

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Special Distribution

Textiles Committee

DRAFT REPORT OF THE COMMITTEE MEETING
HELD FROM 18 NOVEMBER - 22 DECEMBER 1981

Chairman: Mr. A. Dunkel

PART I

1. The Textiles Committee held its ninth meeting under the Arrangement as extended in 1977, between 18 November and 22 December 1981. The Agenda for the meeting was the continuation of discussions on proposals regarding the extension, modification or discontinuance of the Protocol Extending the Arrangement Regarding International Trade in Textiles.
2. The Chairman in opening the discussion recalled that, as at the last meeting, this agenda would not exclude discussions on proposals regarding the extension, modification or discontinuance of the Arrangement itself. He stressed the importance of the negotiations for the textiles industries of all participating countries and urged all participants to bring them to a successful end before the expiry of the Arrangement.
3. The Chairman drew the attention of the Committee to the following documents containing the proposals tabled at previous meetings:
 - A. Proposals made at the July meeting
 - (a) COM.TEX/W/96 to 101 and 106 presented by developing exporting countries;
 - (b) COM.TEX/W/103 and 104 presented by Hungary.
 - B. Proposals made at the September meeting
 - (a) COM.TEX/W/110 presented by the United States (Draft Protocol);
 - (b) COM.TEX/W/111 presented by Japan;
 - (c) COM.TEX/W/112 presented by the European Communities;
 - (d) COM.TEX/W/113 presented by the Nordic countries;
 - (e) COM.TEX/W/114 presented by Canada;
 - (f) COM.TEX/W/115 presented by Switzerland.

C. Report of the September meeting of the Textiles Committee

- COM.TEX/25.

4. The proposals tabled during the course of the present meeting are contained in the following documents:

(a) COM.TEX/W/120; presented by developing exporting countries. (Draft Protocol)

(b) COM.TEX/W/121; presented by the European Communities. (Draft Protocol).

5. Annexed to this report for reference purposes is a complete list of all reports of the Textiles Committee meetings at which the future of the MFA was discussed, as well as all communications, statements and proposals circulated on behalf of the participants at these meetings.

6. The Committee met on nine occasions between 18 November and 21 December.^{1/} A summary of views expressed at these meetings is contained in Part II of this report. (See page 10).

7. The Committee held its final session on 22 December. At this meeting it had before it a draft text of the Protocol and Conclusions to be adopted by the Textiles Committee - document COM.TEX/W/124.^{2/}

8. Introducing document COM.TEX/W/124 the Chairman said that it was not a perfect instrument from the point of view of any delegation. It was clear, however, that this document represented the best balance that could be achieved at the present time between the divergent interests it sought to reconcile. The balance from the point of view of one delegation could not be improved without threatening to make it worse from the point of view of another delegation. The document therefore represented the best results the Committee was able to achieve over several months of discussions and negotiations aimed at reconciling the very genuine but often divergent concerns of countries participating in textiles trade as exporters and importers. This result, said the Chairman, could not have been achieved without a great effort at compromise and adjustment on the part of all of

^{1/}The dates of the meetings were: 18, 20, 26, 30 November and 3, 10, 14, 17 and 21 December.

^{2/}Previous drafts submitted to the Committee by the secretariat as a basis for further discussion are contained in documents COM.TEX/W/122 and COM.TEX/W/123.

the participating countries. This common effort had been made on the basis of an understanding not only of the need for orderly arrangements for the conduct of textiles trade, but also of the importance of achieving a fair and equitable agreement in this area to the effective functioning of GATT and the future of the multilateral trading system.

9. The Chairman, following consultations with delegations, proposed that the period of validity of the Arrangement, left blank in COM.TEX/W/124, should be four years and seven months - that is until 31 July 1986.

10. The Committee then adopted the Protocol and Conclusions. The final version is contained in document L/5276.

11. The summary of statements made after the adoption of the document are contained in paragraphs 12 to 30 below.

12. The representative of the United States supported the consensus for MFA III and noted that the new provisions would be equally available to all participants. He said that because of an increase in the overall level of imports during a period of sluggishness pressures for further restrictions were present in all countries including the United States. He noted with appreciation the expression of goodwill in the Protocol by certain exporting countries in finding mutually acceptable solutions to problems with respect to particularly large restraint levels. The provisions of the Protocol would be sufficient for the United States to address its concerns particularly with respect to participants accounting for a very large share of the United States import market. Bilateral solutions must be both pragmatic and equitable, and in seeking such solutions the United States would not ask for reductions in existing levels of trade. The United States strongly believed that any such reductions would be contrary to the spirit of the Arrangement. The negotiations had brought out the real and legitimate concerns of new entrants, small suppliers and cotton producing countries and the Protocol highlighted these concerns. The United States had considerable sympathy for these concerns and was confident that mutually satisfactory understandings could be reached. The pragmatic and balanced solution which the Protocol represented, in the view of the United States, clearly illustrated the effectiveness of the GATT in resolving difficult issues. Not only had chaos in the textile trade been avoided but also damaging spillover into other areas. With the key textiles issue resolved, the United States placed full confidence in the Director-General of the GATT in his endeavour to focus attention on moving the trading system forward in 1982.

13. The representative of Japan reiterated his view that the framework of the MFA, which had functioned effectively in harmonizing the interests of the exporting and importing countries, should be extended without drastic changes. From this point of view, he was pleased that both exporting and

importing countries had made big concessions to arrive at the present agreement, although Japan was not completely satisfied with the results of the negotiations. Japan would take necessary steps to accept the new Protocol before the end of 1981 and he hoped that as many participants as possible would also do so, so that the effectiveness of the Arrangement could be maintained. Goodwill would be required both from exporting and importing participants in negotiating the bilateral agreements on which the appropriate operation of the MFA would depend. In this connexion he noted with great appreciation the statement made by the representative of the United States that the United States would not seek reduction of existing trade levels.

14. The representative of Canada joined in the consensus which provided the understanding upon which the MFA would be extended. He said that Canada had taken part in the negotiations on the basis of a mandate to seek a renewed MFA which would allow them to conclude bilateral arrangements with exporting countries consistent with the Canadian Government's textile and clothing policy. Fundamental to this mandate had been the need to take a realistic approach to problems Canada had experienced with respect to growth, flexibility, market disruption and base levels. The possibility of agreeing on mutually satisfactory adjustment of base levels, in cases of predominant suppliers, to take into account particular problems within importing markets, was in some respects the most important, and the key to ensuring a satisfactory framework of rules which would meet Canada's preoccupations for the next four or five years. Canada had articulated specific proposals designed to deal with these problems, and had indicated a willingness to be flexible and pragmatic as to how these issues would be addressed. In this spirit of realism and flexibility, Canada believed that the agreed conclusions provided sufficient basis for meeting Canada's needs, and that they allowed room for bilateral solutions to particular problems within an overall multilateral framework. Canada attached considerable importance to paragraph 6 of the Conclusions as a means of dealing with certain problems as regards the situation of predominant suppliers, in a mutually satisfactory way. Canada welcomed the goodwill to which this paragraph referred. While this goodwill was expressed in terms of a unilateral declaration addressed to a particular problem, its appearance as an understanding attached to a Protocol extending a multilateral arrangement gave it in Canada's view a different status, in effect conferring rights and obligations. It was the understanding of the Canadian delegation that any benefits to any one party arising from the provisions of this paragraph would extend in equal measure to all parties seeking solutions to the problems described in the paragraph. Canada was concerned that this paragraph, as other elements of the Protocol, be applied equitably to all participants. He underlined Canada's concern on this matter, and said that Canada's eventual accession to the Protocol might well depend on a clearer understanding in this regard. As regards paragraph 23 of the Conclusions, it was Canada's view that, pursuant to Article 1:6 of the MFA, resort to any of the provisions of the GATT was fully consistent with the objectives of this paragraph.

15. The representative of Sweden said that it would be advantageous to all participants if problems relating to international trade in textiles continued to be regulated within a framework of an instrument established for this very important sector of world trade. Sweden also had as its aim to define appropriately and clearly its particular situation as a minimum viable production country so that there would be a clear basis for bilateral negotiation. He expressed his appreciation of the fact that there had been a certain degree of understanding during the negotiations for the special problems facing mvp countries. He looked forward to goodwill and understanding in the implementation of all the provisions of the extended MFA. It was his understanding that except where so specified, all participants would have recourse to all provisions of the Protocol of Extension. Although he would submit the text to the Swedish government, a full evaluation of the prolonged MFA would be made by his authorities and it was too early to judge what the decision of the Swedish government would be on adherence to MFA III.

