

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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Textiles Committee

DRAFT REPORT OF THE FIFTH MEETING OF THE TEXTILES COMMITTEE  
HELD FROM 30 NOVEMBER TO 10 DECEMBER 1976

CHAIRMAN: MR. O. LONG

1. The Textiles Committee held its fifth meeting from 30 November to 10 December 1976.

The Committee considered the following subjects:

- I. Major review of the Arrangement in the light of its operation in the preceding years on the basis of the following reports:
  - (a) Production and trade in textiles and clothing, 1974-76  
(COM.TEX/W/35 plus addenda and revisions);
  - (b) Report on adjustment assistance measures (COM.TEX/W/36 plus addenda);
  - (c) Report of the TSB to the Textiles Committee (COM.TEX/SB/196 and Add.1).
- II. The future of the Arrangement.
- III. The membership of the Textiles Surveillance Body for the year 1977.
- IV. Other business:
  - (a) GATT Article XIX action by Canada;
  - (b) Recourse by participating countries to their GATT rights in the field of textiles;
  - (c) Derestriction of the three reports mentioned under I above.

2. In his opening statement the Chairman informed the Committee that three countries, i.e. Argentina, Colombia and Paraguay, had not yet definitively accepted or acceded to the Arrangement. The Chairman referred the Committee to document COM.TEX/4 and Addenda 1-12 for the present status of membership of the Arrangement.

3. The representative of Colombia said that the ratification of the Arrangement by his country, which had been delayed by parliamentary procedures, would shortly receive Presidential approval.

I. MAJOR REVIEW OF THE OPERATION OF THE ARRANGEMENT

4. The Chairman recalled that during the third year of the life of the Arrangement the Textiles Committee was required under Article 10:4 to carry out a major review of the Arrangement in the light of its operation in the preceding years. At its last meeting, in December 1975, the Committee had discussed the documentation to be prepared for such a review and for the fulfilment of the requirements of Article 10:2. The Committee had now been provided with three basic documents then requested, i.e. the survey of world production and trade in textile products; the report on adjustment assistance measures; and the report of the Textiles Surveillance Body.

5. A summary of the main trends of the discussion which took place in the Committee under the major review follows below in paragraphs 6 to 36. For the sake of clarity the points raised and discussed in connexion with each of the three reports before the Committee have been summarized separately.

(a) World production and trade in textile products

6. In introducing the secretariat's report on production and trade in textiles and clothing 1974 to 1976 (COM.TEX/W/35 plus addenda) the Chairman mentioned that

the report was confined to a factual presentation of the main developments including brief summaries of movements in consumer demand and employment. He went on to say that trade data by volume were only available for a limited number of textile products and, due to the fragmentary nature of available data, structural changes in the textile and clothing industries, including movements in investment, had not been dealt with.

7. Referring to some of the main findings contained in the report, he pointed out that production of both textiles and clothing in developed countries, following a strong expansion in 1972 and 1973, declined markedly in 1974 and the first half of 1975. The downward movement was reversed in the second half of 1975 and the recovery continued in the first half of 1976. More recent indications suggested, however, a slowing down in the rate of recovery. In developing countries production of textiles levelled off in 1974 and rose only slightly in 1975, while production of clothing continued to rise in both years, though at a slower rate.

8. The value of world trade in textiles and clothing continued to expand in 1974, though less rapidly than in the preceding years. In 1975, however, only trade in clothing was still expanding, while trade in textiles was declining even in value terms. In the first half of 1976 world trade in clothing rose at a faster pace and world trade in textiles recovered. In developed countries the value of textile imports from developing countries declined more markedly than imports from all origins in the course of 1974 and in the first half of 1975, but they also showed a more rapid recovery than total imports in the second half of 1975 and the first half of 1976. For clothing, developing countries continued

throughout this period to be developed countries' most rapidly growing source of supply. In concluding he emphasized that there were significant divergencies between the behaviour of both imports and exports of textiles and clothing among individual developed as well as developing countries.

9. The main features emerging from the discussion of the secretariat's report by representatives of developed participating countries were the downturn in activity in the textile and clothing industries in developed countries during 1974-75, coupled with a continuous increase in the value of clothing imports from developing countries. Between 1973 and 1975 imports into all developed countries from all developing countries rose by 44 per cent, whereas clothing imports into developed participating countries from developing participants increased by 48 per cent. The import surplus of developed participating countries with developing participants for textiles and clothing taken together rose from \$3.22 billion in 1973 to \$4.56 billion in 1975.

