Europe information

Commission of the European Communities
Spokesman's Group
and Directorate-General for Information

B-1049 BRUSSELS
Rue de la Loi 200
Tel. 7350040 (Ext. 5120 and 3843)
Telex 21877 COMEU B

Development

THE EUROPEAN COMMUNITY AND THE TEXTILE ARRANGEMENTS

Free reproduction authorized, with or without indication of source. Voucher copies would be appreciated.

NOTICE

Subscribers to 'EUROPE-INFORMATION' are requested to note that this publication is distributed by the services of the Office for Official Publications in Luxembourg.

Any change of address should be notified to:

Mr MARASCHIN
OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES
Boîte postale 1003 — 5, rue du Commerce
L — LUXEMBOURG

However, any requests for new subscriptions or additional information concerning this publication should be addressed to:

COMMISSION OF THE EUROPEAN COMMUNITIES
Spokesman's Group and Oirectorate-General for Information
Publications Oistribution Service
Berlaymont 2/83
Rue de la Loi 200
B — 1049 BRUSSELS
Tel. 735 00 40 / ext. 5120 or 2346

CONTENTS

Page

I. The Multifibre Arrangement: an attempt to rationalize international trade in textiles and clothing 2

1. The significance of the MFA: a specific safeguard clause for the textile sector 3

2. Ensuring orderly expansion of trade: 4

A. Use of the MFA safeguard clause (Art. 3) 4

B. Negotiation of bilateral agreements (Art. 4) 7

C. Elimination of trade restrictions (Art. 2) 8

D. Special treatment for developing countries (Art. 6) 10

E. Textiles Surveillance Body (TSB) and Textiles Committee 11

II. Background: international trade in textiles and clothing 12

III. The Community and the Geneva negotiations 18

1. The position in the Community 18

A. Failure to exploit the MFA fully at Community level 18

B. The Community: an open market 20

C. Pressure from both sides of industry 21

2. The EEC's negotiating strategy 24

A. The Commission's brief 25

B. Joint discipline for the Nine 27

C. The bilateral agreements: a race against the clock 28

IV. Man-made fibres 31

1. The irrelevance of GATT rules in the textile trade 32

2. 1985: a bleak future? 35

V. The 1977 bilateral agreements 38

A. Implementation of the new Community approach 38

1. The global approach v. the selective approach 38
2. Internal global quotas for "political" products 42
3. Import growth rate: a derogation from MFA principles 44
4. Imports from preferential partners 45
5. The real goal: restructuring the Community industry 45
6. Technical support measures 46

B. The outcome of the negotiations 48

1. Twenty-two fully-fledged agreements 48
2. Taiwan 50
3. The preferential countries: informal "arrangements" 50
4. Other minor "low-cost" suppliers 56

Annexes

THE RENEWAL OF THE MULTIFIBRE ARRANGEMENT

A TURNING POINT FOR THE EEC TEXTILE INDUSTRY

Throughout the last months of 1977, the future of the Multifibre Arrangement (MFA), which had governed the international trade in textiles since 1 January 1974 and was due to expire on 31 December 1977, hung in the balance. In the discussions which took place to decide the fate of the Arrangement, much was at stake for both industrialized and developing countries.

The industrialized countries, facing ever-keener competition from their developing partners, sought to protect their jobs, technological lead, and balance of payments. The developing countries, on the other hand, were determined to make the most of their advantage in the clothing industry, one of the few activities in which they were genuinely competitive.

The contents of a renewed MFA were an object of intense interest to Western industrialists, who were worried lest massive imports from the Third World's clothing industries should cause the irreversible collapse of "upstream" industries, i.e. weaving, spinning, fibre production and petrochemicals.

Early in October 1977, the Community threw itself into a veritable race against the clock. The challenge: to negotiate in under two months some twenty voluntary restraint agreements with its main "low-cost" textiles suppliers, which were also for the most part MFA members. The Community was also asking for assurances from a number of trading partners with which it was linked by preferential agreements - notably Mediterranean countries - that they would keep exports within certain limits. Only if all this was accomplished could the renewal of the MFA be countenanced. An armoury of autonomous restraint measures was to be brought into play in the event of failure.

