

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Textiles Committee

DRAFT REPORT OF THE MEETING OF THE COMMITTEE HELD ON 8-9 JULY 1980

Chairman: Mr. O. Long

1. The Textiles Committee held its third meeting under the extended Arrangement on 8-9 July 1980, and considered the following subjects:

- (a) A report by the TSB cataloguing all cases where the provisions of agreements entered into involve variations from the provisions of Annex B of the Textiles Arrangement.
- (b) A report by the Working Group of the Textiles Committee on its detailed examination of adjustment measures.
- (c) Secretariat study in connexion with the major review.

Status of acceptances

2. In his opening statement, the Chairman informed the Committee that forty-two parties in the MFA had accepted the Protocol of Extension, three of which (Argentina, Bolivia and Egypt) had accepted it subject to the completion of internal procedures. Thus, four former participants in the MFA (Australia, Nicaragua, Norway and Spain) had not so far accepted the Protocol extending it. Furthermore, Paraguay had not yet confirmed its original acceptance of the MFA, nor had it accepted the Protocol of Extension. He referred the Committee to document COM.TEX/12/Rev.2, giving the status of acceptances as of 30 June 1980.

3. The representative of Egypt said that his Government had completed the ratification procedure and he would notify the secretariat in due time.

(a) Report by the TSB on variations

4. The Chairman recalled that the Textiles Committee at its meeting in December 1979, decided that "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". The Committee had before it the TSB's report submitted in response to this request (COM.TEX/SB/576 and Corr.1.).

5. Given certain conceptual problems referred to in its report, in particular paragraphs 5 and 6 thereof, the TSB had felt that it would not be appropriate to attempt any clear-cut definition of what constituted a variation from Annex B. The TSB, therefore, had agreed that the best course of action would be for it to submit to the Committee a compilation of the relevant elements contained in all the bilateral agreements between participants, and all the amendments thereto notified to the Body since the coming into force of the Protocol of Extension and reviewed by it up to 1 June 1980. These elements related to the numerical levels or percentages contained in these agreements with respect to base levels, growth, swing and carryover/carry forward, be they higher, equal to or lower than those set out in Annex B. Such information was contained in Section II of the report in the form of tables, one for each bilateral agreement between MFA participants. These tables when read in conjunction with the country notes that accompanied them provide all the elements for a catalogue of variations from the provisions of Annex B.

6. A summary of the discussion which took place under this item is given below in paragraphs 7 to 42. The statement made by the representative of India on behalf of the developing countries covering both this item and the

report of the Working Group on Adjustment Measures is, at his request, reproduced in full in the Annex to this report.

7. The representative of India speaking on behalf of the developing countries recalled the balance in the Arrangement between the right to take safeguard measures and the obligations regarding base levels, growth and flexibility. This balance had been modified with the introduction of the concept of jointly agreed "reasonable departures" from particular elements in particular cases. The catalogue of variations showed the extent to which importing countries had used the departures provision, although it had been the understanding that it would be used by one major importing participant only. Moreover, some importing countries had departed from certain elements in all the agreements concluded by them, and not only in respect of particular cases. In referring to the minimum viable production concept he recalled the TSB's comment that it should not be used as a general waiver from the norms and disciplines of the Arrangement.

8. The representative of India further stated that the present régime had benefited the developed countries, whose exports to major developed markets had grown at a higher rate than those of developing countries which had concluded bilateral agreements. Agreements had been negotiated even with small suppliers and new entrants. The Textiles Committee in agreeing to reasonable departures had urged concerned participants to return to the framework of the Arrangement in the shortest possible time. It was a matter of concern that no time-frame had been set for the phasing out of fresh restraints. The report on adjustment measures had shown that production in most importing countries had improved over the two years of the extended MFA, and thus it should be possible for those countries which had invoked the departure provisions to return to the framework of the MFA.

9. The representative of Korea stated that the overall climate for world trade in textiles had been considerably aggravated over the extended life of the MFA. During this period, the concept of reasonable departures had opened the door to unreasonable departures from certain elements of the MFA. He recalled that these departures, which had been accepted as a temporary solution, had been continuing for more than two and a half years. He therefore urged the participants concerned to return to the framework of the Arrangement.

10. The spokesman for the EEC welcomed the TSB's report on variations from Annex B and the report of the Working Party on Adjustment Measures. He said that the information contained in these reports not only helped to fill gaps on relevant information regarding production and trade, but also formed part of the process towards greater clarity and transparency as to developments in the textile sector. In the opinion of his delegation these reports provided two pillars for the Major Review of the Arrangement. For such a review he thought it would be necessary for the Committee to have the following additional information on: (i) the evolving structure of the textile and clothing industry world-wide; (ii) the findings, conclusions and recommendations of the TSB on bilateral agreements concluded under the Arrangement; and (iii) a complete and detailed inventory of all restrictions maintained by participating countries.

11. All elements of information so provided would have to be reviewed by the Committee in the context of the secretariat report on developments in trade and production in the textiles and clothing sectors. He attached

special importance to the inventory of all restrictions maintained or introduced by participating countries, and to the TSB's findings on the submissions made under Article 11.

