REPORT OF THE COMMITTEE MEETING HELD ON 3 APRIL 1986

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its nineth meeting under the 1981 Protocol of Extension on 3 April 1986. The agenda for the meeting was:

A. Report by the Sub-Committee on Adjustment;

B. Continuation of the discussion of the future of the MFA as required by Article 10:5 of the Arrangement;

C. Other business.

A. Report by the Sub-Committee on Adjustment

2. At the invitation of the Chairman, the Chairman of the Sub-Committee on Adjustment made an introduction to the report by the Sub-Committee which was in document COM.TEX/44. He said that in October 1984 the Sub-Committee recommended to the Textiles Committee that efforts should continue to expand and update the information available on industrial adjustment in order to assess the extent to which the provisions of Article 1:4 were being implemented, and that these recommendations were endorsed by the Textiles Committee. In carrying out this mandate, the Technical Sub-Group of the Sub-Committee circulated in January 1985 to members questionnaires with an explanatory note seeking information with greater uniformity and completeness. In response to this request, submissions by twenty-seven participants were received and circulated in COM.TEX/40 and Add.1. Summaries of these submissions, supplemented with additional data from United Nations Statistics and other information available to the Secretariat were circulated in COM.TEX/42 and Add.1.

3. He said that the report of the Sub-Committee was divided into two parts: the main text and an annex containing a detailed Summary of Findings. The Sub-Committee was able to identify and report on certain trends and developments relating to production, employment, investment, capacity utilization and trade in textiles and clothing within the context of Article 10:2. However, the objective of determining, in any concrete manner, what rôle adjustment policies and measures had been playing in reducing reliance on restrictive measures under the Arrangement had continued to elude the Sub-Committee. In this connection, the Sub-Committee had identified some of the short-comings of this exercise, the gaps of information and the problems relating to the interpretation of certain information. It recommended that if the work of the Sub-Committee were to continue in future, a supplementary effort going beyond the dispositions in the 1981 Protocol of Extension and involving the full co-operation of all participants should be pursued.
4. The representative of Turkey said that Article 1:4 of the Arrangement required that actions taken under the Arrangement should be accompanied by measures consistent with the principle of comparative advantage and that therefore over a period of time, uncompetitive industries should move into other lines of production. The commitment by developed importing countries to adopt appropriate structural adjustment policies was in fact a "sine qua non" for the general acceptance of trade in textiles and clothing being restricted. This structural adjustment process was to be monitored under the terms of paragraph 15 of the 1981 Protocol of Extension. As a developing country whose exports of textiles and clothing was suffering from increasingly stringent restrictions, Turkey attached great importance to the commitment contained in paragraph 1:4 of the Arrangement. Referring to the report in COM.TEX/44, he said that the increase in productivity in the textiles and clothing industries of the developed countries as stated in paragraph 12 should make these industries more competitive and should facilitate the dismantling of restrictive measures. According to data produced by the United States Department of Commerce, the recent stagnation in employment in the textiles and clothing industries of the United States could be attributed directly to a remarkable increase in productivity observed in the last year and a half. Similar improvements were recorded in the EEC as a result of substantial investment in labour-saving equipment. In the light of these developments, one would ask the question of how much more breathing space would be required by the industries of developed countries before they would become competitive enough so that protection against developing country exports would not be needed. He underlined the fact that intra-developed country trade played a major rôle in textiles and clothing presumably due to the lack of restrictions on such trade. Finally, he drew attention to the report's conclusion in which the Sub-Committee appealed for more and better information with respect to adjustment policies and said that this appeal should be heeded by the developed importing countries. If such detailed and comprehensive information were made available, it would be increasingly evident that restrictions were unnecessary because of the autonomous adaptation measures taken by manufacturers in developed countries.

5. The Committee took note of the report by the Sub-Committee on Adjustment.

B. Continuation of the discussion of the future of the MFA as required by Article 10:5 of the Arrangement

6. Introducing this item, the Chairman said that the Secretariat had circulated some updated production and trade figures for textiles and clothing in document COM.TEX/W/173/Corr.2. He said that following the last Committee meeting in December, a round of informal consultations was held in the middle of February when specific points relating to the future of the MFA were raised and discussed. Textiles was also discussed in other GATT fora. There were exchange of views in the Preparatory Committee on the question of the possible relationship between the consideration of the future of the MFA in this Committee and the preparatory work for a new round of multilateral trade negotiations. The Working Party on Textiles and Clothing met in March and continued to examine modalities for liberalization including the possibility of applying GATT provisions to trade in textiles.
and clothing. Apart from the contacts in Geneva, important meetings had also been held in various capitals. It was his impression, following recent informal contacts, that there were a readiness on the part of members of the Committee to address themselves to all questions, general and specific, and suggestions regarding the future of the Arrangement, and to engage in the kind of dialogue about concrete issues of substance and the particular concerns and preoccupation of participants that was needed if the Committee was to reach timely and appropriate conclusions.

7. The spokesman for the EEC said that the Council of Ministers of the Community had, on 11 March 1986, adopted the directives for negotiation on the future régime for textiles and clothing, and that the Community now was in a position to participate fully in the negotiations. These directives confirmed that an adequate multilateral framework for textiles trade was still necessary. He reaffirmed the Community's attachment to the objective of progressive liberalization by all partners and the final goal of full application of GATT rules to all sectors of trade including textiles and clothing. The forthcoming new round of multilateral negotiations should deal with the elements which would make these objectives possible while taking into account the situation of the textiles and clothing industries. On the assumption that the multilateral framework for textiles and clothing should be maintained, for the Community, this multilateral framework, as in the past, had to be complemented by bilateral agreements as an important and indispensable bases for an orderly development of trade. Thus, the Community intended to carry out, in parallel, negotiations covering the MFA and the bilateral agreements. It would take a decision on its final position on the basis of results obtained in both sets of negotiations.

