

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TEX/W/20

29 May 1975

Special Distribution

Textiles Committee

DRAFT REPORT ON THE THIRD MEETING OF THE COMMITTEE HELD ON 22 APRIL 1975

Chairman: Mr. O. Long

1. The Textiles Committee held its third meeting on 22 April 1975. The Committee considered the following subjects:
 - (a) Reporting on adjustment assistance measures;
 - (b) Accession of the People's Republic of Bulgaria to the Arrangement;
 - (c) Implementation of Article 2 of the Arrangement;
 - (d) Consultations initiated with Australia under Article 9;
 - (e) Extension of the tenure of the Chairman of the TSB;
 - (f) Third member sharing the tripartite seat on the TSB.
2. The Chairman, in his opening remarks, informed the Committee that since its last meeting in December 1974, four more countries had ratified the Arrangement. There were still eight participating countries which had not finalized their provisional acceptance or accession; these were urged to do so as soon as possible. He referred the Committee to document COM.TEX/4 and Add.1 to 3 setting out the present status of membership.

(a) Reporting on adjustment assistance measures

3. The Chairman recalled that the Textiles Committee at its December meeting had agreed that information on adjustment assistance measures should be provided by the participating countries in order to enable the Committee to carry out the analysis required of it under paragraph 2 of Article 10. The reciprocal nature of this obligation was stressed, and there was general agreement that the relevant information contained in the textiles study (L/3797) should be up-dated, and that its coverage, where necessary, be broadened. The draft questionnaire prepared by the secretariat as one way of achieving this was distributed and discussed during the December meeting. Further reflection was considered necessary at that stage, and participating countries were themselves invited to submit their comments by the end of February. Since no such comments were received, a reminder (GATT/LIN/1156) was distributed on 20 March 1975. From the few replies received it had not been possible for the secretariat to prepare a revised version of this questionnaire.
4. In the circumstances, the Chairman suggested that the most appropriate course would be for the Committee to instruct the secretariat to up-date the relevant portion of the 1972 study on the basis of information to be provided by the participating countries. He pointed out that since the 1972 study covered only twenty-four developed and developing countries, other participants would have to supply similar information.
5. A large number of the participants supported the proposed course of action and undertook to bring up to date the information concerning their respective countries. It was, however, reiterated that information should be requested from

all the participants. One participating country took exception to this and stated that under Article 1(4) reporting on adjustment assistance measures was specifically an obligation of the developed importing countries which had to move progressively into more viable lines of production so as to provide increased access to their markets for textile products from the developing countries.

6. The Committee agreed that the GATT secretariat should be asked to bring up to date the information contained in the 1972 study on adjustment assistance measures and broaden its coverage. Since this would only be possible on the basis of information supplied by participants, all parties to the Arrangement were urged to provide the relevant information promptly. The information thus collected would be available for the next annual review by the Committee, which would then decide on its adequacy, and whether or not further work should be undertaken.

(b) Accession by the People's Republic of Bulgaria

7. The Chairman referred the Committee to document COM.TEX/W/19, setting out the communication which he had received from the permanent representative of the People's Republic of Bulgaria concerning the decision of his Government to accede to the Arrangement under paragraph 2 of Article 13. This paragraph provided for the accession of a government not party to the GATT on terms to be agreed between that government and the participating countries. He recalled that the Committee at its first meeting, in March 1974, agreed on the procedure to be followed in the case of non-contracting parties wishing to accede to the Arrangement.¹ After referring to this procedure, the Chairman noted that in its

¹See COM.TEX/2.

notification Bulgaria had stated that it did not maintain any quantitative restrictions on imports of textiles in terms of paragraph 1 of Article 2 of the Arrangement; this would, in due course, be notified to the Textiles Surveillance Body.

8. Welcoming Bulgaria as a new member of the arrangement, the Representative of Sweden stated that trade between his country and Bulgaria was governed by a bilateral agreement of the same nature as in the case of certain Contracting parties referred to in, inter alia, Article 2:3 of the MFA. His country could not, for reasons of equity, grant Bulgaria, which was a non-contracting party, a different treatment from that accorded the GATT Member countries where similar conditions prevailed. In her notification Bulgaria made a reference to paragraph 2 of Article 13, which clearly did not exclude provisions other than those regarding import restrictions to which Bulgaria was not committed. The representative of Norway took the same position as Sweden.

