

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Textiles Committee

## DRAFT REPORT OF THE MEETING OF THE COMMITTEE

HELD ON 22-27 OCTOBER 1980

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its fourth meeting under the extended Arrangement on 22-27 October 1980, and carried out the Major Review called for by Article 10:4.

2. The Committee had before it a number of documents as set out in COM.TEX/W/80. The three basic documents are: (i) the report of the TSB; (ii) the progress report by the Working Group on Adjustment Measures; and (iii) the secretariat survey on demand, production and trade in textiles.

3. The points made by delegations on the TSB's report in particular, of the operation of the Arrangement in general, are summarized under Item A below "operation of the Arrangement during the extended period". A summary of the discussion of the two other reports is to be found under Item B "Adjustment measures", and Item C "Demand, production and trade".

### Status of acceptances

4. At the outset of the meeting the Chairman informed the Committee that forty-two parties to the MFA (including the EEC as a single signatory) had accepted the Protocol of Extension. Of these, Argentina and Bolivia accepted it subject to completion of internal procedures. Four former participants in the MFA had not accepted the Protocol of Extension: these were Australia, Nicaragua, Norway and Spain. Furthermore, Paraguay had not confirmed its original acceptance of the MFA, nor accepted the Protocol of Extension. A consolidated list giving the status of acceptances as of 20 October 1980 was contained in COM.TEX/10/Rev.3.

A. Operation of the Arrangement during the extended period

5. The Chairman referred the Committee to the report of the Textiles Surveillance Body on its activities since the extension of the Arrangement (COM.TEX/SB/610 and Corr.1). The TSB's report recorded all agreements and measures notified under the extended Arrangement, with the TSB's comments on them where appropriate. In addition, it also included the annual review of restrictions under Articles 11:11 and 11:12 of the Arrangement, as well as a number of general comments on the operation of the Arrangement in this period. The report also contained as complete an inventory as possible of all the restrictions maintained or introduced by participating countries, under the MFA or not, since the introduction of the MFA in 1974 (COM.TEX/SB/610/Addenda 1 to 4). He noted that the above-mentioned addenda, read in conjunction with the catalogue of variations submitted to the Committee at its meeting in July 1980 (COM.TEX/SB/576 and Corr.1) provided a complete picture of the evolution of restrictions and of the implementation of the MFA.

6. The representative of Colombia made a statement on behalf of the developing countries which is reproduced in full as an Annex to this report. The main points in this statement, which was supported by a large number of speakers from exporting countries, as well as in statements made by individual developing countries, are summarized in paragraphs 7 to 19 below.

7. It was stated that the documents before the Committee showed two distinct trends. First, there had been a proliferation of restrictive measures evidenced by a larger number of restraining and restrained countries, and of products put under restraint. Secondly, there had been a systematic and increasing erosion of various elements of the MFA which had served to undermine its objectives. The most important aspect of this erosion was the so-called reasonable departures clause, which provided for departures of a purely temporary nature from particular elements and in particular cases, but which had been used in practice to whittle down the provision of base levels, growth rates and flexibility in bilateral agreements, leading to the setting aside of the three basic pillars of the Arrangement, viz. its regulating, safeguarding and liberalising functions.

8. It was further noted that the reasonable departures clause was originally intended for use by one major participant for departures from particular elements in particular cases. In this connexion, a representative (Brazil) also referred to the evidence provided by the catalogue of variations demonstrating that the use of "reasonable departures" had led to an overwhelming loss of discipline in the functioning of the MFA as from 1978, thus legitimizing practices and situations which would never have been accepted under the original Arrangement.

9. Some representatives (Sri Lanka, Hong Kong, India and Korea) pointed out that only two types of departures had been identified by the TSB. These were reductions in net access, and the use of an earlier reference period for calculating the base levels than that provided for in Annex B. However, in their view, in addition to those listed by the TSB in its report, departures had also included such elements as the absence of growth; nominal growth for specific categories; swing rates of less than 5 per cent; or the absence of carryover and carry forward. The point was made (Philippines) that extremely low restraint levels might be tantamount to prohibition of imports.

