and openness in the complex trading environment needed to promote post-war recovery.

Although efforts have been made to update and refurbish it, the fact is that the world now demands more of the GATT framework than it has hitherto delivered.

We have just passed the first anniversary of the Uruguay Declaration and are approaching the end of the initial phase of the negotiations to update GATT to meet today's needs.

The Uruguay Round deals with a very broad range of subjects.

Nobody will be more familiar than this group with the fact that Australia's paramount concern in this New Round of multilateral trade negotiations is agriculture.

But I do not wish to talk about agriculture exclusively, because my country, like many of yours, has other major interests. We are deliberately re-structuring our economy to diversify and strengthen the base upon which Australia can engage competitively in international trade. We are already an exporter not just of primary commodities but of services and manufactures.

We aspire to still greater success in these areas and it is therefore very much in our interest that the negotiations succeed in opening up markets and freeing up trade in the services and manufactures fields.

Let me discuss these other issues first, before returning to the question of agriculture.

It is clear that without the development of global markets for services such as telecommunications and data services, without the rapid growth of international financial and insurance services, without rapid and flexible global transport, the total world market for goods would be very much smaller, and we would all be the poorer.

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However the services sector is bound, world-wide, in a network of regulations and restrictions which closely control the entry into and investment in, the services sector, and even in some cases the physical delivery of services. Moreover, major exporters have demonstrated willingness to protect their service markets by bilateral agreements which by their nature are discriminatory. Clearly, it is in the interests of all nations, developed and developing alike, to ensure that the most efficient and cheapest services are available to all.

The historic declaration at Punta del Este recognised this when it called, for the first time, for services to be brought within the multilateral framework. None of us can afford to let this opportunity pass.

The clear objective of the Round must be to develop a non-discriminatory, multilateral framework for services which provides:

- . steady liberalisation and expansion of access to markets,
- . effective transparency of national regulations on services, and
- . workable procedures for the settlement of disputes.

To turn to trade in manufactured goods, we see a similar need for reform.

Since the end of the Tokyo Round, the U.S. and the European Communities have undone much of the good which flowed from the continuing reduction of tariff barriers by their proliferation of non-tariff barriers. Japan, for its part, has relied heavily on market access restrictions for its industry assistance regime.

UNCTAD and the World Bank estimate that about a sixth of industrial country imports from other industrial countries and more than a fifth of their imports from developing countries are now controlled by non-tariff barriers such as prohibitions, quotas, "voluntary" restraints by exporters and discretionary import licensing.

Overall, the use of such measures represents an increase of almost 25 percent on barriers to industrial country imports since the end of the Tokyo Round.

Accordingly, progress in the market access negotiations is essential to halt and reverse the slide towards increased protectionism which we have all witnessed in recent years. These negotiations address directly the liberalisation of trade barriers of both the traditional and so-called "new-protectionist" varieties.

Unfortunately, the largest economies have not so far presented proposals which provide a basis for tackling these matters comprehensively, in conjunction with measures to reduce tariffs on a broad front.

Australia is seeking real progress in reducing the high levels of industry assistance that reduce the size of the international market and cut the gains from trade.

Let me turn, then, to what Australia is prepared to do in this respect.

In January this year I announced that Australia was prepared to participate in these GATT negotiations in a way that it had never agreed to do before. We said we are ready to negotiate bindings on tariffs in all sectors of the tariff. On that issue our good faith has been pledged already.

Today I announce that we are prepared to go even further.

The tariff is the most significant form of support for Australian industry.

We are prepared to negotiate a broad package of measures to reduce overall levels of effective assistance to Australian industry - including tariffs - as part of a broad-based multilateral approach.

In this context, we are prepared to eliminate, over an appropriate implementation phase, all quantitative import measures designed to protect domestic industry. This means we would phase-out all our quantitative restrictions, including tariff quotas, licensing and embargoes.

This is a radical approach - but it is the kind of radical approach necessary to provide the world with its best chance to capture fully the potential gains from trade.

It is an offer made in good faith, seeking to persuade our trading partners - and multilateral forums such as this - to see that we are willing to practice what we preach.

We will be looking to our trading partners, who employ a panoply of assistance measures, to reciprocate this offer by making a similar reduction in effective rates of industry assistance. And let me be clear: I am seeking from them cuts not only in tariffs but also in various non-tariff measures and subsidies.

Let me turn last but not least to agriculture - one area in which we have seen signs of an historic willingness on the part of GATT members to make progress towards reform. That I certainly welcome. But we are still far from agreeing to, yet alone implementing, effective solutions.

In January of this year I had the honour of delivering the keynote address at the World Economic Forum at Davos, and I used that address to draw attention to the crisis confronting world trade in agriculture.

My argument was that countries which endeavour to achieve domestic goals by distorting world trade are not only hurting others, they are hurting - and they are deluding - themselves.

Reform of agricultural trade would produce gains far beyond the agricultural sectors of our industrial economies.

For example, in the industrialised world, reform would reduce structural inefficiencies which have, for example, added one million people to the queues of unemployed in the European Community - predominantly in manufacturing.

Developing countries with onerous debt burdens would gain from agricultural trade reform because they could comfortably trade out of their problems if they could get a fair return for their agricultural produce.

If world prices for many agricultural goods were allowed to rise to undistorted levels, the agricultural sectors of many developing countries could become engines of growth.

At Davos I welcomed the commitment of the GATT members at Punta del Este to negotiate on agriculture in the Uruguay Round. It presents an opportunity for reform which we literally - all of us - cannot afford to refuse.

In the approach which I proposed for resolving the crisis in agricultural trade I then called for an immediate ceasefire in the subsidies war. I said sound principles must be developed to govern world agricultural trade, recognising the realistic need for transitional support in some cases while reform proceeds.

Given all this, I was pleased to see that the OECD Ministerial Council and the Venice Summit strengthened the resolve of industrialised countries to reform agricultural trade.

Within the Uruguay Round itself, the United States proposed a bold and imaginative plan for the elimination of distortions in the agricultural markets in which both the United States and its trading partners participate.

We in Australia recognise that the thrust of the United States proposal is towards truly liberalised trade in agriculture - and we welcome that.

But much as I applaud this general position, I am bound to say - and it will come as no surprise to my friends in the United States that I do so - we have reservations about its lack of completeness.

Along with many of our colleagues in the Cairns Group, we believe that the American proposals fall short of providing the necessary basis for reform. Two deficiencies deserve particular mention.

First, there is no acknowledgement of the need to provide early relief from the distorting effects of the existing arrangements, evidenced by undertakings to begin soon the task of reducing subsidies.

Second, it does not adequately recognise that greatest responsibility for reform rests with those whose policies are causing greatest damage to world markets.

Now in case it seems that I am singling out the United States let me straight away correct that impression.

The European Community has yet to table its formal proposal - but the indications to date are that it is prepared to make the historic decision to negotiate. But I must add that, as we understand them, the measures in contemplation do not go far enough. To be credible, the community's approach must make an explicit commitment to liberalisation. Far-sighted, creative proposals are needed soon.

Further, there are also countries tempted to argue that since they are not significant exporters they have a lesser responsibility. But they should remember that their highly restrictive import regimes contribute just as much as heavily subsidised exports to the problems of world markets.

That fact is that efficient agricultural exporters - including Australia - are fed up with being caught in a crossfire of competitive subsidisation by the United States and the European Community. We are also fed up with being denied access to legitimate markets.

It was to express this frustration that Australia, along with other agricultural producers who are increasingly anxious about the growing tide of protectionism, joined together to form a third force in trade negotiations - the Cairns Group.

These countries represent some 550 million people, account for one-quarter of the total amount of agricultural exports, and have suffered enormous damage because of agricultural protection.

8.

It is my pleasure today to present, on behalf of the Cairns Group, our proposals which we believe not only meet our interests but also provide a framework for reform which will ultimately benefit all parties.

The proposal is comprehensive and it is far-reaching. It will be formally tabled by the Cairns Group at the Agriculture Negotiating Group meeting next week.

It contains three elements.

First, the overall objective of the proposal is to establish a long term framework within which agricultural production and trade can take place with minimum distortion and disruption. We must go as far as possible towards eliminating all agricultural subsidies and access barriers. This long term framework would be supported by new or amended GATT rules.

Second, recognising the truly massive scale of structural distortions which we all must tackle, the group proposes a reform program whereby countries would negotiate commitments to reduce trade distorting policies using defined rules.

Unlike other proposals, this program assigns priority to phasing out those measures which most disrupt trade. The European Community, the United States and Japan obviously bear a particular responsibility here.

Two other features of the program deserve mention.

The program calls for international co-operation to minimise the impact on trade of regulations protecting human, animal or plant health. These regulations should not be used as unwarranted barriers to trade.

It also proposes a surveillance mechanism to avoid any circumvention of remedial action, to ensure that remaining or new measures do not impede the reform process and to ensure compliance with undertakings.

The third major element of the Cairns Group proposal reflects our recognition that such a reform process is gradual and must be bolstered by specific early relief measures.

Cairns Group members take no comfort from the assurances of the major economies that their subsidies are not aimed at us. What matters is that they are hitting us. Indeed our casualties are greater than those of the protagonists.

Efficient producers are being forced out of the market, to the long term detriment of all consumers.

Therefore the proposals calls for early relief in the form of:

- a freeze on access barriers, on production and export subsidies, and on unjustified health regulations.
- a political commitment to the responsible management and non disruptive release of stocks, and
- a concerted multilateral cutback on all export and production subsidies, coupled with a commitment to increase access opportunities.

The proposal recognises the reality of uneven stages of development in various countries and their industries.

It provides for the principle of differential and more favourable treatment for developing countries to apply to the agricultural reform process. This is consistent with the GATT itself and the Punta del Este declaration.

Realism demands that certain exceptions will have to be allowed if the will for reform is to be carried forward. Therefore the proposal allows scope for a strictly defined list of support measures to continue if they have a negligible effect on output and trade.

The Cairns Group believes that its proposal provides a firm basis on which to proceed into the substantive negotiating phase.

We will be aiming to achieve agreement on the parameters for the reform program by the end of next year, or sooner if possible, so that the early relief measures can be implemented immediately thereafter.

We will be aiming to agree on the details of the reform program and implement them from the end of 1990 at the very latest, with a maximum phase-in period of 10 years.

I recognise that this timetable is ambitious. But the trade crisis calls for urgent measures. Such measures should indeed be achievable given the sincerity of the commitments made by the leaders of industrialised countries to urgent agricultural reform.

Ladies and Gentlemen,

Last week in Vancouver the Commonwealth Heads of Government meeting issued a declaration on world trade.

In that declaration the Commonwealth - representing some 50 nations and one quarter of the world's population - expressed its opposition to continued protectionism and, correspondingly, our strong support for trade liberalisation.

It supported a strong, credible and working GATT and welcomed the Uruguay Round of multilateral trade negotiations. It agreed on the crucial need for reform of trade-distorting agricultural policies. And, more significantly, it expressed hope for an "early harvest" from the negotiations on agriculture and other subjects.

The Vancouver declaration is only the latest demonstration of the growing world-wide momentum towards the achievement of trade liberalisation.

Forty years after the establishment of GATT, the international trading system is corrupted and ailing. The members of GATT have a fundamental choice to make. We can do nothing, decide that it is all too hard, plunge the world into escalating protectionism and the heightened global political tensions that would inevitably follow.

Or we can decide to add to the momentum of reform, moving forward cooperatively dismantling the barriers of trade, improving the economic well being of all nations and making an invaluable contribution to the prospects of world peace.

I have often remarked on this paradox. The remarkable capacities of the human mind in the realm of scientific and technological engineering have almost continuously dazzled us in the post war era.

Telecom '87 which I visited this morning reminds us vividly of this seemingly endless capacity. But there has been no symmetry with that genius in our demonstrated capacity in social engineering.

This is, of course, not so much a matter of failure or dysfunction of the mind but a failure of political will.

If we are not prepared now to grasp the challenge and the opportunity before us, history will harshly and properly judge us as the incompetent perpetrators of that tragic pattern. For us the prospect of such a judgement should be incentive enough. For me, even more damning would be that we simply were not sensible enough to perceive and pursue what enlightened self interest makes so glaringly obvious.

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Seventh EC-ASEAN Ministerial Meeting

Dusseldorf, 2-3 May, 1988

Excerpt from the joint declaration issued
at the end of the meeting:

URUGUAY ROUND

The Ministers welcomed the progress that had been made in the new round of multilateral trade negotiations and reaffirmed their commitment to work towards the achievement of the objectives laid down at Punta del Este. The Community and ASEAN noted with satisfaction that close contacts were established on these important negotiations and agreed that every effort should be made to maintain them in the continuing negotiations.

The Ministers noted that the Community had been the first participant in the MTN which had tabled a significant offer on tropical products, a sector of particular interest to ASEAN. They reaffirmed that the negotiations shall aim at the fullest liberalization of trade in this sector.

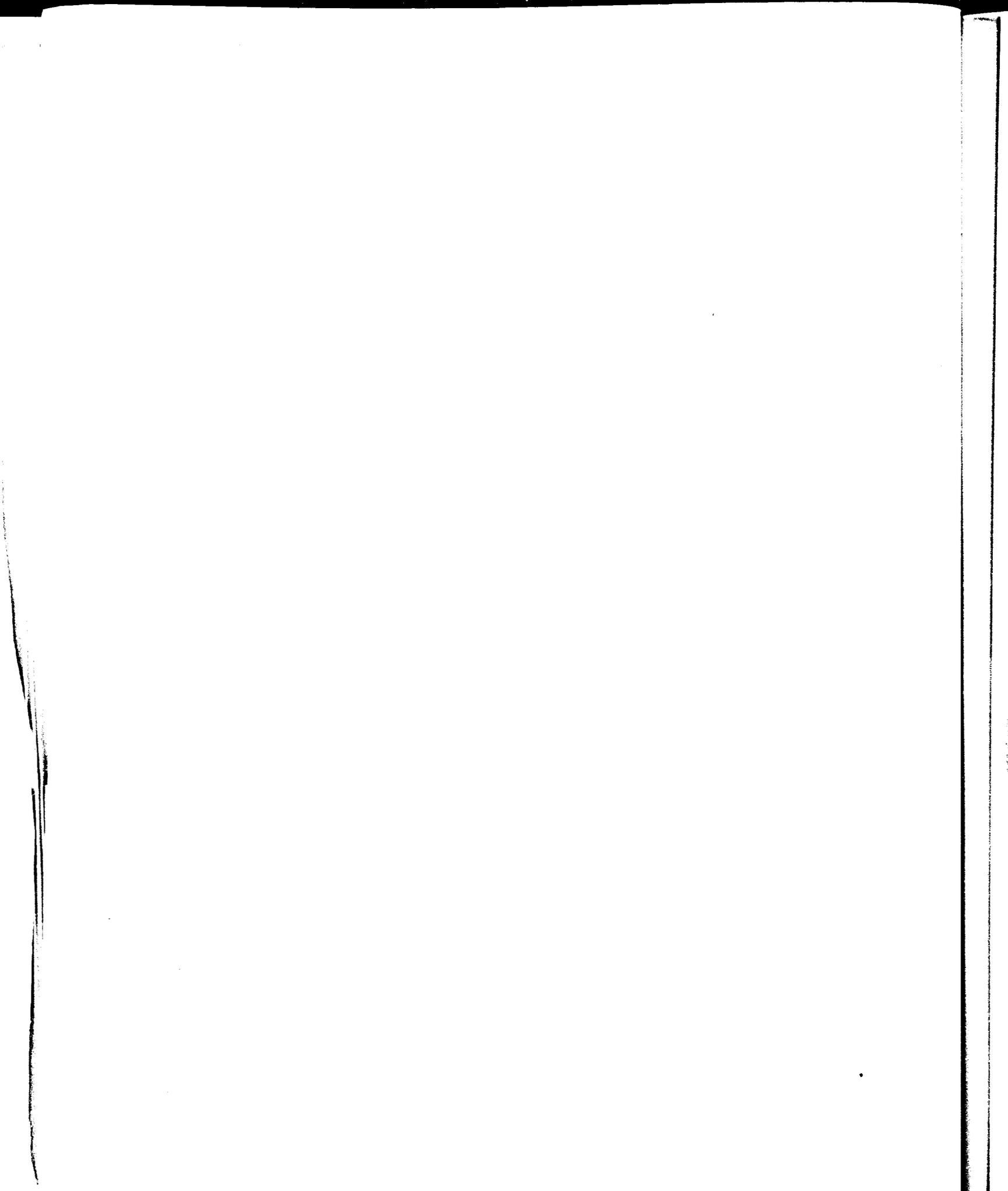
The Ministers also noted the importance of natural resource-based products as well as textiles and clothing for ASEAN and expressed their determination to work towards the achievement of the objectives stated in the Punta del Este Declaration.

Ministers expressed satisfaction that a large number of proposals had been tabled in Geneva on agriculture, which could serve as a basis for meaningful negotiations. In order to fulfill the commitments set out in Punta del Este,

the Ministers agreed that these negotiations should focus on securing a comprehensive long-term framework for agricultural reform as well as consistent short-term measures. Both sides considered that progress in this key sector is an important element to the overall success of the Uruguay Round as well as the promotion of liberalized world agricultural trade in general.

The Ministers reaffirmed their commitment to the principle of standstill and rollback and expressed their concern that in spite of the on-going negotiations, barriers continued to be introduced by certain countries. In this context the Ministers welcomed the Community's initiative in presenting an autonomous rollback offer in Geneva. They noted that special and differential treatment for developing countries applies to these negotiations in accordance with the Punta del Este Declaration. They also noted that as the economic and trade situation of developing countries improves, the countries concerned accordingly expect to participate more fully in the framework of rights and obligations under the GATT. On the new subjects, notably services, intellectual property and trade-related investment measures they took note of the preparatory work carried out so far and expressed their hope that further work in these increasingly important areas could lead to successful results.

The Ministers welcomed the decision to hold a Trade Negotiating Committee (TNC) Ministerial Meeting in Montreal in December 1988 and agreed that the meeting should be seen as an opportunity to give political impetus to the negotiations which shall be treated as a single undertaking without prejudice to the implementation of agreements reached at an early stage; in that connection the ASEAN Ministers expressed the hope that an early result on tropical products could be achieved by the time of the mid-term review.



