

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Textiles Committee

REPORT OF THE COMMITTEE MEETING
HELD ON 23 JULY 1985

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its seventh meeting under the 1981 Protocol of Extension on 23 July 1985 to consider the future of the Arrangement Regarding International Trade in Textiles.
2. The Chairman introduced the agenda as contained in GATT/AIR/2174 of 21 June 1985 and said that the main task of the Committee was to initiate discussion on the future of the MFA as required by Article 10:5 which stated that "the Committee shall meet not later than one year before the expiry of the Arrangement in order to consider whether the Arrangement should be extended, modified or discontinued". He pointed out that while Article 10:5 made it mandatory for the Committee to start its deliberation before 31 July 1985, as the present Protocol of Extension would expire at the end of July 1986, the Committee did not necessarily have to reach its final conclusion at the present meeting, which would be the first in a series of meetings to be held for this purpose. He said that it would be helpful if the present meeting enabled members of the Committee to see more clearly how the various participants look at the situation in the textiles sector; to ascertain what considerations affect their approaches; to compare their respective perceptions of the matter; and to indicate how they look at the treatment of textiles and clothing after the expiry of the present Protocol on 31 July 1986.
3. He expressed the hope that the exchange of views at this meeting would be followed by bilateral and plurilateral consultations, and that the Committee would meet later in the year to take stock of the situation and to consider how far members were in a position to come to a common appreciation of the future multilateral action that might be taken on textiles and clothing. He remarked that this meeting was taking place in particularly critical circumstances. On the one hand there was an upsurge of protectionist pressures, some of which had been translated into proposals for a further tightening of restrictions on textiles and clothing. On the other hand, the CONTRACTING PARTIES were engaged in an effort to strengthen the trading system so as to improve its capacity to withstand these pressures and to seek a broad process of liberalization. At their 1982 Session, the Ministers recognized that a search for ways and means to liberalize trade in textiles and clothing, including the application of GATT provisions to this sector, had to be a part of their Work Programme. He also remarked that the importance of trade in textiles and clothing for the economies of both importing and exporting countries meant that this was an area in which there was a need to avoid uncertainty as to future prospects, and to work in a spirit of confidence and co-operation with a view to arriving at an early and mutually acceptable decision.

4. He said that it might be of interest to the Committee to be informed of the state of affairs in other bodies dealing with the subject of textiles and clothing, and invited the Chairman of the Textiles Surveillance Body, the Chairman of the Sub-Committee on Adjustment and the Chairman of the GATT Working Party on Textiles and Clothing to brief the Committee on the status of work in their respective areas of activities.

5. The Chairman of the Textiles Surveillance Body said that his report was presented in his capacity as Chairman of the TSB but did not engage the responsibility of that Body. He said that the TSB had met fifteen times since the submission of its last report to the Textiles Committee which covered the period up to 3 August 1984. During these meetings, the TSB had reviewed notifications by China and Norway under Article 2. The Dominican Republic and Panama had not provided the required reports under Article 2:1 despite several requests. In both cases, the 60-day period in which the notification should have been made had expired. The lack of notification meant that measures not notified would be considered to be contrary to the Arrangement and had to be terminated forthwith.

6. Since August 1984, the TSB had received several notifications under Article 3:5 but had not yet finished reviewing all of them in view of requests for postponement made either by both interested parties or by one party with the acquiescence of the other in order to give the parties the possibility of holding further consultations. In view of the great importance the TSB attached to the examination of Article 3:5 and other cases where a disagreement existed between the parties, within the 30-day period prescribed by the Arrangement, it decided at its last meeting to include in its report the following comment: "As regards matters brought before the TSB under Article 3:5, the TSB has been repeatedly asked by the parties involved to postpone consideration since consultations were continuing. The TSB has consistently taken the view that though parties should have the opportunity to consult in order to come to mutually acceptable solutions, such a request would not automatically lead to a suspension of TSB procedures which have a time limit of thirty days. As a consequence, the TSB will continue to examine each request on its own merits".

7. Referring to Article 4 notifications, he said that the TSB reviewed eighteen new agreements and many modifications of existing agreements, mostly concerning the introduction of new restraints. In conclusion, he said that during this period, the TSB also reviewed three complaints brought under Article 11:4 and one complaint under Article 11:5; it also received one communication under Article 11:8. The TSB also took a decision relating to the presence in its meetings of the technical experts mentioned in Article 11:2, which became applicable on 1 December 1984.

8. Speaking in his capacity as Chairman of the Working Party on Textiles and Clothing, Mr. Mathur said that his statement was made on his own responsibility. He recalled that during the session of the CONTRACTING PARTIES at Ministerial level in 1982, the CONTRACTING PARTIES decided:
(a) to carry out on a priority basis a study on textiles and clothing;

(b) to examine expeditiously, taking into account the results of such a study, modalities of further trade liberalization in textiles and clothing including the possibilities for bringing about the full application of GATT provisions to this sector of trade; and (c) that this work should be completed for their consideration at the 1984 session.

9. Following the completion of a background study by the GATT secretariat, a Working Party on Textiles and Clothing was established to carry out the examination of modalities as set out in Section (b) of the CONTRACTING PARTIES' decision. In its progress report to the Council in November 1984, the Working Party noted that it was unable to complete its work in time for consideration by the CONTRACTING PARTIES at their 1984 session, and asked for an extension of its mandate. The CONTRACTING PARTIES subsequently adopted the Working Party's report and agreed to extend its mandate for such further period as would permit it to make a more complete report.

10. As set out in its progress report, the Working Party approached its task by exploring three broad options for trade liberalization: (A) full application of GATT provisions involving a movement towards liberalization; (B) full application of GATT provisions as envisaged in Option A, combined with liberalization of trade measures irrespective of their GATT conformity; and (C) liberalization under existing frameworks.

