

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Textiles Committee

REPORT OF THE COMMITTEE MEETING HELD ON 21-31 JULY 1986

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its twelfth meeting under the 1981 Protocol of Extension on 21-31 July 1986. The agenda for the meeting was "Continuation of the discussion of the future of the MFA as required by Article 10:5 of the Arrangement".

Meeting held on 21 July 1986

2. The Chairman said that the Committee had now reached the final stage of an exercise which had a deadline that could not be postponed. He believed that there was no need for him to stress again the urgency of the work and the importance of finishing it on time if instability and uncertainty for trade in textiles and clothing was to be avoided.

3. The representative of Colombia, speaking on behalf of the developing countries, exporters of textiles and clothing, said that the time had come to advance the process of negotiations by focussing on the critically specific issues and by developing a secure, credible and clearly liberal framework for the exports of textiles and clothing by the developing countries. He said that the deliberations in the Committee could not only make or break the textile negotiations but could also jeopardise the broader negotiations which were being attempted. The Committee therefore bore a heavy responsibility at this critical juncture in the world trading system. The will to liberalize the trade régime that had led to restrictive and discriminatory treatment of the developing countries' exports of textiles and clothing had yet to be fully shown by all the importing countries. Unless the importing participants broke out of the approaches typical of the previous two rounds of textile negotiations and exerted the necessary will to liberalize trade in textiles, the prospects of developing countries' trade would be darkened and growth in world trade would be stifled.

4. He said that time was ripe for such efforts as the developed countries' economies were in a healthier shape than that at the time of the previous textile negotiations. The prolonged protection provided by the MFA, the unrestricted access to the main markets, as well as the development of new technologies had afforded the textile industries of the developed countries the necessary means to keep the predominant share of the market for themselves. On the other hand it was the developing countries which faced grim prospects for growth due to low commodity prices, mounting debt burdens and continued restriction of access to the main markets. To conclude, he said that the developing countries, exporters of textiles and clothing had in April 1986,

clearly indicated the outline of their basic positions on the future of the MFA and stressed that the negotiations had to ensure progressive liberalization and phase-out under strengthened GATT disciplines of the current régime in textiles and clothing. To this end the following elements were essential: (a) tighter disciplines for safeguard measures; (b) removal of restrictions for small suppliers, new entrants and least developed countries; (c) strengthened special treatment for cotton and wool producing countries; (d) prevent nullification of the arrangement by importing countries through additional trade measures; (e) progressively liberal access through higher base levels, growth rates and flexibility; (f) reduction of coverage; and (g) understanding on phase-out under strengthened GATT disciplines.

5. The representative of China supported the statement made by the representative of Colombia and said that the reluctant acceptance by the developing countries of the restrictive and discriminatory trade régime under the MFA was based on the firm commitment by the developed importing countries to strictly adhere to the basic objective of progressive liberalization and the recognition of the temporary nature of the Arrangement. The credibility of this commitment required the current exercise to be undertaken in strict observance of the fundamental objective of the MFA. Therefore, the task of the Committee was to seek ways and means to reduce the level of restraints on exports from developing countries and eliminate discriminatory restrictions against them. In this connexion, the gradual reduction of product coverage was a touch stone to measure whether the textile trade régime was moving towards the objective of the MFA. Yarns and childrens' clothing should, as the first step, be removed from the categories under restrictions. Any attempt to extend the coverage to include non-MFA fibres ran counter to the basic objective of progressive liberalization and the principle of "standstill and rollback" and was therefore unacceptable. Furthermore, there should be a progressive increase of growth rate to ensure greater access to the market of the developed countries. To ensure better utilization of quotas, the flexibility provisions contained in Annex B of the MFA should be strictly observed. The anti-surge mechanism in the 1981 Protocol should be removed forthwith. With regard to the question of circumvention, it was unjustifiable to hold the exporting countries responsible for the re-exports by third exporters of products from the primary exporting countries. Finally, he said that on the eve of the new round of multilateral negotiations, textile negotiations should contribute to the liberalization of world trade as a whole, thus creating a better environment. He expressed the hope that all participants would play a positive rôle for a successful negotiation.