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GENERAL AGREEMENT ON TARIFFS AND TRADE

MIN. DEC
20 September 1986

Multilateral Trade Negotiations
The Uruguay Round

MINISTERIAL DECLARATION ON THE URUGUAY ROUND

Ministers, meeting on the occasion of the Special Session of the CONTRACTING PARTIES at Punta del Este, have decided to launch Multilateral Trade Negotiations (The Uruguay Round). To this end, they have adopted the following Declaration. The Multilateral Trade Negotiations will be open to the participation of countries as indicated in Parts I and II of this Declaration. A Trade Negotiations Committee is established to carry out the negotiations. The Trade Negotiations Committee shall hold its first meeting not later than 31 October 1986. It shall meet as appropriate at Ministerial level. The Multilateral Trade Negotiations will be concluded within four years.

PART I NEGOTIATIONS ON TRADE IN GOODS

The CONTRACTING PARTIES meeting at Ministerial level

- DETERMINED** to halt and reverse protectionism and to remove distortions to trade
- DETERMINED** also to preserve the basic principles and to further the objectives of the GATT
- DETERMINED** also to develop a more open, viable and durable multilateral trading system
- CONVINCED** that such action would promote growth and development
- MINDFUL** of the negative effects of prolonged financial and monetary instability in the world economy, the indebtedness of a large number of less developed contracting parties, and considering the linkage between trade, money, finance and development
- DECIDE** to enter into Multilateral Trade Negotiations on trade in goods within the framework and under the aegis of the General Agreement on Tariffs and Trade.

A. OBJECTIVES

Negotiations shall aim to:

- (i) bring about further liberalization and expansion of world trade to the benefit of all countries, especially less-developed contracting parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions and other non-tariff measures and obstacles;
- (ii) strengthen the rôle of GATT, improve the multilateral trading system based on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;
- (iii) increase the responsiveness of the GATT system to the evolving international economic environment, through facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organizations and taking account of changes in trade patterns and prospects, including the growing importance of trade in high technology products, serious difficulties in commodity markets and the importance of an improved trading environment providing, inter alia, for the ability of indebted countries to meet their financial obligations;
- (iv) foster concurrent cooperative action at the national and international levels to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development, and to contribute towards continued, effective and determined efforts to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries.

B. GENERAL PRINCIPLES GOVERNING NEGOTIATIONS

- (i) Negotiations shall be conducted in a transparent manner, and consistent with the objectives and commitments agreed in this Declaration and with the principles of the General Agreement in order to ensure mutual advantage and increased benefits to all participants.
- (ii) The launching, the conduct and the implementation of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.

- (iii) Balanced concessions should be sought within broad trading areas and subjects to be negotiated in order to avoid unwarranted cross-sectoral demands.
- (iv) The CONTRACTING PARTIES agree that the principle of differential and more favourable treatment embodied in Part IV and other relevant provisions of the General Agreement and in the Decision of the CONTRACTING PARTIES of 28 November 1979 on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries applies to the negotiations. In the implementation of standstill and rollback, particular care should be given to avoiding disruptive effects on the trade of less-developed contracting parties.
- (v) The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e. the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.
- (vi) Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the progressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.
- (vii) Special attention shall be given to the particular situation and problems of the least-developed countries and to the need to encourage positive measures to facilitate expansion of their trading opportunities. Expeditious implementation of the relevant provisions of the 1982 Ministerial Declaration concerning the least-developed countries shall also be given appropriate attention.

C. STANDSTILL AND ROLLBACK

Commencing immediately and continuing until the formal completion of the negotiations, each participant agrees to apply the following commitments:

Standstill

- (i) not to take any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement or the Instruments negotiated within the framework of GATT or under its auspices;
- (ii) not to take any trade restrictive or distorting measure in the legitimate exercise of its GATT rights, that would go beyond that which is necessary to remedy specific situations, as provided for in the General Agreement and the Instruments referred to in (i) above;
- (iii) not to take any trade measures in such a manner as to improve its negotiating positions;

Rollback

- (i) that all trade restrictive or distorting measures inconsistent with the provisions of the General Agreement or Instruments negotiated within the framework of GATT or under its auspices, shall be phased out or brought into conformity within an agreed timeframe not later than by the date of the formal completion of the negotiations, taking into account multilateral agreements, undertakings and understandings, including strengthened rules and disciplines, reached in pursuance of the Objectives of the Negotiations;
- (ii) there shall be progressive implementation of this commitment on an equitable basis in consultations among participants concerned, including all affected participants. This commitment shall take account of the concerns expressed by any participant about measures directly affecting its trade interests;
- (iii) there shall be no GATT concessions requested for the elimination of these measures.

Surveillance of standstill and rollback

Each participant agrees that the implementation of these commitments on standstill and rollback shall be subject to multilateral surveillance so as to ensure that these commitments are being met. The Trade Negotiations Committee will decide on the appropriate mechanisms to carry out the

surveillance, including periodic reviews and evaluations. Any participant may bring to the attention of the appropriate surveillance mechanism any actions or omissions it believes to be relevant to the fulfilment of these commitments. These notifications should be addressed to the GATT secretariat which may also provide further relevant information.

D. SUBJECTS FOR NEGOTIATION

Tariffs

Negotiations shall aim, by appropriate methods, to reduce or, as appropriate, eliminate tariffs including the reduction or elimination of high tariffs and tariff escalation. Emphasis shall be given to the expansion of the scope of tariff concessions among all participants.

Non-tariff measures

Negotiations shall aim to reduce or eliminate non-tariff measures, including quantitative restrictions, without prejudice to any action to be taken in fulfilment of the rollback commitments.

Tropical products

Negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms and shall cover both tariff and all non-tariff measures affecting trade in these products.

The CONTRACTING PARTIES recognize the importance of trade in tropical products to a large number of less developed contracting parties and agree that negotiations in this area shall receive special attention, including the timing of the negotiations and the implementation of the results as provided for in B(ii).

Natural resource-based products

Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semi-processed forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation.

Textiles and clothing

Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.

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Agriculture

The CONTRACTING PARTIES agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalances and instability in world agricultural markets.

Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:

- (i) improving market access through, inter alia, the reduction of import barriers;
- (ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;
- (iii) minimizing the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements.

In order to achieve the above objectives, the negotiating group having primary responsibility for all aspects of agriculture will use the Recommendations adopted by the CONTRACTING PARTIES at their Fortieth Session, which were developed in accordance with the GATT 1982 Ministerial Work Programme, and take account of the approaches suggested in the work of the Committee on Trade in Agriculture without prejudice to other alternatives that might achieve the objectives of the negotiations.

GATT Articles

Participants shall review existing GATT Articles, provisions and disciplines as requested by interested contracting parties, and, as appropriate, undertake negotiations.

Safeguards

- (1) A comprehensive agreement on safeguards is of particular importance to the strengthening of the GATT system and to progress in the Multilateral Trade Negotiations.

(ii) The agreement on safeguards:

- shall be based on the basic principles of the General Agreement;
- shall contain, inter alia, the following elements: transparency, coverage, objective criteria for action including the concept of serious injury or threat thereof, temporary nature, degressivity and structural adjustment, compensation and retaliation, notification, consultation, multilateral surveillance and dispute settlement; and
- shall clarify and reinforce the disciplines of the General Agreement and should apply to all contracting parties.

MTN Agreements and Arrangements

Negotiations shall aim to improve, clarify, or expand, as appropriate, Agreements and Arrangements negotiated in the Tokyo Round of Multilateral Negotiations.

Subsidies and countervailing measures

Negotiations on subsidies and countervailing measures shall be based on a review of Articles VI and XVI and the MTN Agreement on subsidies and countervailing measures with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade. A negotiating group will be established to deal with these issues.

Dispute settlement

In order to ensure prompt and effective resolution of disputes to the benefit of all contracting parties, negotiations shall aim to improve and strengthen the rules and the procedures of the dispute settlement process, while recognizing the contribution that would be made by more effective and enforceable GATT rules and disciplines. Negotiations shall include the development of adequate arrangements for overseeing and monitoring of the procedures that would facilitate compliance with adopted recommendations.

Trade-related aspects of intellectual property rights, including trade in counterfeit goods

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.

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Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.

These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organization and elsewhere to deal with these matters.

Trade-related investment measures

Following an examination of the operation of GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade.

E. FUNCTIONING OF THE GATT SYSTEM

Negotiations shall aim to develop understandings and arrangements:

- (i) to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system;
- (ii) to improve the overall effectiveness and decision-making of the GATT as an institution, including, inter alia, through involvement of Ministers;
- (iii) to increase the contribution of the GATT to achieving greater coherence in global economic policy-making through strengthening its relationship with other international organizations responsible for monetary and financial matters.

F. PARTICIPATION

(a) Negotiations will be open to:

- (i) all contracting parties,
- (ii) countries having acceded provisionally,
- (iii) countries applying the GATT on a de facto basis having announced, not later than 30 April 1987, their intention to accede to the GATT and to participate in the negotiations,

- (iv) countries that have already informed the CONTRACTING PARTIES, at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party, and
 - (v) developing countries that have, by 30 April 1987, initiated procedures for accession to the GATT, with the intention of negotiating the terms of their accession during the course of the negotiations.
- (b) Participation in negotiations relating to the amendment or application of GATT provisions or the negotiation of new provisions will, however, be open only to contracting parties.

G. ORGANIZATION OF THE NEGOTIATIONS

A Group of Negotiations on Goods (GNG) is established to carry out the programme of negotiations contained in this Part of the Declaration. The GNG shall, inter alia:

- (i) elaborate and put into effect detailed trade negotiating plans prior to 19 December 1986;
- (ii) designate the appropriate mechanism for surveillance of commitments to standstill and rollback;
- (iii) establish negotiating groups as required. Because of the interrelationship of some issues and taking fully into account the general principles governing the negotiations as stated in B(iii) above it is recognized that aspects of one issue may be discussed in more than one negotiating group. Therefore each negotiating group should as required take into account relevant aspects emerging in other groups;
- (iv) also decide upon inclusion of additional subject matters in the negotiations;
- (v) co-ordinate the work of the negotiating groups and supervise the progress of the negotiations. As a guideline not more than two negotiating groups should meet at the same time;
- (vi) the GNG shall report to the Trade Negotiations Committee.

In order to ensure effective application of differential and more favourable treatment the GNG shall, before the formal completion of the negotiations, conduct an evaluation of the results attained therein in

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terms of the Objectives and the General Principles Governing Negotiations as set out in the Declaration, taking into account all issues of interest to less-developed contracting parties.

PART II
NEGOTIATIONS ON TRADE IN SERVICES

Ministers also decide, as part of the Multilateral Trade Negotiations, to launch negotiations on trade in services.

Negotiations in this area shall aim to establish a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors, with a view to expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting economic growth of all trading partners and the development of developing countries. Such framework shall respect the policy objectives of national laws and regulations applying to services and shall take into account the work of relevant international organizations.

GATT procedures and practices shall apply to these negotiations. A Group of Negotiations on Services is established to deal with these matters. Participation in the negotiations under this Part of the Declaration will be open to the same countries as under Part I. GATT secretariat support will be provided, with technical support from other organizations as decided by the Group of Negotiations on Services.

The Group of Negotiations on Services shall report to the Trade Negotiations Committee.

IMPLEMENTATION OF RESULTS UNDER PARTS I AND II

When the results of the Multilateral Trade Negotiations in all areas have been established, Ministers meeting also on the occasion of a Special Session of CONTRACTING PARTIES shall decide regarding the international implementation of the respective results.

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GATT

Helping the world grow

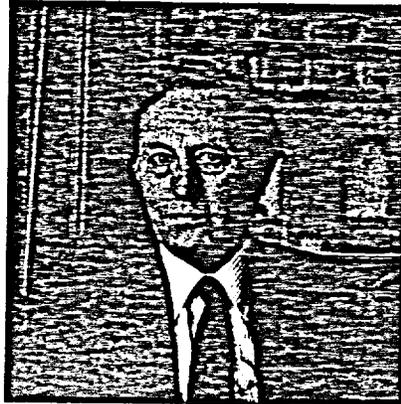
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The General Agreement on Tariffs and Trade



Economic growth, job creation and prosperity go hand in hand with trade expansion and diversification. But, markets must be opened and kept open, and competition must not be distorted. This is what GATT is all about.

Arthur Dunkel
Director-General, GATT



This booklet is called "Helping the World Grow" – and with good reason. If the idea of nations trading with each other has, over many centuries, come to be regarded as a good thing, it is because trade has generally resulted in higher levels of economic well-being for those engaged in it.

The world grows when businessmen have the confidence to invest, create jobs and trade. The GATT exists to ensure that trade relations among governments provide stable, secure and open trading conditions which, in turn, encourage business confidence. Other aspects of the world economy have to work efficiently also. But the GATT system has been a key factor in the past forty years.

GATT's first twenty-five years were a big success – rapid trade liberalization did, indeed, help to ensure that the world grew quickly. However, it is clear that the system is not now working as well as it should. The Uruguay Round has given us the opportunity to enhance the credibility of the fundamental ideas underlying the GATT and to extend and strengthen the trade rules for the 1990s and beyond.

We face a great and unavoidable challenge. The following pages describe, in a deliberately simplified manner, the GATT and why the challenge must be met – why a growing world depends upon a healthy trading system.

What is the GATT?

In essence, the GATT is no more – and no less – than a large group of countries who believe that their best economic interests are served through a trading system based upon open markets and fair competition secured through agreed multilateral rules and disciplines. They are bound together through a contract called the General Agreement on Tariffs and Trade – so they call each other “contracting parties”.

The GATT is not a club that anyone can join merely by paying a fee. Countries negotiate their way in through complex and sometimes lengthy negotiations – securing benefits but offering them also to the other contracting parties. There is a sensitive balance of rights and obligations among the members.

Some 95 countries have become full contracting parties in the past forty years – all the industrialized (OECD) countries are members together with nearly 70 developing countries and several with centrally-planned economic systems.

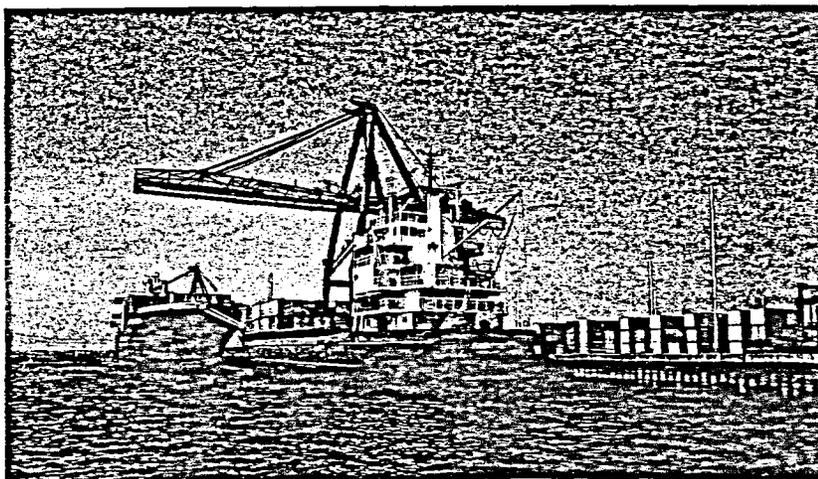
Why do they bother? Largely because when the multilateral system has worked most effectively, world trade, economic growth and employment have reached their highest levels. As members of GATT, countries have a stake in the multilateral trade system and can influence it. At the same time, an effective multilateral trade system should give governments the capacity to keep their own domestic markets open – or to liberalize them further.

Negotiation in GATT is not a diplomatic or academic exercise. It can hit directly at the heart of a nation's economic well-being – the ability to compete, to prosper and to develop.

GATT membership

Antigua and Barbuda
Argentina
Australia
Austria
Bangladesh
Barbados
Belgium
Belize
Benin
Botswana
Brazil
Burkina Faso
Burma
Burundi
Cameroon
Canada
Central African Republic
Chad
Chile
Colombia
Congo
Côte d'Ivoire
Cuba
Cyprus
Czechoslovakia

GATT has successfully tackled many trade restrictions at the border. Now it is focusing more on conditions of competition, such as production subsidies.



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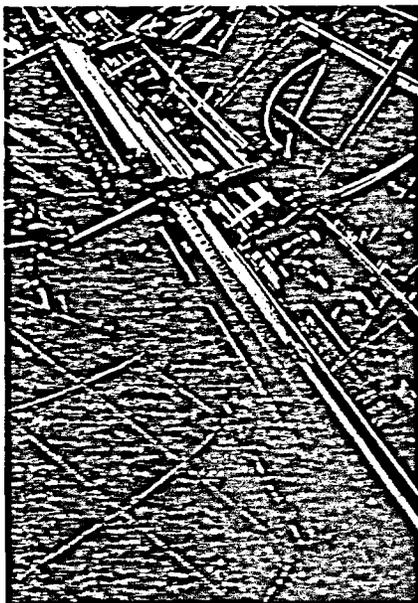
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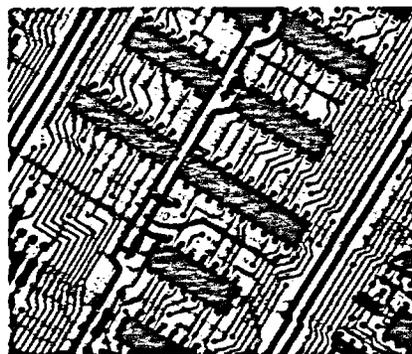
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Sierra Leone
Singapore
South Africa
Spain
Sri Lanka
Suriname
Sweden
Switzerland

Tanzania
Thailand
Togo
Trinidad and Tobago
Turkey
Uganda
United Kingdom
United States of America
Uruguay
Yugoslavia
Zaire
Zambia
Zimbabwe

In addition, the following countries are able to participate in the Uruguay Round:
Algeria, China,
Costa Rica, El Salvador, Fiji,
Guatemala, Honduras,
Lesotho and Tunisia.



Textiles production is a key sector for developing countries and developed alike - but trade between the two is strictly controlled.



Trade in microelectronic products has provided a new source of trade disputes - GATT presents a credible means of settling them.

The principles behind GATT's rules

While there are many complicated rules which make up the GATT and its associated agreements, there are relatively few, simple principles and objectives which underlie them.

Non-discrimination. The most-favoured-nation clause of GATT requires trade advantages negotiated between any two GATT countries to be immediately made available to all others - permitting small and poor countries to benefit substantially from GATT membership. As a corollary, trade restrictions, where applied, should not discriminate between GATT members.