10. It was widely recalled that under the provisions of paragraph 5.4 of the Textiles Committee's conclusions adopted on 14 December 1977, countries invoking reasonable departures were required to return to the framework of the MFA in the shortest possible time. It was proposed that participating countries should review their bilateral agreements with a view to returning forthwith to normal trading practices.

11. Concern was expressed about the cumulative market disruption concept and its implications for small suppliers and new entrants. Numerous references were made to restraints introduced by several developed countries against new entrants and small suppliers, despite the relevant provisions of Article 6. It was noted that imports from such countries were restricted while restrictions were not applied to similar imports from other developed countries.

12. Concern was also expressed by a number of developing countries over the use of the "basket exit" or consultation mechanism laid down in certain agreements. It was stated that the consultation mechanism had been applied to suspend imports from the exporting countries concerned even before agreement was reached on new restraint levels and that, on most occasions, a request for consultations was made automatically as soon as the basket exit level was reached. The need was also emphasized for a strict application of the reference period in accordance with Annex B when introducing new restraints under the basket exit mechanism. It was also vital for the maintenance of contractual obligations that exporting countries should in future be permitted to continue their exports during such bilateral consultation periods.

13. It was widely recalled that the TSB had commented in its report that the minimum viable production clause should not be used as a general waiver from MFA commitments. Nevertheless, the MVP clause had been used not only to restrict growth rates, but also to reduce base levels and flexibility provisions in a number of agreements. Two representatives (the Philippines and Sri Lanka) drew attention to the inadequate quotas provided for in certain agreements. It was suggested (Sri Lanka) that any future MFA might contain a provision for "minimum viable exports" for small suppliers and new entrants.

14. The point was made by a number of developing countries that the extended Arrangement had operated in such a way as to favour imports from developed countries, and other countries not members of the MFA, at the expense of the trade of the MFA developing countries without benefiting the domestic industries of the importing countries. It was further stated that restraints on textiles had led to price increases in importing countries and could, in a generalized situation of recession, only make the problems worse for all countries.

15. In commenting on the assessment made by the TSB, in its report, of actions and agreements under the MFA, a number of representatives thought it regrettable that no conclusion had been reached as to the existence of market disruption or real risk thereof. One representative registered his reservations on

some parts of the comments made by the TSB in relation to base levels, growth rates, swing, carryover and carry forward. Some representatives noted that although departures had been characterized in the report as "mutually agreed", the imbalance of bargaining power between developed and developing countries had left exporting countries with little choice but to agree to such departures.

16. References were made to the introduction by importing countries of such concepts as conformity with the MFA in overall terms in spite of inconsistencies in regard to swing, carryover/carry forward and base levels; compensation in other areas for the denial of specific obligations; or the waiving of rights set out in the MFA. These concepts were not considered to be in conformity with the letter and spirit of the Arrangement.

17. The point was made that the TSB should be more vigilant, particularly where there was a need to balance the interests of developed and developing countries. Some representatives therefore suggested that the TSB should be strengthened, and that its recommendations on specific problems should be fully observed.

18. With regard to the fulfillment of the objectives of the MFA, it was noted that not only Article 1:2, but also Article 1:3 and 1:4 of the Arrangement should be taken into consideration. It was also stressed that the basic international law in this area should remain the General Agreement, including in particular Part IV, and not the MFA which was a temporary measure.

19. Two representatives (Hungary and Poland) drew the attention of the Committee to the price clause included in bilateral agreements with the EEC, which, as mentioned in the TSB report, was inconsistent with the letter and spirit of the MFA. They also referred to certain other restrictive elements in these agreements, concerning outward processing trade and over-categorization. The restrictive effects of the regional breakdown of EEC limits were also mentioned by a number of exporting countries.

