

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Textiles Committee

DRAFT REPORT OF THE COMMITTEE MEETING HELD ON 4 DECEMBER 1985

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its eighth meeting under the 1981 Protocol of Extension on 4 December 1985. The agenda for the meeting was:

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

- (i) A report by the Textiles Surveillance Body
- (ii) Recent developments in demand, production and trade in textiles and clothing
- (iii) Progress report by the Chairman of the Sub-Committee on Adjustment.

B. Continuation of the discussions on the future of the MFA as required by Article 10:5.

C. Membership of the Textiles Surveillance Body for 1986.

D. Other business.

A. Annual review of the Agreement as required by Article 10:4

2. The Chairman noted that Article 10:4 of the MFA required the Committee to review annually the operation of the Arrangement and report thereon to the Council and referred to three sets of documents which the Committee had before it for this purpose. The first was a report by the Textiles Surveillance Body in document COM.TEX/SB/1116 and Addendum 1. The second was a report by the Secretariat on recent developments in demand, production and trade in textiles and clothing in COM.TEX/W/173 as well as some textiles and clothing statistics in COM.TEX/W/174. The third set of documents concerned the work of the Sub-Committee on Adjustment: COM.TEX/40 contained the original submissions received from a number of participants and COM.TEX/42 contained country-by-country summaries of the available information. He suggested that members of the Committee could address themselves to the three sets of document at the same time.

3. The Chairman of the Textiles Surveillance Body said that the report of the Body covered the period from 3 August 1984 to 9 October 1985. The report was descriptive as the TSB did not attempt a new evaluation of the implementation of the MFA since it had made one in its report for the Major Review of the Arrangement in 1984. He said that the report showed that the TSB continued to receive a large number of notifications of unilateral measures, bilateral agreements and disputes. The Body had been quite

effective in its dispute settlement rôle and responses of participating countries to TSB recommendations had been positive. In the eight cases in which the TSB had recommended that the restrictions be rescinded, the recommendations were followed in six; while in the other two cases, the exporting countries concerned were able to accept negotiated solutions. In a few cases of disputes the TSB found a real risk of market disruption, thus endorsing the perception of the importing country. The Body had been able to reach clear and balanced conclusions on a case-by-case basis and had maintained its neutrality by keeping in mind the overall interests of all participating countries.

4. He referred specifically to a number of Norwegian agreements as they were the first such agreements reviewed by the TSB since the beginning of MFA III, and said that they were an improvement over the global quota system previously utilized by Norway and represented an important first step towards liberalization of Norway's textiles imports. However, as all but one of the agreements reviewed did not offer swing and the TSB had expressed the opinion that the maintenance of Norway's minimum viable production seemed not to require the absence of swing. Moreover, many agreements contained specific limits on products where the share of the exporting country in the Norwegian market was small or nil. Again the TSB observed that restraints were not needed in such cases. He said that since these were bilateral agreements, it was up to both Norway and its partners to avoid the repetition of such features in their future agreements. He also drew the attention of the Committee to the notification under Article 11 by Japan in which it was stated that Japan maintained no restrictions on imports of textiles and clothing. After the closing date of the report, however, information concerning requests by Japan for restraints on exports of MFA products to Japan became available and the TSB had discussions on such information.

5. The Chairman of the Sub-Committee on Adjustment said that he last reported to the Committee on the work of the Sub-Committee in July 1985, when he commented on the disappointing responses to the questionnaires sent to participating countries in order to seek information on adjustment measures taken or policies adopted relevant to Article 1:4 and information on production and trade relevant to Article 10:2 of the MFA. He noted that there had been some improvement in the situation since then, but regretted that the absence of submission from a number of countries had prevented the Secretariat from getting a fuller and more comprehensive picture of developments in textiles trade and the factors affecting the process which the work of the Sub-Committee should help to provide.

6. Referring to the submissions so far received, he said that these were generally more complete than in the past, e.g. the information with respect to the programmes of government assistance to industrial adjustment particularly as regards social and labour policies, regional policies and industrial development. There remained, however, several important gaps in the information; details regarding autonomous adjustment measures and the responses by firms to changes in competitive conditions continued to be

particularly meagre. He requested those who had not yet provided their country's submission to do so as promptly as possible, and in any case before the end of the year so that the Sub-Committee would be in a position to prepare a complete report within the deadline of 31 March 1986. If there were doubts about the nature or the purpose of the information that was being sought, members could discuss these aspects further so that appropriate conclusions for the future could be drawn. In his view, the work of the Sub-Committee should enable the Textiles Committee to see what rôle, if any, adjustment policies and measures were playing in reducing the reliance on restrictive measures under the Arrangement and thus the fulfilment of the objectives set out in Article 1:4.

