

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TEX/W/93

1 June 1981

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Textiles Committee

DRAFT REPORT OF THE MEETING OF THE COMMITTEE
HELD ON 7-8 MAY 1981

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its sixth meeting under the extended Arrangement and considered the following subjects:

- (a) The communication received from the Permanent Mission of the People's Republic of China requesting attendance at the meetings of the Textiles Committee as an observer;
- (b) The future of the Arrangement Regarding International Trade in Textiles;
- (c) The Report of the Working Group on Adjustment Measures.

(a) Communication received from the People's Republic of China

2. The Chairman drew the attention of the Committee to the communication received from the People's Republic of China (COM.TEX/W/92) in which it had made a request "to attend the meetings of the Textiles Committee of the GATT in order to participate in the negotiations of MFA III as an observer". He said that on the basis of informal consultations he had had with members of the Committee he found there was a unanimously favourable response to the request from the People's Republic of China for being invited to the meetings of the Textiles Committee as observers. In this connexion, members of the Committee recognized the importance of China in international trade in textiles. He proposed that the delegation of the People's Republic of China be invited to join in the work of the Committee in an observer capacity as from now. The Committee endorsed this proposal and welcomed the delegation of the People's Republic of China which joined the meeting at this stage.

(b) Future of the Arrangement

3. As called for by Article 10:5 of the Arrangement the Committee continued the discussion on the future of the Arrangement which it had begun at the December meeting.¹ The statements made by delegations under this item are summarized in paragraphs 4 to 61 below.

¹COM.TEX/20

4. The representative of the United States reaffirmed his Government's view of the continuing need for an international arrangement for trade in textiles. He believed that the basic objectives as set forth in the original MFA remained highly desirable and that the approach to current negotiations should be constructive and pragmatic. His Government wished to guard against excessive rigidity and specificity. They believed in the importance of maintaining latitude for approaches which bilateral partners concluded were in their mutual interest.

5. In reviewing world trade in textiles, the United States representative stressed the importance the United States placed on the opening of markets by developing countries, particularly those with highly competitive industries, as well as by developed countries.

6. He noted that actual and potential import disruption had been and would continue to be a matter of serious concern for the United States Government. As the problems of market disruption had grown more complex, and imports from a few or single sources had reached levels which accounted for a very substantial share of a given market, the terms of growth and flexibility with respect to quotas and the degree of utilization of such quotas assumed great importance. The disruptive effects of a given increase in imports depended in part on the situation in a particular product market; large import quotas and market shares were particularly relevant.

7. While not ruling out a modification of the articles of the MFA as a condition of its renewal, the United States was prepared to examine whether the latitude provided by the MFA, and the additional dimension provided by the 1977 Protocol could address the new, more complex aspects of market disruption. There was need for a greater range of approaches to take into account the differing circumstances than may have been utilized in the past. At the same time the United States appreciated the value of disciplines in the MFA regarding approaches that might be used in addressing the problems of market disruption. In this context, he stated that for their part the importing countries had a stake in a general discipline of approach so that standards which they observed were observed by others as well.

8. The representative of Colombia, speaking on behalf of developing countries, stated that the developing countries were ready to initiate the process of consultation and negotiation with respect to the future arrangement in a constructive spirit. The continuing co-ordination which was taking place among developing countries had intensified their feeling of a unity of interest and the awareness that they were being subject to unfair and unjustified discrimination. Referring to the Bogota Declaration¹ he reiterated certain postulates which governed the approach of developing countries to the negotiations.

¹ See COM.TEX/W/85

9. In the view of these countries the question of textile exports from developing countries had to be considered in the broader context of international trade. The continued curtailment of opportunities for developing countries to export textiles and clothing to developed countries impeded their capacity to import a whole range of machinery, equipment and manufactured products from industrialized countries. Also, in the view of developing countries, the MFA had resulted in a discriminatory situation where exports from industrialized countries continued to flow without facing quantitative restrictions, while exports from developing countries were subject to restrictions. At the same time protectionist solutions had only served to create additional inflationary pressures in industrialized countries. Thus, any new arrangement had to be an instrument to expand trade and increase market access for developing countries.