6. The representative of Egypt associated himself with the views expressed by the representative of Colombia and said that the time had come for the Committee to agree on a course of action to liberalize trade in textiles by the removal of restraints with the ultimate goal of bringing this sector of trade under strengthened GATT rules. The Committee should consequently embark on a process of negotiation with a view to putting an end to the Arrangement in the near future. He said that his delegation was ready to participate positively in any consultations or drafting exercise to be organized with a view to reaching a compromise expeditiously. As a cotton producing country, Egypt was

suffering from restraints on its exports. His delegation would like to stress the need to reaffirm the principles contained in paragraph 12.C of the 1981 Protocol of Extension where special consideration and more favourable treatment were accorded to exports of cotton textiles from cotton producing exporting countries in terms of quotas, growth rates and flexibility. Finally, he reminded the Committee that the contracting parties were now engaged in the preparations for the new round of trade liberalization and they should not act contrary to the goal of liberalization by negotiating a more restrictive régime for textiles.

Meeting held on 31 July 1986

7. The Chairman introduced document COM.TEX/W/183, containing the draft Protocol and the set of Conclusions attached thereto, as the result of a collective effort of accommodation and compromise in which a large number of delegations had informally participated, and he commended it for the Committee's consideration and adoption. He said that after the Committee's adoption, the Protocol extending the Arrangement for a further period of five years from 1 August 1986 until 31 July 1991 would be open for acceptances. The Committee then considered the draft Protocol and the Conclusions paragraph by paragraph for adoption.

8. The representative of China expressed disappointment at the result of the negotiations and said that the Protocol of Extension represented to a certain extent a retrogression from the objectives of progressive liberalization of trade in textiles and clothing, particularly paragraph 24 of the Conclusions with regard to the extension of coverage to include non-MFA fibres. The paragraph not only created a wider scope for more restrictions on the textile sector but would also have adverse effect on the process of the new round of multilateral trade negotiations. China opposed any extension of MFA coverage and the Chinese delegation was instructed to state its reservation on the provision of the coverage under paragraph 24 of the Conclusions of the Textiles Committee. Careful examination would be given to the text of the Protocol before China decided whether to sign it or not.

9. The representative of India said that he had been instructed to place a reservation on paragraph 24 of the Conclusions of the Textiles Committee.

10. The representative of the United States said that the United States objected to the reservations.

11. The texts of the Protocol and the Conclusions were adopted by the Committee. They are reproduced in full in document COM.TEX/49 dated 7 August 1986.

12. The representative of Japan said that he had not yet received final approval from Tokyo but that he would inform the Chairman as soon as it was received.

13. The Chairman reminded the members of the Committee that the Protocol was open for acceptance by governments and it was the acceptance which had formal significance in terms of legal commitment.

14. The representative of Korea said that he looked at the Protocol with ambivalence. It contained some attractive elements but also some aspects which were unsatisfactory. However, by adopting the new Protocol, it was insured that the veto on the Jenkins' Bill would be maintained and that any future protectionist bill in the United States congress or anywhere in the world would be prevented. This was the reward for paying the price of accepting the new Protocol. Furthermore, he was optimistic about the ensuing negotiations for bilateral agreements when it was expected that the better side of the Protocol would be enhanced and its shady side minimized. In general, Korea accepted the Protocol in a positive mood and looked forward to the liberalization of textiles trade in the future.

15. The representative of India said that after long and arduous hours of negotiations, he looked at the end result of the collective effort with mixed feelings and that he could not conceal his disappointment. It was important to relate the outcome of these negotiations to the wider context, viz., the preparations for the wider exercise of trade liberalization and the impending Ministers' Conference at Punta del Este. The integral linkage between the textiles negotiation and the proposed multilateral trade negotiations and the need for both to be informed by the same approach had been stressed by his delegation all along. The question of what backdrop the new MFA would provide for the proposed round of MTNs had to be considered seriously in the light of the disappointing outcome. The Textiles Committee had a historic opportunity of making a collective specific commitment that in an agreed time-frame, textiles trade could return to GATT rules. The recognition in the Protocol of an agreed final objective of returning to GATT was a small step in the right direction. However, on substance, what one found was that the new MFA, after thirteen years, had taken a most restrictive aspect in encompassing all vegetable fibres. He remarked that there was perhaps now little room left for any further expansion of the coverage. What was worse was the introduction of a new concept whereby new products would be automatically brought within the mischief of the new restrictive provisions, bringing about a virtual freeze on product development for export markets in traditional fibre industries such as jute and coir. He said that jute textile industry was not a frontier or a sunrise industry. Indeed, it already suffered from intensive and unfair competition from synthetic products in importing developed countries' markets. If anything, jute products deserved more favourable treatment and a degree of protection. There was need to encourage product development in this industry to enable it to regain its strength. What the new provision did was exactly the opposite. He explained that he dealt with this subject in some detail not only because this was an industry on which millions of poor people in his country depended for their livelihood, but also to illustrate the retrogression that the new MFA spelled. In such a situation, it would not be far wrong to conclude that all talk of trade liberalization in the wider context had a hollow ring about it. He concluded by saying that the implications of paragraph 24 were far reaching, both conceptually and substantively. Although