Consensus or confrontation: a great deal hung on the outcome of those negotiations. By the end of November success was ensured, and Brussels heaved a sigh of relief. The Community had staked its credibility with the Third World, and indeed with the GATT members as a whole, on this issue in an attempt to demonstrate its resistance to mounting protectionist pressures.

I. The Multifibre Arrangement: an attempt to rationalize international trade in textiles and clothing

The "Arrangement regarding International Trade in Textiles", forged in Geneva within the framework of GATT, came into force on 1 January 1974, and constituted a radically new attempt to regulate worldwide trade relations for a specific industry. It marked a new departure from the few agreements dealing with commodities such as tin, coffee or cocoa in that it was not directly concerned with raw materials but dealt mainly with processed goods from yarn to garments, including woven fabrics and other textile products and hence excluding fibres[1]. The only comparable agreement, in fact, was the MFA's own precursor, the Long-Term Arrangement on Cotton Textiles or LTA, concluded in 1962, which expired, after several renewals, at the end of 1973. It proved a source of inspiration for many of the MFA provisions. Obviously, the range of products covered by the two arrangements was not the same, as their titles make clear. The LTA dealt purely with cotton textiles, while the "multifibre" arrangement covered textiles and garments of all major types of fibre (i.e. cotton again, but also wool, and particularly man-made fibres). The LTA had become obsolete, for two reasons. The first was technical: fibre blends were increasingly being used; while the second was of a commercial nature, namely that the developing countries were becoming competitive not only in cotton, but also in synthetics. Paradoxically, therefore, the LTA, designed as a purely provisional arrangement, was repeatedly extended.

The textile industry occupies a special position in the economies of the industrialized countries - the US, Japan, and the EEC, all exporters, unable to cope with the "rise" of some of the developing countries in this field. The reasons given for this phenomenon include the relatively low level of investment needed, the easily transportable nature of textile products, the relatively unskilled nature of the work, and the unsophisticated level of the technology. All this made the introduction of special rules for the textile trade a necessity; the normal GATT rules, based on strict adherence to free-trade principles, were not wholly applicable to trade in textile products. This was to be the role of the MFA, and it is not fanciful to compare the scope of the Arrangement regarding International Trade in Textiles with that of the General Agreement on Tariffs and Trade. In the light of that comparison, we must now look at the main clauses of the MFA and the use to which it was put in practice.

---

[1] This is not strictly true. Theoretically, in a situation where there was disruption on the man-made fibre market, various MFA provisions (the safeguard clause and agreements between importers and exporters) could be applied.

1. The significance of the MFA: a specific safeguard clause for the textile sector

The need to conclude an agreement specifically to govern trade in textiles stemmed from one simple fact: the developed countries had to find an easier means of recourse to safeguard measures which would not constitute a breach of international law. The prevailing law on safeguards, enshrined in the General Agreement, offered three possible courses of action to a country hit by excessive imports:

(i) under Article XII, where the importing country was faced with a balance of payments deficit because of such imports;

(ii) under Articles VI and XVI, where exporting countries were dumping goods or subsidizing their export sales;

(iii) under Article XIX, where the importing country was suffering disruption of a domestic market.

The MFA deals solely with a country's means of defence against "market disruption". It can therefore be regarded as an adaptation of the Article XIX provisions to the textile sector. This was felt to be necessary because two aspects of Article XIX in particular made it a rather unwieldy instrument:

(i) safeguard measures adopted pursuant to Article XIX cannot be discriminatory, but must apply to all GATT members. A measure actually aimed at imports from one small country will therefore strike at all suppliers, particularly important ones, which can be a source of further problems;

(ii) a country making use of Article XIX lays itself open to reprisals from the suppliers affected, which can involve a volume of trade equivalent to that hit by safeguards. The exporting country against which Article XIX is applied may take reprisals even if it is suffering no market disruption itself, and need not confine them to the products affected by safeguards. Thus if a country uses Article XIX against imports of textile products, it may suffer reprisals directed against its chemicals or machine tools.

