

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TEX/W/117
14 October 1981

Special Distribution

Textiles Committee

DRAFT REPORT OF THE COMMITTEE MEETING HELD ON 21-25 SEPTEMBER 1981

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its eighth meeting under the extended Arrangement between 21 and 25 September 1981. The agenda for the meeting was a continuation of discussions on proposals regarding the extension, modification or discontinuance of the Protocol extending the Arrangement Regarding International Trade in Textiles.
2. The Chairman recalled that as at the last meeting this agenda item would not exclude discussions on proposals regarding the extension, modification or discontinuance of the Arrangement itself.
3. He drew the attention of the Committee to the proposals tabled at the last meeting - seven proposals by developing exporting countries (COM.TEX/W/96 to 101 and 106) and two proposals by Hungary (COM.TEX/W/103 and 104).
4. He noted that there was still a considerable divergence of views on the future of the Arrangement. It was of highest priority that delegations continue consultations and table concrete proposals as soon as possible.
5. The statements made by delegations are summarized below.
6. The spokesman for the European Community said that the proposals submitted at the last meeting of the Committee, by developing exporting countries could not constitute a realistic and acceptable basis for negotiations. The proposals would alter the carefully constructed balance of the Arrangement and were based on an interpretation of the present MFA which the EEC could not share.

7. Referring to the proposal on market disruption contained in COM.TEX/W/97, he said that the crux of such a proposal was the requirement to demonstrate by a series of data that disruption had occurred or that the risk of such disruption existed. Such criteria were tighter than foreseen in the original MFA and were being suggested at a time when the Community's textile industry was under the most serious threat. He referred to the problems which had been faced by the EEC under MFA I in providing "convincing evidence" of market disruption, and the delays which had resulted in negotiating Article 3 agreements. These had led to inflated base levels, diminished share of the market by the Community's industry and consequent closures and unemployment. Such delays defeated the objective of ensuring orderly and equitable development of trade and the avoidance of disruptive effects. The EEC could not therefore accept the proposed criteria for determining market disruption; even less could it accept that a similar approach be adopted to determine risk of market disruption under Article 4. Such risk was not defined in the Arrangement, did not lend itself to definition and was in its view not intended to be defined. The Community was not persuaded that Article 4 agreements containing growth rates of less than 6 per cent were ipso facto less liberal than Article 3 agreements.

8. He said that contrary to the opinion that a given volume or total volume of imports from any source was not of itself disruptive, the EEC thought that a given percentage increase in imports on a high base would be liable to cause disruption more rapidly than on a smaller base. It followed that differentiation in percentage growth depending on the size of the quota was a necessary means to help avoid market disruption.

9. The suggestion that importing countries refrain from taking any restrictive measures, while awaiting a TSB decision on the justification for a proposed restraint, if so requested by the exporting country concerned, would invalidate the terms of Article 3, paragraphs 5 and 6, and would be liable to abuse in practice.

10. The spokesman for the EEC said that the proposal by the developing countries on adjustment measures contained in COM.TEX/W/98, provided no answers for the problems facing their textile industry. It implied that there should be a systematic dismantling of the Community's textile and clothing industry over the lifetime of a future MFA. The proposed cost/benefit analysis failed to take into account the political and social dimension of the crisis faced by the Community's textile industry. However, the Community and its member States recognized the need for adjustment and would continue to take measures they considered necessary to adapt industry to the present and future international competitive situation. The Community was open to continued dialogue, on the understanding that efforts for adjustment were accepted by principal exporters as well as importers

11. He expressed sympathy for the proposal on new entrants and small suppliers (COM.TEX/W/99). Recalling the statement made at the previous meeting, he stated that the Community intended to propose for such suppliers a régime adapted to their situation and different from that applicable to the most developed and most competitive countries. Under present conditions, he regretted that the EEC would be obliged to retain some limitations on new entrants and small suppliers, as it would not be possible to tackle the problems of market disruption from a single source without regard to total imports from all developing countries.

12. He said that under the present economic conditions it was unrealistic to set a target for the removal of MFA restrictions as proposed in COM.TEX/W/100, particularly having regard to the prevalence in exporting countries of non-MFA restrictions, both quantitative and other, eg. export subsidies. The Community was very dependent on MFA restrictions, as it maintained lower tariffs than other MFA participants. It could not at this stage make any commitment regarding elimination of restrictions, though it was willing to keep the matter under review with due regard to future economic conditions. It expected that exporting countries would also move in the direction of liberalization.

13. He said the Community was willing to co-operate with its partners to ensure the effective and equitable operation of the Textiles Surveillance Body.

14. He tabled proposals on the social objectives of the Arrangement, the duration of the MFA, the problem of fraud, differential treatment and access to markets. The proposals are contained in COM.TEX/W/112. He recalled that the Community had already made its position on growth rates, base levels and flexibility provisions known at the July meeting. He also emphasized the link which the Community considered essential and necessary between the conclusion of satisfactory bilateral agreements and the renewal of the Arrangement.

15. The representative of the United States said that since the last meeting of the Committee, his Government had held detailed discussions with other participating countries as well as interested parties in the United States. These consultations had revealed a wide range of views as to the effectiveness of the current MFA, and as to what should be done to modify or extend the Arrangement.

16. As stated in previous meetings, the United States did not consider the MFA to be a perfect instrument, but as one which had worked reasonably well. A continuation of the MFA would provide the best approach for the management of trade in textiles and apparel. He said the United States continued to be concerned with problems arising from large quotas held by major suppliers for heavily impacted products, problems which they termed complex market disruption. They were also concerned with increased instances of fraudulent

circumvention of bilateral agreements, and with the wide range of non-MFA restrictions maintained by some MFA participants. They thought that the above-mentioned concerns could be accommodated under an MFA which did not refer to reasonable departures, but did have interpretative language in a protocol. They therefore were putting forward a draft of such a Protocol. (The United States' statement and the draft proposal for a Protocol of Extension are contained in COM.TEX/W/110).

