

# WORLD TRADE ORGANIZATION

RESTRICTED

**G/C/M/51**

10 October 2001

(01-4920)

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**Council for Trade in Goods**

**27 September 2001**

## **MINUTES OF THE MEETING**

Held in the Centre William Rappard  
on 27 September 2001

*Chairman: Ambassador I. Major (Hungary)*

1. This meeting of the CTG was convened by Airgrams WTO/AIR/1610 and WTO/AIR/1610/Corr.1 to conduct the major review of the implementation of the Agreement on Textiles and Clothing in the second stage of the integration process pursuant to Article 8.11 of the Agreement.

2. The Chairman recalled the specific mandate for the review, in Article 8.11 of the ATC, that "In order to oversee the implementation of this Agreement, the Council for Trade in Goods shall conduct a major review before the end of each stage of the integration process". The end of the second stage, which comprises the years 1998-2001, was approaching, hence, the need to hold the review at this time. Article 8.11 went on to stipulate that "To assist in this review, the TMB shall, at least five months before the end of each stage, transmit to the Council for Trade in Goods a comprehensive report on the implementation of this Agreement during the stage under review, in particular in matters with regard to the integration process, the application of the transitional safeguard mechanism, and relating to the application of GATT 1994 rules and disciplines as defined in Articles 2, 3, 6 and 7 respectively. The TMB's comprehensive report may include any recommendation as deemed appropriate by the TMB to the Council for Trade in Goods."

3. The Chairman noted that the comprehensive report referred to in ATC Article 8.11 had been prepared by the TMB and circulated in document G/L/459. The Secretariat had also circulated document G/L/474 which provided statistical information with respect to trends in world trade in textiles and clothing. This document had been prepared at the request of the TMB and should be considered as a background paper. The Chairman also noted that a submission had been provided by the delegation of Uruguay on behalf of the ITCB members that are also Members or observers of the WTO, which was available in document G/C/W/304.

4. The Chairman proposed that the Council begin its second major review of the implementation of the ATC with the introduction of the report prepared by the TMB. He then called upon the Chairman of the TMB, to introduce the report.

5. The Chairman of the TMB, introducing the report on behalf of the TMB, stated that the Body's comprehensive report had been prepared following the requirements of Article 8.11 of the ATC and was adopted by consensus during the 81<sup>st</sup> meeting of the Body, on 20 July 2001. In accordance with the mandate conferred on the TMB, the purpose of the report was to assist the Council in its major review of the implementation of the ATC during the second stage of the integration process. The report was intended to be comprehensive, both in terms of the time period and the matters covered. The report focused on the period 1 January 1998 to 20 July 2001, the date of its adoption. Furthermore, for several reasons which were explained in the report, and in particular to better understand certain developments that occurred during Stage 2, which had their roots in Stage 1

or affected matters relevant to Stage 1, the report also incorporated, to the extent necessary, developments that took place during the first stage of the integration process. In addition, since the notification of the third stage integration programmes under the ATC had been required by the end of 2000, the report also provided factual information on these integration programmes, supplemented by a detailed analysis and an assessment of them.

6. The Chairman of the TMB further noted that the comprehensive report addressed the implementation of all of the operational provisions of the ATC. In compliance with Article 8.11, it placed particular emphasis on matters with regard to the integration process, the application of the transitional safeguard mechanism, and the application of GATT 1994 rules and disciplines, as defined in Articles 2, 3, 6 and 7 respectively. The report was essentially based on notifications submitted by WTO Members to the TMB and on actions taken by the Body with respect to these notifications. Issues taken up by the TMB on its own initiative were also included. Contributions and replies received from WTO Members to the TMB's request for notifications or information, made with reference to Article 8.3 in the context of the preparation of the report, together with the replies to subsequent specific requests for clarification and comments, were also reflected as fully as possible. Also, in accordance with Article 8.3, relevant notifications to, and reports from, other WTO bodies had been considered by the TMB in the preparation of the comprehensive report. In addition, the relevant portions of the conclusions adopted by the Council in February 1998 in its first major review were reproduced, for easy reference.