11. The Working Party had met five times in 1985. At its last meeting held on 10 July, the Working Party considered a draft annotated outline for its report. While noting that it remained open to delegations to make additional points and to carry the discussions further forward, it agreed that the secretariat should prepare a fuller text covering its deliberations for consideration at meetings to be held in the autumn of 1985 and the eventual submission of a report to the CONTRACTING PARTIES. He said that the discussions in the Working Party had focused on the future prospects for trade liberalization in textiles and clothing, what could be involved in the full application of GATT rules to this sector, and in the use of various options as approaches towards liberalization. Other issues, such as the feasibility of a transitional arrangement and the interrelationship between different options had also been raised.

12. He said that it was not yet clear whether the Working Party would be able to go beyond an expression of views on different modalities and seek to arrive at common views on solutions that could be negotiated. However, since the MFA had featured quite significantly in the discussions of the Working Party, and since members of the Textiles Committee were now considering the future of the Arrangement, they would no doubt find the report of the Working Party, when made available later in the year, of some interest for their deliberations.

13. As Chairman of the Sub-Committee on Adjustment, Mr. Mathur recalled that during the last meeting of the Textiles Committee held in October 1984, the Sub-Committee on Adjustment had submitted a detailed report on adjustment policies and measures covering the situation up to 1982, as well

as a summary of its findings based on the information made available by participating countries. The Sub-Committee had also made recommendations on its future work programme; principally, that efforts should be made to expand and update the information available in order to assess the extent to which the provisions of Article 1:4 were being implemented. For this purpose, the Technical Sub-Group of the Sub-Committee prepared and distributed in February 1985 an explanatory note providing greater detail on the type of information being sought through the questionnaires and the format for presentation of such information. Participating countries were requested to make their responses available by 31 May 1985.

14. He noted that at present there still remained twenty-nine participants which had not yet provided information. He said that the Sub-Committee had to submit a report to the Textiles Committee before March 1986, and that it was necessary for participating countries to take early steps to furnish the required information to the secretariat. Failing this, the monitoring by the Sub-Committee on Adjustment of policies and measures, and of the process of autonomous adjustment as envisaged in Article 1:4, as well as its review of developments in production and trade in textiles, would make no greater contribution to the task of the Textiles Committee in fulfilling its obligations under Article 10:2, than that made by similar exercises in the past.

15. The representative of Korea, speaking on behalf of developing countries, exporters of textiles and clothing, said that their views on the future rules to govern international trade in textiles and clothing were founded on the Ministerial Declaration of 1982, which called for determined efforts to maintain and strengthen the multilateral trading system and in that context, to liberalize trade in textiles and clothing including the eventual application of the General Agreement to that sector of trade after the expiry of the present MFA.

16. He said that it was for the third time that the Textiles Committee was meeting under Article 10:5 of the MFA, which had provided more than a decade of the 25-year old "breathing space" to the textiles and clothing industries of developed countries. During this period, import restraints had become more restrictive, spreading in country and product coverage, and increasingly discriminatory. The MFA had failed in its central objective of facilitating structural adjustment in the developed countries' textiles and clothing industries and in trade liberalization. Such trends were clearly borne out in the Textiles Surveillance Body Report of October 1984, which concluded that under MFA III, restraints "... have been extensive and in many cases more restrictive", and that "the brunt of such more severe application of the MFA's provisions has been borne by exporting countries ... even though the MFA explicitly recognizes the need for developing countries to receive special treatment". In sum, "little or no headway has been made in the objectives of achieving the reduction of barriers and the progressive liberalization of world trade."

17. The Committee's decisions in 1977 and 1981 to extend the MFA with additional restrictive provisions were due to the importing countries' insistence that their already ailing textiles and clothing industries had suffered disproportionately from the global recession and therefore required increased protection. However, these conditions had improved, even allowing for differences in cyclical fluctuations in consumer demand, stocks and swings in exchange rates. The rapid growth of the United States economy from 1982 through most of 1984 boosted domestic demand and production of textiles and clothing. Although the growth in consumer demand had slowed down in recent months, these industries remained better off than in the early 1980's. Economic growth in Western Europe had been more tempered, but since 1984 there had been clear signs of recovery in domestic production, led by a spurt in exports, which benefited from the intensification of discriminatory import restrictions against the developing countries by the United States. During the period October 1984 to May 1985, United States' imports from Western Europe increased by 40 per cent over the corresponding period a year earlier, while imports from MFA developing countries declined by 5 per cent.

18. He stated that the key questions on whether to extend, modify or discontinue the MFA were: (i) whether continued protection to the textiles and clothing industries of the developed countries was justifiable; (ii) whether these industries could continue to claim special treatment in the form of a derogation from GATT rules; and (iii) whether a convincing case could be made to justify persistent discrimination against developing countries. He said that the consideration of these questions was overshadowed by the fact that the legislature of one of the principal parties to the MFA was now at an advanced stage of processing a bill, which, if passed, would violate the multilateral and bilateral obligations of that country under the Arrangement. Also, by formally introducing the element of discrimination into a key sector of trade, the bill would undermine the very basis of the present open multilateral trading system.

19. Finally, he drew attention to the Mexico Communique issued by the developing countries, exporters of textiles and clothing, in April 1985 and said that the Communique should be treated as an integral part of his statement. A copy of the Mexico Communique is attached as Annex I.

20. The statement by the representative of Korea was supported by the representatives of Hong Kong, the Philippines, China, India, Peru, Egypt, Pakistan, Mexico, Uruguay, Turkey, Hungary and Yugoslavia who spoke subsequently. Most of them referred in particular to the Ministerial Declaration and the Mexico Communique. Other portions of their individual interventions are summarized in the relevant paragraphs below.

21. The representative of the United Kingdom, speaking on behalf of Hong Kong, said that the outcome of the process on which the Committee was now embarking was of vital importance to Hong Kong's continued prosperity as over 40 per cent of its exports consisted of textiles and clothing. He said that in order to commence the process it would be necessary for a rational

case to be made for following any particular course under the basic options suggested by Article 10:5 of the MFA of whether to extend, modify or discontinue the Arrangement. The developing exporters favoured liberalization. If others saw the need for any variation on this theme, then it was for them to explain it and justify it and to state a case which could then be discussed rationally. He asked how and when the commitments to liberalize trade in textiles and clothing made in the 1982 Ministerial Declaration could be honoured. It was difficult to see how there could be any credibility in yet another "breathing space" after some 25 years of institutionalized restraint. He asked what credible assurances could be given by those who advocated yet more protection that genuine liberalization and ultimately complete liberalization would take place. He said that understanding of each other's positions could be developed through a careful process of formal and informal contacts, and only in this way could parties determine whether a mutually acceptable solution was possible within a specified time-frame. He urged that such contacts should start fairly soon.