Fair competition. The General Agreement seeks to ensure that the world's exporters have the chance to compete with each other on fair terms. If dumping or subsidization takes place, then the GATT sets the basis on which a reasonable competitive balance can be re-established.

Protection limited to tariffs. Although various new kinds of quantitative restrictions have become fashionable in recent years, the intention of the GATT (which is not a "free trade charter") is to permit protection almost solely through the least damaging and most transparent mechanism - the customs duty or tariff.

Trade liberalization. The GATT is more than a book of rules. It envisages constant effort by governments to negotiate new and better marketing opportunities for business enterprises. This has been achieved, particularly, through seven trade "rounds". It is currently being pursued through the eighth round, the Uruguay Round.

Rational settlement of trade disputes takes place through a unique system developed over the lifetime of the GATT. This system, explained elsewhere in this booklet, has assisted the resolution of over one-hundred disputes during the GATT's first forty years.

Stability and predictability in trading conditions should be encouraged if GATT rules are observed. Ceilings on tariffs, in particular, are often "bound" within the GATT contract. More generally, governments should be constrained from subjecting importers or exporters to continual changes in market access, import regulations, technical standards and so on.

Special treatment for developing countries is an integral feature of the GATT. Less-developed countries have some negotiating advantages and the possibility of securing special trading conditions with industrial countries.

Naturally, there are exceptions to many of these principles. Free-trade areas and customs unions are permitted, for instance, as are preferences for developing countries. Trade restrictions are sometimes permissible for countries in balance-of-payments difficulties, for national security reasons and in other circumstances. Short-term relief from rapidly-growing imports can sometimes be acceptable through the "safeguards" rule. A number of exceptions exist which apply specifically to agricultural trade.

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Events and achievements during forty years

30 October 1947

General Agreement on Tariffs and Trade opened for signature in Geneva. It embodies the results of tariff negotiations among 23 "founding" contracting parties which have been working on a draft Charter for an International Trade Organization (ITO) under the United Nations. The GATT includes rules to protect the value of tariff concessions.

This first round of tariff negotiations results in 45,000 concessions affecting about one-fifth (\$10 bn) of world merchandise trade.

21 November 1947

UN Conference on Trade and Employment opens in Havana, Cuba. 56 countries meet to consider draft Charter for the ITO. The Charter would cover not only trade rules, but employment, commodity agreements, restrictive business practices and international investment.

1 January 1948

The GATT becomes operative, thus putting into effect the trade rules in the draft ITO charter on a provisional basis.

24 March 1948

Havana Conference closes with 53 countries signing the Final Act embodying the Havana Charter. This remains subject to ratification by governments.

July 1948

GATT secretariat established at the Palais des Nations, Geneva. Consists of nine officers and six typists. Even this complement is cut by nearly half shortly afterwards.

April-August 1949

The second round takes place in Annecy, France. Accession of ten more countries.

5,000 new tariff concessions.

September 1950-April 1951

The third round held in Torquay, England. Four new accessions. US announces it will not seek Congressional approval for ratification of Havana Charter. The ITO is effectively dead.

8,700 new concessions bringing tariffs down by 25% from their 1945 levels.

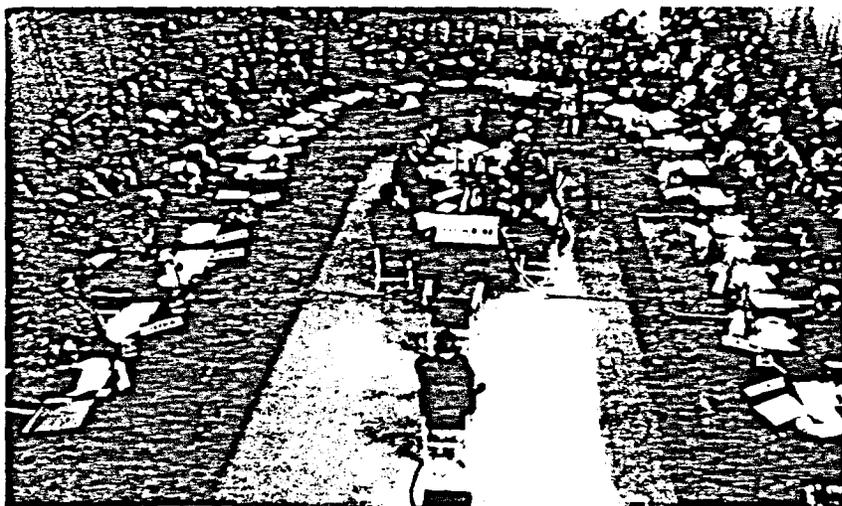
1955/1956

Japan negotiates accession in 1955. The fourth round completed in Geneva during May 1956. First GATT trade policy training course held for developing country officials.

Tariff reductions covering \$2.5 billion of trade.

1958

Creation of the European Economic Community leads to large-scale GATT tariff negotiations.



Church House, London, 1946.
One of the preparatory meetings
which led to the signing
of the GATT on 30 October 1947.

1960-1962

The 'Dillon Round' named after US Under-Secretary of State Douglas Dillon. Covers negotiations with EEC on common external tariff and a general tariff round.

4,400 concessions covering \$4.9 bn of trade.

1961

The 'Short-Term' Arrangement covering cotton textiles negotiated in GATT. It becomes the 'Long-term' Arrangement in 1962 and lasts until 1974.

This exception to GATT permits negotiated bilateral quotas restricting exports of low-cost producers to developed markets.

1964-1967

Fifty countries participate in the Kennedy Round proposed by the US President to help ensure an outward-looking evolution of the European Communities.

50% tariff cuts sought and achieved in many areas. Concessions cover nearly 30 per cent (\$50 bn) of world merchandise trade. Agreements include the first Anti-Dumping Code.

1965

A new chapter (Part IV) added to the General Agreement at Special Session of Contracting Parties.

Provisions state that developed countries should not erect barriers affecting trade of special interest to developing countries. Developing countries are expected to reciprocate trade concessions only to an extent consistent with their development and other needs.

1974

The 'Multifibre Arrangement' negotiated in GATT. Subsequently renewed in 1978, 1982 and 1986.

Wide range of textile and clothing products become subject to control through bilateral quotas.

1973-1979

The 'Tokyo Round' in which 99 countries participate. For the first time negotiations concentrate on non-tariff measures although significant tariff concessions are made.

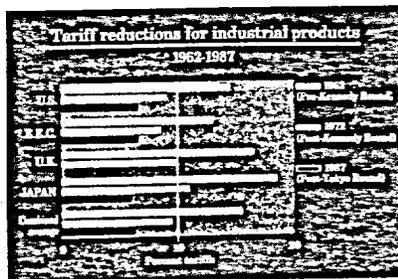
Tariff reductions affect about 15 per cent of trade when implemented (\$325 bn of today's trade). Brings average tariffs on manufactures in nine major industrial markets down from 7.0 to 4.7 per cent. 'Codes' negotiated in six non-tariff areas, including standards, government procurement, subsidies and customs valuation. Further agreements affecting trade in civil aircraft (where duties were reduced to zero), dairy products and bovine meat.

1982

Ministerial meeting in Geneva establishes a comprehensive work programme which becomes basis for the Uruguay Round.

1986

The Uruguay Round is launched in Punta del Este on 20 September. Detailed negotiations start in February 1987.



When the GATT was created, average industrial tariffs in the developed countries were around 40 per cent. GATT negotiations brought them down to generally very low levels. The chart shows the effects of the major trade rounds.

Why open trade makes economic sense as well as common sense

The principles of an open trading system based upon multilaterally agreed rules are simple enough and, although they are sometimes conveniently forgotten, they are never credibly challenged.

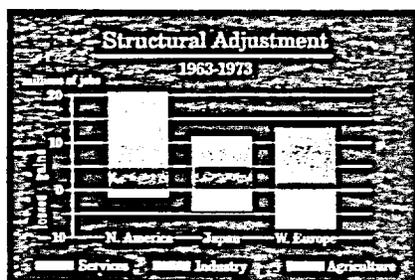
'Comparative advantage' sounds a complicated idea but, in essence, it adds up to no more than a statement of commercial common sense that firms prosper by concentrating on what they can produce best. This happens naturally in the domestic market, but that is only half the story. The other half involves the world market. Most firms recognize that the bigger the market, the greater their potential – in terms of achieving efficient scales of operation and having access to large numbers of customers. In other words, liberal trade policies multiply the rewards that come with producing the best products, with the best design, at the best price.

But trading success is not a static thing. Competitiveness in particular products can move from country to country, just as it can move from company to company when the market changes or new technologies make cheaper and better products possible. This is in general a gradual process, and if the trading system is allowed to operate without the constraints of protectionism, then firms can move in an orderly and relatively painless way to a focus on new products, finding either a new "niche" in their current area or expanding into new product areas. Experience has shown that such opportunities always exist because as other countries become dynamic exporters they usually also become dynamic importers.

This is why industries seldom disappear as a result of import competition. At the same time, experience shows that many industries exposed to international competition do flourish. Well-managed firms become more successful in their domestic markets and as exporters as they reduce their costs and change their products, designs, prices and so on in response to the challenge from abroad.

Just so long as this process of change – brought about through natural movements in commercial advantage – is not blocked by protection, then the overall effect is to create more trade, more economic growth worldwide, more investment, more jobs and more wealth. The world has enjoyed periods when this happened – indeed, when it was positively encouraged through widespread trade liberalization.

The alternative of import protection and perpetual government subsidies leads to bloated, inefficient companies supplying consumers with outdated, unattractive products. Ultimately, factories close and jobs are lost despite protection and subsidies. Overseas markets contract in the process and world economic activity is reduced by some measure. Everyone ends up poorer.

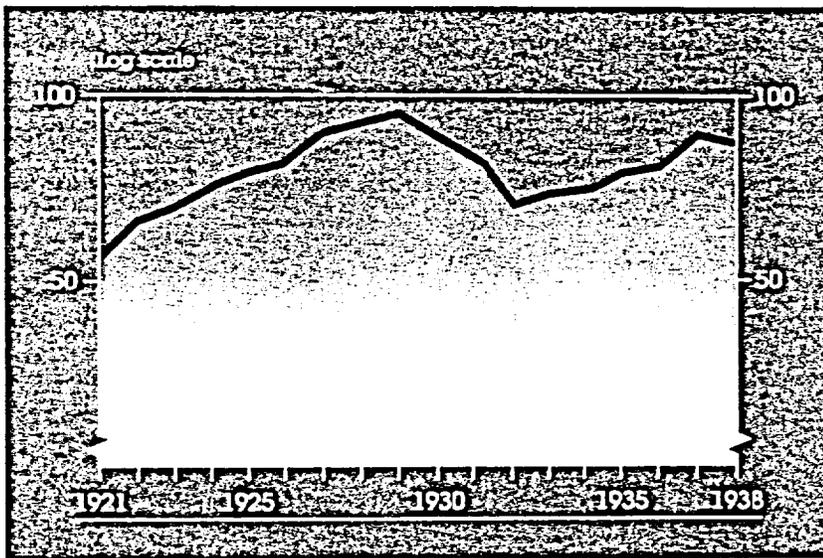


Economies can adjust smoothly to changing circumstances. In the period shown, jobs lost on the land were more than made up by new jobs in industry and services.

The good times ... and the bad times

WORLD MERCHANDISE TRADE 1921-38

(Volume indices, 1950 = 100)

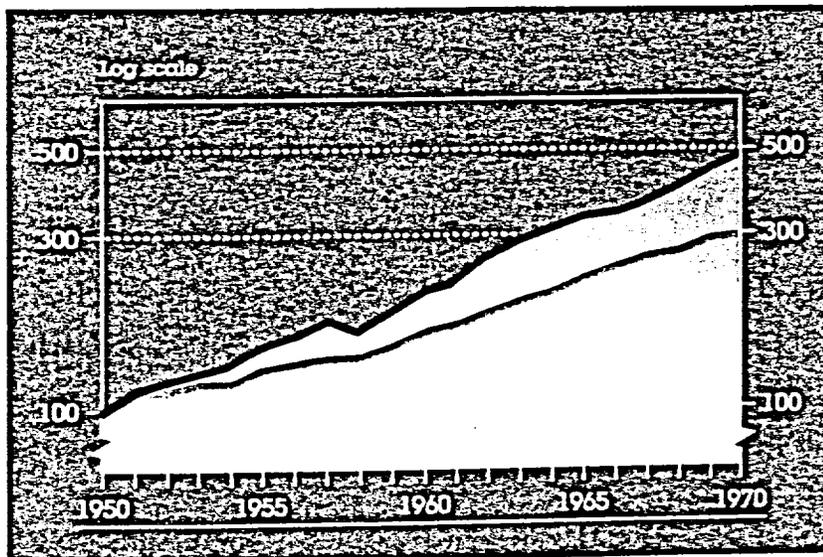


World Trade 1921-1938

While trade in the 1920s was affected by extensive trade restrictions, the major reversal came in 1929. The very high 'Smoot Hawley' tariffs imposed by the US Congress in 1930 and competitive devaluations of currencies triggered worldwide protectionist retaliation. Together, these factors helped to turn a moderately-serious recession into the Great Depression. The 25 per cent fall in the volume of world trade was four times greater than the largest one-year reversal since the Second World War - that in 1975. In terms of the value of world trade the fall in the 1929 to 1932 period was some 40 per cent.

WORLD MERCHANDISE TRADE AND COMMODITY OUTPUT 1950-70

(volume indices, 1950 = 100)



Merchandise trade — Merchandise output

World Trade 1950-1970

The momentum of trade liberalization in the post-War period - which included big reductions in the levels of tariffs and the dismantling of many quota restrictions - was a key factor behind the 8.1 per cent a year average trade growth during this period. World trade was growing half as fast again as world merchandise production (5.5 per cent) in these years indicating both that a healthy increase in production creates extra trade and that trade growth feeds back to stimulate production. By a wide margin economic growth was higher in these years than in any other significant period this century - and probably any other. Countries at all income levels shared in this unprecedented growth.

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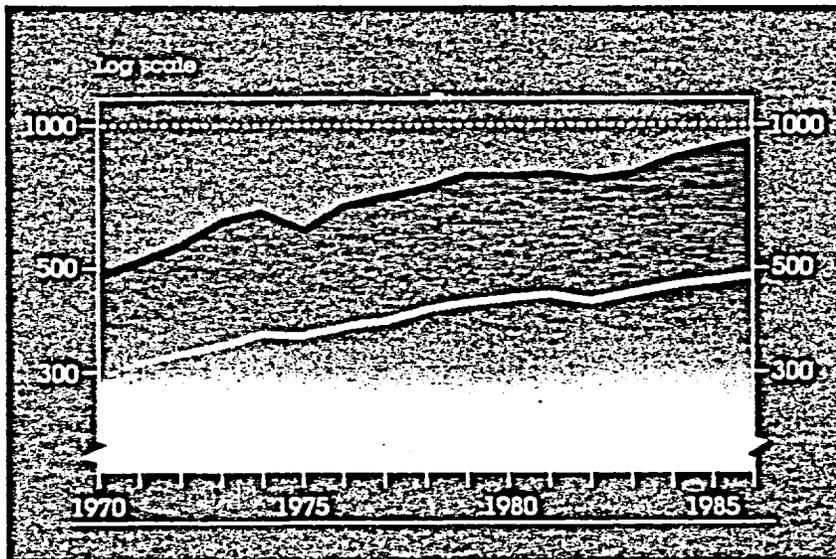
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WORLD MERCHANDISE TRADE AND COMMODITY OUTPUT 1970-86

(Volume indices, 1950 = 100)



Merchandise trade Merchandise output

World Trade 1970-1986

Trade policies in the 1970s and 1980s have been marked by the resort to bilateral quantitative restrictions, market sharing and escalating subsidies. Such policies have helped to halve the post-War rate of trade growth to 4.2 per cent per year, which has further intensified protectionist pressures. The lines for trade growth and output have become almost parallel indicating that the previous healthy relationship between the two has changed for the worse. Merchandise output growth has slowed to around 3.2 per cent a year. The end result has been high unemployment, reduced business investment and a diminished rate of improvement in living standards.

Some of the things they say about the GATT

GATT has no teeth, so how can it enforce its own rules?

Certainly GATT cannot act like a police force or like a court of law – there are no jail sentences or fines to be imposed. However, there are other, effective pressures. Sometimes the pressure comes from the need to maintain negotiating credibility in the GATT. The dispute settlement procedure can exert its own special pressure. And there are situations in which the imposition of trade restraints must be the subject of compensation. However, it may be that the Uruguay Round will give the GATT a few more teeth.

What has GATT done to correct huge trade surpluses and deficits?

The GATT is about expanding trade to the benefit of all countries in the system. GATT rules are not designed to "correct" trade balances which usually reflect aspects of the economy unrelated to the trade policies of the country concerned or of any other. So trade deficits cannot be negotiated away. Trade liberalization through GATT negotiations will raise the overall level of trade and increase prosperity – but they will not make up for low competitiveness or a country's tendency to spend more than it produces.

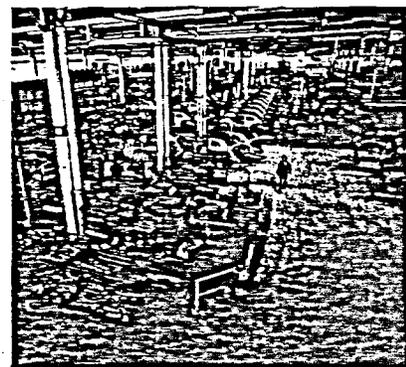
Is it not true that GATT is dominated by the interests of rich countries?

Over two-thirds of the contracting parties are developing countries – and eleven of the founding 23 countries were also. Every country has a single vote on the rare occasions of a ballot. Naturally the big trading powers carry considerable weight in negotiations. But the operation of the most-favoured-nation rule ensures everyone gets the benefits of deals agreed by the major traders. More generally, it is the smaller and less-powerful countries that benefit most from a trading system based on rules rather than on economic or political might.



Trade in tropical products is vital for many developing countries – GATT negotiations have helped improve their export opportunities.

Business decisions to invest in new capacity are often linked to confidence in secure access to export markets or to low-cost imported inputs.



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GATT is an outmoded institution, irrelevant to the commercial world of the 1980s.