7. The representative of the United Kingdom speaking for Hong Kong said that the TSB report was purely a factual summary of developments notified in the past twelve months following the Major Review in 1984. The conclusions in the TSB report for the Major Review (COM.TEX/SB/984) were still valid and appropriate for the present circumstances. Quoting from that document, he said that it was still the case that "restraints under the MFA have, since its inception, been applied almost exclusively to products from developing countries". Secondly, it was still true that "restraints have been more extensive and in many cases more restrictive" and that "most importing countries, in restraining imports under the MFA, had recourse to extensive invocation either of "exceptional circumstances" or of the need to maintain minimum viable production"; and the remarks by the Chairman of TSB on Norway's agreements were relevant. Thirdly, the TSB finding that "the brunt of such severe application of the MFA's provisions has been borne by exporting countries which, in some cases, have had their production and marketing adversely affected, even though the MFA explicitly recognizes the need for developing countries to receive special treatment" was still valid. Finally, the most important point which stated that "while some progress may have been made during the life of MFA III with respect to the orderly development of world trade in textiles and to the increase in export earnings of developing countries, little or no headway has been made in the objectives of achieving the reduction of barriers and the progressive liberalization of world trade" should serve as a guideline for the consideration of the future of textiles trade in the context of Article 10:5 of the MFA.

8. Commenting on the statistics prepared by the Secretariat, he said that these had not taken into account intra-EEC trade which in 1984 amounted to 12 billion dollars in textiles and 8 billion dollars in clothing. The exclusion of those figures had significantly lowered the apparent share of developed countries and inflated that of developing countries in such trade. Since quotas were applied by the EEC on both the Community level and the regional level, it would only be logical to include those figures. Furthermore, most figures were given in value terms while restraints were in volume or quantity terms. With the fluctuation in exchange rates in the last few years, figures in value terms had significantly distorted the real situation. He said that with figures on production and employment now available, imports could be put in the proper perspective. Statistics showed that there was an up-turn in the production of both textiles and

clothing in the United States between 1982 and 1984. Figures also showed that employment in the United States textiles and clothing industries was steady between 1982 and 1983 and rose in 1984. All these showed that the evidence of damage or disruption was lacking in spite of the rise in imports. The data on demand showed that consumer expenditure increased considerably between 1983 and 1984 in the United States. While the increase in purchasing power could be an important factor in the growth of consumption, other factors such as price and quality elasticity could not be overlooked. Imports could create demand in areas where domestic production was not necessarily competing with imports. It was not logical, therefore, to relate growth in imports to growth of domestic consumption.

9. In response to the remark by the representative of Hong Kong on statistics, the spokesman for the EEC said that as far as the Community was concerned, intra-EEC trade was purely internal or domestic trade. Figures on such trade were never included in general statistics for international trade and never should be.

10. The representative of Brazil said that the TSB report showed that the trend of increased protectionism had not been reversed in spite of the MFA's basic objective of promoting liberalization of trade in textiles. It was interesting to note the statement by the spokesman for the EEC about intra-EEC trade figures not appearing in general statistics for international trade, especially in the context of negotiations over regional quotas with the Community.

11. The representative of the United States said that the statistical documents prepared by the Secretariat merited careful study as they provided additional insight to the way international trade had developed during the life of the MFA. He drew attention to the figures relating to area distribution of trade from developing countries to developed countries and said that they showed an interesting pattern.

12. Referring to the statement by the Chairman of TSB, the representative of Norway said that he would like to remind the Committee that Paragraph 11 of the 1981 Protocol of Extension allowed for any mutually acceptable arrangements with regard to flexibility. On legal terms, Norway had not broken any of these rules. The observation made by the TSB would of course be taken into account by Norway.

13. The representative of Egypt said that the fact that all Article 3 and Article 4 restrictions were applied only to the exports of developing countries was a clear sign of discrimination. On the other hand, trade among developed countries was treated with mutual tolerance. This discriminatory aspect had existed for a long time and it would be opportune to address this question when considering the future of trade in textiles after the expiry of the MFA.

14. The representative of Yugoslavia pointed out that the TSB had been very active during the period under review. This was evident not only from the number of meetings held but also from the scope and quality of work

undertaken. The report showed that further escalation of restrictions in the trade of textiles and clothing took place in a way leading to the non-observance of the MFA, its annexes and Protocol by developed member countries. It would be useful if the report could contain an assessment of the implementation of the MFA, identifying the main directions for solutions. Nevertheless, the report had sent clear signals of the need for liberalization of trade in this sector.

15. The representative of Bangladesh said that one of the important features in the TSB report was that restrictions were applied to small suppliers, new entrants and least developed countries like Bangladesh and the Maldives. This was contrary to Article 6:2 and 6:3 of the MFA and paragraph 12 of the Protocol of Extension.

16. The representative of Hungary welcomed the statement by the representative of Norway who had said that Norway would take into account the TSB's findings and remarks in future bilateral negotiations.

17. The representative of Pakistan said that it was increasingly evident from the TSB report that while the MFA system contained certain complexity in itself, it had developed into something even more complicated and restrictive in the bilateral agreements. He looked forward to an updated version of the statistical documents when figures for 1985 were available, and said that the question of intra-EEC trade on textiles had to be looked at carefully at the next Committee meeting.

