

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG4/20
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Special Distribution

Group of Negotiations on Goods (GATT)

Negotiating Group on Textiles and Clothing

MEETING OF 4-5 APRIL 1990

Note by the Secretariat

1. The draft agenda, set out in GATT/AIR/2957, dated 21 March 1990 was adopted.

Introduction

2. The Chairman referred the Group to document MTN.GNG/NG4/19, a note by the Secretariat containing the main points raised at the last meeting. He also drew attention to a communication from the European Community, in document MTN.GNG/NG4/W/45 provided for the information of the Group, reproducing submissions made earlier to the Negotiating Group on Tariffs.

Strengthened GATT Rules and Disciplines

3. The spokesman for the EEC, referring to the communication in MTN.GNG/NG4/W/45, recalled that their overall objectives in the area of textile tariff negotiations, as outlined in their submission to this Group last July (NG4/W/24), was the reduction and harmonization of textile tariffs along with a substantially higher degree of tariff bindings. He pointed out that textile tariffs remained, in many cases, higher and less frequently bound than in other sectors and this situation provided these countries with a form of protection equivalent to quantitative restrictions which others could only obtain through recourse to the MFA or GATT Article XIX. He informed the Group that the Community had put forward in NG1 a formula proposal for tariff reduction which in textiles went further than in other sectors and urged all participants to contribute effectively to the tariff negotiations. He also referred to non-tariff measures which hindered textile trade and stressed the need for genuine progress in their liberalization and elimination.

Proposal by Canada

4. The representative of Canada, expanding upon some of the points in their proposal, said that they envisaged all restrictions under the MFA and other restrictions not consistent with GATT, whether notified or not, being terminated on 31 July 1991. This would be followed by a transition period, the length of which would be dependent on the modality adopted; on the overall progress towards liberalization achieved in this sector; and on the overall movement towards the strengthening of GATT rules and disciplines. Referring to the concept of a transitional safeguard

mechanism, he explained that, in Canada's proposal, such a mechanism would be applied on an MFN basis pursuant to a test based on the criteria of market disruption or real risk thereof. Such a test would be less stringent than that of serious injury, with its specific provisions being a subject for negotiation. He also pointed out that while they were prepared to accept other facets of GATT Article XIX, it was considered that compensation would not be appropriate during the transition period.

5. The representative of Canada also pointed to three elements for trade liberalization in their proposal; namely, the requirement for a test for market disruption or real risk thereof; that all measures would be subject to growth rates agreed in the negotiations with no measure being extended beyond the period of transition; and that access to the transitional safeguards would be progressively reduced pursuant to criteria to be negotiated.

Work Programme

6. The Chairman informed the Group that, subsequent to the agreement reached at the last meeting "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", he had held further informal consultations with a number of delegations with a view to elaborating a timetable for the Group's meetings in April, May, June and July. Pursuant to these consultations, he proposed a work programme as set out in Annex 1 to this Note, which was agreed by the Group.

7. With reference to the work programme, the point was made that the acceptance of the modality for the phasing out of other restrictions not consistent with GATT rules and disciplines should not prejudice participants' positions on such topics in other negotiating groups.

8. Following the adoption of the work programme, the Chairman invited participants to address in depth each of the four topics set out therein for the April meeting; namely:

- (A) Modality for the phasing out of MFA restrictions;
- (B) Modality for the phasing out of other restrictions not consistent with GATT rules and disciplines;
- (C) Safeguard mechanism during the transition period;
- (D) Surveillance mechanism.

A. Modality for Phasing out MFA Restrictions

9. Turning to the first topic of the work programme, the Chairman noted that there were some elements of commonality in the various proposals before the Group which could be a useful starting point for the

discussions. He identified, in particular, the possibility of eliminating certain restrictions at the beginning of the transition process and others at an early stage in such process and the subject of growth rates.