12. Commenting on the report of the TSB on variations, he said that it brought out the fact that a large part of the variations were permitted when reviewed in the context of the MFA as a whole. These variations which resulted from a deterioration in the world economic climate, had nevertheless provided a degree of security for the orderly development of trade. He thought that the TSB in ensuring that the catalogue provided as objective a picture of the situation as possible had fulfilled the mandate given to it. He said that the catalogue implied no judgement as to the conformity of the individual agreements with the MFA. He reiterated the Community's position that the TSB's findings should not be put into question, nor the catalogue of variations regarded as constituting a catalogue of departures.

13. Commenting on the main points made by the representative of India on behalf of the developing countries, the spokesman for the Community said that there was no need for the Committee to address itself to the specific elements pertaining to the bilateral agreements since the TSB was the relevant Body for dealing with such matters. He was, however, concerned that an impression had been given that as a result of the bilateral agreements concluded by the EEC under the extended MFA, the trade of the exporting partners had been restricted. In fact imports into the EEC from developing countries as a whole had increased in quantitative terms, between 1978 and 1979, by 15 per cent, while the increase for those countries with which the EEC had bilateral agreements was 16 per cent.

14. With regard to the last point made by the spokesman for the EEC, the representative of India said that he had taken the example of the EEC, where imports from developing participating countries which had bilateral agreements with the Community had risen at a lower rate than imports from developed countries or from non-participating developing countries, to show the inequity suffered by developing participants. He thought it was possible that a similar pattern also existed in other importing countries as well.

15. The representative of Pakistan said that consideration of the question of variations by the Committee would, in his view, determine the attitude of developing countries on matters relating to the future of the MFA. In this respect, his delegation felt that the objectives of the MFA in protecting the interests of developing countries were neglected and the operation of the MFA had failed to provide adequate protection against restrictions imposed on developing country exports. Bilateral negotiations had been conducted under the threat of unilateral action by the importing countries and efforts were made to maintain restrictions already in force.

16. He recalled that the "reasonable departures" clause was agreed to by the developing countries at the time of extension of the MFA, in a spirit of compromise in order to preserve the international co-operation in textiles trade. However, it had not been the intention to allow the developed importing countries to make wholesale departures or variations from the growth and flexibility elements provided in Annex B of the MFA. He believed that some importing countries had used this clause against the letter and the spirit of the conclusions adopted by the Textiles Committee in its

meeting of December 1977. It was originally agreed, as clearly stated in these conclusions, that the departures could only be made from particular elements in particular cases. However, in the catalogue of variations prepared by the TSB, one found departures in the majority of agreements and in respect of most of the elements in each of these agreements.

17. The Textiles Committee had also agreed in its December 1977 meeting that the "reasonable departures" should be temporary in nature so that the importing countries invoking this clause should return to the framework of the MFA in the shortest possible time. There was no evidence to that effect, since these departures had not been revoked over the period of more than two years for which the agreements concluded with Pakistan and other exporting developing countries had been in existence.

18. The representative of Pakistan stated that the developing countries would have serious reservations on this issue in addressing themselves to the future of the MFA when the Committee met for that purpose later in the year. He also mentioned that the current lower growth rates and the diluted flexibility provisions, as included in the bilateral agreements concluded with Sweden and the EEC had arrested growth possibilities for textile exports to these countries.

19. Commenting on the reference to the EEC/Pakistan agreement, the spokesman for the EEC stated that imports into the Community from Pakistan had increased between 1978 and 1979 by 24 per cent in quantitative terms.

20. The representative of Sweden commenting on the point made by the representative of Pakistan concerning the low growth rate in the agreement concluded between the two parties, said that such low growth could not be considered as a departure, since it was in accordance with the provisions of

paragraph 2 of Annex B. These provisions established essential pre-conditions under which Sweden, as an MVP country, could join the MFA. Referring to the points raised regarding the need for an early return to the framework of the MFA, he stated that paragraph 5:4 of the Protocol extending the Arrangement provided that this should be done in the shortest possible time, and he underlined the word "possible".

21. The representative of Sweden contrasted the production index for clothing in his country with that of Korea as given in document COM.TEX/W/63 prepared by the GATT secretariat. His country's index in the second quarter of 1979 was 53 (1973 = 100) while that of Korea was 358. He observed that the Protocol extending the Arrangement had not prevented Korea from achieving such a remarkable performance.

22. The representative of Sri Lanka said that notwithstanding the fact that Sri Lanka was basically a new entrant and a small supplier in terms of Article 6 of the Arrangement, it had to face restraints in the markets of several developed countries. In his view, the extended MFA had failed in satisfying the needs of exporting developing countries. Any future Arrangement should have as a basic objective the liberalization of world trade in textiles and should not be tailored solely to the interests of the developed countries. While restrictions on textile trade had been intensified over a period of two decades, the unemployment situation in developed countries had not improved. These restrictions had only had adverse effects.

23. Referring to the TSB's report on variations from Annex B, he said that it was useful but did not present a clear-cut picture. Commenting on the agreement concluded with Sweden, he said that, although this agreement had

been extended annually for the last three years, no flexibility provisions were included. As regards the agreement concluded with the EEC, his delegation felt that the provisions for carryover/carry forward and the growth rates could have been more generous for some of the sensitive items on account of the fact that Sri Lanka was a new entrant and a small supplier to this market.