8. He said that there were several fundamental elements on which the discussions should focus. These should start from the premise that the EEC was willing to introduce an amount of flexibility, both in the multilateral as well as in the bilateral negotiations. First of all, the fundamental objectives of the MFA and amongst them the objective of the economic and social development of developing countries should be confirmed. Furthermore, the Community believed that more favourable treatment should be granted to the least-developed countries, as defined by the United Nations classification. There should be confirmation of the principle of special treatment for small suppliers, new entrants and cotton producers. As for the dominant suppliers, it would be appropriate to maintain the principle of differential treatment concerning growth rates and flexibility provisions. The new Protocol should include a commitment by all participants to make contributions to trade in textiles commensurate with their level of economic development by opening up of their markets and by conditions of fair trade. The EEC would also like to see a recognition, in the provisions, of the possibility of consultation in the case of difficulties caused by a surge of imports within quotas in sensitive products. Furthermore, it was important to reaffirm the link between the growth rate of consumption of textiles and clothing and the risk of market disruption. On the question of fraud, he said that there should be explicit recognition of the right of importing countries to introduce appropriate measures concerning fraudulent quantities. As for counterfeit, marks of origin, designs and models, the
Community would like all participants to commit themselves to co-operate in order to adopt any necessary measure to prevent or discourage these practices.

9. He said that the list of elements just mentioned by him was not exhaustive. The Community would participate actively and contribute to the discussions on other points which might be raised by others and which were considered worthwhile for discussion. The Community was in favour of the next arrangement for a duration of four to five years. Such a period of time seemed to be necessary to carry out further restructuring of industries and to provide all participants with adequate certainty in international trade. Finally, he said that it was obvious that the EEC's commitment to the application of more flexible provisions in both the multilateral and bilateral levels was linked to parallel efforts to open markets by other participants related to their economic development and economic possibilities. If such parallel progress was not forthcoming, and if difficulties would arise in the Community's textiles trade, it might be necessary to adjust its position. He expressed the hope that this would not happen and pledged that the Community would spare no effort so that the negotiations would achieve positive results.

10. The representative of Colombia, speaking for the developing countries, exporters of textiles and clothing, emphasized that the current meeting should carry forward the negotiating process that was initiated in July 1985 which had been developing so far in a halting fashion because of pressures generated by those who wished to see an intensification of the protectionist and restrictive régime governing the exports of textiles and clothing from the developing countries in the past years. He noted the somewhat liberal stance expressed by some importing countries and expressed the hope that the current negotiations would succeed in putting back developing countries' exports of textiles and clothing on a definite course of liberalization and a phase-out of the restrictive régime over an agreed time frame under strengthened GATT disciplines. He circulated to the meeting a document numbered Beijing 1 and said that the time was opportune for liberalization efforts because the document showed that recent trends in the textiles industries in the EEC and the United States were both positive and upward. It was felt that the textile negotiations should be guided by these and other wider considerations pertaining to the restoration of the GATT as the basis for the multilateral trading system.

11. He referred to the meeting of developing countries, exporters of textiles and clothing in Beijing in the first week of March to deliberate on the issues pertaining to the textile negotiations and read out the operative paragraphs of the press statement issued by the Chairman of that meeting, as follows:

"Developing countries emphasised that the multilateral commitments by the developed countries including those undertaken by GATT Ministers in 1982, required substantial liberalization of restraints on developing countries' exports of textiles and clothing and the phasing out of the restrictive and discriminatory régime governing their exports of these products to the developed markets."
It was noted that the GATT Contracting Parties were currently engaged in preparing for a new programme of multilateral trade negotiations with a view to liberalizing all sectors of international trade and strengthening the multilateral trading system. In this context they emphasised that the present trade regime in textiles had to be liberalized both in the removal of restraints and be phased out over an agreed time frame, under strengthened GATT disciplines.

It was agreed that modalities for these objectives will consist of progressively higher growth rates, non-discriminatory treatment for developing countries, reduction of restraints and coverage, removal of ambiguities, effective surveillance, effective measures for preferential treatment for small suppliers, new entrants, cotton and wool based exporters and most favourable treatment for the least developed countries without prejudice to the trade interests of established developing suppliers, removal of restraints and a phase out system.

It was noted that despite positive trends in key economic indicators some importing countries were both at multilateral and bilateral levels pressing through numerous devices, for a continuation of protective and restrictive rather than a liberalized regime for developing countries' exports of textiles and clothing. It was agreed that such attempts be unitedly resisted. It was further agreed that any modalities for liberalization and phase out system should ensure equity, non-discrimination, non-reciprocity and other clearly liberal conditions for the developing countries.

The developing countries reach understanding on the main elements for negotiation in the process taking place in Geneva between now and the end of July. They resolved to continue to participate in that process on a unified basis."

12. Finally, he requested that the Beijing Press Statement be circulated and attached with the report of the meeting. It was circulated during the meeting and is attached as Annex I to this report. His statement was supported by the representatives of China, India, Indonesia, Bangladesh, Egypt, Hong Kong, Pakistan, Brazil, Yugoslavia, Uruguay, Turkey, Argentina and Peru who spoke subsequently.