16. The spokesman of the European Communities said that in the long hard negotiation, where all participants had shown patience and understanding for each others' views, the Community too had played its full and active part in bringing the negotiations to a satisfactory conclusion. The process of negotiation had shown that there was a meeting point between the essential requirements of the developed importing countries and the legitimate interests of the developing exporting countries. The GATT institutions had once again, and in particularly difficult circumstances, shown their ability to surmount seemingly intractable obstacles. For the Community the construction of a basis for a stable textile policy was a two-stage operation. The multilateral stage had just been completed. The bilateral stage remained to be completed in the agreements to be negotiated during 1982. This second stage was as important as the first. Therefore, while he would be recommending to the authorities of the Community the acceptance of the Protocol, if it proved impossible for the Community to conclude satisfactory new bilateral agreements it would not be possible for it to continue to participate in the MFA. The Community would re-examine the situation and reassess its position in early autumn of 1982.

17. The representative of Colombia speaking on behalf of developing exporting countries, said that the MFA, as extended by the new Protocol adopted by the Textiles Committee, constituted the multilaterally agreed special framework governing international trade in textiles. It would therefore be the only legal basis for future bilateral agreements between exporting and importing participants. Developing countries were committed to the results of the negotiations although there were areas which did not meet with their full satisfaction. They expected a similar firm commitment from their trading partners who participated in the long negotiating process. He further drew attention to the fact that the Arrangement itself provided for the review of positions by any participating country.

18. The representative of Switzerland supported the consensus reached, although it was not perhaps as liberal as Switzerland would have wished. In his view it would be premature to evaluate the results of what had been a complex negotiation, in particular because much would depend on how the provisions were applied. The Committee could, in his view, have defined and apportioned more precisely the responsibility of all participants with regard to liberalization of trade in textiles. It could also have provided a better basis for maintaining and safeguarding fair competition in the textiles sector. Nevertheless he welcomed the fact that the agreement reached, confirming in a difficult economic context the objectives of the MFA, in no way prevented a liberal application of its provisions. Switzerland would start from the premise that the provisions were applicable in an identical manner to and by all participants when the necessary conditions were fulfilled. The negotiation, in his view, had confirmed the importance of multilateral legal instruments which offered a framework that balanced the interests of individual participants. The equitable application of such an instrument called for sacrifices from all participants to ensure that the balance of rights for all was maintained. Exporters and importers who sought consideration when they themselves were the weaker of the bargaining partners, must in turn show the same understanding to partners weaker than themselves. It was only with such multilateral perspectives that trading nations could succeed in maintaining, consolidating and improving in a durable manner, not only the system governing trade in textiles, but international trade as a whole.

19. The representative of Malaysia, speaking on behalf of the member countries of ASEAN, welcomed the successful end of the negotiations. He said that certain anxieties still remained and would remain until the negotiation of bilateral agreements under the extended Arrangement was concluded. Developing exporting countries had been flexible in the process of negotiation, but he felt that not enough appreciation and understanding had been shown by importing countries of the very real problems they faced. He expressed the hope that a deeper sense of understanding and commitment would be forthcoming from developed importing countries when it came to bilateral negotiations, an understanding which would be translated into concrete and positive form. While noting that a multilateral process of negotiation could never fully satisfy all participants, he said that the negotiation had shown serious efforts at compromise. While this had not led to a more liberalized régime for textiles, the very fact that a multilateral legal instrument would continue to govern trade in this area was in itself reason for a sense of achievement.

20. The representative of Pakistan thanked all participants for the efforts they had made to accommodate the concerns of new entrants, small suppliers and cotton producing countries. He hoped that this spirit of accommodation would continue to govern bilateral negotiations conducted under the new Protocol.

21. The representative of Finland expressed satisfaction at the successful conclusion of the negotiation, and noted that the text in COM.TEX/W/124 was probably the best that could be achieved at the time. While Finland would have liked to see certain additional elements included, the new Protocol was in his view better than the previous one. Paragraph 11 of the Conclusions as formulated now was clearer and would facilitate both bilateral negotiations and the proceedings of the TSB. The fact that the mvp clause had been improved implied a recognition of the need to meet the special problems of mvp countries.

22. The representative of Israel, welcoming the consensus that had been reached, stated that it was Israel's understanding that the second sentence of paragraph 12(a) of the conclusions should be taken into account only if the two negotiating partners so agreed.

23. The representative of Brazil said that while he would be recommending to the Brazilian authorities that the present Protocol and Conclusions be accepted, he was far from happy with the results of the negotiations. The new Conclusions of the Textiles Committee contained many restrictive features which would continue to present serious obstacles to the expansion of textile exports from developing countries. Such discriminatory protection was unfair and unjustified and should be discontinued in the near future. In this context the provisions of the Conclusions relating to structural adjustment and the phasing out of restrictions were welcome. The present multilateral instrument which was the result of difficult negotiation, and had now been adopted by consensus, was restrictive enough, and it was only fair to expect that future bilateral negotiations would not seek to undo what had now been agreed multilaterally. The present Conclusions must be fully respected and would provide the legal framework for all bilateral agreements which consequently could not contradict or go beyond them. He wished to state explicitly that the Brazilian delegation had not at any moment expressed any views that might have any relevance to the substance or the form of paragraph 6 of the Conclusions adopted. Therefore Brazil could only take note of the goodwill expressed by "certain exporting countries now predominant in the exporting of textiles products in all three fibres covered by the Arrangement". Consequently any understanding or interpretation that may relate to paragraph 6 or its application would, as far as Brazil is concerned, be "res inter alios acta", that is an agreement between or among third parties.

24. The representative of Hungary, recalling the proposal presented by his delegation concerning price clauses (COM.TEX/W/103), stated that neither the MFA nor the new Protocol of Extension authorized countries to take restraint measures on the basis of the price level of any product. The basic consideration that had motivated the submission of the proposal was to get an explicit undertaking that restraint measures which were not in accordance with the MFA or its Protocol of Extension should not be applied against any

product from any source. He recalled that the TSB had found that such clauses fell outside the framework of the MFA. Their application could likewise be in conflict with the spirit and provisions of the General Agreement, which provided for adequate safeguards for importing countries in cases where prices were lower than those charged under normal conditions of competition. In this connexion he recalled the recent decision of the CONTRACTING PARTIES to call a Ministerial meeting in order, inter alia, to improve the functioning of the GATT system. In his view the way the Protocol of Extension was applied in bilateral agreements constituted an element in the functioning of the GATT system. While maintaining all the considerations stated above, the Hungarian delegation, with a view to contributing to the conclusion of the negotiations, would not press its proposal any longer.

25. The representative of Egypt was of the view that an assessment of the results of these negotiations was difficult at this stage because much would depend on how the provisions were implemented. He hoped that such implementation would observe the spirit as well as the letter of the provisions.

26. The representative of Austria said that like other delegations, Austria was not totally satisfied with the outcome. Nevertheless it welcomed the conclusion of a difficult negotiation and in a spirit of co-operation agreed to the text as a balanced compromise and a suitable multilateral framework for the solution of bilateral problems in trade in textiles.

27. The representative of Yugoslavia stated that the text before the Committee did not give Yugoslavia satisfaction. Textile importing countries had not been sensitive to the problems of developing exporting countries and the prospects for trade were uncertain because the draft Protocol was more oriented towards restriction and protectionism. Further bilateralism rather than multilateralism was evident. Yugoslavia would decide after careful consideration whether or not it was possible and useful to sign the new Protocol of Extension.