24. The representative of Canada noted that it was not possible to look at individual elements in isolation in the TSB report on variations. He said that the agreements were much more complex than might appear from the individual entries contained in the tables. Furthermore, the tables yielded no appreciation of the significance of the individual items in the trade of the country involved, and the circumstances of each negotiation. He drew the attention of the Committee to paragraph 3 of the report in which the TSB noted that the information related to elements of agreements in terms of the provisions of Annex B alone and reaffirmed its findings on the overall review of the agreements themselves.

25. The representative of Malaysia wished the Committee to note that productivity and competitiveness of textiles and apparel industries in the developed countries had improved since the coming into force of the MFA, as evidenced by both the report on variations from Annex B, and paragraphs 15 and 16 of the report on adjustments. Thus, at the present time the so-called low wage developing countries posed a smaller threat of market disruption than those developed countries which possessed mass-production facilities.

26. From the report of the TSB, he was able to deduce that variations had been in both directions. There were cases where the norms set out in Annex B had been improved upon and also cases where these norms had not been met. In his view, downward variations from the norms in Annex B pertained to those categories of products in which developing countries were more competitive in international markets. He said his delegation would welcome a more thorough analysis of these variations in preparation for the negotiations concerning the future of the MFA.

27. The representative of Hong Kong linked the report of the TSB on variations from Annex B to the question of "departures", and recalled paragraph 5:4 of the Protocol extending the Arrangement. He reminded the Committee that at its last meeting, Hong Kong had stated that a return to the framework of the Arrangement "in the shortest possible time" could not mean at the end of the duration of the extended MFA. Seven months later, his delegation thought it pertinent to ask when the participating countries which had had recourse to the "departure" provisions, intended to return to the framework of the MFA. The catalogue contained in COM.TEX/SB/576 recorded no return to the framework of the MFA. On the contrary, one major partner, the United States, had in its agreement with Hong Kong, revised the swing provision downwards and eliminated carryover and carry forward for nine categories during 1980. The TSB in considering this action had due regard to its one-year duration. Any attempt to prolong or enlarge the reduction would further erode the MFA, and would threaten the stability of access to which the TSB in considering the modification had attached great importance.

28. The representative of the United States said that the bilateral agreements concluded by his country were complex and had varied according to particular needs of the trading partners. This was made possible only because the provisions of the MFA allowed for flexibility. Furthermore, the text of the Arrangement which was written about seven years ago, needed to be interpreted in the light of changing economic conditions. He pointed out that even if in certain cases it had not been possible for every provision of each agreement to be fully in line with all the provisions of Annex B, all agreements concluded had remained within the MFA if viewed in overall terms.

29. Commenting on the point raised by the representative of Hong Kong that for one year in the agreement between the two parties swing had been reduced to 5 per cent, and carryover/carry forward was not permitted, the representative of the United States referred to paragraph 5 of Annex B which justified 5 per cent swing in certain circumstances, and which stated that there "may" (and not "must") be carryover/carry forward.

30. Responding to this statement the representative of Hong Kong said that his Government had not recognized that exceptional circumstances had existed to justify lower swing in the sense of the said paragraph. He also disagreed with the point made by the representative of the United States that the provision for carryover and carry forward was not obligatory.

31. The representative of Brazil referring to the two reports before the Committee said that, in the view of his delegation, these studies had a factual character, and provided abundant information and a high degree of transparency. The TSB and the Working Group on Adjustment Measures had refrained from partial interpretation of the facts and from producing

documents of antagonistic character. He expressed the hope that the constructive attitude adopted in these two exercises would facilitate realistic solutions in future negotiations.

32. Referring to the TSB's report, he said that in his opinion the catalogue of variations clearly showed the widespread impact of the Protocol of Extension on the operation of the MFA. The temporary departures included in the bilateral agreements, measured against the parameters agreed upon in 1977, had resulted in a net deviation from the framework of the Arrangement.

33. The representative of Mexico said that the TSB's report on variations was useful, but the tabulation contained therein gave a static picture, and did not indicate how the administration of the agreements had evolved. He took the example of the agreement between the EEC and Mexico, and stated that the regional quotas established had not been shown. In a number of agreements quotas had been given to regions of little or no export interest, while small quotas have been assigned to other regions of greater export interest. These regional quotas constituted additional restraints to the Community quotas.

34. He also referred to the new GSP system established by the EEC with respect to textile products, and said that the modifications made had detrimental effects on Mexico, similar to those of quantitative restrictions. For the Major Review of the Arrangement the Committee should take account of the restraint régimes existing in all participating countries. In this respect, he pointed out that his country's report under Article 11 showed that quantitative restrictions had been eliminated with respect to 130 out of a total of 153 MFA products.

35. The representative of Japan expressed the belief of his Government that the MFA had contributed to the stable development of world trade by helping to adjust the interests of exporting countries with those of importing countries. In the view of the Japanese delegation, bilateral agreements in their specificity reflected the conditions under which they were concluded. However, it was to be noted that the MFA contained provisions for securing the expansion of textile trade on the one hand, and of eliminating the real risk of market disruption on the other. In concluding agreements, due regard should be paid to growth rates and flexibility provisions.

36. The representative of Singapore referring to the report by the TSB on variations noted that his country, together with a number of other developing countries had been affected by a blanket application of general departures by certain trading partners. In this connexion, he recalled that departures from the provisions of Annex B had been meant to be in respect of particular elements in particular cases, and not for general application to all exporting countries. He therefore supported an early return to the framework of the MFA.