10. The clauses regulating increased access to exporting countries in the MFA were negotiated as a compensation for important rights under the General Agreement that were being temporarily waived. If these were to be further modified it would become necessary to reconsider the very wisdom of such an Arrangement.

11. The representative of Colombia further stated that in the opinion of developing countries, any new arrangement could not contemplate the elements of indiscipline brought about by the application of the 1977 Protocol, in particular "reasonable departures". Moreover, in the light of past experience it was necessary to develop certain concepts and definitions such as structural adjustment, market disruption, the future rôle of the TSB, and the obligation to give small suppliers, new entrants and cotton textile producers more favourable treatment. The developing countries considered that such favourable treatment had to be accorded over and above that set out in the Arrangement for the other exporters, and rejected any move to transfer to importers the power to apply provisions of the Arrangement arbitrarily and selectively. They expressed the readiness to start negotiations that would proceed from the global perspective where importers and exporters had mutual and complementary interests.

12. The statement made by the representative of Colombia was endorsed by the delegates from developing countries who spoke subsequently.

13. The spokesman for the European Economic Community recalled his earlier declaration that in view of the prevailing economic conditions and grave situation in the textile industry, a régime governing international trade in textiles should again be envisaged. The many different facets of this complex issue had been, and continued to be, carefully examined by the Community; the precise form and detailed content of any future trading arrangement still needed to be deliberated within its institutions. The Community would fully co-operate to expedite the process leading to the decision that the Committee would have to take before the expiry of the present Arrangement.

14. He stressed the importance of the textile and clothing industries in the Community from the economic standpoint, as well as their regional and social significance. There had been very heavy losses in employment and closures of manufacturing units. These had had a particularly adverse effect in the less-favoured regions of the Community. In spite of this the Community remained the most important importer of textiles. Exports from developing countries to the Community represented a large percentage of their total exports; the textile trade deficit with developing countries had increased six-fold during 1973-1980, and imports as a ratio of consumption had continued to rise. Production declines had also taken place in several of the Community's regions.

15. He stated that the Community intended to maintain and foster a viable textile industry, and this presupposed a framework within which adjustment could take place under appropriate social and economic conditions. It would be unacceptable for the disruptive evolution of imports, which the Community had experienced, to continue.

16. With the aim of maintaining a viable textile industry, and in formulating views on any future Arrangement, the following parameters had to be taken into account by the Community: (a) the overall level which imports into the EEC market have already reached; (b) the totality of imports from low-cost sources; (c) the share of the market in particular product categories held by individual supplier countries; (d) the expected evolution of consumption; (e) the degree of access to the markets for textiles and clothing of other members of the MFA, particularly the more advanced exporting countries.

17. The spokesman for the Community referred to the fact that the incidence of fraud in textiles trade had been increasing sharply and, therefore, it might be necessary to re-examine this problem.

18. In conclusion he stated that the renewed MFA had been a valuable framework in contributing to orderly trade, while easing the process of adaptation of industry. The Community remained attached to these objectives and was determined to participate constructively in the negotiations.

19. The representative of Sweden stated that while they were committed to future negotiations so that world trade in textiles could be carried out within the framework of internationally agreed rules, it was not easy to define Sweden's position because the textile industry was in an extremely serious and continually deteriorating situation. Any future arrangement must take account of the diversity of interests, including those of countries with a small market, an exceptionally high level of imports and declining domestic production.

20. The representative of Austria, referring to the significance of the textiles and clothing industry in his country, said that they attached great importance to the MFA. Despite all the difficulties encountered in this sector, Austria had maintained as liberal a régime as possible resulting in

high import penetration and a growing trade deficit. Imports from sources other than the EEC, EFTA and the Eastern European countries had increased particularly rapidly in 1980. These developments illustrated the on-going process of adjustment that was taking place in Austria. The social and economic consequences of adjustment, particularly in areas where the textile and clothing industry was practically the only source of employment, should not be under-estimated. In spite of short-comings, Austria felt that the MFA and the Protocol of Extension were valuable instruments and should therefore be extended for another period.