10. Reference was made by several representatives to increasing import penetration (ratios of imports to consumption) especially with regard to clothing products during the period under review, and to the problems experienced by individual developed countries in absorbing increasing amounts of imports especially in a period of stagnant or even declining domestic demand.

11. A number of representatives of developing countries pointed to the stagnating share of developing countries as a whole in world exports of textiles and clothing during the lifetime of the Arrangement. They mentioned the fact that developed

countries continued to be the largest exporters of textiles and that their share in world exports had increased from 59 per cent in 1973 to 61 per cent in 1975. It was also mentioned that intra-area exchanges accounted for the greater part of imports of textiles and clothing taken together of developed participating countries. In 1975 this trade amounted to \$8.0 billion compared to imports from developing participants of \$6.8 billion.

12. It was noted that on a per caput basis there were very great variations in imports of textiles and clothing as between different developed participants and that in many cases their imports per caput from other developed sources were much higher than their imports from developing countries.

13. It was suggested by some representatives that in reviewing the development of trade in textiles and clothing during the lifetime of the Arrangement weight should be given to the broader aspects of world trade in textiles, including trade in related products such as textile machinery and other investment goods, the overall trade imbalance of developing countries with developed countries and their heavy dependence on foreign exchange earnings from textile exports in financing their development requirements.

(b) Adjustment assistance measures

14. Referring to the report on adjustment assistance measures (COM.TEX/W/36 and Add.1) the Chairman recalled that the Committee at its December 1975 meeting had requested all participating countries to provide detailed and up-to-date information on this subject. The importing countries in particular were asked to supply this information in such a way as to show to what extent efforts had been made to move progressively into more viable lines of production, or into other sectors of the economy, and whether such adjustments had led to increased access for textile products from developing countries.

15. The relevant information had been received from Australia, Austria, Canada, the EEC (except Italy), Finland, Hungary, India, Japan, Norway, Pakistan, Poland, Sweden, Thailand and the United States. A small number of these countries had indicated that their adjustment assistance measures had remained substantially unchanged; therefore their previous reports on this subject had been reproduced in the report. Other participants had communicated certain changes and additions; these had been incorporated in the report to give an up-to-date account of the situation. Three countries, namely, Hong Kong, Sri Lanka and Ghana, had indicated that no such measures existed in their cases. In spite of the general acceptance of the reciprocal obligation to supply this information a large number of participating countries had failed to supply it. In their cases, where information had been made available earlier, the secretariat had reproduced it in this report to provide the Committee with as complete a picture as possible.

16. While certain countries' submissions had specifically dealt with the question of achievements in terms of Article 1:4 it was not possible for others to specify the extent to which the structural changes resulting from government or industry measures could be related to the requirements of this paragraph.

17. A number of representatives of developing countries spoke of lack of compliance with the requirements of Article 1:4 by importing countries, and expressed doubt as to whether during the currency of the Arrangement any serious efforts had been made to bring about adjustments in the patterns of production and trade with a view to providing increased access to exports from developing countries. Countries which had reported adjustment policies appeared to have used them mainly

to improve the competitive position of their industries rather than to move into more viable lines of production. Importing countries' complaints of social difficulties and unemployment arising from imports ignored the effects of world-wide recession, currency fluctuations and over-capacity in the textile sector.

Unemployment in developed countries, in particular, often resulted from large-scale investments made in order to bring about technological improvements. It was also clear that most of the adjustment assistance measures reported were aimed at structural re-orientation of the textile industry towards areas of higher productivity and higher profitability, thus perpetuating and strengthening inefficient textile industries.

18. Several representatives of developed countries referred to the measures of assistance pursued by them to facilitate adjustment in their textile industries, and to the problems encountered in this domain. It was pointed out that efforts of firms to diversify into new product lines were very often frustrated by rising imports of similar products. The constraints of technology, capital and labour rendered it even more difficult for textile firms to move into other sectors of the economy. They were compelled to close down instead of being able to adapt to the new situation. Some representatives took the view that there must be a maximum limit to import penetration. They had provided increased access to their markets, but a point had come where further damage to their domestic industries could not be accepted. In their opinion the criteria for market disruption in Annex A and the provisions of Annex B concerning growth failed to recognize the differential impact of imports in markets with different levels of import penetration.

19. It was stressed that timely adjustments in industrial structure were crucial to the future development of international trade. In this respect a suggestion was made that participating countries should be given a time-bound programme for industrial adjustment and that there should be an institutional framework to monitor the implementation of this programme.