37. The representative of Austria shared the views previously expressed that the elements contained in the bilateral agreements should be reviewed in overall terms since a review in relation to the elements set out in Annex B exclusively would give only a partial picture. He endorsed paragraph 3 of the report referring to the continuing validity of the TSB's earlier findings, observations and recommendations.

38. The representative of Poland said that it was important that bilateral agreements should meet the requirements of the MFA not only in its letter but also in its spirit. In examining COM.TEX/SB/576, his delegation noted the

large number of cases of variations from the provisions of Annex B. There were probably justifications for the variations, but they should be temporary in character. He emphasized the importance of swing, carryover and carry forward which provided the necessary flexibility in the implementation of the agreements.

39. He said that under the circumstances the TSB had a delicate and difficult task. His delegation appreciated the objectivity of the TSB, and the satisfactory manner in which it had performed its task, taking into account not only Annex B, but the letter and spirit of the MFA as a whole. The TSB's previous recommendations, that the provisions of Article 9:1 be fully observed, was of particular importance to his country. He stressed that the MFA should ensure a balance between the interests of importers and exporters and not be used to justify protectionism.

40. The representative of Egypt recalled that the developing countries had accepted the Arrangement as well as the Protocol extending it, as a compromise. The textiles industry was one of the main sources of foreign exchange to developing countries which were also faced with the detrimental effects of world-wide recession. The special measure of international co-operation applied in this field should be utilized to assist the developing exporting countries in increasing their foreign exchange proceeds thus enabling them to maintain their demand for capital goods.

41. Referring to the report of the TSB on variations from Annex B, he said that it revealed the continuation of departures from the provision of the MFA for more than two years over the extended life of the Arrangement. This, in his view, could not be considered reasonable.

42. The representative of Indonesia said that as a new entrant, his country had been faced with restraints on its exports, notwithstanding the provisions of Article 6. Furthermore, Indonesia had been faced with fraudulent practices related to certificates of origin. He pointed out that the TSB's report contained no conclusions nor recommendations but provided only a compilation of the relevant elements contained in the agreements. The Protocol of Extension and, in particular, the terms "exceptional circumstances" and "reasonable departures" had been used to justify many variations from Annex B.

(b) Report by the Working Group on Adjustment Measures

43. The Chairman recalled that at its meeting in December 1979, the Textiles Committee decided that "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". The Chairman referred the Committee to document COM.TEX/16 and Add.1 containing the report of the Working Group of the Textiles Committee on Adjustment Measures. He said that in implementation of its mandate the Working Group had held its first meeting on 12 February 1980, and following a general discussion on the type of information that would be needed for its work, it had decided to proceed further on this matter by setting up a Technical Sub-Group. The Sub-Group had performed the tasks entrusted to it in securing information relevant to the work assigned to the Working Group, and in examining such information for the purpose of its draft report which had been submitted to the Working Group. At its second meeting held on 23 June, the Working Group adopted its report. The report had been divided into three sections: Section I set out the introduction

and general comments; Section II set out a summary of the submissions received as at 11 June, combined under four main parts, i.e. the status of the industry; expansion and re-organization; adjustment measures and policies; and increased access to markets. Section III contained the submissions as received from participating countries. Submissions which had been received after the cut-off date of 11 June mentioned in the report had been included in an addendum to this section. The reply received from Poland after the meeting of the Working Group was to be found in COM.TEX/16/Add.1.

44. The Chairman drew the attention of the Committee to the general comments set out in paragraphs 11 and 14 to 20. It was noted that the replies received provided substantially larger amounts of information than had previously been made available on adjustment measures. However, in the last paragraph the Working Group, referring to the limited scope of its report, had submitted the matter to the Textiles Committee for its consideration as to such further action as it might wish to take.

45. A summary of the discussion which took place under this item is given below in paragraphs 46 to 71. The Committee's decision on further work on adjustment measures is set out in paragraph 72.

46. The representative of India speaking on behalf of developing countries, referred to the balance of rights and obligations contained in Article 1:4, and recalled that the Arrangement was conceived as a transitory expedient to permit the textile industry to adjust to the changing pattern of international trade, with a view to achieving the objectives set out in Article 1:2. It was expected that governments taking safeguard measures

would also strengthen adjustment measures to ensure the temporary nature of the restrictions introduced. The report of the Working Group gave little evidence that adjustment measures had been intensified. He referred to paragraph 18 of the report and said it was desirable that the additional information required therein were to be provided, and suggested that the Working Group should continue its work.

47. As regards the problems referred to in paragraph 17 of the report in relating adjustment processes and measures to the provisions of increased access, he said that this was a matter for the reporting country to assess and, in his view, if such processes and measures were positive trade would automatically increase. However, it appeared from the report that most governments depended on autonomous measures taken by industry. He urged that in the terms of the MFA, there should be conscious policy programmes in which governments should have an active rôle to play. The report had also served to bring out the well-known link in developed countries between declining employment, closures and increasing productivity and technological change.

48. The representative of Korea observed that obligations under Article 1:4 had been disregarded by the developed trading partners and expressed his disappointment at the lack of positive action on this issue. In referring to the section on "access to the market" of COM.TEX/16, he noted that certain parts of the information given by the developed countries presented a misleading picture. Developing countries had not been given substantially favourable market access opportunities over the extended life of the MFA. The developed countries would need to provide more comprehensive and precise information in this regard so that this part of the document could be reviewed in greater depth in the coming meeting on the Major Review.