These rules were considered unduly strict and cumbersome for the trade in textiles, where instances of market disruption have been frequent. The MFA was therefore drawn up, with a much more flexible safeguard clause which could be used against a single country and excluded reprisals, and was thus easier to use. However, the MFA was not to "affect the rights and obligations of the participating countries under the GATT". This meant that the various protective devices found in the GATT (including Article XIX) remained applicable. Still, the introduction of the MFA was intended to ensure that Article XIX would be used only in exceptional circumstances. It should be pointed out that not all the GATT member countries signed the MFA, but the MFA does nevertheless include the main countries engaged in the textile trade, with the notable exception of Taiwan (see Annex 1).

It would be a mistake, however, to regard the MFA simply as a safeguard device, however novel. The Arrangement was designed to achieve a number of aims, which can be summarized broadly as follows:

Basic objectives (Art. 1(2)): countries participating in the MFA are required to foster "the expansion of trade, the reduction of barriers to such trade, and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoiding disruptive effects in individual markets and on individual lines of production in both importing and exporting countries". "It may" (Art. 1(1)) "be desirable .... for special practical measures of international cooperation to be applied by the participating countries in the field of textiles with the aim of eliminating the difficulties that exist".

Industrial adaptation (Art. 1(4)): the trade measures envisaged under the MFA were not to "interrupt or discourage" participating countries' policies of "industrial adjustment". Such measures "should be accompanied by .... economic and social policies .... which would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or .... other sectors of the economy".

Encouragement for the developing countries (Art. 1(3)): participating countries should "further the economic and social development of developing countries, ... secure a substantial increase in their export earnings from textile products, and ..... provide scope for a greater share for them in world trade in these products".

2. Ensuring orderly expansion of trade

Having looked at the significance and objectives of the MFA, we must now see what provision it makes for achieving those aims. There are five categories of measures available under the MFA: its special safeguard clause; the negotiation of bilateral agreements between states; the elimination of trade restrictions; special treatment for developing countries; and institutional mechanisms. In the following section we shall examine these instruments and the use that has been made of them.

A. Use of the MFA safeguard clause (Art. 3)

Take the hypothetical case of a country which finds that massive imports of a particular product are disrupting its market for that product. The obvious reaction is to limit external purchases of such goods. Under the MFA rules, the country affected has to seek consultations with the exporter causing the disruption, and may propose a specific restraint level, provided it falls within the limits prescribed in the MFA. The importing country's request for consultations must be supported by "a detailed factual statement of the reasons and justifications" on which it is based. The exporting country or countries concerned must respond to the request for consultations, after which one of two things may happen. Either importer and exporter agree on a restraint level, and a provisional arrangement is struck, or, if no agreement has been reached within sixty days of receipt of the request for consultations, the importer may apply the MFA safeguard clause on a unilateral basis. This allows him to restrict textile imports from the exporter concerned for a period of twelve months, provided the relevant terms of the MFA are complied with. "In highly unusual and critical circumstances", the importing country can make accelerated use of the safeguard clause by giving a minimum of one week's prior notification to the exporting country.

In a real emergency, however, the period of notice may be shorter.

