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GENERAL AGREEMENT ON TARIFFS AND TRADE

Textiles Committee

DRAFT REPORT OF THE MEETING OF THE COMMITTEE
HELD ON 11 DECEMBER 1979

Chairman: Mr. O. Long

1. The Textiles Committee held its second meeting under the extended Arrangement on 11 December 1979, and considered the following subjects:

- (a) Annual review of the operation of the Arrangement;
- (b) Report of the Technical Sub-Group on textile documentation;
- (c) Analysis of the current state of world production and trade in textile products;
- (d) Adjustment assistance measures;
- (e) Membership of the Textiles Surveillance Body for the year 1980;
- (f) Preparation for the major review of the Arrangement in 1980.

2. At the outset of the meeting, the Chairman informed the Committee that forty parties to the MFA had accepted the Protocol of Extension, two of which (Bolivia and Egypt) had accepted it subject to completion of internal procedures. Thus, four former participants in the Arrangement (Australia, Nicaragua, Norway and Spain) had not so far accepted the Protocol extending it. Furthermore, Argentina and Paraguay had not yet confirmed their original acceptance of the MFA, nor had they accepted the Protocol of Extension. He referred the Committee to document COM.TEX/12/Rev.1 giving the status of acceptances as of 4 December 1979.

(a) Annual review of the operation of the Arrangement

3. The Chairman drew attention to Article 10, paragraph 4, of the Arrangement under which the Committee was required to review its operation once a year and report thereon to the GATT Council. This was the second annual review to be

conducted by the Committee under the extended Arrangement. He referred the Committee to the report by the Textiles Surveillance Body on its activities during the period from 21 October 1978 to 30 November 1979, contained in document COM.TEX/SB/519 and 519/Rev.1 with respect to the French text only. This report was prepared to assist the Committee in its review of the Arrangement as provided for in paragraph 4 of Article 10 and also in fulfillment of the obligation under Article 11, paragraphs 11 and 12, which required the Body to review all restrictions and bilateral agreements entered into by participating countries and to report annually its findings to the Textiles Committee.

4. A large number of representatives expressed appreciation of the TSB's report and raised certain points contained therein as regards the manner in which the Arrangement was being implemented during the period under review. These, for the most part, hinged on delay in notifications, growth rates, swing and flexibility provisions and departures from the provisions of the MFA, as well as certain specific difficulties encountered by participating countries. A summary of the statements made under this agenda item is given in paragraphs 6 to 52 below.

5. In the course of the Committee's review of the operation of the Arrangement, several delegations related the question of departures with the question of adjustment assistance measures. They stressed the need for the Committee to examine this matter in depth before conducting the major review. A summary of the discussion which took place on this issue will be found under item (d) below "Adjustment assistance measures".

6. The representative of Colombia said that in adhering to the MFA, all developing countries had been confident that both the spirit and the letter of the Arrangement would be respected. Furthermore, in accepting the Protocol extending the Arrangement, they had been convinced that the Understanding reached by the Committee on 14 December 1977, would be observed in all its provisions, which included, inter alia, the need to ensure the expansion of trade in textile products particularly for the developing countries.

7. However, the experience of the developing countries had been far from satisfactory. This was confirmed by the hard facts of the international textile trade, as reflected in the documents before the Committee, and as emanating from a perusal of the TSB's report. The inference to be drawn from these documents was that the MFA was being transformed, in general terms, into an instrument of discrimination against the interests of the developing countries and that there had been systematic erosion of the spirit and the letter of the Arrangement. Another inference was that while adjustment programmes were not being carried out, there was a recrudescence of protectionism in the form of increased restrictions, to the detriment of developing countries.

8. Referring to the TSB's report, he pointed out that in spite of the provisions laid down in Article 4:4, there had continued to be long and inexplicable delays in the notification of certain bilateral agreements to the TSB; far beyond the thirty days of their effective date, or even after they had expired. As regards the consultation provisions for establishing restraints under the "basket exit" system contained in certain bilateral

agreements, he underlined the observation by the TSB that the consultation mechanism must be supported by a clear demonstration of real risk of market disruption. This, he said, was a matter of permanent concern to developing countries.

9. He also referred to the so-called "abnormally low prices" clauses appearing in some bilateral agreements concluded by a "major participant", and which were found by the TSB to fall outside the framework of the MFA. Another point he drew attention to related to the margins of flexibility laid down in paragraph 5 of Annex B. Although in some cases the TSB had accepted, without sufficient evidence, that the right to swing had been waived for special considerations, it had correctly interpreted the Arrangement when it concluded that the flexibility provisions prescribed therein represented the minimum permissible percentage figures. This stipulation, although binding to all had not been respected in many instances.

10. The way in which the "minimum viable production" clause had been resorted to was a matter of great concern to developing countries. Clear cut recognition by participating countries had been given to the validity of this clause, in appreciation of difficulties, faced by those countries having small markets, high level of imports and low level of domestic production. But in some cases the interpretation of the clause had been stretched beyond both the letter and the spirit of the MFA, leading the TSB to observe that paragraph 6 of the Conclusions reached by the Textiles Committee in December 1977 could not be invoked as a general waiver.

11. On the question of reasonable departures, he recalled that such departures could only be temporary, and that participants were required to return, in the shortest possible time to the framework of the Arrangement. The rôle of the TSB as the conscience of the MFA should be strengthened. As the only surveillance body incorporated in a Multilateral Arrangement, it served as an experiment to test the possibility of setting up similar bodies for other international trade activities.

