

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

COM.TEX/W/213

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Textiles Committee

DRAFT

REPORT OF THE COMMITTEE MEETING HELD ON 16 DECEMBER 1988

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its fourth meeting under the 1986 Protocol of Extension on 16 December 1988. The agenda for the meeting, which was set out in GATT/AIR/2723 of 17 November 1988, was adopted as follows:

- A. Request for observer status by the International Textiles and Clothing Bureau;
- B. Annual Review of the operation of the Arrangement as required by Article 10:4 of the Arrangement;
- C. Progress in the work in the Negotiating Group on Textiles and Clothing;
- D. Proposal by China concerning membership of the Textiles Surveillance Body;
- E. Membership of the Textiles Surveillance Body for the year 1989;
- F. Request from the Nordic countries for a GATT study;
- G. Other business.

2. The Chairman informed the Committee that as of the date of the Committee's meeting, thirty-nine parties, counting the EEC as a single signatory, had accepted the MFA as extended by the 1986 Protocol. The list of membership is set out in document COM.TEX/52/Rev.2.

A. Request for observer status by the International Textiles and Clothing Bureau

3. The Chairman referred the Committee to a communication received from the International Textiles and Clothing Bureau - ITCB, (COM.TEX/W/211) setting out its request for observer status in the Committee. On the basis of consultations carried out by the Chairman, he proposed that the ITCB be accorded observer status, similar to other international organizations that already had such a status in the Committee. It was understood that the representative of the ITCB, in accordance with the established practice, might speak as an observer on behalf of the ITCB, on technical matters relating to its activities, after the debate had been exhausted by members of the Committee. It was also understood that the ITCB members might choose a spokesman for expressing their views in the debate of the Committee.

4. The Chairman's proposal was accepted by the Committee.

5. The representative of Indonesia, speaking on behalf of the ITCB member countries, expressed his gratitude for the decision and stated that the ITCB would constructively participate in the work of the Committee.

B. Annual review of the operation of the Arrangement as required by Article 10:4 of the Arrangement

6. The Chairman said that for the annual review of the operation of the MFA, required by Article 10:4, the Committee had before it the following documents: (a) the Report by the Textiles Surveillance Body on its activities for the period 1 October 1987 to 23 September 1988 (COM.TEX/SB/1423 and Addendum 1). The Annex to this report sets out the result of the TSB's examination of the consistency of aggregate and group limits with the provisions of the MFA, as requested by the Committee, at its meeting last December; (b) COM.TEX/W/209 setting out certain textiles and clothing statistics, covering the period 1983-1987 and COM.TEX/W/210, containing an analytical survey of recent developments in demand,

production and trade in textiles and clothing; (c) the Report of the Sub-Committee on Adjustment (COM.TEX/58), the original submissions from participating countries are contained in COM.TEX/54, corrigenda and supplements and the summaries thereof in COM.TEX/57 and corrigenda. He suggested that the Committee should take up these documents together and invited Ambassador Raffaelli, Chairman of the TSB, to introduce the report of this Body and Mr. Mathur, Chairman of the Sub-Committee on Adjustment, to introduce the report of the Sub-Committee.

7. The Chairman of the Textiles Surveillance Body, in presenting the report of the Body for the period 1 October 1987 to 23 September 1988, referred to the considerable liberalization that had taken place in several countries not applying restrictions under the Arrangement. Costa Rica, a new participant which did not maintain any quantitative restrictions, joined those previous participants that also did not maintain restrictions. He noted that all such participants, with the exception of Japan and Switzerland, were developing countries whose exports were subject to restrictions under the MFA. Referring to participants which had notified liberalization of restraints maintained by them, he mentioned total liberalization by Jamaica, liberalization of practically all restrictions by Korea, Mexico and Turkey and the programme relating to liberalization of restrictions on textile products communicated to the Balance-of-Payments Committee by the Philippines. He noted that very few restrictions were maintained by two other exporters, Indonesia and Thailand, and that Czechoslovakia and Romania had notified they did not maintain quantitative restrictions. He summed up that about half of MFA participants either maintained no quantitative restrictions, or maintained them in very specific, limited cases, or had recently liberalized most of their previous restrictions. Most of these participants were exporting countries, and four were importing countries: Japan and Switzerland, already mentioned, plus Austria and Finland, which decreased the already very small number of restrictions they had maintained under the Arrangement. Other importing countries, while still maintaining a large number of restrictions, had nevertheless liberalized their agreements. He considered these

liberalizing moves as encouraging developments, as one moved towards the end of MFA IV and the negotiating phase of the Uruguay Round.