In practice, these provisions meant that an importing country was able to impose restrictions almost immediately. Nevertheless, the MFA's draftsmen included a number of precautionary terms. Import restraint measures had to be confined to "the precise products and to countries whose exports of such products" constituted a threat. The importing country must "endeavour to avoid discriminatory measures where market disruption is caused by imports from more than one participating country". Restrictions could "be introduced for limited periods not exceeding one year, subject to renewal or extension for additional periods of one year, provided that agreement is reached between the participating countries directly concerned". Even in an emergency situation, the importing country must always hold consultations with the exporting country. In addition, all measures taken under the safeguard clause would be supervised by the Textiles Surveillance Body set up by the MFA (see below). In other words, the MFA's aim was to reduce to a minimum the arbitrary element in trade restraints. In this context two aspects of the Arrangement are particularly noteworthy. In the first place, a country is only allowed to take safeguard measures if it considers that it is suffering from "market disruption", a term which the authors of the MFA were careful to define in detail (Annex A). Their aim, in fact, was to keep the importing countries on a tight rein, and in their definition, set out in Annex A they bent over backwards to give the exporting countries a fair deal. Market disruption, under the MFA, could only be said to exist where there was "serious damage to domestic producers or actual threat thereof". To determine the existence of "damage", it was necessary to look at all the factors "having a bearing .... on the state of the industry .... such as: turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments". And just in case that made it look too easy, the authors pointed out that "no one or several of these factors can necessarily give decisive guidance".

<u>The combination of quantity and price criteria</u>

They went on to explain that serious damage within the meaning of the MFA could only be caused by a specific combination of factors. It could not arise simply as a result of technological changes, switches in consumer preference, "or similar factors", but must be based on two phenomena "which generally appear in combination ...... : (i) a sharp and substantial increase or imminent increase of imports of particular products from particular sources" which, if merely imminent, must nevertheless be measurable and not a matter of "allegation .... or conjecture"; and, "(ii) those products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country".

Clearly, a set of criteria like this can only be met using a hypersophisticated statistical set-up which in practice simply does not exist. In effect, then, if the letter of the MFA was to be strictly observed, not a single country would be able to prove "serious damage".

The import restraint level was not left open either; Annex B spelled out the rather complex criteria on the basis of which it was to be calculated. Essentially it was defined in terms of two factors: the base level and the growth rate. The <u>base level</u> "below which imports of textile products ......may not be restrained" corresponded to the level of actual imports

during the twelve-month period preceding the decision to apply safeguard measures (including a two to three-month interim period). Should the twelve-month period happen to be "specially adverse for a particular exporting country due to abnormal circumstances" the actual import volume over a period of years could be taken into account. The growth rate would come into play when a restraint measure was to be extended beyond the initial twelve-month period. In such cases the restraint level for the new period had to be fixed "not less than six per cent" higher than the original restraint level. In very exceptional cases the growth rate might be lower than the norm; but only where it could be shown that market disruption would result if the six per cent growth rate were implemented. The MFA does not actually specify whether restraint levels should be fixed in terms of value or of volume: in practice, importers chose to define them by volume.

Moderation in use

From 1 January 1974 (the date of the MFA's entry into force) to 30 September 1976, the participating countries were relatively sparing in their use of the Article 3 provisions[1]. In all, thirty-five safeguard measures were applied, twenty-one as a result of agreements reached between importers and exporters (i.e. safeguards "by mutual consent") and seven by unilateral decisions (i.e. the more normal type of safeguard measure). The remaining seven comprised two unilateral measures and five provisional arrangements adopted in emergency situations. Not all these safeguards were still in force by 30 September 1976; a number of them had been replaced by agreements negotiated within the MFA framework (see below). Not surprisingly, in view of the practical difficulty of proving market disruption, there were complaints from the Textiles Surveillance Body (TSB), which was to be notified of all measures adopted, unilaterally or otherwise, by importing countries, that the statistics supporting the requests it had received were not sufficiently detailed. Nevertheless, looking at the safeguard measures adopted over the period in question (1 January 1974 to 30 September 1976) with or without the consent of the exporting countries, we can form some idea of the position in which the importing countries found themselves. The breakdown is as follows:

EEC: eight measures, aimed at Brazil, Korea (5), Spain and Mexico. Four of the measures against Korea were later incorporated in an agreement (within the meaning of Article 4 of the MFA). Two of the measures (the fifth of the Korean safeguards and the measure against Spain) dealt only with restrictions on United Kingdom imports.

Australia: eight measures; Hong Kong (2), India, Korea (2), Macao and the Philippines.

Canada: six measures; Hong Kong, Korea (3), Poland and Singapore.

Sweden: six measures; Hong Kong, India, Korea, Macao, Mexico and Pakistan.