22. He said that the Jenkins' Bill in the United States gave no encouragement to those who were interested in rational analysis and exchanges. It was difficult to understand how such a protectionist and unilateral measure could be so well received in the United States Congress as it reportedly had been, when the United States statistics showed that employment in both the textiles and apparel sectors went up in 1984 over 1983 as did the value of United States' textiles and apparel shipments, in real terms. He concluded by quoting a recent statement by the United States Secretary of State concerning the adverse effects of protectionism and the need for developed countries to be prepared to phase-out industries in which they were no longer competitive.

23. The representative of the United States said that the last several years had been particularly difficult for the domestic textiles, apparel and fibre industries. In volume terms, the trend of the market had shown little or no growth in recent years, but imports had risen steadily and dramatically in the last two years: by 25 per cent in 1983 and by another 32 per cent in 1984. During the first five months of 1985, imports had not been increasing, but their sheer magnitude continued to cause acute problems. Moreover there had been a sharp rise in imports of apparel made of fibres not regulated under the current Arrangement. It was estimated that in the first part of 1985, apparel imports of non-MFA fibres were five times greater than in the same period last year. All of this import growth had meant an increasingly smaller market for United States domestic manufacturers.

24. He said that numerous textiles and apparel plants had closed down and hundreds of thousands of jobs had disappeared. It was true that some of the plants were old and that some of the jobs were eliminated by the continuing process of modernization, but it was also true that massive import pressure had taken its toll. Of the two million people employed in American textiles and apparel plants, about two-thirds were women and about one quarter of production workers belonged to minority groups. Confronted with the very

disruptive levels of imports, the United States Government had taken a series of actions in exercise of its rights under the MFA, but these were considered insufficient by important parts of the United States political bodies. That was why there was today before the United States Congress a textiles and apparel quota bill which had the support of over half of the congressmen and senators. The Administration was strongly opposed to this legislation, but its future course could not be predicted. The United States Constitution gave the Congress the primary responsibility for the regulation of international trade. For over fifty years, the Congress had delegated power to the President to conclude and enforce trade agreements, including those in textiles. The Congress, however, could take that delegated authority away or legislate new requirements and conditions.

25. He said that he recognized the problems of developing countries and the special rôle which textiles and apparel played in the development of their economies. The United States also encountered severe problems which could not be ignored. The facts indicated that the American textiles and apparel markets had been opened to a considerable degree. According to GATT statistics, textiles and apparel imports into the United States from developing countries increased from \$6.2 billion in 1980 to \$8.9 billion in 1983 and the United States' share of developing country textiles and apparel exports increased from 31 per cent to 42 per cent in the same period. The 1984 data would show further increases, given the rapid rise in United States imports last year.

26. Turning to the question of the future of the MFA, an arrangement that affected billions of dollars of investments and millions of working men and women in the United States and throughout the world, he asked what members of the Committee would do now that MFA III would expire in a year's time. He said that each nation could act unilaterally on the problems of trade in textiles and apparel, or nations could work together under the existing multilateral framework to achieve a viable successor arrangement to the present MFA. The United States Government believed that all parties would benefit if a new arrangement would succeed the current one. It believed that negotiations should begin soon and should be moved forward as expeditiously as possible. He did not think that negotiations would be easy; most certainly, they would be arduous. The United States firms and workers had and still confronted serious problems, and the United States Government would be resolute in defending their interests. At the same time, it also recognized that other countries also faced difficulties, and should be accorded the same rights. He concluded by saying that negotiations, however troublesome at times, could be successful, and that a new arrangement would not only be in the interest of the United States, but also in the interest of other nations. He expressed the hope that other governments would agree with his views and that the negotiating process would soon begin. He pledged his personal commitment to work closely with the Chairman and other members of the Committee to that end.

27. The representative of the Philippines, speaking on behalf of the ASEAN member States in the GATT, stated that a meaningful consideration of the future of the MFA should be based upon the commitments in paragraph 7(i) of the Ministerial Declaration of 1982. He expressed ASEAN's grave concern that these commitments could be negated by numerous protectionist initiatives in many major importing countries which, if not successfully resisted, would set back the general exercise in the GATT of restoring confidence in the world trading system. They constituted an unprecedented departure from the concept of negotiations as an instrument of resolving international trade difficulties and they effectively abrogated bilateral agreements negotiated under the 1981 Protocol. The adverse consequences of some protectionist legislation on the economies of exporting countries would be permanent and devastating.

28. He said that ASEAN believed that the deliberations would be facilitated by a sincere recognition of each others' national interests and called upon the concerned authorities to honour their commitments under the GATT, the MFA and the bilateral agreements. With respect to the task of the Textiles Committee in defining the terms and conditions under which trade in textiles and clothing would be conducted in the years to come, he stressed the special responsibility of the developed importing countries in the establishment and maintenance of a liberal trade order. The real question was not whether there could be an improvement in the current access conditions for trade, but whether the world community could afford not to have an equitable trading system at all. ASEAN, therefore, was prepared to join in a common effort to effectively and equitably address common problems and preoccupations. Referring to the operation of the MFA in the past, he commented that unilaterally imposed measures, such as countervailing duty measures, rules of origin regulations and actions taken on the "presumption of market disruption" had unduly upset the hard-earned balance struck in bilateral agreements and caused unnecessary frictions in international trade relations. In the future it would be incumbent upon trading partners to fully respect their commitments and not to impair the terms of bilaterally agreed instruments under the MFA.

