

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG4/8
7 July 1988

Special Distribution

Group of Negotiations on Goods (GATT)

Negotiating Group on Textiles and Clothing

NEGOTIATING GROUP ON TEXTILES AND CLOTHING

Meeting on 13-14 June 1988

Note by the Secretariat

1. The agenda set out in GATT/AIR/2611, dated 25 May 1988, was adopted.
2. The Chairman referred the Group to document MTN.GNG/NG4/7, which contained the main points raised during the last meeting, held on 5 May 1988. He also drew the Group's attention to documents MTN.GNG/NG4/W/12, a communication from the European Community setting out viewpoints on a number of aspects of the work and MTN.GNG/NG4/W/13, a communication from the United States, transmitting a document entitled "Foreign Regulations Affecting U.S. Textile/Apparel Exports". 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. Introducing the communication in MTN.GNG/NG4/W/12, the spokesman for the EEC pointed out that the Community confirmed the commitment undertaken in Punta del Este, i.e., its final objective being the application of GATT rules to trade in textiles products. He stated that despite the significant progress which had been made in the restructuring of their textiles and clothing industries, there were still difficulties in this sector. The Community proposed, therefore, that a common diagnosis of the problems in the sector should be undertaken by the Group, based on contributions by all participants. He further stated that the modalities for the integration of this sector into GATT should be met through strengthening of the rules and disciplines of the General Agreement which would ensure durable and equitable conditions in trade amongst all participants. Thus, progress in other negotiating groups was extremely important as it would give a positive impulse to the work in this Group. He recalled that measures had already been adopted by the Community, particularly the bilateral agreements concluded under MFA IV, which had considerably facilitated market access for exporting countries, leading to a substantial increase in their exports in the past two years.
4. Commenting on the submission in MTN.GNG/NG4/W/12, the spokesman for the group of developing countries, in his statement which is reproduced in full in MTN.GNG/NG4/W/15, welcomed this first formal contribution from an importing participant. He noted, however, that the communication did not

propose any specific modality for the integration of textiles and clothing into GATT and questioned the relevance of some of the points raised therein to the negotiations. He considered that the balance of participants' rights and obligations could only be restored through the integration of this sector into GATT. He further stated that this Group should be concerned solely with the dismantling of the MFA régime and that the strengthening of the GATT system, in line with the principles of the General Agreement, would create conditions ensuring equitable and liberal treatment of textiles and clothing trade. He was of the opinion that the bilateral agreements concluded in 1986 by the EEC should not be considered as a contribution to the negotiating process. He also stated that, since the Group now had substantial information and data before it, further studies or diagnosis were not warranted. Rather, the Group should, at this stage, concentrate on the the examination of modalities.

5. In the ensuing discussion, a number of delegations stated that the EEC submission was a useful contribution to the work of the Group and that it brought a further dimension into the discussion.

6. Addressing specific elements of MTN.GNG/NG4/W/12, reference was made to the suggestion that a common understanding should be established on the problems which continued to afflict this sector. While some delegates felt that such diagnosis would assist the Group in its task, some questioned the need for this diagnosis of problems at this juncture given the advanced stage of the work in the Group and the array of documentation already available to it; some others called into question the possibility of reaching a common understanding.

7. Noting the reference in W/12 to the relationship between the progress in the work of this Group and that of other groups, a number of delegations stressed that each group had its own mandate and no conditionality or linkage should be established between them. One delegation, in supporting this view, said that it was inappropriate to refer to areas mentioned in W/12 as these were quite extraneous to the central goal of this Group.

8. Commenting on the reference to the relationship between production capacity and consumption, one delegation expressed concern that the examination of such relationship would reflect a notion of managed trade; a concern which was shared by a number of other delegations.

9. Some delegations noted that the Community's paper did not address the selective and discriminatory nature of the MFA, and this highlighted the fact that positions were far apart and that discussions were moving away from the real issues. The Group was thus urged to revert to the examination of the specific proposals already on the table. Noting the divergence of views on many important issues, some delegations reiterated the importance of textiles and clothing in the Uruguay Round not only for developing countries but also for the multilateral trading system itself and commented that a political will and determination to advance the work would be required.

10. Introducing the communication contained in MTN.GNG/NG4/W/13, the delegate from the United States explained that the document had been prepared by the Department of Commerce to assist exporters by giving information on rules and regulations applicable to imports of textiles and clothing into a number of countries and was not per se a list of restraints. Referring to the United States' document, some participants noted that it contained measures which were covered by existing GATT rules and, therefore, need not be considered by this Group; some others were of the view that this document was useful for the work of the Group because it helped to identify obstacles to trade in textiles and clothing.

11. The Group also continued its examination of the proposals put before it earlier by Pakistan (MTN.GNG/NG4/W/10) and by the group of developing countries (MTN.GNG/NG4/W/11).

12. As regards W/10, some delegations, referring to Phase I therein, stated that the elimination of the price criteria as well as any limitation on the right to apply restrictions as long as the Arrangement was in force were not justifiable. Regarding Phase III of this proposal, it was also stated that a requirement for TSB approval of restraint measures would be difficult to accept, particularly in urgent situations. Some delegations maintained that given the discriminatory application of the MFA, the recourse to a surveillance mechanism for guidance was in line with the GATT régime. They also commented on the rationale for eliminating the price element (see paragraph 17 below).

13. The point was also made that W/10 did not address the question of time frames for the various phases. In this regard it was suggested that this subject could be taken up forthwith, but, it was also felt that the matter could be usefully considered after the mid-term review.