49. The spokesman for the EEC stated that the objectives of textiles policy as defined by the Community in 1977 were set for a period of five years up to 1982. The period of two years covered by the report of the Working Group was insufficient for an evaluation of the effects of adjustment measures at this stage. The implementation of adjustment measures was a long-term process, which would extend over a number of years. The Community took the view that a comprehensive assessment of the information gathered could only be made in the light of the inventory of restrictions maintained by the majority of participating countries to the Arrangement.

50. Market conditions in the Community had been adversely affected by the stagnation of consumption as well as a considerable increase of imports from third countries, leading to major reductions in employment (700,000 between 1973 and 1978) and the closure of factories (4,200 over the same period). Consumption of textiles and clothing, which had progressed by about 5 per cent annually between 1970 and 1973, had increased only around 1.5 per cent per year in recent years, paralleled by a declining trend in the elasticity of demand in the sector. He noted that compared to the progress in general industrial production indices, those of textiles and clothing had not regained the level of 1973, despite a certain increase in 1979. Therefore, for him, the statement, included in paragraph 15 of COM.TEX/16 that "improvement in production had occurred in varying degrees and world-wide and that it paralleled the general economic growth patterns for 1978 and 1979" was not valid in the case of the Community. In this context, he noted that textile production in the Community had fallen by more than 9 per cent in quantitative terms between 1976 and 1978. This reduction, mainly observed in weaving and spinning, was also applicable to other sub-sectors although in

varying degrees depending on the products and member States. For the clothing sector, the situation was slightly better; Community production generally (despite the impact of imports) had decreased very little since 1976.

51. The spokesman for the EEC found that the Working Group on Adjustment Measures had done excellent work. He supported its continuation and also supported the collection of data from countries which had not yet supplied information, and the supplementing and updating of certain incomplete contributions. In the light of the elements then available, the Committee could decide at its meeting in October for the Major Review whether the work should be continued any further.

52. The representative of Yugoslavia said that his country, like others which had developed their textiles industry, had great interest in questions related to adjustment measures. Exporting countries were not meeting with conditions favourable to progressive development of their textile industries, but rather with protectionist measures which did not permit significant increases in their exports.

53. It was in recognition of the fact that any solution to this situation was linked to the question of structural adjustment, that the Working Group had been set up to study the question. To the extent that the question of structural adjustment could be more fully studied, a base could be created for the improvement of trading conditions, particularly for developing countries.

54. He complimented the Working Group on its report which, though incomplete, had provided the Committee with an insight into some of the problems faced by countries, and the measures they had taken with regard to such problems.

He therefore thought that the Group should continue its work. He expressed regret that Yugoslavia had not as yet submitted its report to the Group, but hoped that it would do so in the near future.

55. The representative of Pakistan stated that the developing countries had agreed to the dilution of the MFA in the form of reasonable departures with the expectation that the developed importing countries would adapt to the changes in world market conditions through necessary structural adjustment measures. However, after more than a decade, it was to be noted that developed countries had not seriously undertaken adjustment measures specifically for the textile industry. The adjustment measures referred to in document COM.TEX/16 had been taken with the intention of strengthening the competitiveness of the industry and moving into more viable lines of production rather than the phasing-out of inefficient sectors. The slow and haphazard manner in which structural adjustment measures had been applied in the developed market economies had been a main reason for resort to actions involving departures from the framework of the MFA. In spite of defensive investment in the textile sector the economic viability of the sector in developed countries had not improved nor had employment levels been maintained. He added that the re-allocation of resources of human capital which accompanies structural changes would become more difficult if adjustment measures were put off for a longer period through the use of protectionist measures.

56. The representative of Sri Lanka stated that as was evident from the report of the Working Group on Adjustment Measures, improvement in production in most of the developed importing countries was accompanied by

a decline in employment and the number of production units. The changing ratio between production and employment was apparently due to technological change in the textile industries in these countries and did not appear to be linked to imports.

57. Except for Japan and Canada where governments had adopted a forward planning approach, the adjustment process in developed countries relied mainly on autonomous adjustment measures. In his view, no assessment had been made until now of the impact of adjustment assistance measures on the industries of developed countries. More viable lines of production within the textiles industry, or the more viable sectors of the industry into which the textiles industry should move in terms of Article 1:4 had also not been identified.

58. It was his hope that an accelerated process of adjustment would motivate an orderly return to the framework of the MFA. However, in the past two and a half years the call for restructuring and phasing-out of uncompetitive industries had not been answered.

59. The representative of Canada said that the report of the Working Group on adjustment measures included data submitted by participants, but also lacked data not submitted. The subject covered a complex area, and he pointed to the dangers of drawing general conclusions on the issues involved.

60. The representative of Malaysia endorsed the proposal for further work on adjustment measures. He said that although the present report contained a host of information on the subject not previously available, the Working Group and Sub-Group should continue their work in order to present a more detailed analysis in early 1981.

61. In his view the present report clearly indicated that the productivity and competitiveness of the textile and apparel industries in developed countries had improved considerably since the coming into force of the MFA. The United States, for example, had moved from a trade deficit to a surplus in 1979. Furthermore, unemployment in the EEC was more due to technological advances, and competition from other developed countries, rather than imports from low-cost countries.

62. The representative of Hong Kong said that there was an indisputable obligation under Article 1:4 of the MFA on importing countries, which apply restraint measures, to adopt appropriate adjustment measures.