17. In explaining the draft the United States' representative said the Protocol would recognize that the conditions which led to the conclusion of the original MFA had been aggravated by basic and persistent economic problems affecting economic growth and employment in most developed countries. A protocol which recognized the seriousness of this situation and reaffirmed the commitment of participating countries to deal with it was in his view the best way of meeting the basic objectives of the MFA. The United States foresaw very low growth rates in domestic consumption, particularly in heavily impacted products. Furthermore, consistent with participants' rights and obligations under GATT, the United States would have to insist that the commitment to reduce barriers in textiles trade applied to both developed and developing countries. A recognition of these two factors was essential to strengthen the MFA as a framework for governing international trade in the forthcoming years.

18. He said that while the United States would continue to offer at least Annex B levels for growth and flexibility with respect to imports from suppliers not contributing to complex market disruption, they would no longer be able to do so with respect to major suppliers of heavily impacted products.

19. All these factors meant there was a need to interpret the MFA. The MFA in paragraphs 2, 3 and 5 of Annex B already provided for lower growth rates and flexibility in exceptional cases and circumstances. It also provided for orderly growth in trade. The United States was not therefore seeking reductions or negative growth from any trading partner. All participants should, moreover, realize the implications and ramifications of any such actions on all other participants, including the United States.

20. The MFA was very clear in the concept of more favourable treatment to new entrants and small suppliers. The United States believed this was a particularly important element and had gone to considerable lengths in the past to meet the requirements of Article 6. The ability of the United States to continue to do so with respect to certain sensitive products, depended however, on its ability to deal successfully with imports from the larger suppliers of the same products.

21. The United States was concerned by the problems of fraud and circumvention and wished to make proposals to deal with these issues more effectively by strengthening the provisions of Articles 8, 9 and 11.

22. In conclusion, the representative of the United States reiterated his views that there was clear need for an MFA to maintain orderly trade in textiles, that such an MFA must deal with the concerns of participating countries, and that the present MFA could fulfil this purpose if the necessary interpretation was agreed to by all participating countries.
23. The representative of Canada said it was important for the Committee to make progress with respect to the renewal of the MFA, not only because the current Arrangement would soon expire, but also because commercial activities for 1982 trade were already under way while international rules governing such trade remained obscure.
24. Referring to the proposals made by developing exporting countries, he said that after studying them, a preliminary conclusion of his delegation was that they did not form a sufficiently balanced and realistic basis for attracting support from importers as well as exporters. Some elements such as those on dispute settlement contained in COM.TEX/W/101, could however be adapted to meet various interests.
25. Canada would study the EEC proposals.
26. The proposals tabled by the United States had advanced the discussion. They were reasonable, based on a proven formula (the Protocol of Extension) and had eliminated those elements which had given rise to concern among many participants. Furthermore, it reflected the current economic situation, as well as issues of concern to many participants.
27. It appeared that most participants wished to work towards a multilateral solution. Canada could accept this if there was continuing progress.
28. He recalled that the specific concerns of his authorities related to growth rates, flexibility provisions, market disruption, and the establishment of base levels. The proposals made by the United States had covered the first three concerns. However the provision for the establishment of base levels, was in some respects the most important and the key from his delegation's point of view to ensuring a satisfactory framework of rules for the next four or five years. His delegation did not think that the MFA guaranteed any major supplier a certain share of the Canadian market in perpetuity, particularly if quotas were not filled, when other exporting countries could use the unfilled quotas. The Canadian market was limited and in order to provide greater access to some suppliers there would have to be adjustment in the potential share of major suppliers when they appear not to be able to make fuller use of their current quotas.

29. He tabled four proposals related to Annexes A and B. He could also see these issues being addressed in a protocol of extension. These proposals are contained in COM.TEX/W/114.

30. Explaining the proposals, he said the first would entail an addition to paragraph 1 of Annex B, and would allow for base levels to reflect, in the case of substantial suppliers, recent trade patterns rather than previous restraint levels. The second and third proposals suggested that growth and flexibility be related to market and economic circumstances rather than be regarded as a fixed percentage. The fourth proposal would clarify that market disruption for a particular product from a particular source should be related to the level of disruptive imports from all sources.

31. The representative of Colombia, speaking on behalf of developing exporting countries, expressed concern at the continued lack of any substantive progress in the negotiations. Developing exporting countries' view that the negotiations should be completed well before the expiry of the present MFA, was shared by all members of the Committee. Developing countries had co-ordinated their positions and had put forward concrete proposals in July. A similar effort had been made by Hungary. He welcomed the fact that at this meeting important developed importing countries had advanced proposals and elaborated their ideas further.

32. He reiterated that the negotiations should elaborate and strengthen key disciplines and criteria already in the Arrangement, particularly in those areas which had in the past led to confusion in implementation. Accordingly, the continuance of the "reasonable departures" clause in any form, explicit or implicit, was totally unacceptable to developing exporting countries. There was a need to strengthen the applicability of concepts crucial to the Arrangement such as market disruption or the risk thereof. There was also the need to ensure an orderly, uniform and predictable growth of access for exports from developing exporting countries in the markets of developed importing countries. To achieve this goal, the positive structural adjustment policies referred to in Article 1:4 must be given a time frame. There was also the need to translate into concrete terms the special treatment for new entrants, small suppliers and cotton-based exporters. The multilateral surveillance system contained in the Arrangement had also to be strengthened. These were major points in the position of developing exporting countries. They were in keeping with the universally acknowledged principle of an open, liberal international trading system as embodied in the GATT, from whose provisions the MFA itself had to be seen as a waiver limited in time. Developing exporting countries believed that there was a common concern in the Committee that the MFA should not be turned into a convenient protectionist device. It was their expectation, as stated many times before, that developed importing countries would put forward proposals designed to meet, as far as possible, the goals and objectives of the MFA, and not introduce concepts alien to it which would only serve to delay unduly the negotiating process.

33. Referring to the proposal put forward by Japan¹, he stated that while developing exporting countries recognized the thrust of that proposal, their reactions would be conveyed at a later meeting.

34. On the intervention on the minimum viable production principle by the Nordic delegation², the representative of Colombia stated that developing exporting countries stood by their own proposal on mvp. This was based on objective criteria and would make the application of the principle equitable.