20. The representative of Hungary noted that in the TSB's report reference had been made to certain quantitative restraints based on Hungary's Protocol of Accession to GATT. He said that these discriminatory restrictions were incompatible with Article XIII of the General Agreement, and considered that the Protocol of Accession of Hungary could in no way serve to justify the existence and application of these restrictions. His delegation was of the view that if

an importing country felt the necessity to maintain or introduce quantitative restrictions on imports of textiles from Hungary, that country should proceed within the framework and according to the provisions of the MFA. The representative of Czechoslovakia expected that existing quantitative restrictions applied against his country's exports of textiles should be terminated under Article 2 of the MFA, and that in the future there would be no recourse by their partners to measures outside the Arrangement.

21. Speakers from developed countries recognized that, in considering the overall objectives of the MFA, emphasis might be placed on different aspects by different participants. While the MFA was no panacea for all the troubles besetting the world's textile and clothing industries, it had served reasonably well in maintaining a balance among the interests of importing and exporting countries, which could differ both among the importing and exporting countries themselves, as well as between the two groups. Developed countries recalled the objectives of the MFA as found in the first sentence of Article 1, paragraph 2. It was recognized that many participants would place primary emphasis on the objectives relating to the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while others would stress the second element relating to the objectives of "ensuring the orderly equitable development" of trade without disrupting the markets of the importing countries or the reasonable growth of industries in the developing participants. It was underlined that both of these important objectives were present in the MFA.

22. In his opening statement, the spokesman for the EEC noted that the trade statistics at the disposal of the Committee covered little more than half the period of the extended Arrangement. Thus, the Committee had no record of the rapidly deteriorating situation in the most recent past. There was evidence that the world recession was hitting the textiles and clothing sectors in many countries including the EEC. It was questionable whether, in today's conditions, the basic objectives of the MFA as set out in Article 1 could be attained to the full satisfaction of any country. However, in a period of crisis, the MFA had been invaluable for ensuring the orderly and equitable development of trade and in providing security of access for all exporting countries.

23. The spokesman for the EEC considered that the report of the TSB confirmed the moderation which had generally prevailed in the use made of the reasonable departures provisions of the Protocol of Extension. The EEC, which had asked for this provision in 1977, had requested departures only in the particular situation of the textiles negotiations which took place in the autumn of that year. Referring to the review of restrictions undertaken by the TSB in the Addenda to the report, he noted that trade in textiles and the comparative advantage therein was also distorted by different forms of government intervention which also required attention if the objectives of the MFA were to be achieved. He noted that a full tabulation of the application of tariffs in the textiles and clothing sector and an assessment of the effects was not available in the TSB's report.

24. With respect to the basket exit mechanism the spokesman for the Community stated that each case was subjected to the most careful examination, after the basket exit level was reached, before a consultation was requested.

25. The representative of the United States said that the second MFA, like MFA I before it, had served the international community well and had provided a framework flexible enough to enable his country to continue to be responsive to the objectives of the MFA. He pointed out that the United States had not used the reasonable departures clause in any agreement; however, in his view there was no understanding that this should be limited only to one participant. Furthermore, it was not correct to say that the base level, growth and flexibility had been "whittled down" as far as the United States was concerned. In relation to access, imports of apparel had been allowed to increase substantially over the period, while in textiles, the United States had progressively reduced the number of quotas to a virtually non-existent level. With respect to small suppliers, there was a direct connexion between the size of quotas involved in the United States' agreements and the growth and flexibility accorded. On the question of prices for textiles and apparel he noted that in the United States, the increase in such prices had been lower than either the producers' price index or the consumers' price index over the period of the MFA.

26. The representative of Japan, in outlining the problems of the Japanese textiles and clothing industry, recalled that up to now Japan had not introduced any restrictive measures on textiles and clothing items covered by the Arrangement. He noted that in 1979, Japan absorbed around 9 per cent

of the total textiles and clothing exports of the developing countries. His Government felt that the Arrangement had continued to function effectively as a framework for adjusting the interests of exporting countries with those of the importing countries, in the spirit of co-operation, despite all the difficulties and problems which might have occurred. The TSB had played an important rôle in securing the effective functioning of the Arrangement.