21. The representative of Canada referred to the substantial changes that had taken place in the patterns of world production and trade in textiles in the performance of various exporting countries over the last eight years. He also pointed to the major technological developments which had taken place and that resulted in substantial substitution of capital for labour, particularly in the spinning, weaving and knitting industries. Thus, in his view, the major area of concern at present was concentrated in the apparel sector.

22. The Canadian delegation was of the view that there was a need to modernize the MFA to make it sufficiently flexible to address present realities. In this respect he referred to specific problems which any renewed MFA should address. Firstly, the widely varying shares held by different exporters in the Canadian market had been perpetuated by the rules of the MFA which had recognized historical trading patterns rather than changing competitive conditions. This was further compounded by the development over time of significant difference between negotiated restraint levels for these exporters and their actual trading performance. Secondly, as regards the question of growth rates there was a need to take account of the different levels of market shares and market penetration as well as changing market conditions. Thirdly, there was the need to consider the issue of market disruption differently, in view of the effects on import markets of an increasing number of suppliers.

23. The representative of Canada further stated that he saw this problem from the perspective of an importer of textiles and clothing with duty-free access into a limited market. He appreciated that others had other concerns, e.g. the desire of lesser developed new entrant countries for improved access to major textile markets. The new MFA had to recognize the disparate interests of all signatories. Finally, Canada placed importance on the need for the Committee to undertake substantive negotiations as early as possible. If Canada was to continue to pursue a textile policy based upon the MFA, the broad parameters of a renewed MFA should have become clear by August

24. The representative of Japan stated that while Japan agreed that there was a need for a continuing arrangement such as the MFA with a view to securing stable development of the world textiles trade and avoiding disruptive effects in individual markets, any future agreement must not be

inconsistent with the objectives and spirit of the present MFA, or with the purposes of GATT. He said that exports were declining while imports were growing rapidly and there was a relatively low rate of growth in domestic consumption. These developments were accompanied by falling production rates and losses of employment. In spite of these factors, Japan had not introduced any quantitative restrictions. Continued and sharp increases in imports would make the maintenance of such an open market extremely difficult. As a major exporter of textile products, Japan had a great interest in the stable development of world textile trade. At the same time they also had an interest in avoiding market disruption. Japan hoped that a consensus on the future of the MFA could be reached in a manner which would allow its different objectives being attained in a balanced form.

25. The representative of Finland stated that international trade must be based on internationally-agreed rules. In his view, this was not only necessary, but to the advantage of both exporters and importers. He stated that Finland was ready to participate in substantive negotiations in July. He stressed that Finland, with a very small market, was particularly vulnerable to any drastic changes in trade currents.

26. The representative of Pakistan expressed the view that current economic difficulties could best be overcome by adhering to the principle of an open, liberal, fair and equitable trading system. Pakistan had a special stake in the negotiations; this was because her economy was based on cotton and cotton textiles to a greater extent than that of any other participant. The success of an extensive programme of recovery and rehabilitation of the textile industry undertaken by Pakistan, and which was currently under way, would depend largely on continued liberal access to developed markets.

27. He stressed that the special treatment for cotton textile exporting countries provided for in Article 6:4 of the MFA was a clear recognition of the fact that restrictions in respect of these countries would not only affect their industrial development, but also have an impact on the agricultural sector. He therefore urged that necessary instruments be devised to liberalize restraints in this area. He suggested that one way of doing this would be to look at the problems of textiles differently from those of clothing; given the equality of competitive advantage in the textile sector between developed and developing countries, it would be worthwhile to attempt a more dynamic and liberal régime for textiles.

28. Further, Pakistan's own experience had shown the necessity seriously to re-examine the provisions meant to protect the interests of new entrants and to consider how these could be vitalized. In Pakistan's view multilateral instruments such as the MFA should establish more objective criteria for the application of restraints so that exporters would be better able to safeguard their interests.