35. Noting that the proposals put forward by the European Economic Community were mere restatements of past positions and that the Community had reserved their position on these proposals, the representative of Colombia stated that in the circumstances, it was difficult to discuss them. The Community spokesman's statement that proposals made by developing exporting countries were totally unacceptable as a basis for negotiation was noted with great concern. The Community had not made even a preliminary attempt to address areas of crucial importance to developing exporting countries. Developing countries rejected any attempt to conduct bilateral negotiations before the establishment of a multilateral framework which would provide a legal basis. They also continued to reject concepts such as cumulative market disruption, linkage between the growth and flexibility provisions of the MFA and production and growth in consumption in importing countries.

36. The Canadian proposals were, in the view of developing exporting countries, designed to introduce a totally unacceptable level of subjectivity to the application of key disciplines in the MFA. These would also make the multilateral surveillance system ineffective.

37. Developing exporting countries welcomed the proposals tabled by the United States as a genuine attempt to advance the negotiations. While these proposals had many deficiencies, he noted that in keeping with the provisions of the MFA, the United States had not sought reduction in base levels or negative growth rates.

38. The representative of Colombia noted that developed countries' proposals did not contain any concrete provisions to liberalize access for exports from small suppliers, new entrants and cotton-based exporters, as provided for in Article 6. Noting that the MFA envisaged a more-than-normal growth rate for these countries, he said that two central elements in

^{1/}See paragraph 42.

^{2/}See paragraph 51.

liberalizing access were base levels and growth rates. The minima provided for in the MFA were now being held out by developed countries as the maxima. A future multilateral agreement had to tackle, in a positive way, the issues of concern to small suppliers who were most adversely affected by protectionist measures.

39. Developing exporting countries rejected concepts and ideas foreign to the MFA and the principles of the General Agreement. They also rejected any attempt to institutionalize protection within the GATT system. They looked forward to continuing negotiations on the lines of the proposals presented by them in July.

40. The statement on behalf of developing exporting countries was supported by all representatives from developing exporting countries who spoke subsequently.

41. The representative of Japan said that it was evident that there was a large gap between the proposals made by developing exporting countries and the statements made by importing countries at the last meeting of the Committee. It was important that every effort should be made to narrow down differences, and work out a common basis for further discussions. He would support any proposal which did not require a drastic change of the MFA in substance, and which could be interpreted to fall within the existing framework of the Arrangement. Although it was probably not practical to apply the original MFA in a world situation which had changed considerably since 1973, the *raison d'etre* of the Arrangement had remained valid for both exporting and importing countries. The most practical procedure for the Committee, if a stalemate was to be avoided, would be to extend the Arrangement without modifying its provisions, and to deal with interpretative and operative problems in a set of conclusions.

42. Such conclusions could include the following three aspects. First, priority should be given to the application of the MFA, on all issues concerning trade in MFA products. If an item was put under an MFA restraint, no additional measures should be taken with respect to that item under GATT. The interests of exporting countries had in the past been affected by use of "double restraints". In this respect it would be useful to reconfirm Article 9:1. Secondly, his delegation sought a confirmation of Article 7 of the Arrangement. It was desirable to avoid all friction related to trade in textiles by advance exchange of information between participating countries. He tabled a proposal to this effect, which is contained in COM.TEX/W/111. The third aspect concerned the question of "reasonable departures". During the negotiations on the renewal of the Arrangement in 1977, the Japanese delegation had expressed its concern over the inclusion of "reasonable departures", as such abstract language could undermine the principles of the MFA.

43. He shared the views expressed by the United States delegation that the extension of the MFA should be dealt with in the form of a Protocol, without modifying the MFA itself, particularly because of the short time available. He expressed the hope that an agreement would be reached on this as early as possible. The removal of the "reasonable departures" clause proposed by the United States constituted a constructive step forward. He welcomed the fact that the Draft Protocol proposed by the United States did not envisage cutbacks in base levels and negative growth rates. Such concepts would impede one of the basic objectives of the MFA, namely to expand world trade in textiles.

44. In the view of his delegation, the basic principles upon which the renewal of the MFA should be based were the expansion of world trade in textiles and the avoidance of disruptive effects in both importing and exporting countries. Negotiations should take into account the interests of both sides.

45. His delegation would consider carefully the various proposals put forward during this session of the Textiles Committee, and comment on them in detail during the next session.

46. The representative of Sweden, speaking on behalf of the Nordic countries, welcomed the draft Protocol of extension tabled by the United States. They would study closely other statements and proposals.

47. He stated that an article concerning minimum viable production on the same lines as that contained in MFA II would not satisfy Nordic concerns. Still less would they be satisfied by the proposals made by developing countries contained in COM.TEX/W/96. During MFA I and II the Nordic countries had not enjoyed any meaningful recognition of the.mvp clause.

48. The representative of Sweden recalled that the Nordic countries began with a much higher import penetration in textiles than other importing countries. The recognition of the.mvp concept had only allowed them to apply lower growth rates in bilateral agreements, while in his view also establishing a certain link between.mvp and swing; it had not accommodated other vital factors. At the same time, he felt that the TSB's scrutiny of their bilateral agreements had not taken appropriate consideration of the very special circumstances of the Nordic countries.

49. He pointed out the high import penetration rates in Nordic countries, particularly in Sweden which had an import penetration of 85 per cent. The share of the domestic market available for home producers was insufficient. Unemployment had grown. It had not been possible to fulfil the target the Swedish Parliament had established that 1978 production levels be maintained.

50. Commenting on the proposals made by developing countries in COM.TEX/W/96 on the application of the mvp clause, he noted that the bilateral agreements concluded by Nordic countries were generally based on the two provisions contained in Annex A, paragraph II, regarding market disruption. The proposal by the developing countries that "no supplier shall be deemed to be causing damage to the minimum viable production of another participant before it has exceeded the level of imports from any other unrestrained source" did not take account of the combination of sharp and substantial increase in imports, and low prices, characterizing market disruption. He could, however, accept, for further discussion, the idea of periodic review of damage to minimum viable production contained in the developing countries' proposal.