12. The representative of Indonesia said that since his country was a new entrant in textile markets, it had a very small past performance and was a relatively negligible supplier. Therefore, the provisions of Article 6 of the MFA were applicable to Indonesia, as well as to other developing countries in a similar position. Referring, in particular, to paragraphs 2 and 3 of this Article, he pointed out that restraints on exports from such countries should normally be avoided. However, certain countries had found it necessary to enter into bilateral agreements with Indonesia. These, including a visa system arrangement, did not stipulate any kind of quantitative limitations. Nevertheless, under the consultation agreement, the possibility of introducing quantitative limitations on exports from Indonesia was provided for.

13. In conformity with the spirit and letter of the MFA, Indonesia had fully co-operated with its trading partners and had fulfilled all the obligations required of it under the agreements it had concluded, such as "double checking" measures, export monitoring, and export licensing. A special decree for this purpose had been enacted to ensure the orderly development of trade with its

trading partners. He expressed the hope that the participating importing countries, for their part, would ensure that Indonesia's rights under Article 6 would not be curtailed. He stressed the importance his delegation attached to the need for a clear interpretation of market disruption with respect to small suppliers and new-comers having full regard to their legitimate interests.

14. He further drew the attention of the Committee to the problems encountered by his country as a result of fraudulent practices; textile products not produced in Indonesia had been exported by third parties as being of Indonesian origin. He said that his Government had taken necessary steps to prevent such practices, and hoped that other governments concerned would do the same. Furthermore, he urged importing countries not to take restrictive measures against those exporting countries victims of such malpractices.

15. The representative of Poland said that the TSB, as shown in its present and earlier reports, had followed closely the implementation of the Arrangement, and had noted all measures inconsistent or even in contradiction therewith. The observations and recommendations made by the TSB constituted, in his view, an appreciable contribution to a proper interpretation of the provisions of the Arrangement. His Government considered the objectives, principles and the provisions of the Arrangement as remaining in force. Any departure from the MFA as envisaged by the Understanding reached by the Textiles Committee on 14 December 1977, was admissible only under special circumstances which should be duly justified, and provided that they fell within the framework of the Arrangement. Thus, no restrictive measures should be instituted if not provided for in this instrument. He considered

that in order to solve the difficult problems of international trade in textiles, the provisions of the MFA must be respected and that the observations and recommendations by the TSB should be taken fully into account.

16. The representative of India observed that the present meeting of the Committee was the first to be held after the CONTRACTING PARTIES had received the results of the Multilateral Trade Negotiations, under which the textiles sector was barely touched on the argument that non-tariff measures in this area were covered by the MFA. This was regrettable since the perspective of the MTNs was broader, wider and more long term than the temporary MFA. Even in tariffs the results were disappointing. The fact that trade in textiles was the only sector provided with rules for selective action had resulted in restraints being imposed on exports of most developing countries in most developed countries, while exports of most developed countries continued to be free of restrictions.

17. Referring to the TSB's report, he expressed concern with certain elements contained therein, such as late notifications, coverage of non-MFA fibres, reduction in growth rates or even cut-backs; and reductions or absence of swing provisions. These elements tended to introduce rigidity and made it difficult for countries to fully utilize quotas. Minimum viable production clauses had been invoked separate from viability of production in the economic sense. Furthermore, the real reason for the inclusion in the Arrangement of provisions concerning handloom products had often been lost sight of due to lack of proper certification arrangements, and such tendencies must be viewed with concern by all parties concerned.

18. Another aspect for concern had been the erosion of disciplines of the MFA, thus tending to alter its basis and objectives. As in the past his delegation emphasized the temporary nature of departures, and recalled that it had been agreed under the Protocol that the parties concerned would return to the MFA as soon as possible, i.e. before the end of its life-time. The continuation of departures had introduced elements of uncertainty, inequity and ambiguity. The Committee should therefore review such departures to see how far these had been made use of, and what steps that could be taken to ensure that they remained temporary.

19. The representative of Korea said that contrary to the spirit and the letter of the Arrangement, its provisions had continued to be used as means of imposing restraints on exports of textiles from the developing countries. On the other hand developed exporting countries were not under restraints in the developed markets, and their exports constituted the larger share of developed countries total textile imports. He found the contention that only imports from developing countries could cause disruption as hardly convincing and inequitable. Thus, while reserving the right to seek a review of the concept and criteria of market disruption at an appropriate time, he urged that the relevant provisions of the MFA should be strictly applied. The introduction of the concept of cumulative disruption by some importing countries would have the effect of freezing the present market shares of the developing exporting countries, and this was inconsistent with the provisions of Article 1:3 of the MFA.

20. Referring to the question of departures, he underlined their temporary nature and concluded that these provisions, as set out in the TSB's report, had not been faithfully observed, and there had been a growing tendency to a general application of such departures without distinction. Furthermore, no party concerned had so far returned to the framework of the Arrangement. Thus, these provisions should not be abused, otherwise the language of reasonable departure should be reconsidered. The same theory would apply to the so-called MVP clause.

21. As to the rôle of the TSB, he expressed his delegation's appreciation of the activities of the Body, its positive involvement in examining various agreements, its fair judgement and its right guidance and effective recommendations to the parties concerned. He said the TSB's responsibilities to ensure a smooth implementation of the MFA had been growing, and believed that this should be accompanied by an improved machinery and authority for the Body.