10. A number of participants pointed to the need for an early decision on the question of modality, as this would be a pre-requisite to the settlement of a number of other issues. It was suggested that the starting point for developing a modality should be the current MFA régime because this would: involve a minimum of unknown factors, thus facilitating the negotiation process; be the least disruptive to trade; and be in closer conformity with the Ministerial Declaration and the Mid-term Review Decision. It was also considered that an MFA-based approach would encourage certainty, predictability, practicability and equity in returning textiles trade to GATT. The point was also made that the modality to be developed must take into account the overall strengthening of GATT rules and disciplines and the need for parallelism in this regard not only during the negotiations, but also in the implementation process.

11. Moving to specific aspects, the representative of Indonesia, speaking on behalf of ITCB, recalled that they had proposed in NG4/W/31 that the modality should be based on the progressive phasing out of the MFA restrictions. This proposal envisaged the elimination of restrictions on certain products (e.g., silk blends, other vegetable fibres, hand-looms, children's clothing, luggage, products with no domestic production) and on certain practices (e.g., aggregate and group limits, combined use of flexibility, OPT). The remaining restrictions would be eliminated on the basis of fibre and the degree of processing through progressively increasing growth rates and flexibility provisions. In this process, priority attention would be given to certain categories of suppliers. A number of participants expressed their support for a progressive phase out approach and it was suggested that it might be possible to combine complementary elements from several of the proposals before the Group.

12. Many participants reiterated their objections to the global quota option, pointing out that this approach would expand the scope of the current measures and, therefore, be more restrictive. In this regard one participant said that the process of integration should have as its starting point the existing possibilities of market access, both product-wise and country-wise. It was also pointed out that global quotas would provide further comprehensive protection for the domestic industries in the importing countries and would not be truly global or non-discriminatory through the exclusion of free trade areas and customs unions. Concern was also expressed that global quotas, being a radical change from the present régime, would introduce uncertainty and unpredictability and would be a contradiction to the Uruguay Round's goal of trade liberalization.

13. Commenting on the view that an MFA-based system would provide greater certainty and predictability, the opinion was expressed that this would hold true only for existing quota-holders but not for unrestrained countries or new entrants. It was also pointed out that there was nothing

more inherently restrictive in a global approach than in an MFA-based approach and, indeed, the global quota proposals contained provisions relating to the possible reduction of product coverage. As to the concern that global quotas would not be truly global, it was pointed out that GATT Article XXIV provided for such exemptions. As to the view that global quotas were a dangerous precedent for other sectors, it was observed that a move towards GATT disciplines would be an improvement over current gray area measures. It was also considered that the global quota approach would be more equitable than the current system which limits the growth potential of new entrants; would be practicable, as demonstrated by past experience in quota administration; and would be simple in that special provisions for certain categories of exporters would not be required. It was also noted that the Mid-term Review decision did not indicate a specific approach to the elimination of restrictions.

B. Modality for the Phasing Out of Other Restrictions Not Consistent with GATT Rules and Disciplines

14. In opening the discussion, the Chairman recalled a suggestion made on this subject in the United States' proposal (NG4/W/33) to the effect that, at the end of the integration process no participant would undertake or maintain any measures affecting trade in textiles and clothing which had not been justified pursuant to a provision of the General Agreement and notified to the appropriate GATT body. Expanding upon this, the representative of the United States pointed out that there were two parts to the proposal, the first setting out six categories of restrictions which should be considered in terms of developing a modality for the integration of this sector into GATT, and the second part as outlined in the Chairman's introduction, which was formulated with a view to facilitating the negotiating process by alleviating the need to develop a list of such measures in the Group.

