

GENERAL AGREEMENT ON TARIFFS AND TRADE

Working Party on Textiles and Clothing

OPTION C

Note by the Secretariat

The Working Party has identified three broad options thus far:

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

In response to a request from the Working Party, the Secretariat prepared a Note (MDF/W/13), with the help of delegations, intended to facilitate the examination of Option A, indicating the kinds of questions that would arise and what they would involve.

At the Working Party's fourth meeting (3-4 October 1984) suggestions were made that the Secretariat should prepare, with the help of delegations, notes similar to MDF/W/13 on Options B and C. MDF/W/24 deals with Option B; this Note deals with Option C.

As with MDF/W/13, this Note is intended as a basis for discussion; it is not intended to be exhaustive, nor to engage the responsibility of any delegation.

The following should be borne in mind: to the extent that actions under Option C also embrace the liberalization of non-MFA measures maintained under other frameworks (for example, tariffs, and quantitative restrictions and related measures), irrespective of whether or not those measures are permitted under the General Agreement, certain portions of the Note on Option A (MDF/W/13) and the Note on Option B (MDF/W/24) dealing with such measures would be relevant to a full discussion of Option C. In order to avoid duplicating material contained in those two notes, this Note focuses on actions under Option C which relate to the MFA.

The actions considered are those which would represent a liberalization of policies and measures applied under the MFA, but would not alter the fundamental characteristics of the Arrangement even if they involved some changes in the text.

For the sake of convenience, the MFA-type arrangement which could succeed MFA III is referred to as MFA IV in the following paragraphs.

1. Possible approaches towards liberalization

If the MFA were to be extended, a Protocol would be required. If such a Protocol were to provide for a straight extension of the MFA without the restrictive provisions contained in the 1981 Protocol, and provided that the text would be faithfully implemented, it would represent some movement towards liberalization relative to the existing situation.

Another approach which could involve a more substantial step towards liberalization would be to agree to a Protocol with certain understandings with respect to the application of certain provisions of the MFA.

A third approach would be to amend the text of the MFA.

The following examples of possible specific liberalizing actions are put forward against the background of some of the principal concerns and problems identified by participants in the present operation of the MFA. The list is intended to be illustrative and not exhaustive:

- a. Guidelines for the application of Article 6 could be established to insure that restraints are not applied to "small suppliers" and that quotas for "new entrants" are not determined on the criterion of past performance. Concepts such as "small suppliers" and "new entrants" could be defined. With respect to exports of cotton textiles from cotton producing exporting countries, it could be agreed that the quotas, growth rates and flexibility provisions should in no case be lower than the norm prescribed in Annex B.
- b. It could be agreed that exports of a particular product from any source of supply should not be restrained under the MFA (Article 3 or 4) unless the supplying country/territory concerned held more than a specified minimum share of the domestic market of the product in the country applying the restraint. The scope of Article 4 agreements could thus be limited to specific products or groups of products, and exclude items for which the supplying country/territory accounts for less than a specified minimum share of the domestic market of the product in the importing country.
- c. It could be agreed in this context that there would be sufficient examination that the principle of equity formulated in Article 3, paragraph 2 is being observed.
- d. Greater operational precision could be given to such concepts as "comparable prices" and "comparable quality" in the determination of a situation of market disruption.
- e. It could be agreed that a common system of product categories related to identifiable segments of production in textiles and clothing would be adopted to facilitate the assessment of serious damage in terms of Annex A and to deal in a credible way with the problem of over-categorization.
- f. It could be agreed that each element of an Article 4 agreement, particularly base levels, growth rates and flexibility provisions, should be more liberal than is provided for in the MFA for Article 3 agreements.

- g. It could be agreed that the "exceptional circumstances" clause would not be applied to Article 4 bilateral agreements, or to "new entrants", "small suppliers" and cotton producing exporting countries. (See also (i) below.)
- h. The 6 per cent minimum growth rate, 7 per cent swing and 10 per cent carry forward/carry-over for products under restraint could be raised.
- i. It could be agreed: that the provisions for reduced growth rates and swing provisions in Annex B, paragraphs 2, 3 and 5 should represent "meaningful" rates of increase; that this would also apply to measures taken by, or agreements concluded by, "MVP countries"; and that no exceptions would be allowed for provisions for carry forward/carry-over.
- j. Provisions could be made for the automatic elimination of restraints in those instances in which the quota utilization rate was below a specified level for a specified period of time.

In addition to the implementation of specific liberalizing actions of the type outlined above, a supporting action for the effort to liberalize trade in textiles and clothing within the framework of the MFA could be regular periodic examinations of the relationship between actions and policies to facilitate adjustment, as envisaged in paragraph 4 of Article I of the MFA, and increased market access for imports from developing countries.

It must be kept in mind, of course, that periodic reviews of countries' adjustment efforts would not be a substitute for taking specific liberalizing steps of the type listed above.

2. Application of MFA IV

It could be agreed that the duration of any bilateral agreements negotiated under MFA IV should not exceed the expiration date of MFA IV.

It could also be agreed that the provisions of MFA IV would apply to agreements negotiated under MFA III which remained in force after 31 July 1986.