

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG4/7

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Group of Negotiations on Goods (GATT)

Negotiating Group on Textiles and Clothing

NEGOTIATING GROUP ON TEXTILES AND CLOTHING

Meeting on 5 May 1988

Note by the Secretariat

1. The agenda, set out in GATT/AIR/2578 dated 7 April 1988, was adopted.
2. The Chairman referred the Group to document MTN.GNG/NG4/6 which contained the main points raised during the last meeting, held on 9 February 1988. He also drew the Group's attention to documents MTN.GNG/NG4/W/10, setting out the proposal put forward by Pakistan at the last meeting, and MTN.GNG/NG4/W/11 containing the proposal recently received from the group of developing countries, members of the International Textiles and Clothing Bureau. Turning to the agenda for the meeting, the Chairman recalled that the principal task before the Group was to continue the examination of techniques and modalities for achievement of the objectives set out in this area in the light of proposals made by participants.
3. The spokesman for the group of developing countries, introducing their proposal, expressed the belief that the four elements contained therein constituted a basis for the formulation of modalities for the elimination of the MFA on a date to be agreed upon in the Uruguay Round negotiations. He stated that as a consequence of the special measures, the consumers and the economies of the developed countries had borne enormous costs while heavy burdens were imposed on the economies of developing countries. He said that the studies which had been prepared by the group of developing countries (MTN.GNG/NG4/W/5, W/7 and W/9) had clearly shown improved conditions in the textiles and clothing industries of the developed countries, with increased competitiveness and profitability. In these circumstances, it was felt that the continuation of special measures of protection was no longer justified. He stated that the negotiations in the area of textiles and clothing must be pursued with full political commitment in parallel with all other issues in the Uruguay Round. A number of developing countries expressed their full support of the proposal, describing it as a reasonable and practical approach, setting out the elements that would form the basis for the modalities to be formulated and negotiated. The Group was, therefore, invited to examine in a systematic and concrete manner the proposals before it with a view to advancing its work.

4. Commenting on MTN.GNG/NG4/W/11, an importing participant stated that even in the generally favourable economic conditions prevailing in the developed countries, as referred to in the proposal, specific sectors of their textiles and clothing industries might still encounter situations of market disruption, requiring measures to be taken under the MFA. Another delegate was of the view that the recent return to profitability was not, in itself, a sufficient justification for the elimination of special measures of protection but he accepted that an improved situation would make it easier for governments to move in the direction of liberalization. Some importing participants expressed the view that market and trade developments during the MFA had not all been negative for the exporting countries. Reference in this respect was made to the considerable growth in textile and clothing exports from developing countries and to the measures which had been taken by some importing countries to improve access to their markets as well as to the specific provisions which had been included in the 1986 Protocol for certain categories of exporting members. In this connexion, it was pointed out that under the MFA, developing countries had received discriminatory and less favourable treatment with even the least developed countries being subjected to restraint measures. Referring to Part A of the developing countries' proposal, calling for a reversal of restrictive measures under the MFA, one delegate underlined that the continued application of such measures would call into question the standstill commitment of the Ministerial Declaration. Some others were of the view that the invocation of the MFA provisions, as long as the Arrangement was in force, would not be a violation of the standstill commitment. It was noted that the suggestion in this part of the proposal to progressively eliminate restrictive measures was not new, being already agreed in Paragraph 17 of the 1981 Protocol and Paragraph 25 of the 1986 Protocol. In this regard, it was suggested that consideration should be given to the elimination of restrictions on textile products which are considered as raw materials for further processing in the textiles industry. Commenting on Part B of the proposal, it was suggested that the Group should identify and examine concepts in the MFA which are in contradiction with the GATT to determine how they could be eliminated or harmonized with the General Agreement. Others commented that the concept of market disruption should be totally excised and the principle of non-discrimination strictly observed. With respect to the ultimate termination of the Arrangement, provided in Part D of the proposal, it was stated that no direct link should be made between the task of terminating the MFA in this Group and the progress being achieved in other groups. It was also reiterated that there could be no payment by the developing countries for the removal of the MFA.