29. The representative of Egypt said that the MFA was originally envisaged as a framework for liberalization of trade in textiles, with the understanding that structural adjustment would be taking place in the economies of the developed importing countries; very little progress had been achieved. The MFA had been accepted by developing countries in a spirit of compromise, which was further illustrated by their acceptance of the Protocol of Extension. Experience had shown that it would be impossible to accept any concept of "reasonable departures" in a new MFA. He stressed that the terms of bilateral agreements must not be inconsistent with or less favourable than the provisions incorporated in the multilateral framework. Any future arrangement needed to be applied not only in letter but also in spirit and the interests of small suppliers, new entrants and cotton-based exporters must be well protected and safeguarded. Members of the multilateral arrangement must not be accorded treatment less favourable than that enjoyed by non-members. In conclusion the representative of Egypt said that there must be a clear definition of the concept of market disruption.

30. The representative of India stated that the objective of liberalizing world trade in textile products and clothing from developing exporting countries had not been realized. Since the coming into force of the Cotton Textiles Arrangement, there had been requests for more stringent restrictions each time the Arrangement came up for renewal. At the same time the developed countries had been unable to report successful adjustment efforts.

31. The representative of India said that now that the negotiations on MFA III were about to begin, the same situation prevailed, in spite of the fact that developed countries had by and large maintained production at the level of the 1973 indices. Increasing unemployment and closures were being attributed to increased exports from developing countries. The obvious links with increases in productivity and technological innovation were being played down, in spite of the fact that many reputed academic institutions had brought out these facts. One of these studies had shown that unemployment potentially due to imports, was by and large balanced out by employment provided by exports. In this connexion the representative of India also referred to the fact that the Working Group on Adjustment Measures did not establish any correlation between unemployment and imports.

32. Referring to the implementation of the Arrangement, he reiterated that the Arrangement had been used to restrain exports from developing member countries with the benefits of these restraints going essentially to unrestrained sources, particularly from developed countries. As regards the "reasonable departures" clause, he said departures have tended to be generalized; there was no indication that such actions were temporary. In this connexion he recalled the statement made by the Community in December 1978, in which it had given an assurance that it would ask the Committee to revert to the original Arrangement if, at the time of consideration of the future of the extended Arrangement, conditions remained the same

as in 1978. He recalled that at that meeting the Indian delegation had also expressed the hope that the MFA could be entirely done away with since the Arrangement was a finite one. He stressed that in any future arrangement the use of departures, whether reasonable or not, and in fact any scheme, interpretation or mechanism having a similar distortive effect must be rejected categorically.

33. The representative of India considered that the full-scale protection in developed countries had the effect of aggravating inflation in these countries. The sluggishness in the growth in consumption in developed countries was in the main due to the restrictive policies being followed by these countries. It was a matter of general principle that international trade must not be viewed only in terms of the share of trade consumption because it would then lose not only its dynamism, but its predictability and certainty.

34. He concluded by saying that the MFA was based on dynamic and continuing growth of trade and certainty of access in developing countries over a reasonable time span; these elements continued to be essential.

35. The representative of Indonesia, speaking on behalf of the ASEAN countries, said that developed importing countries had not fulfilled their commitment to liberalize world trade in textiles and clothing. Unrestricted trade between developed countries had discriminated against developing participating countries and aggravated the restrictive nature of the régime under the MFA. While imports into developed countries of textiles from developing countries were restricted, their exports of machinery and equipment to developing countries continued to expand substantially, affecting the overall trade balance. Discriminatory restrictions had not been temporary as originally envisaged, but, in fact, had been renewed repeatedly and expanded in scope. It was necessary to liberalize world trade in textiles and clothing by a gradual return to free trade in conformity with GATT rules and practices.

36. It was the ASEAN view that there must be a progressive dismantling of restrictions over a fixed period. This must be unequivocally mandated by the next MFA; no restrictions should be imposed on products not presently restrained. The dismantling of existing restrictions could start with less sensitive items and with respect to imports from small suppliers and new entrants. Developed countries must undertake bona fide viable adjustment programmes in their textile industry.

37. The representative of Thailand referred to the importance of textile industries to the economies of the developing countries. He stated that restrictions on imports from developing countries impeded their ability to purchase exports from developed countries. Economic consequences and balance-of-payments problems would become even more serious if restrictions

were intensified. He said that economic problems in developed countries would be better dealt with by their using their resources and capabilities in areas where they had greater competitive advantage. He added that it was unfortunate that the Arrangement had become an instrument of discrimination against developing countries.