22. The representative of Brazil observed that there was a growing tendency by parties to concentrate only on Articles 3 and 4 of the Arrangement, thus leaving aside three provisions under Article I which stated that: (a) it may be desirable in the next few years for special measures to be applied with the aim of eliminating the difficulties that exist in the field of textiles; (b) the basic objectives shall be to achieve the expansion of trade, the reduction of barriers; and (c) the principal aim shall be to further economic and social development of developing countries and secure a substantial increase in their export earnings from textile exports.

23. Since the drafting of this language, a Protocol for the extension of the Arrangement had been negotiated. Now half way through the extended period and before the major review, his delegation was concerned with current tendencies. In the spirit of co-operation the concept of reasonable departures had been accepted. This acceptance was on the understanding that departures would be temporary, and that the basic objective of this "waiver" was to enable those parties to the Arrangement, which were facing severe problems, to adopt necessary structural adjustments in order to pursue the objectives of the Arrangement. He stressed, therefore, that it was essential for those parties to return to the basic terms of the Arrangement, and not to live by a "waiver".

24. His delegation further noted that restrictions were being imposed on imports from developing countries and, as a result an increased share of the domestic markets in importing countries was being taken up by imports from other developed countries.

25. The representative of Hong Kong, commenting on some of the agreements notified and reviewed by the TSB, said that in certain cases where agreements had no provisions for swing, the TSB had assumed that the two parties had waived their rights to swing despite the lack of evidence to indicate that there had been any incentive for the exporting country concerned to do so. The absence of carry over and carry forward in certain agreements had not led the TSB to the conclusion that they were not in conformity with the Arrangement. Furthermore, some agreements with restraint limits representing severe cutbacks had been justified on the grounds that they were jointly agreed

reasonable departures. Thus, having reached the mid-point of the extended period, it was time for the Committee to take stock of what provisions of the MFA had been "waived" or "ignored", and what was left of the checks and balances so painstakingly built into the MFA.

26. Referring to paragraph 5:4 of the Understanding reached by the Committee on 14 December 1977, he said "the return in the shortest possible time" could not mean the lifetime of the extended MFA. It was therefore pertinent now to ask when the participating countries which had had recourse to the departure provisions intend to return to the framework of the MFA. It would not be unreasonable to expect those participants to start taking steps towards the goal of returning to the framework of the MFA. The steps taken, and how fast these would have the effect of returning to the MFA, would certainly have a bearing on how the developing exporting countries, against which the departures had been invoked, see the future of the Arrangement. It was by no means a foregone conclusion that a further renewal of the MFA would be supported, particularly by those from whom departures had been exacted; much would depend on the steps taken by importing countries.

27. Finally, he agreed with the delegate of Indonesia, that the question of fraud and circumvention of the Arrangement should be examined by the Committee.

28. The representative of the Philippines, referring to the difficulties of the parties to the Arrangement to live by its terms and conditions, wondered that they still managed to conclude bilateral agreements thereunder. He suggested, therefore, that in the remaining period of the extended MFA, the TSB should give more attention to the requirements of equity in the

implementation of the MFA. In his view, the best course of action would be for participating countries to move away from rigid to more imaginative and flexible interpretation of the MFA. In the implementation of the MFA, parties should be guided by the principle of equity, having due regard to the abilities of the individual importing countries and the individual needs of exporting countries.

29. The representative of Singapore observed that the report of the TSB had shown erosion of certain benefits which developing countries had hoped to derive when subscribing to the Arrangement, particularly in respect of swing and flexibility provisions. Given a trend of low growth rates in certain bilateral agreements, the importing countries concerned should at least attempt to keep their departures to a basic minimum and should avoid, at all costs, reductions in net access. He further thought that, to the extent possible, the rôle of the TSB should be strengthened.

30. The representative of Malaysia, referring to the extensive list of measures taken under the Arrangement and the variations therefrom, as set out in the TSB's report, expressed concern over how far reasonable departures had been stretched. Not only growth rates and flexibility provisions as prescribed in the MFA had all been curtailed, but also there had been increasing attempts to move towards the grey areas and making it more difficult for developing countries to air their grievances in the TSB. He recalled that paragraph 5:3 of the Understanding reached by the Committee on 14 December 1977, was accepted in good faith as a short-term measure to enable one major participant to solve its pressing problems. As evidenced

in the TSB Report, other importing countries had invoked paragraph 5:3. This paragraph had been accepted by his country in the light of the assurance given by the importing countries to newcomers and small producers and in the light of paragraph 5:4 stipulating the return to the framework of the MFA.

31. The multi-variety of ways in which the flexibility requirements had been treated in bilateral agreements indicated the probable areas of violation of the letter and spirit of the MFA provisions. He expressed concern that the swing provisions did not oscillate any more in many cases and supported the TSB's view that "swing" was one of the essential elements in agreements made under Articles 3 and 4 of the MFA. As regards the minimum viable production concept, he associated himself with other delegates who had spoken of the unreasonable manner in which this concept had been resorted to. He underlined the observation by the TSB that the MVP provision could not be invoked as a general waiver of particular obligations under the Arrangement, and said that those countries which had used the MVP excuse to curtail flexibility should return to the provisions of the MFA. He stressed that it was time for the Committee to consider how those participants who had utilized departures were attempting to return to the framework of the MFA, and to ensure that there was a genuine resolve to such a return.