63. The representative of the United States commenting on the statement by Malaysia said that the Malaysian delegate had commented on the achievements of the United States textile industry, but had not referred to the apparel industry. He referred to page 191 of COM.TEX/16, which showed that imports of apparel had increased substantially within quotas, whereas the United States had progressively reduced the number of quotas in the textiles area to a point where actual restrictions were virtually non-existent.

64. The representative of Brazil pointed out that after four months of work on adjustment measures the participating countries had refrained from arriving at definitive conclusions on the matter and had also felt the necessity for further analysis. Since there was no uniform pattern applicable to all countries on the question of adjustment, a common ground in search of information free from a priori formulae was needed to induce a productive dialogue and co-operation among importing and exporting countries. He suggested that the Working Group on Adjustment Measures present a progress

report to the October meeting of the Committee and a complete report with its conclusions in December, when the Textiles Committee would decide how to proceed on its further work.

65. The representative of Mexico said that the future work of the Working Party should concentrate more specifically on the problems raised in paragraphs 16 and 17 of the report, namely the lack of a direct link between changes in production and trade figures and the adjustment processes or measures undertaken; and the problems of evolving a suitable methodology which could establish a relationship between adjustment measures and increased access in the sense of Article 1:4. In this context he drew the attention of the Committee to the fact that his delegation gave importance not only to those paragraphs in the Protocol extending the Arrangement, which were of interest to importing countries (including the reasonable departure clause), but also, and in particular, to paragraphs 8 and 9 thereof. He also referred to paragraphs 18 and 19 of the Working Group's report, and said a report from his Government would be forthcoming as soon as possible.

66. The representative of Japan informed the Committee that the Japanese textile industry had been declining in the face of the rapid growth of textile industries in neighbouring developing countries. In order to maintain its international competitiveness, the Japanese industry had been making efforts for structural reorganization through diversification and by moving into more viable lines of production, without resorting to import restrictions on MFA products. It was the view of his Government that there could be no uniform standard for the implementation of adjustment measures. Each country had to adopt its own measures based on the specific circumstances with which it was

faced. However, pursuing the reinforcement of import restrictions without parallel efforts for adjustment would serve to preserve inefficient lines of production to the detriment of the countries concerned and their trading partners.

67. The representative of Colombia agreed that the work of the Working Group on Adjustment Measures should be continued, in order to enable it to complete the task entrusted to it. This would imply co-operation on the part of those parties which had not provided information, in furnishing required data, and an additional effort from those countries which had provided inadequate data. Such information was required for the Working Group to make an analysis of the extent to which adjustment measures have brought about changes in production and international trade, and have served to provide increased access for developing countries. Since his own country's exports had increased in value terms, but declined in quantitative terms, he urged that information for the purpose of this exercise be provided in both value and quantitative terms. He concluded by saying that in contrast to the restraints maintained by developed countries, his country did not maintain quantitative restrictions on textiles.

68. The representative of Austria supported the proposal that the Working Party continue its work. All countries concerned should submit the relevant data. The available information should also be kept up-to-date. His country had liberalized its import régime. In the past two years it had terminated five restraint agreements, and had liberalized imports of twenty-one products from one country. Furthermore, in cases where Austria could have invoked paragraph 1(d) of Annex B, it had decided to completely remove quantitative limits on the products concerned.

69. The representative of Egypt regretted that developed importing countries had not so far made serious efforts to restructure their industries so as to provide access to their markets for exports from developing countries. He considered that improvements in labour productivity resulting from technological innovations had a much larger impact on employment in the textile and clothing sector of industrialized countries than imports. He supported the view that the report on adjustment measures should be completed on the basis of additional information.

70. The representative of El Salvador supported the proposal that the Working Party and the Sub-Group continue their work. In this context he said that his country will be shortly submitting the appropriate information.

71. The representative of Indonesia said that the report contained primarily a compilation of the submissions received and a summary thereof, and lacked general conclusions or recommendations. This may have resulted from a spirit of compromise whereby the Working Group refrained from denunciations or condemnations. He thought the work should be continued, because adjustment measures in developed countries would be meaningless, unless they resulted in providing greater access to exports from developing countries.

72. Following its discussion, the Textiles Committee agreed that the Working Group on Adjustment Measures, together with the Sub-Group established by it, should continue its work on adjustment measures with a view to supplementing and carrying forward the analysis and evaluation of the information contained in COM.TEX/16. In order to enable the Working Group to complete its task of preparing a comprehensive report, the participating countries concerned should collaborate to furnish the relevant additional data. At the meeting of the Committee for the Major Review in October the Committee would consider the matter further in the light of the progress made by the Working Group.

(c) Secretariat study in connexion with the Major Review

The representative of Hong Kong proposed that the secretariat undertake a study for the Major Review which would establish the current situation with respect to production and trade in textiles and the factors that had to be taken into account. He suggested that without drawing any conclusions, such a study should cover the following aspects:

- (a) an examination, on the basis of the preamble and Article 1, of the extent to which the objects of MFA I and II had been achieved;
- (b) a review of the shift in trade patterns in textiles during the life of MFA I and II as between developed countries themselves, and between developed and developing countries;
- (c) an examination of the effects on employment in the developed countries' textile and clothing industries of improved productivity;
- (d) a review of the effects on employment within developed countries of efficient producers causing inefficient plants to close;
- (e) an extension of (d) to review similar effects within a customs union or free-trade area;
- (f) an identification of these factors currently alleged to be causing acute problems for developed countries' industries but which had not and were never envisaged as being dealt with by the MFA, such as:
 - (i) false labelling within a customs union of items made outside it on a "production sharing" basis;
 - (ii) other fraudulent claims to origin which constitute a law enforcement problem;

- (iii) low-priced raw or semi-processed materials resulting from government actions;
- (iv) dumping problems;
- (v) minimum viable production being threatened mainly by imports from developed countries, but action being taken only against those from developing countries.