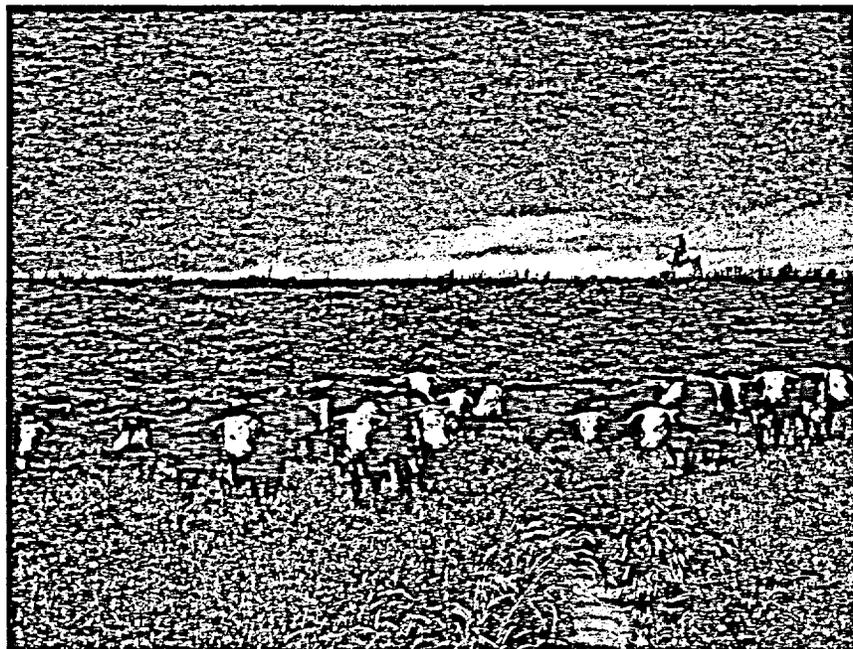
The question is, are the general principles underlying the GATT any less valid now than 40 years ago? It seems very unlikely. If the institution called GATT were ever abandoned, it would quickly have to be re-invented employing the same key principles. Of course, some of the rules may be less relevant to today's world and the GATT may not cover important new areas of trade adequately, or at all. But that was one reason to launch the Uruguay Round.

Free trade is just a Utopian dream - modern politics requires the practical approach.

The GATT is neither Utopian nor about free trade. It is highly pragmatic - that is why it has worked well for most of its life. It seeks to secure stable, predictable and open markets. But it permits tariffs and recognizes that governments will feel the need to take temporary restrictive actions on occasions.

The GATT is just another international bureaucracy.

The secretariat employs, in all, some 350 staff - hardly a large bureaucracy given that some large companies have that many staff engaged in public relations. There are many committees, groups and working parties attended by national delegates which reflects the intensity of current negotiations, particularly the Uruguay Round. The budget is just \$40 million a year - equal to about 10 minutes of world merchandise trade and a small price to pay to help keep \$2,100,000 million of trade moving!



Trade in meat and dairy products is distorted by subsidies and controls - the Uruguay Round seeks real reform.

Settling Trade Disputes

Since the GATT is not based upon any Utopian ideal, it was always envisaged that disputes would occur. The question is, how to minimize the damage and produce practical solutions.

GATT's dispute settlement procedure is a unique blend of judicial precision and common sense pragmatism. Although its basis is contained in the General Agreement, the system has evolved over many years. Naturally, the emphasis is always upon achieving a negotiated solution between disputing countries. Merely bringing a dispute to the notice of the GATT - usually the GATT Council - can often encourage or achieve that. But sometimes it does not and then the Council may set up a dispute panel.

A panel usually consists of three experts from countries without an interest in the matter in question. Throughout their work, the panelists seek to bring about a solution through conciliation. They meet as a kind of court hearing the case on both sides and the views of interested parties. They form a judgement based upon an interpretation of the General Agreement itself and upon previous cases. It is largely a question of whether the rules are being broken or not and trade interests being damaged.

The report which is submitted to the Council contains conclusions on the rights and wrongs of the case and, in its final paragraphs, usually a recommendation which offers a practical and sensible means of giving justice where a contravention of the rules has been established.

If the council adopts the report of the panel - which it does by consensus - then there is a duty on the part of the contracting parties concerned to act in accordance with its findings. Retaliation can be authorized if they do not. However, this has only been found necessary in one case.

Of course, the system is not perfect and there have been some celebrated failures. In particular, it has been unable to cope adequately with some disputes relating to agricultural subsidies and non-trade - for instance, foreign policy - issues. But, in 40 years, over 100 cases have been pursued through the system and only a handful have not been resolved.

The system has been accused of being too slow. In fact, on average, cases have taken a little over a year, from start to finish - not bad, by the standards of national judicial processes - but even this average has been reduced recently.

Developing countries
are dependent
on industrial country markets
- but when they can sell
they can import too.



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Dispute settlement – a few examples

1948...

in the first case involving a panel or working party, Cuba withdrew certain import regulations following a complaint by US.

1952...

West Germany reduces import duties on sardines following panel ruling related to Norwegian complaint.

1961...

proposed tariff increase on bananas by United Kingdom abandoned after case brought by Brazil.

1984...

United States finally introduces new system of tax support for exporters after panel finds previous 'DISC' system in violation of GATT (European Communities complaint).

1984...

Japan starts to liberalize import restrictions on leather after successful US complaint.

1985...

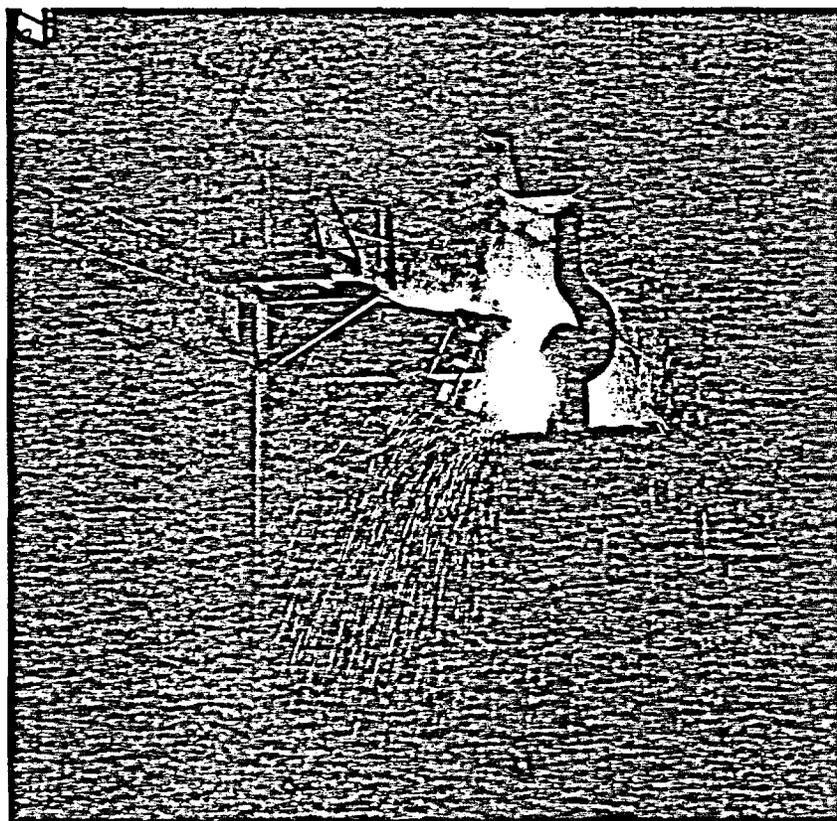
Canada amends its Foreign Investment Review Act after panel case based upon US complaint.

1985...

New Zealand removes anti-dumping duty imposed on electrical transformers from Finland after Finnish complaint.

1986...

US Congress permits 'manufacturing clause' of US copyright legislation – protecting US printing industry since 1891 – to lapse after panel had upheld European Communities' complaint.



Much of world steel trade is now affected by discriminatory bilateral restraints. But they have not stopped plant closures.

Who negotiates in GATT – and how?

There are essentially two kinds of GATT negotiation. One aims at establishing new rules or implementing old ones. The other seeks to reduce specific trade barriers. Sometimes the two overlap. Negotiations can take place independently on specific issues or be linked in the form of major trade rounds.

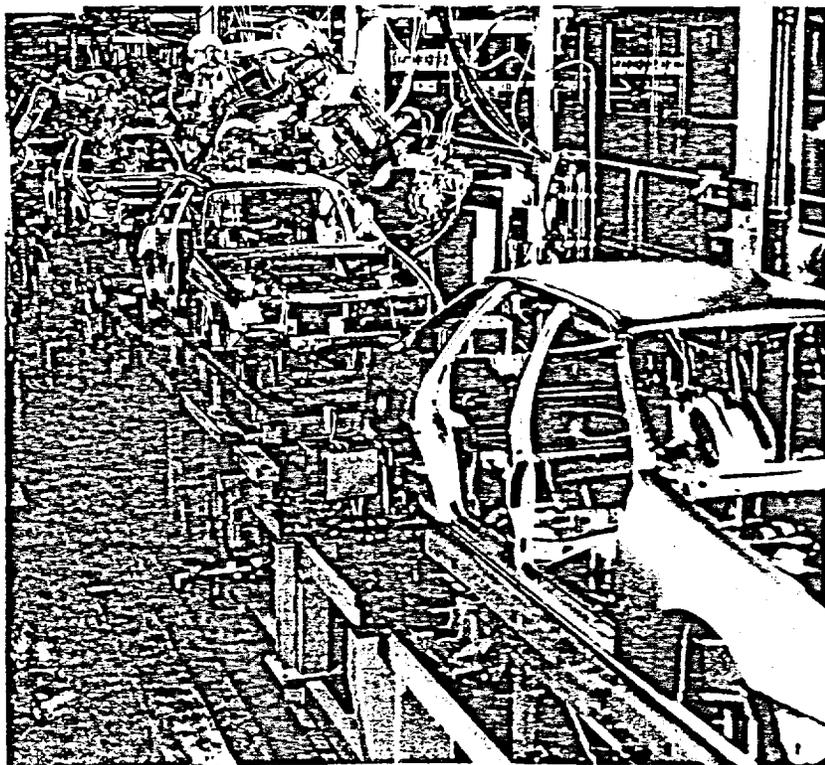
Always, the negotiations is done by the contracting parties themselves. There is no executive body in GATT which can impose liberal trade policies or judgements on commercial practices.

Generally, there is no voting in GATT bodies. Everything has to be agreed by consensus in order, among other things, for GATT decisions to have maximum political viability.

This approach to negotiations – the consensus decision in which not everyone may be in wholehearted agreement but, at least, nobody is actually objecting – makes them sometimes long and even tortuous. It is easy for outside observers – sometimes delegates themselves – to lose patience with such a process. But when the results come, they have a far greater weight than had they been achieved much earlier through an artificial majority vote. The GATT is a pragmatic and realistic institution.

Who does the negotiating? For the most part they are diplomats based in Geneva. Some may be career foreign service officers, others are likely to be economic and trade policy specialists from the relevant government departments. Naturally, they do not work independently. Negotiating objectives and strategies are usually worked out in capitals which have to be kept in constant touch with developments. Sometimes experts in particular fields travel to Geneva to cover specific negotiations. The faces that appear for agriculture talks are quite different from those for civil aircraft negotiations.

Advanced production technologies
have led to job losses –
but new trading opportunities
create employment elsewhere



In the capitals themselves, policies evolve through the activities of national parliaments, inputs from businessmen, lawyers, lobbyists and, ultimately, through decisions by ministers. As trade negotiations become more complex, governments increasingly rely on the views of industry.

In Geneva, the negotiations are conducted in committees composed, normally, of delegates from all interested contracting parties. The chairmen are usually selected from among the delegates but sometimes brought in from the outside.

Negotiating bodies are serviced by the GATT secretariat. The secretariat helps to analyse and bring together proposals, provides background information and facilitates the search for solutions, particularly when negotiations falter.

Any negotiation appears to stumble from crisis to crisis, from failure to failure, until the day the deal is done. Trade negotiation is an art and a form of confrontation. It works best when real differences are at their most obvious – that is when compromise can take place. There are no good guys and no bad guys: just countries seeking to take a rational, long-term view of their economic interests – and to get a good deal for their businessmen and consumers.



Textiles and clothing trade have been an agreed exception to GATT rules for many years – the Uruguay Round should restore international competition.



Agricultural trade is at the centre of the Uruguay Round as GATT countries seek to agree workable new rules and eliminate widespread market distortions.

The Uruguay Round - the best hope for healthier trade

Over 100 countries are now engaged in the biggest and most ambitious trade negotiation the world has seen. After a tough period of pre-negotiation, it was launched by trade ministers in Uruguay in 1986. The GATT has had trade rounds in the past - seven of them - which have achieved great advances in tariff cutting and the creation of new rules affecting non-tariff barriers. But the Uruguay Round is different. Why?

For all its early success, by the mid-1970s the credibility of the GATT system was already under some pressure. In the ten years or so since, international trade has been dogged by continual disputes, by escalating agricultural subsidies and by a new creativeness on the part of governments in finding ever more devices with which to shield their most problem-ridden industries from competition.

As trade policies have strayed from GATT rules so other factors have also contributed to slower world trade growth - the debt problem and lower production growth, for example. The result has been factory closures, high unemployment and low investment. High trade deficits and surpluses along with big movements in exchange rates have affected attitudes towards trade policies. And with those trends have come new protectionist pressures - pressures which on occasion (and for the first time in half a century) challenged the idea of a multilateral trade system.

harking back to the ideas of the 1930s and threatening the same results.

But it is not just a matter of the erosion of the GATT's credibility. The world of commerce looks and is very different from that of the 1940s when the General Agreement was negotiated. The developing countries are major trading forces; whole new areas of commerce have opened up, especially in the services sector; vast changes in the economics of agricultural production and trade have taken place; and the pace of change in manufacturing - particularly in high technology - is both extraordinary and unprecedented.

So, many governments believe that this Round must look much more fundamentally at the state and scope of international trade and of the General Agreement itself.

It has meant a truly enormous undertaking - requiring a major commitment of time and effort on the part of all participating governments. There are, in fact, some 15 negotiating areas including agriculture, services, tariffs, intellectual property rights, textiles and clothing, the rules on emergency "safeguards" action against imports, tropical products and so on. In short, every real problem facing the users of the trading system is covered in the negotiations.

The round is a great challenge to governments and their negotiators. They were given four years to complete it. That should not mean that traders must wait that long for worthwhile results - they could come earlier - but the Round has to be regarded as a single package in which every participant can make concessions but reap real practical rewards for their businessmen.

And that is the bottom line. Traders and investors must feel that they are operating in a more stable and predictable system and, preferably, one in which market opportunities emerge without the risk that they be snatched away once competition gets too severe.

Much is at stake in this trade round. The trading system for the next century is now being created. That is why the system's users - the traders - need to ensure that governments make it a success.

GATT
General agreement
on tariffs and trade

Centre William Rappard
Rue de Lausanne 154
CH-1211 Genève 21

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PRESS/A(88)28

Paris, 19th May 1988

COMMUNIQUE

1. The Council of the OECD met on 18th and 19th May at Ministerial level. The meeting was chaired by Mr. Kjell-Olof Feldt, Minister of Finance and Mrs. Anita Gradin, Minister for Foreign Trade, of Sweden. The Vice-Chairmen were Mr. James A. Baker III, Secretary of the Treasury of the United States, and Mr. Panayotis Rومeliotis, Minister of National Economy of Greece. The following records the agreements reached by Ministers.

I. Achieving better economic performance and job creation

2. There are encouraging features in the current economic situation:

- Growth in OECD countries quickened in the second half of 1987, and expansion is entering its sixth year; world trade is growing robustly.
- Average OECD inflation has decelerated over the past years and now stands at a low rate.
- OECD economies proved more resilient in the face of the October stock market crisis than expected.
- Major external imbalances are narrowing gradually.
- International cooperation has been reinforced - notably through efforts to achieve greater coordination of economic policies and to foster greater stability of exchange rates following accords among the major industrialised countries and through the new round of multilateral trade negotiations.

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- Tax reform, deregulation, reduction of subsidies and other structural reforms undertaken in Member countries are improving the functioning of economies.
- While most developing countries are still facing difficult problems, the situation of some of them is being eased by stronger growth of world trade and firmer commodity prices, adjustment policies pursued by many of the developing countries themselves, and a widening menu of techniques dealing with debt problems.

3. OECD Governments will build on these developments in order to enhance job-creating, non-inflationary growth and to sustain it over the forthcoming years. There are no grounds for complacency. Important challenges remain:

- to ensure the continued reduction of large external imbalances which remain a major source of uncertainty and potential instability;
- to reduce unemployment, which continues to be unacceptably high in many countries, notably in Europe;
- to remain vigilant against any signs of a renewal of inflationary pressures;
- to make steady progress in reducing structural rigidities and distortions within economies and internationally;
- to strengthen the open, multilateral trading system;
- to combat and curb protectionism in all its manifestations;
- to cooperate with developing countries in addressing their problems and in working towards the full realisation of their economic potential;
- to ensure that economic growth is compatible with environmental concerns.

II. Policy Directions

4. Macroeconomic policies and structural adjustment policies support each other and must be exploited to the full. Improving the quality of structures and the flexibility of markets strengthens the responsiveness of economies, enhances the effectiveness of macroeconomic management and improves the prospects for strong and sustainable growth. In turn, such prospects make structural adjustment more attractive and rewarding. International cooperation is an important ingredient of both macro- and microeconomic policies.

5. All OECD Governments will contribute to the cooperative effort through the pursuit of monetary and fiscal policies aimed at supporting job-creating, non-inflationary growth, correcting external imbalances, containing budget deficits, striking

appropriate balances between domestic saving and investment, maintaining orderly financial markets and achieving greater exchange-rate stability. They will intensify their action, nationally and internationally, to reform structural policies especially in such areas as trade, agriculture, industrial subsidies, tax systems, financial markets and international investment. In this context, they consider it important to promote widespread understanding and acceptance of structural reforms among business, labour and the public at large. Dialogue involving social partners has made a contribution to this end in a number of countries.

6. Ministers welcome the report on the reform of structural policies by the Economic Policy Committee* and endorse the priorities identified in Section II of this report. They invite the Secretary-General to develop further and strengthen the OECD's surveillance of structural reform and call for a report at next year's Ministerial meeting.