32. Referring to the point made by the representative of Indonesia regarding the question of fraudulent practices in textile exports, he said that this was a matter of concern for all parties, and should be taken up by the Committee. In this connexion he pointed out that such practices were only possible if there was connivance between importers and exporters.

33. The spokesman for the EEC, commenting on the remarks made by exporting countries, said that the Community had no reason to believe that the MFA had been implemented without due regard to the interests of the developing countries, whose exports to the Community had continued to grow appreciably under bilateral agreements which were less restrictive than some exporters had feared. General policy was determined by the situation in the Community's textile industry which remained critical. In present conditions, and in the absence of any evidence of liberalization in the rest of the world, either in importing countries or in a number of traditional exporting countries which were becoming increasingly important markets, a general change of policy could not be envisaged.

34. On the question of reasonable departures, he recalled that in 1976 the Community had found itself in a position where some limited and temporary departures from the MFA as originally conceived had become inevitable. This was because the rate of imports into the Community from certain countries had reached a level incompatible with the orderly and equitable development of trade. In this respect, he noted that one of the basic objectives of the Arrangement was not only to achieve the expansion of trade, but also to ensure the orderly and equitable development of this trade and the avoidance of disruption. Thus, the Community had to make a one-time adjustment of these imports, bearing in mind in particular the expectations of newcomers and the limited capacity of the Community markets for further absorption of low-cost imports.

35. The Community recognized the danger of drift in the interpretation of the extended MFA. The limited use made by the Community of paragraph 5:3 of the Understanding reached by the Committee in 1977 had been clearly defined

and demonstrated in the TSB report. The Community's "departures" were conceived as necessary measures to correct an aberration in the development of its textile trade relations with developing countries. This had been achieved, and the Community remained committed to the position taken in 1977 with regard to the temporary character of "reasonable departures".

36. With regard to the comments made on delays in notification, he said that despite the complexity of the Community's internal procedures, progress had been made to speed up such procedures and that the bulk of the agreements had already been notified to the TSB. Referring to the points raised with respect to fraudulent exports, he said that this was a matter of great concern to the Community. It was important that all trading partners should respect the provisions of bilateral agreements concluded under the Arrangement. The Community was looking for close co-operation with the exporting countries which had been abused, with a view to preventing fraud.

37. The representative of Pakistan recalled that the Arrangement was designed as a temporary instrument, to provide in a short period of time for a return to a normal régime in international trade. The interests of importing and exporting countries had been carefully balanced in the Arrangement. However, in practice it had been used as an instrument to provide a legal basis for discriminatory restraints against exports from developing countries.

Bilateral agreements, or unilateral actions reported to the TSB had hardly ever referred to exports from developed exporting countries; intra-trade of developed countries remained untouched by this instrument.

38. Experience with the renewed MFA had been even less satisfactory than the MFA in its original form. What had been thought to be a special dispensation to one major developed importing participant, created a climate whereby all major and minor developed importing countries imposed agreements on their developing trading partners, which did not correspond to the MFA neither in spirit nor in substance. Developing countries could not refuse such agreements, since the alternatives were worse. He endorsed the points previously made that one of the adverse effects of the Arrangement, was the exclusion of the textile sector from the MTN, and that the results of the operation of the extended MFA would greatly influence the position of developing countries regarding the future of trade in textiles and the MFA.

39. The representative of the United States said that neither in the letter nor in the spirit could the MFA be viewed as an instrument which operated in a never-changing situation. The United States had continued and would continue to offer the opportunity to share any growth in the domestic market with its trading partners. He pointed out however, that it appeared that his country was moving into a new era for textiles; the population was growing only slightly, textile consumption was already the highest in the world, and there was a decline in real income. These elements were unfavourable to both the domestic industry and the trading partners for the years ahead. His delegation was, however, of the view that the MFA had, within its provisions, to recognize these basic changes.

40. He concurred with other delegates that a strong TSB was necessary for the effective operation of the MFA. His delegation would like to be associated with the views expressed by several others on the importance of

solving the problem of circumvention. This fundamental task, essential for the proper and effective operation of the MFA, must seriously be addressed to by all participating parties.

41. The representative of Sweden said that his Government had consistently tried to refrain from taking trade restrictive measures. This liberal policy had led to a very high degree of import penetration in some sectors particularly with regard to textiles, where import penetration had now reached 76 per cent, and for several important products, it surpassed 90 per cent. Sweden's production of clothing had gone down very rapidly as shown in Table 1 of document COM.TEX/W/63, giving production indices with 1973 as base year (100). The figure for Sweden for 1978 was 51, by far the lowest figure for any country in that table.

42. In the negotiations leading to the prolongation of the MFA, the Nordic countries had sought a greater understanding within the Arrangement of the difficulties encountered by them. This was reflected in paragraph 6, of the Understanding reached by the Committee in 1977, which confirmed the so-called Nordic clause in the MFA. It was evident that Sweden, being in a more difficult situation than any of the other importing participants, had to ask for the understanding of a few of its trading partners, in the form of departures according to the Protocol of Extension; understanding which it had also got. The possibility of making mutually agreed departures, was in fact a prerequisite for Sweden to adhere to the extended MFA, which it had signed only after long and serious consideration.