27. The representative of Canada noted that the international trading environment was not now the same as at the time of the renegotiation of the first MFA, and that there were differences in interests not only between importing and exporting countries, but also between individual countries within each group. In this respect, various bilateral agreements showed that the participation by individual exporting countries in import markets varied widely, as did the degree of import penetration for individual importing members.

28. The representative of Austria remarked that the difficult economic problems of the industries were to be seen not as resulting from the bad functioning of the MFA, but in the context of the general development of the world economy as a whole over the past years. Despite its shortcomings, the MFA and the Protocol extending it had, in his view, served as a basis in the search for solutions to these difficult problems. Commenting on the "reasonable departures" clause, he said that although his country had not invoked that clause he could not accept an interpretation that it should be open only to one major participant.

29. Despite heavy pressure upon the Austrian textile and clothing industries during the MFA period, Austria had continued to resort to the safeguard provisions of the MFA sparingly, and only for precise products causing or threatening to cause market disruption. So far Austria had concluded restraint agreements only with five exporting countries. Two restraint agreements had been terminated and a number of products had been liberalized. Austria would also in future, as far as circumstances would permit, continue a selective approach as regards countries and products.



30. The representative of Finland also stated that his delegation had never accepted the view that "reasonable departures" could be invoked by only one participant. Neither could he agree that the concept of reasonable departures could be extended beyond what had been called "reductions in net access". Generalizations such as "departures have been used by all" were erroneous and regrettable. There were obviously a number of misunderstandings as to what was acceptable under specific provisions of the original MFA on the one hand, and what had to be justified under the provisions of the Protocol of Extension, notably paragraph 5.3. In his view, the report of the TSB for the Major Review gave a correct and balanced picture of the situation.

31. The representative of Sweden referred to the situation of production in his country, and stated that on the basis of figures presented to the Committee Sweden would truly be considered a minimum viable production country. Commenting on the "reasonable departures" clause he stated that Sweden had concluded agreements containing such departures with only three participants in the MFA.

32. The Swedish representative, noting the dominant share of a few low-price suppliers to the detriment of medium and small suppliers and new entrants, suggested that in beginning a dialogue about the future of the Arrangement, it might be appropriate to consider the establishment of a global system, based on MFA principles, which could be more favourable for small suppliers as well as possible new low-price entrants. He suggested that established suppliers were the countries which derived most advantage from the present system.

33. In commenting on this suggestion some countries stated that the application of restrictions on textiles was not a legal right to be used by importing countries as they thought best. It was noted that the purpose of the present meeting was to carry out the review of the existing Multifibre Arrangement, and other countries could have their own proposals to make in relation to the future of the Arrangement at the appropriate time.

B. Adjustment measures

34. The Chairman referred the Committee to the progress report by the Working Group on Adjustment Measures contained in document COM.TEX/18, and the report put before the July meeting (COM.TEX/16 with its addenda). He said that since July COM.TEX/16 had been updated, and that information received by 30 September had been summarized in COM.TEX/16/Rev.1 and Corr.1. He noted that the Working Group on Adjustment Measures had recommended in paragraph 11 of COM.TEX/18 that the work should continue with a view to making a substantive report early in 1981.

35. Representatives of a number of developing countries said that Article 1:4 constituted part of the balance contained in the MFA. They regretted the absence of effective adjustment measures in most developed countries and emphasized the need for a complete report which would enable the Committee to see whether changing patterns have led to increased market access in developed countries.

36. Some delegations considered that existing documents indicated that unemployment in developed countries had resulted from technological changes and not from imports from developing countries.

37. The representative of Colombia said that unemployment in the textiles sector in developing countries had resulted from contraction in their textiles trade.

38. The representative of Japan pointed out that sudden disruptive increase in imports could have unfavourable effects on adjustment efforts.