14. Amplifying on the suggestion in Phase I(2) of W/10 that restrictions on non-apparel textile products should be eliminated, the delegate of Pakistan explained that the markets of the importing countries were dominated by either the domestic industries or by imports from unrestrained sources. He underlined that only certain importing countries applied MFA restrictions against imports of non-apparel textile products, and emphasized that such restrictions hindered the development of the manufacturing sector and caused social and economic problems in the developing countries. At the same time such restrictions had a negative impact on the clothing industries of the importing countries, depriving them of textile products at competitive prices. (The text of his statement is reproduced in full in MTN.GNG/NG4/W/16.) One delegation pointed out in this regard that his country maintained certain textile restraints but these were selective, and applied only in those areas where a serious market problem existed.

15. With respect to W/11, some delegations commented that the proposal contained therein set out a number of elements which could be a basis for achieving the negotiating objective of this Group. Another delegation noted that the proposal referred only to developing countries and stated that it

could be acceptable as a basis for negotiations provided that the interests of all restrained exporting countries were taken into account on a non-discriminatory basis. One delegation, noted the commitment in the proposal to transparency and non-discrimination, and while supporting it, stated that the proposal did not address sufficiently the steps required between the initial freeze and the ultimate elimination of the MFA.

16. Referring to Part A of the proposal, calling for the reversal of restrictive measures under the MFA, some participants were of the view that a freeze on further restrictions could create imbalances; if such a freeze were to be applied on product coverage, importing countries which maintained limited restraints would be in a different position from those with broader coverage, and if applied in respect to countries, exporting countries not restrained would be in a more favourable position than those which were under subject to restraints. It was the view of some delegations that the present bilateral agreements concluded with their exporting partners under the MFA had already provided for the elements set out in (ii) and (iii) of Part A. Some held the view that the standstill commitment of the Punta del Este Declaration did not preclude the conclusion of bilateral agreements under the present framework of the MFA. In this respect a number of delegations expressed their support for Part A of the proposal and stated that they would be aiming to develop it, outlining measures that could be used to liberalize trade in this sector. Some pointed out that the standstill commitment should be implemented from a date to be agreed upon. They further underlined the importance of the following elements: elimination of the use of exceptional circumstances, including MVP; exclusion of the basket extractor mechanism and consultation levels; and elimination of aggregate levels.

17. Commenting on Part B, and in particular the reference to price criteria mentioned therein, it was recalled by some delegations that this was one of the main considerations in determining market disruption and, therefore, it would be difficult for them to accept its elimination. In this respect some other delegations remarked that it was necessary to put the price criteria in its proper prospective. Although Article XIX referred to price, this element could not be used to restrict imports only from particular sources. The fact that products would be traded at a lower price should be a factor in comparative advantage and not a source of discrimination.

18. In respect of Part C, concerning the application of the principle of differential and more favourable treatment, it was pointed out by some delegations that the provisions of MFA IV already had a strong element of this principle in the treatment of LLDCs, small producers and new entrants. Commenting on this, some delegations stated that their countries benefited as new entrants and small suppliers during MFA II and III, but they have paid a high price under MFA IV in the form of extended product coverage.

19. In relation to Part D, concerning the termination of the MFA, some delegations recalled that the aim of the negotiations was the eventual integration of this sector into GATT, and stressed that this should be achieved in such a way that it would not result in a proliferation of measures outside the framework of the GATT. The point was made that the negotiations in this Group did not cover the renegotiation of the MFA.

20. As regards the scope of the negotiations in this Group, some delegations stated that all restrictions affecting textiles and clothing trade should be taken into consideration with due regard being had to the work undertaken in other groups, relevant to this sector. They stated, however, that discussion on textiles and clothing tariffs should be dealt with in the Negotiating Group on Tariffs.

21. The Group was informed by one delegate that in spite of substantial increases in imports during the past decade, his country had been able to deal with this situation through structural adjustment and had refrained from resorting to restraint arrangements under the MFA. Another delegate stated that her Government had recently adopted a number of trade policy measures including a programme of phased tariff reductions, which included the textiles and clothing sectors. Yet another delegate advised that his Government was implementing important changes including both tariff reductions and duty remission measures affecting this sector.

22. Several delegations expressed their concern over the rate of progress in the Group and urged all participants to concentrate their discussions on the mandate before the Group, taking into account the approach of the mid-term review.

23. On the subject of documentation, the spokesman for the Nordic countries, proposed that the GATT Secretariat be asked to carry out an analysis of the global economic and trade consequences of the dismantling of all restrictions under the MFA and other trade restrictions in this field and the possible developments during the adjustment period, with different progressive elements. His statement which also addressed a number of other topics summarized, as appropriate, in the preceding paragraphs, is reproduced in full in MTN.GNG/NG4/W/14. Commenting on this proposal, several delegations were of the view that adequate and sufficient material was already before the Group, and therefore, there was no need for such a study; some other supported this proposal. After discussion, the Group agreed that the Secretariat, in consultation with the sponsor of this proposal, would prepare a paper outlining the specific parameters of such a study, for consideration by the Group at its next meeting. Another delegate recalled his tentative suggestion made at the last meeting that the Secretariat should prepare a compilation of current restraint measures affecting trade in textiles and clothing. As some participants were not in favour of this, he did not formalize his suggestion but stated that he might revert to it at a later date.

24. With respect to future meeting dates, the Group confirmed that it would hold its next meeting on 21-22 July and reaffirmed its earlier decision to meet on 19-20 September. Noting that the GNG would meet in the week beginning 14 November, the Group decided to move forward its last meeting in 1988 to 2-3 November.