18. There being no more intervention on the item, the Chairman said that the annual review of the Arrangement as required by Article 10:4 had been conducted.

B. Continuation of the discussion on the future of the MFA

19. The Chairman said that during the last Committee meeting held on 23 July 1985, members had an initial and interesting exchange of views on the subject of whether the Arrangement should be extended, modified or discontinued, when it would expire by the end of July 1986. The result of that meeting was recorded in the report of the Committee in document COM.TEX/41. He expressed the hope that members would be able to register more concrete points of views during the current meeting. He believed that the informal consultations held since the last meeting in July had helped to clarify certain differences of views and that the Committee would be in a position to carry out its mandate in an efficient way. He recalled that the CONTRACTING PARTIES had just taken a decision, relevant to the work of this Committee, which read as follows, "The CONTRACTING PARTIES agreed that the Working Party on Textiles and Clothing should continue to examine modalities of further trade liberalization in textiles and clothing, including the possibilities of bringing about the full application of GATT provisions to this sector. The Working Party will report to the CONTRACTING PARTIES at their 1986 session". He added that the CONTRACTING PARTIES had also taken a decision to establish a Preparatory Committee which was expected to prepare by mid-July 1986, recommendations for the programme of Multilateral Trade Negotiations.

20. The representative of Korea, speaking on behalf of developing countries, exporters of textiles and clothing, stated that their views on the future rules and principles to govern international trade in textiles and clothing were founded on the Ministerial Declaration of 1982. For them the key questions facing the negotiations in the Textiles Committee were whether continued protection to the textiles and clothing industries of the developed countries was justifiable; whether these industries could continue to claim special treatment in the form of a derogation from GATT rules; and whether a convincing case could be made to justify persistent discrimination against developing countries. He said that the situation in textiles and clothing and particularly the recent developments in the United States Congress were in stark contrast to the recent deliberations in GATT aiming at liberalizing international trade and strengthening the disciplines of the multilateral trading system. He expressed concern and disappointment that the Textiles and Apparel Trade Enforcement Act of 1985 had completed its passage through both Houses. The developing countries found it difficult to conceive how discussions on the future of the international trade in textiles and clothing could advance further until there was a clear rejection of this Bill without any equally damaging commitment to achieve the same objectives by other means. Finally, he said that the Seoul Communique should be considered as a part of his statement. A copy of the Communique is in Annex 1.

21. The statement by the representative of Korea was supported by the representatives of Hong Kong, Pakistan, Bangladesh, Egypt, China, Turkey, Indonesia, Sri Lanka, India and Yugoslavia who spoke subsequently.

22. The representative of the United Kingdom speaking for Hong Kong said that he shared with the representative of Korea his concern about the Textile Bill passed by the United States Congress, and in particular the danger that a price might be sought for not enacting the Bill. Such a price could have just as damaging an effect as the enactment of the Bill itself. He therefore urged the United States Administration to firmly resist such protectionist pressures and thus enable the dialogue in this Committee to proceed to a more fruitful stage. He said that members of the Committee were engaged in a separate self-contained exercise within the parameters and terms of reference of the Textiles Committee. Although this was not part of the GATT Work Programme stemming from the Ministerial Declaration of 1982, nevertheless it had to be recognized that the objectives of trade liberalization which had been the subject of intensive discussions in GATT directed towards the launching of a New Round of Multilateral Trade Negotiations should, in principle, apply equally to textiles and clothing as to all other sectors. If there was no demonstration of willingness to move away from the long-standing institutionalized protection in the textiles sector, then the expectations of what might be achieved in negotiations in other areas might prove to be similarly limited. At the very least, it should be expected that any successor arrangement that might emerge from the present process should be based upon a commitment towards full liberalization and ultimate return to the full application of GATT rules and should thus provide, both at the multilateral and bilateral levels, for concrete measures towards achieving these aims.

23. The representative of Pakistan expressed his concern that the multilateral trading system was drifting towards a restrictive direction, although steps had recently been taken to reverse these trends. He noted that the present meeting was being held in the wake of an important session of the CONTRACTING PARTIES which were committed, through the Ministerial Declaration of 1982, to seek the application of GATT rules to the textiles sector. Consequently, the present discussion could not be isolated from the broader context but should be seen as an historic opportunity to liberalize textile trade and put it on the multilateral track. Quoting from a recent statement by the Secretary of the Ministry of Pakistan, he asked how long this special Arrangement for textiles would continue, and why its purpose had not been achieved. He said that the present economic situation provided the best opportunity to make a departure from the MFA, as the recession was over, higher growth rates seemed to have stabilized in the industrial economies at a level of 3 to 5 per cent, prices of oil were going down and unemployment levels were no longer frightening. If this occasion was lost, some other development on the international economic scene could arise and lead to the continuation of this Arrangement almost indefinitely. He recalled his own earlier statement that the present discussions should not be overwhelmed by any temporary phenomenon but be guided by the basic trends and future developments in the key markets. In this context he noted that the spurt in imports in one major country which led to legislative initiatives was in fact due to a number of macro-economic factors which were now gradually disappearing. Recent statistical data on United States imports of manufactures of cotton, wool and man-made fibres showed that in the first nine months of 1985, compared to the same period of 1984, imports from developing MFA members had declined by 3 per cent, but imports from Western Europe had increased by 20 per cent and from the EEC by 24 per cent. In quantity terms, the same data showed that imports from developing MFA suppliers had decreased by 160 per cent while imports from Western Europe and the EEC had increased by 230 per cent and 199 per cent respectively. With reference to Pakistan's trade, he noted that during the 1981-1984 period, shipments to countries which maintained restrictions had increased 24 per cent while shipments to non-restraining countries increased 46 per cent. This was a clear indication of the impact of restrictions on trade. He also presented preliminary data for the United States and some EEC members showing the percentage of the domestic textiles and clothing markets held by imports and, by shipments from developing MFA members. The purpose of presenting these data was to show that imports, especially those from developing countries, were small and there was scope for trade liberalization.