7. For the United States, the essential requirement is to reduce further the Federal budget deficit. The U.S. Administration and Congress are agreed on this objective, and action will be taken to ensure that the budget deficit is brought down substantially in 1989 and subsequent years. Structural reforms will be pursued with a view to improving the overall investment/saving balance, to strengthening the international competitiveness of the industrial sector and to reducing government spending, as well as removing distortions created by policies -- for example, agricultural support. Monetary policy will be guided by the objective of ensuring that the economy remains on a path towards price stability, while nurturing orderly conditions in financial and foreign exchange markets. Continued budget deficit reduction and stronger private saving will ease pressures on monetary policy and will forestall domestic inflation pressures. Moreover, these actions will make room for continued strong expansion of U.S. exports and will contribute to a reduction of the U.S. current account deficit and hence to greater financial stability. Resisting protectionism remains a priority objective, as is the early implementation of the Free Trade Agreement with Canada in conformity with international obligations and the objective of maintaining and strengthening the open, multilateral trading system.

8. In Japan, the current process of growth led by strong domestic demand and accompanied by rapidly rising imports, which has been contributing to international adjustment, needs to be sustained. The short-term outlook in this respect is favourable. The Japanese Government will seek to ensure that this process continues. Fiscal policy will remain flexible within the medium-term framework of fiscal consolidation. Monetary policy will be conducted with care to contain the provision of liquidity within ranges consistent with non-inflationary growth of demand, while

* "Progress and Priorities in the Reform of Microeconomic Policies"

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continuing to contribute to external adjustment. Sustained structural reforms will contribute to reduced inflation risks and to adjustment, thereby expanding consumption opportunities and increasing imports. Policies are being designed and implemented, inter alia, to improve market access and to further promote deregulation as well as structural adjustment in wide-ranging fields including agriculture, land use policy, the tax system and the distribution system.

9. In Europe, structural reforms will be continued and intensified. These reforms, combined with flexible implementation of macroeconomic policies, are essential to maintain growth in demand and production and to enhance the economic potential of Europe. This will build confidence, improve the responsiveness of economies, create a better climate for investment and thereby strengthen the prospects for non-inflationary growth and better employment. While taking account of the differences between countries, European governments will continue to cooperate in the conduct of their structural and macroeconomic policies so as to maximise the benefits from reform and to increase the scope for policy action by individual countries.

10. The programme of the European Community to complete the internal EC market by 1992, together with joint efforts by the Community and EFTA countries to deepen and extend their cooperation beyond the current free trade agreements to create a European Economic Space, are imparting a strong momentum to structural policy reform and to growth. These moves will be taken in line with the objective of maintaining and strengthening the open, multilateral trading system and in conformity with international obligations.

11. Particular attention will be given by European Governments to the following reforms:

- Increasing the flexibility of markets, including continuing liberalisation and integration of financial markets, by reducing regulation and, more generally, removing barriers to internal and external competition;
- Reforms of agricultural policies, including the continuing implementation of those recently agreed in the EC aimed at achieving a better balance between supply and demand in agricultural markets;
- Reorienting government finances away from support of agriculture and industry towards reduced taxation and stronger, growth-supporting infrastructure investment;
- Reducing distortions created by tax systems, including the reduction in marginal rates of taxation where these remain excessive;
- Improving the flexibility of labour markets through education, training and other measures, including new legislation where required.

12. These reforms will create expanding opportunities for innovation and employment. They will also contribute to dissipating inflationary risks and to an environment conducive to lower interest rates. Stepping up the pace of structural reform in Germany will, inter-alia, strengthen domestic demand and contribute to a reduction of its persistently large current account surplus and hence to a better distribution of external balances within Europe and globally. Mutually supportive fiscal and monetary policies in Europe will take full advantage of the scope for growth created by structural reforms and contribute to a climate of confidence, productive investment, price stability and lower unemployment.

13. Canada, New Zealand and Australia will pursue thorough structural reform. In the period ahead, Canada will undertake a second stage of tax reform and implement the recently concluded Free Trade Agreement with the United States in conformity with international obligations and in line with the objective of maintaining and strengthening the open, multilateral trading system. In addition, Canada will continue to give priority to reducing its budget deficit. It will also pursue further reforms in a broad range of sectors, including in agriculture, to reduce economic distortions. New Zealand, which has undertaken the most far-reaching market reforms of any OECD country to open its economy to international competition and dismantle extensive government intervention in domestic markets, will continue to implement this programme. Australia will continue its broad programme of structural reform, including deregulation of domestic markets and extending significantly exposure to international competition.

Developing Countries

14. The situation and performance of developing countries vary widely. However, central to the prospects of all is a global economic environment conducive to strong and sustainable growth. The OECD countries have made a commitment to this objective. They will do all possible to ensure more open markets for the exports of developing countries, and they consider it important to maintain and as far as possible increase both official development assistance, particularly in grant form, and other financial flows. They will also encourage industrial and technological cooperation, and direct investment.

15. The developing countries, in turn, have important responsibilities in improving their own performance and policies, strengthening their credit-worthiness, creating a more attractive climate for investment and ensuring more open markets. The necessary, far-reaching domestic policy efforts are often difficult. Nonetheless they are essential. Many countries have already embarked on major growth-oriented reforms, whose success, in part, depends upon continued OECD support.

16. A number of middle-income countries with large debt burdens continue to have difficulty in achieving the financial stability and resumed investment necessary for sustainable growth. Generalised approaches or across-the-board measures cannot provide the

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appropriate answer to their differing problems. All parties involved must therefore continue efforts, on a case by case basis, to deal efficiently with debt problems and new financing needs, including a broad "menu" of market-oriented options for commercial bank debt. Such approaches should take due account of the adjustment efforts of the developing countries concerned. To support these directions for the debt strategy, it is important that the IMF, the World Bank and other international financial institutions be equipped with adequate facilities and resources. In this regard, Ministers welcome the recent agreement on a General Capital Increase for the World Bank and the ongoing adaptation of the IMF's policies and instruments aimed at strengthening its central role in the debt strategy. They also welcome the efforts made in the Paris Club.

17. The important contribution that international direct investment, too, can make to adjustment and growth is now gaining wider recognition in developing countries. However, significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through cooperative action. The welcome new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation will help stimulate international investment in developing countries.

18. For the poorer developing countries the IDA replenishment, World Bank co-financing arrangements with bilateral donors and the Enhanced Structural Adjustment Facility of the IMF will help alleviate their situation. Improved terms for consolidating the debt of the poorest developing countries notably in Sub-Saharan Africa are also making a contribution. Nevertheless, debt burdens continue to mount. Proposals to ease these burdens for the poorest countries undertaking structural adjustment efforts therefore merit careful consideration, including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. Improved official development assistance, in quality and in quantity, is essential.

Relations with Newly Industrialising Economies

19. Important actors in the world economy are emerging from among the newly industrialising economies. This is a welcome development. It provides these economies with the opportunity to play an increased role in the cooperative effort to manage the open world economy and confers upon them a greater responsibility in the international adjustment process commensurate with their capacity. Discussions involving these actors -- recognising mutual interests and taking into account the diversity of the economies concerned -- could contribute to better understanding and the convergence of views on policy cooperation for the continued growth and development of the world economy.

Trade

20. The world trade picture shows a number of contrasts. Trade is growing robustly. However, protectionist pressures and trade tensions remain strong. While OECD Governments have generally

resisted these pressures, a fairly significant number of import restrictions have been either extended or introduced; there are still many serious bilateral disputes -- though it is encouraging to note a more marked tendency to look for settlements within the GATT framework; the propensity for unilateral measures or bilateral agreements which are sometimes discriminatory remains a particularly serious threat to multilateralism. In order to create an environment conducive to the success of the Uruguay negotiations, resolute efforts will be made by the OECD countries to fight protectionism and to resolve trade frictions on an amicable and non-discriminatory basis. In this context, Ministers recognise the need to strengthen the multilateral trading framework and the importance of better functioning of the GATT. Within the Organisation broad ranging work, including strengthened monitoring of trade policies, will support these efforts.

21. The Uruguay Round has been proceeding satisfactorily in line with the timetable set in January 1987. A number of important proposals on the issues to be negotiated have been lodged, including on subjects such as agriculture, tropical products, services, intellectual property, safeguards and institutional issues such as dispute settlement and GATT functioning. As they enter their more difficult phase, it is vital to ensure the momentum of these ambitious negotiations, which aim to strengthen the multilateral system and adapt it to the needs of the modern world. The greatest possible advance must be made in the months to come, in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, Member countries should seek to agree on a framework approach on all issues. Thus it will be possible to hold a mid-term review, at the meeting scheduled for December in Montreal, that establishes a solid base for the full and complete success of the negotiations in accordance with the Punta del Este Declaration.

22. The Uruguay Round should lead to positive results which ensure mutual advantage and increased benefits for all participants. The negotiations must take duly into account the growing and differentiated role of developing countries in the world economy, hence their interests and the responsibilities which they must bear, according to their level of development. In accepting higher levels of obligation within the GATT framework the more advanced developing countries would contribute to, and benefit from, the strengthening of the multilateral system. For developing countries, as for OECD members, trade liberalisation can play a positive role in rationalising and invigorating their economies.

23. The behaviour of Member countries in trade matters will inevitably influence the climate of the Uruguay negotiations. It is essential, therefore, that, in line with commitments made, particularly at Punta del Este, standstill undertakings be strictly adhered to and that efforts be intensified to rollback protectionist measures that have been in force for a number of years. The abuse of anti-dumping and countervailing procedures will have to be avoided.

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24. The adjustment and growth policies which Member countries intend to pursue and intensify should also contribute to the success of the Uruguay negotiations by improving the expansion of activity and exchange market stability.

25. Liberalisation of trade in services remains an important objective for OECD members, because of the growing contribution of marketable services in their economies and those of their trading partners. The Organisation will persevere with its work in this field, particularly on approaches to a multilateral services agreement and on the strengthening of the OECD Codes.

Agriculture

26. Ministers took note of the joint report of the Agriculture and Trade Committees* and endorsed its conclusions. There has been some recent improvement in the market balance for certain commodities, resulting partly from supply control policies or from producer responses to market signals and stock disposal measures, and partly from weather conditions. Despite this improvement, supply in the OECD area, stimulated by policies which prevent an adequate transmission of market signals to farmers, continues to exceed effective demand. The resulting economic and trade problems remain acute. Since the beginning of the decade, according to OECD Secretariat estimates, the cost of agricultural support for the OECD as a whole imposed on tax payers and consumers has nearly doubled, reaching about 200 billion ECUs per year in 1984-1986. It is difficult to make an assessment of the trend of policies and their consequences over a relatively short period. Some encouraging efforts have been undertaken, but it is clear that there has been only limited progress overall since the Ministerial Council in May 1987. It is therefore imperative that policy reform efforts be strengthened by all Member countries as a matter of urgency. In this context it is essential that measures already introduced are underpinned by further positive actions. This will contribute to much-needed structural adjustment as well as to the success of the Uruguay Round.

27. Further measures will be taken, based upon the principles agreed upon at the last Ministerial Council, to allow market signals increasingly to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support as well as by all other appropriate means, while consideration may be given to social and other concerns. Concerted international action on a multi-country, multi-commodity approach will strengthen the process of reform. Ministers reaffirm that the Uruguay Round is of decisive importance in this context.

* "Monitoring and Outlook of Agricultural Policies, Markets and Trade"

28. The Uruguay Round negotiations are providing a setting within which Member countries will continue to seek agreements reinforcing the attainment of viable long term reform in agriculture as defined by Ministers in 1987. It is important that the mid-term review add impetus to the negotiating process in this as in other fields. To this end Member countries should seek to agree on a framework approach, in conformity with paragraph 21, including short term as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets.

29. Since trade tensions on agricultural markets remain very serious, notably due to the persistence, and in some cases intensification of all forms of support, including export subsidies and import restrictions, Member countries are urged to take measures in conformity with the Ministerial Communiqué of 1987, including its long term objective, in order to avoid confrontational and destabilising trade policies.

30. The Organisation will pursue its work on the monitoring of agricultural reform and the process of structural adjustment in agriculture. In this context, it will carry out thorough analysis of the effects of measures which are envisaged or have been taken. The improvement and updating of the analytical tools, such as the PSE/CSE and the OECD agricultural model, will be pursued. The Organisation will also study the possible contribution to agricultural reform that might be made by measures such as the quantitative limitation of production or resources used in agriculture; direct income support; other measures aimed at facilitating structural adjustment; and policies for rural development including environmental aspects. The work on the economy-wide effects of agricultural policies in the OECD countries will also be actively pursued and broadened.

Financial Markets

31. Liberalisation and regulatory reform in financial markets have improved the efficiency of financial intermediation and strengthened competition, thus enlarging the role for market judgements in guiding investment decisions. However, the stock market crisis of October 1987 and, in particular, the speed and pervasiveness with which shocks were transmitted between markets and across countries, have raised concerns about potential vulnerabilities and the limits of policies based on purely national approaches. International cooperation to ensure the smooth working of financial markets will be extended both within the OECD and more widely. The Organisation will intensify its efforts to analyse the nature and functioning of the emerging global financial system and to identify gaps and inadequacies in the coverage and coordination of prudential arrangements, especially in the case of securities markets.

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International Investment

32. International investment has a significant role in the promotion of structural adjustment and technical advance, easing payments imbalances and contributing to economic efficiency and growth. Signs of emerging protectionist pressures in the investment area are therefore worrying. Ministers express their determination to resist such protectionism; to maintain an open investment climate; to fulfil their international commitments in this respect, notably those in the OECD Codes; and to strengthen the OECD National Treatment instrument. The review of the 1976 Declaration on International Investment and Multinational Enterprises provides an important opportunity to reinforce the international framework for furthering liberalisation and maintaining an open investment climate in the OECD economies. A progressive step-by-step approach will be developed towards extending the application of National Treatment. Backsliding must be avoided. Ways to set in place an effective process for further liberalisation will be explored. The balance that has characterised the Organisation's approach to international investment questions, including between the different elements of the Declaration, should continue to prevail.

Technology

33. Technological progress is one of the major driving forces in the development of the world economy. Among the aspects which figure prominently on the policy agenda of Member Governments are: the process of generation and diffusion of new technologies; their potential contribution to more dynamic economic performance and greater social welfare; the interaction between technology and society; and the implications for environment. Recognising the growing importance of these questions and their international dimension, Ministers welcome the broad orientation for the future work of the Organisation contained in the Progress Report of the Secretary-General and invite the Secretary-General to report in due course to the Council at Ministerial level. They also welcome the recent Recommendation by the OECD Council on Principles for International Cooperation in Science and Technology* which, reflecting the importance of science and technology to economic growth and social development, will promote openness in this area.

Environment

34. While taking account of their differing situations, environmental protection and enhancement are important objectives in all Member countries. To this end, environmental considerations should be taken fully into account in a balanced and efficient manner in all appropriate areas of governmental decision making, thereby contributing to sustainable growth, as underlined in the report of the World Commission on Environment and Development. The Organisation's work on the integration of environmental and economic considerations in policy making will be extended and strengthened accordingly. Priority is also placed on continued efforts to address environmental problems of a transboundary nature.

* PRESS/A(88)21

Furthermore, the Organisation will intensify its efforts on global issues, including climate-warming, and on environmental degradation in developing countries. In this context, the Organisation should continue its work on developing common approaches to the environmental review of bilateral and multilateral assistance projects as a further contribution to sustainable development.

Education and Training for Better Employment

35. Occupational adaptability has become increasingly important in the modern work-place. Education systems must be geared to provide all young people with the fundamental competence to acquire skills and to adapt through their working life. Every effort should be made to have public and private opportunities for training and retraining available to meet the needs of all members of the workforce and all those wishing to join it. It is important that work-place opportunities for individual adaptation and redeployment be as widespread as possible. Attention should be given to the problem of the long-term unemployed.

Social Protection

36. Social protection systems, which are of considerable importance not only for the security and well-being of individuals but also for the efficiency and adjustment capacity of economies, are generally under budgetary constraint. This is particularly the case for publicly funded health care and pensions. These issues will be at the centre of the discussion at the meeting of Ministers of Social Policy on 6th-7th July.

Energy

37. The energy situation has changed considerably over the last several years. In the present circumstances, security of supply in the short term at reasonable conditions is available. Nonetheless, energy security remains a central objective in both the short and the long term, through emergency preparedness and through structural changes leading to a more sustainable energy mix. Structural adjustments are taking place in all energy markets and industries in response to changing supply and demand patterns and prices, and new technologies, and as a result of government policies. Meanwhile, important issues relating to energy trade, to research and development, to environment and safety, to emergency preparedness, and to non-Member countries are receiving greater policy attention.

38. In this situation, agreed energy policies regarding diversification of energy sources, development of indigenous energy resources, greater energy efficiency, enhancement of emergency response mechanisms and further liberalisation of energy trade should be continued. Careful monitoring and analysis of energy developments in Member countries and, increasingly, elsewhere in the world will continue, in order to ensure that structural and policy adaptations necessary to maintain energy security take place.

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June 21, 1988.

SOMMET TORONTO-SUMMIT

TORONTO ECONOMIC SUMMIT

ECONOMIC DECLARATION

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and looked ahead to the future.

2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. In particular, the information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.

3. We observed a sharp contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and improved productivity. The result has been the longest period of economic growth in post-war history. However, the 1980s have seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments has been an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit and in the Group of Seven.

4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on competitive forces and structural reform. Over this period we have also singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an effective strategy to address the challenge of development and alleviate the burden of debt; and to deal with the serious nature of the world agricultural problem.

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5. Since we last met, our economies have kept up the momentum of growth. Employment has continued to expand generally, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and confidence.

INTERNATIONAL ECONOMIC POLICY COOPERATION

Macroeconomic Policies and Exchange Rates

6. The Tokyo and Venice Summits have developed and strengthened the process of coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator. The progress in coordination is contributing to the process of further improving the functioning of the international monetary system.

7. Fiscal, monetary and structural policies have been undertaken to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. We need to maintain vigilance against any resurgence of inflation. We reaffirm our determination to follow and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce the growth of spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.

Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth. We shall collectively review our progress on structural reforms and shall strive to integrate structural policies into our economic coordination process.

10. We will continue to pursue structural reforms by removing barriers, unnecessary controls and regulations; increasing competition, while mitigating adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving education and training. The specific priorities that each of us has identified are outlined in the attached Annex on Structural Reforms.