7. The Chairman of the TMB stated that, in drawing up the report, the Body went well beyond simply putting together the different pieces of information at its disposal and the contributions received from WTO Members, by offering additional comments, observations and, if applicable, assessments with respect to practically each of the important matters examined or issues raised. In this regard, he drew delegates' attention in particular to the following elements of the report: additional comments and observations of the TMB with respect to the implementation of integration programmes so far (paragraphs 74 to 78); detailed assessment and additional observations regarding the third stage integration programmes (paragraphs 92 to 114); comments on and assessment of the application of the transitional safeguard mechanism during the second stage of the integration process (paragraphs 234 to 243); observations with respect to the effect of the growth provisions on actual trade and trading opportunities (paragraphs 326 to 330); implementation of the provisions of Article 2.15 relating to the early elimination of restrictions (paragraphs 331 to 334); suspension of the application of restrictions *vis-à-vis* certain suppliers (paragraph 336); implementation of the provisions of Article 2.18 relating to small suppliers (paragraphs 337 to 339); observations with respect to the application of Article 3 (paragraphs 374 to 377); comments on the changes of rules of origin (paragraphs 415 to 418); changes in the classification of products or categories and in technical requirements (paragraphs 419 to 421); the effect of integration of parts of a restriction (paragraphs 422 to 429); additional comments of the TMB regarding the implementation of the provisions related to problems arising from potential circumvention of the ATC in the sense of Article 5 (paragraphs 478 to 481); observations in relation to the implementation of the provisions of Article 7 (paragraphs 550 to 572); comments of the TMB with respect to the special treatment to be accorded to least-developed country Members (paragraphs 596 and 597) and also in relation to the particular interests of the cotton-producing exporting Members (paragraphs 598 to 600); observations regarding continuous autonomous industrial adjustment and increased competition in Members' markets in the sense of Article 1.5 (paragraphs 613 to 617); an overview of developments in the area of regional arrangements and initiatives (in particular in paragraphs 619, 626, 634 and 640); comments with respect to the elimination of restrictions from certain non-WTO Members (paragraphs 644 to 646); compliance with notification requirements under the ATC (paragraphs 652 and 653). He added that the concluding chapter of the report provided a summary of the main issues examined, the most important observations made and also included recommendations that might be taken into consideration by the Council in the conduct of the major review.

8. The Chairman of the TMB said that the Body had made serious efforts in order to prepare a comprehensive report which fully complied with the requirements defined in Article 8.11 and which could be of assistance to the Council in its major review. He believed that the report clearly brought out all of the important facts and related developments, as well as the major concerns and important perceptions of different WTO Members. He further noted that, on the date of the adoption of the report, more than six and a half years had elapsed out of the entire transitional period of ten years, during which time the textiles and clothing sector had to be progressively integrated into the rules and disciplines of GATT 1994. The report provided a comprehensive overview of the developments relating to the implementation of the specific provisions of the ATC up until the date of the report's adoption, with the main focus on implementation during the second stage of the integration process. Since the report also addressed the third stage integration programmes, without prejudice to possible future measures, in particular on advanced integration pursuant to Article 2.10, a full picture was available regarding integration for the entire transitional period of the ATC. He was confident that all the elements included in the TMB's comprehensive report would assist the Council in its conduct of the major review and in making, in this framework, a responsible collective assessment of the state of implementation of the ATC, in particular on what had been achieved so far and what remained to be accomplished in order to ensure a full and timely implementation of the Agreement.

9. The Chairman expressed his appreciation to the TMB for its comprehensive report which, he was sure, would make a useful contribution to the Council's review.