29. He said that the situations noted in the 1984 report of the TSB, including the more generalized invocation of the exceptional cases clause of Annex B to deny growth and flexibility, the increasing number of new restraints introduced unilaterally within bilateral agreements and the application of the minimum viable production provision should be effectively addressed. While commending the efforts made by the TSB in its vigilant surveillance work, he said that it was imperative that TSB recommendations be respected by all parties. He stated that ASEAN was fully prepared to engage in common efforts to ensure that an extension of the MFA would fulfil the stated objectives of the Arrangement and in this context called upon all trading partners to give substantive meaning to the special treatment for new entrants and small suppliers as stipulated in Article 6 of the Arrangement. He urged expeditious completion of the matter before the Committee and suggested that appropriate steps be taken to launch the process of consultations at the soonest practicable time. In the meantime, all parties had to strictly adhere to the rules of the MFA.

30. The spokesman for the EEC stated that the Community was willing to agree upon a reasonable and equitable solution with all the countries participating in trade in textiles. He said that the Community had expressed on several occasions its readiness to pursue the objective of strengthening the multilateral trading system and liberalization of world trade and recalled the declarations of the Council made in the process of preparing a new round of multilateral trade negotiations. In this context the Community reaffirmed its attachment to the objective of progressive liberalization of trade in textiles on the basis of a better balance of rights and obligations between contracting parties. He observed that since 1974 the Arrangement had permitted a steady increase of exports of textiles and clothing from the exporting countries into the Community resulting in a substantial trade deficit for the latter. The orderly development of imports under the MFA had facilitated the progressive restructuring of the Community's industry; nevertheless difficulties persisted in this sector. The loss of employment in the textiles sector which had been very severe in the past few years (1,000,000 jobs lost in ten years) was continuing. Prospects for production over the next few years would depend primarily on the development of consumption in the Community, which was virtually stagnant, and would be influenced by the conditions governing foreign competition. Import penetration in 1984 stood at 45 per cent, one of the highest penetration rates to be found among the large industrialized countries.

31. He said that an appropriate multilateral framework which permitted the orderly development of textiles trade should create the conditions necessary for the attainment of liberalization of this trade, without jeopardizing the process of restructuring. The Community believed that the extension of an appropriate multilateral framework was necessary in the present circumstances since an immediate return to GATT rules could lead to an unstable situation with increased uncertainty for trade and adverse consequences for the least developed exporting countries. Taking into account the developments in this sector, the Community intended to apply the multilateral and bilateral provisions to be agreed in a more flexible manner providing that, in parallel, an effort was made by the other countries engaged in international textiles trade towards the opening of their markets. Each participant would be expected to contribute according to its level of development and economic strength. These measures, it was felt, should allow the progressive attainment of the final objective of a return of trade in textiles to normal GATT rules, while avoiding disruptive effects on the market. However, it was premature to enter into the details of the new régime at this stage as the Community was in the process of preparing its negotiating position.

32. The representative of Japan stated that the decisions of the Committee would have an important influence not only on trade in textiles but on the future of the whole trade system. He urged all delegations to recall the 1982 GATT Ministerial Decision that called for a stand-still and roll-back of protectionist measures as a guide to what the future world trade in textiles should be. Japan deemed it important to further liberalize trade in textiles and clothing. To pursue such liberalization, the study by the Working Party on Textiles and Clothing and the discussions on safeguards should be taken into account.

33. He felt that the MFA régime had played an important rôle in stabilizing and expanding trade in textiles and clothing. In its absence, more rampant and arbitrary measures of import restrictions could reduce stability and decrease the volume of textiles trade. Japan was gravely concerned over the spread of protectionist measures. The movements towards increased protection could lead to disorder in the international trade in textiles and clothing and shake the foundation of the free trade system. Japan considered that a framework designed to regulate the international trade in textiles and clothing was required in order to overcome protectionism and to ensure the stable and orderly expansion of textiles trade. The basic Japanese position was to renew the MFA régime with no drastic change but with modifications based on determined efforts towards liberalization. While noting that Japan had never concluded a bilateral agreement for textiles and clothing under the MFA, it felt that a renewal of the MFA régime with modifications providing for substantive liberalization would be desirable and would represent a balanced compromise among member countries.

34. The representative of Canada noted that during MFA II and III the focus of the Canadian restraint programme was on clothing. During the period 1979-81, domestic shipments had grown by 7.7 per cent and imports by 1.0 per cent. Conversely, under the current MFA (1982-84) domestic shipments had declined by 13 per cent while imports grew by 43.4 per cent and in 1984 captured 43 per cent of the domestic market. Imports of clothing from restrained sources had risen from 132 million to 186 million units while unrestrained imports from developing countries, which were 12 million units in 1981, had grown to 21 million units in 1984.

35. In view of the difficult situation in the industry, the Canadian Government had requested consultations with major suppliers in 1982 and again in 1983, with a view to re-negotiating the restraint arrangements. These negotiations proved unsuccessful. The result was that imports in 1983 grew by 25 per cent and in 1984 by a further 17 per cent. These surges had been particularly disruptive with adverse effects on the domestic industry, employment, investment, etc., and had impeded rather than assisted the adjustment process.

36. He stated that Canada had continued to seek solutions to the problems which had arisen under MFA III by negotiating with new entrants. However, the existing restraint arrangements, with their high initial access levels growing at 13 per cent per annum had reduced flexibility in negotiating levels for the new entrants. He advised that, in December 1984, his Government had instructed the Textiles and Clothing Board to initiate an inquiry into conditions in the textiles and clothing industry in Canada. The Board had recently issued an interim report concluding that the rapid increase in imports into Canada in the last two years had resulted in a crisis situation. The report recommended that Canada should impose global quotas on all types of clothing for three years and that the level should remain constant during that period. These recommendations would be taken into account by the Government in the formulation of its textiles and clothing policy. He added that Canada was of the view that given the present conditions, the MFA could not be permitted to expire and that an immediate return to the full disciplines of the GATT would not represent an effective move toward trade liberalization. Therefore Canada was looking to an extension of the MFA.