11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.

12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. It is essential that recent significant policy reform efforts undertaken by a number of parties be continued through further positive action by all Summit participants. More market-oriented agricultural policies should assist in the achievement of important objectives such as preserving rural areas and family farming, raising quality standards and protecting the environment. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules and will lead to trade expansion and enhanced economic growth. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, to strengthen the multilateral trading system, and to allow for early agreements where appropriate. Countries must continue to resist protectionism and the temptation to

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adopt unilateral measures outside the framework of GATT rules. In order to preserve a favourable negotiating climate, the participants should conscientiously implement the commitments to standstill and rollback that they have taken at Punta del Este and subsequent international meetings.

15. We strongly welcome the Free Trade Agreement between Canada and the USA, and the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved, should support the open, multilateral trading system and catalyze the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself. It is vital that the GATT become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be improved so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. We support efforts to adopt a framework approach, including short as well as long-term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be facilitated by a device for the measurement of support and protection. Also, ways should be developed to take account of food security and social concerns. To move the issue forward, and noting among other things the diversity of our agricultural situations, our negotiators in Geneva must develop a framework approach which includes short-term options in line with long-term goals concerning the reduction of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade. The objective of the framework approach would be to make the agricultural sector more responsive to market signals.

19. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in all areas of the negotiations, including, where appropriate, decisions, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, we support efforts to adopt a framework approach on all issues in the negotiations, i.e. reform of the GATT system and rules, market access, agriculture and new issues (such as trade in services, trade-related intellectual property rights, and trade-related investment measures). For our part, we are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

NEWLY INDUSTRIALIZING ECONOMIES

21. Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue and cooperative efforts could centre on such policy areas as macroeconomic, currency, structural and trade to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary cooperation.

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DEVELOPING COUNTRIES AND DEBT

22. The performance of developing countries is increasingly important to the world economy. Central to the prospects of the developing countries are a healthy global economic environment and an open trading system, adequate financial flows and, most important, their commitment to appropriate economic reform. The problems of many heavily-indebted developing countries are a cause of economic and political concern and can be a threat to political stability in developing countries. Several countries find themselves in that situation in various regions of the world: Latin America, Africa and the Pacific, particularly the Philippines, and that merits our special attention.

Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. We are encouraged that many indebted countries have begun the difficult process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

25. Official financing has played a central role in the debt strategy through the Paris Club (US \$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. We strongly support the full implementation of the World Bank's US \$75 billion General Capital Increase to strengthen its capacity to promote adjustment in middle-income countries. We also support greater awareness by international financial institutions of the environmental impact of their development programs.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channelling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

27. We note that in recent years there has been increasing recourse to innovative financing techniques. The important characteristics of these techniques are that they are voluntary, market-oriented, and applied on a case-by-case basis. The "menu approach" has engendered new financial flows and, in some cases, reduced the existing stock of debt. The flexibility of the present strategy would be enhanced by the further broadening of the menu approach and the encouragement of innovative financing techniques to improve the quality of new lending, but particular initiatives would have to be carefully considered.

28. International direct investment plays an important role in spurring economic growth and structural adjustment in developing countries. Thus it contributes to alleviating debt problems. Developing countries should welcome and encourage such investment by creating a favourable investment climate.

Debt of the Poorest

29. An increase in concessional resource flows is necessary to help the poorest developing countries resume sustained growth, especially in cases where it is extremely difficult for them to service their debts. Since Venice, progress in dealing with the debt burden of these countries has been encouraging. Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and Official Development Assistance (ODA) agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. We welcome proposals made by several of us to ease further the debt service burdens of the poorest countries that are undertaking internationally-approved adjustment programs. We have achieved consensus on rescheduling official debt of these countries within a framework of comparability that allows official creditors to choose among concessional interest rates usually on shorter maturities, longer repayment periods at commercial rates, partial write-offs of debt service obligations during the consolidation period, or a combination of these options. This approach allows official creditors to choose options consistent with their legal or budgetary constraints. The Paris Club has been urged to work out necessary technicalities to ensure comparability by the end of this year at the very latest. This approach will provide benefits over and above the impressive multilateral agreements to help the poorest countries over the past year. We also welcome the action taken by a number of creditor governments to write-off or otherwise remove the burden of ODA loans, and also urge countries to maintain a high grant element in their future assistance to the poorest.

ENVIRONMENT

31. We agree that the protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy-making if the globe is to continue to support humankind. We endorse the concept of sustainable development.

32. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries. Significant progress has been achieved in a number of environmental areas. The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. All countries are encouraged to sign and ratify it.

33. Further action is needed. Global climate change, air, sea and fresh water pollution, acid rain, hazardous substances, deforestation, and endangered species require priority attention. It is, therefore, timely that negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution be pursued energetically. The efforts of the United Nations Environment Program (UNEP) for an agreement on the transfrontier shipment of hazardous wastes should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of UNEP and the World Meteorological Organization (WMO). We also recognize the potential impact of agriculture on the environment, whether negative through over-intensive use of resources or positive in preventing desertification. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

FUTURE SUMMITS

34. We, the Heads of State or Government, and the representatives of the European Community, believe that the Economic Summits have strengthened the ties of solidarity, both political and economic, that exist between our countries and that thereby they have helped to sustain the values of democracy that underlie our economic and political systems. Our annual meetings have provided the principal opportunity each year for the governments of the major industrialized countries to reflect, in an informal and flexible manner, upon their common responsibility for the progress of the world economy and to resolve how that responsibility should have practical manifestation in the years ahead. We believe that the mutual understanding engendered in our meetings has benefitted both our own countries and the wider world community. We believe, too, that the opportunities afforded by our meetings are becoming even more valuable in today's world of increasing interdependence and increasing technological change. We have therefore agreed to institute a further cycle of Summits by accepting the invitation of the President of the French Republic to meet in France, July 14-16, 1989.

OTHER ISSUES

HUMAN FRONTIER SCIENCE PROGRAM

1. We note the successful conclusion of Japan's feasibility study on the Human Frontier Science Program and are grateful for the opportunities our scientists were given to contribute to the study. We look forward to the Japanese Government's proposal for the implementation of the program in the near future.

BIOETHICS

2. We note that, as part of the continuing review of the ethical implications of developments in the life sciences, the Italian Government hosted the fifth conference on bioethics in April 1988, and we welcome the intention of the European Communities to host the sixth conference in the spring of 1989.

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ANNEX ON STRUCTURAL REFORMS

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities' program for a unified internal market by 1992; including full liberalization of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social and environmental policies and of technological co-operation.
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.
- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, and with major improvements in the functioning of financial markets in order to facilitate the financing of the economy at the lowest possible cost.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- In the United Kingdom, there has already been a substantial program of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably. Japan will promote reform of government regulations in key sectors including land use policies and the distribution system, and reform of the tax system.
- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most important, the implementation of the Free Trade Agreement with the United States.

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Reforming World Agricultural Trade

A Policy Statement by Twenty-nine Professionals
from Seventeen Countries

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Introduction

The 1980s have been a decade of crisis for much of world agriculture. Following a period of unusual growth in world demand and trade, the 1980s have witnessed a decline in exports, plummeting agricultural prices, widespread economic distress in farming and associated industries, and rising trade tensions as nations have sought to protect their farmers.

It is now widely recognized that the programs governments have developed to assist farmers, maintain farm income, and stabilize market prices are a major factor contributing to global problems. These programs have continued to encourage rapid increases in output in many countries at a time when the growth in world demand has slackened. The result, during the first half of the 1980s, was falling world agricultural commodity prices – to the lowest real levels since the 1930s.

The problems of agriculture have engaged the attention of world leaders and have become a major issue in the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). Key proposals for negotiating agriculture issues have been tabled in the GATT, and some countries have begun to confront the issues on their own. There is widespread agreement that policies can be changed more easily, and with much lower adjustment costs, if all countries act together. To date, there is no clear consensus on how to proceed, however, and a danger exists that governments' determination to tackle these complex and sensitive

issues will weaken as marginal adjustments are made and markets improve.

World commodity prices have strengthened in recent months. This has resulted from a combination of adverse weather in key producing areas in Europe and Asia, large-scale land retirement programs in the United States, and new programs to reduce dairy production in the European Community (EC) and the United States. As a result, there has been a reduction in excess stocks of grains, meats, and dairy products. But this temporary respite in the worldwide market chaos is not a solution to the fundamental problems of global agriculture. There is an urgent need for immediate and decisive action on the part of governments to move toward fundamental reform of their agricultural policies.

The leaders of the economic summit countries will meet in Canada in June 1988, and agriculture is again on the agenda. This will provide a timely opportunity to move the negotiating process forward. Trade Ministers of the GATT countries will also meet in December 1988 in Canada, for a mid-term review of progress in the Uruguay Round. These opportunities to establish a framework for the negotiations and begin a process of agricultural policy reform through trade negotiations must not be lost. The welfare of millions of farmers and consumers around the world, and of the industries based on agriculture, are at stake. The future of the multilateral trading system may well be at risk.

The Crisis

The cry of "crisis in world agriculture" is heard more frequently today than at any time since the 1930s. The parallel is real and disturbing; there are a number of similarities between agricultural market conditions in the 1980s and those of the depression years. Slow growth in the world economy and declines in inflation rates in the major market economies have exerted downward pressure on agricultural commodity prices in the 1980s. This is in sharp contrast to the buoyant market conditions of the previous decade. Agricultural protectionism rose sharply in the early 1980s as countries attempted to isolate their producers from declining world markets. Farm asset values dropped, and rural communities experienced severe economic stress similar to what occurred in the depression era.

The diagnosis of the underlying sources of problems in agriculture today differs markedly from the 1930s, however. Today there is increasing recognition that subsidies to agricultural producers, price support systems, and trade barriers are largely responsible for excess capacity and over-production on a global basis. National policies intended to promote stability and equity in incomes

for domestic agriculture are generating increasing instability in world agricultural trade and are creating international conflicts. Many governments are responding to the economic difficulties with additional subsidies and protectionist measures. In many countries the heavy financial burden of farm support programs and their economic effects create serious domestic conflicts. Internationally, protectionist trade policies and export subsidy programs generate recurring confrontations within the trade system - such as the continuing subsidy war between the United States and the European Community. These trade conflicts are, in turn, creating a crisis in the GATT itself as governments are unable to resolve their differences through the application of existing trade rules.

A number of fora - including the GATT Ministerial Meeting at Punta del Este in September 1986 that launched the Uruguay Round, the Organization for Economic Co-operation and Development (OECD) Ministerial Meeting in May 1987, and the Venice Summit of industrial country leaders in June 1987 - have issued declarations supporting liberalization of agricultural trade and reform of domestic farm policies. It remains to be seen, however, whether these calls for international co-operation to reduce barriers and distortions affecting agricultural trade will actually lead to the negotiation and implementation of international agreements that will deal effectively with these issues.

The crucial question is whether the main countries concerned - having long resisted the application of international rules to agricultural trade - will accept multilateral obligations that would constrain their domestic agricultural policies and open their domestic markets to greater international competition. In the industrial countries, the structure of price regulation, subsidies, and protection against international competition has become woven into the pattern of agricultural activity. Substantial investment in production, processing capabilities, the pattern of land use, and the capitalization of land values are predicated on the continuation of domestic agricultural policies and the maintenance of trade barriers. Entrenched interests are likely to resist unilateral policy moves by national governments. However, a number of forces stemming from domestic stresses and international frictions are increasing the pressure for multilateral co-operation to bring agriculture under strengthened international trade rules at the GATT.

At the same time, governments face pressure for even greater support from economically troubled rural communities. This provokes conflict between primary agricultural constituencies, which are declining in number, and larger, more diffuse interest groups, including consumers and taxpayers. Yet the economic distress of farmers in this decade has reached, and in some cases exceeded, the

level of hardship experienced in the 1930s. Governments in wealthier countries have responded with higher subsidies, often resulting in sustained farm production and intensified export competition. Consequently, the economic difficulties of producers in non-subsidizing countries, particularly developing countries, have worsened, further weakening their economies. In short, governments are being forced to recognize that their domestic agricultural policies are not working.

Perhaps the clearest measure of the failure of agricultural policy – and an indicator of growing domestic political conflicts – is the expanding fiscal burden of farm subsidies in the developed countries. Although these subsidies do not account for large shares of total government expenditures, they strain the fiscal capacity of governments attempting to reduce persistent budget deficits. In the United States, public expenditures in support of agriculture still are substantial, especially in light of a massive federal budget deficit. Similarly, in the European Community, the Common Agricultural Policy (CAP) accounts for a high proportion of total EC spending and has created recurring crises in EC financing.

World Bank and OECD sources estimate that the total cost to consumers and taxpayers of agricultural support in the OECD countries ranges from \$100 billion to \$150 billion annually, a large proportion of which is used to offset the effects of surplus production and to counter the actions of other countries. With the fiscal capacity of governments strained, and a recent history of high real interest rates and unstable exchange rates, the pressures on global agricultural markets from mounting stocks of key commodities provoke tensions between agriculture and other constituencies. The build-up of stocks places severe strains on subsidy programs and makes agriculture vulnerable to sudden policy changes, as governments implement austerity measures in response to pressures to reduce their budget deficits.

Other domestic policy conflicts arise from trade barriers. Certain agricultural producers use other agricultural products as inputs. When the domestic price of those commodities rises above their price in global markets, tension is generated within the agricultural sector. For example, feed grains and protein meals are important cost components for livestock producers, and high domestic prices for those inputs drive the price of meat above competitive levels. Similarly, protection of primary agricultural products increases costs for food-processing industries, creating new demands for protection of those downstream industries. In developing countries, agriculture is often taxed to support economic and industrial expansion; this has the effect of depressing farm prices and farm production, which results in the need to import food. Some governments in developed countries provide subsidies to certain

sectors of agriculture to offset the higher costs resulting from protection for other farm products and for the manufacturing sector

The increase in agricultural protection—as governments have responded to pressure from their distressed farm communities—combined with recurring problems with existing agricultural trade regimes and the unprecedented use of export subsidies, have been a source of frequent and severe international friction. Agricultural products account for most of the trade disputes among the industrial countries—particularly if fisheries and forest products are included—and these disputes have often grown into broader agricultural trade wars. The conflicts involve a wide range of commodities, including grains, livestock, sugar, dairy products, vegetable oils, and processed foods. Many frictions between the developing countries and industrialized countries occur as well; the agricultural trade policies of industrialized countries have for many years been protested by developing country groups in GATT and in United Nations organizations. The widespread use of subsidies and protection in agriculture has aggravated the economic difficulties of the developing countries and, in turn, has contributed to the overall crisis in world agriculture. Developing countries have a major stake in agricultural trade and can benefit significantly from a successful Uruguay Round.

The large transfers to agriculture also have significant repercussions for the overall macroeconomic performance of industrial and developing countries. Studies undertaken by the OECD show that agricultural support is wasteful of resources, impairs the competitiveness of manufacturing, and may reduce total employment and discourage the development of efficient agriculture. Moreover, several analyses quantifying these effects show the macroeconomic impact of farm support to be extremely significant. For example, an Australian-sponsored program of international studies suggests that agricultural trade liberalization could make a significant contribution to overall economic growth in industrial and developing countries alike, and could make a substantial contribution to solving many contemporary economic problems such as high unemployment in Europe, the U.S. trade deficit, and the Third World debt problem.

Other dimensions of the world crisis in agriculture must also be considered in the reform of government policies. In addition to a trade crisis, there is a continuing failure to meet basic food needs for millions of people. It is a cruel paradox that, in the midst of a surplus of food and excess capacity in agriculture in much of the developed world, there is widespread malnutrition in many countries and serious famine in isolated areas. The inadequate levels of food consumption in developing countries must be addressed, but an enduring solution can be sought only through long-term development to bring millions now mired in poverty into agricultural markets, as

participants with adequate purchasing power. The reform of government policies affecting agricultural trade will assist in overcoming these problems, but the long-run solution is to raise the incomes of people in the developing countries.

The reform of domestic agricultural policies in many developing countries would complement the process of world trade liberalization and would contribute to their overall economic growth. More generally, the global economy is experiencing a significant loss in economic growth because of existing barriers to trade. Policies that discriminate against agriculture in the developing countries and subsidize agriculture in the developed countries cause a significant share of global agricultural output to be produced in the wrong place under inefficient conditions. A more efficient use of the world's agricultural resources would lead to a significant increase in global economic growth, which would ultimately benefit all countries.

Reforms to deal with the problems of agricultural trade will not solve all the problems in the world food system, but if complementary policies are pursued, the liberalization of agricultural trade could have widespread benefits for developed and developing countries. Admittedly, higher and more stable world prices for traded agricultural commodities over the long term, which should result from liberalization of agricultural trade, could increase the cost of food in developing countries that are food importers and maintain internal prices at artificially low levels. But farmers in these countries would benefit; and since agriculture is still the dominant industry in most developing countries, a sound and stable international economic environment for the expansion of their agriculture is vital to their development. In addition, the gains to agricultural producers and rural residents will offer opportunities for improving productivity and reducing poverty in rural areas, thus helping to reduce malnutrition. At the same time, exporters in many developing countries should achieve significant gains from higher and more stable world prices. The overall interests of developing and developed countries will be best served by simultaneous liberalization of trade in agricultural and industrial products, which would stimulate world economic growth while minimizing adjustment problems for agricultural producers.

Finally, in moving toward more liberalized trade in agricultural and industrial products, efforts should be made simultaneously to obtain a more stable and less trade-distorting international monetary environment. Global macroeconomic imbalances, such as occurred in the 1980s, lead to misaligned exchange rates that distort trade and give rise to pressures for protectionist measures from those disadvantaged by such misalignments. (See *Resolving the Global Economic Crisis: After Wall Street, 1987*. Washington: Institute for International Economics.)

Negotiations to improve the functioning of the international monetary system and to avoid distortions in exchange rates need to be conducted in tandem with the general negotiations in GATT on trade liberalization. Greater attention must also be given to ensuring that monetary and fiscal policies will not distort international capital movements, the objective being to reduce both misalignments in exchange rates and the protectionist measures they engender. International surveillance and monitoring efforts to this end should be strengthened.

Agricultural Reform and the GATT Negotiations

Agriculture has historically been treated differently under the GATT. The GATT rules for trade in non-agricultural products impose limits on the type of economic policies that can be used to protect domestic industries. Equally important, non-agricultural trade is subject to strict rules regarding border measures that governments can use to assist domestic industries. With certain exceptions, the use of export subsidies and quantitative import restrictions are prohibited in non-agriculture trade.