28. The representative of India, noting that it had been difficult to achieve the present consensus, recalled that the aim of all participants had been to arrive with pragmatism at an equitable and just conclusion while ensuring that the existing balance of rights and obligations was not disturbed. All participants had shown considerable understanding in accommodating each other's essential positions. It was important, however, to stress that the test of any multilaterally agreed instrument was the willingness of the adherents to implement it both in letter and in spirit. India looked forward to the continued good faith of its trading partners in so implementing the Protocol of Extension. Another factor on which the effectiveness of such an instrument depended was the effectiveness of the multilateral surveillance system. The TSB would have a crucial rôle in the interpretation and evolution of practical trading relationships and in

building clarity and transparency into the body of rules. A strengthened multilateral surveillance system was important for safeguarding the interests particularly of the weaker trading partners. India was concerned that though the consensus arrived at reflected present realities in trade in textiles, such special arrangements posed a threat to the open trading system. In the context of escalating protectionist pressures on governments of industrialized countries, there was the possibility that such restrictive mechanisms would continue after the short term problems that necessitated them had ended, and also that there would be proliferation into other areas. It was imperative therefore that there should be a return as soon as possible to the established norms and disciplines of a liberal and open trading system.

29. The representative of Argentina expressed the hope that the multilateral provisions now agreed would be implemented properly at a bilateral level. The success of these negotiations held promise for the future of the GATT system.

30. The representative of Romania saw in the consensus arrived at, which Romania supported, not only the possibility of success in the future conduct of trade in textiles, but also evidence of confidence in finding solutions at a multilateral level. Such confidence was of particular importance when the preparatory work for the Ministerial meeting was just commencing.

31. The Chairman in his concluding remarks expressed the wish that the good faith which had prevailed in the negotiation of the multilateral instrument should also prevail in the negotiation of the bilateral agreements under it, as one without the other would not be consistent with the spirit which characterized GATT's activities.

Membership of the Textiles Surveillance Body

32. The Chairman, referring to the consultations which had been held regarding the membership of the Textiles Surveillance Body, proposed that for the year 1982 the TSB should be composed of members designated by the following parties: Canada, EEC, Egypt, Korea, Japan, Malaysia, Mexico and the United States.

Extension of tenure of the Chairman of the Textiles Surveillance Body

33. The Chairman stated that during the coming months it would be necessary to agree upon a successor to Ambassador Paul Wurth, who had served with distinction for eight years as Chairman of the TSB, and whose term of office would come to an end on 31 December 1981. In order to give the Committee time to agree upon Mr. Wurth's successor, the Chairman of the Textiles Committee had invited him to remain in the post until 30 June 1982 and Mr. Wurth had agreed to this. The Chairman impressed upon participants the need to designate Mr. Wurth's successor well before the expiry of this period, for the good functioning of the TSB and the avoidance of uncertainty.

PART II

34. The statements made by each country at the various meetings of the Textiles Committee held between 18 November and 21 December are grouped together and summarized in paragraphs 35 to 139 below as follows:

| | Paragraphs |
|--|------------|
| Colombia (on behalf of developing exporting countries) | 35 - 43 |
| EEC | 45 - 58 |
| Japan | 59 - 61 |
| Austria | 62 - 67 |
| Philippines (for ASEAN) | 68 - 71 |
| Brazil | 72 - 80 |
| Hong Kong | 81 - 95 |
| India | 96 - 104 |
| United States | 105 - 110 |
| Canada | 111 - 113 |
| Egypt | 114 - 116 |
| Pakistan | 117 - 120 |
| Korea | 121 |
| Yugoslavia | 122 - 125 |
| Switzerland | 126 - 128 |
| Peru | 129 - 130 |
| Mexico | 131 - 132 |
| Romania | 133 |
| Macao | 134 |
| Uruguay | 135 |
| Argentina | 136 |
| Jamaica | 137 |
| Colombia | 138 |
| China | 139 |

35. The representative of Colombia speaking on behalf of developing exporting countries, in his intervention on 18 November, reiterated the importance attached by developing countries to the legal framework that regulated international trade in textiles. The importance of ensuring security and enlarging markets had led them to take a very positive attitude to the negotiations. In keeping with the principles of co-ordinated action contained in the Bogota declaration they had tabled a series of proposals in July designed to give a dynamism to international trade in textiles. These proposals had now been embodied in an appropriate legal framework and he would table them at an opportune moment. This was done at the meeting held on 2 December (COM.TEX/W/120).

36. He stressed that developing exporting countries desired to conclude the negotiations before the end of the year. They expected that in keeping with the spirit of the Cancun meeting, there would be a successful renegotiation of the MFA.

37. In a subsequent intervention on 26 November, basing himself on statistics contained in document COM.TEX/W/118, he questioned the Community's statement that the crisis in its domestic textile industry was the result of increased exports from developing countries.^{1/} In 1979 in real terms the growth rate of production in textiles in the EEC was 4.5 per cent; in clothing it was 5.5 per cent, almost three times the world average. In 1979 of total imports by the EEC of 21.4 billion dollars worth of textiles and 17.7 billion dollars worth of clothing, developing countries supplied just 2.7 billion and 4.8 billion dollars respectively.

38. On 30 November, referring to the Community's proposal (COM.TEX/W/121), in the light of detailed bilateral and plurilateral discussions that had also taken place, he stressed that the Community proposals would have the effect of substantially modifying Annexes A and B of the MFA thus changing its structure and balance and nullifying its basic objectives. Developing exporting countries totally rejected the antisurge mechanism which was in their view inconsistent with the MFA. It would mean cutbacks on negotiated access rights, which were inconsistent with the MFA, prevent developing exporting countries from responding dynamically to market opportunities and constitute a major trade barrier. It was not legitimate to expect developing exporting countries to agree to quotas that had previously been bilaterally negotiated in good faith being reduced subsequently to meet special circumstances. Moreover, developing countries could not accept the negative differentiation in treatment which would result from the Community proposal for restrictive measures against supplying countries holding large quotas. The only acceptable differentiation was the positive one presented by Article 6 of the MFA.

39. The proposal for outward processing lacked a legal basis. This was evident when the Community itself spoke of adapting restraint levels and offered as hypothetical compensation the possibility of reserving a proportion of said restraint levels for outward processing traffic. Outward processing, when linked to the use of quotas, was against the MFA, the basic principles and specific provisions of the General Agreement, and was ultra vires of the functions prescribed for the Textiles Committee in Article 10 of the MFA.

40. The tone and content of the Community's draft Protocol was extremely protective and restrictive. There were no measures for trade liberalization even for countries referred to in Article 6, much less for those referred to in paragraphs 2, 3 and 4 of that Article, despite the Community's statement that they would propose a régime for small suppliers and new entrants. The Community's proposal also changed the existing usage of MFA provisions and seriously unsettled the existing balance of rights and obligations. Phrases such as "large quotas" and "most competitive countries" qualified definitions contained in Article 6. The proposal attempted to put on a

^{1/}See paragraphs 46 and 58.

legal footing a subjective determination of categories as sensitive or non-sensitive, as a substitute for agreed criteria of market disruption set out in Annex A, which were the necessary preconditions for the application of any restraint measures under the MFA.

41. What was needed now was to proceed on the basis of a firm commitment to the objectives of the MFA, and to elaborate adequate measures that did not prejudice the rights of any participant. Developing exporting countries were ready to consider in co-operation with their negotiating partners those elements proposed by importing countries which were in conformity with the MFA.

42. In a later intervention on 14 December, the representative of Colombia noted that there were differences between the draft Protocol tabled by the Community, and subsequent statements made by its spokesman, and requested the Community to present a document which represented its final position. He also observed that the MFA had already been used to limit textile exports of developing countries, and they were totally opposed to any changes such as the anti-surge clause or cutbacks which would increase such limitations.

43. The United States' statement that they intended to strengthen the proposals for a draft Protocol (see paragraph 107) would make the negotiating process more difficult. Developing countries were taking a constructive attitude and wished to reach an agreement, but not at any price. They too had political problems, and they too had to defend the interests of their workers and industries. Limitations on textile exports would also have the effect of limiting their import capacity. A clear solution to the problems of new entrants, small suppliers and cotton textile exporters would help a great deal in reaching an acceptable end to the negotiations.

44. The statement on behalf of developing exporting countries was supported by all representatives from developing exporting countries who spoke subsequently.

45. The spokesman for the European Communities, in his first intervention, at the meeting of 20 November,¹ reiterated the basic elements of the Community's position as stated at the July meeting of the Textiles Committee. He noted that the Community had made a number of specific proposals which addressed concepts covered to a considerable part by the draft Protocol of Extension tabled by the United States in COM.TEX/W/110.