8. The Report, he said, included an appreciation of the notifications reviewed during the first two years of MFA IV. The presentation was factual and avoided value judgements but nevertheless offered a clear picture of the situation as reached by 23 September 1988. He drew the attention of the Textiles Committee to the Annex of the report which contained the response of the TSB to a decision taken by the Textiles Committee, in its December 1987 meeting, relating to the examination of the consistency of aggregate and group limits with the provisions of the Arrangement. He also expressed concern at the difficulties of some members of the TSB to participate fully in the work of the Body, and expressed the wish that this would not occur again in 1989.

9. The Chairman of the Sub-Committee on Adjustment recalled that the Sub-Committee had last submitted its report to the Textiles Committee in March 1986 when the 1982 Protocol extending the MFA was still in force (COM.TEX/44). At that time, he said that the Sub-Committee had concluded that if such efforts were to be carried forward in the future, consideration had to be given to substantial improvement in the quality and range of data and information collected, as well as to the identification of criteria for assessing the extent to which the provisions of Article 1:4 were being implemented. It had been suggested that this would require drawing on additional sources of information, including the possibility of independent contributions by the Secretariat. Thus, subsequently, provision was made in Paragraph 19 of the 1986 Protocol extending the MFA, for periodic reviews by the Sub-Committee on Adjustment on the basis of material and information to be provided by participating countries, as well as additional material and information obtained by the Secretariat from other sources, and with the help of any supporting analysis by the Secretariat:

10. He drew the attention of the Committee to the results of the work carried out by the Sub-Committee with the assistance of its technical

Sub-Group in pursuance of this mandate which were to be found in COM.TEX/58. In addition to summarizing main trends and developments in production, trade, etc., in the member countries, the report contained 2 annexes. The first setting out briefly the developments in production, trade, autonomous adjustment, government policies, market access, etc., in each of the MFA participants which provided a submission. These brief summaries were illustrated in graphs and charts on production, employment and trade. The second annex contained statistical tables bringing together available information in a number of areas for all participants.

11. He also recalled that when the last report to the Textiles Committee in 1986 was made, the Sub-Committee on Adjustment indicated that it had not been in a position to assess in any concrete manner what rôle adjustment policies and measures had played in reducing reliance on restrictive measures under the Arrangement. In the context of the present report, he drew attention to paragraph 60 of COM.TEX/58, which noted that most members' policies and measures had had only a small impact on autonomous adjustment in the textiles and clothing industries, neither slowing down nor accelerating adjustment significantly. Nevertheless, it appeared from the submissions that collectively these policies and measures, exercised even at their peak, had less of an influence on structural adjustment during the period under review than the global economic recess, or the restrictions maintained under the MFA, or possibly even exchange rate changes. He further underlined that paragraph 61 of the report noted that with respect to market access in terms of Article 1:4 of the MFA, imports of both textiles and clothing by developed importing members from developing exporting members, from 1978 to 1986 had increased faster than total textiles and clothing imports, resulting in an increased share of imports being held by developing exporting members. Paragraph 62, he pointed out, noted that world trade in clothing in 1986 and 1987 expanded faster than world trade in manufactures in general. The report did not, however, seek to establish any explanation for this phenomenon, either in terms of the adjustments process or other factors.

12. The Chairman emphasized that the Sub-Committee on Adjustment also presented in paragraph 63 of the report, some general observations on how this report could be improved in any further exercise of this nature that might be required of the Sub-Committee on Adjustment. Among these observations, he stated, was a suggestion that to better evaluate the criteria in paragraph 4 of the 1986 Protocol regarding increased effective access in overall terms, importing members could provide, where possible, indications of whether changes in their share of imports from other members resulted from changes in import quotas, changes in the effective utilization of these quotas, changes in imports of non-restricted textiles and clothing items or some other factors. In concluding, the Chairman suggested that the updating of the Sub-Committee's report could be usefully taken up in the context of any arrangements that might be considered necessary and appropriate for a review of the operation of the MFA in the year 1990.