37. The representative of Austria stated that his Government had negotiated bilateral agreements under the MFA only in a limited number of cases in spite of a very high level of import penetration which had resulted in the closing down of a number of enterprises with a loss of jobs. Nevertheless, the MFA had proven its value in the past and Austria was, therefore, in favour of a further extension with liberalization.

38. The representative of China referred to the serious erosion of the multilateral trading system and the need for action to restore its credibility. He said that any future régime for textiles and clothing would have a significant bearing on the entire international trading system. He also observed that certain sectors of the textiles industries in the developed countries had improved their international competitiveness through structural adjustment and modernization; however, instead of measures of trade liberalization being introduced as might have been assumed, protectionism had been on the increase. Both the coverage of restricted products and of countries had increased, while the degree of restrictiveness and discrimination had intensified. China was concerned that the legislation proposed by protectionist forces in the United States could undermine the negotiations on the future of the MFA and lead to severe consequences for trade in textiles and clothing and the international trading system as a whole. Finally, he said that China was ready to join others in seeking ways and means for the return of trade in textiles and clothing to GATT, with the objective of a gradual liberalization in this trade.

39. The representative of Norway, speaking on behalf of the Nordic countries, stated that the long term aim of the negotiations should be a liberalization of the international trade in textiles within the framework of GATT, but stressed the importance of a balanced and orderly continuation of this trade upon the expiry of the present multilateral Arrangement. While noting that, under MFA III, the process of adjustment in the textiles industry and the expansion of imports from the developing countries had continued, he pointed out that the special concerns of the Nordic countries, with small markets, high import penetration and a low level of domestic production should be taken into account.

40. The Nordic countries felt that there remained a need for an internationally negotiated instrument securing an orderly expansion of the world's textiles trade through the extension of the MFA for a time long enough to allow for sound industrial and commercial planning. This could be achieved by negotiating a new protocol of extension while keeping the original MFA text unchanged. He said that the Nordic countries had not completed their internal discussions on the possible elements of a new protocol of extension, but it should provide the possibilities of reaching mutually agreed aims through the implementation of bilateral agreements within the framework of the MFA.

41. Commenting on the Norwegian textiles and clothing industries, he indicated that in 1984 the index of production, with the level of 1975 as 100, was down to 80 for textiles and 57 for clothing, while Norwegian net imports per capita were probably the highest in the world. These figures

demonstrated that there was still a rather difficult situation in the Norwegian textiles industry. When the Norwegian Parliament debated in 1984 the choice between joining the MFA or continuing with the global quota system, it decided on the former as it seemed that the MFA was a somewhat more liberal system. Norway, therefore, was prepared to discuss constructively the future of the MFA.

42. The representative of Sweden stated that in his country the downward trend in overall textiles production and employment had continued during the lifetime of the present Arrangement. In the field of clothing, import penetration had reached an average figure of 87 per cent and employment had declined to a mere 11,000 employees in 1985. These developments fell precariously short of the politically formulated goal for the Swedish textiles industry of maintaining a minimum of 30 per cent domestic production. He recalled that Sweden's adherence to the present MFA was explicitly conditioned by the understanding that the Arrangement and particularly its Protocol of Extension would reflect an understanding of and a response to Sweden's situation. On the occasion of its signing, a reservation to that effect was entered. He noted that under the present Arrangement Sweden had negotiated seventeen bilateral agreements invoking the relevant articles and paragraphs responding to its special situation. These agreements had not resulted in any substantial upward change in Swedish textiles production but might have reduced the downward trend. He said that Sweden reaffirmed its support for the long term objective of liberalizing trade in the textiles sector and supported a continuation, in principle, of the present Arrangement, modified where necessary in the light of the situation now obtaining in the textiles trade. He underlined, however, that Sweden's adherence to such an agreement would have to be conditioned by the continuing recognition on the part of its partners of its own specific situation now embodied in the MVP clause.

43. The representative of Switzerland recalled that his country was both an importer and an exporter of textiles and clothing. In both rôles Switzerland had been able to accept the MFA and, under certain conditions and time-frames, could live with its prolongation. However, Switzerland could not accept that the textiles negotiations would in any way prejudice or commit the direction of future global trade negotiations to the detriment of trading nations like Switzerland which maintained and required an equitable trading system. He said that it was difficult at the present time to establish the objectives and time-table for the global trade negotiations until the preparatory work was more advanced. Nevertheless Switzerland would not wish to postpone either negotiations. Switzerland believed that in the present circumstances, it would be necessary to extend the MFA as it stood, with the possibility of some amendments. A time-table for the dismantling of the MFA and the return of textiles trade to the GATT rules, both in respect of principles and modalities, would depend upon the shape of the global trade negotiations. Only by going beyond the restrictive perspectives of the MFA could a true balance of rights and obligations be established and necessary conditions that take into account the interests and responsibilities of all countries achieved.

44. The representative of India said that in spite of the basic objectives of the MFA; namely, a reduction of trade barriers and the progressive liberalization of world trade in textiles products, import restraints had in fact become more restrictive and increasingly discriminatory during the lifetime of the MFA. Thus the MFA had failed in its central objective of facilitating trade liberalization and structural adjustment in the textiles and clothing industries of developed countries.

45. He said that the developing countries were convinced that the mandate of the Ministerial Declaration in 1982 was the reintegration of this vital sector into the multilateral trading system. However, since 1982, there had been further intensification of restrictive measures and protectionist threats such as the Jenkins' Bill in the United States. He reaffirmed India's conviction as stated in the Mexico Communique that "recent developments have highlighted the unsuitability of the MFA as an instrument for the regulation of international trade in textiles and clothing". Rather, the fundamental principles of the multilateral trading system as stated in the Karachi Workshop in 1984, namely, non-discrimination, comparative advantage, prohibition of quantitative restrictions and differential and more favourable treatment for developing countries should be applied. This would require the elimination of concepts alien to GATT such as market disruption and selectivity. Developing countries considered that a categorical and unconditional commitment by the importing countries to apply such rules and principles should constitute the first step for meaningful work on trade in textiles and clothing in the future. It was clear from the TSB report in 1984 that the manner in which the current MFA had been applied by importing countries had undermined the credibility of the instrument. A recent example was provided by the problems facing India in the sector of handloom products which the MFA had clearly recognised to be special in character and outside the scope of quantitative restraints.