24. The representative of Bangladesh expressed regret that the objectives of the MFA remained unfulfilled as witnessed by the recent proliferation of protective measures. He considered that no serious efforts had been made to implement the 1982 Ministerial Declaration. The most disconcerting features of recent restrictive measures was that the least developed countries, small suppliers and new entrants were not being spared although the MFA contained specific provisions that special treatment should be accorded to these countries. The harsh and restrictive quotas imposed in the last few months would have a strong negative effect on growth prospects. With respect to

the future, he stated that the commitments made in the Ministerial Declaration, particularly paragraph 3 of the Annex, which invited contracting parties to pursue actions towards facilitating trade of least developed countries, had to be the basis for any future Arrangement, and the special needs of small suppliers, new entrants and least-developed countries had to be clearly recognized through special provisions.

25. The representative of Egypt expressed concern that the MFA which was intended as a short-term derogation to allow time for industries in developed countries to make the necessary adjustment, had become an institutionalized instrument for protection. He referred to the commitments embodied in paragraph 7(viii) of the Ministerial Declaration and said that priority had been given to roll-back and standstill of protectionism in the work of the recently established Preparatory Committee. In this respect textiles trade would have a high priority for most developing countries. Consequently, the work of the Textiles Committee could not be carried out in isolation from the Preparatory Committee. Indeed, the discussions in the Textiles Committee could have an impact, positive or negative, on the work in the Preparatory Committee; the aim of liberalizing international trade could not be achieved with the two bodies moving in different directions. The objectives of a new round of trade negotiations had to be reflected in the work of the Textiles Committee.

26. The representative of China said that no substantive progress had been achieved since the July meeting and no response had been made to the position held by the developing countries, which was based on the GATT Ministerial Declaration of 1982. He commented that the Jenkins' Bill, if enacted, would not only nullify the efforts of the Textiles Committee, but also constitute a breach of the United States international obligations. He recognized the determination of the United States administration to veto the bill, but stressed that the appearance of the contents of the bill in any revised form would impair the negotiations on the future of world textiles trade.

27. The representative of Korea said that the textiles and clothing sector was the largest export industry in Korea, representing 24.2 per cent of total exports and employing 22 per cent of workers in the manufacturing sector. This industry was more important to developing countries than to developed countries. Statistics showed that in developed countries, textiles and clothing accounted for 14 per cent of employment in the manufacturing sector and 7 per cent of total production. These proportions were much higher in developing countries, namely, 28 per cent of employment and 15 per cent of total production. Concerning the EEC, he noted that in 1984, intra-EEC trade in textiles and clothing represented 50 per cent of such trade, with imports from major developing countries at 5 per cent and from Korea less than 1 per cent. With respect to the United States, he said that while imports of cotton fabrics and apparel from developing countries decreased in 1984, imports from the EEC and EFTA increased by 69 per cent and 200 per cent respectively. In the case of wool and man-made fibre fabrics and apparel, imports from developing countries increased by 5 per cent while imports from the EEC grew by 110 per cent for wool products

and 51 per cent for man-made fibre products. In these circumstances he felt that discriminatory restrictions against developing countries were fundamentally unfair and unreasonable. On the question of the future of the MFA he asked how the continued discrimination against developing countries could be justified and if the developed countries would commit themselves to the exclusion of any new and additional restrictive framework. He also asked what elements the developed countries were contemplating to include in the future framework of the MFA and how the prejudicial treatment to major suppliers provided in the Jenkins' Bill could be justified by the United States. Noting that the work of the Preparatory Committee and the work of the Textiles Committee had to proceed together and had to be completed at about the same time, he urged all participants to move in the same direction of liberalization in both Committees.

28. Later in the discussion he reported on his government's measures to liberalize imports of textiles and clothing. Before 1980, Korea's liberalization ratio in textiles was 63.6 per cent in textiles and clothing. In 1985, this ratio had risen to 92.6 per cent and by 1998 it would reach 97.7 per cent. The rate of liberalization in the textiles and clothing sector was more rapid than in other industrial sectors. He noted, however, that progress in the liberalization programme in Korea was conditional upon the future liberalization of the MFA.

