

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION FROM THE EUROPEAN COMMUNITIES

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

Introduction

1. In earlier communications of May 1988 (MTN.GNG/NG4/W/12), July 1989 (MTN.GNG/NG4/W/24), in its statement of May 1990 (MTN.GNG/NG4/W/47) and in various oral interventions, the Community has outlined its basic position as regards integration of textile trade into the GATT, reflecting faithfully the mandate given to this Group in the Punta del Este declaration and by the TNC in April 1989. These communications and statements refer to all the elements necessary to engage into substantial negotiations once there is agreement in this Group on an MFA-based modality taking existing restrictions as the starting point.
2. The present communication elaborates further on the Community's view on how an MFA-based modality could be designed so that integration of textile trade into the GATT should take place smoothly and should create confidence and predictability, which is important for business both in importing and exporting countries.
3. The Community is making the proposals set out below under the assumption that there can be only one basic modality for the integration of textiles into the GATT applying to all participants. These proposals also assume that GATT rules and disciplines can be strengthened in such a way that they provide a basis for the integration of all textile trade into the GATT.¹ In this context, the Community remains concerned about the lack of progress as regards a number of aspects it considers important and in

¹The communications (MTN.GNG/NG4/W36 - MTN.GNG/NG4/W39 - MTN.GNG/NG4/W40 - MTN.GNG/NG4/W41 - MTN.GNG/NG4/W45) reproduced some of the proposals of the European Communities on how to strengthen GATT rules and disciplines.

particular as regards market opening through tariff and non-tariff measures.

4. There also must be an adequate mechanism to ensure a parallelism between the process of phasing out restrictions and the application of strengthened GATT rules and disciplines. The Community's Statement in the May meeting proposes an organizational framework for an effective and credible transition process to this end.

5. The fulfilment of the Punta del Este mandate will only be possible if all negotiating partners contribute towards achieving our agreed aim and a balanced effort can be ensured.

General Framework for Integration into a Strengthened GATT

6. It has been agreed that integrating textile trade into the GATT has to cover the progressive elimination of existing restrictions and the application of strengthened GATT rules and disciplines. It has also been agreed that restrictions are not limited to those maintained under MFA but include all others which are not consistent with GATT rules and disciplines.

7. The Community like many other participants in these negotiations has opted for an MFA-based modality. Its choice is inter alia determined by the following: this modality is least disruptive to trade in exporting and importing countries. This concerns in particular the management of quotas which has been traditionally in the hands of the exporting countries and which under an MFA-based modality will remain there. Any abrupt change to other systems like global-type quotas or tariff quotas would introduce uncertainty and subsequent adaptations which could be costly.

8. An MFA-based modality also preserves the possibility of using transfer between categories and carryover and carry-forward, elements which have helped to ensure substantial flexibility for the conduct of trade. In addition there is a guarantee to exporting countries that their individual market access will grow, thus helping all participants to prepare themselves for textile trade without restrictions. Finally, an MFA-based modality maintains the concept of special and differential treatment of developing countries or of certain types of suppliers.

9. The choice of an MFA-based modality is also dictated by the commitment towards integration which necessitates taking existing restrictions as a starting point and not introducing at the outset new restrictions by product or by country.

10. While the time span of the transition period has still to be determined, the Community has proposed that this period is divided into intermediate stages, each of them incorporating progress towards integration. Stages would also facilitate the operation of the transition process and allow for effective surveillance and verification of commitments undertaken, not only as regards the phasing-out process, but also in the context of the application of strengthened GATT rules and disciplines.

Elements of an MFA-based Modality

11. Product coverage: products falling under Chapters 50 to 63 of the Harmonized System would constitute the agreed product coverage. However, the phasing-out process could incorporate an immediate integration into GATT of some of these products (see para. 12(c) below).

12. Process of phasing-out restrictions:

- (a) The starting point of the phase-out process would be existing restrictions at present levels and therefore would not imply an increase in product or country coverage under restrictions. This would guarantee present access conditions.
- (b) the same modalities would apply to MFA restrictions and to non-MFA restrictions not consistent with GATT rules and disciplines. In order to integrate the latter into the transition programme, a procedure inspired by Art. 2 of the MFA would be envisaged.
- (c) A list of products which could be immediately integrated into GATT would be established during these negotiations. These products would come under the general safeguard provisions of the GATT and would therefore not be subject to the transition programme.
- (d) The agreed transition programme would determine a liberalization target for each stage consisting of X per cent of the volume of restraint levels. In order to comply with this target, participants could choose amongst the following: phasing out by fibre and/or by product and/or by country and/or by the liberalization of certain types of trade.
- (e) Access under remaining restrictions would be progressively increased by improving growth rates relative to existing ones. Growth rates would have to be meaningful in the context of achieving the aim of the integration. In addition, a guaranteed growth rate would apply in cases where exceptional circumstances are invoked.
- (f) Flexibility provisions would continue to apply for remaining restrictions and would be improved as a result of these negotiations. Cumulative limits on the use of flexibility would be eliminated.
- (g) Participants would undertake to improve market access through specific contributions related to their respective import régimes.
- (h) The improved market access resulting from the above-mentioned modalities would be laid down in the context of the parallelism between the process of phasing-out restrictions and the application of strengthened GATT rules and disciplines.
- (i) Least developed countries would qualify for special treatment during the transition programme.

13. Transitional safeguards:

- (a) The possibility for participants to negotiate bilateral agreements would be maintained. Such agreements would be limited to products and countries currently under restraint. They would incorporate the necessary modifications deriving from the multilaterally agreed terms of the transition programme. These agreements would expire at the latest at the final date agreed for the integration of textiles into GATT.
- (b) A specific transitional safeguard mechanism would be negotiated for unrestrained products or products becoming derestrained during the transition period. Compliance with a multilaterally agreed test of market disruption or real risk thereof would be necessary for the use of this mechanism. Restrictions applied under this mechanism would have a limited duration. As a general rule, the specific transitional safeguard mechanism could not be applied to least-developed countries. Special provisions to prevent the application of the safeguard mechanism from impairing the agreed phase-out process, would be decided during these negotiations.

14. Time-span: a date for the end of the transition period would be explicitly included in the modalities of the transition programme. It would be determined once the Uruguay Round is drawing to a close and an overall view of the negotiations is possible. By the agreed date, all restrictions would have to be either eliminated or justified under the relevant GATT provisions.

Other Elements of the Transition Process

15. In order to cope with all the aspects of the integration process and in particular with the application of strengthened GATT rules and disciplines in parallel with the phase-out process, the Community has recently proposed a number of organizational elements reproduced in MTN.GNG/NG4/W/47.

16. As regards multilateral verification, the Community has proposed a system that would allow the transition from one stage to the next to be endorsed at the multilateral level while ensuring respect of the commitments undertaken.

17. The Community has proposed that multilateral surveillance should be organised under the auspices of a standing surveillance body to be established; it would be inspired to a large extent by the current TSB as regards its composition and operation. Its rôle would be strengthened to enable it to cope effectively with all aspects of the transition process.

18. The Community is ready to introduce new elements as the negotiations proceed in order to make progress, and reserves its right to amend or complement its proposals as necessary in order to reach a successful outcome.