46. In conclusion, he stated that the continuation of the MFA far beyond the so-called "breathing space" needed for the restructuring of this industry was threatening to undermine the very basis of the open multilateral trading system. The MFA should not be accepted as a regular parallel law of international trade as there was only one such framework of law and that was GATT.

47. The representative of Peru said that the MFA had not achieved its objective of expansion of trade, reduction of trade barriers, progressive liberalization of trade and the promotion of developments in developing countries. As a derogation from the MFN principle, the MFA was created to assist structural adjustment in importing countries. However, after twenty-five years of restrictions in a sector in which the developing countries had comparative advantage, it had only given rise to negative adjustment policies in importing countries creating greater restraints in the trade of developing countries and greater economic and social difficulties for them. While developing countries were facing more and more restricted markets, exports by non-restricted areas had increased. These discriminatory restrictions were compounded by negative measures in the

United States such as the rules of origin regulations and the latest proposals in the Jenkins' Bill. This situation could not be allowed to continue. The difficulties faced by developing countries in the field of textiles had prevented them from obtaining the foreign exchange necessary for development and meeting their obligations to repay their external debt. Peru was convinced that a return to GATT rules with a view to liberalizing trade was justified and necessary. It was also necessary that provisions be made to prevent unfair or arbitrary actions by importing countries. She referred to the contents of paragraph 7 of the Ministerial Declaration and said that importing countries had to start a process of negotiation leading to the possibility of applying the normal rules of GATT to textiles and clothing. Finally, she said that Peru would participate positively and constructively in a process of negotiations which would lead to liberalization of trade in textiles and clothing.

48. The representative of Egypt stated that although the MFA was meant to be a short-term derogation from the free trade rules of GATT to allow time for industrial adjustment in developed countries, it had become an instrument of institutionalized protectionism and a vehicle for helping inefficient industries. He recalled the TSB findings that restraints under the MFA had been applied almost exclusively to products from developing countries, that they had become more extensive in coverage and in many cases more restrictive with across-the-board invocation of the exceptional circumstances or the MVP clause, and that no headway had been made in the objective of progressive trade liberalization. The severe application of the MFA's provisions had adversely affected the production and marketing programmes of exporting countries, in spite of the recognition of their need to receive special treatment.

49. He stated that the restrictions imposed by the MFA had resulted in higher costs to consumers, retailers and importers in the importing countries. They had also adversely affected the development process in the developing countries resulting in a substantial shortfall in their export earnings and aggravated their severe debt and balance-of-payments problems. He recalled that the Mexico Communique had highlighted the unsuitability of the MFA as an instrument for the regulation of international trade in textiles and clothing, while the GATT Ministerial Declaration of 1982 encouraged application of the fundamental principles of the multilateral trading system including non-discrimination, comparative advantage, and prohibition of quantitative restrictions. Application of these principles would involve the elimination of concepts alien to GATT and require a commitment to the objective of full application of the normal rules of GATT to the textiles and clothing sectors. It was Egypt's view that the Committee should work expeditiously to remove the uncertainty that would dominate the world trade in textiles during the negotiation of the future of the MFA.

50. The representative of Poland, while emphasizing that the MFA was a major derogation from the GATT, recognized that in the present circumstances an extension of the MFA appeared to be the most likely prospect. He

stressed, however, that the upcoming negotiations should advance the cause of liberalization in the textiles trade and improve the conditions for a future return to GATT rules. He also emphasized that the arrangement which would emerge from the negotiations should not be altered during its lifetime through unilateral restrictive actions.

51. The representative of Pakistan said that the MFA was a unique instrument of co-operation between developed and developing countries based on a balance between the objectives of progressive trade liberalization and avoidance of market disruption. While the commitments on the progressive liberalization of trade had been eroded, the avoidance of market disruption had to be a joint and common effort since imports from all sources contributed to disruption. The MFA was also unique in the sense that there were conflicts and frictions but they were always resolved.

52. Referring to the forthcoming negotiations, he said that the Committee had to bear in mind that the present system of protection for the industries of developed countries had been in existence for a long time, and that there was a different régime governing textiles trade among developed countries themselves. The two previous rounds of negotiations in 1977 and 1981 were overwhelmed by market developments and fears for the future which led to the acceptance of the reasonable departures clause and the anti-surge provisions by the developing countries. Both were mistakes. The present negotiations should not be overly influenced by the phenomena in 1984 as the unusual surge in demand during that year occurred only after a prolonged recession. The increase in the exports of developing countries was largely due to the fact that quotas were not filled during the recession, but they were filled when demand occurred. Hence, the negotiations should be guided by the objective realities of the coming years which would include the shift in the developed countries to higher value products, a situation totally different from that of the 1960's when the first MFA was negotiated. The second aspect was that the market shares of developed countries held by developing countries was declining due to the presence of import restrictions and the limitations on the latter's ability to modernize their industries at the pace achieved by developed countries, either because of the shortage of financial resources or because technology was simply not available.

53. He pointed out that whatever solution that would come out of the negotiations would have to be seen in the larger context of the efforts of the CONTRACTING PARTIES as contained in paragraph 7 of the Ministerial Declaration, namely to put the multilateral trading system back on the right track. It had to be recognized that the MFA was not an Arrangement between developed and developing countries. There were several clear references to multilateralism in its Articles 4 and 6. Bearing in mind that in the past few years there had developed a large body of informal opinion both on the general issue of protectionism and on the issue of structural adjustment, it was the responsibility of importing countries to inform public opinion about the realities of the international trade in textiles. These realities included factors like the balance of trade, the development of the market

shares held by developing countries, the question of whether unemployment was exclusively caused by imports or largely by technological developments, etc. He said that if all the above factors were taken into consideration by the Committee, then it would have discharged its responsibilities and another round of successful negotiations could result. To conclude, he said that the negotiations had to lead to a significant liberalization of trade and a rational and equitable system of protection based on the principles of GATT.