51. Presenting the Nordic proposal on the mvp clause (contained in COM.TEX/W/113), the representative of the Nordic countries said that though the proposal was in the form of an extension of paragraph 6 of the 1977 Protocol of Extension, this did not prejudge the final form of a new MFA. The proposal aimed at giving the mvp clause meaningful and clear recognition so that discrepancies of interpretation could be avoided. This would make it easier for Nordic countries to adhere to an MFA III.

52. The proposal applied to growth rates as well as base levels, swing, carryover and carry forward and provided that when the share of domestic production was exceptionally low modification of restraint levels should be possible.

53. The representative of Brazil welcomed the fact that developed importing participants had presented proposals at this meeting.

54. The presentation of proposals by the EEC was a positive development. However the directions in which these proposals went were not favourable.

55. The spirit of the first proposal on the social clause was, in his view, in keeping with Article 1:3 of the MFA which aimed at furthering the economic and social development of developing countries. It would however be necessary to obtain further information on how the Community planned to achieve this goal.

56. The second proposal, which dealt with the extension of the MFA for a period of five years had not given any rationale for the choice of this particular time span.

57. Circumvention and fraud was an area in which all participating countries would be ready to co-operate in keeping with Article 8 of the MFA. However, the EEC proposal referred to unilateral action by importing countries with no conciliatory rôle for the TSB as provided for in Article 8:2. Such actions were not consistent with the general practice in the GATT.

58. The proposal dealing with the possibility that imports could be restrained in certain circumstances without observing the criteria of market disruption, would mean that restraints were to be decided on the basis of the level of development in the exporting country. Such a concept was alien both to the MFA and to the General Agreement. The EEC was also proposing to deal with the provisions of Article 6 relating to favourable treatment for new entrants and small suppliers in a similar negative way. This was a distortion of the market disruption criteria of the MFA.

59. In the fifth proposal concerning market access, the reference to Newly Industrialized countries was alien to international diplomacy. The reference in this proposal to action to improve market access, could not relate to tariff barriers - which were outside the scope of the Arrangement. Neither could it refer to balance-of-payment restrictions which were justified under the provisions of GATT. Therefore this was a reference to import quotas. Brazil had no quotas.

60. Commenting on the statement made by the spokesman for the EEC, the representative of Brazil said that for the Community to state that the developing country proposals were not acceptable as a basis for negotiations was a harsh and negative approach. These proposals had been prepared very carefully and were the result of intensive co-operation and joint effort and could not be set aside casually.

61. The contention by the Community that the criteria to establish market disruption contained in the developing country proposal were tighter than the MFA was not correct. They were in line with Annex A of the MFA. However, the developing countries had felt it necessary specifically to rule out concepts such as low-cost suppliers and cumulative market disruption which had found currency and which were alien to Annex A of the MFA. The suggestion by the Community that because procedures relating to the establishment of market disruption were prolonged, they should be set aside, was curious. A constructive approach would have been to suggest a time limit such as three months, or even alternative procedures. The experience of the past had shown that importing countries presented no evidence at all of market disruption. While the "real risk of market disruption" might be a concept which was difficult to define, an attempt had to be made to do so, or to define some parameters within which it could be assessed.

62. He disagreed with the representative of the Community when he stated that Agreements with growth rates of less than 6 per cent were not ipso facto outside the scope of Article 4.

63. The proposal by developing countries relating to structural adjustment did not go further than the provisions contained in Article 1:4 of the MFA. It did envisage a rôle for the TSB. But to say that this was asking the

Community to preside over the systematic dismantling of the textile industry was quite incorrect. Though Brazil would certainly prefer that structural adjustment took place as a result of trade liberalization, this was impossible when importing countries had put into place a whole system of quotas. If at present adjustment was taking place it was as a result of import competition from unrestrained resources.

64. The representative of Brazil emphasized that multilateral negotiation must be completed before bilateral negotiations took place.

65. He said that the proposals made by the United States, were constructive and provided a framework in which negotiations could take place. The proposal for an interpretative protocol was a positive one. He noted that the concept of reasonable departures had been dropped. Noting that some concepts had been introduced in its place the representative of Brazil, expressed the belief that with a degree of flexibility and objectivity it would be possible to harmonize those elements, which were not in keeping with the General Agreement.

66. The representative of Brazil said he was glad the proposed protocol did not contain a reference to "piracy of design" as this was outside the scope of the MFA and the General Agreement.

67. Noting that criteria relating to growth rates contained in paragraph 4 of the United States draft Protocol were different from the criteria contained in the MFA, he expressed the view that the United States' objectives in this area could be achieved without abandoning the MFA criteria. The term "sensitive products" implied a subjective assessment. If sensitive products were those that caused market disruption this should be clearly stated. Paragraph 4(b) did not make it clear how the existence of factors referred to would be established. Clear lines of procedure should be laid down with a rôle for the TSB and the Textiles Committee.

68. Referring to the Canadian proposals, the representative of Brazil stated that they did not seem to reflect the atmosphere in which the negotiations were taking place where he believed there was a consensus that cutbacks had no place in a renewed MFA. Problems relating to unutilized quotas were inherent in the quota system itself and should not present major problems.

69. He welcomed the references in the Japanese statement to the need to abolish the reasonable departures clause, and the wish to preserve the text of the MFA. He would comment on the proposal tabled by Japan at a later meeting.

70. He said that a basic flaw in the case made for mvp by the spokesman of the Nordic delegations, was evident, from an examination of import statistics. For instance, in the Swedish market in 1980 over 60 per cent of

imports of textile products had come from the EEC, Finland, Switzerland and the United States. The Swedish industry would not achieve viability by restricting imports from developing countries. He felt he had to defend the TSB from unjust criticism by the Nordic countries and he pointed out instances when the TSB had found agreements with very low growth rates entered into by Nordic countries in conformity - in one instance with a growth rate of one trouser per year. It was the exporting countries who should fault such decisions.