39. Representatives of Austria and Finland, and the spokesman from the EEC, welcomed the additional and supplementary submissions, which helped to provide a more complete and balanced material which should help the Working Group to analyse the evolution of structural changes which had taken place in the majority of countries.

40. The representative of the United States, referring to his country's submission to the Working Group, said that the substantial increase in imports of clothing and the progressively reduced number of quotas in effect in the textile area, had been consistent with the provisions of Article 1:2 and Article 1:4.

41. The representative of Canada said that there had been a considerable adjustment in his country's textile industry, while there were difficulties in the clothing sector due to the fact that this sector included many small and family owned companies, which had been extremely vulnerable to import competition. Canada imported half of its requirements of textiles and clothing.

42. Following its discussion the Committee endorsed the recommendation by the Working Group, set out in paragraph 11 of COM.TEX/18, that this Group, along with the Sub-Group established by it, be empowered to continue its efforts with the objective of presenting its report to the Textiles Committee in early 1981.

C. Demand, production and trade

43. The Chairman drew the attention of the Committee to the documentation prepared by the secretariat to assist participants in their task. It consisted of a background paper (COM.TEX/W/75) on Demand, Production and Trade in Textiles and Clothing, 1973-1979, supported by three statistical appendices. One, COM.TEX/W/78, contained detailed trade statistics from the UN trade data bank; the second, COM.TEX/W/77 and its addendum, consisted of the production, employment, value-added and investment statistics from the Committee's statistical reporting scheme; and the third, COM.TEX/W/76, consisted of a summary of the main elements in COM.TEX/W/77 and 78. He also pointed out that it had not been possible to cover the first half of 1980 for this meeting, but that the additional information would be circulated in the near future.

44. In discussing textile developments during the lifetime of the Arrangement, in particular MFA II, representatives of developing countries pointed to the fact that there had been a virtual freeze in the share of developing members in international trade in textiles, and particularly clothing, to the benefit of producers in developed countries and non-member countries. During the MFA II, the share of developing member countries in imports into most developed country markets had declined, and the rate of growth of developed country imports from developing members was lower than that for imports from developed members and other non-members. It was also pointed out that developing countries were dependent on textiles and clothing exports to a large degree to finance their economic development.

45. Representatives of developed countries referred to the serious difficulties experienced by their domestic industries, especially during recent years. It was pointed out that, as stressed in the secretariat report, there had been a rapid growth of trade among members of the MFA between 1973 and 1979. Imports, especially clothing, from developing countries had grown continuously throughout MFA I and II. During the same period developed countries had experienced only modest gains in consumption, coupled with stagnating production, so that the available market increase over the period had mainly accrued to imported supplies. The resulting pressure exerted on domestic industries had led to widespread loss of jobs.

46. The spokesman for the EEC, while pointing to the value of the secretariat analysis in COM.TEX/W/75, noted that there was one missing element, namely the trend of total demand for textile products. He suggested that statistics along the lines of the fibre consumption data formerly provided by the FAO would be of assistance in this regard, and requested that the secretariat consider the possibility of furnishing these data in the future. This proposal was supported by the representative of the United States.

47. The representative of Colombia, speaking on behalf of the developing countries, stated that the report by the secretariat in document COM.TEX/W/75 had not provided sufficient material to enable the Textiles Committee to conduct a Major Review of the Arrangement and to assess the extent to which the objectives of the Arrangement had been met. He proposed that:

The GATT secretariat be asked to produce a further report which should contain an assessment of the extent to which the objectives of the MFA have been met, in the light of a full and thorough analysis and evaluation of the present state of the textiles and clothing industry and market in the developed importing countries, and of any changes in trade and production patterns, productivity and employment over the years 1974 to 1979, and the factors behind such changes. This report should be ready for discussion at the next meeting of this Committee.