9. The spokesman for the EEC, while welcoming Bulgaria's decision to join the Arrangement, recalled that the procedure agreed by the Committee in case of accession to the Arrangement by non-contracting parties, provided that the acceding country should make a declaration to the effect that it would expect, upon its accession to the Arrangement and for matters covered thereby, to be entitled to treatment equivalent to that accorded to other participating countries with similar economic systems and levels of development. It would, therefore, be appropriate if Bulgaria's request included the same declaration.

This would make it clear that Bulgaria's accession was on the same terms as those agreed with other non-contracting parties which had acceded to the Arrangement. Referring to the statement by Bulgaria that it did not maintain any quantitative restrictions on imports of textiles, he wondered whether this fully met the situation under Article 2:1 of the Arrangement which also related to bilateral agreements and other measures having a restrictive effect on imports.

10. The request for Bulgaria's accession was supported by several other participating countries. Some expressed the view that Bulgaria had fully met the conditions of accession as laid down in Article 13, paragraph 2.

11. The observer from Bulgaria expressed his appreciation for the general support accorded to his country's application for accession to the Arrangement. In response to the question put by the spokesman for the EEC, he confirmed that, at present, no bilateral agreements or other measures affecting textile imports into Bulgaria existed. It was, however, not clear to him what additional commitments were being proposed for Bulgaria. His Government had ratified the Arrangement after a careful examination of its provisions and was prepared to fulfil all its obligations thereunder.

12. The spokesman for the EEC reiterated what he had said concerning the additional declaration required from Bulgaria and explained that this would be fully met by adding the words "having similar economic systems and levels of development" at the end of paragraph 2 of document COM.TEX/W/19.

13. Following the discussion the Chairman suggested that the matter should be informally taken up by the countries concerned; when some common ground had been found the Committee would be informed, with a view to a decision on Bulgaria's accession.

(c) Implementation of Article 2

14. It was recalled that by 31 March 1975, all forms of existing restrictions should have been brought into conformity with the provisions of the Arrangement, or eliminated in accordance with the procedures set out in Article 2 thereof. It was pointed out that if these obligations were not met, the participating exporting countries were being deprived of benefits which they had a right to expect and which had been a condition of their participation in the Arrangement. Participating countries had assumed that negotiations between exporting and importing countries would have progressed by that time to a point where the achievement of the major objectives of the Arrangement would have been clearly in sight. Thus, a crucial element in the concern felt by several delegations was the lack of progress in certain negotiations.

15. In the course of the discussion reference was made to the impact of the current recession on the textile and clothing industries. It was noted that industrial output in most countries was declining as a result of serious recessionary conditions. With a slackening in international demand, inventories were increasing and prices falling. The traditional importing countries, which also had excessive inventories, were experiencing massive inflows of imports at very depressed prices, and were consequently faced with reductions in production, rising unemployment and postponement of investments. This had led to increasing pressure on governments for protectionist measures.

16. It was, however, cautioned that this situation was world-wide and should not be held to justify failure by participating countries to fulfil their obligations under the Arrangement. In fact, one participant reported that notwithstanding increasing closures, growing unemployment and declining working hours, his Government had made strenuous efforts to fulfil its obligations under the Arrangement, and although it had not achieved all its goals by 31 March it had renegotiated nineteen bilateral agreements covering over 95 per cent of the textile trade which was under restrictions at the commencement of the Arrangement.

17. In this context another participant stated that his country was confronted with a similar situation where strong protectionist pressures were finding encouragement from other countries resorting to restrictive measures. His Government had so far resisted such pressures in an effort to liberalize trade, but these efforts were likely to be jeopardized if restraints on his country's exports continued elsewhere. It was therefore necessary that all participants should endeavour to eliminate existing restrictions and avoid introducing new ones in order to achieve an equitable and orderly growth in international textile trade. As regards the implementation of Article 2, his country was not in a position to meet the deadline of 31 March 1975, because consultations with several importing partners were still under way, save in the case of one country with which negotiation had already been concluded. His country believed that such outstanding consultations need not necessarily result in the conclusion of Article 4 agreements; other alternative solutions stipulated in paragraph 2 of Article 2 remained equally open.