5. Reference was made to the suggestions mentioned in Phase I of the Pakistan proposal and Part B of the developing countries' proposal, that the price criteria in the determination of market disruption should be eliminated. In this respect it was pointed out, on the basis of figures made available to the Group, that wages constituted a small percentage of total costs and, in addition, the benefits accruing from lower wages were more than offset by higher capital and marketing costs as well as lower productivity in the developing countries. It was also stated that production at low cost was a factor of comparative advantage and should not,

therefore, be a basis for the imposition of restrictions. The elimination of the price factor from the criteria of market disruption was called into question and it was pointed out that the concept of "prices" in the context of the MFA and the term "low-cost countries" were two different matters and should not be considered synonymous. It was also noted that, in addition to the price concept in relation to market disruption, certain practices in the textiles trade had led to abnormal price conditions, and these problems too should be examined. One participant, referring to the statement in the Pakistan proposal that ministers had already approved the final goal, i.e., the integration of textiles and clothing trade into the GATT by the end of the Uruguay Round negotiations, said that his country's delegation at Punta del Este did not so agree and did not read the Declaration to that effect. In respect of Phase III of the Pakistan proposal, requiring the approval of the TSB for the application of restrictions on apparel products, one delegate saw some merit in the objectiveness of such a procedure but considered it unworkable in urgent or critical situations; another considered it to be a non-viable procedure.

6. Some participants advised the Group that they were not yet in a position to provide comments on the proposals. Some others expressed concern that progress in this Group had been very slow in relation to that achieved in some other groups and urged all participants to give this subject the priority it warranted, being an extremely important issue in the Uruguay Round for many developing countries. One delegate expected that a balanced package of results should be achieved in the area of textiles and clothing by the time of the mid-term review; another, however, commented that it would be premature to talk of early results as this could lead to a distortion in the work of this and other groups.

7. The Group also had some discussion with respect to its negotiating objective. In this regard, one delegate stated that the integration of textiles and clothing into GATT would be a progressive process linked to the strengthening of GATT rules and disciplines and, consequently, progress in this Group should be made in parallel with that achieved in other Groups. Another delegate saw the responsibility of this Group being centred upon the development of modalities to bring the textiles and clothing sector under GATT while the strengthening GATT rules and disciplines was an autonomous process taking place elsewhere in the Uruguay Round. With respect to the examination of techniques and modalities, one participant was of the view that such modalities, in order to be economically and politically viable, might involve considerations going well beyond the matters currently being discussed in this Group including restrictions on textile and clothing trade maintained under certain GATT provisions, and grey-area measures. In this regard, it was suggested by another delegate that non-MFA measures were not matters for this Negotiating Group as they already had their appropriate fora for discussion, being either grey-area measures falling primarily under the Safeguards Group or GATT measures with their respective negotiating groups. While supporting the objective of integrating this sector into GATT, one delegate considered it indispensable for the Group to first establish what are the real problems which face textiles and clothing trade and then to undertake a collective diagnosis of these problems.

8. With regard to documentation, it was decided that the Secretariat would prepare an informal non-paper setting out, in synoptic detail, the reactions of participants to the various elements in the two proposals currently before the Group (MTN.GNG/NG4/W/10 and W/11), as well as the views expressed with respect to the negotiating objective. It was understood that this non-paper would be up-dated on an on-going basis, with a view to reflecting discussions in future meetings on these and any further proposals received. The point was made that, in the absence of the MFA régime, new trading conditions would prevail and in this regard, it would assist further discussions in the Group if the Secretariat could attempt some sort of analysis of the economic implications of such changes; this, however, was not advanced as a formal proposal on this occasion. Commenting on this, one participant was of the opinion that a study of this type would be outside the parameters of the task assigned to this Group. Another delegate expressed the view that it would be helpful if the Secretariat could prepare a compilation of all current restraint measures affecting trade in textiles and clothing with an indication of the relevant provisions under which each had been notified. In this respect one participant noted that information of this type was currently available from notifications made to various GATT bodies; the matter was thus left open. The Group was informed that a publication issued by the United States Government, setting out a listing of the rules and regulations affecting textiles and clothing imports into various countries, would be made available to it at a future date.

9. Reference was also made to the possible need for a transitional period to carry out the integration of textiles trade into the GATT rules. One delegate reiterated the view that such period must be sufficiently long to permit national industries to adjust to the increased competition and thereby avoid simply replacing the present system with safeguard measures, which could be equally restrictive. It was felt that such transitional period should provide for progressive liberalization of restrictions within a fixed timetable for the various stages, thereby encouraging transparency in the process.

10. Concerning future meetings of the Group, the Chairman noted that it had previously been agreed to hold the next meeting in the week beginning 13 June (MTN.GNG/NG4/6 paragraph 7), and the dates 13-14 June were confirmed. As to the possibility of convening a further meeting before the summer recess, the Group agreed tentatively to meet on 21-22 July, these dates to be confirmed at the next meeting. The Group also agreed to meet on 19-20 September and 17-18 November.