73. This proposal received support from spokesmen for a number of developing countries. The representative of India stressed the need for such a study in order to clarify the issues that arose from time to time regarding textile production and trade. He also said such a study would be useful in making available the basic facts for the forthcoming negotiations on the future of the MFA.

74. The representative of the United States in commenting on the proposed study was of the view that point (a) (referred to above) was a matter for discussion in the TSB or the Textiles Committee; point (b) would in any case be covered by the secretariat's report on trends in production and trade; point (c) had been largely covered in the report on adjustment and, points (d), (e) and (f) may not lend themselves to examination by the secretariat due to data constraints. Moreover, he was doubtful as to whether such a study if requested could be completed in time for the Major Review in October. The spokesman for the EEC also voiced doubts as to the feasibility of obtaining data on points (d) to (f) and questioned whether these points were within the scope of Article 10:2. He stated that if a study going beyond the scope of Article 10:2 were proposed, his delegation would wish to put forward certain aspects not covered by the Hong Kong proposal for consideration as part of the mandate of the study.

75. The representative of India suggested that in addition to the material normally provided under Article 10:2, the study should focus in particular on the state of the industry including employment and productivity. Whatever was available on these matters should be tabled for the October meeting of the Textiles Committee and, if necessary, work should continue thereafter.
76. The representative of Canada said that his country had in the past experienced a problem in the statistical area in separating those data relevant to products covered by the Arrangement from those falling outside it, particularly in areas like employment and production.
77. The observer from the ILO informed the Committee that his organization had prepared three reports covering such aspects as employment, productivity and trade for a meeting on the clothing industry to be held in September/October 1980. These reports could be available for the purposes of the Textiles Committee.
78. Following its discussion, the Committee agreed that the study carried out by the secretariat in the context of Article 10:2 of the Textiles Arrangement should give particular attention to developments in production and trade since 1973, as well as such factors as productivity, employment, etc., as would be relevant for the purposes of an analysis and appreciation of the progress made towards the achievement of the objectives of the Textiles Arrangement, taking into account data on changes in restrictions and tariffs compiled by the TSB.
79. In this respect the Chairman urged those participating countries which had not replied to the letter addressed to them by the Chairman of the TSB requesting information under Article 11:11, 11:12 and 11:2 of the MFA to do

so without delay. In addition, those participants which were requested to provide statistical information with respect to production, employment, value added and investment were reminded to supply such information not later than 25 July.

Date of next meeting for the Major Review

80. It was agreed that the next meeting of the Committee will be held during the week starting 20 October. The suggested dates are 22-24 October; the precise dates would be confirmed after consultation with delegations. At this meeting, in addition to discussing the question of structural adjustment, the Committee will focus its work on the Major Review of the Textiles Arrangement provided for under Article 10:4.

ANNEX

I. Statement by the representative of India on behalf of developing countries (reproduced in full)

81. This special session of the Textiles Committee, convened to undertake an integrated analysis of the Reports of Adjustments in terms of Article 1:4 of the Arrangement and variations from Annex B, has great significance for all participants of the MFA. Mr. Chairman, it has been often stated that the Arrangement is a delicate balance of interests and it would be necessary to recall the context and linkages of the two aspects under consideration and the two sets of balance of rights and obligations.
82. The first pertains to the right of the participants to apply safeguard measures to rectify situations or risks of market disruption and their obligation to ensure orderly expansion of trade. This balance can be seen from the "undertaking" in Article 1:5 of the Arrangement to apply safeguard measures in accordance with the provisions of the Arrangement which include respect for actual levels of trade or quotas of the immediate past in determining base levels, annual growth rates of 6 per cent in case of continuing restrictions, swing of 7 or 5 per cent and carryover and carry forward of 10 per cent. The right to safeguard measures was thus counter-balanced by the obligations prescribed in Annex B.
83. The second set of rights and obligations is contained in Article 1:4 of the Arrangement. The Arrangement was conceived as a transitory expedient to afford some time to the domestic industry to adjust to the changing patterns of international trade in textiles. The objectives continued to be the expansion of trade, reduction of trade barriers, and progressive liberalization. Hence, it has been stipulated that the actions taken under the Arrangement should be accompanied by appropriate policies, consistent with national laws, to encourage the domestic industry, to move progressively

into more viable lines of production or into other sectors of the economy so that the objectives set out in Article 1:2 are achieved in due course. This was the second crucial area of balance.

84. The balance achieved in the first set was disturbed in 1977 when the MFA was being renegotiated and one major importing country had contended that their domestic industry was facing an unprecedented crisis with high import penetration, large-scale closures of establishments, rising unemployment and drop in production. The problems of this major participant were accommodated by the introduction of the concept of jointly agreed "reasonable departures" although it might be pointed out that available statistics show that in the four quarters of 1976 the production indices had shown a rising trend both in the textiles and clothing sectors, reaching the index level of 1973 which itself was unusually high being at the crest of the boom period.