the concept for wider coverage had been in the air for some time, the specific formulations were put forward only at the last moment. His Government would like to consider the implications very carefully, and had instructed him to place a reserve on paragraph 24 of the Conclusions of the Textiles Committee annexed to the Protocol of Extension.

16. The representative of Brazil said that he would recommend to his Government to accept the Protocol. Referring to the position of Brazil recorded in the appropriate documents related to the adoption of the 1981 Protocol of Extension, he said that the contents of paragraphs 9 and 10 of the new Protocol were only the objects of note by Brazil. These paragraphs, as concerns the so-called predominant suppliers, constituted res inter alias acta, meaning an agreement between third parties, and were of no obligation to his country. He said that he would recommend the adoption of the Protocol because having gone through the motions of the long negotiations, he was able to appreciate that the evolution of the amendments to the MFA in terms of its fibre coverage and in terms of certain unilateral actions taken under Article 3 showed that the countries interested in the application of these elements had demonstrated a certain measure of self-restraint in the end. This self-restraint permitted him to say that, at least in theory, the disciplines of the MFA had been safeguarded. However, whether in practice the MFA would be fully applicable and whether its discipline would be respected would be contingent upon an even greater amount of self-restraint by those same countries. He remarked that the objectives of liberalization had been left aside once more. The developing countries, exporters of textiles and clothing were still waiting for the day in which manifestations of goodwill would be put into practice and when the exception represented by the MFA to the main rules of the multilateral trading system would no longer exist.

17. The representative of Hong Kong said that he could not feel particularly proud of the new MFA IV. The best that could be said of it was that it did not contain much of great substance, either good or bad, apart from the extension of coverage. Furthermore, much of its contents were not operative, which in view of its length might not be a bad thing. His reluctant conclusion on emerging at last from the long process was that, yet again, it had been made evident that there was little or no willingness, where it mattered, to let the multilateral instrument exert significant discipline over the bilateral process - hence the successful resistance to having clear, precise rules - except where they gave importers some new power. This experience did not give him much hope or belief in protestations of willingness to strengthen the international trading system. He said that claims that one of the MFA's basic objectives was to achieve the expansion of trade, especially for developing countries, rang hollowly in his ears - he could do with less fine words and with more rules that were clear and precise. On the other hand, this time around there was at least genuine willingness among some to see a small measure of liberalization - but only to be applied in bilaterals as a gift, not in the MFA as a right. He accepted that was life and felt thankful that there were some moderating influences on the developed side. He said that Hong Kong could accept the new Protocol and that it could live with MFA IV, as an inevitable compromise

between opposing interests, concluded at a time of great protectionist pressure in one of the major trading entities.