38. The representative of Sri Lanka stated that the MFA over time had deviated from its basic objectives, and moved from the original concept of a safeguard mechanism based on market disruption caused by specific products in specific markets, to one based on a concept of global containment of import penetration totally unrelated to market disruption. He stressed that the undertaking in the MFA given with regard to new entrants and small suppliers had been generally ignored. In this context the concept of cumulative market disruption which had been adopted, and which was extraneous to the MFA, had acted in a manner particularly unfair to this group of exporters. Restrictions had been imposed on Sri Lanka's trade by certain countries, even though such trade was less than 0.05 per cent of total imports into these countries. To limit imports from developing countries on the basis that such imports would disrupt the market in the future, while at the same time allowing imports from developed countries with a much larger share to enter freely, was blatantly discriminatory. Sri Lanka considered it unjust that an infant industry such as theirs should be stifled while importing countries failed to phase out uncompetitive sectors. He emphasized that in any future arrangement it would be necessary to protect small suppliers and new entrants by a definite and positive commitment. He felt there was no basis for restricting the trade of these countries.

39. The representative of Korea stated that one of the main issues in the process of renegotiation of the MFA was how to establish disciplines in its operation. Indiscipline stemmed from vagueness and prejudice. The vaguest features in the present MFA were the provision for "reasonable departures" and the definition of market disruption. The interpretations of the TSB which, in his opinion, were biased against the interests of developing countries were the most conspicuous example of prejudice. Thus, certain standards and procedures were needed to re-establish discipline. He regretted that no evidence was available of adjustment or of measures to provide increased access for exports from developing countries.

40. The representative of Yugoslavia stressed the importance of the textile industry for developing exporting countries, and the need for successful negotiations. He considered that the points made in the statement by the representative of Colombia on behalf of developing countries were fair and realistic and a starting point for such negotiations.

41. The representative of Hungary while recognizing the existence of problems in some textile importing countries, stated that import restrictions would reduce the export possibilities of restrained countries and thereby would

reduce their import capacity. He noted that the MFA being a departure from GATT rules, its multilateral character should not be used as a cover for unilateral restrictions and bilateralism. He stated that such ambiguity and vagueness in the MFA, as for example was embodied in the terms "progressive liberalization" and "reasonable departures", should be avoided in any future Arrangement.

42. The representative of Peru said that developing countries considered the Protocol of Extension as unfair and unbalanced and that it had nullified the MFA as originally conceived. It had been applied in an arbitrary fashion against developing countries. The Government of Peru would take part in the negotiation in a constructive spirit so as to achieve a new international arrangement which would protect the rights and obligations of all signatories.

43. The representative of Czechoslovakia stated that the orderly development of trade in textiles must be maintained. The original MFA, in his opinion, was a step forward as a measure of co-operation and it was their wish to return to the 1973 Arrangement without the Protocol of Extension.

44. He said that the basic problems in the textile industry had not been solved by the growing use of restrictive elements that had been evident since 1977. Solutions for these problems had to be found outside the Arrangement.

45. The MFA, he believed should be renewed to ensure stability. It was essential to maintain the overall growth of imports at a level which could accommodate all exporting countries, particularly those who assist the stability of markets.

46. The representative of Poland stated that the major review of the MFA had shown that the problems existing when the Arrangement came into force had persisted and had even been intensified since the adoption of the Protocol of Extension. It was paradoxical that the use of Article 4 by developed countries, instead of providing more liberal treatment than Article 3, had led to a notable increase in protection. Further, some developed countries had used, in an unjustifiable manner, the "exceptional circumstances" provisions of Annex B while also imposing on their trading partners the departures from the Arrangement envisaged in paragraph 5:3 of the Protocol of Extension. As a result, the trade of many exporting countries had declined while textile trade among the developed countries had increased. As far as Poland was concerned, exports were strictly limited in some developed countries, even though the Polish share of imports was small or insignificant. One developed importing country still refused to conclude an MFA agreement with Poland, and continued to apply discriminatory restrictions. In addition, the price clause included in the agreement concluded under Article 4 between Poland and its major trading partner had been noted by the TSB as incompatible with the MFA.