10. The representative of Uruguay, speaking on behalf of 24 members of the International Textiles and Clothing Bureau that are also Members or observers of the WTO, namely, Argentina; Bangladesh; Brazil; China; Colombia; Costa Rica; Egypt; El Salvador; Guatemala; Honduras; Hong Kong, China; India; Indonesia; Republic of Korea; Macao, China; Maldives; Mexico; Pakistan; Paraguay; Peru; Sri Lanka; Thailand; Uruguay and Viet Nam, expressed appreciation for the TMB report and said that his initial remarks were designed to offer the thoughts of this group of Members on the importance that they attach to this major review; on the purpose of the review; and on how best to conduct it in a methodical manner. He stated that he could not over-emphasize that members of the ITCB, indeed developing countries in general, attached the utmost importance to this major review. It derived from the great significance that textiles and clothing occupied in their economies, both for exports and for generation of investment and employment opportunities. It also derived from their commitment to secure the full application of GATT 1994 rules and principles to trade in this sector. In this connection, he also wished to recall that the conclusion of the Agreement on Textiles and Clothing was seen as one of the major achievements of the Uruguay Round, owing to its promise to contribute to the gains from the Round. In fact, more than one third of the total benefits from the Round were anticipated to come from liberalization of quota restrictions. He added that the ATC was also hailed due to the immense systemic significance of the phase-out of quota restrictions for the rule-based, non-discriminatory trading system and for re-establishing developing countries' confidence in its framework.

11. He noted that the ATC was a transitional agreement with a duration of ten years, in which the textiles and clothing sector was to be fully integrated into the normal rules and disciplines of the GATT. In accordance with Article IV of the WTO Agreement, the Council for Trade in Goods was responsible for overseeing the functioning of the Agreement. In addition, the ATC specifically mandated the CTG to conduct three major reviews of its implementation during this period. The second, i.e. the present review, was effectively the most important because it came at a time when the integration programmes for the final three years of the process had already been notified to the WTO. These would cover the remaining period of transition unless further steps were taken. The last of the three reviews would be conducted only shortly before the full and irreversible integration of the sector into GATT 1994. He stressed that the ATC provided for these major reviews for a purpose: i.e. to forestall any problems along the way and to take corrective steps to ensure that the process of integration was on track. It was, therefore, critical that the CTG conduct a thorough review of all of the main aspects of ATC implementation. It had the responsibility of doing so in a serious,

comprehensive and open manner. He assured the meeting that the members of the ITCB approached this review accordingly. Members should ensure that their exercise was not only purposeful but also expeditious. The ATC explicitly specified the purpose of the major review. Article 8:12 of the Agreement required that, in light of its review, the CTG shall take such decisions as it deems appropriate to ensure that the balance of rights and obligations embodied in the Agreement is not being impaired. Therefore, besides being thorough, it was imperative that the CTG make an assessment of whether there had been any impairment to Members' rights and obligations under the ATC and, in light of its assessment, take appropriate decisions to restore the balance.

12. Turning to the conduct of the review, the representative of Uruguay noted that the Textiles Monitoring Body had provided its comprehensive report. The members of the ITCB appreciated and commended the Body for its thorough and all-inclusive approach. It made a useful contribution to the review, although they felt that, in order for the review to be efficient, it was important to sift, from extensive details contained in the report, the main elements that were germane to the CTG's assessment of whether the balance of rights and obligations had or had not been impaired. They believed that such an approach was essential to avoid losing sight of the purpose of the review. Moreover, useful as the TMB report might be, it should not substitute for the CTG's own review. In view of its mandate, pursuant to Article 8:12 of the ATC, the CTG's review needed to be broader in scope and focus, in particular, on making an assessment of whether the balance of rights and obligations embodied in the ATC was being maintained. The ITCB members had made a submission setting out their assessment of the implementation process thus far (G/C/W/304). This submission was a systematic presentation, generally following various articles and provisions of the ATC. They hoped that the structure of their submission would be found useful in contributing to conducting the major review in a systematic manner. As they proceeded with the review of different elements of the implementation process, they also proposed to make available self-explanatory tables to facilitate the CTG's consideration of certain issues.

13. He recalled that the ATC was well into the seventh year of its implementation. After less than four months, only three years would be left to complete the process. It followed, therefore, that a substantial advance should have already been made towards the realization of its objectives. Unfortunately, little meaningful progress could be shown to that end. On the contrary, for reasons detailed in their paper, the balance of rights and obligations accruing under the Agreement to developing country Members whose exports had long been restrained by quotas, had been seriously impaired. Therefore, somewhat later in the process, they might also submit certain suggestions for adoption by the Council, pursuant to its mandate under Article 8:12 of the Agreement. It might also be useful to recall the Council's conclusions and recommendations from its first major review and to see the extent to which these may or may not have been implemented.