18. The attention of the Committee was drawn to the fact that some participants had notified restrictions which should have been eliminated or brought into conformity with the Arrangement, but had not entered into bilateral consultations to this end. Unless it could be presumed that these countries had already completed and implemented their liberalization programmes, the TSB would have to look into the matter expeditiously with a view to ensuring that this objective of the Arrangement had been achieved.

19. The representative of Pakistan pointed out that the developing countries had given up some of their inherent GATT rights in return for the promised benefits under the Arrangement. The Arrangement had laid down certain procedures and time-limits for the elimination of existing, and the introduction of new, restrictions. Some important participants, however, appeared to have forgotten their obligations under the Arrangement, or were deliberately going back on them on grounds of the present recessionary situation. As a result of disruption in trade, his country's trade in textiles and its textile industry, which accounted for more than 40 per cent of its total exports, had encountered serious problems. There was a large accumulation of stocks, leading to the closing of nearly one-fifth of all textile mills, with consequential unemployment for several thousand workers. This had led to unhealthy economic, social and political consequences.

20. The tendency towards deliberalization of textile trade in violation of the letter and the spirit of the Arrangement was a source of serious concern to all participants. Referring to the obligation assumed by participants under Article 2, to eliminate existing restrictions or bring them into conformity with

the provisions of the Arrangement by 31 March 1975, he stated that, unlike some other industrialized countries, the EEC had not finalized even a single bilateral agreement within the prescribed mandatory period of one year. Despite his country's request for negotiations soon after 1 January 1974, it was only in late November that negotiations began, which meant that during the first year of the Arrangement, when his country had to operate on the LTA quotas of 1973, the growth which should have been accorded was forfeited. It was regrettable that even after three rounds of negotiations no bilateral agreement had yet been concluded. Consequently, apart from some minor ad hoc increases, his country had not received any increases in quotas in the past sixteen months. The EEC had further suggested that the existing levels be continued on a provisional basis. Thus, the results achieved were even worse than under the LTA which would have provided the prescribed growth in the export levels. The EEC was insisting on including one new item of major importance in Pakistan's textile trade in their list of restricted products. This item had been hitherto free from restrictions and accounted for a large proportion of his country's exports. The methods of fixing initial quotas and growth rates were out of line with the basic principles of the arrangement. Similarly the EEC had been operating on the basis of levels of quotas fixed five years ago and that too without the growth element normally available under LTA. According to the representative of Pakistan the EEC had thus not met the objectives of the Arrangement.

21. He stated that his country had followed a reasonable approach in negotiations with all its trading partners. This was amply shown by the conclusion in only one round of negotiations of bilateral agreements with three importing countries.

22. The representative of Pakistan said that he was bringing this position to the notice of the Committee so that it could ensure that the aims and objectives of the Arrangement were not being defeated. He appealed to the EEC to fulfil its obligations under the Arrangement so that the time and effort put into the negotiations would not be wasted.

23. Several representatives shared the concern expressed by the representative of Pakistan as to the lack of progress in the negotiations with the EEC.

Notwithstanding the technical difficulties involved in such negotiations, it was stressed that the commitments assumed under the Arrangement should be fully respected. The Arrangement symbolized a balance between rights and obligations, and any deviation from this balance would undermine its future viability. Some developing countries stated that they had done their utmost to seek bilateral solutions to their textile problems, and had to some extent taken the initiative in asking for an agreed mutually satisfactory approach. They would, therefore, expect the developed countries to show more understanding of the problems facing their economies. One participant observed that recourse to unilateral Article 3 restrictions should be had only exceptionally and that in such cases the restraining country should be willing to provide evidence in justification of the level of restrictions, with due regard to adjustment processes undertaken. The special need of the developing countries should always be fully taken into account as provided for in the Arrangement.

24. At one stage in the discussion, it was suggested that a report in a tabular form on the implementation of Article 2 should be drawn up with a view to enabling the Committee to analyze the situation. The point was made that it

would be premature to make any judgement on the reports submitted to the TSB on the status of restrictive measures before these had been examined by it. After such an examination had been completed, the TSB would submit its findings to the Textiles Committee, together with any such tabulation as might facilitate the task of the Committee.