54. The representative of Mexico expressed concern over the restrictive manner in which the MFA had been applied in the past, without sufficient consideration being given to the special provisions in the Arrangement for developing countries. He stated that the developed countries should indicate their intentions or make commitments early in the negotiations so that real progress could be achieved.

55. The representative of Uruguay stated that the future of the MFA had to be considered in the light of both the objectives and the application of the present Arrangement. If the commitments based on the objectives of the MFA had been fulfilled in the past, many countries would now be more favourably inclined towards the MFA. However, it was apparent that commitments in the MFA were not translated into reality in its application. He stated that the MFA was an instrument which had been used against the trade of developing countries with increasing restrictions and greater limitations. Small countries, like Uruguay, suffered from these restrictions through reduced foreign exchange earnings which affected their balance-of-payment situation and debt commitments. He also stated that negotiations on textiles had to be based on the principles of the General Agreement, including non-discrimination, the MFN clause and comparative advantage.

56. The representative of Turkey stressed the importance of the textiles and clothing industries in his country, being the largest employer in the manufacturing sector and having direct influence on the petrochemical, machinery and cotton producing sectors. In spite of serious balance-of-payments problems, Turkey had followed a policy of liberalizing import restrictions including those on textiles and clothing. It was his hope that there would be a parallel dismantling of the other countries' restrictions to which Turkey's exports were subjected. He stated that a review of the operation of the MFA would indicate that its application had become increasingly restrictive with the special provisions for cotton producing countries and new entrants being almost completely ignored. Turkey considered that, as protectionist tendencies increased with growing negative consequences for the weaker members of the trading community, only a return to the General Agreement for textiles and clothing would assure the possibility for each participant to assume its responsibilities of maintaining and strengthening the multilateral trading system.

57. The representative of Hungary said that it appeared that the MFA was a pretext for depriving some contracting parties of the benefits of the unconditional MFN and a permanent source of discrimination. This was not an abstract legal matter. Statistics showed that non-restricted sources had

considerably increased their market shares as a result of the functioning of the MFA. He also shared the view that the trading environment had further deteriorated, due to, among other reasons, the frequent invocation by importing countries of the exceptional circumstances clause, bringing about further unjustified departures from the GATT and from the extended MFA. The multitude of bilateral agreements and the administrative procedures to implement them had created an overregulated and complicated system. He wanted to believe that MFA III had reached the lowest point possible in managed trade, and expressed the hope that the growing awareness of the costs of protection would lead to the conclusion that the only option was to start moving in the opposite direction. He supported the views of the representative of Pakistan concerning the two concepts of substantial and significant liberalization of textile trade and of the rational and equitable protection of markets. He shared the views of many other participants that the final destination had to be the reintegration of the textiles sector in the GATT system. The route would be long and delicate, but at least the first steps had to be initiated.

58. The representative of Korea, speaking on behalf of developing countries, exporters of textiles and clothing, said that the conditions and competitiveness of the domestic textiles and clothing industries of many MFA importing countries had improved since the Protocol of Extension was negotiated. There had been a rapid growth in demand for textiles and clothing in the United States and a more tempered growth in the EEC in the last three years. This growth fuelled increases in domestic production, profits, and investment, so that despite declines in recent months in the case of the United States, their current levels were substantially higher than in 1982. In both markets, the growth of investment, particularly in labour-saving technologies, had contributed to the increased competitiveness of the textiles and clothing industries. It had at the same time spurred productivity increases which had accelerated labour-shedding in these industries. In the United States, the boom in domestic demand and the steadily appreciating dollar pulled in textiles and clothing imports and depressed exports. However, since the autumn of 1984, textiles and clothing imports had tended to decline. In the EEC, by contrast, growth in exports accelerated to 11 per cent in 1984, exceeding the growth in imports. He requested that a statistical paper giving a broad overview of trends in demand, production, profits, investment, productivity, employment, imports and exports in the United States and the EEC be circulated to members of the Committee.

59. The representative of Yugoslavia said that authentic application of the MFN principle in textiles trade would be of benefit to both developed and developing countries. Any option should start with a liberalizing process including concrete programmes and their application. Yugoslavia was prepared to work with other delegations to examine the elements and steps of a transition period.

60. The representative of Indonesia asked if the Chairman could initiate some informal discussions after the meeting of the developing countries in Seoul in September. He also suggested that the next formal meeting of the Committee could be held after the session of the CONTRACTING PARTIES.

61. The Chairman in summing up the discussions said that there had been a useful initial exchange of views in respect of the future of the MFA. He had noted very carefully the statements made by the various delegations and assured the Committee that these would be reflected in the report to be prepared by the secretariat, which would subsequently be submitted to the Council. He suggested that all members of the Committee should use every occasion to pursue the exchange of views, bilaterally, plurilaterally or multilaterally, with a view to narrowing down the differences, and to determining the main elements which could usefully form the basis of the Committee's deliberation at its next meeting. He said that the secretariat would always be ready to help in this process and that participants should not find it odd if at a certain time the Chairman of the Textiles Committee tried to take stock of the situation by having consultations with delegations. While he felt that it was too early to try to structure this type of exercise, he also felt that members of the Committee should use the interval between this meeting and the next one to be kept abreast of developments through informal contacts. As regards the formal part of the work, there should be a meeting of the Textiles Committee before the end of the year. He was therefore sympathetic to the idea of a meeting in December which would have several tasks: the annual review of the operation of the Arrangement as required by Article 10:4, for this purpose, the Committee would have the benefit of a report by the TSB; consideration of the membership of the TSB; and the continuation of the discussion on the future of the MFA.

Following statements by the representatives of Pakistan and Egypt, the Chairman noted that some members of the Committee considered that it might be desirable to hold a meeting of the Committee earlier, probably in October. He proposed, and the Committee agreed, that the Textiles Committee should, in any case, schedule a meeting in December at which it would inter alia have before it the annual report of the TSB, but that he would consult in due course with delegations to see whether there would be need for the Committee to hold other formal or informal meetings earlier.