71. The representative of the United Kingdom speaking on behalf of Hong Kong, stated that he was unable to accept the relevance to the MFA of the two factors referred to in paragraph 4(a) of the draft protocol proposed by the United States. He said that at an earlier meeting of the Textiles Committee he had explained why the concept of "complex market disruption" presented by the representative of the United States had no validity in the context of the MFA. It had not been established that the problems facing textiles and clothing and industries in developed countries were caused by exports from developing countries. There was ample evidence that they were caused by other factors such as imports from other developed countries, improved productivity and technological changes. Developing countries had proposed that the Textiles Committee should ask the GATT secretariat carry out a detailed study to establish the state of the textile and clothing industries in developed countries, and the factors contributing to problems that they faced. The developed countries had rejected such a study. They could not therefore now expect a favourable reception to any economic arguments put forward by them to support a more restrictive MFA.

72. Referring to paragraph 4(b) of the United States proposal, the representative of Hong Kong said that he could not recognize any circumstances in which the two factors, viz. a decline in the rate of growth of per capita consumption in importing countries and the impact of very large quotas and market shares for imports of sensitive products from a few or even a single source, could have a bearing on the rate at which a particular market could accommodate imports while still avoiding serious market disruption. The factors had no relevance to market disruption. They were further unacceptable because restraints had been and continued to be imposed only on some suppliers. They could not therefore have a place in the MFA.

73. Hong Kong could not agree either that these factors should be considered in determining the "exceptional cases/circumstances" referred to in paragraph 2, 3 and 5 of Annex B of the MFA. These provisions in fact referred only to cases or circumstances in which the situation of market disruption as described in Annex A would recur or would be exacerbated. But Annex A did not include the factors referred to and contained in the United States proposal, and therefore they could not be relevant to the exceptional cases/circumstances and could not be used to justify lower positive growth

rates. In addition paragraph 4 of the United States proposal was in effect legislating for discrimination against certain suppliers. Differentiation of this nature was totally alien to the GATT and could not be accepted.

74. As regards swing, Annex B did not provide for percentages lower than 5 per cent in any circumstances. Carryover and carry over were obligatory according to Annex B and might not be lower than 10 per cent for the two combined or 5 per cent for carry over. The United States proposal was in fact not an interpretation of Annex B, but an amendment to it and was unacceptable.

75. The representative of Hong Kong noted that the United States was not seeking reductions in base levels or existing quotas, but by seeking to reduce growth rates, swing, carryover/carry forward it was in fact seeking a completely free hand in deciding the terms of bilateral agreement. This was in Hong Kong's view a continuation of the "reasonable departures" clause which was not acceptable.

76. On the mvp concept (paragraph 5 of the United States proposal) he noted that MFA provided that its application was limited only to growth rates.

77. The representative of Hong Kong rejected the suggestion in paragraph 6 of the United States proposal that the exporting country involved be made fully responsible for any circumvention of quotas and its quota be deducted to reflect the amount of circumvention. Since fraud involved not only exporters but also importers, it was wrong in principle to put all the blame on one party. This should be a matter for bilateral settlement and not multilateral legislation.

78. The United States proposal had stated that the Textiles Surveillance Body "should continue to function effectively". The representative of Hong Kong noted that in the past four years importing countries had so grossly abused the terms of the MFA that the effectiveness and authority of the TSB had seriously deteriorated.

79. While the suggestion to liberalize trade contained in paragraph 8 of the United States proposal was on the surface and in principle not unacceptable, it was meaningless. The developed countries were committed to making textile trade more restrictive, while calling on developing countries whose trade was being increasingly restricted to liberalize their trade.

80. Commenting on the EEC proposals the representative of Hong Kong was of the view that they were incomplete, and gave the impression of being put together in a hurry for the sole purpose of avoiding criticism that the EEC was retarding the process of negotiation. On the other hand proposals put forward by developing countries had been dismissed in a cavalier fashion. The EEC proposals bore marked resemblance to some aspects of the United States proposals on which he had already commented.

81. The representative of Hong Kong reserved Hong Kong's position on all the proposals made at the meeting.

82. The representative of Peru commented that in the statement made by the representative of the European Economic Community there had been a clear recognition of the need to accord small supplier countries and new entrants special treatment. However, the proposals presented by the Community failed to make the necessary provision for implementing this policy. She reiterated her complete support for the proposals made by the developing countries and she exhorted the developed countries, especially the European Economic Community and the United States to make specific provisions for the needs for special treatment to small suppliers and new entrants with a view to promoting their economic and social development.

83. The representative of Switzerland was of the view that as proposed by the United States, discussions should be focussed on a Protocol extending the MFA. Specific proposals had been made so far and at first sight they seemed very far apart. The main differences in his view seemed to be that some proposals pursued short-term objectives which were rather restrictive in nature, while others focussed on medium and long-term objectives which were rather more liberal. He would prefer to concentrate on the long-term objectives, which would lead to attaining solid and durable results. He thought that in the context it was not impossible to reflect some of the immediate concerns.

84. The basic position of Switzerland was to maintain the objectives of the MFA and its multilateral character and to ensure the equality of rights and treatment of all participants. Further, Switzerland was concerned with ensuring the exercise of fair competition. This was important for the functioning of the MFA and the attainment of its objectives. He could not agree that the problem was alien to the MFA; it arose in an acute manner in the sector of international trade in textiles. This was why they were tabling a specific proposal (COM.TEX/W/115) which suggested constructive collaboration. Such collaboration was in the interest of all participants and he did not consider that this proposal encroached on or duplicated other international instruments.

85. The representative of India noted with serious concern the continuing delay in engaging in serious and substantive negotiations.

86. The proposals presented by developing countries had not met with appropriate responses. Some important countries continued to have difficulties in formulating their position and even in getting a negotiating mandate. While some reasons for the initial delay could be understood, it now appeared to indicate a lack of political will, considering that considerable time had elapsed in the negotiating process without any tangible progress.

87. The steps taken to formulate ideas and present proposals at this meeting were welcomed by the delegate of India as an attempt to advance negotiations, even though the contents were far from acceptable.

88. While stating that he would make detailed comments later, the representative of India expressed some major concerns on the United States proposals. He welcomed the United States decision to uphold existing disciplines in the present Arrangement by not seeking reductions or negative growth rates. But he said the proposals implied a major erosion not only of some of the principles of the MFA, but also of the General Agreement. The commitment to small suppliers and new entrants was not expressed in concrete terms.