13. The representative of China said that China, like other developing countries, supported the liberalization and phase out over a transitional period of the current trade régime for textiles and clothing. In order to achieve such an objective, any new arrangement to be negotiated should consist of such elements as higher growth rates, reduction of restraints on coverage, no discriminatory treatment for developing countries and special preferential treatment for small suppliers, new entrants and cotton producing countries. All these elements should be based on the principle of equity, non-discrimination and non-reciprocity. Concepts such as "anti-surge", "basket extractor", "presumption of market disruption", which were alien to the MFA as was originally negotiated in 1973 should be done away with. Ambiguities should be eliminated to the best extent possible.
The way of using individual fait accompli concluded through bilateral pressure to influence the multilateral negotiations should be guarded against. He said that the major importing countries had always based their argument for stricter restrictions on imports of textiles from developing countries on what they alleged to be excessive penetration. However, recent statistics showed that it was imports from the unrestrained sources that had grown far more than those from the developing exporting countries. In 1985, imports into the United States of textiles and clothing from developing countries rose by only 3 per cent, while those from Western Europe expanded by 27 per cent.

14. He said that since July 1985, two different views in stark contrast had emerged. One was for trade liberalization and the other for more restrictions or liberalization in appearance but stricter restraint in essence. He asked how the commitments made in proposing the launching of a new round of negotiations for global trade liberalization could be matched by exercising new restrictions in textiles and clothing. He expressed the hope that liberalization of trade in textiles and clothing would become the common wish of all the participants and be transformed into concrete action in the course of the negotiations and urged that importing countries should respond positively to the position of the developing countries, exporters of textiles and clothing as expressed in the press statement of the Beijing meeting.

15. The representative of Canada said that his country wished to see a renewal of the MFA for a period of four to five years and was negotiating towards that end. Canada's experience with MFA III had not, in terms of the adjustment process taking place, been entirely happy. There had been very large growth of imports of clothing from all sources, in excess of 10 per cent per annum over the period, resulting in a decrease from 73 per cent to 59 per cent of the market held by domestic manufacturers. Moreover, the growth was not orderly as there were very large growths in 1983 and 1984. While all suppliers participated in that growth, the dominant ones who accounted for some 50 per cent of supplies of the import market grew at an average of 4 per cent per annum, China and other suppliers at a rate of around 17 per cent. Imports from other developed countries were relatively modest. They accounted in 1985 for 10 per cent of the market. He said that the problem of 1983 was particularly acute when imports grew by 25 per cent and most of them came from established suppliers with whom Canada had restraint agreements. In fact, over 50 per cent of that increase was accounted for by the three principal suppliers of Hong Kong, Taiwan and Korea. The capacity within the restraint arrangements was such that Canada could experience a 25 per cent increase in volume terms in one year. At a time when the domestic market was not growing, this increase was particularly arduous for domestic manufacturers. He said that Canada intended, in the course of the next period, to deal in a more effective way with the question of growth rates, but he made it clear that it was not Canada's intention that it would be at the expense of smaller developing country suppliers.

16. The representative of India stressed the significance that India attached to the negotiations on the future of textiles trade in the context of the much wider exercise that was being conducted in the Preparatory Committee in GATT. He said that the two processes going on in the Textiles Committee and in the Preparatory Committee should be informed by the same
objectives and there should be consistency in approaches to both the processes. Logically, there should be the same objective of preserving the multilateral trading system and achieving liberalization of trade in both Committees. It was no secret that developing countries were sceptical about the concept of the new round of multilateral trade negotiations but they recognized that the goal of preserving the multilateral trading system had an overriding priority over their doubts and therefore agreed to participate in the preparatory process for a possible new round. It was no secret that they continued to be sceptical and that scepticism came not because of any dogmatic considerations but because of experience and hard facts. Nevertheless, they were still co-operating in the exercise of the preparatory process in the hope that the aim of liberalization and of preservation of the multilateral trading system would be followed in an area which was crucial to the exports of a large number of developing countries. It was imperative that there should be an understanding in the Textiles Committee on the approach to be adopted for negotiations. The basic goal had to be a categorical commitment by the importing countries to the restoration of the application of GATT rules and principles to trade in textiles and clothing and an agreement to phase out the existing régime within a short and specified timetable. If there were such an understanding on the basic goal, then negotiations on specifics would be acceptable, intelligible and meaningful.

17. Referring to the statement by the EEC spokesman, he said that he was quite encouraged to hear that the EEC regarded the application of GATT rules as the final objective. However, he also heard many other points couched in qualifications and caveats and then his enthusiasm started to wane. Commenting on the point about contribution by developed and developing countries to the process of liberalization, he said that the MFA was a derogation of GATT in terms of access to markets. He never thought that one should look upon the textiles régime as a mini-GATT, as a mini-derogation of GATT as a whole, in which one could bring into question other elements of GATT and devise different rules to achieve a sectoral balance of trade. If indeed this was the Community's interpretation, then it would be the beginning of the end of the GATT. He could not look upon the future of textiles trade as an arrangement in which a derogation encompassed all aspects of GATT. Referring to the concept of contribution by developing countries, he said that the reason why the textiles markets were not open in many developing countries was not that they were afraid of competition, but that they did not have the money to import textiles and clothing. All of their foreign exchange resources were exhausted just to meet the more essential needs. The adverse balance-of-payments situation made it necessary for them to put some restrictions on imports of less essential or non-priority items which was permissible under GATT rules. This was a right of developing countries under GATT. It was not possible to entertain the idea that there should be an MFA or any other arrangement for the future of textiles trade in which was built in a derogation of the balance-of-payments clause of GATT. This was something new and unacceptable.