(c) The operation of the Arrangement

20. The Chairman recalled that at its meeting in December 1975 the Committee asked the Textiles Surveillance Body to prepare a detailed analytical report on the operation of the Arrangement since its coming into force. The main report, COM.TEX/SB/196, covered the period from 1 January 1974 to 30 September 1976, while later information was incorporated in the addendum to this report.

21. The ensuing discussion on the report revealed divergent views on the operation of the Arrangement in the past three years. While there was general agreement that the objectives of the Arrangement remained valid, the experience of some participants during this period indicated to them the existence of certain loopholes and shortcomings in the Arrangement, or more particularly in its interpretation and implementation. Other representatives took the view that while the Arrangement had not completely met the expectation of all participants in providing agreed standards and procedures for the imposition of restrictions, it had presented a practical solution to a very difficult problem and, on the whole, was a success.

22. Many representatives of exporting countries were disappointed and concerned about the way the Arrangement had been implemented during the three years of its existence. They emphasized that one of the principal aims of the major review

should be to identify areas in which violation of the Arrangement had occurred. The MFA was a derogation from GATT, negotiated in a spirit of compromise to achieve an expansion of trade in textile products, reduction of barriers to such trade and a progressive liberalization of world trade. Experience of the past three years showed that the Arrangement had largely failed in achieving these objectives because importing countries violated or ignored its basic provisions or had recourse to measures outside the Arrangement. Thus the Arrangement, which was originally conceived as a liberalizing instrument, had become a restrictive instrument. The TSB's report showed that there had been a proliferation of new restrictions under the Arrangement, besides the continuation of a large number of residual restrictions under Article 2. Some exporting countries, contrary to their expectations, had experienced a decline in their textile exports. The effects of economic recession were not solely confined to importing countries; the developing exporting countries suffered more serious difficulties, and in textiles these were exacerbated because of the dominating importance of the textile sector in their economies.

23. A crucial element in the concern felt by many exporting countries related to the question of market disruption and its determination. Under the umbrella of the MFA some participants had shown a tendency to impose unilateral restrictions without prior consultations and without providing adequate data in support of their claims of market disruption. The concept of market disruption lent itself to arbitrary interpretation: sharp and substantial increase in imports was not in itself sufficient proof of market disruption, damage to domestic production had also to be shown and this was to be attributed to a particular product from a particular source offered at prices substantially below those prevailing for similar products in the market of the importing country. It was too often taken for granted that low-priced imports from developing sources were disruptive; restrictions were automatically applied to such imports while larger imports from other sources which sometimes had even lower prices remained free of restriction.

24. Serious concern was thus expressed that the concepts of "cumulative market disruption" and "low prices" were used only against the developing countries. In certain cases, restrictions were imposed on small suppliers and new entrants with only marginal shares of the market, while larger suppliers remained unrestricted. Article 6:2 was thus disregarded on the pretext of cumulative disruption.

25. Furthermore, the requirement that full opportunity for bilateral consultations should be afforded by importing countries before the application of restrictions had not been observed. Even in highly critical circumstances, the importing country was required to provide an opportunity to the exporting country to co-operate and only failing this could restrictions be imposed. This obligation was frequently ignored.

26. Reference was made to the claim of certain importing countries that high import penetration restricted their ability to absorb more imports. In this connexion, it was pointed out that import penetration levels must be calculated by reference to domestic production and exports as well as to consumption. Similarly, the concept of "minimum viable production" was being exaggerated by some countries. This concept was applicable to countries with three characteristics - small markets, exceptionally high import levels and low production - all of which should exist simultaneously. This, however, did not exempt such countries from progressively liberalizing trade; it justified only a "lower positive growth rate", not the freezing of imports at their past levels.

27. It was also pointed out that some importing countries had failed to terminate or modify their unilaterally imposed programmes of liberalization under Article 2 despite

adverse findings on these programmes by the TSB. The formula of "burden sharing" adopted by a party to the Arrangement had the effect of denying minimum growth rates by freezing access to the biggest and traditional markets while inflating quotas in countries where the previous export levels and future prospects were low.

28. The point was made that bilateral negotiations were frequently conducted under the tacit threat of unilateral restrictions, and that there could be no equity in relationships under the Arrangement so long as importing countries took recourse to measures outside the MFA whenever it suited them. It was also pointed out that Article 12 was not properly applied by some importing countries which sought to impose restrictions on handloom products.

