

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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Group of Negotiations on Goods (GATT)

Negotiating Group on Textiles and Clothing

MEETING OF 5-7 MARCH 1990

Note by the Secretariat

1. The draft agenda, set out in GATT/AIR/2936 dated 22 February 1990 was adopted.

Introduction

2. The Chairman referred the Group to document MTN.GNG/NG4/18, a note by the Secretariat containing the main points raised at the last meeting. He also referred to the following documents: MTN.GNG/NG4/W/42 setting out a proposal by Canada, and MTN.GNG/NG4/W/43 containing a further submission from the United States. He drew attention to three communications from the European Community, in documents MTN.GNG/NG4/W/39, W/40 and W/41, reproducing submissions made earlier to other negotiating groups for the information of this Group.

Strengthened GATT rules and disciplines

3. The spokesman for the EEC, referring to their submission in MTN.GNG/NG4/W/24, reiterated the importance they attached to the aspect of strengthened GATT rules and disciplines; and emphasized that this topic should receive due attention in the discussions on the integration of the textiles and clothing sector into GATT. He recalled that the Community's objectives in this area comprised three aspects: effective and lasting opening up of markets involving contributions from all participants; creation of fair competitive conditions; and improved safeguard disciplines. In this regard he drew the Group's attention to submissions which the Community had made to other negotiating groups on the subjects of subsidies, balance of payments and infant industries, anti-dumping, and safeguards and which had been circulated to participants in this Group in documents NG4/W/36, 39, 40 and 41 respectively. He said that while these subjects would be dealt with primarily in their respective negotiating groups, they involved issues of major importance to the textiles sector, and accordingly he wished to comment upon them in this Group.

4. Referring first to the communication on subsidies, he pointed out that the textiles sector was characterised by a number of practices which distorted competition, including export subsidies. Accordingly, it was considered that concurrent with the progressive phasing out of import

restrictions, as many participants as possible should adopt the GATT subsidies disciplines. In respect of anti-dumping, it was suggested that in cases where a large number of products and parties were involved, investigation procedures would be expedited and improved if sampling techniques were to be used. Furthermore, to avoid massive imports in anticipation of anti-dumping measures, the current retroactivity provisions which were considered to be unworkable, should be changed. These aspects were particularly relevant to textiles trade in view of the seasonal factors in this area and the rapid changes in fashion. As concerns safeguards, he drew attention to five provisions included in the Community's supplementary submission to that Negotiating Group relating to the aspects of application, consultations, duration of measures, equity and transparency. Referring to balance-of-payments provisions, it was their view that these had been misused in the textiles sector and that measures adopted under these provisions had frequently remained in place for many years. Accordingly, these provisions should be revised in a number of areas with new criteria being developed. As regards infant industry provisions, it was felt that the textiles industries in almost all countries had reached a mature status and that no restrictions under this provision should be taken to protect industries that export a significant share of their production.

General comments on global quotas

5. The representative of Indonesia, speaking on behalf of the members of the ITCB, said that the modality of global quotas would be in conflict with the April 1989 TNC Decision which refers to the phasing out of restrictions under the MFA. He identified several difficulties in accepting the concept of global quotas as a working proposition; namely, restrictions would increase for all groups of suppliers; developing countries would be deprived of trade expansion and diversification; and this approach would conflict with the commitment to further liberalisation of trade. He further stated that global quotas would continue to insulate the domestic industries of the importing countries from market forces while increasing the competition among foreign suppliers. Concern was also expressed at the dislocation of trade and uncertainties for both importers and exporters resulting from such a changeover in the system.

6. Referring specifically to the Canadian proposal, he said that it would be unwise to seek derogations from Article XIX as such changes could have repercussions in the general safeguards negotiation. With regard to the provisions in that proposal on the scope of the negotiations, he commented that the Group's mandate referred only to GATT-inconsistent measures and therefore, consideration of any other measures would be tantamount to extending the mandate and would be unacceptable. As regards the provision in the United States proposal to progressively reduce country allocations, he said that this was not considered to be entirely consistent with GATT Article XIII. He also said that the complete elimination of global quotas at the end of the ten-year transition period would be difficult to visualize. Accordingly, it was again suggested that the Group start serious negotiations on a phase out of the current restrictions, based on the proposals in this regard currently before the Group. (The full text of this statement is set out in MTN.GNG/NG4/W/44.)

Proposal by Canada

7. In introducing the proposal (MTN.GNG/NG4/W/42), which was outlined orally at the Group's last meeting, the representative of Canada said that during the transitional period there should be a move away from the selectivity and discrimination of the MFA towards normal GATT rules. With this objective, the Canadian proposal had followed all the elements of GATT Article XIX, with two important derogations; namely, a market disruption type test to be applied by the importing country on a product-by-product basis, and no compensation for actions taken. He emphasized that such derogations would apply only during the period of transition and would not extend beyond it. He pointed to three devices in the proposal to liberalize trade which were available for negotiation, i.e., progressive reduction of coverage; growth rates; and special treatment for LLDCs. He felt that the principal attractions of the proposal were the immediate re-establishment of normal GATT rules following the expiry of the MFA; transparency; sharing of the burden among all importers and exporters; and that it was based on market forces governed by rules applicable to all participants.