25. The spokesman for the EEC remarked that the problems encountered arose largely from world economic conditions and were not caused by actions of particular governments. The current situation was one characterized by unemployment, short-time working, under utilization of capacity, social distress and economic disruption. However, in that situation the parties to the Arrangement had the important task of ensuring that its provisions were respected, and that the equilibrium built into it was properly maintained. As to the implementation of Article 2, the Community for its part had fulfilled its obligations by submitting reports on the status of existing restrictions in accordance with paragraphs 2 and 4 of this Article. These reports had to be considered by the TSB within ninety days of their receipt. This period had not elapsed, and it would be prudent for the Committee to abstain from drawing conclusions until such time as the TSB had had an opportunity to complete its review. The Community took the view that any problems that persisted were best resolved through bilateral consultations and negotiations under the relevant provisions of the Arrangement. It was, of course, the duty of all parties to offer full opportunity for such bilateral consultations and negotiations aimed at mutually acceptable solutions and to ensure that equity was preserved.

He informed the Committee that the EEC had already concluded a bilateral agreement with one of its trading partners, and that negotiations with others were under way. These would be brought to a conclusion as rapidly as possible. This, of course, called for a spirit of co-operation on the part of both parties. He reserved the right to make such comments as might be appropriate on the statement made by the representative of Pakistan as reflected in the report.

26. The Delegation of Pakistan replied that apparently the Report by the EEC under Article 2 had shown little or no progress. Moreover, the obligations under Article 2 were not met merely by submitting a progress report to the TSB before 31 March 1975. In fact a number of substantive actions were required to be taken before this date under Article 2 for the submission of a report to the TSB was only a procedural requirement. More important were the substantive actions which had not been taken by some parties to the MFA.

27. The Chairman concluded that the Committee had taken note of the discussion held on the issue of the implementation of Article 2. One delegation had reserved the right to make comments which would naturally mean that other delegations might wish to respond. The Committee had also noted the concern that had been expressed by a number of delegations, and in particular the importance they attached to the early finalization of actions under Article 2, including the negotiations now under way or to be undertaken in the near future. The TSB would be requested to draw up a detailed appraisal of the actions taken or contemplated by participating countries under the provisions of Article 2 in the light of its review of the status reports received. Such a detailed appraisal

of actions taken under Article 2, or the lack of such actions, should be submitted by the TSB within the ninety-day period commencing on 31 March 1975, i.e. by 30 June 1975, for consideration by the Committee.

(d) Consultations initiated with Australia under Article 9

28. The Committee was informed that following the imposition by Australia of restrictions on imports of certain textiles and clothing items, some participating countries had requested consultations with Australia under paragraph 2 of Article 9 of the Arrangement. No reply had yet been received. The requesting countries therefore refrained from substantive discussion of this question in order to avoid prejudicing the bilateral consultations. Some others stated that since their interests also were being seriously affected by these measures they would request similar consultations in the near future.

29. Many representatives reiterated that the actions taken by Australia were contrary to the letter and spirit of the Arrangement and, if not promptly reversed, would threaten its very existence. The Arrangement provided a framework under GATT auspices for the solution of persistent and potentially explosive problems. Its purposes would, however, be completely frustrated if participating countries focussed entirely on short-run economic difficulties to the exclusion of the long-term consideration with which the Arrangement was properly concerned. Moreover, attempts to find a solution to the critical "safeguards" issue in the Multilateral Trade Negotiations would be endangered by the unhappy precedent of a failure to put into effect the safeguard provisions newly created in the Arrangement.

30. Under Article 9, the participating countries were exhorted to refrain from taking additional measures which might have the effect of nullifying the objectives of the Arrangement. This provision must be particularly borne in mind when requests for protection in the textile field were made. One participant remarked that there were differences of view as to what constituted an "additional measure", and in what circumstances it would undermine the objectives of the Arrangement. It could be argued that over-zealous use of the safeguard provisions in the Arrangement might undermine its objectives. This question warranted discussion by the Committee. In his opinion the serious international textile situation made it incumbent upon the participating countries to weigh very carefully the implications of any import restrictions they might envisage, to provide full opportunity for multilateral and bilateral consultations, either in the GATT or in the TSB, and to supply all details of such actions, whether or not consistent with the Arrangement, to the TSB for information and proper appreciation of the situation. This would include any action affecting import flows taken by importing and exporting countries alike.