46. He outlined the situation in the textile industry in the Community against a background of slow economic growth, stagnant demand and the increase in the import penetration level from 20 per cent in 1973 to 45 per cent in 1981. During this period there had occurred the loss of

¹The EEC statement is reproduced in full in COM.TEX/W/119.

at least 300,000 jobs. The Community had nevertheless decided that it would adhere to the objectives of the MFA. This effort on its part had to be appreciated and should elicit a positive response in the interests of the success of the negotiations.

47. The Community had now come to a view on three outstanding major issues. The first concerned growth rates. This issue was linked to the declining rate of consumption in key segments of the textile industry. The Community had decided not to adopt negative growth rates but to uphold the principle of lower than 6 per cent but positive growth rates. Differentiation would, however, have to be applied to growth rates as between dominant suppliers and other suppliers. In the event of recessionary conditions deepening during MFA III, bilateral agreements should allow room for consultation. The Community would also keep in reserve the possibility of cushioning adverse effects by a waiver of flexibility provisions for sensitive products in the case of dominant suppliers.

48. The second major issue was the question of base levels. The Community had decided, in keeping with the principles of the MFA, to use existing restraint levels as a basis for future access. Due to changes in demand, however, considerable gaps had developed between actual imports and restraint levels, and the Community would propose an anti-surge mechanism designed to avoid sharp and substantial increases in trade in under-utilized quotas for highly sensitive products. Moreover, the question of base levels was particularly acute in the case of dominant suppliers. Therefore, while accepting the principle that future total access should be based on past restraint levels the Community would seek to negotiate adjustments in restraint levels with dominant suppliers. Agreements with these suppliers would include an element of outward processing within the most sensitive clothing categories. As such an element would not be appropriate in the most sensitive textile categories it would be necessary in these cases to waive the flexibility provisions of Annex B.

49. Flexibility provisions constituted the third major outstanding issue for the EEC. On the flexibility provisions for large quotas the Community could associate itself with the relevant provisions of the United States' proposal for a draft Protocol.

50. At the meeting of the Committee held on 26 November the spokesman of the European Communities tabled a proposal for a draft Protocol (COM.TEX/W/121) subsuming the Community's earlier proposals. According to the Community spokesman, the proposals now tabled followed the structure of the 1977 Conclusions closely and retained much of the language of the previous Conclusions of the Textiles Committee. However, paragraph 2 of the 1977 Protocol was set aside. So was paragraph 5 especially the "reasonable departures" clause which the Community felt could be dropped if a satisfactory result was achieved in the negotiations. The Community now proposed three additional paragraphs (5, 6 and 12) to meet the specific problems which in its view had come up during the currency of MFA II.

51. Commenting on proposals by other participating countries, the spokesman of the Community said that some of the ideas expressed by Switzerland, Japan and Sweden on behalf of the Nordic countries were interesting and deserved attention. Certain concepts developed by Canada were echoed at the September meeting in the Community's own draft Protocol. He recalled that he had commented on the proposals made by developing exporting countries. The Community had considerable sympathy for the proposal regarding new entrants and small suppliers.

52. He invited participants to study the draft Protocol tabled by the Community in the light of the statements made in the Committee and the bilateral clarifications given. The Community would continue the process of bilateral consultations as a necessary adjunct to bringing the negotiations to a successful conclusion.

53. At subsequent meetings of the Committee on 30 November and 10 December the Community spokesman gave further clarification of their position on the anti-surge mechanism and the question of trade with dominant suppliers. The Community's position had been confirmed and refined in a number of aspects following the meeting of the Council of Ministers on 7 and 8 December. The anti-surge mechanism would be based on a procedure to be negotiated bilaterally and incorporated in bilateral agreements. Under this procedure, when criteria concerning the size of surge and the size of quota were met, and after a case by case examination, the Community could request consultations with a view to suspending flexibility wholly or in part or agreeing to a rate at which the full quota could be taken up. The four conditions suggested for the application of this mechanism were: the surge must be real and substantial (at least 10 per cent of the relevant quota), the product must be sensitive (group I), the quota must be at least 1 per cent of total Community imports and at least half used. To these four elements, the Community now added a fifth: the minimum level below which a limitation could not be fixed under the mechanism would be the 1980 trade level. This would ensure that the mechanism would not operate to reduce existing trade, or be triggered by abnormal fluctuations in trade. Where the Community had recourse to the surge mechanism, it would do so in consultation with the exporting country in question. The only alternative to a surge mechanism would be to base future quotas on real trade; whereas the surge mechanism was based on the maintenance of existing access rights.

54. The mechanism was designed to deal only with real problems of surge of imports into the Community when they occurred. Where the system was applied, growth rates considerably higher than those applied to ordinary quotas would apply.

55. The Community was convinced that this approach was compatible with the spirit of the MFA. The Community was willing to negotiate the details of the application of the surge mechanism and would be ready to provide an informal paper to participants which set out the details and criteria of

application. As the present Protocol expired at the end of 1981, it was necessary to find a consensus on a new legal instrument. New ideas which tied in with the existing objectives of the MFA, such as the anti-surge mechanism, should find their place in such a new consensus.

56. On the problem of dominant suppliers, it was proposed that certain restraint levels applicable to a small clearly identified group of most competitive and developed exporting participating countries could be adapted, whilst at the same time allowing for the development of outward processing trade. The Community proposal on outward processing was an attempt to introduce some flexibility in a difficult negotiating situation. In the view of the Community it was compatible with the general rules of the GATT.

57. Given the Community's importance in international textile trade the Community had good reason to wish to participate in a future MFA; but such participation was dependent on two central requirements. First, it had to be established that a remedy for the problem of surges could be found in bilateral agreements. Second, there was a need to adjust restraint levels for the dominant suppliers. On both these issues the Community had clarified and explained its position in bilateral and plurilateral contacts. It would take into account the problems of other participants to the extent possible.

58. In response to the views expressed by a number of developing exporting countries that the problems in the Community textile industry were caused by factors other than imports from developing countries, the Community spokesman pointed out that the bulk of EEC textile imports in 1981 came from low cost sources. With regard to the index of production the relevant figures were those for the period 1977-1980 when production had in fact declined. The deficit in trade in textiles and clothing with developing members had doubled in this period and was one and a half times the deficit of all developed member countries taken together.

59. The representative of Japan, speaking on 18 November stated that after careful consideration of the proposals before the Committee his delegation was able to support the United States' draft Protocol (COM.TEX/W/110) as a basis for negotiations. The United States' Protocol ruled out the possibility of cutbacks and negative growth rates and this was particularly appreciated by Japan. Flexibility was another indispensable factor to the stable and orderly development of trade. Japan felt that the United States' position in this regard required careful consideration.

60. Japan hoped that the present MFA would be extended without any drastic change. They would spare no effort to conclude the negotiations by the end of 1981 and hoped that all participants would take a realistic, rational and long-range approach.

61. In a subsequent statement on 3 December, the representative of Japan expressed disappointment that the Community was continuing to insist on the anti-surge mechanism and the provisions related to outward processing trade. Japan strongly opposed these two concepts.

62. The representative of Austria, speaking on 18 November, said that his Government attached the greatest importance to the current negotiations and strongly supported the extension of the MFA for a further period. The MFA was a useful and carefully balanced instrument; any change in the text would endanger this balance. That was why Austria had not tabled any proposals to redraft the MFA.

63. The proposals tabled by developing exporting countries were aimed, in his view, at a substantial limitation of the applicability of the MFA. While understanding their motivation, it was impossible to ignore the drastic changes in economic conditions that had occurred since MFA I. Considering the difficult situation in the textiles sector in importing countries including Austria, growth rates of 6 per cent were no longer realistic. He referred to the trade deficit in the textiles and clothing sector in Austria in 1981 and the loss of jobs that had occurred. Import penetration in clothing had increased to 81 per cent and in textiles to 73 per cent. In these circumstances Austria could not accept proposals which would limit the applicability of the MFA.

64. The proposal made by Switzerland contained in COM.TEX/W/115 was useful and interesting and Austria would like more information on its practical and legal implications. The proposals made by Canada in COM.TEX/W/114 would affect Annex B provisions. Any changes in Annex B must be carefully considered. One of the practical but unforeseen consequences of this proposal would be to create pressure on exporters fully to utilize the quotas immediately. Austria would also support any proposal to deal with fraudulent circumvention of bilateral agreements.