47. He observed that the principle of selectivity essential to the concept of market disruption in the Arrangement had been completely set aside, and that the concept of "cumulative market disruption" had affected in a discriminatory way all developing countries, including new entrants and small suppliers, as well as centrally-planned economies. He drew the conclusion that since a return to the rules of GATT could not be envisaged in the near future, it was necessary to reaffirm the essential principles and objectives of the MFA, in order to safeguard equitable conditions for international co-operation and move towards a progressive liberalization of trade in textiles. It was thus necessary to abandon the "reasonable departures" provisions of the Protocol of Extension. Secondly, the concept of market disruption and of real risk of market disruption needed to be more closely defined. The appreciation of "real risk of market disruption" should be subject to a stronger multilateral surveillance system and in this context he stressed that the rôle played by the TSB would have to be considerably strengthened. The TSB should evaluate risks of market disruption during the negotiation of bilateral agreements, and formulate conclusions and recommendations. Finally, as provided for in Article 9:1 of the MFA, the priority of MFA provisions over other measures applied to textiles by participants should be clearly recognized. His delegation would favour a renewal of the MFA for a few years to come if these conditions were satisfied.

48. The representative of Uruguay commenting on the restrictive application of the MFA reaffirmed the need to achieve improvements.

49. The representative of Brazil said that any increase over and above the present level of restrictions would have serious effects on the economies of developing countries. Textile restrictions had far worse economic and social consequences in developing countries than the problems faced by developed countries. The negotiations of the future arrangement must be based on mutual interest and the objectives of free trade embodied in the GATT.

50. He was disappointed by the statements made so far by developed countries. No concrete proposal as to the future of the MFA had been put forward. The arbitrary transfer of total power of decision to developed countries could hardly be deemed as a proposal. In the view of the Brazilian delegation, the present problems centred on the application and modalities of enforcement of the 1973 text, rather than the text itself. The continuation of the so-called reasonable departures clause could not be accepted. He expressed concern over the introduction by a certain group of developed countries of the concept of differential treatment based on levels of economic development. This concept was extraneous to the MFA, particularly Article 6 thereof: in fact, the idea of graduation was an extremely controversial issue on which there had never been any international consensus and it might disturb and jeopardize the whole process of textile negotiations.

51. Commenting on other parameters mentioned in the EEC statement, he said that "the importance of the overall level of imports into certain markets" was a vague concept, with no legal basis in Annex A of the MFA. Again, the concept of low-cost sources had no legal basis; the MFA mentioned low-cost products, but not sources. With regard to references to the expected evolution of consumption, he doubted whether any set of criteria would be reliable to determine this on a sound basis. He did not find it necessary to comment on the uncertainty that such a subjective factor would create.

52. His delegation believed that any future arrangement should embody procedures that would make the present system of quotas a temporary one. He suggested two ways for developed countries to achieve their stated goal of preserving a viable textiles industry: first, by adopting specific policies to promote structural readjustment, though developed countries had said that this was incompatible with market economy; the second by promoting structural readjustment through a gradual liberalization of trade. It was essential that the present quotas be increased with appropriate speed to foster the second type of adjustment.

53. The representative of Brazil finally urged that in July there should be concrete negotiations on concrete proposals; they should take place at all levels (bilateral, plurilateral and multilateral). The fact, however, that the ongoing negotiations would not coincide with the renegotiation of bilateral agreements was a very important asset and an element of rationality that should not be affected by unexpected initiatives.

54. The representative of the United Kingdom speaking on behalf of Hong Kong, commenting on a statement made by the representative of the United States, said that he was unable to understand the reference in that statement to "more complex dimensions of market disruption". The clauses of the MFA which provided for quantitative restrictions were designed to eliminate market disruption. Thus when these were in place, there could by definition be no further disruption. He wished clarification on this point.

55. He went on to say that Article 4, when properly applied, protected the weaker of the two parties in a bilateral negotiation. This Article provided that in overall terms such agreements would be more liberal than Article 3 measures and provided that the TSB could make recommendations to either party. He said that he would not comment on the violence that had been done to those principles. It seemed to him that all developing countries unanimously condemned the Protocol of Extension and the TSB's misinterpretation of the so-called "reasonable departures" clause.