18. In conclusion, he said that the textile negotiators today were shouldering an historic responsibility. It was not just another negotiation for the renewal of the MFA, but one which would determine the future of GATT
and the multilateral trading system. If there was no satisfactory solution to the problem of textiles trade, then as far as India was concerned, there would be no credibility for the exercise of liberalization under the multilateral trade negotiations. Therefore, in order to raise confidence and to move towards the objective of preserving the multilateral trading system, it was necessary for the textiles negotiators to remind themselves of this historic responsibility and to make their contributions so that the wider exercise would be a success. He expressed the hope that Ministers meeting in September would not have the feeling that the inconvenient facts and unfortunate derogations were already wrapped up in bilateral or multilateral arrangements and then they were called to discuss trade liberalization in general. That would be a very unfortunate situation for their participation in the negotiations.

19. The representative of Japan urged that all countries should express their positions in a pragmatic and constructive spirit and in specific terms so that the Committee could embark on substantive negotiations. He said that in discussing liberalizing modifications to the MFA, one had to recognize that on the one hand, as the initiation of the GATT new round exemplified, liberalization was the basic principle, but that on the other hand, one could not keep oneself aloof from reality. If there was a real need to modify the current Protocol of Extension to tackle the problems confronted by some importing countries, such modifications should at least be balanced by the introduction of certain liberal elements so as to achieve a more liberalized MFA régime. The observance of the principle of real equity, as stipulated in Article 5 of the MFA, was particularly important. The promotion of industrial adjustment was not only an objective of the MFA but also an important tool for checking protectionist tendencies. In this respect, the Sub-Committee on Adjustment should continue and improve its work. Importing countries should sustain their efforts to avoid levying additional restrictive measures as stipulated by Article 9:1 of the MFA.

20. The representative of Indonesia speaking on behalf of the ASEAN countries, said that there were only four months to go until the expiration of MFA III and in the context of international negotiations four months was a very short time. He said that he was disappointed to see that the major trading partners were not in a position to start the negotiating process during the last Committee meeting in December 1985. Although the Jenkins'Bill, which had been passed last December, was vetoed by the President of the United States, careful monitoring of current negotiations on bilateral agreements with some ASEAN countries including calls on various categories, showed that many elements of the Bill were incorporated in the negotiating position of the United States delegation. Today, it was known that the EEC had a mandate for negotiations. ASEAN welcomed the indications of a more liberalized stance adopted by the EC Council of Ministers. However, they would like to see improvements such as the elimination of the basket extractor mechanism from the new MFA. It was also known that the United States negotiators also now had the authority to commence negotiations. In Beijing the developing countries had reached an understanding on the main elements for negotiations. ASEAN believed that the most pragmatic way to proceed would be to commence negotiations on the various elements which could form the building blocks, which would eventually be sculptured in the form of a multilateral arrangement.
Elements of the present MFA would of course be included in these negotiations, since participants had sufficient experience with their use, or misuse, to be able to judge which of those elements could be maintained, dismantled or more clearly defined in the next arrangement. The ASEAN countries had great faith in the international negotiation system, where in most cases, carefully balanced agreements taking care of the major concerns of both sides were reached. ASEAN would also insist that all bilateral agreements should be in full conformity with this carefully balanced multilateral arrangement.

21. The representative of Norway, speaking on behalf of the Nordic countries, Finland, Norway and Sweden, said that the long term aim should be a liberalization of international trade in textiles within the framework of GATT. In the present situation, however, the only feasible multilateral solution to the problems of world textiles trade was an extension of the MFA, which should be for a duration long enough to allow for sound industrial and commercial planning. He emphasized that the need to take into account the special problems of countries with small markets, high import penetration and a low level of domestic production still existed and should be addressed in the new protocol of extension. He said that the Nordic countries were aware that the long term prospect for trade in textiles was an important element in the preparation for the multilateral trade round in GATT. It was important that the present MFA negotiations be conducted in a way conducive to the preparation of the new trade round. While supporting an extension of the MFA, the Nordic countries felt that the question of a long-term solution, including the régime after MFA IV, should be left for discussion within the framework of the new trade round. In this context, the objective should be progressive liberalization of world trade in textiles.

22. He said that the original text of the MFA should be left unchanged both for substantive and procedural reasons. When negotiating a new protocol of extension, it should be borne in mind that the effect on trade of a new arrangement depended not only on the new protocol, but also on the way this would be applied. Certain changes implying more liberal trade practices could take place even if these were not explicitly formulated in a new protocol. Turning to the special problems of countries with small markets, high import penetration and a correspondingly low level of domestic production, he said that statistics published by the Secretariat clearly demonstrated the unique situation in such countries. The combination of developments in imports and production and the small size of the market was the very basis of the MVP concept. In the case of Norway, employment in the textiles and clothing sector had been reduced by one-third from 1980 to 1984. The indices of production had declined by 29 per cent for textiles and 26 per cent for clothing during the same period. For the clothing sector, employment in 1984 was below 7,000 persons. Domestic industry had declined to such low levels that further reductions had to be avoided if the industry was to be maintained. This was what the Nordic countries meant by minimum viable production. Another consequence of the small size of the market was that import quantities that were small in absolute terms might quickly amount to considerable shares of the markets. A couple of shipments
might be enough to occupy a substantial share. To obtain the same relative level of protection as the largest markets, the Nordic countries sometimes had to have quotas at relatively small absolute levels. To maintain a satisfactory mvp clause was therefore crucial for the assessment of a new MFA in the domestic political environment. However, the Nordic countries were prepared to review the implementation of the mvp clause in future bilateral agreements on the basis of experiences of bilateral agreements concluded under MFA III. Such an analysis was now being undertaken in capitals, with a view to finding possibilities of a more flexible practice as to the application of the mvp clause. In this context, the practice with respect to paragraph 12 of the 1981 Protocol was also being reviewed. Finally, he said that he looked with interest and sympathy to constructive proposals that might come up relating to more favourable treatment for the least-developed countries.