29. The representative of Turkey said that there had been a further intensification of restrictions in textiles and clothing trade in the past year and that restrictions had begun to affect the least-developed countries. While trade among developed countries continued to be conducted without limitations, pressures on most developing countries had increased, in spite of the recovery in employment and production in the major developed importing countries. He noted that the United States House of Representatives had adopted a bill which, if enacted, would be totally incompatible with United States' commitments under the MFA, GATT and UNCTAD. He expressed the hope that the establishment of the Preparatory Committee would make it easier for this bill to be rejected. He said that the MFA should be rapidly phased out and the normal rules of the General Agreement should be applied to this sector. He said that the MFA had been interpreted and applied by most developed importing countries in a manner that was contrary to the objectives set out in Article 1 of the Arrangement. The goal of the MFA was a balance between the development and export expansion of developing countries and the need to prevent the disruption of domestic industry in developed importing countries. In practice, the main emphasis had been placed on the second objective. The current system also presented high obstacles to the exports of developing countries but left unaffected trade among developed countries though nothing in the MFA itself justified such discriminatory treatment. The dependence of developing countries on exports of textiles and clothing was much higher than that of the developed countries. In the case of Turkey, 25 per cent of total exports are accounted for by this sector. Export growth was required to finance the heavy debt-burden and to meet the targets of development plans. Restrictions implemented by developed trading partners were particularly difficult to bear at a time when Turkey was liberalizing its import régime.

He concluded by saying that the objective of the present discussions should be to examine the modalities for a rapid phase out of the MFA system leading to the application of the rules of the General Agreement to trade in textiles and clothing. Realizing that such a change could not occur at the expiry of the present MFA, Turkey was prepared to participate in the negotiation of a short transitional arrangement.

30. The representative of Indonesia, speaking on behalf of the ASEAN members of the MFA, recalled earlier remarks by the Chairman of the Committee about the need to avoid uncertainty and to work in a spirit of confidence and co-operation and said that in this context, the passage of the Textiles and Apparel Trade Enforcement Act in the United States did not augur well for the deliberations of the Committee. However, ASEAN was confident that the United States administration would reject the legislation and that the risks it entailed would be avoided. On this basis, he expected that the United States delegation would be in a position to present a definitive position at the next meeting. Meanwhile, ASEAN would be carefully monitoring ongoing bilateral negotiations between the United States and ASEAN member countries to ascertain whether elements of the Jenkins' Bill would be incorporated in the negotiating position of the United States in these bilateral talks. He noted with a certain measure of appreciation the efforts of the EEC in formulating a negotiating position which included some positive steps to dismantle certain restrictive elements of the present Protocol of Extension. He said that a successor arrangement should represent a return to the disciplines of the MFA, particularly Article 6 thereof. It should ensure that access rights in the future would be durable, permissive and progressive and should include a phase-out system. Finally, he said that the Textiles Committee would play a catalytic rôle in enhancing confidence in the future and the outcome of the exercise in this Committee would certainly be a test case as to what could be expected in the broader framework of new negotiations.

31. The representative of Sri Lanka stressed the importance of the current discussions not only for the future course of international trade in textiles and clothing but also for the future of the international trading system. He said that the confidence in the open multilateral trading system could be restored and strengthened only through the opening of markets. With each renewal, the MFA had moved further away from GATT rules so that the sector of textiles and clothing had become the most protected sector in the developed countries. These protectionist measures were almost exclusively directed against the exports of the developing countries. He said that protectionism carried high economic and social costs. Developing countries were in favour of a significant and substantial liberalization in this sector but no such commitment to liberalization nor clear expression of any willingness to begin the dismantling of the restrictions was forthcoming from developed countries even though recent developments in their production, employment and trade did not justify the continuation of restrictions. He said that 80 per cent of the United States imports from developing countries are under restraint, while imports from Europe, unrestrained, increased by 70 per cent in 1984. Referring to a recent study, he said that export growth from twenty MFA developing countries to

the EEC over the years 1976-1983 came virtually to a standstill, with a meagre annual increase of 0.2 per cent, a situation that was inconsistent with the objective of the MFA. He said that the concepts such as "low-cost suppliers" and "minimum viable production" had no basis in economic theory and there were many products for which developing countries were no longer the low-cost suppliers when compared with some developed countries. He pointed out that the intensification of restrictions during MFA III had been particularly severe for small suppliers and new entrants and even the least developed countries. The rights of these countries to special treatment had to be strengthened and effectively implemented.

