

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Negotiating Group on Textiles and Clothing

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COMMUNICATION FROM JAPAN

The following communication has been submitted by the delegation of Japan for circulation to the members of the Negotiating Group on Textiles and Clothing.

I. GENERAL INTRODUCTION

1. The textiles and clothing sector plays an extremely important rôle in the economic and social development of a large number of countries, inter alia, developing countries. The success of the negotiations in this sector is a key factor governing the outcome of the Uruguay Round, and it is essential that further liberalization of trade in this sector is achieved. Japan wishes to express its resolve to actively support the integration of this sector into GATT.

2. Japan considers it necessary to adopt a progressive and pragmatic approach to the issue of the integration of the textiles and clothing sector into GATT in order to attain the objective in a smooth integration process.

3. Japan, at the same time, considers it necessary that the process of integrating the textiles and clothing sector into GATT be accompanied by liberalization of this sector as a whole. To this end, it should be recognized that efforts by all participants to achieve liberalization on the basis of strengthened GATT rules and disciplines, which are being discussed in other negotiating groups, is also important.

II. JAPAN'S PROPOSAL

1. Scope of integration

In order to expedite the negotiations and make substantial progress, this Negotiating Group should give priority to the discussions on the integration of MFA restrictions into GATT.

The Decision of the Trade Negotiations Committee in April 1989 stipulates that the negotiations should, inter alia, cover the "phasing out of restrictions under the MFA and other restrictions on textiles and clothing not consistent with GATT rules and disciplines".

Since the issue of "restrictions not consistent with GATT rules and disciplines", is being handled by such negotiating groups as the Negotiating Group on Safeguards, it would be most appropriate that this Group, in the first place, limit itself to keeping a close watch on the progress of other negotiating groups.

2. Elimination of MFA restrictions

The MFA should be terminated on 31 July 1991, at the expiration of the current Protocol of Extension

The present MFA should not be extended, and all the restrictions based on the present MFA should, in principle, be eliminated by the end of July 1991. However, as regards bilateral agreements concluded under Article 4 of the present MFA, they may remain in force until the end of 1991, provided that both the importing and exporting countries concerned so agree.

3. Transitional measures during the integration process

(a) After the termination of the MFA, a transitional period should be established in order to facilitate a smooth integration of the textiles and clothing sector into GATT.

A progressive and pragmatic approach should be employed in integrating the MFA into GATT. In view of the fact that the world textile trade has been in place for a long time under the régime of the MFA, it would be unrealistic to expect that the adverse effects of sharp increase in imports can effectively be coped with solely through the safeguard provisions of the General Agreement (hereafter "general safeguard provisions") during the transitional period.

(b) Therefore, it is necessary to introduce transitional measures which are designed to deal with the specific problems of the textiles and clothing sector so as to facilitate a smooth integration of the MFA into GATT.

Such transitional measures should be regarded as temporary arrangements to phase out the restrictive mechanism of the MFA so as to integrate it into general safeguard provisions.

Compared with MFA restrictions, such transitional measures should thus embody a higher level of objectivity, strict procedures, limited application, limited duration, equity, as well as an automatic mechanism for the phase out.

4. Time span

The integration should be achieved as early as possible, by the end of 1999 at the latest.

III. THE TRANSITIONAL MEASURES DURING THE INTEGRATING PROCESS

Japan proposes the following as transitional measures during the integration process:

1. Summary

(a) For the purpose of ensuring an automatic and smooth phase out, objective criteria for invocation of the transitional measures will be made more stringent year-by-year, and the levels of restrictions will be liberalized year-by-year.

(b) When invoking the transitional measures, an importing country should request the exporting countries concerned for consultations. At the same time, the importing country should submit data to a multilateral surveillance body to be newly established (an organization similar to the TSB, for instance) for an appraisal of whether or not the imports in question satisfy the criteria to invoke such measures. The surveillance body should then examine the conformity of the measure in question to the criteria, based on the submitted data.

(c) In the event that an agreement is reached between the importing and exporting countries, restrictions will, in principle, be imposed by the exporting country. On the other hand, if no agreement is reached, the importing country may impose restrictions on exports from the exporting country.

(d) The transitional measures can be invoked from 1 August 1991 onward. If any country proposes to invoke the transitional measures at an early stage after 1 August 1991, the surveillance body mentioned above should be empowered to conduct examinations prior to 1 August 1991.