23. The representative of Sri Lanka said that the Committee had now reached a new and decisive phase in the process of negotiation. It was time to move away from generalities and to focus on specific elements. He said that he had heard with great interest the statements made by the developed importing countries and was somewhat disappointed at the absence of a firm and clear commitment to a process of progressive liberalization. However, he noted some positive elements in the negotiating mandate of the European Communities and appreciated the lead they had given to other developed importing countries to move in the right direction. He welcomed in particular EEC's reaffirmation of the need for special treatment for small suppliers, new entrants, cotton producers and least developed countries. Some of the other proposals, however, such as the commitment in principle to open markets and the need to take into account consumption growth in assessing market access were difficult to justify under the principles of the MFA. He said that the modified MFA should bring about a significant and substantial liberalization. For his part, he would like to refer to some specific points which were of particular concern to Sri Lanka as a small suppliers. Firstly, despite a re-affirmation of the commitment to Article 6 and to its effective implementation, restraints on small suppliers and new entrants had been frequent. He urged that in any process of liberalization, the small suppliers, new entrants and least developed countries should be exempt from as many restraints as possible if not all. Secondly, concepts such as anti-surge and minimum viable production had to be eliminated. Thirdly any change in the balance of rights and obligations such as unilateral changes in rules or additional trade measures such as countervailing actions should not be permitted.

24. The representative of Korea said that for the last twenty-five years the MFA had been in force to limit the exports of developing countries. Today, the developing countries were still suffering from increasing restrictions of the implementation of the MFA including intensification of such restrictions during the lifetime of the Protocols. He said that there were two different tracks of negotiations within GATT, one concerning the liberalization of trade in the Preparatory Committee, and the other on the re-negotiation of the MFA in which pressures to intensify restrictions were being applied. He was concerned that the attempt by developed countries to intensify the restrictions on textiles could jeopardize their efforts to
liberalize trade in the new round of negotiations. They would damage their own credibility if they advocated liberalization in some areas while pushed for more restrictions in the others. He stressed that one way to achieve greater liberalization in textiles and clothing was to eliminate the present discrimination between restrained and non-restrained areas. The effect of the current MFA régime was to direct imports from countries under restraint, namely the developing countries, to the non-restrained suppliers, almost exclusively developed countries. The responsibility for dismantling this discrimination fully rested with developed countries and there should be no reciprocity in the process of liberalization. Referring to the liberalization efforts undertaken by Korea, he said that in 1980, 64 per cent of imports of textiles and clothing were free of restrictions, in 1985 further products were added to the free list. The liberalization ratio was expected to reach 98 per cent by the year 1988.

25. The representative of Bangladesh said that the approach to the negotiations on the future of the MFA should be essentially based on the commitments undertaken by the Contracting Parties in the 1981 Protocol, the 1982 Ministerial Declaration and the recent announcements on achieving further liberalization in world trade in the context of preparing for a new round of trade negotiations. In all these cases, there had been a convergence of views that all concerned should ensure the expansion of world trade, particularly for the developing countries, and to achieve the reduction of trade barriers and liberalization of trade. Since the textiles and clothing sector was of crucial importance to the developing countries, any effort towards liberalization and expansion of world trade should accord priority to this sector. However, experience in the past showed that many of the commitments in the MFA and its Protocol as well as the 1982 Ministerial Declaration had been disregarded, leading to a situation in which developing countries were faced with intensified restrictions. These restrictions had not spared even the least developed countries which had just started setting up their industries in these sectors for export. In the 1982 Ministerial Declaration, the CONTRACTING PARTIES had undertaken, in paragraph 7(iv)(b) "to ensure special treatment for the least developed countries, in the context of differential and more favourable treatment for developing countries in order to ameliorate the grave economic situation of these countries". In paragraph 3 of the Annex to the same Declaration, elements of special treatment to the least developed countries were elaborated in order to secure for the products of these countries fullest possible duty free access and elimination or reduction of all non-tariff measures. It was unfortunate that these commitments were not fulfilled in the field of textiles and clothing.

26. He said that the future arrangement in trade in textiles and clothing might take into consideration the following elements: (i) There should be a firm and binding commitment by all participants for accelerated liberalization of trade in textiles and clothing through an effective programme of rollback of existing restrictions. This should also be clearly reflected in the bilateral agreements under the arrangement. (ii) The new arrangement should ensure higher growth rates and flexibility provisions than the rates allowed in the present Arrangement. (iii) there should be
automatic elimination of restraints for consistently under-utilized quotas.

(iv) Concepts like globalization, cumulative market disruption, automatic triggering and presumption of market disruption should be eliminated.

(v) The provisions of Article 6, particularly of paragraphs 2, 3 and 4, relating to new entrants and small suppliers should be made clearer and more specific, allowing for phase elimination of quota restrictions affecting these countries. (vi) Clear and specific provisions should be made for giving special treatment to the least developed countries along the lines agreed to in the 1982 Ministerial Declaration and textile products of all categories originating in these countries should be allowed access in other countries completely free from all tariff and non-tariff barriers.