32. The representative of the United States, noting the interest among the participants in the textile legislation, generally known as the Jenkins' Bill, stated that it was passed by the United States House of Representatives on 3 December by a vote of 255 to 161 in a form approved earlier in the United States Senate by a vote of 60 to 39. He explained that this legislation would now go to the President who, under the United States constitution, had ten days to either approve the Bill or veto it. He expressed confidence that the President would veto this Bill and that any attempts to override the veto would be defeated. He said that the reason why over 300 United States legislators had voted for the Bill was because they believed that the rate of growth of textile imports into the United States over the past few years had been far too high for the textiles and clothing manufacturers and for the communities in which they were located. Congress therefore considered that something had to be done. He said that the United States Administration also believed that something should be done, but that it should be accomplished through international negotiations rather than by legislation.

33. He recalled his earlier statement that the United States remained committed to the principle that the problems in textiles trade could best be dealt with within a multilateral framework, in other words by negotiating another MFA, which should be the most constructive way of ensuring that world trade in textiles would continue to grow, but that growth would be orderly and at a rate which importing countries would find sustainable in social, political and economic terms. It was imperative that the United States should not have a repeat of the highly destabilizing increases in imports in 1983 and 1984. He said that another objective to keep in mind was the need to ensure that exports of textiles and clothing from new entrants and small suppliers could continue to grow. He noted that during the 1981-1984 period, small suppliers increased their exports to the United States at an average annual rate of 21 per cent. However, there were limits to the import growth that the domestic industry could withstand, and it was for all to share the responsibility of assisting small and poor supplying nations. He added that the three largest suppliers of textiles to the United States market had an average annual growth rate of 12 per cent in the 1981-1984 period. Today, those three suppliers accounted for over 34 per cent of total yardage in MFA fibres, and 48 per cent of MFA fibre clothing imports. It was essential that the next MFA address the problems created by apparel made from fibres not covered by the existing Arrangement. These products now accounted for an estimated 10 per cent of

the United States' total clothing imports. Non-MFA fibre imports, which were in most instances directly competitive with cotton, wool or man-made fibre items, had increased fivefold in the last two years. Finally, he pledged that he would work closely with members of the Committee to achieve an arrangement that would serve the interest of all.

34. The spokesman for the EEC recalled that the Community's position on the future régime for trade in textiles and clothing was outlined in general terms during the last Committee meeting in July and that was still applicable. Recently the Commission of the European Communities had presented detailed proposals to the Council of Ministers, which would discuss them and reach a decision shortly. The approach which the Communities had adopted was based on the idea that, in the prevailing economic circumstances, maintaining an appropriate multilateral framework for trade in this sector was necessary and that, as of July 1986, any rapid return to the normal rules of the GATT might lead to uncertainty and instability in trade which would not be to the benefit of anybody. He stated that the Community believed in liberalizing textiles trade gradually and progressively on the basis of improving the rights and obligations of different trade partners. If its partners made parallel efforts in accordance with their development level to work towards liberalization, the Community was prepared to adopt concrete measures to demonstrate greater flexibility in the implementation of multilateral and bilateral arrangements to be agreed upon. It wished to open up the avenue to achieving the final objective of bringing the textiles sector to the normal rules of GATT and trade expansion. The orderly development of trade since the Multifibre Arrangement was brought into being had facilitated the on-going restructuring in the European textiles and clothing industries. Over the last ten years, employment in this sector had fallen by more than 40 per cent. Unfortunately, in spite of painful efforts, the sector had not succeeded in overcoming all its difficulties and today its vulnerability was in part due to the virtual stagnation of consumption which was estimated to increase by no more than 1 per cent annually in coming years. This figure had to be assessed in the light of the overall import penetration rate on the Community which was at present around 45 per cent.

35. He expected that intra-Community trade would increase further because the essence of the Community was to promote an integrated market and expansion of trade. He said that some delegates had pointed to the substantial improvement in the unemployment situation in the United States and an extremely low level of unemployment in Japan. Unfortunately, unemployment in the European Community was at about 11 per cent, a level hardly tolerable. The Community was ready in future years to make reasonable and realistic efforts towards liberalization which should not undermine the high degree of confidence achieved and the efforts of restructuring which its industry had already undertaken. He said that attempts to have protectionist legislation enacted in a member country would have grave consequences on the prevailing fragile situation. He also noted that the Japanese market remained insufficiently open, and that certain developing countries, which had achieved a reasonable level of development,

continued to maintain or to introduce obstacles to imports. He reiterated that the Community would make every effort to achieve a fairer and a more open trading system only if it was assured of similar efforts by each party to assume its share of responsibility.

36. The representative of Austria said that the economic conditions in his country's textiles industry had continued to deteriorate with both orders and production declining. The textiles industry registered 13.4 per cent reduction in employment while thirty-seven factories closed down in the period 1981-1984. At the same time, the Austrian textiles industry had been confronted with a steadily rising import penetration, reaching 88 per cent of total production in 1984. Nevertheless, the Austrian import régime remained extremely liberal with safeguard measures under the MFA being taken sparingly and on few products. In several cases existing restrictions were liberalized. In view of the difficult problems, Austria did not believe that the MFA could be allowed to expire. Besides, the immediate full application of the GATT rules would not automatically solve the problems of the textiles sector. Austria therefore supported an extension of the existing instrument and was convinced that such an extension, with some modifications, would lead to an orderly expansion of textile trade.