43. As far as Sweden had been able to ascertain, the main concerns of the TSB, when examining agreements entered into by Sweden and its trading partners, had related to the question of fibre coverage and flexibility. Steps, to the extent possible at this juncture, had been taken by Sweden to meet such concerns in spite of the difficulties experienced in the textile sector. Referring to document COM.TEX/W/53, he pointed out that Sweden, in terms of per capita, was the world's biggest importer of textiles and clothing from developing countries.

44. The representative of Colombia in responding to the point made by the Swedish delegate concerning the liberality of his country's commercial trade policy, referred members to Table 10 of COM.TEX/W/63. Between 1973 and 1978 it could be seen that the share of developing countries in Sweden's imports of clothing had declined in contrast to imports from developed countries which had increased. This had led him to conclude that such liberal trade policy had not been directed towards developing, but towards developed countries.

45. The representative of Egypt said that for developing countries, the textiles sector which provided employment to the abundant labour available, represented by far the most important sector in the industrial field. Therefore development programmes and rate of growth in these countries depended to a large extent on the export earnings from textile products. This sector in fact demonstrated the benefits of international division of labour emanating from the principle of comparative advantage. Application of this economic and simple principle would no doubt benefit developed and developing countries alike.

46. He recalled that the MFA was designed as an instrument to further the expansion and liberalization of trade in textiles. It was thus evident that the provision of reasonable departures should be applied only under very exceptional circumstances and for as short a period as possible. Any departure from the provisions of the MFA should be temporary, and his delegation was against the perpetuation of a transitional solution.

47. The report of the Textiles Surveillance Body was useful in that it reflected, to a large extent, the state of affairs which prevailed during the year under consideration. He shared the concern expressed by many delegates over certain elements contained in the report.

48. The representative of Mexico expressed his country's concern over the current situation of international trade in textiles, as could be inferred from the documentation before the Committee. The TSB's report had shown a number of negative elements contained in the bilateral agreements notified to it. He recalled that in 1977 when participating countries had accepted the Protocol extending the MFA, the Understanding then reached by the Committee contained a series of provisions, constituting a balanced package. During the first two years of the extended Arrangement it seemed that only paragraph 5:3 had been taken into account exclusively, leaving other paragraphs aside.

49. In this connexion, he pointed out that paragraph 3 of the Understanding stated that if the situation regarding trade in textiles was not dealt with satisfactorily it could work to the detriment of countries participating in international trade in textile products, whether as importers or exporters or

both. Paragraph 9 emphasized mutual co-operation as the basis for promoting the objectives of the MFA. Half-way through the life of the Arrangement as extended, the situation was grave and serious. It was therefore essential that the major review to be undertaken by the Committee in 1980 should be a serious exercise with an in-depth preparation.

50. The representative of Japan said that his country believed that the MFA continued to play an effective rôle in the stable development of world textile trade, thus providing the means for reconciling the interests of exporting countries with those of the importing countries in a spirit of co-operation. Without the Arrangement, textile trade might have deteriorated. In this connexion, it was the belief of this delegation that flexibility and growth as stipulated in the provisions of the MFA should be had due regard to as far as possible in its application.

51. The representative of Switzerland pointed out that his country did not figure in the TSB report as one maintaining quantitative restrictions. He recalled that the MFA was designed to provide co-operative and constructive action within a multilateral framework, so as to deal with the textile situation in such a way as to promote on a sound basis the development of production and the expansion of trade. In this respect, his delegation understood the preoccupation expressed with regard to departures, and the meagre results achieved in the MFA for the textiles sector. Nevertheless, it should be borne in mind that the restrictions in question constituted, in most cases, derogations from import régimes which were in principle open. On the other hand, the markets of most exporting countries, with some notable

exceptions, were closed, and the multilateral trade negotiations revealed that dispositions to start liberalization in the textile sector remained very limited. Thus, it would be difficult for a country like his own to maintain its policy of an open market, where its industry in the face of increasing competition had made the necessary and often painful adjustments, and still to be denied the possibility of competing with products for which it had made such adjustments.

52. He therefore appealed to exporting countries, not only to seek increased access for their products in the export markets, but also to make every effort with a view to facilitating access to their own markets. This would enhance their competitive position in the long term. In this domain, they could start with those items which were not produced domestically for technological or economic reasons.

(b) The Report of the Technical Sub-Group on Textile Documentation

53. The Chairman recalled to the attention of the Committee that, at its last meeting in October 1978, it had agreed that the Technical Sub-Group on Textile Documentation would meet early in 1979 to review the operation of the statistical reporting scheme and to consider the question of reporting on adjustment assistance measures. Following this, the Sub-Group had met on 22 March 1979 and the report by its Chairman on the discussion which took place in the Sub-Group had been circulated to the Committee in document COM.TEX/14 of 8 May 1979.

54. In introducing the report, a member of the secretariat on behalf of the Chairman of the Technical Sub-Group, referred to the main points that had arisen from the deliberations of the Sub-Group. Firstly, he pointed out that regarding the statistical reporting scheme, the Sub-Group had been of the opinion that improvement in the content and coverage of the scheme could be achieved, and that the statistics should be regularly circulated to members of the Textiles Committee. In connexion with the statistical reporting, the question of whether handloom fabrics and products should be included in the reporting scheme had been raised. However, no consensus could be reached on this matter and it had been agreed that it would be put before the Committee for further consideration.

55. Secondly, concerning the analysis of developments in production and trade, he noted that at the last meeting of the Textiles Committee it had been suggested that this task be consigned to the Sub-Group or to a special working group. During the discussion of this point in the Sub-Group however, some doubt had been raised concerning its competence to decide the matter and it agreed to recommend that the Textiles Committee reconsider whether its mandate be extended to include this analysis.