85. The catalogue of variations prepared by the Textiles Surveillance Body is an extensive document and deserves appreciation of the work done. It also shows the extent and manner in which the provision of departures has been used by the concerned participants.

86. It was, for example, the understanding that the provision of departures would be used only by one major importing participant. Moreover, it was also specified that departures were to be from particular elements in particular cases. It can be seen from the catalogue that all the major importing countries, practising restraints, have departed from the minimum norms of Annex B. Moreover, some importing countries have gone beyond "particular elements in particular cases" and departed from certain elements in all their bilateral agreements. Restrictive swing provisions or absence of swing between and among groups of products, restrictive carry forward and carry over provisions, growth rates being fixed at alarmingly low rates, sometimes

only of a token nature, cut-backs in determining base levels and resort to a system of annual agreements, are some examples of the erosion of the letter and spirit of the Arrangement.

87. It might be mentioned that one major importing country had, by and large, respected the provisions of Annex B by consistently providing for more liberal elements in its bilateral agreements with the developing exporting countries initially concluded under the extended phase of the MFA. However, in subsequent amendments to these agreements, it has also resorted to restrictive provisions both in respect of flexibility and growth.

88. A brief word about the minimum viable production countries would be appropriate. Whereas their situation is to be appreciated and kept under consideration, it might be stressed that solutions to their situation must be attempted and pursued within the framework of the Arrangement itself. It could be useful for these countries to determine and indicate specific levels considered necessary for minimum viable production as well as the need to view this concept itself with the equally valid concept of viability of production. As has already been stressed in deliberations in the Textiles Surveillance Body, while the.mvp concept would remain an important one, it should not be used as a general waiver from the norms and disciplines of the Arrangement.

89. It has been argued in the past that although restrictions are stringent, overall access has been improved. Apart from the specific restraints, the trade of almost all the developing country members in the MFA products is covered by additional safeguard mechanisms which are well known. Indeed, the statistics in COM.TEX/W/63 show that the benefits of the present régime have gone to the developed countries and the non-members. For example, the

share of developed countries in the Community's imports went up from 24.2 per cent in 1977 to 25.8 per cent and of the LDC non-members from 24.4 per cent to 25.6 per cent. The share of the developing country members has declined from 43.3 per cent to 40.3 per cent. The growth in world imports in 1978 over 1977 for the Community was 20 per cent, the corresponding growth for the developed countries was 24 per cent and for LDC non-members 26 per cent. Developing country members had only a 12 per cent rate of growth. It would be certainly fair to state that this state of affairs has never been the objective of the Arrangement.

90. One other point which deserves our attention is the contention that the rigid control over the trade of the dominant suppliers was intended to open the way for the small supplying countries and new entrants. However, it is seen that agreements have been negotiated with very small suppliers also whose total trade does not constitute any significant proportion of total imports into specific markets.

91. The Textiles Committee, while agreeing to reasonable departures had urged the participants to return in the shortest possible time to the framework of the Arrangement. Two years have passed and it is unfortunate that no attempt has been made to review the situation nor indeed to set a time-frame for the elimination or phasing-out of restraints. Even the Working Group on Adjustment Measures has concluded that production in most of the importing developed participants has improved in the first two years of the extended phase of the MFA. Given this situation and in the interest of goodwill, it will be opportune now for the departing countries to revert forthwith to the original framework of the Arrangement.

92. Reverting to the Report on Adjustment Measures which is also before this Committee, it would be desirable to set the problem in proper perspective. It was expected that while the national governments, endorsing the pleas of their industry, sought drastic interventions in trade, they would also seek to strengthen adjustment measures to ensure that these interventions were of a temporary nature. Little evidence of such strengthening has been brought to light in the report which, for want of full information, is of a preliminary nature. I would stress, however, that the Report, though preliminary, is useful and the exercise extremely meaningful. In this context, it would be our suggestion that the Working Group be continued for the purpose of collecting further information with the objective of preparing a comprehensive report to serve as an input for the Major Review expected during this year. Some particular elements of the type of further information required have already been outlined in paragraph 18 of Section 1 of the Report including information on industry specific comprehensive plans, development of more viable lines of production, scrapping of capacity, development of alternative industries, etc. Particularly important are the requirements for the country taking action under the Arrangement to ensure the quality of its adjustment measures in terms of providing greater trade access for developing countries. It would, of course, be up to the concerned importing country to assess this quality, but to us it is not a question of methodology, for if adjustment processes and measures are positive, trade would automatically increase.

93. Again from the data available, it would seem that most of the national governments are satisfied with the autonomous measures taken by the industry. We would strongly stress that adjustment in terms of the MFA also in the

context of the need to dismantle progressively government imposed restraints on trade in the textiles sector, must be a conscious policy programme in which governments must play an increasingly active rôle.

94. As has been said earlier, even on the basis of the initial data provided, the Working Group on Adjustment Measures has concluded that production in most of the importing developed participants has improved in the first two years of the extended phase of the Arrangement. The report further goes on to say that while this development in production was taking place, employment and the number of production units had continued to decline. The report has, therefore, reinforced the well-known link between declining employment and closures and increasing productivity and technological changes which has become a phenomenon in the developed importing countries.