37. The representative of Norway, speaking on behalf of Finland, Norway and Sweden, recalled the views expressed in July that they were in favour of an extension of the MFA for a period long enough to allow for sound industrial and commercial planning. This should be done by keeping the MFA unchanged and by negotiating a new protocol of extension which would take into account the special problems faced by countries having small markets, high import penetration and a correspondingly low level of domestic production. He said that the Nordic countries were holding discussions in their respective capitals in order to develop their views as to the specific elements of a new protocol of extension and expected that they would come to a conclusion by the end of January. He confirmed that the Nordic countries would be prepared to contribute in a constructive way to finding a multilateral solution which would secure a further expansion of world trade in textiles.

38. The representative of Brazil expressed the view that all discussions on the future of textiles trade had to take place under the "chapeau" of liberalization. He noted the reference to orderly development of trade and said that this was not an objective in itself but possibly a condition under which liberalization could be achieved. The MFA had brought an orderly but not equitable development of trade because only developing countries were restrained. Concerning the objective of avoiding disruptive effects, he said that in spite of the restraints on most exports from developing countries, the developed countries still claimed that their markets were being disrupted. The disruption, therefore, had to originate in developed sources and, in this light, the MFA had not achieved the objective of avoidance of market disruption. He said that at this point in time, all that took place in the GATT had to move in the same direction of trade liberalization. It would be totally incongruous for the GATT to be working towards a liberalized multilateral trading system while the restrictive derogation of the MFA was continued. He considered it unacceptable for any

linkage to be made between liberalization of the MFA and liberalization of trade restrictions in other areas. Nevertheless, he felt that once progress was made on a liberalization process in the area of textiles trade, further liberalization would occur naturally in other fields.

39. The representative of India said that the MFA, though conceived as a temporary derogation from GATT principles to allow restructuring of industry in the developed importing countries, had remained in force in spite of the Ministerial Declaration of 1982 which he understood was intended to pave the way for the restoration of the textiles and clothing trade to its legitimate place in the GATT framework. India was expecting a clear signal from the major importing countries with respect to the overall objective of a return to the rules of the GATT. He noted that many developing countries had spoken on the application of GATT rules and principles but these statements did not appear to have had any impact on the developed countries. The absence of commitment on the part of the developed countries did not contribute to a positive environment for discussions. He recalled that in the recent meeting of the CONTRACTING PARTIES, the topics of standstill and rollback of protectionism, treatment of developing countries and safeguards emerged as important issues for the Preparatory Committee. These topics were also of relevance to the consideration of trade in textiles and clothing.

40. The representative of Japan, in response to comments made in respect of market access in his country said that in 1984, imports of textiles and clothing had increased 29 per cent in value and 36 per cent in volume over the previous year. The import penetration rates for textiles and clothing had risen from 10 to 25 per cent over the past decade. In spite of important changes in the domestic market situation and structural developments in industry, Japan had chosen not to apply import restraint measures and the Japanese market was an open one. With respect to the future of the MFA, he said that time was running short and progress was possible only if each participating country made known its position on the future régime as early as possible. Although there were differences of opinion at the present time, progress could be expedited if countries made efforts to clarify their positions. The Japanese position was to seek a renewal of the MFA with some liberalizing modifications paying due attention to the avoidance of market disruption. He also urged that participants should adopt a pragmatic approach by not seeking any textual changes. In conclusion, he said that consensus might require some difficult concessions but this would be a better choice than the chaos which would result from a lack of agreement.

41. The representative of Yugoslavia said that the interests of both developed and developing members of the MFA would be served by a liberalization in textiles trade and a release from the constraints of the MFA in favour of the GATT system. She considered that a move to a more restrictive régime would be inconsistent with the general direction of the GATT.

42. In concluding the discussions on this item, the Chairman said that there were many ideas brought forward in the deliberations of the Committee but the point had been reached where it was necessary for discussions to move from the level of generalities. It was incumbent on each member of the Committee to make a contribution to a rapid clarification of the positions and options. He perceived some progress since the last meeting in July and a greater depth in the discussions but appealed to the members of the Committee to be mindful of the fact that eight months was not a long period of time. He stated that it was his fundamental task and that of the Secretariat to assure maximum transparency in the work but at the same time real progress would require mutual confidence. Progress had to be made not only in the Committee but also through informal contacts among the members, either with or without his participation as Chairman of the Committee.

C. Membership of the TSB for 1986

43. The Chairman, referring to the consultations which had been held regarding the membership of the Textiles Surveillance Body, proposed that for the period 1 January 1986 to 31 July 1986, the TSB should be composed of members designated by the following parties: Canada, EEC, Indonesia, Japan, Korea, Mexico, Turkey and the United States. This proposal was endorsed by the Committee.

44. The representative of China said that he had no objection to the TSB membership for 1986. However, in order to further strengthen the work of the TSB, its membership should take into account the expanded membership of the MFA and should reflect the reality of international trade in textiles and clothing.