31. The representative of Australia stated that measures taken to restrain certain textile imports in the short run should not be seen as a departure from his Government's firm resolve to liberalize trade in a reasonable period of time. In the face of the present difficult trading conditions when levels of unemployment were rising and imports at disruptive prices were increasing his Government had to take temporary emergency tariff measures to stem the tide of

imports. These measures were not inconsistent with the basic objectives of the Arrangement, i.e. with the orderly development of trade and avoidance of market disruption in importing countries. Some countries were attempting to change the emphasis between these twin objectives.

32. He drew attention to some basic facts which characterized the present serious situation: the textiles and apparel sector employed about 10 per cent of the manufacturing labour force, and even more in rural areas; production had declined in all important sectors of the industry; imports of textiles and clothing had increased dramatically; Australian industry's share of the domestic market had dropped from an average of 80-85 per cent to 50-60 per cent or even 40 per cent; many firms had gone out of business with falling profitability, the unemployment problem was becoming acute with 30 per cent decline in the year ending 1 March 1975; disruption to industry had necessitated significant structural adjustment, in which connexion 150 applications for closure compensation had been received; in overall terms \$A 30-40 million had been spent on structural adjustment programmes in the current year.

33. Thus the Government of Australia deemed it most appropriate to adopt tariff measures which were consistent both with GATT and with the Arrangement.

Paragraph 6 of Article 1 specifically provided that the Arrangement shall not affect the rights and obligations of the participating countries under the GATT. Outlining the nature of the tariff measures, he stated that duty rates had been increased in the case of several items in respect of which there was no tariff binding under the GATT. In other cases, lower rates of duty were maintained for

given volumes over and above which higher tariffs applied. But the duty rates thus applied were not prohibitive. All these actions were well publicized through various institutions, though there was no obligation to notify the GATT formally of changes in tariffs.

34. The Australian Government was committed to a programme of restructuring the textiles industry which involved closure compensation, loan guarantees and interim subsidies to encourage a manageable rate of change. These policies could not succeed if not accompanied by manageable imports. This aim was being pursued by tariff action. Once non-disruptive levels were achieved, the Australian Government intended to negotiate restraint arrangements at these reasonable and manageable levels over the next year. Australia was further commencing negotiations shortly under the Arrangement on certain general goods on which no quota actions had been taken. In the case of textile goods on which such actions had been taken, appropriate restraint arrangements were intended to be concluded after non-disruptive levels had been achieved.

35. Concluding, the representative of Australia said that his country was fully prepared to consult other contracting parties if their rights under the GATT were affected. In the case of non-contracting parties, GATT rights could not be acquired by joining the Textiles Arrangement. However, his Government was not denying them the possibility of consultations either. Regarding the requests for consultations under Article 9 of the Arrangement he mentioned that these had only recently been received and were being looked into.

(e) Extension of the tenure of the Chairman of the TSB

36. The Chairman mentioned that the tenure of the Chairman of the Textiles Surveillance Body, Mr. Paul Wurth, was due to expire at the end of 1975.

Mr. Wurth had been given leave by the Swiss Government to allow him to carry out his functions as the Chairman of the TSB for an initial period of two years. Given the time needed to implement whatever decision the Committee might take, he thought it opportune for the Committee to address itself to this question at the present meeting.

37. A large number of representatives expressed appreciation of the work of Mr. Wurth, and the Committee agreed unanimously that his tenure should be extended until the expiry of the Arrangement, i.e. 31 December 1977. The Chairman, as Director-General of GATT, undertook to seek the agreement of the Swiss Government.

(f) Third member sharing the tripartite seat on the TSB

38. The Chairman recalled that the nomination of the third member on the tripartite seat of the TSB had been left in abeyance. It was, however, agreed that it would be occupied by a developing exporting country. As a result of consultations with a large number of delegations it had been suggested that Turkey should be designated to hold the tripartite seat for the last four months of the year 1975. This was agreed by the Committee.

39. The representative of Turkey stated that he was fully aware of the important task assigned to them, and that his Government would assign a competent expert to discharge his functions on the TSB.