29. The importing countries referred to difficulties they, for their part, had experienced in the administration of the Arrangement, and to the inadequacies of certain provisions as a result of which their textile sector was seriously exposed to disruption. Certain countries mentioned that they had difficulty in checking the flow of disruptive imports and protecting their industries because the concept of "minimum viable production" had not been respected or properly implemented either by their negotiating partners or by the TSB. The MFA as operated had thus failed to make adequate provision for their special situation and to secure a balanced development of international trade in textiles.

30. Some others stated that they had experienced increasing difficulties in using the MFA to achieve orderly markets in a period of small or negative growth in domestic demand for many textile products. These difficulties were compounded by the inherent inequity among the importing countries in burden sharing. Market disruption had clearly not been avoided or terminated as a result of the MFA.

31. Mention was also made of the difficulties encountered in the interpretation of the roll-back period and the base levels specified in Annex B. In the case of those countries which were required by national legislation to conduct public enquiries relating to market disruption, special difficulties arose in the determination of base levels when imports rose during enquiry periods to seriously disruptive levels.

32. Special difficulties arose in the absorption of imports of sensitive products from new entrants or small suppliers into markets already dominated by imports from other sources. Increased access for such imports, and for imports of developing countries generally, could be provided only where import penetration had been relatively low.

33. As regards compliance with the provisions of Article 2 the spokesman for the EEC stated that the Community had respected the time-limits given by the TSB in connexion with the elimination of residual restrictions. Certain exporting countries on the other hand had failed to lend themselves fully to the process of consultation envisaged in Article 2:4 with a view to the negotiation of bilateral agreements.

34. The representative of Australia was disappointed by the failure of the TSB to bring out clearly the strengths and shortcomings of the Arrangement, which would have been useful in determining the Arrangement's future. Australia had not been consulted on the drafting of the report, and this underlined the flaw in the working of the TSB, on which all parties were not represented: some members were permanent, while others were not present even during discussions directly affecting them. In the case of Australia, an Article 3 agreement had been abrogated by the TSB

and other efforts to regulate her trade according to Article 3 had been frustrated by the TSB. To measure changes in market access without relation to pre-MFA restrictions, as the report did, was unrealistic and unbalanced. Such problems as the control of imports from small suppliers contributing to cumulative market disruption could only be solved if the MFA were to be interpreted and administered by the TSB with greater imagination than in the past. He also stated that there was no legal basis for the TSB to evolve procedures to put non-GATT members on "equal terms" with contracting parties. It was clear that Article 13 made it incumbent on non-GATT members not to introduce new restrictions or to intensify existing restrictions, but no Article of the MFA entitled them to GATT rights by virtue of accession to the MFA.

35. The representative of Singapore commented on some of the points made by the representative of Australia on the working of the TSB. He pointed out that the TSB had no power to abrogate any bilateral agreements; in the case of Australia the TSB had merely found that one agreement (Australia/Korea) was in conformity with Article 4 rather than with Article 3; it did not recommend abrogation of the agreement. Regarding the observation that the TSB had frustrated attempts to regulate Australia's trade in accordance with Article 3, he drew attention to the fact that Singapore and the Philippines had the right to refer Australia's unilateral actions against them to the TSB, and that the TSB was required to examine these cases and to make appropriate recommendations. He added that Australia could not expect the TSB to recognize the position held by Australia on cumulative disruption. The TSB did not interpret the Arrangement, it only supervised its implementation.

36. Some representatives, referring to the last point made by the representative of Australia, stated that no distinction could be made between GATT and non-GATT members in the application of the Arrangement. The purpose of the special procedures referred to in the report was to ensure that the justification of restrictions by non-contracting parties was not less onerous than for contracting parties.

## II. DISCUSSION OF THE FUTURE OF THE ARRANGEMENT

37. The Chairman invited comments under Article 10, paragraph 5, under which the Committee was required to discuss the question of the extension, modification or discontinuance of the Arrangement at least one year before its expiry.

38. Most participants considered that the Arrangement had marked a significant advance in international co-operation in textile trade policy and that it had provided a delicately balanced framework within which the special problems of textiles trade could be discussed and solved. The objectives of the Arrangement remained valid despite problems regarding its implementation.