13. The representative of the United States stated that he endorsed the suggestion made by the Chairman of the Sub-Committee on Adjustment.

14. The spokesman for the EEC, commenting on the Report of the Sub-Committee on Adjustment, deplored the continued absence of certain contributions on the part of some countries. Referring to the survey by the Secretariat in document COM.TEX/W/210, he pointed out that the Commission, in its report on the state of the Community's textiles industry had used different import growth rate than that shown on page 13 of the Secretariat survey. He pointed out that the 6 per cent growth rate for the Community's textiles imports for the year 1987 was too low and that it was probably, erroneous.¹

¹The Secretariat is examining this discrepancy with a view to issuing a corrigendum.

15. The representative of Sweden stated that as a result of a study carried out on the situation in the textiles and clothing industries on a product basis, a number of restrained items had been taken out from Sweden's bilateral agreements. He stated that all aggregate levels and rest groups had disappeared, growth rates and flexibilities had been improved. He informed the Committee, that the Swedish Government had presented, in a Bill to the Parliament its intention to lift all quantitative restrictions on imports of textiles and clothing from all sources by the end of July 1991. This also implied that the Swedish restraint system would remain in operation up to this date. The Government, he added, made this announcement well in advance to give the Swedish industry a final adjustment period. He pointed out, however, that his authorities did not have in mind, a prolongation of the MFA or any instrument of transition. He stated that the Swedish Government hoped that the steps envisaged would be a useful and constructive contribution towards market openings for the benefit of developing countries.

16. The representative of Hong Kong stated that notifications received by the TSB in the past year confirmed the concern of exporters about the restrictive implementation of the MFA and the widespread use of the negative elements in the 1986 Protocol. He pointed out that there were, admittedly, improvements in some cases, or possibly in many cases in respect of a few exporters, but very often such improvements applied to a very low base and in many instances were still far below the norms stipulated in the MFA. He further called the attention of the Committee to pages 74-75 of a recent IMF publication, entitled "Issues and Developments in International Trade Policy" (Occasional Paper No. 63), which cast doubt on the fundamental justification for the continued existence of the MFA. As the paper says "Claims that protection of textiles and clothing is needed to provide time to adjust is questionable for a number of reasons" namely that: declining employment has been largely due to productivity growth and not to imports; these sectors are not submitted to pressures like some other sectors, in which consumption has declined; a number of industrial countries have become competitive in textiles. In the clothing sector, with the exception of "high-fashion" goods, comparative advantage

has shifted away from industrial to developing countries. Trade protection hinders the adjustment necessary to adapt to this shift in market conditions. "Claims that protection is required for social reasons have also lost force. Although production and employment in textiles and clothing are important in some regions, the sector has declined to such an extent that its evolution no longer significantly affects overall economic activity in industrial countries."

17. He further stated that the continuing and increasing use of protective devices under the MFA became questionable in the light of production indices in some major industrial markets, which evidenced the health of the domestic industry. He pointed out that the United States' production index for textiles had risen from 106 in 1985 to 114 in 1986, and 118 in 1987. The corresponding clothing indices were 113, 116 and 121. Similarly, he added that Canada's textile production index had risen from 134 in 1985 to 149 in 1987, with the average for the first two quarters in 1988 being 152. For clothing, there was a rise from 116 in 1985 to 129 in 1987. He pointed out that even in the eventual case of a drop in the production indices for some other importers, the MFA was not introduced to preserve, in perpetuity, the importers' industries but to allow time for structural adjustment.

18. He expressed his authorities' appreciation of the announcement made by the Swedish Government not to seek any further renewal of the MFA and to terminate its MFA bilateral agreements upon the expiry of the 1986 Protocol. Turning to the TSB report, in respect of Chapter 2B(iii), relating to paragraph 24 of the 1986 Protocol, he pointed out that the TSB's conclusion, included in paragraph 2.16 of the TSB report, was an important one and urged all participants to observe it. In connection with the report relating to the examination of the consistency of aggregate and group limits with the provisions of the MFA, annexed to the TSB report, he noted that the TSB observation on aggregate and group limits was not blessing the use of such limits but was rather laying down criteria to prevent the abuse of such limits.