15. Some participants commented that it would be difficult to develop a modality for the phasing out of restrictions if the nature of such restrictions was not known. Accordingly, it was felt that it might be necessary to attempt to identify such restrictions through a process of notifications, possibly reverse-notifications. It was also noted that any determination of GATT consistency or otherwise would be a time-consuming and difficult task in view of the complexities inherent in such a process. It was again pointed out that it might be more constructive to have a general formulation wherein all participants would pledge to integrate all of their restrictions into the GATT. The view was also expressed that there should be only one modality for the elimination of both MFA and other non GATT-consistent restrictions in order to avoid the need for parallel systems with different rules. In this regard, it was pointed out that either of the global quota approaches before the Group would encompass both MFA and other non GATT-consistent restrictions. At the close of the discussion of this topic, the Chairman suggested that the Group reflect on the points raised with a view to pronouncing clearly on it at the next meeting. The United States delegate indicated that they would be providing a submission to the Group amplifying their previous proposal.

C. Safeguard Mechanism During the Transition Period

16. A large number of participants provided their views on the possible need for a safeguard mechanism and how such mechanism might operate during the transition period. It was suggested that any measure to be developed should have strict and well-defined criteria including high objectivity, strict procedures, limited duration, automatic phase-out and non-discrimination. Furthermore, such measures should have progressively increasing growth rates and not extend beyond the transition period. Some others considered that the measures to be developed should have as their objective, minimal effects on trade flows. Some participants were of the opinion that such safeguard measures should not be available for products unrestrained at the beginning of the transition period or those which were derestrained during that period; in such cases, the general GATT safeguard would apply. In respect of other situations, a transitional safeguard mechanism as described above might be applied.

17. Some participants considered a transitional safeguard mechanism to be an essential element of any modality and suggested that it should be developed in the light of the experience gained in the application of MFA Articles 3 and 4 and that it should provide for emergency actions and the possibility of bilateral agreements. As regards the criteria for taking safeguard action, one participant pointed out that their proposal envisaged a "refined market disruption" test excluding the concepts of "real risks of market disruption" and "orderly development of trade" as currently found in MFA Article 4. Another participant suggested that an agreed interpretation should be developed for the term "sharp and substantial increase of imports" in relation to the definition of market disruption.

D. Surveillance Mechanism

18. It was widely accepted that a surveillance mechanism should be developed to monitor the integration process. Some participants suggested that the rôle of such a body should encompass the settlement of disputes and the conduct of periodic reviews of the integration process. Some others considered that the rôle of a surveillance mechanism should extend to the monitoring of the implementation of commitments made in the context of the strengthening of GATT rules and disciplines in the area of textiles. As regards the structure of a monitoring body, it was suggested that it should be composed of a committee assisted by a working party since not all contracting parties were members of the MFA and since the integration process would extend beyond MFA restrictions. At the conclusion of the discussion, it was pointed out that aspects of this subject requiring decisions included the location of such a body within the GATT framework, its composition, size, specific functions and procedures. As regards its terms of reference, it was pointed out that certain specific functions of a surveillance mechanism should be tailored to and commensurate with the type of modality to be developed.

Future Work

19. The Chairman noted that, pursuant to the Group's work programme, the topics to be addressed at the next meeting would include strengthened GATT rules and disciplines and timespan, as well as further discussions as necessary on the points discussed at the current meeting.

Future Meetings

20. Meetings of the Group have been scheduled for 14, 15 and 17 May; 12, 13 and 15 June; and 10, 12 and 13 July.

WORK PROGRAMME

It is agreed that during its next meetings, the further work of the Negotiating Group on Textiles and Clothing will be devoted to the objective of reaching a draft framework agreement by July 1990. To this end, the Group will follow the timetable set out below:

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| 4-6 April | (i) Modality for the phasing out of MFA restrictions; |
| | (ii) Modality for the phasing out of other restrictions not consistent with GATT rules and disciplines; |
| | (iii) Safeguard mechanism during the transition period; |
| | (iv) Surveillance mechanism |
| 14, 15 & 17 May | (i) Strengthened GATT rules and disciplines; |
| | (ii) Time span; |
| | (iii) Further discussion as necessary of points discussed at the April meeting. |
| 12, 13 & 15 June | (i) Further discussion of outstanding issues, if necessary; |
| | (ii) Initiate discussions on a draft framework agreement. |
| 10, 12 & 13 July | Completion of work on a draft framework agreement. |