56. Finally, as regards the reporting on measures to facilitate adjustment, he pointed out that the Sub-Group had agreed to circulate the airmgram prepared by the secretariat requesting the updating of the information

contained in the report on adjustment assistance measures (COM.TEX/W/36 and Add.1). However, the Sub-Group concluded that it was up to the Committee, if it so decided, to instruct the secretariat to prepare an analysis of this information.

57. The Chairman of the Textiles Committee then invited members to address themselves to the points which had arisen from the deliberations of the Sub-Group. Concerning the question of handloom fabrics and products and whether they should form part of the data base of the reporting scheme, no agreement on whether these products were covered by the Arrangement and thus could be included in the statistical scheme was reached. A compromise proposal put forward by the spokesman for the EEC and supported by the United States representative that the Sub-Group be instructed to look into the technical feasibility of collecting statistics on handlooms was not accepted, and the matter was allowed to rest until further consideration was called for. Concerning the question of entrusting the Sub-Group with the task of analysing developments in production and trade, it was generally agreed that the present arrangement was satisfactory and that there was therefore no need for the Sub-Group to undertake the matter.

(c) Analysis of the current state of world production and trade in textile products

58. The Chairman drew the attention of members to Article 10, paragraph 2, of the Arrangement under which the Textiles Committee was required to undertake an analysis of the current state of world production and trade in textile

products. For this task the Committee had before it a report prepared by the secretariat on Recent Trends in Production and Trade in Textiles and Clothing (COM.TEX/W/66) and the statistical data contained in COM.TEX/W/63 and Revision 1.

59. The representative of Japan stated that the Japanese textile industry had been undergoing a long-term recession since the 1973 oil crisis. Production had fallen sharply in 1974 and 1975 and although there had been moderate growth in recent years, it was still below the 1973 level. Imports had increased sharply and exports had declined because of the weakening in Japan's international competitiveness. Japan's export surplus had fallen from \$1.5 billion in 1978 to \$0.3 billion for the first nine months of 1979. Employment in the industry had been falling steadily, and in addition, the textile industry had been jointly writing off machinery at a rate of 15-25 per cent depending on the sector and the Government was encouraging the development of new textile techniques to help the structural reorganization of the industry.

60. The spokesman for the EEC based his analysis of production, employment and trade of the Community on the statistics contained in COM.TEX/W/63. He pointed out that production in the Community in 1978 was still below the level of 1973. For the first quarter of 1979 there had been an improvement in the situation which was confirmed in the second quarter. However, he noted that the latest statistics were pointing to a weakening in activity in the second half of 1979, and that for 1980 industrial enquiries were indicating a new slowdown in production. Between 1978 and 1979, employment had

declined even more markedly than production. Concerning foreign trade, he stated that from an analysis of the statistics contained in COM.TEX/W/63 two main points had emerged. Firstly, the share of the developing member countries of the Arrangement in the Communities' imports had risen between 1973 and 1978 and secondly, in 1978 as compared to 1977, imports from the same area had increased. The trade balance which for textiles and clothing together had been positive in 1973 had been in deficit since 1975. By 1978, this deficit was nearly \$1.5 billion, and for the first six months of 1979 compared to the same period in 1978 the trade deficit had doubled. Whereas the EEC had increased its export surplus with developed countries, he pointed out that its import surplus with developing countries had increased markedly between 1973 and 1978.

61. The representative of India put forward a number of suggestions aimed at improving the documentation provided by the secretariat in order to further assist members of the Committee in their task of analysing developments in production and trade. These included the provision of trade data in volume: more information on the extent of restraints against developing countries; the intra-trade aspect of developed country trade and the evolution of export earnings of developing countries and their share of world exports of textiles and clothing.

62. The representative of Malaysia drew the attention of members of the Committee to the fact that developing countries had been absorbing an increasing share of developed country exports of textiles and clothing between 1973 and 1978 and that many developing countries had import surpluses in textiles (Tables 5 and 9 of COM.TEX/W/63 refer).

63. The representative of Pakistan called for the preparation of statistics on the size of the market in participating countries and the participation of domestic producers and suppliers from developed and developing countries in those markets. This suggestion was supported by delegations from several countries. During discussion the secretariat stated that comprehensive data of this nature were not available and it was suggested that the matter should be further studied.

64. In summing up the discussion of this agenda item, the Chairman stated that once more the need for improved statistics had become apparent as could be seen from the fact that several delegations had felt it necessary to appeal to all participating countries who had statistics to provide them.

(d) Adjustment assistance measures

65. The Chairman recalled that the Textiles Committee at its last meeting in October 1978, had addressed itself to the question of adjustment assistance measures. In this connexion, participating countries had been requested to update the previous report contained in COM.TEX/W/36 and Add.1, and to submit information not only relating to measures taken, but also to policies adopted, having full regard to the provisions of Article 1, paragraph 4.

66. As previously mentioned, the Technical Sub-Group agreed that an airgram along the lines indicated by the Committee should be sent to all participating countries. Accordingly, participants had been invited in GATT/AIR/1554 of 2 April 1979 to send such information, and then further reminded both in July and November in GATT/AIR's 1579 and 1591 respectively.

The relevant information had been received from those countries which were listed in paragraph 4 of the report before the Committee in document COM.TEX/W/65. It was regrettable, however, that a large number of participants, as set out in paragraph 6 thereof had not submitted the required information.