39. The representative of the United States remarked that the MFA represented the successful evolution of internationally agreed standards for the conduct of textile trade, and that the TSB had provided a forum for measuring restraint actions against those agreed standards; both had contributed to the orderly growth of international textiles trade and improved access to importing markets. He believed that the MFA should accordingly be renewed and that in order to avoid disruption of trade it should be renewed immediately. The representative of Japan agreed that the MFA had provided a framework for co-operation between exporters and importers. Though there had been some problems, these had mainly resulted

from world-wide economic difficulties rather than from defects in the MFA itself. He agreed that the MFA ought to be extended although the modalities of this extension could not yet be foreseen. The representative of Switzerland also agreed that the MFA had in large measure succeeded in bringing about an expansion of trade; it had provided a necessary framework for the notification and examination of restrictions, and for a dialogue between exporters and importers. The MFA should, in his view, be extended without any textual modifications.

40. Other importing countries expressed doubts as to whether the MFA had operated in the way its negotiators had intended. The representative of Austria enumerated a number of difficulties that his country had encountered as a result of the interpretation of the roll-back period specified in Annex B, false certificates of origin and trans-shipments. Because Article 4 did not provide any definite period of time for the opening or termination of consultations, there were long delays in the conclusion of bilateral agreements, with consequent inflation of base levels for restraints. Difficulties also arose when even for specially sensitive products favourable treatment by way of growth rates and base levels was demanded by developing countries and new entrants on the basis of Article 6. In his opinion, these problems should be carefully examined in the context of the renewal of the Arrangement.

41. The representative of Sweden, speaking on behalf of the Nordic countries, observed that the Arrangement was intended to represent a balanced compromise, but its implementation had revealed serious inequities. The Nordic countries were not however opposed to the prolongation of the Arrangement given a firm understanding that the "minimum viable production" clause would be properly interpreted and implemented.

42. The spokesman for the EEC said that in view of the continuing unsatisfactory situation in textiles trade the Community favoured renewal of framework arrangements for international co-operation on trade in textiles. However, in practice the existing Arrangements had proved inadequate to achieve the stated objectives of preventing market disruption and ensuring orderly and equitable development of trade. For its part the Community had experienced a number of difficulties in implementing the Arrangement which should be seriously examined as indications of areas in which the Arrangement might be modified. First, it was apparent that the uniform requirement of 6 per cent annual growth based on past performance levels led to perverse and unfair results if applied without regard to relative levels of import penetration. For example a 6 per cent growth rate imposed on a 50 per cent market penetration level represented annual growth of 3 per cent of consumption, whereas with a 5 per cent level of import penetration it represented growth of merely 0.3 per cent. This necessarily produced inequities in burden sharing.

43. Secondly a large and growing number of relatively small suppliers to the Community market, all seeking liberal access, would make it necessary for the cumulative impact of such imports to be taken fully into account. Thirdly, there appeared to be an inequity in paragraph 1(c) of Annex B as between exporters and importers in that no provision was made for the possibility that the standard reference period laid down in Annex B might be especially adverse for a particular importing country. This should be examined simultaneously with the provisions of Article 9.1. Fourthly, the Community's experiences suggested that imports at very

low prices could have disruptive effects altogether disproportionate to the volume of goods involved. It was for consideration whether this phenomenon of price disruption called for special recognition. Lastly, it was for consideration whether time-limits should be laid down for consultations and negotiations under Article 4, as well as under Article 3, in view of the serious strains created in the Community by exporting countries forestalling in order to build up performance in the market before application of restrictions.

44. The representative of Canada stated that while the possibility of termination of the Arrangement was not necessarily unattractive, he too favoured renewal, with modifications, in view of the current difficulties of the textiles trade. Modifications were necessary because the Arrangement had failed to maintain a proper balance of advantage both as between importing and exporting countries and as between different importers. He agreed that sharp divergencies in levels of import penetration among importing countries must be given greater weight in future, perhaps by the adoption of differential growth rates. Another problem with special relevance for Canada arose from the difficulty of interpretation regarding the reference period laid down in Annex B 1(a). The legal requirement in Canada that application of restrictions must be preceded by a public enquiry invited large increases in imports in anticipation of restrictions; this could only be mitigated if Canada's interpretation of this paragraph were accepted. A third cause for concern was the imbalance built into the composition of the TSB on which Canada, unlike some other major importers, was not permanently represented.