14. Turning to the organization of work during the review process, the Chairman informed Members that, on the basis of intensive informal consultations which he had held in recent days on the possible structure for the review, he had prepared a list which he believed covered the groupings and the individual topics which Members would wish to address during the review. He then provided a list of the proposed topics for the major review discussions as follows:

(a) The Integration Process and Other Related Issues (Article 2)

- Integration Programmes of the Members
- Increases in the Rates of Quota Growth
- Art. 2.1 - Notifying quantitative restrictions
- Art. 2.4 - No new restrictions except under ATC or GATT 1994
- Art. 2.10 - Advanced integration
- Art. 2.15 - Removal of restrictions
- Art. 2.11 and 2.17 - Administrative arrangements

(b) Use of Transitional Safeguard Mechanism (Article 6)

(c) Other Articles of the ATC

- Article 5 - Circumvention of restrictions by transshipment, false declaration, etc.
- Article 7 - Abiding by GATT 1994 rules and disciplines so as to achieve improved market access, ensure the application of policies for fair and equitable trading condition (A/D, CVD, IP), avoid discrimination against textiles in general trade policies
- Special and Differential Treatment in the ATC
  - Provisions related to LDCs (Articles 1.2 footnote and 2.18)
  - Provisions related to new entrants and small suppliers (Articles 1.2 and 2.18)
  - Provision related to cotton producing exporting Members (Article 1.4)
  - Provision related to small suppliers' growth on growth (Article 2.18)
- Article 1.5 - Autonomous Industrial Adjustment
- Article 1.6 - Rights and obligations of Members under WTO and MT Agreements
- Article 3 - Treatment of quantitative restrictions other than those under the MFA (Art. 2)
- Article 4 - Changes in rules, procedures, etc. (e.g. rules of origin)
- Article 8 – Functions of the TMB

(d) Other Issues

15. The Chairman expressed the hope that this listing of topics would enable the Members to have a structured and systematic examination of the issues. As this was a complex matter, the proposed structure would assist him and the Members to organize the debate. He also stated that it would be his intention, following the Council's examination of these topics, to have an overall assessment of the review with a view, hopefully, to arriving at some agreed conclusions.

16. With respect to the organization of the meetings, the Chairman believed that the Council should plan for two formal meetings in October to take up these issues. He said that it would, undoubtedly, be a very demanding month and, therefore, Members should be prepared to concentrate their efforts, including the possibility of working longer hours at these meetings. The Chairman proposed that the Council meet on 12 October 2001<sup>1</sup> and on 26 October 2001. Based on the discussions at these meetings, Members could consider what further informal meetings might be required.

17. The representative of India associated his delegation with the statement made by the representative of Uruguay on behalf of the ITCB Members. He also thanked the Chairman and the members of the TMB for their report. On the Chairman's proposal with respect to the structure of the discussions, he noted that there was limited time available and many meetings were being held simultaneously. Depending on the nature of the discussions and the progress, if it became absolutely necessary, the Chairman might have to provide for the possibility of a third meeting. He was not saying that this should be decided now, but a decision could be taken after the two meetings already planned. His delegation had thought that the current meeting would have been a substantive meeting but for a variety of reasons it had become an organizational meeting. The most important question for him was not the number of meetings but the manner and the seriousness with which the issues were discussed and how the Council would be able to arrive at consensus-based recommendations.

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<sup>1</sup> This meeting was subsequently re-scheduled to 17 October 2001.

18. The Chairman thanked the representative of India for his flexibility and commented that, when considering the development of the debate and the whole process of the review, Members should not exclude the possibility mentioned by the delegation of India. He then asked the Members if he could consider that these arrangements, both on the structure of the review and the timing of the meetings, were acceptable to the Council. These issues would be taken up in the sequence of the proposed structure beginning at the next meeting.

19. The Council took note of the statements made and agreed with the Chairman's proposals.

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