67. In this respect, the Chairman recalled that when the Committee had discussed the question of reporting on adjustment measures in April 1975, the general character of this obligation was stressed. Thus, while material must be provided by all participants, it was expected that the information to be supplied by developing countries would relate in general to such matters as plans for the expansion of their textile and clothing industries, schemes adopted or contemplated for the rehabilitation, reorganization and modernization of such industries, as well as any measures or policies that would be of interest to the work of the Committee.

68. The Chairman then reverted to the point raised in the report of the Technical Sub-Group as to whether or not an analysis should be undertaken by the secretariat of the information on adjustment measures. The Committee did not pronounce itself on this question, since it had decided to set up a Working Group for this purpose (see paragraph 78:2).

69. Several delegations expressed appreciation of the report and stressed the importance they attached to adjustment measures and the need for more detailed information on this subject. As mentioned above, this question was linked by many with the question of departures from the provisions of the Arrangement. A summary of the discussion which took place under this item, as well as of the relevant parts of the statements made under the review is given below.

70. The representative of India said that the basic reason why his delegation had previously requested such a report on adjustments was to ensure that conditions were created to induce industries to pursue structural changes so that restraint régimes did not become a permanent feature of the trading system. It was not, however, possible from the report to ascertain to what extent those sensitive areas under stringent protection were receiving the necessary assistance which would, in time, facilitate the dismantling of protective barriers.

71. He suggested that a Working Group should be set up to examine this question, together with the question of departures, and report back to the Committee for an in-depth review. He said that this was necessary because periodic reports from importing countries indicated that the objectives for which restraints had been imposed had often not been fulfilled. A report from an importing country concluded that the effects of bilateral textile agreements had probably contributed to inflation, had not stopped a rise in unemployment, and had led to increased imports from other sources. He wondered, therefore, whether the solution to the problem might lay not with restraining imports from developing countries, but rather in improved technology and in incentives to attract new investment. He further pointed out that the analysis of the reports on adjustment assistance measures should demonstrate achievements in terms of Article 1:4 of the Arrangement.

72. Many representatives of developing countries supported the suggestion put forward by the representative of India. They thought that such an exercise would enable the Committee to see when and how those participants who had invoked departures intended to return to the framework of the MFA.

73. The representative of Brazil said that the main objective of the Understanding reached by the Committee on 14 December 1977 was to enable those parties to the Arrangement facing severe problems to adopt necessary structural adjustments. His delegation was concerned by the lack of any visible progress of adjustment measures, and results thereof, in those countries which had resorted to reasonable departures. He feared that sometimes these measures helped to prop up uncompetitive industries, rather than to promote such reconversion as would be necessary for a return to the Arrangement.

74. The representative of Pakistan noted that the main purpose of the Multifibre Arrangement, and even before it the Long-Term Arrangement, was to allow importing industrialized countries to have the necessary time for their industries to rationalize and reorient their production, with the minimum of social and political problems; and to permit them to compete internationally without a protective umbrella. So far, the special régime for trade in textiles had failed in this purpose; protection had hindered adjustment, and had supported outdated production processes. Adjustment measures could be considered successful only if accompanied by progressive dismantling of trade barriers.

75. The representative of Korea said that developed countries should adopt positive and effective adjustment assistance measures to encourage less competitive industries to move into more viable lines of production or into other sectors of the economy.

76. The representative of the Philippines said that his delegation was particularly impressed by the submission of the Netherlands; this type of information was useful to developing countries. He suggested that in subsequent discussions participating countries should try to find some concordance between the reality of adjustment measures and increased access for exporting countries.

77. The representative of the United States said that his delegation considered a strong TSB to be a vital and necessary part of a strong MFA. This Body was uniquely qualified to provide a review of the question of departures. As far as adjustment processes were concerned, the real problem, he said, was not analysis, but a lack of reports from participating countries.

78. As a result of the ensuing informal discussions and consultations among delegations, the Chairman put forward the following proposal:

1. The TSB be asked to prepare a catalogue of all cases where the provisions of agreements entered into involve variations from the provisions of Annex B of the Textiles Arrangement.
2. A Working Group of the Textiles Committee be requested to carry out a detailed examination of adjustment measures with reference to the objectives set out in paragraph 4 of Article 1 of the Arrangement.

79. The representative of Pakistan in endorsing the first proposal by the Chairman, pointed out that the catalogue of departures prepared by the TSB should be linked to paragraph 5:4 which required a return to the MFA within the shortest period of time. Since half the lifetime of the extended MFA had passed, this aspect should form an essential part of any evaluation to be undertaken with respect to departures. Necessary information on this should be required from the parties concerned. As regards the proposal on adjustment measures, he hoped that the Working Group would elaborate on the intentions and expectations of the MFA in this regard, and would also analyze the value and the relationship of the measures reported to these expectations. He also hoped that the Group would be able to identify any evident progress made towards the elimination of trade barriers, resulting from such measures.

80. The representative of Hong Kong said that the TSB should be given a wide definition to draw up such a catalogue, so that those variations which the TSB itself did not consider to be departures might also be included. Once the catalogue had been drawn up, it would be up to the Committee to determine which variations constituted departures, and to make necessary recommendations, to ensure that the requirements of paragraph 5:4 were fulfilled. In emphasizing the urgent nature for such an exercise, he suggested that the Committee should meet in July 1980 for this purpose. He also supported the Chairman's proposal of setting up a Working Group to examine adjustment measures.