89. The United States proposals would mean that quotas and restraints would be determined by subjective action and not in the context of objective norms of market disruption, or the trade liberalization and structural adjustment commitments of the MFA.

90. The United States proposal to place developed and developing countries on the same level with respect to the objective of reducing trade barriers, had no relationship to the objectives of the MFA. It had to be rejected because the import régimes of developing countries were justified under the General Agreement. On the contrary, trade barriers maintained by developed countries were inconsistent with commitments undertaken by them in the GATT and other United Nations bodies. At a time when developing countries were facing large and unmanageable balance-of-payments deficits with their developed trading partners, and exports to these countries were subject to protectionist pressures it was important to underline that the MFA was originally regarded as a temporary departure from the principles of an open trading system enshrined in GATT and accepted by all.

91. The representative of India expressed serious concern that the EEC had rejected the developing country proposals as a basis for negotiations, and had done so without even presenting any clear alternative proposals on the important issues put forward by the developing countries. Further, the Community proposals embodied ideas already clearly rejected by developing countries, and were based on factors extraneous to the MFA and not amenable to any objective analysis.

92. The representative of India referred to the self professed determination of the developed countries to resist protectionist pressures and expected that such determination would be reflected in policies taken in the forthcoming negotiation on textiles. They on their part intended to participate in these negotiations in the spirit of fullest cooperation, flexibility and necessary goodwill in order to bring them to a very early conclusion.

93. The representative of Pakistan stated that delays in negotiation led to increases in pressures on individual developing countries. He welcomed the fact that at this meeting almost all developed importing countries had tabled proposals even if these were in some cases rudimentary and preliminary and in others appeared not to provide a basis for negotiation.

94. The aim of the developing country proposal tabled in July relating to new entrants, small suppliers and cotton based textile exporters was to ensure market access for these countries. Such access had been eroded by the use of concepts such as cumulative market disruption and globalization. While developed countries had rejected these proposals, their own proposals would have the effect of freezing levels of exports from these countries at the rather meagre levels achieved so far. This would effectively mean that the path of industrialization and growth was denied to developing countries.

95. In view of the increasing acceptance that the problems of the textile industries of developed countries were caused mainly by trade among themselves and by technological advance, and only to a minor extent by exports from developing countries, the representative of Pakistan urged that serious consideration be given to the needs of small suppliers, new entrants and cotton based textile exporters. Exports from such countries could pose little danger to the textile industries in developed countries.

96. The representative of Uruguay commented on the fundamental differences that existed between the proposals tabled by developed countries at this meeting and the proposals tabled earlier by the developing countries. These differences related both to the future of the MFA and the perception of how the MFA had functioned in the past. He referred to recent actions taken by Uruguay to liberalize trade in textiles. He recalled that the MFA was intended to ensure orderly expansion of trade. It was not meant to be used as an instrument for increasing restrictions. He rejected all proposals which sought to increase such restrictions. He said he would comment on the various proposals more fully at a later meeting.

97. The representative of Colombia noted with satisfaction that at this meeting developed countries had made concrete proposals.

98. From the remarks made by the representative of the Community it was evident that they believed that the problems faced by the Community's textile industries were caused by exports from developing countries. But studies carried out by the GATT showed that these problems were in fact caused primarily by other factors such as improved productivity, technological advances and change in consumer taste. This was also borne out clearly in a recent study by the Economic Commission for Latin America. This study further showed that investments in the textiles sector in the period 1973-79 acted to prevent structural adjustment as required by Article 1:4 of the MFA. These had therefore had the effect of prolonging

the situation in the textile industry which had led to the "reasonable departures" clause in 1977 which was meant to be short-term and temporary.

99. The representative of Colombia stated that the proposals put forward by the United States were undoubtedly a constructive contribution. However, he felt that the outcome of the negotiations should be set out in one document, rather than having a Protocol which referred to the time span and having the substantive aspects included in the form of conclusions of the Textiles Committee. He noted that the United States, while proposing the abolition of the reasonable departures clause, was suggesting the introduction of a new concept of "complex market disruption" to be applied in "exceptional cases/circumstances". For this to be acceptable, there would have to be a precise agreement as to what constituted exceptional cases/circumstances. A decline in consumption or an increase in quotas alone did not suffice. Secondly the existence of such exceptional cases/circumstances must not be determined by unilateral decision but should be made by the TSB based on criteria set out in developing countries proposal on market disruption. The TSB should be constituted of eight to ten persons with the chairman's position being rotated. Colombia felt that any future Arrangement should last for three years. It was necessary to know how the United States proposed to implement their proposal on progressive liberalization of trade and in this context their reaction to the developing country proposal. He suggested that the application of a future Arrangement should be based on the degree of sensitivity of the product. In his view some of these concerns would require specific amendments to the MFA.

100. In conclusion, the representative of Colombia stated that it was necessary to get rid of the concept that a developing country was by definition a low-cost supplier. He asked the GATT secretariat to prepare a study on this aspect for the next meeting of the Textiles Committee.

101. The representative of Indonesia expressed concern on the statement made by the representative of the EEC on their intention to intensify restrictions from "low-cost sources", considering them to contribute to the difficulties experienced by the textiles industry. In his view the cost of products was irrelevant. This concept was contained neither in the MFA nor in the GATT provisions. He commented on the discrimination involved in restricting imports from developing countries while developed countries were free from restrictions. This was contrary to the objectives of Article 6 of the MFA which envisaged more favourable treatment to the developing countries with special provision for new entrants and small suppliers. The fact that restrictions had been placed even on new entrants and small suppliers was supporting evidence that the provisions of Article 6 had been ignored.

102. The representative of Indonesia emphasized the importance of an MFA as a stepping stone towards liberalization of trade and he emphasized the necessity of establishing a multilateral framework before bilateral negotiations took place.