45. The representative of Australia stated that since the entire question of textile trade policy was under examination by his Government, he could not at this stage take a position on the future of the Arrangement. His country had, nevertheless, experienced difficulties in the implementation of the Arrangement similar to those noted by Austria, Canada and the USA. It was important that the Committee should re-examine the balance of advantages, rights and obligations under the MFA, and in particular the interpretation of Annexes A and B, which had placed an undue burden on some importing countries. It must be remembered that when the Arrangement came into being not all importing countries had the same degree of liberality of trade, and that in consequence the uniform application of the basic provisions of the MFA led to unequal burden sharing. He agreed with the representative of Canada that the interests of all participants were not adequately and equally represented in the TSB.

46. The representative of Pakistan expressed lack of enthusiasm for the Arrangement, which he said had failed to protect the interests of Pakistan. Some of the basic principles incorporated in the MFA to safeguard the interests of developing countries had been violated or ignored by some importing countries. Pakistan had experienced a decline in her exports of textiles in the past three years, as a result of which her export earnings and her economic and social development had suffered a setback in contradiction to the stated objectives of the Arrangement. There were certain inherent imbalances and inequities in the Arrangement as between exporters and importers. Exporting countries were at a disadvantage in negotiations with importing countries; in particular because delay in the completion of negotiations froze the levels of exports so long as the negotiations lasted. Recommendations and decisions taken by the TSB were ignored and measures outside the MFA were being adopted to tilt the balance further in favour of the importing countries.

47. The representative of India said that India would not oppose the extension of the Arrangement provided there was an assurance that it would in future be better implemented, both in letter and spirit. However, if there were to be any modifications, India would also seek certain changes in order to restore equilibrium to the Arrangement. These changes would include the introduction of differential growth rates for exporting countries based on their relative export capacity; the deletion of the price criterion from Annex A; explicit recognition that the minimum viable production clause could not be used as a substitute for proof of market disruption but only as justification for a lower positive growth rate; the conferment of a more binding character on decisions by the TSB; an explicit understanding that non-MFA restrictions would not be used; an agreement to reduce tariff barriers and give full consideration to textiles in the MTN; and a time-bound programme for industrial adjustment. In addition, importing countries should provide detailed supporting data when claiming the existence of market disruption, and the TSB should keep all restraints under continuous review so as to ensure that their maintenance was justified.

48. The representatives of Brazil, Colombia, Egypt and Turkey deplored the disregard by importing countries of the basic provisions of the Arrangement and in particular those of Article 6. They feared the transformation of the Arrangement into a more restrictive instrument and saw danger in introducing any modifications. The representative speaking on behalf of the ASEAN group expressed fear that application of the concept of cumulative market disruption would have the effect of freezing the existing shares of small exporters and new entrants in certain markets. The ASEAN countries were also unhappy to witness the introduction of measures outside the MFA since these bore heavily on such exporters.

49. The representatives of Egypt and Yugoslavia made it clear that while proposals for the reduction of trade barriers would be welcome, they would not accept the introduction of more restrictive safeguard measures on grounds of recession or other difficulties of the importing countries. They were willing to accept the prolongation of the Arrangement, with a clear understanding that it would be better implemented, until the conclusion of the MTN.

50. The representative of the United Kingdom on behalf of Hong Kong said that Hong Kong would also accept prolongation for a further period. No modifications which would have the effect of making the Arrangement more restrictive would be acceptable, but a reaffirmation by all participants of their adherence to the objectives of the Arrangement would be very desirable.

51. The representatives of Korea and Colombia noted that lack of clarity in the provisions of the Arrangement had given rise to arbitrary interpretation by importing countries. This indicated a need for the adoption of agreed interpretative notes on specific points of difficulty. The representative of Romania agreed that the Arrangement should be extended but required a clear indication of the conditions under which this would be done and the period of its extension. He was opposed to any changes in the text of the Arrangement unless these were such as to improve the position of the developing countries.

52. The Chairman summed up that this discussion had clearly brought out the different points of view among participants. One theme which had frequently recurred was that the Arrangement was not bad in itself, but that its application had not been altogether satisfactory. Two alternatives had been highlighted: extension of the Arrangement as it stands, with improvements in its operation; or

modifications. A fairly large current of opinion seemed to manifest itself in favour of extension, but there were also those who pronounced themselves in favour of modifications. Other delegations had reserved their positions. The discussion, however, showed broad support for the objectives of the Arrangement.

53. In these circumstances, and given the almost general desire shown to maintain a multilateral framework for trade in textiles after 1977, it seemed necessary that this first exchange of views should be followed by a process of reflection and consultation among members of the Committee aimed at clarifying positions and bringing points of view closer together. This should be started without delay, given the very widely held opinion that the Committee should reach a decision quickly on the future of the Arrangement.