19. The representative of Indonesia expressed appreciation for the positive approach taken by the Swedish Government with regard to international textiles trade. He expressed the hope that other countries would follow the Swedish example.

20. Following its discussion of this item, the Committee took note of the report of the TSB and the report of the Sub-Committee on Adjustment, including the proposal made by its Chairman.

C. Progress of the work in the Negotiating Group on Textiles and Clothing

21. Introducing this item, the Chairman reminded the Committee of the fact that it had been placed on the agenda at the request of the Committee, as set out in paragraph 25 of the Report of the meeting held on 4 December 1987 (COM.TEX/55). He informed the Committee that at the meeting of the TNC held at Ministerial level from 5 to 9 December in Montreal, Ministers had received reports from the three instances who had to report to the TNC, namely, the GNG, the GNS and the Surveillance Body. The report of the GNG itself contained the reports of the Negotiating Groups established under Part 1 of the Punta del Este declaration, including that on Textiles and Clothing. As members were aware, the GNG was not in a position, in respect of this area, to offer to the Ministers a text for a decision, which meant that the Ministers themselves had to handle this matter, as well as other outstanding issues. However, they did not reach consensus with respect to textiles and clothing. The same was also true for three other areas, i.e., Agriculture, TRIPS and Safeguards. Ministers, therefore, had decided: to put on hold all items on which agreement had been reached until agreement was reached on the four remaining items; that the time available to agree on these four items would be three months; and to reconvene the TNC in the first week of April, at official level. Furthermore, they had asked the Director-General of GATT to carry necessary consultations in order to overcome the differences of views which still existed in these four areas.

22. The Committee took note of the Chairman's report.

D. Proposal by China concerning membership of the Textiles Surveillance Body and (E) Membership of the Textiles Surveillance Body for the year 1989

23. The Committee decided to deal with these two agenda items together.

The Chairman recalled that the proposal by China was made in November, last year (COM.TEX/W/199). As decided by the Committee last December, he carried out informal consultations in 1988 - on 19 February, 21 April, 14 July, 20 October and 14 December - with a number of delegations. However, so far, no agreement was reached. He, therefore, proposed the following decision:

"The Committee, noting that it has not been in a position to find a satisfactory solution in respect of the proposal made by China at the present meeting, agrees to the following:

- (i) A mutually satisfactory solution to deal with the proposal by China and the membership of the TSB for 1989, should be reached within the shortest period of time and, at the very latest, by 15 May 1989;
- (ii) The Committee asks its Chairman to carry out active consultations to this end;
- (iii) Until such a solution is reached and for a period ending not later than 15 May 1989, the present membership of the TSB remains unchanged."

24. The Committee endorsed the Chairman's proposal.

25. The representative of China said that with the adoption of the above decision his delegation: first, reiterated its firm application for participation in the work of the TSB; secondly, noted with dissatisfaction that it was not possible, during this meeting, to comply with China's

application; thirdly, agreed to the decision with the greatest restraint; and finally, expressed the strongest hope that a satisfactory solution would be reached within the shortest possible period.

26. The representative of Pakistan stated that his delegation accepted the decision, subject to a clear understanding that the status-quo was only for an interim period, ending definitely not later than 15 May 1989.

F. Request from the Nordic countries for a GATT study

27. The Chairman recalled that the Nordic request for a GATT study (COM.TEX/W/212), had previously been discussed in the Negotiating Group on Textiles and Clothing. It appeared, he said, that there had been no objection in the Group to such a study being prepared in accordance with the terms of reference outlined in the informal note by the GATT Secretariat of 13 July 1988, provided that it would be requested and undertaken in the framework of the GATT Textiles Committee. Without going into the details of the discussion which took place in the Negotiating Group, he asked if the Textiles Committee could agree that such a study be undertaken within its framework; the deadline for the study being December 1989.

28. The proposal for the study was accepted by the Committee.

G. Other Business

29. The Chairman said that the date of the next meeting would be fixed after consultations with delegations, and expected that it would take place before 15 May 1989 to decide on the composition of the TSB.