65. The US proposal (COM.TEX/W/110) was in his view realistic, constructive and in line with the basic objectives of the MFA. It should be taken as a basis for further negotiations.

66. A basic principle to which Austria attached greatest importance was that a future MFA must be applicable to all participating countries in a fair and equitable manner.

67. In a subsequent statement on 14 December, the representative of Austria expressed great concern that important issues in the negotiations still remained unsolved. While there were technical and substantive problems in these negotiations, the overall importance of the sector of textiles trade had to be borne in mind. He urged that participants show the necessary political will and co-operation.

68. The representative of the Philippines speaking on behalf of the member countries of ASEAN, on 18 November, said they welcomed the fact that all participants were now ready to engage in negotiations. The member countries of ASEAN were for security, for equity of treatment and for taking into account the concerns of all participants. They looked forward to all participants responding to the basic concerns of developing countries; assurance of an orderly and equitable share in textiles trade, furthering economic development, increased export earnings and ensured stability and predictability.

69. In the meetings of 26 and 30 November the Philippines representative noted the ambiguity and uncertainty implicit in paragraph 5 of the Community proposal (COM.TEX/W/121) relating to under-utilization of quotas (the "surge" clause). Following the indications given by the Community on the operation of this clause (paragraph 53 above), ASEAN countries were convinced that it was not consistent with the objectives, principles and disciplines of the MFA. Such a proposal could not provide security, equity, predictability, stability and growth in textiles trade. The ASEAN delegations could not accept proposals which were vague and unclear, and which implied constraints on access rights provided by the Arrangement. The ultimate test of trade liberalization was the régime which would fully implement Article 6 provisions for new entrants, small suppliers and cotton exporters. The Community proposal contained no measures of trade liberalization even for these countries.

70. Stressing the importance of advancing negotiations as rapidly as possible, he said they were willing to consider in co-operation with other negotiating partners the elements proposed by importing countries which were in conformity with the MFA.

71. He urged that every effort should be made to move the negotiations forward. He reiterated that the proposals regarding under-utilization of quotas, which were detrimental to the interests of exporting countries, continued to be of concern to ASEAN. The problems of new entrants, small suppliers and cotton producers had also to be dealt with satisfactorily.

72. The representative of Brazil in his first intervention on 20 November asked a number of questions relating to the opening statement of the European Community. He asked what percentage of the import penetration rate of 45 per cent quoted by the Community spokesman was accounted for by developing countries. He also wished to know the comparative production levels in the Community at the start of MFA II and in 1981 during which time the loss of 300,000 jobs had occurred. The reference to a decline in consumption in the industry was confusing; he could understand a decline in consumption in the market but not in the industry. To speak of recession in the textile industry rather than recession in the economy was also unusual and he wished to know the reasons for this. The Community spokesman had referred to action necessary to avoid sharp and substantial increases of imports of highly "sensitive" items where quotas had been substantially under-utilized. But he had also said that structural

changes had caused demand to shift from some categories subject to quotas. When demand shifted, such a category would become less sensitive: there was thus a fundamental contradiction in the Community argument. Moreover, if the Community proposed to limit the use of unfulfilled quotas given in the past as compensation for other restrictive measures, an element of good faith in the previous bilateral negotiations was touched. The representative of Brazil questioned whether the Community, when it stated that it wished to maintain a balanced attitude to all its suppliers, really meant all suppliers or intended to exclude the developed countries. He also wished to know the relevant articles of the General Agreement under which the proposal for mandatory outward processing was being presented.

73. In subsequent interventions on 26 and 30 November, the representative of Brazil expressed disappointment at the lack of adequate responses to his queries. The Protocol tabled by the Community, he said, was even vaguer than the statement made at the previous meeting. It was difficult to understand on what basis the Community could conclude that the "emerging factors" referred to in paragraph 4(a) of COM.TEX/W/121 would continue throughout the life of the Protocol. Moreover, it was unacceptable that anyone should forecast that over the next five years the rate of consumption would continue to decline. Further, a cyclical variation could not, by its very nature, be increasingly disruptive, but at most cyclically disruptive.

74. The term, "sensitive product" which was used in the Community proposal was not present in the MFA. However, it could be argued that a sensitive product was one that was affected by market disruption caused by imports of the product from a particular source. In that case, it should be dealt with through the concept of market disruption set out in Annex A and the concept of sensitive product duly discarded.

75. Full details on how the anti-surge mechanism would work were necessary to understand its implications. The reference to possible "sharp and substantial increases in imports" was very difficult to reconcile with categories that were already under restraint: consequently such "increases" could not be placed in the context of situations of market disruption, risk thereof, or the recurrence and exacerbation of market disruption referred to in the MFA. Also no criteria were presented to measure the existence of surge; there was reference to special measures to deal with these situations but details had not been given as to what these would be.

76. The representative of Brazil questioned the legal value of any bilateral agreement if the anti-surge mechanism or any cutbacks as proposed by the Community were to be accepted. Such bilateral agreements would cease to have any credibility. Moreover, the proposed anti-surge mechanism would have retroactive effects which would be contrary to any system governed by the rule of law; it would also be in contradiction of Article 5 of the MFA which says that the full utilization of quotas should be facilitated.

77. In his view there was no legal basis for mandatory outward processing either in the MFA or in the General Agreement. He believed that a consensus was developing in the Committee that the outward processing provision was an infringement of the General Agreement, in particular Article I.

78. He was in full agreement with the comments made by the representatives of Hong Kong and India on the Community proposals. He also supported fully the reservations expressed by the representative of the United States and Japan on the Community proposal on outward processing as well as the views on the unacceptability of drastic changes in the MFA. He shared the views expressed by the representative of Switzerland that the Swiss textile industry had been able to adjust itself because it did not make use of import quotas. He could not however go along with the representative of Switzerland when he termed the developing exporting country proposals as too restrictive. The developing country proposals were a necessary and fundamental element in the negotiations and would add positive elements to the functioning of the MFA.

79. At the meeting on 14 December the representative of Brazil said that it was helpful to the process of negotiations that the Community appeared to have taken into consideration that a linkage of quotas to outward processing trade would be contrary to Article I of the GATT. It was necessary that other points of difference should also be reconciled speedily. Like many representatives of developing countries he totally rejected the anti-surge mechanism. The Community in its statement had referred to "dominant suppliers" but in its own draft Protocol the term used was "most competitive and developed". This had nothing to do with the concept of dominance.

80. Commenting further on the EEC draft proposals, he said that certain elements in them seemed to imply unilateral decisions by the Community: these decisions might affect the right of developing countries to utilize quotas to the extent of billions of dollars worth of trade.

81. Speaking on 26 November, the representative of the United Kingdom speaking on behalf of Hong Kong, in commenting on the Community statement of 20 November rejected negative differentiation and reductions in access rights in any form or shape. The implication that lower than 6 per cent growth rates were the general rule in the MFA was also unacceptable. Such lower growth rates could be applied only in clearly defined exceptional circumstances. Moreover, any differentiation that the Community wished to grant suppliers in accordance with Article 6 would have to be in the form of positive differentiation.

82. The MFA was designed to deal with specific situations of market disruption; there was no justification for waiver of flexibility provisions in bilateral agreements on the grounds of recession. Swing and carryover/carry forward provisions of Annex B were mandatory and could not

be waived under any circumstances. In exceptional and sparingly used circumstances swing could be reduced by mutual agreement to 5 per cent but this was the absolute minimum. He could not understand why importing countries wished to get rid of the one provision in the MFA which enabled trade to follow shifts in demand.

83. The proposed anti-surge procedure would deny access rights and mean nothing but cutbacks. It was incompatible with Article 5 of the MFA which referred specifically to the full utilization of quotas. Moreover Hong Kong could not accept the proposal on outward processing traffic. This concept had no place in the MFA and was contrary to the General Agreement.

84. Hong Kong had been forced to accept substantial cutbacks in base levels for a number of categories during negotiations of the current bilateral agreements. They could not permit it to happen for the second time. If this happened again and again it would in fact mean the gradual dismantling of the textile industry which employed half of Hong Kong's total industrial force in comparison to the 9 per cent which the Community stated was employed in its textile industry.

