

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY ON TEXTILES AND CLOTHING

Note by the Secretariat

At its meeting in July 1984, the Working Party decided to begin its examination by looking at the possibilities for bringing about full application of GATT provisions to trade in textiles and clothing, before proceeding to the consideration of other options. This is one of three broad options which, at the September meeting, it was considered could be taken up for examination:

- (A) full application of GATT provisions, with a movement towards liberalization.
- (B) full application of GATT provisions as envisaged in Option A, combined with liberalization of other trade measures irrespective of their GATT conformity.
- (C) liberalization under existing frameworks.

The Working Party requested the secretariat to prepare, with the help of delegations, a note that would facilitate examination of Option A, indicating the kinds of questions that would arise and what they would involve, noting that it will be necessary for the Working Party to go on to an examination of other options.

This Note attempts to identify some of the principal questions involved in Option A. The list of questions is intended as a basis for discussion; it is not intended to be exhaustive, nor to engage the responsibility of any delegation.

1. What is meant by "the full application of GATT provisions"?

Presumably this would mean that trade policies for textiles and clothing would be limited to (1) tariffs (including GSP tariffs), (2) QRs imposed under specific GATT provisions (notably Articles XII, XVIII, XIX, XX and XXI), and (3) other measures covered by exceptions under the GATT (e.g., Article XXIV). (In this context, it may be noted that a certain number of GATT provisions relating to non-tariff measures are applied in accordance with multilateral agreements negotiated during the Tokyo Round, as among the signatories of those agreements.)

In accordance with Article XIII, any QRs authorized under GATT provisions mentioned above must be applied on a non-discriminatory basis.

The GATT also includes provisions concerning the use of subsidies and countervailing duties, anti-dumping actions, and so forth. Differing obligations apply to different kinds of subsidies; a distinction also exists as between developed and developing countries with respect to these obligations.

Article 1 of the MFA provides that the provisions of the MFA "shall not affect the rights and obligations of the participating countries under the GATT". Thus a change, for example from an MFA-type régime to a full application of GATT provisions, would not in itself change the character of existing obligations in the areas of subsidies and countervailing duties, and anti-dumping actions.

It may be noted that the Group on Quantitative Restrictions and Other Non-Tariff Measures is reviewing the question of progress in eliminating restrictions which are not in conformity with GATT provisions, as well as progress in liberalizing other QRs. The Group has, however, put aside for the time being an examination of those restrictions which are covered by the MFA. Discussions are also in progress on the question of arriving at an improved and more effective GATT safeguard system.

2. What are the possible approaches to full application?

Depending on whether a transition period is considered necessary, and how that transition period could best be achieved, the following would be possible approaches for bringing about the full application of GATT provisions:

- (i) by non-renewal of the MFA on its expiry in July 1986, with full application of GATT provisions as from August 1986;
- (ii) by negotiating a new instrument, for a specific and predetermined transitional period, during which, or by the end of which, all MFA restrictions would be fully eliminated;
- (iii) by continuing the MFA, with a set of understandings, for a specific and pre-determined transition period, during which, or at the end of which, all MFA restrictions would be fully eliminated;
- (iv) as regards non-MFA restrictions which are not in conformity with GATT provisions, they would likewise be eliminated or phased out, having regard to any decisions that might be taken on the basis of recommendations emanating from the Group on Quantitative Restrictions and Other Non-Tariff Measures.

3. What are the possible elements of a transition period?

If it were decided that a transition period was necessary, one or more of the following elements could be considered:

- (i) The process of dismantling existing restrictions could begin with the consistently under-utilized quotas and go on to highly-utilized ones.

- (ii) Existing quotas could be progressively enlarged at a sufficiently high rate to ensure that, by the end of the transition period, they no longer have any restrictive effects. There is the possibility that the elimination of quotas may proceed more rapidly in some sub-sectors than in others.
- (iii) As from a certain date, any new quantitative restrictions - i.e., new restrictions applied to trade flows not covered by QRs on that date - would have to meet the provisions of the GATT, notably Article XIX. For products on which MFA restrictions, or other restrictions not in conformity with GATT provisions, are eliminated, Article XIX action could be taken in accordance with the requirements of that Article.
- (iv) Should the MFA be retained as a transitional framework, recourse to the exceptional circumstances clause could be eliminated, and the operation of Article 4 appropriately circumscribed.
- (v) In the course of the transition period, progress toward the full application of GATT provisions, including progress in liberalizing trade, would be periodically reviewed.

4. How long should a transition period be?

A consideration to bear in mind is that the credibility of any transitional arrangement would be affected not only by the policies applied under that arrangement, but also by the length of the transition period.

5. How would trade relations be maintained with non-contracting parties in the absence of the MFA?

Arrangements could be negotiated by contracting parties with non-contracting parties governing trade in textiles and clothing in the same way as arrangements covering trade in other products.

Final note

Regarding the impact of full application of GATT provisions on production, employment and trade in textiles and clothing, it should be recalled that (i) the issue of full application of GATT provisions to trade in textiles and clothing cannot be considered in isolation from the issue of the application of GATT provisions in general and the operation of the multilateral trading system, and (ii) Chapter 5 of "Textiles and Clothing in the World Economy" includes a discussion of the likely impact on - i.e., direction of change in - key economic variables of the full application of GATT provisions to trade in textiles and clothing.