81. The representative of India concurred with the interpretation of the representative of Hong Kong with regard to the rôle of the TSB vis-à-vis the ultimate authority of the Textiles Committee, and supported the two proposals by the Chairman.

82. He pointed out that both the variations and the adjustment measures were related, and said that the Committee would have to take cognizance of the findings on the two subjects in order to take decisions on them in an integrated manner. He considered that this dual exercise was of crucial importance, and should be carried out before the major review scheduled for the autumn of 1980. He therefore supported the suggestion that the Textiles Committee should meet in July 1980 to examine these two items.

83. The representative of the Philippines said that when an analysis of the variations was made, the larger purpose of the Protocol should be kept in mind, and should avoid all nominal concepts of what constituted reasonable departures. He agreed that the exercise should not only determine departures and the participants involved, but should also see how the participants could return to the framework of the MFA. For this, it was necessary to see where improvements, if any, had resulted from adjustment measures. He also agreed that the two exercises should result in integrated conclusions.

84. The Chairman, in summing up the discussion on this issue stated the following:

1. The two proposals he had put forward (see paragraph 78 above) had been endorsed by the Committee.

2. The Committee would meet some time in July 1980, to examine the report on variations and the report on adjustment assistance measures as agreed to under 1 above.

3. The Working Group of the Textiles Committee would be open to all participating countries, and that the date for its first meeting would be fixed by the Chairman in consultation with delegations.

85. The delegate of India said it was the understanding of his delegation, that the results of the July meeting would constitute an important input for the major review in October 1980.

(e) The membership of the Textiles Surveillance Body for the year 1980

86. The Chairman said that since the current term of membership of the TSB was due to expire on 31 December 1979, the Committee was required to consider at the present meeting the composition of this Body for the year 1980. In this connexion, the Chairman stressed the importance he attached to regular attendance by the members to be designated. He reiterated what he had previously said on such occasions that the TSB was a standing Body, and given the important tasks conferred upon it, and in particular for the coming year, its members should be conversant with textile and trade matters and be always available to devote much, if not all, of their time to the activities involved. Referring to the reports of the TSB, he expressed regret that during certain meetings some members did not attend, nor did their alternates. He hoped that this situation should be redressed so as to ensure that the delicate balance arrived at after lengthy negotiations be maintained to the common interest of all participants in the MFA.

87. As a result of the consultations and discussions which had been held regarding the membership, the Chairman proposed that the TSB for the year 1980 should be composed of members designated by the following parties: Brazil, EEC, Finland, Indonesia, Japan, Korea, Pakistan and the United States. This proposal was endorsed by the Committee.

88. The representative of the Philippines observed that annual rotation among those members designated by developing countries would reduce the cumulative expertise acquired by them. Thus such disproportion in the character and construction of the representation made by developed countries vis-à-vis developing countries would affect the required balance on the Body; such a balance could not be achieved on the basis of episodic membership in the TSB for developing countries. He, therefore, suggested that perhaps this matter be reviewed by the Committee at its next meeting.

(f) Preparation for the major review of the Arrangement in 1980

89. The Chairman drew the attention of the Committee to Article 10:4 which states that the review during the third year, which would be the next year under the extended Arrangement, should be a major review of the Arrangement in the light of its operation in the preceding years. Based on past experience the Chairman proposed that the following documentation be prepared with a view to assisting the Committee in conducting the major review:

(i) A detailed analysis of the operation of the Arrangement in the first three years of its extension

90. The Chairman recalled that the Textiles Surveillance Body was required under Article 10:4 to submit a report to the Textiles Committee on this matter. Thus, two reports would be expected from this Body, the first for the July meeting (see paragraph 78:1 above), and the second for the major review.

(ii) A survey of developments in production of, and trade in, textile products covered by the Arrangement during those three years

91. The Chairman referred to the discussion which took place under items (b) and (c) above with a view to improving the statistics required, and to making them available to the secretariat.

(iii) More detailed information on adjustment assistance measures

92. In this connexion, the Chairman stressed once again that all participating countries should supply such information in sufficient detail so as to provide the Committee with as complete a picture as possible.

Reference is to be made here to paragraph 76:2.

Date of next meeting for the major review

93. The Chairman said that, in addition to the July meeting, the Committee would have to meet again to conduct the major review and also, as required by Article 10:5, to initiate discussion on the future of the MFA. Such a meeting should normally be held as late as possible in the third year of the extended Arrangement. However, bearing in mind the suggestion put forward that the annual meetings of the Textiles Committee should take place before the session of the CONTRACTING PARTIES, the Chairman proposed that the next meeting for the major review would be held in October 1980, in good time for the CONTRACTING PARTIES to have the benefit of receiving the report of the Committee on the review. This was agreed to by the Committee.

Statement by the Chairman at the end of the meeting

94. At the end of the meeting, the Chairman observed that the Committee was already looking towards the future of the Multifibre Arrangement. He, therefore, felt that he should stress the importance of preparing for the

future in a positive and constructive spirit. Participating countries had had behind them in the relatively brief lifetime of the Textiles Committee, a very troubled period in the field of textile relations, and still had with them grave problems and difficult situations. It was, therefore, his personal belief that no effort must be spared to bring about a better future for the textile trade, and that this was the spirit in which from now on all participants should envisage the future of the Arrangement.