Austria: three measures; Hong Kong (2) and Korea.

Norway: three measures; Hong Kong (2) and India.

United States: one measure; Haiti.

It is important to note that the above list reflects only the number of measures adopted, and not the scope of the restrictions, the volume of trade affected or the duration of restraints. But it emerges clearly that some exporting countries were more affected than others, notably Korea (twelve measures) and Hong Kong (seven measures).

[1] The following information is taken from the findings of the "major review" carried out by the TSB (cf Art. 10(4)) three years after the entry into force of the MFA.

B. Negotiation of bilateral agreements (Art. 4)

We have already seen that before adopting a safeguard measure an importing country was required to seek agreement with the exporting country involved. By this means the MFA tried to ensure that as far as possible decisions affecting exporting countries were not unduly severe; this might be called the application of safeguards "by agreement". Given this desire to encourage consensus at every turn, it was natural that the authors of the MFA should favour the conclusion of bilateral agreements[1]. The aim of such agreements: "to eliminate real risks of market disruption (as defined in Annex A)". In this way it would be possible to avoid recourse to the safeguard clause, with or without consent, since that clause could only be used where there is market disruption, and since the agreements were designed to prevent just that, the idea was that exceptional measures would tend to be needed less often. Bilateral agreements, it was stipulated, should "in overall terms, including base levels and growth rates, be more liberal" than safeguard measures. Moreover, they should be "designed and administered to facilitate the export in full" of the quantities provided for.

A popular solution

There was obviously scope for a balance to be struck between Article 3 (safeguard measures) and Article 4 (bilateral agreements). Except in an emergency, an importing country might well hesitate between the two available methods of protecting its markets against unwelcome imports. When the MFA was signed it was a moot point whether safeguards or agreements would prevail. Today, the answer is clear: the importing countries, although they still on occasion brandish the safeguards weapon, have shown a distinct preference for Article 4 and the negotiation of bilateral agreements. Over the period covered by the report (1 January 1974 to 30 September 1976) 62 bilateral agreements were communicated to the TSB. A number of them were selective, covering only a limited number of products. Others were more comprehensive, dealing with a wide range of products; this in no way contravened Article 4, which was silent on the matter (cp Article 3, which limits the application of safeguards to the "precise products ... causing market disruption"). The duration of these agreements varied widely. Some were valid for a single year, with the option of renewal; the majority were negotiated to expire at the end of 1977, and only a very few looked beyond that date. On the basis of the TSB's report, we can get an impression of the network of agreements linking importers and exporters:

- United States: agreements concluded with Brazil, Colombia, Egypt, Haiti, Hong Kong, India (2), Japan (3), Korea (2), Macao, Malaysia, Mexico (2), Pakistan, Philippines, Poland, Romania, Singapore and Thailand.
- Community: Hong Kong, India, Pakistan, Brazil, Colombia, Egypt, Korea, Macao, Malaysia, Singapore, Japan; (after 30 September 1976: Romania, Yugoslavia; agreements in prospect with Poland, Hungary, Philippines and Thailand).
- Austria: Egypt, India, Japan, Korea, Macao, Pakistan, Singapore.
- Sweden: Hong Kong, India, Japan, Korea, Macao, Malaysia, Singapore.
- Canada: India, Poland (2), Japan.
- Norway: Korea, Macao.
- Australia: Korea.
- Finland: Hong Kong

Among the importing countries, the United States and the Community undoubtedly made the most thoroughgoing attempts to seal up their markets. A glance at the list above suggests that countries such as Sweden and Austria also had a real need to protect their home markets. As regards

exporters, the most "popular" were Korea, Hong Kong, Macao, Singapore and India, not to mention Japan, which constituted something of a special case, being the only industrialized country whose exports were restrained by bilateral agreements but which asked for no voluntary restraint agreements itself in its capacity as an importing country[1].