85. He noted that each time the MFA was due to expire the Community desired more severe restrictions. He referred to the statement made by the Community spokesman in 1977 that when the MFA was due for a second renewal the Community would revert to the original MFA. But in fact the present proposals sought even more restrictions. There was no justification for the intensification of restrictions. The share of total imports into the EEC held by developing countries had fallen from 31 to 28 per cent in textiles and from 56 to 53 per cent in clothing between 1977 and 1980. The Community was seeking to intensify restrictions on those who were demonstrably not responsible for the situation in its industry.

86. Referring his comments at the September meeting of the Textiles Committee on the United States' proposal, he noted that Hong Kong, as the principal supplier to the United States, held 1.5 per cent of the market. Of the other 98.5 per cent of the United States' market, 90 per cent was held by the United States' industry itself.

87. In a second intervention on 30 November, he commented on a number of concepts contained in both the EEC and United States' draft Protocols (COM.TEX/W/121 and 110). The emerging factors referred to in paragraph 4 of these drafts should include, in his view, such others as: the emergence of developed suppliers in the Community market; the decline in imports from developing exporting countries; the increase in productivity in the Community. He questioned the assumption that the factors listed in paragraph 4 would continue for five years. It was incompatible with the reference made later to the evolutionary and cyclical nature of the trade. Hong Kong could not understand how quotas, which were nothing but indications of access rights, could have "growing impact".

88. Paragraph 3 of the Community draft Protocol made clear that modifications of the MFA were ruled out. The proposal for modifying or suspending swing was therefore a contradiction. As for carryover and carry forward it was clear in the text of the MFA, and had been established by long practice, that these were rights open to suppliers to exercise at their choice within certain given percentages and not concessions given by importing countries.

89. Hong Kong also rejected paragraph 5 of the Community proposal (the surge clause) in its entirety as being incompatible with and directly violative of the objectives and procedures of the MFA. Moreover the linkage, in paragraph 6 of this proposal, between outward processing and the use of quotas raised issues well beyond the scope of the MFA and was inconsistent with the terms of the General Agreement.

90. In his view the only logical way to deal with minimum viable production was in the manner set out in the proposals made by the developing exporting countries.

91. Hong Kong, like other participants, was determined to combat circumvention and would support any reasonable attempt to address this question. But this must be done in a way which was equitable.

92. The proposals made by the United States and the Community regarding the TSB were vague. The developing exporting country proposal was precise, easy to understand and designed to enhance and facilitate the work of the Textiles Committee and the TSB.

93. The reaffirmation proposed in paragraph 10 of the draft Protocol presented by the United States was irrelevant in so far as it related to developing exporting countries. The MFA was limited in scope and matters falling outside its scope should be dealt with by the appropriate provisions and institutions of GATT.

94. In a later intervention (14 December) the Hong Kong spokesman appealed for flexibility on the part of all participants. It was not acceptable that one major participant should insist on securing even greater rights for itself while significantly weakening, or removing completely, counterbalancing obligations. Hong Kong could not accept any modification of the MFA which could allow cutbacks in access rights; still less could it accept the possibility of this occurring through unilateral action. The compensation being offered through outward processing would make it necessary for Hong Kong to agree to measures inconsistent with the General Agreement: this Hong Kong was not prepared to do.

95. He said that it was clear from statements made by the Community that the measures proposed by it were directed at all exporting countries regardless of their position in the market. Hong Kong opposed totally the proposals as they applied to dominant suppliers. In his view the statement made by the Community was a step backwards in the process of negotiation.

96. The representative of India, speaking on 26 November, welcomed the Community's intention to adhere to the objectives of the MFA. But he could not see any relationship between the objectives of the MFA and the proposals the Community had made in the statement of 20 November (COM.TEX/W/119).

97. The anti-surge procedure, which would reduce existing access rights was not compatible with "progressive liberalization of trade". By creating uncertainties in access rights this procedure would have disruptive effects on exporting countries. It negated the objectives of the MFA and was totally unacceptable to India.

98. The cutbacks implied by the proposal on outward processing trade were totally alien to the provisions of Annex B, the MFA itself and contrary to the objectives of the Preamble and Article 1:2.

99. In a further intervention on 30 November, he said that paragraph 4 of the Community proposal (COM.TEX/W/121), was nothing but "reasonable departures" in another form. Paragraph 5, moreover, was in violent disregard of the objectives and spirit of the MFA. Clarifications that had been obtained on this concept from the Community made it clear that it would result in denial of access rights. He could not accept the view that fulfilment of quotas already determined could be a threat to the orderly development of trade. The measures proposed to deal with utilization of quota rights constituted a real threat to trade of developing exporting countries.

100. The proposal concerning outward processing trade was wholly inconsistent with the MFA and therefore unacceptable. India could not accept the distinction being made in this regard between dominant suppliers and others.

101. While the proposals made by developing exporting countries were aimed at a clear understanding of the disciplines of the MFA, the Community proposal introduced greater ambiguities, diluted the safeguards provided in the MFA for an orderly development of trade and unjustifiably reduced the minimum growth and flexibility provisions.

102. In an intervention on 10 December the representative of India expressed concern at the lack of progress in the negotiations. The reiteration by the Community of its position on anti-surge did not constitute progress. The surge mechanism was unacceptable not only in principle but also because it did not solve any of the problems that it was meant to solve. As India understood it the anti-surge mechanism would affect over twenty countries. There was no logic in penalising a country which had not utilized say 50 per cent of its quota rather than one which had not utilized 90 per cent. Quotas had a historical basis and the textile industry in the Community had surely fully recognized and taken account of their existence. A surge would only occur if there was a massive increase beyond what the Community industry expected as the access level.

103. He pointed out that when the United States delegation presented its draft protocol in September it had stated that it covered key, legitimate interests of all concerned. It was difficult to understand therefore the subsequent statement made by the representative of the United States that it was necessary to strengthen their position. The participants in the negotiations had in the past weeks treated the United States protocol as a serious basis for negotiation. If it was to be changed now these efforts would have been a waste of time. The process of negotiation so far involved the accommodation of various points of view; so the introduction of new elements at this stage put into question what had been achieved. Developing exporting countries had from the outset been prepared to be flexible; they had made many concessions in these negotiations, as in 1977, but they did not want an MFA at any cost. The Community spokesman had declared unilaterally that the anti-surge mechanism and cutbacks were indispensable to their negotiating position. Developing exporting countries did not understand what problems the anti-surge mechanism set out to solve, and the Community, in formulating the proposal, had not explained how the mechanism would help them.

104. Developing exporting countries had showed a constructive approach to proposals made by importing countries. A similar attitude should be shown by importing countries if the process of negotiation were to go forward.

105. The representative of the United States speaking on 30 November welcomed the points in the draft Protocol proposed by the Community which were similar to those in the United States' draft. Commenting on the EEC proposal to reserve a portion of restraint levels for outward processing traffic, he said the United States could not accept the notion that any supplier would be required to purchase from a particular source in order to fully utilize restraint levels. This would be a dangerous precedent not only for textiles but for other areas of trade as well. Such limitations were in the view of the United States not consistent with either the MFA or the procedures of GATT.

106. He was encouraged by the fact that all elements for a successful negotiation were now on the table. The United States proposal provided a moderate and pragmatic approach to world textile trade problems in the years ahead.

107. In a subsequent intervention on 14 December he said the United States had attempted to develop a position which incorporated the legitimate concerns of all parties. The draft Protocol tabled at the July meeting was a formal expression of United States' willingness to seek accommodation while protecting its own interests. Now however, the United States would wish to see this Protocol strengthened. This did not mean that it would seek to embrace all the concepts presented by other importing countries.

108. Not much time was left to reach agreement but the United States' delegation was prepared to work with other participants to find specific language for a new Protocol. Such a Protocol must recognize the particular problems the United States faced as a result of severe market disruption in certain products. In these products the United States would not be able in the future to offer major suppliers the same rates of flexibility and growth as in the past. The United States' draft Protocol provided a balanced and equitable method of dealing with these problems.

109. As it was clearly preferable to have all interested parties accede to a new Arrangement, the United States was of the view that intensive efforts were necessary to address the following points: more favourable treatment for certain categories of suppliers as defined by Article 6 of the Arrangement, lower growth and flexibility as described in paragraph 4 of the United States' proposal; paragraph 5 of the EC proposal dealing with growth in imports within quota restrictions; paragraph 6 of the EC proposal dealing with quotas for dominant suppliers.