(vii) The coverage of items under the new arrangement should not be extended as any extension of the coverage would run contrary to the spirit of liberalization, rather it should be progressively reduced. (viii) The surveillance mechanism should be further strengthened.

27. The representative of Egypt said that it was time to harmonize all efforts and to consider courageously and seriously to phase out the MFA which was an exception to GATT rules. In fact the modalities of phasing it out should be the subject matter of the deliberations of the Committee. The main question before the Committee was whether members were seriously considering the liberalization of trade in textiles and clothing according to the norms of the GATT trading system, or were they envisaging a continuation of the derogation. The objective of a new round of trade negotiations had to be reflected in the work of the Textiles Committee. Standstill and rollback of protectionism and more favourable treatment for developing countries and safeguards were in fact of great relevance to the consideration of trade in textiles and clothing. The present trade régime in textiles had to be liberalized both in the removal of restraints and be phased out over an agreed timeframe under strengthened GATT disciplines. To include the MFA in the forthcoming trade negotiations was neither fair nor right because the textiles sector was treated under a régime separate from GATT rules for more than thirty years. A situation created in peculiar circumstances had to be rectified. In terms of timing, the MFA was coming to an end by 31 July and the new round of trade negotiations might be launched after September 1986, and the effective negotiations would not take place until three years later as was the case with the Tokyo Round.

28. The representative of the United Kingdom speaking for Hong Kong said that since the last Committee meeting held in December 1985, there had been developments which had advanced the process of considering whether the MFA should be extended, modified or discontinued. Informal consultations were held in February, at which there was a growing recognition of the need for the discussions in the Committee to move from the level of generalities into a more substantive phase of negotiations on the detail elements of a new arrangement to succeed the current MFA. At the meeting in Beijing, China, the developing exporters of textiles and clothing had "reached an understanding on the main elements for negotiations in the process taking place in Geneva between now and the end of July", and "they resolved to continue to participate in that process on a unified basis". It was also known that the major importing countries had more or less finalized their respective negotiating postures. These developments signified that the scene was set for more substantive discussions on the detailed elements in any new arrangement. However, to facilitate a rational and constructive dialogue, it was important that the problems be precisely defined, and the
solutions proposed be seen to tackle their real causes. He gave the example contained in the latest GATT statistics which confirmed that textiles and clothing production in the major importing countries was stable. This rendered somewhat hollow protestations by some that imports posed ever more serious problems. He said that it was becoming more and more evident that what happened in the Textiles Committee process would have a key rôle in the confidence building process at the commencement of the new round of multilateral trade negotiations. This would be essential to the subsequent success of the round. It had become imperative that a process of significant liberalization in textiles be initiated. This was of both real as well as symbolic importance to establish the credibility of any comprehensive approach to trade liberalization such as that envisaged in the new round. More particularly, if it were to emerge that certain parties, whilst purporting to seek liberalization and the strengthening of the multilateral trading system in the context of the new round, were in fact acting to prevent or reverse the liberalizing process in textiles, then the prospects for those parties achieving their aims and objectives in the new round might be severely prejudiced. Referring to certain recent approaches on the bilateral front by some importing countries, he said that the textiles régime existed at both the multilateral and bilateral levels. The bilateral agreements stemmed from the multilateral instrument and had to genuinely reflect the terms and conditions agreed at the multilateral level. These terms themselves had to be precise and unambiguous. The formulation of these terms was the task that members had now embarked on in the Committee and would proceed intensively over the next few months before the present Arrangement expired at the end of July.

29. The representative of Pakistan said that from the perspective of a cotton producing country, Pakistan was concerned that, even though the special régime for textiles and clothing had been prolonged for over a quarter of a century, there had been no implementation even of its agreed provisions. There was now a good opportunity to phase out the MFA in the interest of progressive liberalization of international trade in textiles and clothing as well as in the wider interest of the international trading system. In terms of specific elements, he proposed that the coverage of products be reduced by taking out certain products which, as a result of technological advancements and improved competitiveness, merited such treatment. Cotton yarns and cotton fabrics were such products. In addition, under-utilized categories should be removed from the list of products to be restrained. As a cotton producer, Pakistan would like to have progressively higher growth rates to enable its textiles and clothing industries to maintain modest improvements in production and exports. Complicated procedures and documentation requirements should be simplified. The anti-surge provision should be eliminated because the opportunity for a country like Pakistan to expand its exports came only when there was an upward movement in the market. The surveillance and monitoring mechanisms should be made effective in order to prevent mis-interpretation and mis-application of the MFA.

30. The representative of Austria said that the prevailing problems in textiles and clothing trade could only be dealt with in a multilateral framework, namely by extending the present MFA. An automatic return to the GATT rules might not solve the problems but would lead to uncertainty on trade in this area. Austria had been using safeguard measures only
sparingly and was ready to support further appropriate steps towards liberalization giving due attention to the avoidance of market disruption. The ongoing process of consultations might require difficult concessions by both developed and developing countries. Austria was prepared to contribute to a mutual solution to secure an orderly development and expansion of trade in textiles and clothing.