54. The Chairman suggested that the Committee meet again to review the situation towards the end of February 1977, or earlier if possible, on a date to be fixed in agreement with delegations. The Committee must plan its work so as to reach a conclusion in the early months of 1977, since it was owed to all those involved in the trade to let them know rather early in 1977 under what conditions and within what framework, or absence of framework, they would be working as from 1 January 1978.

(c) The membership of the Textiles Surveillance Body for the year 1977

55. The Chairman invited the Committee to consider the composition of the Textiles Surveillance Body for the year 1977. He recalled that in view of their very onerous and important tasks, members of this Body should be fully conversant with textiles trade problems and should be prepared to devote the whole or at least the greater part of their time to its work. This must be borne in mind in accepting membership of the Body.

56. Following consultations with delegations, and in the light of the discussions which had been held regarding this question, the Chairman proposed that the TSB for the year 1977 should be composed of members from the following participating countries: EEC, Hong Kong, Japan, Norway, Pakistan, United States and a Latin American country. The remaining seat should be shared by an ASEAN country, Hungary, Austria and Turkey. This proposal was endorsed by the Committee.

57. The representative of Yugoslavia, speaking on behalf of the developing countries, stated that the implementation of the Arrangement over the past three years had not been entirely satisfactory. The developing countries were particularly dissatisfied with their share in membership of the TSB, which weakened their position in the decisions taken by it. The proposed membership was likely to worsen the balance further, which would render international co-operation even more difficult. The compromise solution could not therefore be taken as a precedent for the future. The developing countries would accept it in a spirit of co-operation and in view of the current difficult situation in international textiles trade, but stressed that this was a major concession to developed countries which should be taken into account when considering the future of the Arrangement.

58. The representative of Hong Kong said that the compromises represented by the Arrangement and by the composition of the TSB had been heavily weighted in favour of developed countries. The convention of permanent seats meant that there was a built-in imbalance weighted against the developing countries. Regarding TSB membership he pointed out that it was the understanding of Hong Kong that no

or threatening serious damage to domestic production. The Board had taken the view that unless immediate action was taken to curb the influx of imports, the garment industry would face substantial lay-offs, plant closures and significant losses in investment. This action was interim and temporary in nature. It would be reviewed in the light of further findings of the Board. The administration of global quotas would be in the form of import permits issued to importers on the basis of their 1975 performance in each of the product categories concerned. Goods in transit on or before 29 November would be exempted from the quota. However, all existing quota and restraint arrangements covering any of these clothing categories would be superseded by the new measures. The Government of Canada was prepared to enter into consultations on request under the provisions of GATT Article XIX:2 with any contracting party having a substantial interest in the products concerned.

61. Many members expressed surprise and dismay at this information. Most representatives were of the view that Canada's action was a violation of the letter and spirit of the Arrangement. Many representatives deplored the timing of the action, which they thought likely to encourage the spread of protectionism. Some took the view that the commitments assumed by participants under the Arrangement should be regarded as superseding their rights under the GATT. The representatives of Korea and the United Kingdom on behalf of Hong Kong, being directly concerned, protested at Canada's unilateral abrogation, without prior consultation, of their existing bilateral agreements with her. The point was made by another delegation that whether it was taken under the GATT or the MFA (and the MFA must be regarded

as the proper instrument for the regulation of trade in textiles) Canada's action had to be shown to be justified; Canada's reason for having recourse to Article XIX rather than the MFA was presumably that the latter did not provide for differential growth rates and base levels in accordance with different levels of import penetration.

62. Serious concern was expressed about Canada's recourse to Article XIX rather than to the relevant provisions of the MFA, which was considered by many as having the effect of nullifying the objectives of the Arrangement. Reference was also made to the likely impact of the Canadian measure on the trade of small suppliers and new entrants. Under global quotas there was very little room for such exporters to compete with the established exporters or even to penetrate into the Canadian market.

63. The representative of Canada explained that the measure was temporary and taken as a result of "force majeure". Canada had previously applied global import quotas on shirts only, otherwise its market had been relatively open. In 1975 almost 54 per cent of its domestic requirements were supplied by imports as compared with 14 per cent in another major importer, for example. Again, Canada had restrictions on about 8 per cent of its total imports, whereas in the same major importer the ratio was 70 per cent. He reiterated that these measures would have non-discriminatory application and were expected to increase the share of developing countries in imports into Canada.