48. Supplementing this proposal, the representative of Pakistan stated that in the light of Article 6:4 of the Arrangement any assessment of the extent to which the objectives of the Arrangement had been met should give special consideration to the trade in cotton textiles and accordingly proposed that:

In the "next report" developments in production and trade in cotton textiles should be covered properly by presenting to this Committee, not only statistical data on production and trade in cotton textiles, restraints in this **sector** and consumption of cotton fibres, but also its evaluation.

49. Representatives of a number of developed countries doubted whether the secretariat was the appropriate body to assess whether the objectives of the MFA had been met. The spokesman for the EEC stated that, should further studies be undertaken, other aspects should also be examined and put forward a proposal that:

Any such study should also address itself to the incidence of non-quantitative restrictions, of particularly high tariffs and trade circumvention, and the extent to which such impediments interfere with the attainment of the MFA objectives.

50. Representatives of developing countries questioned the relevance of the EEC's proposal to the work of the Committee, and pointed out that many of these aspects were dealt with in other GATT bodies.

51. Following its discussion, the Committee took note of the proposal made by the representative of Colombia on behalf of the developing countries, and supplemented by the proposal of the representative of Pakistan. It also took note of the supplementary proposal put forward by the spokesman for the EEC. These proposals remain on the agenda of the Committee.

52. The Committee also agreed that the secretariat should prepare for the next meeting a paper which would bring out more clearly the facts on the basis of available statistics, and, to the extent possible, update existing information with a view to assisting the Committee to make an assessment of the extent to which the objectives of the Arrangement had been achieved.

53. Concerning the proposal on the compilation of fibre consumption statistics put forward by the EEC, the Committee agreed, following consultations and further deliberations, that the secretariat would prepare a feasibility study covering the technical and financial aspects of the proposal for the next meeting of the Committee.

Date of next meeting

54. The Committee agreed to meet on 9-10 December. At this meeting the Committee will consider the future of the Arrangement, as required by Article 10:5, and establish the membership of the TSB for the year 1981.

ANNEX

STATEMENT MADE BY THE REPRESENTATIVE  
OF COLOMBIA ON BEHALF OF THE DEVELOPING  
COUNTRIES

This session of the Textiles Committee is of obvious critical importance for all of us, particularly the developing countries who must assess the extent to which the MFA has succeeded in meeting its objectives of liberalizing world trade in textiles in accordance with the dynamics of comparative advantage, and whether or not the sacrifices which developing countries had undertaken on themselves in 1977 have been compensated by the progressive dismantling of restraints and barriers against their export trade in this vital sector. At the very outset, I would like to stress that developing countries as a group regard liberalization of trade in the textiles area, where they have proven advantages of production and trade, as a major element of an open trading system.

Two distinct trends are apparent from the documents before us. First, it is evident that there has been a proliferation of restrictive measures in many ways. There is a larger number of countries invoking restraints, a larger number of exporters being covered by restraints, and a larger area of trade being put under restraint.

The second major trend which is obvious is that there has been a systematic and increasing erosion of various elements of the MFA which has had adverse effects on the objectives of the Arrangement, the trade of developing countries, including the aim of increasing their share of the world trade in textiles, and the orderly development of international trade in this area. The most important aspect of this erosion is the so-called "reasonable departures clause" which provides for departures of a purely temporary nature in particular elements and in particular cases. It is to be seen from the TSB reports as well as from the numerous bilateral agreements concluded under the MFA that several importing countries have invoked this clause in respect of far too many exporters despite the understanding that this provision would be used only by one major importing participant. The provisions of base levels, growth rates and flexibility have been whittled down in all the bilateral agreements and it seems clear that the intention of a selective approach in resorting to departures had been nullified. It could, in fact, be argued that the way it has operated, the reasonable departures clause has led to a virtual repeal of the Arrangement and set aside the three basic pillars of the Arrangement which are its regulating, safeguarding and liberalizing functions.

We would like to stress once again that the importing countries are committed to a return in the shortest possible time to the framework of the Arrangement. It is therefore with serious concern that we note the trend in some importing countries to deviate further from the framework instead of returning to it.