110. The United States believed that these issues could be addressed in a pragmatic fashion to arrive at a mutually satisfactory solution. The United States would work towards such a solution keeping in mind that any possible solution must in the end provide for the orderly growth of real trade, not only in overall terms but on a category-by-category basis.

111. The representative of Canada speaking on 30 November recalled the proposals tabled by Canada in COM.TEX/W/114. He said that the problems that were being experienced in international trade in textiles could best be dealt with by modifying Annex B. Recent bilateral negotiations conducted by Canada on the basis of their earlier proposals had met with a measure of success. However the United States' and Community proposals could, if amended, deal adequately with Canada's concerns. The Community's proposal (COM.TEX/W/121) presented for Canada a more attractive basis on which to work. However they had some difficulties with certain sections, in particular paragraph 5, 6 and 12 which were tailored to meet particular concerns of the Community. Canada would make suggestions to make these paragraphs more universally acceptable.

112. In a subsequent intervention on 14 December the representative of Canada outlined the elements which should be included in a mutually acceptable and balanced set of conclusions. These included an assessment of the prevailing situation affecting world trade in textiles and a reaffirmation that any problems in this trade would be resolved through consultation and negotiation. The principal objectives and provisions of the Arrangement must be confirmed. Some carefully circumscribed special measures relating to utilization of base levels and to the growth and flexibility provisions for suppliers now predominant in world trade in textiles were needed. Provisions relating to mvp countries and new

entrants, small suppliers and cotton producing countries had to be clarified and strengthened; provisions relating to fraud and circumvention, the exchange of information, the phasing out of restrictions, the expansion of world trade in textiles and the rôle of the TSB had also to be clarified.

113. The representative of Canada called for pragmatism and realism and felt that a solution could be found on the basis of proposals already tabled. Canada wished to see a renewed MFA and one which ensured widest participation. It was necessary to ensure that whatever language was used in an effort to reach a compromise it should leave room for bilateral solutions to particular problems within an overall multilateral framework.

114. The representative of Egypt, speaking on 26 November, said that his delegation had examined the United States and the EEC proposals in the context of the major concepts in the MFA. Egypt could go along with the United States' proposal not only because it had maintained the spirit of the MFA and Annex B, but also because it had not provided for cutbacks. There were however, certain points they disagreed with and others on which they would seek improvement.

115. The Community proposals started off by freezing present restraint levels as maximum access. A so-called anti-surge mechanism that based itself on actual import performance was in effect a cutback. The Community had expressed support for new entrants and small suppliers but this needed much more clarity and transparency. Egypt as a cotton producing country noted that none of the proposals had dealt with the problems of this category of exporters.

116. He urged developed importing countries to react to particular proposals by developing exporting countries without rejecting the draft Protocol presented by them in its entirety.

117. The representative of Pakistan, speaking on 26 November and referring to statistics contained in document COM.TEX/W/118, drew the conclusion that international trade had had a positive effect on the Community's textile industry. In his view, these statistics indicated that the growing share of imports from developed importing countries had had greater impact on the EEC market than the share of developing exporting countries which was shrinking. They also showed that the share of developing exporting countries in the import of cotton fabrics by the Community had declined.

118. The surge mechanism proposed by the Community would mean a rather indiscriminate cutback of the quotas of a substantial number of suppliers including cotton based ones. It would thus be in direct contradiction to the support expressed by the Community for the proposal made by developing countries relating to new entrants and small suppliers. The Community was proposing lower growth rates for all suppliers. Such lower growth rates were envisaged in the MFA only in exceptional circumstances. It was seeking also to introduce a procedure which would make base levels liable to cutbacks at any time throughout the currency of the MFA.

119. Commenting on the draft Protocol tabled by the Community, the representative of Pakistan, speaking on 30 November, stated that this departed even further from the objectives of the MFA than the position outlined in an earlier statement. The overall effect of the proposal would be to bring about a steady and continuous displacement of the exports from developing exporting member countries in the Community's market.

120. On 14 December, the representative of Pakistan commenting on the slow progress of the negotiations as they entered their final phase, said that the wide gap that existed in negotiating positions was due to the lack of any accommodation on the part of the importing countries. In this context the statement made by the United States to strengthen its draft Protocol was unfortunate as it moved the United States away from its moderating rôle. The litmus test of these negotiations would be what was done for Article 6 countries.

121. The representative of Korea, speaking on 30 November, supporting the position expressed by developing exporting members of the MFA stated that the present negotiations should lead to achieving the expansion of trade, the reduction of trade barriers and the progressive liberalization of world trade in textiles on which developing countries depended heavily for export earnings and employment. In this context he found the Community statement of 20 November totally unacceptable.

122. The representative of Yugoslavia, speaking on 30 November was disappointed that the draft Protocol tabled by the Community held out no prospects for practical application of the MFA or for a return to the rules of the GATT.

123. In spite of a reaffirmation of the commitment to liberalize trade, the Community was in fact putting forward new, more restrictive and protectionist criteria to be enforced on a case by case rather than a general basis. This would create great uncertainty for textile exporting developing countries and was not acceptable.

124. The proposal relating to outward processing trade was contrary to the MFA and to the provisions of the General Agreement.

125. Developing exporting countries had clearly demonstrated that the problems faced by the Community's industry did not result from their exports, and could not accept measures which were aimed at restricting their exports. The negotiations should be conducted on the basis of a respect for the interests of all participants and by upholding the provisions of the MFA relating to expansion and liberalization of international trade in textiles.

126. The representative of Switzerland speaking on 30 November, drew attention to the fact that his country had not imposed restrictions under the MFA and had consequently been able to better surmount the problems

facing its textile industry. In his view all the proposals on the table were too vague and restrictive, and could not lead to a firm, predictable and stable multilateral legal framework. In particular the anti-surge mechanism proposed by the Community was unduly vague and restrictive. Such a mechanism was unacceptable to Switzerland as it did not seem to guarantee equal rights in its application, a principle of importance to Switzerland which he had underlined among others at the July meeting of the Textiles Committee.

127. The stage had now come to set aside short term political considerations which could have disastrous consequences for the international textile trade, for the textiles economy of individual participants and for the entire international trading system. On the basis of the concept of market disruption already contained in the MFA, Switzerland was convinced that it would be possible to find an acceptable solution which could be of universal application and which would safeguard equally the rights of all participants. Switzerland would do everything possible to achieve this end.

128. The representative of Switzerland, in a subsequent intervention on 14 December, expressed the view that political will and statesmanship were necessary to bring the negotiations to a successful end. The outcome of the negotiations should not be such as to call into question the actions of those countries who had, in spite of difficulties, refrained from restraining imports, and make it difficult for them to continue the same policies. Any other outcome would mean that the negotiations would reward those countries who had taken restrictive actions.

129. The representative of Peru speaking on 30 November, noted that developing exporting countries had made very clear proposals aimed at preventing erosion of MFA disciplines. The outright rejection by importing countries of such reasonable proposals without discussions was not helpful to the negotiating process and could not lead to a balanced MFA. Unilateral interpretation of the MFA and the failure to observe its disciplines in the past had caused great damage to the economies of developing exporting countries. Even the bilateral consultations that had been initiated by importing countries did not take into account the proposals made by developing exporting countries. Such discussion had not served to clarify issues.

130. Peru as a small supplier attached importance to defining a special régime for small suppliers, new entrants and cotton textile exporters. The draft proposals presented by importing countries dealt with this issue in a vague and general manner. The anti-surge mechanism proposed by the Community was alien to the MFA and would in fact limit quotas even further. Negotiations should be conducted in a transparent manner and be aimed at arriving at a multilateral arrangement based on mutually agreed rules.

131. The representative of Mexico speaking on 30 November wished to underline certain aspects in the statements made on behalf of developing exporting countries which could assure a genuine negotiating process. Developing exporting countries were prepared to negotiate in a reasonable fashion. As time was limited they expected the co-operation of all participants to proceed, by stages, taking into account divergent interests, so that a mutually acceptable Protocol of Extension could be achieved. It was unacceptable that the proposals presented by developing exporting countries, should not be discussed. Developing exporting countries on their part had done everything necessary towards advancing the negotiating process. If the negotiations failed, it would not be the responsibility of exporting countries.