8. In response to questions by participants, the representative of Canada provided further details. As regards the method for determining the base levels for the global quotas, he said that they anticipated applying trade levels in a recent representative period. Concerning the application of the concept of market disruption, he emphasized that the proposal mentioned a "market disruption type test" and said that this approach was chosen because it was a concept familiar to all participants, signified a level of injury less than serious injury and could be developed in the negotiations on the basis of the provisions of MFA Annex A. Referring to the possible reduction of product coverage during the transition, he said that they were prepared to negotiate in the Group the removal of products or groups of products from the area of eligibility for special safeguards. He also explained that the duration of the transitional period would be a subject for negotiation in the Group, while a transitional measure would continue as long as it was required to deal with the specific situations, though not extending beyond the end of the transitional period.

9. The representative of Canada also referred to the comments of the ITCB set out in paragraph 6 above, expressed the view that the proposal was not in conflict with the April 1989 TNC Decision, and that it addressed directly the issue of phase out of the MFA and other non GATT consistent restrictions in that these could be completely eliminated on 31 July 1991. He considered that the global quotas would present considerable opportunity for competitive exporters to fully exploit their advantages and thereby obtain larger market shares. He further pointed out that any measures taken under the proposed procedures would be subject to the consultations and dispute settlement mechanism of the GATT. As to the concern that global quotas would give rise to dislocation of trade, he felt that this could only happen if the current market shares were not sustainable in a more open, competitive environment. In response to the concern that global quotas would not be dismantled at the end of the transition period, he pointed out that all measures would be subject to agreed growth rates while

the field of application would be progressively reduced, thereby facilitating their ultimate removal.

Further submission by the United States

10. The representative of the United States explained that the current paper (MTN.GNG/NG4/W/43) was an elaboration of some of the elements in their earlier proposal (MTN.GNG/NG4/W/37). Referring to the five topics addressed in the current paper, he said that a limit of 15 per cent of the individual quotas for any particular supplier was intended to open up trade to the greatest extent possible while extending to each supplier currently under restraint a fair guaranteed level. He pointed out that specific areas where the United States was prepared to contribute to liberalization were indicated in the section on product coverage and categorization. He also noted that the aspect of strengthened GATT rules as mentioned by some other delegations remained a key and integral part of their proposal.

11. In response to comments made on their proposal, the representative of the United States expressed the view that the global quota approach would not be contrary to the Group's mandate and would achieve its objectives. He was of the opinion that the United States proposal would bring about a balanced increase in competition for both importers and exporters as domestic producers would face progressive increases in the quota levels as well as increasing competition from the most efficient suppliers. He also reiterated that the proposed special measures of protection would not extend beyond the transitional period. As concerns the coverage of the quotas, he said that only those countries with which the United States maintained a free trade agreement (Canada and Israel) would be excluded and all other suppliers would be covered by the country allocations or global basket.

Elaboration of the proposal by Switzerland (MTN.GNG/NG4/W/25)

12. The representative of Switzerland reiterated their commitment to the progressive phasing out of the MFA and other restrictions not consistent with GATT rules and disciplines. He said that the starting point for such a process should be the existing possibilities of market access both product-wise and country-wise. He reiterated that they were not in favour of the transformation of existing restrictions to global quotas. He suggested with respect to the phase out modality that a model framework should be developed multilaterally. National phase-out programmes would be based on this model framework. While the national programmes could deviate to some extent from the model, the concept of progressive implementation and the overall results could not be substantially different. This process of integration would be overseen by a surveillance body. As to specific procedures, he suggested that a list should be established incorporating all restrictions, both MFA and other non GATT-consistent measures. The MFA restrictions would be registered ex-officio while the other restrictions would be notified. Participants with restrictions in this list would be required to present a programme for their phase out. The surveillance body would monitor each phase of the process using the model to determine compliance with the multilateral obligations.

13. Some participants noted that the procedures for phasing out restrictions as elaborated by Switzerland were complementary to the overall approaches in their proposal and merited attention.

Future work programme

14. The Chairman informed the Group that he had held informal consultations with a number of delegations on the subject of a work programme for the meetings which had been scheduled up to July 1990. Pursuant to these consultations, he proposed and the Group agreed "that the further work of the Negotiating Group on Textiles and Clothing, during its next meetings, will be devoted to reaching a draft framework agreement by July 1990". In this regard, the Chairman commented that, in order to achieve the objective, participants should be prepared, at the meetings scheduled up to July, to address substantively and in depth all issues set out in the April 1989 TNC Decision. He also suggested that the work of the Group would be facilitated if informal discussions were to be held to structure a schedule of work for each meeting. A number of delegations were of the view that the work programme should also contain a number of sequential steps, including an early decision on the modality or basic technique to be used, and in this regard, they expressed disappointment that it had not been possible to arrive at a consensus on more specific details. Some other participants indicated a preference to maintain flexibility as to the work schedule while agreeing fully with the ultimate target of achieving the draft framework agreement by July 1990.

Future meetings

The Chairman recalled that meetings had been scheduled for 4-6 April; 14, 15 and 17 May; 12, 13 and 15 June; and 10, 12 and 13 July.