56. Commenting on the views expressed by certain countries that it was essential that developing countries should improve access to their markets to exports from industrialized countries, he said that restrictive measures adopted by developing countries were justifiable and permitted under GATT.

The MFA was, on the other hand, an authorized violation of the GATT rights of a certain group of countries. To ask these latter countries to give up more of their GATT rights by refraining from applying measures which they were entitled to use under the GATT, was a progressive denial of GATT right, which could only undermine the whole credibility of GATT. He said that if Hong Kong was an example of how a territory with a completely open market was treated, there was no incentive for other developing countries to increase access.

57. He requested the EEC to provide figures relating to jobs lost, declines in production and levels of imports for the two periods 1973 to 1977 and 1977 to 1980, to enable a comparison of the status of the textile and clothing industry under the two MFA periods. In conclusion, he emphasized the need for continuous work when negotiations started in July. He hoped that the EEC would by then have defined its position clearly so that serious negotiations could commence.

58. The representative of Switzerland said that his country was a textiles importing country and although facing difficulties in this sector had taken no restrictive measure under the MFA. He referred to the three fundamental objectives of the MFA set out in paragraph 1:2 thereof. As regards the first objective relating to expansion of trade he said that each country was, at the same time, an importer and an exporter, and it would be dangerous to separate countries into different groups. With respect to the second objective concerning the reduction of barriers and progressive liberalization of world trade in textiles, he pointed out that comparative advantage should benefit all markets and the competition should remain fair including in the domain of protection of industrial property, in particular designs and model. As to the third objective, i.e. the orderly and equitable development of trade in textiles and avoidance of disruptive effects; he expressed the views that action taken to avoid market disruption should assure a sufficient measure of predictability. If there was a need for flexibility its conditions should be fixed in advance, an example being to have different growth rates for textiles as opposed to clothing. He also remarked that too much flexibility could weaken the position of governments against protectionist pressures.

59. He said that the fundamental objectives of the MFA should not be modified in a manner inconsistent with those of GATT, and that the MFA should be renewed as soon as possible.

60. The representative of Mexico said it was necessary to see international trade in textiles in the proper perspective so that the essential need by developing countries to export could be firmly recognized by all. Mexico had been actively participating in the negotiations and wished to emphasize that it would not tolerate a repetition of the situation reached in 1977. He recalled a statement made by a certain speaker that if the situation in textile markets remained, at the time of the examination of the future of the MFA, the same as in 1977, his delegation would propose a return to the

original Arrangement. He said that this statement had recognized the temporary nature of some of the provisions of the 1977 Protocol of Extension. He said that it was practically impossible to envisage any bilateral negotiations until the form of the new MFA was known.

61. The representative of Portugal, speaking on behalf of Macao, said that the textile industry of each country should be looked at within the framework of the overall economy of that country. Any international instrument should take into account the economic needs of developing countries. He said that Macao being a small and weak developing country with a limited territory and no natural resources, the textile industry was the only avenue for its economic development. He believed that unemployment could occur in both developed and developing countries alike, but with more serious social and economic consequences in the latter. He expressed the wish that international economic co-operation in the textile field should be maintained.

(c) Report of the Working Group on Adjustment Measures

62. The Chairman referred the Committee to document COM.TEX/22 setting out the report of the Working Group on Adjustment Measures. Also before the Committee was document COM.TEX/21 which contained revised summaries of the information received from participating countries on the basis of which the Working Group had prepared its report.

63. The Chairman drew the attention of the Committee to paragraph 29 of the report of the Working Group which noted the agreement in the Group on the need to continue monitoring adjustment policies and measures, and suggested for consideration by the Committee that governments be requested to co-operate in keeping the information in COM.TEX/21 as complete and as up-to-date as possible so that the Textiles Committee was in a position to assess the situation periodically.

64. The representative of Colombia, speaking on behalf of developing countries, welcomed the report of the Working Group and emphasized the importance developing countries attached to Article 1:4 of the MFA, in view of the fact that an essential element of balance therein was the undertaking by developed countries to allow for concrete structural adjustment. He drew attention to paragraphs 23, 26 and 28 of the report which dealt with some of the major concerns of developing countries. Referring to developments in trade in textiles and clothing, he pointed out that exports from developed countries and non-member developing countries to developed participants had increased, while the share of developing participants had declined; this, he said, was not the objective of the MFA. Moreover, the 1973 production levels of textiles and clothing in almost all the developed countries had in general been maintained even under conditions of recession in subsequent years.