103. The representative of Poland stated that the proposals put forward by the United States, Canada, Japan, Nordic countries and the EEC would be studied in Warsaw and that detailed comments would be made later. However, he wished to oppose formally the use of certain terms in the proposals made by the Community. In its proposal on market access there was a reference to "State-trading countries". The MFA, its annexes and Protocol and GATT itself did not refer to "State-trading countries". The inclusion of this term in a formal proposal tended to give it legal status. The attempt to introduce discriminatory treatment for a category of arbitrarily selected participating countries would be dangerous for the future of the MFA and of GATT. Poland would categorically oppose the introduction of the term "State-trading country" in the provisions of a future MFA.

104. The expression "conditions of market access" was not a part of the legal language of the MFA. The MFA recognized the concept of restrictions on imports and contained detailed rules to govern the application of such restrictions.

105. In addition, the Community's proposal on market access, if applied to Poland, would constitute an additional trade measure within the meaning of Article 9:1 of the MFA. As noted at an earlier meeting if a problem of market access existed between Poland and the EEC, it was the problem of access to the Community's market for Polish products.

106. The representative of Yugoslavia expressed his disappointment at the contents and the direction of the proposals made by developed countries. He expressed his particular regret at the rejection of proposals made by developing countries. He was concerned that the proposals made by developed countries sought to sanction practices and concepts inconsistent with the provisions of the MFA and to do this in even a more unfavourable manner than before. There was no attempt in these proposals to end the illogical and unjustified discrimination against developing participants of the MFA. The objective of progressive liberalization of trade was ignored. At the same time developing countries were being asked to increase access to their markets for products from developed countries.

107. The representative of Yugoslavia could not accept any link between imports and domestic consumption in determining market disruption. Unilateral decision based on such criteria and not on those in Annex A would have the effect, among others, of diminishing the rôle of the TSB and consequently weakening the system of multilateral surveillance. Though developed countries maintained that exports from developing countries was

the only factor that caused market disruption, there were many more serious factors such as exchange rate fluctuation.

108. The representative of Yugoslavia said in conclusion, that inspite of many reasons for pessimism there appeared still some hope that a useful dialogue would be possible on the future of the MFA. Yugoslavia would explore every possibility to engage in such dialogue based on the proposals put forward by developing countries.

109. The representative of Hungary supported the statement made on behalf of the developing countries, in particular the rejection of concepts foreign to the MFA and to the principles of the General Agreement.

110. Supporting the statement made by the representative of Poland, he said that the proposal by the EEC relating to the so-called "State-trading countries" was an attempt to legalize the EEC's discriminatory policy and could not find a place in the negotiations.

111. Hungary's imports of textiles were higher than her exports and MFA participating countries could not expect from Hungary better treatment than what Hungary received from them.

112. The representative of Czechoslovakia, supporting the view expressed by the representatives of Hungary and Poland, said that the attempt by EEC to divide signatories into different groups and categories should be rejected. Such distinctions between newly industrialized countries, State-trading countries and other groups of countries as referred to in page 6 of COM.TEX/W/112, had no legal basis, either in the MFA or in the GATT.

113. The representative of Sri Lanka stated that having listened to the discussion and studied the proposals tabled at this meeting, he had concluded that the trend in trade in textiles was towards a more restrictive, more protectionist and more illiberal régime. It was ironic that steps taken to make trade more restrictive were termed realistic and pragmatic, while the call to a return to the basic pinciples of the MFA and the GATT were regarded as radical.

114. He referred to the pledge made at the Western Economic Summit meeting in Canada recently to resist protectionist pressures, and to a recent address in which President Mitterand had stressed that the recovery of developed economies and worldwide development depended on the stimulation of the economies of developing countries. While he could agree with the EEC spokesman that textiles was a complex and politically and socially sensitive matter, he was disappointed that the EEC proposals had not reflected the sentiments expressed by their leaders.

115. Sri Lanka, like other small suppliers, was particularly affected by growing restrictions which prevented the expansion of exports from very low levels. Sri Lanka looked forward to a more definite and positive commitment towards small suppliers from developed participating countries.

116. The representative of Egypt supported the comments made by other developing countries on the proposals tabled at this meeting by developed countries. He would study these proposals carefully and comment on them at the next meeting.

117. The representative of the Philippines, speaking on behalf of the member countries of ASEAN, said that he appreciated the proposals put forward by a number of developed importing countries aimed at facilitating the negotiating process. However, he regretted that some of them were preliminary, incomplete, and did not represent progress towards a satisfactory renewal of the MFA by the end of the year. Conducting bilateral negotiations before the new multilateral framework had been established would be a waste of effort. He welcomed the constructive efforts made by the United States to table specific and detailed proposals.

118. He reiterated the importance of a positive approach to the special treatment for small suppliers and new entrants. He expressed the hope that the commitment to such basic principles of the MFA as liberalization of trade and the avoidance of disruptive effects of both importing and exporting countries would prevail throughout the negotiating process.

119. The representative of Korea said that while some progress had been made in the negotiations he was deeply concerned that they were far behind schedule. He deplored that one major participant was not ready to engage in serious negotiations.

120. He commented that the United States proposal was constructive, especially in terms of procedures. While commending the United States delegation on its effort, he wished to state that he could not accept the intention to relax the disciplines relating to the determination of "exceptional cases" which was the "reasonable departures" clause in another form. He could not also accept the proposed discrimination, not only between developed and developing countries, but also between developing countries themselves. Such discrimination was contrary to the spirit of the MFA and the rules of GATT.

121. The representative of Korea sought clarification on the real intention of the proposal made by Japan.

122. The representative of Romania said that the MFA, despite shortcomings, had been a useful instrument in regulating international trade in textiles. Romania would continue to cooperate in completing the negotiations on a new MFA as soon as possible. He noted that the substantive proposals tabled at

this meeting, whatever their merits, were a step forward in the negotiations.

123. As a general comment he wished to state that most of the proposals seemed to maintain and strengthen protectionist tendencies. He referred in particular to the proposal to readjust quotas based on the degree of utilization and said this was incompatible with the objectives of progressive liberalization in the MFA. He rejected concepts such as low-cost suppliers, newly industrialized countries and state-trading countries, which were used to justify discriminatory treatment.

124. The representative of Portugal, speaking on behalf of Macao, associated himself fully with the concerns expressed by the developing exporting countries at the continued lack of progress in the negotiations.