31. The representative of Hungary said that one of the main objectives of the new round of trade negotiations should be the restoration of the GATT system on the basis of MFN and non-discrimination, and to bring all those sectors which for the time being were not under GATT discipline within the ambit of GATT. To this end, concrete modalities for the liberalization of this sector had to be worked out, paving the way for an ultimate return to GATT. In this context, Hungary shared the position of the developing textile exporting countries that the restrictions should be phased out over an agreed time frame. No compensation or counterpart could be asked for the removal of the MFA restrictions by importing countries which for almost twenty years had been enjoying the benefits of not applying the GATT rules in this sector without giving any compensation to exporting countries. The present MFA was a permanent source of discrimination and a pretext of depriving some contracting parties of the benefits of the unconditional MFN. It was also clear that the non-restricted textiles exporting countries had increased considerably their market shares as a result of the functioning of the MFA. As a restricted supplier of textiles and clothing, Hungary believed that any liberalization process and those concrete modalities and measures such as higher growth rates, reduction of restraints and coverage should be strictly based on the principle of non-discrimination. He expressed the hope that by July there would be a new MFA which would ensure in the longer run that this seriously affected sector would be reintegrated in the GATT system.

32. The representative of the United States said that the United States position consisted of three main points concerning the future of the MFA: (i) to reinforce language already in the MFA on the need for orderly import growth and the ability to prevent destabilizing import increases; (ii) to cover fibres other than the cotton, wool, and man-made fibre products now covered by the MFA; (iii) to obtain commitments from exporting nations that they would take market-opening measures for textiles and apparel and curtail subsidies and other trade-distorting measures for those products. He said that the United States was prepared to negotiate on these matters, as well as on issues raised by other nations. While the United States was prepared to see continued growth of textile and apparel imports into its market, especially from the least developed and smallest suppliers, that growth had to be orderly. United States textile imports in just the latest six months were greater than those imports in all of 1981. In the six months from September 1985 through February 1986 United States cotton, wool, man-made fibre textile imports rose by 28 per cent. Continued import growth of this magnitude was not acceptable to the United States Government. He said that it was clear that the negotiation of a new MFA would not be an easy task and emphasized that the United States was prepared to negotiate long and hard and in good faith. He urged that the Committee should not put everything off until July and added that it was highly unlikely that the United States would be in a position to agree to any short-term extension of these negotiations or of the current agreement itself beyond 31 July 1986.
33. The representative of Brazil said that some aspects of the mandate approved by the EEC Council of Ministers seemed to be consistent with the objective of trade liberalization aiming at bringing the textiles sector in line with the principles of GATT. It was surprising that not all developed countries were making similar efforts. Instead, they were pressing for total liberalization of trade in non-traditional sectors while supporting directly or indirectly, in the Textiles Committee, protectionist measures, such as freezing of quotas, increase of coverage, etc. Referring to the relationship between the work of the Preparatory Committee and the Textiles Committee, he said that it had been argued that negotiations regarding the future régime for textiles should be conducted in isolation from the Preparatory Committee because prevailing economic circumstances recommended the maintenance of a separate multilateral framework for trade in this sector which had not succeeded in overcoming its difficulties. Brazil rejected this idea. While it was difficult to accept the suggestion that a return to the normal rules of GATT might lead to uncertainty in trade, Brazil was concerned that another extension of the MFA was sought on the grounds that the developed importing countries needed additional time to complete the adjustment process. When the industries in the importing countries had been benefiting for over twenty years by the protection afforded by the special régime, they could not expect developing country exporters to continue to accept that the burden of adjustment should still be transferred to them.

34. The representative of Yugoslavia mentioned several elements which he believed were important for the negotiations. He said that the multilateral commitments by developed countries, especially those by Ministers in 1982 should not be ignored because substantial and complete liberalization of textiles and clothing was inseparable from strengthening the multilateral trading system. The present improved and favourable situation in the economies of developed countries should allow negotiations for significant liberalization. He believed that there had been certain signals from some developed countries which could be interpreted as a move towards liberalization, but they were not clear nor adequate in many respects. The Committee should now start with concrete negotiations covering all elements of liberalization such as non-discriminatory approach, significant reduction in the number of products under restraint, agreed timeframe for phase-out of all restraints, increased growth rates and flexibility provisions, and outward processing trade be free of any quantitative restrictions.

35. The representative of Uruguay said that he had a mixed feeling of optimism and concern. He was optimistic because many delegations, in particular the EEC, said that they had the intention to liberalize trade in textiles and clothing. Although he was not fully satisfied with the EEC mandate outlined by the Community spokesman, it was nevertheless an important first step. He was concerned to hear from others commenting about growth in imports and the intention to add fibres to the MFA because neither of these would contribute to the global liberalization of trade. Uruguay was willing to consider practical and concrete elements and to work to a new arrangement which would obviously come into being on 1 August 1986. One should not forget the main objective was to achieve greater liberalization in trade in textiles and clothing which would imply better conditions of access to markets and special and differential treatment for small suppliers and producers of natural fibres, like cotton and wool.
36. The representative of Chile, speaking as an observer, commented that many speakers took for granted that there would be an extension of the MFA for another five years and said that he held a different view. He believed that when the MFA expired, GATT rules should apply fully to trade in textiles and clothing. Any new restrictions to be introduced should be subject to the rules and disciplines of the GATT including its Articles XI, XII, XVIII, XIX and some others. However, through a waiver, contracting parties might be able to prepare a set of transitional measures which would adjust the present MFA provisions to the GATT rules. The transitional régime could also be for a period of five years, with a gradual, automatic and irreversible programme so that at the end of that period all restrictions would be eliminated. The phase-out programme should follow the techniques of progressively increased growth rates, applicable to the less sensitive sub-sectors first and then be extended to other sub-sectors. One further essential element in the transition régime was that there should be a guarantee for new or potential suppliers, starting with a reservation of quotas of 10 per cent and increasing it to 30 per cent.