65. He noted that the Working Group had not been presented with any precise statistical correlation between unemployment and imports. He observed that in the developed countries unemployment had been accompanied by increases in productivity brought about, inter alia, by technological innovation. Referring to paragraphs 25 and 29 of the report which had the consensus of all participants, he proposed that the Working Group be converted into a standing body which would regularly update the information on adjustment, evaluate and review the progress made in implementing Article 1:4, and report on an annual basis to the Textiles Committee.

66. The spokesman for the European Economic Community welcomed the report on adjustment measures and said that the substantial material presented which had not been available before was a major contribution to the discussion. He referred to the sharp reduction in the rate of growth in consumption in the Community, which had affected both internal and external suppliers. However, the restrictions under the MFA had not prevented a substantial increase in effective access to the Community market. The decline in the industry that was taking place in the Community had economic and social consequences which were particularly painful in less-favoured areas. While recognizing that many factors were at work, he said that imports from developing member countries were an important cause in the painful adjustment that was taking place. In conclusion, he stated that the Community could agree that the Working Group should continue for the purposes of updating information and analyzing the situation during the lifetime of the present MFA. Its future would depend on the scope of the new MFA.

67. The representative of Brazil stated that the Working Group found it difficult to assess the situation on adjustment; individual countries had had similar difficulties. Since the quota system and its temporary character was linked to the process of adjustment, no appraisal of future action could be made as long as it was not possible to assess the pace of such adjustment. It was therefore necessary to review and assess the information available from time to time, for periodical reviews over a period of time would in themselves, by comparison, provide an element of assessment. Referring to the point made that the future of the Working Group would depend on a future MFA, he felt that it was not necessary to specifically refer to this point, as the Working Group could not exist without an arrangement.

68. The representative of India stated that, in his view, the purpose for which the Working Group had been established was not completed. It was important to keep under periodic review the extent to which commitments under Article 1:4 were being implemented; since countries continued to enforce restrictions, a continuous mechanism to review structural adjustment was needed. He agreed with the representative of Brazil that the Working Group would cease to exist if there were no MFA.

69. The representative of the United States said that he could accept the continuation of the Working Group, but felt that the Group should meet only when required. Their concurrence with its continuation was for the lifetime of the present MFA. If there was a successor arrangement the question of whether the Working Group would be re-established could be then addressed.

70. In the light of the discussion the Chairman put forward the following proposals: (1) The Committee would approve paragraph 29 of the Report of the Working Group of Adjustment (COM.TEX/22); (2) the secretariat would, on the basis of information to be provided by participating countries, update the material contained in COM.TEX/21 and make it as complete as possible; (3) the Working Group would continue to meet periodically on dates to be fixed by the secretariat in consultation with delegations.

71. These proposals were endorsed by the Committee.

Date of, and agenda for, the next meeting

72. The Committee agreed that its next meeting would begin on 13/14 July. The meeting would continue for the time needed to carry forward substantive discussions, i.e. not less than one week and not more than two weeks.

The agenda for the meeting is as follows:

"Proposals regarding the extension, modification or discontinuance of the Protocol extending the Arrangement Regarding International Trade in Textiles".

73. It was the understanding that this agenda item did not exclude discussions on proposals regarding the extension, modification or discontinuance of the Arrangement itself.

74. The observer from the People's Republic of China thanked members of the Textiles Committee for inviting his delegation to participate in the meetings of the Committee in an observer capacity. Noting that trade in textiles accounted for a considerable share in total world trade, he said that developing countries were concerned about the trends and prospects in the textile markets and the effect of restrictions on their exports. He hoped that the forthcoming negotiations would result in a fair and equitable arrangement which would promote exports of textiles from developing countries and lead to an expansion of world trade in textiles. As a textile exporting country, China was interested in the negotiations of MFA III and would work in co-operation with participants in formulating a new Arrangement.