The present GATT rules for agricultural products allow for both export subsidies and quantitative restrictions on imports. As a result, there has been a steady proliferation of government intervention in agricultural pricing, production, and trade flows. The use of policy instruments outside, or inconsistent with, the GATT rules has become increasingly common. These include variable levies, voluntary restraint agreements, and state trading operations. In both exporting and importing countries, agricultural production, marketing, and trade decisions have been increasingly separated from world supply and demand conditions and, based on domestic political pressures, have become highly dependent upon government intervention. The result is a series of beggar-thy-neighbour policies, which have sharply increased the level of tensions in world agricultural trade.

The restrictions and distortions in world agricultural trade that have long undermined the GATT system have reached a critical point. Existing GATT rules for agriculture have failed to prevent the rising level of trade tensions, primarily because of the unwillingness of governments to accept effective disciplines over domestic agricultural programs. Governments have been unable to resolve some of the most difficult agricultural trade disputes through the GATT settlement process. This has weakened the GATT's authority and credibility.

Key political leaders recognize this dangerous situation. Heads of government of the seven leading industrial nations called for coordinated agricultural reform in their summit statements in 1986 and 1987. Ministers of Trade and Finance of OECD countries echoed the

call at their 1987 ministerial meeting. Ministers of Trade of the GATT member nations placed agricultural trade problems at the top of their agenda for the Uruguay Round of Trade Negotiations when they met in Punta del Este in September 1986. For the first time they agreed that all agricultural policies that affect trade should be included in the new round of negotiations, with a view to eliminating their trade-distorting impacts.

In 1987, in the early stages of the Uruguay Round, a number of proposals on agricultural trade negotiation were put forward by key countries and groups of countries. With a few notable exceptions, these proposals call for

- a reduction or elimination of trade distorting subsidies and import restrictions over an agreed period of years; and
- immediate measures to freeze and/or roll back subsidies and to stabilize world agricultural markets.

Major differences remain among individual countries and groups of countries about the pace and depth of these reforms, and regarding the desirability of short-term actions to offset some of the worst market effects of the current distorting measures. These differences must be bridged in the negotiations. Of immediate concern, however, is the increasing acceptance of the view that the process can and should be delayed because of national elections, political fatigue, and the general sensitivity of agricultural issues.

Delay would represent a major error. If agricultural markets have reached their low point and are improving, changing policy directions now would make the necessary adjustment easier and quicker. If the current improvement proved only temporary, however, prompt and decisive action at an early stage of the negotiations could prevent further subsidy wars, which could ultimately jeopardize the successful completion of the GATT Round. It is imperative that governments make every effort in the summer and autumn of 1988 to bridge the differences in national approaches and to develop a framework agreement for the agricultural negotiations for ratification at the mid-term review in December by the Ministers of Trade. The heads of government of the major industrial countries at their summit in Canada in June should set the goal of securing such a framework agreement by December 1988.

Bridging the Differences

The negotiations will proceed most expeditiously if the framework agreement encompasses the principal elements of the positions of the ... It should provide clear directions for

policy reform and allow for the maximum degree of trade liberalization without prejudging the ultimate outcome. Most of the proposals tabled in Geneva to date for the conduct of agricultural negotiations are predicated on a comprehensive or aggregate approach, designed to deal with all policy instruments that influence trade and with all commodities. Although there is considerable agreement on the general direction of policy change to be pursued, wide differences persist on the degree of trade liberalization that is acceptable, the time frame for change, and the extent of government involvement in agriculture that is consistent with optimum resource allocation.

Many of the country proposals recommend the use of an aggregate measurement of support, based on the Producer Subsidy Equivalent (PSE) concept, to facilitate the negotiations. A number of the country proposals identify some of the policies and programs to be subjected to negotiation and included in any measurement.

All the countries participating in the Uruguay Round advocate strengthened and enforceable GATT rules and disciplines, including effective ways to maintain surveillance and settle disputes. There appears to be broad support for implementing a process of phased reform of policies affecting trade, combined with the renegotiation of GATT rules to discipline agricultural trade both during a period of transition and after the reforms are in place.

The fundamental problem underlying the current agricultural crisis stems from the fact that national governments chose to use policies that support commodity prices as their major income support for farm people. This distorts both the use of national resources and international trade in agricultural products. The goals of the trade negotiations are, primarily, to reduce the international trade-distorting effects of national agricultural policies and, secondly, to encourage countries to improve the efficiency of resource use within their national economies.

But agricultural producers, governments and segments of the agro-food industry are likely to resist domestic farm policy reforms unless acceptable alternative policies are available. Less competitive agricultural sectors will also oppose trade liberalization. However, there is ample empirical evidence to demonstrate that, in most countries, freer trade enhances economic welfare. Prices for key farm commodities entering world trade would rise, and world trade in agricultural products would increase. In most countries, consumers and taxpayers would benefit. However, some commodity sectors in some countries would suffer from a reduction in farm support and protection. If all agricultural subsidies were eliminated, producer incomes in the more highly assisted industrial countries would decline, at least temporarily. Thus policy adjustments are likely to be

introduced gradually, and farm support will be continued, possibly on a declining scale, as world markets strengthen

Consequently, it is important that governments reach agreement on the types of policy instruments that are the least trade-distorting and begin to reshape farm programs accordingly. This calls for a process of decoupling farm policies from production and the marketplace to minimize distortions in resource allocation and trade. This can be complemented by policies designed to encourage resource conservation and environmental improvement.

There is also a need to ensure that developing countries play a greater role in the agricultural negotiations, both to achieve the maximum possible benefit from them and to broaden the results to the advantage of all trading countries. There are opportunities to support agricultural development and to assist policy reform and structural adjustment to strengthen the economies of less developed countries through trade. Given the significant gains that developing countries can achieve through expanded trade, they should offer reciprocity consistent with their level of economic development.

Agricultural policy reform through trade negotiations would be facilitated by international initiatives to promote world economic growth. Greater macroeconomic policy co-ordination, particularly to reduce global trade imbalances and to achieve greater stability in exchange rates, will aid the agricultural policy reform process.

The GATT rules providing for surveillance of policy commitments and dispute settlement must be strengthened to facilitate and secure progress in the reform of domestic agricultural and trade policies and to reduce the incidence of formal disputes. New mechanisms are needed to oversee and enforce undertakings related to internal policies. Governments will wish to retain considerable flexibility to adjust domestic programs in response to unexpected changes, such as unusual market conditions or trade developments and fluctuations in exchange rates. But in addition to improved processes for dispute settlement, new international mechanisms are needed for regular reviews of domestic farm policies, as well as for the co-ordination and adjustment of these policies. Such procedures would complement but not replace the regular GATT provisions for surveillance and dispute settlement which, in turn, should be strengthened and applied more vigorously.

Recommendations for Long-Term Reform

We propose that the governments of all agricultural trading countries pursue genuine reform of agricultural and trade policies in the context of the Uruguay Round. The long-term objective should be the eventual removal of all trade distortions from agricultural programs.

We believe the following guidelines would provide clear direction and impetus to the negotiations.

- All national measures that restrict or distort agricultural trade, stimulate excess production or limit consumption should be on the table
- There should be no increase in policies that limit trade or distort production or consumption.
- Agreement should be reached on those programs that have a minimal impact on trade and that may therefore be used.
- There should be a major reduction in all measures that affect trade adversely to allow market signals to guide resource allocation and trade.
- All remaining measures that affect trade adversely should be subject to precise and enforceable GATT rules and disciplines.
- Reforms expected of developing countries must take into account the stage of their economic development, the need for suitable transitional arrangements, and specific problems such as widespread malnutrition.
- Countries should be free to choose their agricultural policies provided they do not limit or distort trade.

We recommend that the GATT negotiations proceed on a comprehensive basis to obtain agreement on the following:

- a program of progressively reducing the adverse trade effects of agricultural policies;
- decoupled or trade-neutral farm policies and positive agricultural adjustment programs;
- policies to encourage conservation of land and water resources and to improve environmental systems;
- stronger and more precise GATT rules, which would be negotiated in parallel with the program of phased reductions in trade-distorting policies;
- arrangements to facilitate full participation by developing countries in the negotiations;
- new mechanisms for surveillance, consultation, and domestic policy co-ordination;
- the strengthening of GATT dispute settlement mechanisms; and

- the implementation of a multilateral program of early relief from severe distortions affecting agricultural trade.

Phased Reductions in Trade-Distorting Policies

Governments should agree to a phased reduction of all policy instruments with significant adverse effects on trade in order to allow market signals to progressively guide resource allocation and trade. The adjustments in national policies, if done on a multilateral basis over time, will be less difficult than if undertaken unilaterally.

Negotiations on agriculture in the Uruguay Round should include all instruments and commodities in a comprehensive manner. This approach is consistent with the negotiating objective and plan for agriculture in the GATT to deal with all subsidies and other instruments affecting agricultural trade and to provide for phased reduction. It treats market access issues and subsidy issues together; these are closely linked and difficult to negotiate independently. It provides the maximum scope for involving as many countries as possible in the negotiation, for sharing the burdens of making adjustments to changes in agriculture systems, and for obtaining the greatest benefits at the least cost. Most important, this approach provides a mechanism for bringing the complex range of domestic agricultural policies and programs into the trade negotiations. The process may be facilitated by the use of empirical measurements such as the PSE to establish target levels of reductions and to assess the effects of policy adjustments.

Countries must enter into contractual commitments to remove the most trade-distorting elements of their national agricultural policies and to restructure these policies in ways that limit their effects on resource use. Individual countries would submit their own plans to implement their undertakings to reduce trade distortions and levels of protection; following a process of negotiations, these plans would become contractual commitments under GATT. Such commitments relating to national agricultural policies would be unique in GATT terms, and their integration into the GATT system may form part of the schedules to the agreement and be implemented through a separate code or other suitable arrangements. To encourage co-operative actions during the negotiation, countries should receive credit for unilateral policy actions that reduce trade-distorting measures.

Agreements on Decoupled Farm Programs

The first step in the multilateral trade negotiation entails adherence by national authorities to the principle, agreed in the OECD, that support for farm people should be progressively 'decoupled' or 'delinked' from production, consumption and trade so as to eliminate the distorting impacts of existing policies and ensure that they are trade-neutral.

Secondly, it will be necessary for the member governments to categorize instruments of farm policy according to their trade-distorting effects. There is an urgent need to reach agreement among governments on the types of farm programs that are trade-neutral or decoupled and the programs that are not and that should therefore be removed or adjusted. The process of negotiating the policy coverage of an overall commitment to reduce trade-influencing measures will be easier if negotiations can identify policies that are trade-neutral and agree that they should be excluded from the negotiations.

For example, government services and general infrastructure support may be excluded, particularly in the case of infrastructure support in developing countries, where such investments are essential to develop and modernize their agriculture. Market stabilization programs, stockpiling and buffer schemes, and programs to remove excess resources and facilitate adjustment might be regarded as interim arrangements and retained subject to specific conditions and review procedures. New programs such as income insurance schemes may be required. The resulting agreements on the reform of farm policies and agricultural adjustment might be incorporated into a GATT code that could also govern countries' commitments to progressively reduce support and protection for agriculture.

Policies to Encourage Conservation and to Improve the Environment

Policies to conserve land and water resources and to improve the environment can complement the reform of domestic agricultural programs. Assistance and incentive programs facilitating the removal of fragile resources from agricultural production will assist in bringing supply and demand into better balance. Similarly, a lowering of commodity price supports toward market-clearing levels will reduce incentives for the use of chemicals and some land resources. Other policies designed to deal with external effects, like landscape values, should be goal-specific, designed to have minimal effect on trade and be a subject of negotiation.

A Parallel Negotiation of GATT Rules

The negotiation of more effective rules and disciplines in the GATT should proceed in step with the progressive reduction in aggregate levels of support and protection. The rules should discipline the use of all instruments that affect trade, including all waivers, grandfather clauses, variable levy systems, state trading practices, voluntary export restraints, and all other non-tariff barriers.

GATT rules should be revised to ensure that all measures affecting access to markets are placed under effective disciplines and that all measures that distort trade are reduced and eventually removed. Among other things, the rules could provide for the conversion of all trade-distorting measures remaining after the transitional period to bound tariff-equivalent forms. The nature of the revised rules will depend on the extent of movement toward free trade in agriculture.

Interim rules will be required to discipline the use of policy measures for agricultural products during the period of transition. These interim rules would cover the progressive reduction of import barriers and trade-distorting subsidies. Precise conditions for any exceptions to the general rules should be agreed to. Termination dates should be negotiated for the removal of all waivers and policies inconsistent with the GATT. The rules should require notification of policy changes and should include procedures for regular international surveillance.

Full Participation by Developing Countries

In the GATT, developing countries are subject to fewer disciplines than apply to the developed countries. But they have paid a price for choosing to remain outside the full GATT system; the developed countries are also subject to less discipline in areas of greatest concern to developing countries, notably agriculture and textiles. The Uruguay Round offers the developing countries an opportunity to press the case for subjecting interventions in agriculture to the same discipline of the GATT as is applied to industrial products. Developing countries must subject their own trade interventions to full GATT discipline. Such a 'concession' will be to their own benefit, because many of these interventions are extremely costly.

However, longer transition periods and the continuation of higher levels of protection and infrastructure development should be permitted for developing countries under agreed conditions, in accordance with their development needs. Opportunities to combine trade liberalization and adjustment assistance should be pursued.

possibly with the assistance of the World Bank and the International Monetary Fund.

Domestic Policy Co-ordination

The GATT must be strengthened to oversee the implementation of a comprehensive strategy for the progressive adjustment of farm and trade policies. New institutional arrangements within GATT should be considered for agriculture that would provide for surveillance of the fulfilment of commitments to reform policies, review national policies on a regular basis, and which could help resolve policy differences. This activity might be undertaken by creating a standing GATT committee on agricultural policy. These arrangements would complement and not replace the existing dispute settlement procedures of the GATT. They could be developed as part of broader agreements designed to give GATT new authority to review national trade policies and to strengthen the GATT articles and procedures governing the notification of national policies and consultations.

Dispute Settlement

Within an overall policy framework, the rules governing trade in agricultural products should be strictly enforced. But the effective operation of new rules governing trade in agricultural products will require a strengthened dispute settlement process in the GATT. A number of countries have already proposed changes to the overall GATT dispute settlement process, and these changes will form an important part of the Uruguay Round. In view of the particular problems that have been experienced in resolving agricultural trade disputes, it is essential that clear and enforceable rules be negotiated to enable the GATT dispute settlement process to operate effectively.

A Multilateral Program of Early Relief

The achievement of longer-term reform of policies would be facilitated if governments agree to undertake early actions to provide relief from the most severe distortions currently affecting agricultural trade. These short-term actions should include a freeze of all trade-distorting subsidies and import barriers, undertakings not to introduce new measures with adverse trade effects, and a commitment to roll back those that now exist. The agreement could include steps to curb excess production, encourage demand, and dispose of excess stocks in a manner that avoids serious disruptions in trade. It is critical that commitments to begin early relief actions be undertaken as part of the

framework agreement to commence negotiations on the basis of the comprehensive approach and the renegotiation of GATT rules, and they should be consistent with the negotiating guidelines.

Making the Transition

Agricultural policy and trade reforms of the type and scope proposed here will require substantial adjustments in worldwide agriculture. The process will require a more market-oriented global agricultural system, greater influence for competitive market forces, a different role for governments in agriculture, and some reduction in the income transfers to farmers that are made under current types of policies.

Farmers are understandably apprehensive about the impact of these changes on their income and the value of their assets. These effects should not be exaggerated, however, for the income losses associated with reducing protection will be significantly offset by the expansion of effective demand that world trade liberalization will produce. In addition, world market prices for some agricultural products will strengthen, the price of some inputs will fall, and some governments will be able to replace income supports now made through commodity-type programs with alternative policy instruments. Indeed, governments will have ample opportunity to provide assistance to agriculture (for whatever reasons they find compelling, and in amounts desired) as long as they avoid harming the legitimate trade interests of other countries.

Once agriculture has adjusted to a more competitive environment, which will include a reduction of cost structures, commercial farmers will be better off and will face a more predictable environment. They will compete with each other in growing markets, instead of competing with the treasuries of other countries. They will no longer be vulnerable to the whims of their own and other governments, as they are now.

Progress to Date

It is important to recognize that progress is under way to reform domestic agricultural programs and adjust production to market conditions. Farmers in a number of countries already are responding to changes in markets or support programs by reducing their output of surplus crops. Japan lowered its rice support price in 1987 for the first time in 32 years and recently reduced its high internal beef and dairy prices. The United States began implementing the target prices and loan rates contained in its 1985 farm legislation, and land retirement programs involving 70 million acres of cropland have reduced U.S.

production of surplus crops. A buy-out program sharply reduced the growth in U.S. dairy output. Budget expenditures on U.S. government agricultural subsidies have been reduced from a high of \$26 billion in fiscal year 1985-86 to an estimated \$17 billion in fiscal 1987-88.

The European Community (EC) also has made adjustments in the operation of its Common Agricultural Policy (CAP). A production control program for milk was introduced in 1984 and tightened in 1987. A recent decision by the EC heads of government introduced new constraints on the agricultural budget and aims to reduce surplus production by implementing price cuts for cereals, oilseeds, meats, and certain other products. They also approved the first acreage set-aside program in the CAP.

Important changes also have occurred in a number of developing countries, including trade liberalization, significant removals of exchange rate distortions, and reductions in price distortions in agricultural sectors. Although these changes have been made in response to forces outside the multilateral trade negotiations, it should be recognized that they contribute to the long-run objectives of the Uruguay Round and that appropriate credit should therefore be given.

All of these are moves in the right direction. All required political courage and determination at the highest levels. But these changes are not enough. Reform of agricultural programs must be broadened, institutionalized, and put into a multilateral framework. Both common sense and widespread economic analysis demonstrate that multilateral adjustment is politically and economically easier than unilateral adjustment.

A phased multilateral removal of trade-distorting agricultural policies does not mean that nations must abandon either cherished national goals or their agricultural sectors. These goals can be met in a variety of ways beyond the existing production-encouraging, trade-distorting programs. A search for alternative programs is now under way, and further progress in the agricultural negotiations will add urgency to that search.