(b) Recourse by participating countries to their GATT rights in the field of textiles

64. At the request of a number of delegations for a general discussion on this question, the Chairman proposed that the Committee should address itself, under Article 10:3, to the general question of the extent to which contracting parties which are also participants in the Arrangement retain the option, in the context of their textiles trade policy, to have recourse to their rights under the General Agreement, rather than the procedures laid down in the MFA.

65. Opening the discussion, the representative of Canada enumerated many different forms of safeguard measures which had been resorted to by participating countries in the past (not necessarily in the context of textiles). He mentioned inter alia the use of GATT Articles XII, XVIII and XIX, the justification of restrictions by reference to certain protocols of accession to GATT, and the application of tariff quotas. Measures not justified under GATT included price surveillance and licensing systems and export subsidies in various forms. The use of Article XIX in the textiles field could not be regarded as illegal, since the GATT rights of participants were specifically preserved in the Arrangement. Canada had recently found itself unable to use the MFA because it did not meet her present needs. The Arrangement would only be used to the extent that it was fair and responsive to the legitimate needs of all participants. This would require the injection of greater equity into the Arrangement.

66. One representative observed that participants in the MFA which were also contracting parties to GATT clearly had the right to invoke GATT articles. The MFA was the offspring of GATT and its discipline emanated from GATT Article XXIII.

Article 3 of the MFA and Article XIX of GATT existed in parallel. Article XIX should not be regarded, or administered, as a soft option exonerating the importing country from the obligation to justify its actions. In order to maintain mutual confidence and the spirit of co-operation he proposed that (i) a country invoking Article XIX on textiles should notify the details of its action, formally or informally, to the Textiles Committee or to the Textiles Surveillance Body; (ii) if these organs found that the actions would affect international textiles trade, the invoking country should co-operate, formally or informally, by justifying its action, without prejudice to the formal procedures under Article XIX; (iii) all MFA participants, before resorting to Article XIX action, should explore to the fullest possible extent all possibilities of finding solutions within the framework of the MFA.

67. Reference was made by some representatives to the maintenance of residual and discriminatory restrictions by certain countries on the basis of the protocols of accession to GATT. In their view the erroneous interpretation of Article 1:6 had given rise to inequity when restrictions were maintained without proof of market disruption under the Arrangement. They alleged that the TSB had failed to take cognisance of this inequity while reviewing discriminatory restrictions against their countries which had not been justified under the provisions of the MFA.

68. Several other delegations expressed the hope that in keeping with the provisions of Article 9:1 governments would refrain from actions which might have the effect of nullifying the objectives of the Arrangement. It was incumbent on all participants to resort to the procedures of the MFA before taking action under

the GATT. The acceptance of the Arrangement entailed the voluntary surrender of certain rights by all participants. Article 1:6 should be interpreted to mean that though rights under GATT were preserved, they should be invoked only in a manner which would not harm the rights of other participants under the Arrangement.

69. Summing up the discussion, the Chairman noted general agreement that any contracting party signatory to the MFA retained the legal and formal right to invoke GATT articles. However, there was a divergence of views among members as to the circumstances and conditions under which such rights should be exercised. Many representatives had stressed that additional trade measures outside the safeguard provisions of the MFA should not be used to nullify the objectives of the MFA. A large number expressed the view, with some nuances, that GATT rights should be resorted to only when it had been demonstrated that recourse to the procedures of the MFA was not feasible or had proven unsatisfactory. A few delegations, however, held the view that there was no obligation for signatories of the MFA who were also contracting parties to exhaust the safeguard mechanisms of the MFA before resorting to GATT procedures. It had also been suggested, and there was some support for this view, that perhaps the legal issue was not of primary importance; what was essential was that those imposing restrictions under Article XIX should, as a matter of course, notify the Textiles Committee through the TSB and stand ready to participate in discussion of the measures in that Body.

70. The Chairman went on to say that there was therefore no unanimity within the Committee on this point; further thought and reflection on the issue were needed. It was, of course, open to the Committee to take the issue up again at any time.

(c) Derestriction of documents

71. The Committee agreed to the proposal by the Chairman concerning the derestriction of the three documents prepared for the major review, i.e. COM.TEX/W/35, 36 and COM.TEX/SB/196 (including addenda, corrigenda and revisions). These documents have therefore been derestricted as of 10 December 1976.

Date of next meeting

72. It was agreed that the Committee should meet towards the end of February 1977 to resume its discussion of the future of the Arrangement. The precise date of the next meeting would be fixed by the Chairman after consultation with delegations at the beginning of this year.