18. The representative of Norway, speaking on behalf of the three Nordic countries, Finland, Norway and Sweden, welcomed the new Protocol of Extension. He said that the Nordic countries were aware of the rôle of textiles in the overall world trade context and the importance of textile trade for the developing countries. During the negotiations, the aim of the Nordic countries had been to contribute to a balanced solution which at the same time would promote a liberalization of world trade in textiles. He said that in implementing the new Arrangement, the Nordic countries, depending on the industrial situation and the point of departure for each country, were prepared to introduce general improvements in the terms relating to growth and flexibility in future bilateral agreements. This would apply in particular to Sweden and Norway, which had faced the most severe problems for their textile industries and which therefore had been forced to limit growth and flexibility to a larger extent than Finland. When introducing such improvements, special consideration would be given to the interests of small suppliers, new entrants and in particular the least developed among the developing countries in line with the spirit of the new Protocol. The Nordic countries were also prepared to include all three elements of flexibility in future bilateral agreements. As to the number of categories to be covered by future bilateral agreements, for Norway and Sweden there would be some reduction in the number of categories to be included in future bilateral agreements. In the case of Finland, the practice of including a limited number of categories in the bilateral agreements would continue. In this context, Sweden, which had in certain cases applied aggregate levels and limits for "rest groups", was prepared to eliminate such elements in future bilateral agreements. Finally, he said that the process which the Nordic countries now intended to start would have to be carried out step by step, and that although the MVP had been the main preoccupation of the Nordic countries, they naturally attached great importance to the Arrangement as a whole in all its aspects.

19. The representative of Bangladesh said that his delegation interpreted the provisions of paragraph 24 of the Protocol as not covering any product made of jute. He said that the importance of jute and jute products in the economy of Bangladesh was well-known. He expressed the hope that the Protocol just adopted would not in any way hamper the future development of Bangladesh's jute industry and its diversification and he welcomed the Committee's decision to take more positive steps to alleviate the grave problems of the least developed countries.

20. The representative of Indonesia speaking on behalf of the ASEAN countries, said that ASEAN had from the beginning stated that it was in favour of an extension of the MFA which would incorporate elements making it less restrictive than the previous one. He was still trying to ascertain whether the Protocol just adopted would still uphold the balance, which was built into the original MFA. One thing was certain in the Protocol and that was the extension of the MFA provisions to textile products of other fibres, which were directly competitive with those produced with MFA fibres. This extension

involved products which were of great interest to the member countries of ASEAN and they therefore would have to carefully study the impact of the new rules on their economies. ASEAN had decided, subject to final approval by the respective governments, to participate in the next MFA as extended by the Protocol. It was a difficult political decision because the Protocol entailed an extension of the product coverage which was previously limited to cotton products, then extended to wool and man-made fibres and now to other fibres. The current negotiations concerning the international trading system made it an even more difficult decision to make. However, there were some improvements and some parts which one had to study to find out whether they were improvements or just empty words. He expressed appreciation that some groups of countries had entered the negotiations with a genuine intention to liberalize the MFA. He also noted that some countries were hindered by internal political problems from being more forthcoming. To conclude, he expressed the hope that the implementation the Protocol would be more successful than the 1981 Protocol.

21. The representative of Canada said that he would recommend to his government the acceptance of the Protocol. He said that the negotiations were long and difficult, but ultimately successful. He welcomed the language of paragraph 6 of the new Protocol which underlined the critical importance of maintaining the integrity of the MFA by stating that a case of market disruption or real risk thereof must exist before restraints might be sought. This question was central and represented a basic safeguard that the provisions of the MFA would not be abused. He said that paragraph 24 introduced a very new element by recognizing that some non-MFA textile products might be directly competitive with products made from MFA fibres, and therefore might cause market disruption. There was potential for abuse in this procedure if market disruption was not demonstrated or if the question of a product being directly competitive was only loosely defined. The basic protection against abuse in this paragraph was the instruction from this Committee to the Textiles Surveillance Body that it should pay particular attention to the evidence, demonstrating that these products were directly competitive with products of cotton, wool and man-made fibres, manufactured in the importing country concerned. This would be an important additional responsibility for the Textiles Surveillance Body in its rôle of ensuring that the rules of the MFA were respected.

22. The representative of Japan said that he could not help but admit that there was a gap between ideals and reality. Taking into account the realities facing the Committee, where it had to achieve a delicate balance of interests between importing and exporting countries, he believed that wise and pragmatic options had been adopted. Failure in the negotiations would have brought trade in textiles into a state of mounting protectionism and would have shaken the foundation of the free-trade system on which world trade depended. He said that efforts had to continue, through actual implementation, to pursue the objectives stipulated in Article 1 of the MFA.