Reasonable price stability for basic foodstuffs and secure food supplies have long been major goals of most national policies. A removal of trade-distorting subsidies from the operation of international markets would provide a major stabilizing force in world markets, making it easier for national governments to allow their internal markets to become less isolated from world markets.

Farmers' incomes need not be left entirely to market forces. There is a variety of ways to provide income to agricultural producers that have no adverse effect on agricultural adjustment. These include direct government transfer payments unrelated to current production, land-use conversion programs to encourage conservation, recreation

and wildlife use, early retirement programs in exchange for rights to future farm program benefits, and individual and community adjustment programs to encourage the development of alternative employment for rural people. There are also many other programs providing services and support to farmers, some of which give income protection without creating distortions in resource use and trade.

A Framework for Progress in 1988

It is unrealistic to expect that the negotiations on agricultural trade in the Uruguay Round can lead to final agreements before the close of 1988. It is important, however, that momentum not be lost and that the situation not be allowed to drift back into a series of unilateral policies that may be both disruptive and self-defeating. Therefore, it is proposed that a major effort be made during the summer and autumn of 1988 to reach agreement on the elements of a framework to provide general direction for continuing national changes in policy and to outline boundaries within which the final multilateral trade agreement on agriculture would be negotiated.

Several crucial elements must be included in a successful framework agreement. They are:

- identification of the programs to be included in negotiations on reducing trade-distorting policies, as well as clarification of a list of programs that clearly would be considered non-distorting and thus could expect relatively few alterations or constraints as a result of future negotiations;
- agreements, as specific as possible, on the direction of changes in policies to guide the negotiations on trade-distorting programs and the strengthening of GATT rules;
- the role of developing countries;
- a surveillance mechanism under GATT to review current policies, monitor changes in policies, and report publicly to member states on the situation;
- a dispute settlement process that allows speedy and non-confrontational settlement of the disputes that are certain to arise during the subsequent negotiation period and beyond; and
- agreement on short-term measures to be put in place during the remainder of the negotiations and, possibly, during a longer transition period, to deal with urgent severe distortions of international trade.

Those knowledgeable about the economic and political complexity of these elements will recognize that to achieve even this simple framework will require major political will and heroic negotiating efforts. However, a framework agreement that fails to address them will almost certainly be inadequate and could create more problems than it solves. Indeed, if a framework agreement were too vague and unstructured, it would eventually contribute to a breakdown of the negotiations at a later stage. Consequently, the immediate objective for GATT countries is to elaborate these crucial elements along the following lines in a framework agreement as the basis for proceeding with negotiations on agriculture in the Uruguay Round.

Defining Trade-Distorting Programs

Reaching some agreement about which policies seriously distort agricultural trade must be a part of the framework agreement. By necessity, it will take a long time to negotiate what, if any, limits are to be placed on trade-distorting programs, and even longer to bring about the agreed changes. But the direction of change will be determined by an agreement on which programs are to be the focus of the continuing negotiation. It is especially crucial that this occur before an attempt is made to strengthen the GATT rules, an important issue to be addressed later.

It also is important that all national policies, including those covered by GATT waivers and grandfather clauses and those not adequately covered by GATT rules (variable levies, state trading, voluntary restraint agreements, etc.), should be included in the negotiations, starting with a decision as to whether they have significant trade-distorting effects.

We believe that early identification of the policies that create the most distortion in production and trade will serve three useful purposes. First, it will reduce the apprehension of some groups that all governmental programs will be phased out regardless of the economic conditions of farmers and of rural areas. Second, it will focus subsequent negotiations on the important issues of what should be done with the programs judged to have adverse effects and how to do it in the least disruptive fashion. Finally, it will help convince many developing countries, which stand to gain much from the proposed changes, that they can participate fully without jeopardizing their future development goals.

Dealing With Trade-Distorting Programs

We believe that there must be, by the end of 1988, a firm commitment on the direction and the nature of change. This is more important than immediate agreement on the magnitude of change and the time period over which these changes should occur, although these will be essential at the next stage. The world's farm producers and associated industries, private investors and the consuming public have a need to know, and the right to know, the policy directions that governments can be expected to pursue. This is doubly important in a sector where government policy in most countries is a dominant influence on private decisions regarding investment and resource use in agriculture.

Ideally, this commitment would consist of an agreement that the final negotiations should aim toward to complete phasing out of all trade-distorting programs, giving highest priority to those policies with the greatest adverse effects. As an initial step, there must be an agreement that definable and enforceable limits on trade-distorting programs should be negotiated, with the objective of removing or offsetting their negative trade effects. In any case, the objective should be to bring agricultural trade fully under strengthened and enforceable GATT rules and disciplines.

Developing Country Issues

Developing countries are rightly concerned that any new rules limiting domestic agricultural policies should not limit their ability to develop their agricultural potential, increase the productivity of their agricultural industry, and ensure food security for the poor. Developing countries that import food have expressed concern that removing output-distorting subsidies in developed countries will result in higher import costs for food. However, several economic analyses show that any rise in world prices of food and feed grains and oilmeals, which are the main products imported by developing countries, would be modest. For the poorest developing countries, their concerns can be dealt with by strengthening the Food Aid Convention.

To the extent that changes in trade and exchange rate policies in the developing countries lead to higher domestic food prices, targeted feeding programs may be needed for the disadvantaged. Those programs can be strengthened with international financial assistance.

One of the greatest fears of developing countries relates to the instability in world market prices for agriculture products and concern that the shortages of the 1970s will recur. Trade liberalization in agriculture will contribute to stabilizing markets for both importers and exporters. Developing countries can also make

use of the compensatory financing facility and the cereal financing facility of the International Monetary Fund, both of which may need further improvement.

Early action on liberalization of trade in tropical products should receive high priority.

Establishing A Surveillance Mechanism

Any functional framework agreement reached in the near future must include the establishment of a mechanism for the surveillance of commitments on national agricultural policies undertaken within the GATT framework. Its purpose would be to review developments in national agricultural policies; to keep track of changes in policies; and to provide a basis for negotiations on changes in policies. Moreover, once such a surveillance mechanism is functioning, it can contribute to the achievement of balance in the negotiations and provide an important basis for resolving differences over policy commitments.

In designing a new surveillance mechanism, it is important to recall the final objectives of the negotiations and to bear in mind that their achievement is likely to involve a long transition process.

As discussed above, the main objectives of the Uruguay Round for agriculture are twofold:

- to agree upon phasing out of trading-distorting agricultural policies and replacing them, as necessary, with non-distorting programs; and
- to strengthen GATT rules in agriculture in a fashion consistent with the first objective, so as to make these rules clear, consistent in scope and coverage, and usable to guide governments both in policy changes and dispute settlement.

It is evident, however, that a long period of change is beginning in world agricultural and trade policies. The surveillance process must therefore be designed to function for an extended period of transition, during which the direction agreed will be clear though differences may exist over the status of commitments.

Surveillance may involve the use of empirical measurements. Over the past year there have been numerous discussions within and outside the GATT about PSEs, Trade Distortions Equivalents (TDEs), price gaps, effective protection equivalents, and other aggregate measuring devices. Each has appeal and thus its advocates. None is perfect, and most require immense amounts of data, some of which are difficult and expensive to obtain. There is a danger that negotiations may become diverted to issues better left to meetings of technical specialists.

Therefore, it is recommended that the surveillance mechanism should begin with an inventory of programs in place in each country in a specified base year. That year probably should be 1984 or 1985, just prior to the beginning of the current round of multilateral trade negotiations. At the same time, information should be obtained on the current status of those programs in 1988, with the same information obtained for programs added subsequently.

At a minimum, information should be gathered on the type of program—price support, import quota, levy, etc.—the commodities covered, the quantities of those commodities produced, consumed and traded, and the local price received by producers.

A system whereby this information is submitted regularly to the GATT will need to be established. The surveillance group should have authority to request more information from individual countries if there are questions regarding the nature and operation of specific programs. The information assembled through the surveillance group would provide much greater uniformity in knowledge across member countries about the agricultural policies and programs affecting trade. This feature of surveillance will be particularly important for developing and smaller developed countries that do not have the resources to remain fully informed about policies and programs in other countries. This increased transparency will broaden the operation and strengthen the GATT as an institution.

On this basis the GATT Secretariat could be requested to prepare and publish an annual review of national agricultural policies, just as the IMF and the OECD present annual reviews of changes and developments in trade, finance, and monetary policies. These annual reviews would facilitate periodic in-depth reviews of national policies. The process could be developed in conjunction with the proposed in-depth GATT review of all trade policies, or it could be developed separately, then used in a broader GATT review.

Accordingly, the framework agreement should authorize the GATT Secretariat to proceed immediately with the development of a surveillance mechanism and provide the funds required to obtain the necessary professional support for it. At this point it is not crucial to decide whether PSEs, TDEs or other measures should be used as targets or negotiating guides. Those decisions can be made as part of a final package, but the creation of a functioning surveillance mechanism cannot wait, and developing it will be a formidable task.

Settling Differences over National Policies

One of the most difficult tasks in reaching an early framework agreement will be the development of an effective dispute settlement process within the GATT for settling differences on national policies

during what will be a long period of negotiating commitments on policy changes and new GATT rules for agriculture. An even longer period will then be required for adjusting to the changes and new rules. However, unless member countries put in place an acceptable and workable process that they trust for resolving policy conflicts, the inevitable disagreements are likely to erupt into battles and wars that could destroy the fragile process of adjustment and change.

It is unlikely that the present GATT dispute settlement procedures will be adequate during this interim period. Resolving disputes may prove more difficult under the present GATT procedures, inasmuch as the interim rules for the transition period will be new and probably, unfortunately, imprecise. However, it is important that recourse to the existing dispute settlement provisions of the GATT also be retained to resolve disputes in relation to rights and obligations under the articles of GATT.

The new dispute settlement rules for GATT as a whole remain to be determined. Meanwhile, the issue of settling differences over national agriculture policies must be faced now if there is to be a viable framework for the negotiations. Therefore, we recommend special procedures, to be in effect for an indefinite period, to deal with surveillance and policy differences in relation to commitments on national agricultural policies.

We recommend that a standing policy review committee and independent panel for resolving disputes over agricultural policies be established within the GATT for an indefinite period. Consultations and surveillance with respect to commitments on national policies would be undertaken by the policy review committee, made up of ministers or senior policy representatives. To resolve disputes that cannot be settled in this committee, an independent panel should be established. It should consist of no fewer than five persons nominated by the Director General and approved by the GATT Council. It could comprise representatives of governments or private citizens. Members would have staggered terms of no fewer than two and no more than five years.

The new mechanism would have dual and closely-related functions: to oversee the policy surveillance activity of the GATT Secretariat and to help resolve disputes over national policy actions. The close relationship between these functions is obvious, for the first exists to enable the second function to be performed. Member governments should agree on time limits for the panel to decide disputes and on its authority to recommend actions to deal with disputes. It is important that panel reports be written, published, and made available to all interested member governments. It is these governments that must ultimately make the political decisions on the course of action to be followed in the event that a member state's

policies diverge from its commitments. Member countries would have final recourse to the existing dispute settlement procedures of the GATT in the event of unresolved disputes. We believe that a continuing permanent panel can better interpret the policy commitments and judge whether countries are complying with their commitments than can ad hoc, intermittent panels convened under stress to judge a single national policy action. We believe that establishing a fair and open process of informal review and judgement would facilitate resolution of disputes more effectively than relying upon a court of last appeal in a system where rules and commitments are, of necessity, changing over time.

Short-Term Measures

At present, there is a wide divergence of opinion as to whether short-term measures to deal with serious trade distortions are necessary or desirable. We believe they are, but we recognize that their specific nature must be subject to negotiation.

We believe that, at a minimum, there can be a commitment on three important issues. One is that governments should adhere strictly to their earlier commitment not to introduce any new policies that add further distortions to the system. In other words, a freeze on new export subsidy programs and new trade barriers should be agreed to and implemented, along with a freeze on export taxes.

Second, governments can and should fully implement the positive policy changes already under way in several countries, such as those mentioned earlier in Japan, the European Community and the United States. Those countries that have not already agreed to such policy changes should agree to immediate and commensurate actions consistent with the general objectives of the negotiations.

Third, countries should agree to avoid actions that are clearly inconsistent with the direction and intent of the negotiations. This means that countries will not manipulate present policies and instruments in a way that would encourage subsidized output or destabilize markets, nor will they seek to gain negotiating advantage.

Although co-ordinated actions to reduce the impact on trade of various national measures such as export subsidies could contribute to early relief, overt attempts to manipulate international agricultural markets through commodity agreements, market sharing, or price fixing are highly controversial and, we believe, counter-productive. They are counter-productive because they would be so divisive and could redirect the focus of the negotiations away from the basic issues. Furthermore, they probably would not work, and there will be a tendency to blame someone else if they fail. It is important at this early stage of the negotiations to avoid serious political confrontations

whenever possible, for there will be more than enough tough political decisions in the later stages. Now that the agricultural situation is improving, the important political decision is to continue to move it in the right direction and to avoid policy actions inconsistent with the desired final outcome.

The Opportunity

The agricultural trading nations, both developed and developing, are presented with a unique opportunity to achieve fundamental reform of food and agricultural programs in the context of a major trade negotiation. There is a broad mandate from the member nations of GATT to deal with all agricultural policies that affect trade and to proceed with negotiations to reduce the trade impact of domestic and border policies. A number of major trading countries have tabled proposals to begin the negotiations. Although there are important differences between the approaches, there is broad support for dealing with policies and commodities in a comprehensive manner and negotiating major reductions in trade-distorting policies, supported by effective and enforceable GATT rules and disciplines.

For the first time, all of the ingredients for a successful negotiation appear to be on the table. It is now up to governments to translate their political declarations into commitments to policy changes.

The differing capacities of national economies to adjust to change smoothly and equitably suggest that changes will be gradual and must emerge from an understanding of the failure of national policies to respond to the underlying trends affecting modern farming communities today. But there is overwhelming evidence that reform is needed and that it will provide long-term benefits to the global economy and place farmers around the world on a firmer economic footing. This unique opportunity for genuine reform must not be missed because of short-term political and economic considerations.

We urge the leaders of the summit countries meeting in Canada in June to commit their ministers to reaching agreement on a negotiating framework for agriculture in 1988. On this basis, the trade ministers of GATT, when they meet in Canada in December, could begin the process of reforming government policies affecting agriculture trade—a process that may well be crucial to the future welfare of the world's food economy and, indeed, to the multilateral system of international economic co-operation. These two meetings provide a unique opportunity to launch serious negotiations without delay, and to achieve genuine policy reform.

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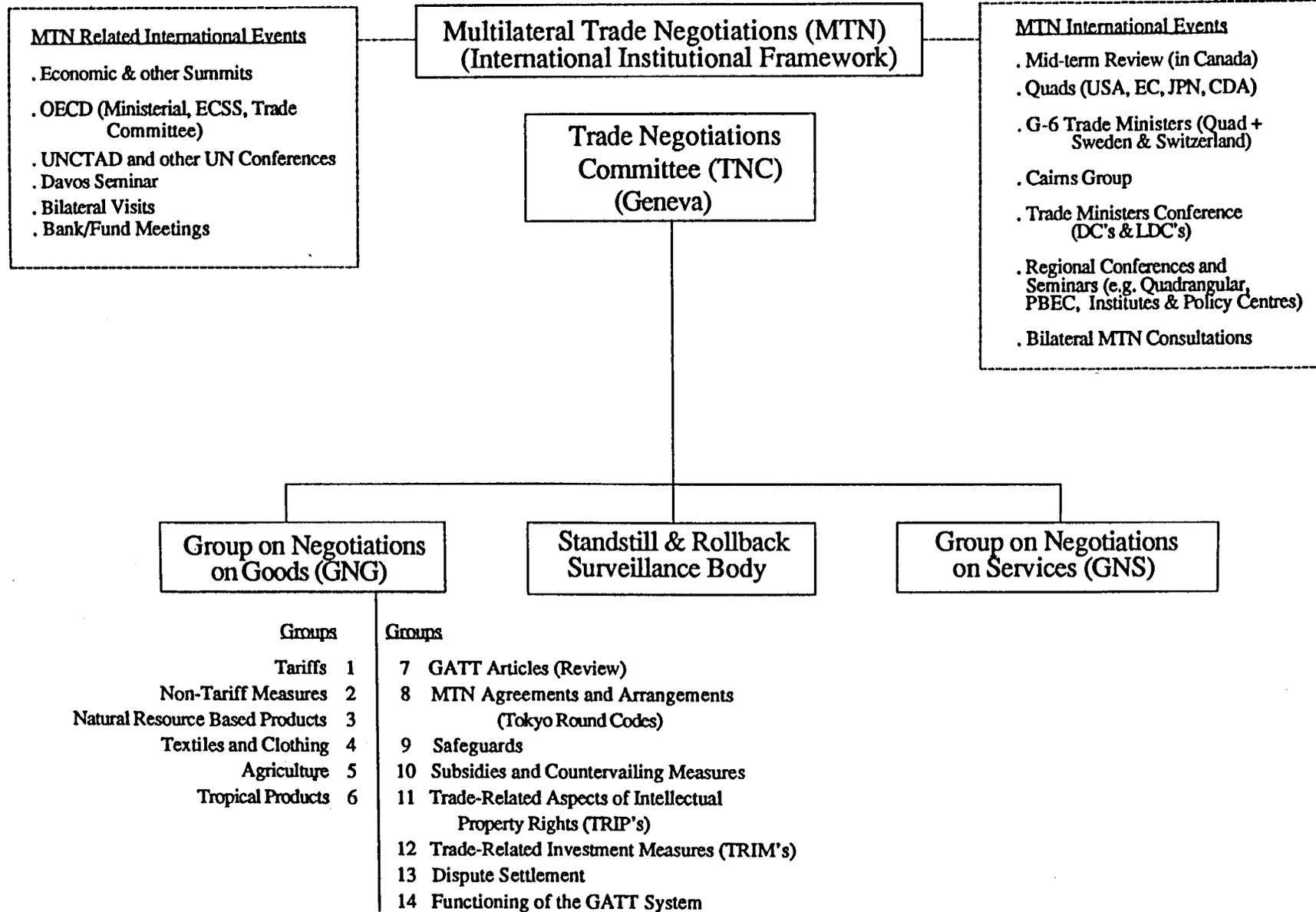
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