125. He stressed that Macao was a small and totally open economic system. Though textiles represented almost 75 per cent of the GNP, Macao was a small supplier of textiles accounting for instance in 1980 for only 0.46 of the Community market.

126. Macao was now taking steps to diversify its economy, but the success of these measures would depend on the foreign exchange resources obtained from exports of textile products.

127. Developing countries had to achieve a fair MFA as on this would depend their ability to maintain the minimum growth rates that assured political and social stability.

128. The representative of Colombia, speaking on behalf of developing countries, stated that taking into account what had happened at this session of the Textiles Committee, developing countries wished to place on record the positive aspects of the discussions. With this end in view they were presenting a set of draft conclusions. (These are reproduced in COM.TEX/W/116). He explained that the draft conclusions proposed that the Committee take note with appreciation the specific proposals that had been tabled. While noting the progress made it expressed concern that the negotiations remained behind schedule, and agreed that negotiations should proceed as rapidly as possible to be concluded before the present Arrangement expired at the end of 1981. Participants would extend the necessary co-operation to facilitate the negotiating process.

129. The Committee would also express hope that delegations would focus attention on arriving at a future multilateral agreement and that bilateral and plurilateral consultations would take place to this end. Future bilateral agreements would be governed by the multilateral framework to be established. This would provide the legal basis for such agreements.

130. The spokesman for the European Community regretted the decision by certain exporting countries to propose their own draft conclusions to the Textiles Committee as "common conclusions". He said that such a procedure was most uncommon in the framework of the GATT. They could go along with most of the points made in these conclusions. In particular the Community would do everything in its power to conclude the negotiations before the expiry of the present Arrangement. However, they felt that the attempt to prejudge the negotiating process was unfortunate. They could not therefore accept the text in its entirety. It was necessary to retain some pragmatism to succeed in the process of negotiation. Noting that the meeting began in an atmosphere of constructive co-operation, it was their belief that it was in the general interest to preserve this spirit for the next phase of the negotiation.

131. The representative of the United States said that he fully understood the message put forward by this proposal and appreciated the efforts made by developing countries to be constructive in their endeavours. The United States placed the highest importance on concluding the multilateral negotiations this year, and preferably as soon as possible. They also had no intention of entering into untimely bilateral negotiations.

132. The representative of Switzerland said that he had listened with interest to the draft conclusions presented on behalf of the developing countries. He was happy to note that it brought out the positive aspects of the negotiations that had taken place at this session and that it underlined similar positive aspects for the future. They reflected the importance Switzerland also attached to the speedy conclusion of negotiations. He supported the priority attached to the multilateral framework which in his view should provide the legal basis for bilateral instruments.

133. The representative of Sweden supported the statement made by the United States.

134. The representative of Japan expressed his appreciation to the developing exporting countries for their effort. It was Japan's view that it represented a constructive step towards future negotiations. They shared the view expressed by developing exporting countries that this round of negotiations should be pushed forward as rapidly as possible so that it could be concluded well before the expiry of the present Arrangement.

135. The representative of Austria stated that he could go along with the draft conclusions submitted by the developing countries. He thought that the desire expressed to push negotiations so that there could be an MFA before the end of 1981 was particularly important.

136. The representative of Hungary supported without any reservations the draft conclusions put forward on behalf of developing exporting countries. They shared the views expressed by the representative of Switzerland on the importance of giving priority to the multilateral framework of negotiations.

137. The representative of Czechoslovakia supported the conclusions presented by developing countries. The draft reflected some of their own concerns, particularly with regard to the multilateral nature of negotiations. He fully shared the view that bilateral agreements regulating textile trade in future years should follow the establishment of the multilateral framework which would provide the legal basis for these agreements.

138. The representative of Poland stated that he fully supported the draft conclusions presented on behalf of the developing countries.

139. The representative of Colombia, speaking on behalf of developing exporting countries, thanked the delegations of the United States, Switzerland, Sweden, Japan, Austria, Hungary, Czechoslovakia and Poland for the support they had expressed for the proposed conclusions presented by developing countries. In reply to the representative of the EEC he stated that the developing countries were in no way attempting to prejudge the negotiating process; they aimed to be constructive with their proposal and he believed this had been achieved. He reiterated that without prejudging the negotiating process, it was their intention to assure that this process should not be disturbed in any way by untimely negotiations on bilateral agreements that were due to expire in 1982.

140. The representative of Brazil in reference to the statement made by the Community pointed out that the American proposal COM.TEX/W/110 on page 9, mentions "conclusions of the Textiles Committee adopted on ...". This reflected the same procedure that was adopted in 1977 when the Protocol of Extension was adopted. It was the usual and traditional procedure that proposed conclusions were suggested to the Committee. Further, he wished to put a motion to the Committee that the proposal be adopted by consensus if there was no dissenting voice.

141. In his summing up, the Chairman stated that he wished to emphasize points on which there had been convergence of opinion rather than divergence. Emphasizing the need for pragmatism, he said he did not wish to open a controversy on whether it was in order or not to have conclusions. He noted, however, that the spokesman for the Community, whilst stating that he could accept a good deal of the draft conclusions presented by the representative of Colombia on behalf of developing countries, nevertheless did state that he had a reservation. It was, therefore, not possible to declare a consensus. He noted further that during this session of the Textiles Committee it had been possible to observe real progress in marking

out the points on which negotiations had to take place. The first step in this process had been made by developing countries at the July meeting. At this meeting further progress had been made. He hoped that the discussions which had taken place in the Committee, and the consultations which had been held more informally, would provide a solid foundation for further work in capitals. There was a consensus on the need to push forward negotiations and reach conclusions within the agreed time limit. There was also political will on the part of all parties to achieve this. The Chairman noted with regret that certain differences of opinion still existed on the relation between the processes of multilateral and bilateral negotiation. He, however, remained optimistic that outstanding issues would be overcome in a realistic way. He hoped that at the next session, which was to be the concluding session, all the time available would be used on negotiation of the points of substance which would have to be decided.

Date and agenda of next meeting

142. The Committee agreed that the next meeting would begin on 18 November to continue discussion on the same agenda item. The meeting would continue until agreement was reached.