The systematic erosion may also be seen in the use of extraneous concepts such as cumulative market disruption and basket extractor mechanism. These concepts have been unilaterally introduced by developed importing countries and they have the effect of totally abrogating Article 6 of the MFA. Their overall effect is to freeze for developing countries the international market in textiles and clothing and to prevent the logical evolution of many developing countries from manufacturers and exporters of unsophisticated textiles to those of clothing. What is even more unacceptable is that developed countries and non-MFA members are increasingly obtaining these markets from which new entrants from the developing countries are barred.

It has often been argued by the importing countries that the larger exporters must face some sacrifices for the sake of this category of exporter. However, there is no evidence from the documents that the small suppliers have been given a better deal, e.g. it may be seen that many of the small suppliers have not been given a more liberal growth rate. In some cases, a quota has been placed on their exports even when they had a negligible performance. The basket extractor mechanism has also been employed against them. Even unilateral measures have, on occasion, been taken against some of them. It could, therefore, be argued that the real purpose in these measures has not been to help small suppliers but rather to assist industries in the importing countries through making available to the latter additional trade and production opportunities resulting from the unused quotas.

Yet another aspect of the erosion of MFA provisions is related to the need for maintaining minimum viable production in the case of small importing countries. This need was accepted in the Arrangement and as all of us are aware, a special provision for lower growth rates was made for the minimum viable production countries in the MFA and reaffirmed in the Protocol. However, in the operation of this provision, it can be seen that not only growth rates but also base levels and flexibility have been restricted to such an extent that the Textiles Surveillance Body was constrained to remark that the principle of minimum viable production should not be taken as a general licence to depart from all obligations of the Arrangement.



The erosion of MFA provisions must also be seen in the context of the obligations which the Arrangement envisages for the importing countries with a view to ensuring that restraints on trade imposed by them are purely temporary, that they return to the framework of the Arrangement in the shortest possible time, and the balance of interests between exporters and importers, as delicately worked out in the Arrangement itself, is not jeopardized to the disadvantage of the developing countries. As you are aware, Mr. Chairman, the Textiles Committee has established a Working Group on Adjustment Measures to go into this question in a detailed manner and produce a definitive report for the consideration of the Committee. This working group has held several sessions since the July meeting of the Committee. Some progress has been made but it is generally felt that the working group be empowered to continue its efforts with the objective of presenting its report to the Committee in early 1981. We endorse this proposal and also express our keen interest in pursuing work in this area. It is our expectation that all relevant and detailed information, including the type described in paragraph 19 of COM.TEX/16, will be made available to the working group to enable it to conclude its work.

The two main trends of proliferation of restrictive measures and erosion of basic elements of the MFA must be critical to the Major Review. It can be seen from the documents before us that the domestic industries of the importing countries have not, by and large, benefited from the stringent and extensive measures, largely because of the fact that the areas vacated by the exporting countries have not been occupied by the domestic industries in the importing countries but have, on the contrary, been taken over by other developed countries who have expanded their share of trade in all the European markets. This is because whereas developing countries have been governed by the Arrangement, competition has proceeded among the industrial countries under very different rules enabling them to make inroads into each others' markets not only in sophisticated products and processes but also in low-skilled, low-paying processes that are maintained in the industrial countries by quotas against the developing countries.

The documentation before us brings out the fact that productivity increases are to be seen in relation to changes in the level and composition of investment which has been increasingly directed towards the raising of the level of automation and thus reducing labour costs. The link between increasing productivity and declining employment, already referred to in the earlier report of the Working Group on Adjustment Measures has, therefore, been reinforced.

Another resultant effect of proliferation of restrictive measures has been the increase in consumer prices which has made the battle against inflation more difficult. I might only refer to the study made of the British market by the British Consumers' Association which has found that the buying prices, as a result of restrictions, have shown a general across the board rise of 15 to 40 per cent, e.g. children's wear has gone up by 100 per cent, jeans by 30 to 50 per cent, men's basic shirts by 50 per cent. When seen in the context of the need to curb inflation, it is obvious that this aspect has far-reaching political and economic ramifications.