37. The representative of Turkey said that as a country whose exports were increasingly curtailed by the protectionist policies in developed countries, Turkey did not think that effective liberalization could be achieved under the present framework of the MFA. He was therefore disappointed to hear that major importing countries were seeking a renewal of the MFA for an unspecified period with perhaps some improvements and changes. He said that the views of the developing countries expressed at the Beijing meeting should receive serious consideration by their negotiating partners. Of particular importance were the points relating to the special treatment required by Article 6 of the MFA and Paragraph 12 of the 1981 Protocol, for developing countries, new entrants, and cotton producers. Although Turkey fulfilled all these criteria it had experienced a lack of effect in bilateral negotiations. Therefore, such provisions had to be strengthened in any future arrangement which might replace the MFA. Growth rates for the exports of these countries should be substantially higher than the norm of 6 per cent. Moreover, ways should be examined of excluding certain products, starting with cotton and wool fibres and fabrics from the coverage of the arrangement. Least developed countries and small suppliers should be exempted from restrictions. In this regard, he welcomed the decision of the Community to lift restrictions on imports from the least developed countries as a step in the right direction.

38. The representative of Argentina said that three years ago in a meeting of the Consultative Group of 18, contracting parties were told that there were still "stones to remove from the path", referring to textiles and agriculture. He believed that as contracting parties were taking important decisions on the multilateral trade negotiation, they should first of all try to solve the textiles problem because of the question of dates as well as policy. What he feared was that at the end of the larger process of negotiations, these two stones still remained in the path.
39. The representative of Peru said that it was important for the Committee to move to effective negotiations on the modalities for the elimination of restrictions such as those contained in the Beijing statement. The objective of the negotiations was the liberalization of trade in textiles and clothing and ultimately the return to GATT rules. She appreciated the statement by the EEC which referred to a progressive liberalization and a return to GATT as well as other elements like preferential treatment for small suppliers and cotton producers including Peru. She was surprised to hear that after twenty-five years of a totally restricted régime, developing countries were being asked to pay for compensation. When the restrictions were first imposed, no compensation was given to the developing countries. The idea of paying some compensation for the dismantling of this régime was therefore not acceptable. She also heard another important importing country indicating that restrictions would continue. She appealed to this country to give serious thought to this matter so that consensus could be reached on the liberalization of trade in textiles and clothing.

40. The representative of Poland said that he was aware of the complexity of world trade in textiles and clothing and he did not believe the immediate return to GATT rules after the expiry of the MFA was possible. The minimum requirement at present was to extend the Arrangement in its original context without the additional restrictive elements embodied in the Protocols of 1977 and 1981. At the same time it was necessary to include into the new Protocol a clause preventing unilateral interpretation of provisions in the course of its duration. Given that one of the major goals of the MFA was progressive liberalization of trade, there should be at the same time a system of gradual phase-out of existing restrictions, using the techniques of increase in growth rates etc., in a non-discriminatory manner.

C. Other business

Date of next meeting

41. The Chairman proposed, and the Committee agreed, that the next meeting of the Textiles Committee would be held on 5/6 June 1986.
Representatives of twenty three developing countries and territories, exporters of textiles and clothing met in Beijing from 4-8 March 1986 to assess the developments in world trade in textiles and clothing and the perspectives and prospects for negotiations on the future of the MFA. The meeting was inaugurated by H.E. Mr. Zheng Tuobin, Minister of Foreign Economic Relations and Trade of the People's Republic of China.

They emphasised that the multilateral commitments by the developed countries including those undertaken by GATT Ministers in 1982, required substantial liberalization of restraints on developing countries' exports of textiles and clothing and the phasing out of the restrictive and discriminatory regime governing their exports of these products to the developed markets.

It was noted that the GATT Contracting Parties were currently engaged in preparing for a new programme of multilateral trade negotiations with a view to liberalizing all sectors of international trade and strengthening the multilateral trading system. In this context they emphasised that the present trade regime in textiles had to be liberalized both in the removal of restraints and be phased out over an agreed time frame, under strengthened GATT disciplines.

It was agreed that modalities for these objectives will consist of progressively higher growth rates, non-discriminatory treatment for developing countries, reduction of restraints and coverage, removal of ambiguities, effective surveillance, effective measures for preferential treatment for small suppliers, new entrants, cotton and wool based exporters and most favourable treatment for the least developed countries without prejudice to the trade interests of established developing suppliers, removal of restraints and a phase out system.
It was noted that despite positive trends in key economic indicators some importing countries were both at multilateral and bilateral levels pressing through numerous devices, for a continuation of protective and restrictive rather than a liberalized regime for developing countries’ exports of textiles and clothing. It was agreed that such attempts be unitedly resisted. It was further agreed that any modalities for liberalization and phase out system should ensure equity, non-discrimination, non-reciprocity and other clearly liberal conditions for the developing countries.

The developing countries reached understanding on the main elements for negotiation in the process taking place in Geneva between now and the end of July. They resolved to continue to participate in that process on a unified basis.

Mr. Shen Jueren, Head of the Chinese Delegation and Assistant Minister, Ministry of Foreign Economic Relations and Trade was elected as Chairman of the meeting and Ambassador F. Jaramillo, Ambassador of Colombia and Head of the Delegation from Colombia was elected as Vice Chairman of the meeting.

Developing countries, exporters of textiles and clothing accepted the invitation of the Government of Turkey to host the next meeting in Istanbul in October 1986.