132. In a subsequent intervention on 10 December, he expressed concern at the proposals made by the Community for inclusion in a new MFA. He was confident however that the Community would understand why such proposals were totally unacceptable to exporting countries, and that it would work towards the conclusion of an arrangement satisfactory to all parties.

133. The representative of Romania speaking on 30 November was of the view that the Protocol presented on behalf of developing exporting countries should form the basis of negotiations. He emphasized the need to engage in concrete negotiations without any delay with a view to arriving at an extension of the MFA on satisfactory terms. In his view the draft Protocol tabled by developing exporting countries was the most complete text before the Committee and could form the basis for including all positive and constructive ideas from other participants.

134. The representative of Portugal speaking on behalf of Macao on 30 November said it was clear from export statistics that Macao had to be recognized as a small supplier. He referred to the heavy dependence of Macao's economy on the textile industry and said these negotiations had to be seen in the broader context of relations between industrialized countries and developing countries.

135. The representative of Uruguay speaking on 30 November noted that the draft proposals tabled by importing countries were vague particularly on the question of providing a special and more favourable régime for small suppliers, new entrants and cotton based exporters. The anti-surge mechanism proposed by the Community was foreign to the MFA, and would in fact limit even further the quotas of exporting countries. He urged that importing countries should negotiate on the basis of developing exporting country proposals. The negotiations should be conducted in as transparent a manner as possible.

136. The representative of Argentina speaking on 30 November associated himself with the comment made by developing exporting countries on the Community's proposal. It was time, he said, to avoid ambiguous formulations. He urged the Community to seriously consider the proposals tabled by developing exporting countries.

137. The representative of Jamaica speaking on 3 December said that it was inconsistent so soon after the conclusion of the 37th session of the CONTRACTING PARTIES, where concern for the future of the international trading system had been expressed by all participants, that a more restrictive régime was being proposed in a sector of importance to developing countries. He stressed that in negotiations national interests should be safeguarded and not submerged in group interests. He urged a more open trading system in the textiles sector and one which would adequately take care of the special interests of small suppliers.

138. The representative of Colombia, speaking on 14 December, expressed his concern that the MFA, originally conceived as a temporary and exceptional mechanism, had continued beyond the time limit initially foreseen and had become a permanent mechanism. Developing exporting countries were well aware that the MFA rules were exceptional. If such rules were now to be continued, they must be equitable. Not all importing countries needed to use an anti-surge mechanism; it was difficult to accept that rules which took into account the position of one importing country - although an important one - should be made general. He suggested that in these circumstances the 1977 Arrangement should not be extended but that there should be a return to normal GATT rules, which set down clearer conditions for the application of restrictions by importing countries. It might even be preferable for each country to apply restrictions in its own way. Colombia would not look with any pleasure on an agreement based on the conditions suggested in these meetings.

139. The observer from the Peoples' Republic of China speaking on 26 November stated that the EEC proposals would result in increased restrictions on trade. The proposal for growth rates lower than 6 per cent was a retrogression; the proposal to waive flexibility provisions would have the effect of increasing restrictions on international trade; the proposals for an anti-surge procedure would have the effect of using past import performance and not quotas as future base levels. This was contrary to the present MFA. Statistics did not bear out the Community's contention that exports from developing countries had increased rapidly over the past years. China supported the statement made on behalf of developing exporting countries. Referring to the inter-connected and inter-dependent features in the world economy he said the present negotiation should be conducted on the basis of equality, fairness and mutual advantage which would be conducive to the economic development of both exporting and importing countries.

ANNEX

Documents relating to the discussion of the future
of the MFA (December 1980 - December 1981)

(a) Reports of the Textiles Committee

| <u>Document No.</u> | <u>Content</u> | <u>Date</u> |
|---------------------|---|------------------|
| COM.TEX/20 | Report of the meeting held on 9 December 1980 | 13 February 1981 |
| COM.TEX/23 | Report of the meeting held on 7-8 May 1981 | 22 June 1981 |
| COM.TEX/24 | Report of the meeting held on 14-20 July 1981 | 8 September 1981 |
| COM.TEX/25 | Report of the meeting held on 21-25 September 1981 | 2 November 1981 |
| COM.TEX/26 | Report of the meeting held from 18 November - 22 December 1981 | |

(b) Communications, statements and proposals made during meetings of the
Textiles Committee for the extension of the Multifibre Arrangement

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| COM.TEX/W/92 | Communication received from the Permanent Mission of the People's Republic of China | 28 April 1981 |
| COM.TEX/W/96 | Proposal by developing exporting countries participants in the Arrangement, on "minimum viable production" | 14 July 1981 |
| COM.TEX/W/97 | Proposal by developing exporting countries participants in the Arrangement, relating to market disruption provisions | 14 July 1981 |
| COM.TEX/W/98 | Proposal by developing exporting countries participants in the Arrangement, relating to adjust- ment measures | 14 July 1981 |

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| COM.TEX/W/99 | Proposal by developing exporting countries participants in the Arrangement, relating to the provisions of Article 3, Article 4 and Article 6, paragraphs 2, 3 and 4, of the Arrangement | 14 July 1981 |
| COM.TEX/W/100 | Proposal by developing exporting countries participants in the Arrangement, relating to the progressive liberalization of trade in textiles | 14 July 1981 |
| COM.TEX/W/101 | Proposal by developing exporting countries participants in the Arrangement, relating to the provisions of Article 11 | 14 July 1981 |
| COM.TEX/W/102 (and Rev.1) | Statement made by the representative of the European Communities on 14 July 1981 | 15 July 1981 |
| COM.TEX/W/103 | Proposal by Hungary relating to price clauses | 16 July 1981 |
| COM.TEX/W/104 | Proposal made by Hungary relating to the basis for establishing restraint measures included in Article 4 bilateral agreements | 16 July 1981 |
| COM.TEX/W/105 | Statement made by the representative of the United States on 16 July 1981 | 16 July 1981 |
| COM.TEX/W/106 | Proposal by developing exporting countries participants in the Arrangement, relating to the "reasonable departures" clause | 17 July 1981 |
| COM.TEX/W/107 | Statement made by the representative of Colombia on behalf of developing exporting countries on 20 July 1981 | 21 July 1981 |

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| COM.TEX/W/110 | Statement and proposal made by the United States for a Protocol extending the Arrangement | 21 September 1981 |
| COM.TEX/W/111 | Proposal regarding Article 7 of the MFA submitted by Japan | 21 September 1981 |
| COM.TEX/W/112 | Proposals submitted by the European Community relating to the economic and social development of the developing countries, the period of validity of the Arrangement, the provisions of Article 8, paragraphs 1 and 2, market disruption and differences among suppliers, and market access. | 21 September 1981 |
| COM.TEX/W/113 | Proposal submitted by Nordic countries relating to the minimum viable production clause | 23 September 1981 |
| COM.TEX/W/114 | Proposals submitted by Canada relating to base levels, growth rates, flexibility provisions and market disruption | 22 September 1981 |
| COM.TEX/W/115 | Proposal submitted by Switzerland concerning Articles 8, 9 and 11 of the MFA | 24 September 1981 |
| COM.TEX/W/116 | Draft conclusions to be adopted by the Textiles Committee, presented by developing exporting countries participants in the Arrangement | 28 September 1981 |
| COM.TEX/W/119 | Statement by the representative of the European Communities on 20 November 1981 | 20 November 1981 |
| COM.TEX/W/120 | Proposal for a Protocol Extending the Arrangement, submitted by developing exporting countries participants in the Arrangement | 20 November 1981 |

| <u>Document No.</u> | <u>Content</u> | <u>Date</u> |
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| COM.TEX/W/121 | Proposal for a Protocol Extending the Arrangement, submitted by the European Communities | 26 November 1981 |
| COM.TEX/W/122 | Draft Protocol Extending the Arrangement, prepared by the secretariat as a basis for further discussion | 17 December 1981 |
| COM.TEX/W/123 | Draft Protocol Extending the Arrangement, prepared by the secretariat as a basis for further discussion | 19 December 1981 |
| COM.TEX/W/124 | Draft Protocol Extending the Arrangement, submitted to the Textiles Committee for approval. | 22 December 1981 |