D. Other business

(a) Status of acceptances of the Protocol of Extension

45. The Chairman informed the Committee that the list of participants set out in document COM.TEX/30/Rev.4, which was before the Committee at its last meeting in July 1985 remained unchanged.

(b) Date of next meeting

46. The Chairman proposed, and the Committee agreed, that the next meeting would be held on 3/4 April 1986. He expected that the next meeting would not merely be a reiteration of general statements but would lay the foundations for more substantial and specific work.

ANNEX

SEOUL COMMUNIQUE

1. Representatives of countries and territories participating in the Programme of Cooperation among Developing Countries, Exporters of Textiles and Clothing met in Seoul from 3 to 7 September 1985.
2. The meeting was inaugurated by H.E. Mr. Kum Jin-Ho, Minister of Trade and Industry of the Republic of Korea, with a keynote address which emphasized the aim of liberalizing textiles and clothing trade by bringing it once again within the framework of GATT with full respect for the most-favoured-nation principle and safeguard discipline and called for collective action on the part of the developing exporting countries in order to achieve this objective.
3. The meeting elected as Chairman Dr. Chulsu Kim, Assistant Minister for Trade of the Ministry of Trade and Industry of the Republic of Korea, and as Vice-Chairmen, Mr. Mukhtar Masood, Secretary, Ministry of Commerce of Pakistan, Mr. Asyik Ali, Assistant Minister of the Department of Trade of Indonesia, Mr. Mahmoud Abdel-Bari Hamza, Minister-Plenipotentiary of the Permanent Mission of Egypt, Geneva, and Miss Ilka Maria Cruz, Deputy-Director of Trade Policy of the Ministry of External Relations of Brazil.
4. The meeting was addressed by Mr. Alister McIntyre, Deputy Secretary General and Officer-in-Charge of UNCTAD, Mr. M.G. Mathur Deputy Director General of GATT and Chairman of the GATT Working Party on Textiles and Clothing, and Mr. Marcelo Raffaelli, Chairman of the Textiles Surveillance Body. Representatives of the Swedish Textile Importers' Association, the International Textiles, Garment and Leather Workers' Federation, and the European Foreign Trade Association also addressed the meeting.

5. The developing exporting countries expressed their gratitude to the Government of the Republic of Korea for hosting the meeting and for the warm hospitality they had received during their stay in Seoul.

6. The meeting continued the process of coordination initiated by the Programme of Cooperation. As on the previous occasions, including the Karachi and Mexico City Workshops, participants reaffirmed their strong commitment to the objective of full application of the rules and principles of the multilateral trading system to the textiles and clothing sector. One way to achieve liberalization of world trade in textiles and clothing would be the elimination of the present discriminatory and restrictive trade regime.

7. The participants maintained that in the process begun in the Textiles Committee meeting of 23 July 1985 to consider the future of the MFA, the GATT Ministerial Declaration of 1982 provided the basis for the liberalization of trade in textiles and clothing. In their statement at that meeting, the developing exporting countries, inter alia, addressed key questions to importing countries, requesting them to justify their persistent discrimination against the exports of developing countries. The importing countries did not respond. Instead, they expressed themselves in favour either of an extended MFA or of a successor arrangement. This position was in stark contrast to their commitments taken at the GATT Ministerial Session of the Contracting Parties in 1982. Notwithstanding this, the participants are ready to continue the discussions in a constructive and positive spirit.

8. The developing countries urged the importing countries to honour their commitments, taken at the Ministerial Meeting in November 1982, to maintain and strengthen the multilateral trading system, and to pursue measures aimed at liberalizing trade in textiles and clothing, including the application of the General Agreement after the expiry of the 1981 Protocol Extending the Arrangement Regarding International Trade in Textiles.

9. The participants reiterated their serious concern over protectionist measures and pressures originating in importing countries, the most notable being the proposed U.S. "Textile and Apparel Trade Enforcement Act of 1985". If enacted, this Bill would constitute a unilateral trade measure and would be a violation of the United States' multilateral and bilateral obligations under the GATT and the MFA. Furthermore, by introducing formally the element of discrimination in a key sector of trade, the Bill would undermine the very basis of the present open multilateral trading system. It was also considered that such demands for additional discriminatory protection were an entirely unsatisfactory approach to problems of international trade in textiles and clothing. Participants urged the U.S. Administration to continue to oppose such protectionist pressures.

10. The participants recognised the special needs of small suppliers, new entrants, cotton producers and the least developed countries, and agreed that there is an urgent need for special treatment for them in the process of liberalization of trade in the textiles and clothing sectors.

11. The participants reaffirmed their categorical rejection of the approach that the removal of discriminatory restrictions against their textiles and clothing exports be conditional upon reciprocal trade concessions on their part.

12. Participants recognized the potential for growth in intra-developing country trade in textiles and clothing and stated their intention to pursue this objective through regional and interregional mechanisms.

13. The meeting accepted the invitation of China to host the next meeting in Beijing in early March 1986.