ANNEX I

MEXICO COMMUNIQUE

1. Representatives of twenty-one countries and territories participating in the Programme of Cooperation Among Developing Countries, Exporters of Textiles and Clothing met in Mexico City from 9 to 12 April 1985, to review recent developments in international trade in textiles and clothing and to draw up the elements of a common position with respect to forthcoming discussions in this area.
2. The meeting was inaugurated by Mr. Luis Bravo Aguilera, Under-Secretary of Foreign Trade of Mexico, with a keynote address which posed several questions important to the discussions of the workshop. A key question raised was whether it was "fair to perpetuate a situation of inefficiency and protectionism at the expense of the export trade of developing countries, when other alternatives exist, especially after a period of 12 years of enforcement of the Multifibre Arrangement". He stated that it was not permissible for developing countries to continue accepting restrictions on textile and clothing exports. This address is reproduced in Annex 1.
3. The meeting elected Mr. Luis Bravo Aguilera as Chairman and Ambassador Felipe Jaramillo of Colombia and Mr. Joun Yung Sun, Minister of the Permanent Mission of the Republic of Korea in Geneva, as the two Vice-Chairmen.
4. Mr. M.G. Mathur, Deputy Director-General of GATT and Chairman of the GATT Working Party on Textiles and Clothing, and Mr. Murray Gibbs, representing UNCTAD on behalf of Mr. Alister McIntyre, Acting Secretary-General and Officer-in-Charge of UNCTAD, also attended the workshop.
5. The developing exporting countries expressed their gratitude to the Government of Mexico for hosting the workshop and for the gracious hospitality they had received during their stay in Mexico.

6. The Representatives deplored the increasingly restrictive use of ~~the MFA~~ in contravention of the Protocol of Extension. The provision ~~of the MFA~~ in such circumstances, instead of being exceptions, had been ~~applied~~ ~~to~~ the board. The provisions for consultations continued ~~to be~~ ~~the~~ minimum viable production clause. The pro-
visions in the Protocol for small suppliers, new entrants, and cotton producing exporting countries had been largely disregarded in the imposition of quotas. Even the least developed and small island countries had not been spared from the protectionist onslaught. Participants expressed deep concern at the tendency not to adhere to the disciplines of the dispute settlement mechanism under the MFA, and to disregard the recommendations of the Textile Surveillance Body.
7. The representatives noted with concern the contrast in the developed importing countries between increasing restrictiveness of their textile trade policies on the one hand, and improvement in their textile and clothing industries on the other. The improved situation had not led to a relaxation of import restrictions against developing countries but rather to their intensification.
8. The workshop further noted that the discriminatory character of the present textile regime, on the one hand, encouraged higher levels of investment directed particularly to improvements in productivity through technological development and, on the other, produced trade diversionary and supplier substitution effects to the benefit of non-restrained suppliers in the developed countries. It thus became clear that the responsibility for the decline in the employment situation in the textiles and clothing industries of developed countries fell directly on the situation described and not on imports from developing countries. In addition to these circumstances, the opposite trend, that is, an increase in the share of exports from developing countries, would be fully justified, as trade is a genuine tool to reduce the gap between developed and developing countries and a means of bringing about the most efficient international economic restructuring.

9. By helping to maintain otherwise non-viable product lines and/or drawing resources away from more productive sectors, developed countries had not fulfilled their obligations under Article 1:4 of the MFA to "encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy and provide increased access to their markets for textile products from developing countries".
10. The representatives recalled that the study "The MFA in Theory and Practice" by the Programme of Cooperation among Developing Countries, Exporters of Textiles and Clothing as well as numerous other studies, had clearly demonstrated the heavy costs incurred by developed and developing countries as a result of the discriminatory restrictions imposed under the MFA. In the developed countries the costs are borne not only by consumers, retailers and importers, but by the economy as a whole. In the developing countries the import restrictions imposed under the MFA adversely affected their development process and prospects, resulted in a substantial shortfall of export earnings, and aggravated their severe debt and balance of payments problems.
11. These developments highlighted the unsuitability of the MFA as an instrument for the regulation of international trade in textiles and clothing.
12. Against this background, the participants reaffirmed their agreement at their previous Workshop held in Karachi, Pakistan in July 1984, that their approach to the fulfilment of the mandate of the GATT Ministerial Declaration of 1982, in so far as it affected textiles, should be determined by the fundamental principles of the multilateral trading system, including:
 - (a) non-discrimination, i.e. unconditional Most-Favoured-Nation (MFN) treatment;
 - (b) comparative advantage;
 - (c) prohibition of quantitative restrictions, including voluntary export restraints; and

(d) differential and more favourable treatment in favour of developing countries.

This would necessarily involve the elimination of concepts alien to GATT such as "market disruption" and selectivity.

13. In pursuance of this approach, the representatives of developing country exporters participating in the GATT Working Party on Textiles and Clothing had fully and unanimously supported the option of "full application of GATT provisions, with a movement towards liberalization" Furthermore, the developing exporting countries firmly rejected the approach that the removal of discriminatory restrictions against their textile and clothing exports be conditional upon reciprocal trade concessions on their part.
14. Participants reaffirmed their strong commitment to the objective of full application of the normal rules and principles of the multilateral trading system to the textiles and clothing sector. They also noted that, despite the commitments contained in paragraph 7 of the Ministerial Declaration of 1982, the importing countries had still to make a positive move toward application of normal rules and principles of the multilateral trading system to the textile and clothing sectors.
15. The participants regarded a categorical and unconditional commitment by the importing countries to apply such rules and principles as constituting the first step for meaningful work on textiles and clothing in the future.
16. In this context, actions must be directed to a significant and substantial liberalization.
17. Participants reiterated their determination to continue to work in a constructive and positive manner in the discussions of the GATT Working Party on Textiles and Clothing, taking into account the materials available to it, and consistent with the positions stated in this Communiqué. They also stressed that the work of the Working

Party should be continued for as long as necessary with a view to reporting to the CONTRACTING PARTIES in November 1985.

18. The developing exporting countries agreed that they would intensify the exploration of possibilities for increasing their mutual trade in textile products as a matter of priority.