It might also be stated that an analysis of the tables in COM.TEX/W/78 shows that during the first two years of the extended phase of the MFA, the developing participants in the trade of MFA products have shown a decline in their market shares of most major developed country markets. These tables further show that developing participants had a lower rate of growth compared to the developed members and other non-members in most markets. Indeed, according to the EEC Commission's report on the operation of the extended MFA, the imports in 1978 and 1979 have risen at the rate of 0.25 and 16 per cent for the Community's bilateral partners as compared to 6 and 32 per cent for developed countries respectively.

It seems more than clear that the MFA has been converted into a mechanism for containing the exports of developing countries in a sector where they enjoy the benefits of comparative advantage. This is particularly regrettable if it is kept in view that developing countries have been major importers of raw materials, intermediate inputs and capital equipment from the developed countries. In 1978, for example, the developed market economies exported to developing countries approximately US\$1.8 billion of textile fibres, US\$1.4 billion of chemical dyes, and US\$1.2 billion of textile machinery and the effect of such trade flows has been to reduce the trade deficit of the developed market economies in this sector to a substantial extent.

Article 10 paragraph 4 of the MFA charges this Committee with the duty of conducting a major review of the Arrangement in the light of its operations in the preceding years. It is our view that such a major review cannot be undertaken without an assessment of the extent to which the objectives of the Arrangement have been met. It is regrettable that the report by the Secretariat in document COM.TEX/W/75 does not provide sufficient material to enable the Textiles Committee to make such an assessment. We recognise that, in producing this report, the Secretariat followed the mandate given to it by this Committee at its meeting in July 1980. This mandate is clearly inadequate. We therefore propose that the GATT secretariat be asked to produce a further report which should contain an assessment of the extent to which the objectives of the MFA have been met, in the light of a full and thorough analysis and evaluation of the present state of the

textiles and clothing industry and market in the developed importing countries, and of any changes in trade and production patterns, productivity and employment over the years 1974 to 1979, and the factors behind such changes. This report should be ready for discussion at the next meeting of this Committee which we understand will be convened in December 1980 pursuant to paragraph 5 of Article 10 of the Arrangement.

We have also before us the report of the Textiles Surveillance Body as contained in COM.TEX/SB/610. It brings to light some of the specific erosions which have occurred in the implementation of the Arrangement and which, in our view, constitute departures from the Arrangement. I will highlight some of these. It is regrettable that no conclusions seem to have been reached as to the existence of market disruption or real risks of market disruption nor indeed have we arrived at a set of objective criteria or definitions to serve as guidelines for objective implementation. There are other extra legal concepts which have been pushed forward by importing countries such as conformity with MFA in overall terms in spite of inconsistencies in regard to swing, carry-over/carry-forward and base levels, compensation in other areas for denial of specific obligations and waiver of rights set out in the MFA. These, we consider, are not in conformity with the letter and spirit of the Arrangement.

In assessing the agreements, we feel that the overriding criterion should be whether or not they are consistent with the Arrangement or with the Protocol. The TSB report justifies all departures from the letter and spirit of the MFA by casting them as mutually and bilaterally agreed. Given the disparity in bargaining power between the developed importing countries and the developing exporting countries and the absence of any countervailing factors in favour of the latter, most such departures cannot but be mutually agreed. This does not justify them. It is in this context that we view the TSB report and the observations therein.

The developing countries reluctantly accepted in 1977 derogations from the MFA because one of the major partners was supposed to be facing an unprecedented crisis in production. There has actually been a recovery from that crisis in 1976. Production has continued to improve in the second phase of the MFA in almost all the developed countries. Production levels have now reached or exceeded 1974 levels. This must be seen with the fact that 1973 and 1974 were themselves part of the boom period. Now that the so-called crisis is over, the Textiles Committee should urge all participants to review their bilateral agreements and return to normal trading practices forthwith.