2. Five principles governing the transitional measures

The transitional measures should be governed by the following five principles:

- (a) Objectivity and strict procedures.
- (b) Limited application.
- (c) Limited duration.
- (d) Automatic phase-out mechanism.
- (e) Equity.

(a) Objectivity and strict procedures

The MFA stipulates that the determination of a situation of market disruption shall be based on the existence of "serious damage to domestic producers or an actual threat thereof". However, since the MFA only lists factors such as "market share", "profits", "export performance", with respect to factors determining "serious damage", actual application of MFA restrictions is left to the discretion of each participating country.

However, since transitional measures during the integration process should be applied only in a situation where emergency action is required, it is necessary to subject the invocation of the measures to objective criteria and strict procedures.

[Objectivity]

(i) Of the factors causing market disruption, such as the market penetration of imports, the growth rate of total imports, the growth rate of imports from one particular country and its share in total imports, those which are capable of being quantitatively measured and agreed to by the participating countries should be established as universal and quantitative standards for invoking the transitional measures. Participating countries should also establish criteria in as objective a manner as possible for other factors which cannot readily be measured quantitatively. The transitional measures should not be invoked unless these quantitative and objective criteria are satisfied.

(ii) The above-mentioned criteria should be drawn up during the Uruguay Round negotiations, and to this end, interested countries should submit data on recent production, imports of textiles and clothing, etc., to the GATT Secretariat, which, in turn, should submit to the Negotiating Group proposed figures for such criteria.

[Strict Procedures]

An importing country proposing to take measures should submit the necessary data to the multilateral surveillance body mentioned above for an examination of their conformity with the criteria, while conducting consultation with the exporting country. Since the transitional measures warrant prompt action, the surveillance body should complete deliberation and notify its results to the countries concerned within a reasonable and specified period of time.

(b) Limited application

Since the transitional measures are to be applied only in a situation where emergency action is needed, the scope of application of such measures needs to be limited as much as possible.

With a view to accelerating the social and economic developments of countries where the textiles and clothing industries play a key rôle in their exports, transitional measures should not be invoked against, for instance, LLDC's, new entrants and small suppliers.

The measures, when invoked, should be limited only to the necessary products, and accordingly, aggregate or group limits should not be introduced. Also, the measures should not be applied to products with no domestic production, or with under-utilized quotas.

(c) Limited duration

The duration of the transitional measures should be limited and as short as possible.

(d) Automatic phase-out mechanism

The transitional measures should embody an automatic phase-out mechanism so as to ensure the integration of the textiles and clothing sector into GATT.

(i) For this purpose, specific quantitative criteria, scheduled for each year during the integration process, and which will be made increasingly strict every year, should be established. For example, if the standard for market penetration of imports (or the growth rate of imports) are set at $X_1\%$ as the criteria for invoking the measures in 1991, it should be increased in the succeeding years as follows: $X_1\% + a\%$ in 1992, and $X_1\% + a'\%$ in 1993 ($a < a'$). In other words, the conditions under which the transitional measures may be invoked should be made increasingly strict by setting a higher threshold every year. The actual figures of X_1 , a , and other relevant figures should be determined during the Uruguay Round negotiations.

1991	X_1
1992	$(X_1 + a)\%$
1993	$(X_1 + a')\%$

(ii) Specific growth rates for the levels of restrictions and flexibility provisions are to be established for each year, and will become less restrictive every year. Those standards for growth rates and flexibility should be less restrictive than those stipulated under the present MFA.

The restraint levels for each year should be obtained by multiplying by the following growth rates the actual import performance of the previous year (the restraint level of the previous year if there is any quota), or the average import performance of the past several years, whichever is the higher.

The specific growth rate for each year

1991	$(100 + X_2)\%$
1992	$(100 + X_2 + b)\%$
1993	$(100 + X_2 + b')\%$

The specific rate of shift between quotas for each year

1991.	X_3
1992	$(X_3 + c)\%$
1993	$(X_3 + c')\%$

The actual figures of X_2 , X_3 , b , c , and other relevant figures should be determined during the Uruguay Round negotiations.

The permissible levels of both carry forward and carryover should be increased every year in the same manner.

(e) Equity

Equity between exporting countries needs to be guaranteed. A country should not, in principle, be subject to restraints if there exists any other exporting country not under restriction through this transitional measure that has a larger market share, higher import growth rate, and lower import price in a particular importing country.