23. The representative of the EEC said that the outcome of the negotiations showed once again the common interest which both exporting and importing countries had in continuing constructive, co-operative action such as the MFA, within a multilateral context. This co-operation should enable them to promote, on an agreed basis, the growth and development of trade in textiles and clothing, so as to gradually bring about a reduction of obstacles to trade and more generally the liberalization of world trade. In order to achieve the results just attained, each participant had to show understanding, patience, and compromise; this was the basis and essence of international co-operation. He said that he was ready to recommend to the Community authorities to accept the Protocol. However, he felt that the multilateral framework had to go hand-in-hand as in the past with bilateral agreements which were the necessary complement to it. He confirmed the importance the Community attached to these agreements as a basis for growth in trade in a prospect of increased liberalization. This element in the Community policy was as important as the first element and the final decision of the Community concerning its participation in the MFA would be made in the light of its appreciation of all these elements.

24. The representative of Austria welcomed the new Protocol of Extension as a proper instrument for solving the existing problems in the textiles and clothing industry and said that he would recommend it to his government for acceptance.

25. The representative of the United States said that the Protocol represented a victory for international co-operation. He remarked that one of the most contentious issues was that of additional fibre coverage. The new coverage provision was carefully drafted to ensure that it would apply only to imports of textiles which were directly competitive with those produced in the importing country and which caused market disruption or a real threat thereof. Paragraph 24 of the new Protocol of Extension would enable the United States to do two things in particular. First, it would enable it to permit orderly growth and prevent market disruption of those textiles which had entered the United States' market in substantial quantities in the last few years, precisely because they were not covered by the MFA. Specifically, these imports were textiles made of vegetable fibres, blends of vegetable fibres with the three fibres covered under Article 12 of the MFA, and silk blends. The most notable examples of these were 55 per cent ramie, 45 per cent cotton-blend sweaters and linen and cotton-blend garments, such as shirts and trousers. Secondly, the new coverage provision would permit the United States to respond in the future to any other textile imports which were made of vegetable fibres, blends of vegetable fibres, with cotton, wool and man-made fibres and silk blends of these if those textiles were directly competitive with products produced by domestic industry and caused market disruption or real threat thereof. It was also important to note what the new provisions would not cover. Under the third section of the provision, it was agreed that there would be no restraint on those historically traded textiles which were internationally traded in commercially significant quantities prior to 1982, when the last Protocol of Extension was adopted. These were limited to miscellaneous items, such as sacks, carpetbacking, mats and mattings made of

fibres such as jute and coir. He emphasized that in applying the new coverage provision, the United States would adhere to the disciplines of the MFA. He said that in another five days, i.e. on 6 August, there would be a vote in the United States House of Representatives, on whether President Reagan's veto of the Textile Quota Bill would be overridden. While not questioning the sincerity of the members of Congress who had introduced this Bill, nor that of the two million men and women in the United States textile and apparel industries who had supported this legislation, the Reagan administration believed that the Textile Quota Bill was wrong because international negotiation, not unilateral legislation, was the way to resolve trade problems. The United States Administration would do everything to make sure that the President's veto was not overruled. The MFA together with the bilateral agreements, provided adequate protection against market disruption for the United States textile and apparel industries and their workers.

TSB Chairmanship

26. The Chairman said that the term of office of the present Chairman of the TSB expired on 31 July 1986. In accordance with Article 11.1, the Chairman of the TSB was to be appointed on a basis to be determined by the Textiles Committee. The Textiles Committee should pronounce itself on the question of whether there was a general desire to have the present Chairman continue for a further term. He had consulted with Ambassador Raffaelli who had agreed to accept an extension of his services if offered.

27. The Committee warmly and unanimously agreed to Ambassador Raffaelli's extension.

TSB Membership

28. The Chairman recalled that the present members of the TSB were appointed by the Textiles Committee for only a seven-month period from 1 January to 31 July 1986. He proposed that, with a view to ensuring the continuity of the work of the Body and providing time for governments to finalize their acceptances of the new Protocol, it would be useful to extend the present membership until the end of the calendar year, i.e., until 31 December. In doing so, the governments of the present members were expected to provide letters of acceptance of the new Protocol, even if subject to internal procedures or ratification, before the first meeting of the TSB which was scheduled for 29 and 30 September and 1 October 1986.

29. The Committee agreed to the Chairman's proposal to extend the present membership of the TSB until the end of 1986.