Why did the importing countries, then, prefer to conclude bilateral agreements under Article 4, rather than take unilateral action under Article 3? Three points have to be taken into consideration:

- Article 3 was unpopular with governments, since they feared a spate of protective measures leading to a general confrontation;
- Article 3 requires proof that "serious damage" has been caused to national producers, and, as we have seen, it is not easy to furnish such proof, on statistical grounds alone;
- Article 4 is much more flexible than Article 3, and since its effect is preventive, solutions can be sought and found before the market is actually disrupted.

However, it was not a question simply of alternative means to the same end. As Community industrialists pointed out[2], the preference for bilateral agreements resulted in a process of negotiation and consensus between importer and exporter, and the restraints finally adopted would tend to be less severe. Not only that, but the bilateral agreements would usually cover both products for which there was a risk of market disruption and products for which the market was already clearly disrupted, without making any real distinction between them.

C. Elimination of trade restrictions (Art. 2)

When the MFA entered into force a plethora of quantitative restrictions on trade already existed. Whether unilaterally or consensually introduced, they applied mainly to cotton textiles, within the framework of the LTA, but also dealt with products in man-made fibres or wool. With the cooperation of the participating countries, the TSB undertook to prepare an inventory of all such measures, with particular attention to restraints imposed by developed countries. Measures taken by the developing countries, usually under Article XVIII of the GATT (balance of payments deficits), did not strictly come within the province of the MFA. The Arrangement indeed stipulated that all existing quantitative restrictions, unilateral or negotiated, should be notified in detail to the TSB, within sixty days of a participating country's signing the MFA; failing this, such restrictions "shall be terminated forthwith" (Art. 2(1)). But in fact not all restrictions were regarded in the same light. Only those not "justified under the provisions of the GATT" had to be "terminated within one year" of the MFA's entry into force. It is essential to remember this point when considering the basic MFA rule that all quantitative restrictions on trade in textiles must be eliminated. In fact the MFA itself made provision for exceptions to the rule, to the extent that the rule itself can be seen as something of an exception. Legal appearances are preserved, however. The three cases in which elimination were not made obligatory (Art. 2(2)) were:

(i) elimination could be postponed if the measures notified to the TSB were included in a "programme ... designed to eliminate existing restrictions in stages within a maximum period of three years from the entry into force" of the MFA; "it being understood that a major effort will be made within the first year".

---

[1] Switzerland concluded no agreements.
[2] Address by Mr Blum of Comitextil (the association grouping the Nine's textile manufacturers) at the International Knitwear Conference in Dublin in September 1976.

(ii) inclusion of the restrictions in a bilateral agreement concluded under Article 4;
(iii) inclusion in agreements negotiated or measures adopted pursuant to Article 3.

Where restrictions had been imposed under bilateral agreements concluded before accession to the MFA, the position was practically the same, except that they could not be included in a programme of elimination.

But so far we have dealt only with restrictions existing when the MFA was signed. Could new restrictions still be introduced? The answer to this is that participating countries could not impose fresh restraints (or strengthen existing ones) except under the Article 3 safeguards procedure.

A difficult comparison

The TSB made a comparison between restrictions adopted pursuant to the MFA and those (theoretically eliminated) which predated it. This was obviously a tricky exercise, since it was not easy to quantify the changes: restraints might apply to different products, quotas be established in terms of volume instead of value, or set at levels higher than actual export performance. Nevertheless, the TSB made an effort to set the prior restrictions communicated to it alongside those introduced under Article 3 or 4, and some of the conclusions suggested by the comparison, however tentative, raised interesting points.

Among the industrialized nations Japan undoubtedly pursued the most liberal policy on imports. It indicated to the TSB that it was not applying any import restrictions, and had introduced none since the MFA's entry into force. The United States had apparently considerably widened access to their market. Although they concluded a large number of agreements with their main trading partners in the textile field, the quotas established were relatively generous. By allowing transfers from product to product, they gave scope for a degree of flexibility in the administration of the agreements. The TSB's report noted that in 1974-75 it was rare for exports to reach the ceilings fixed. In 1976, however, it appeared that quota levels had often been exceeded, which suggested that problems might lie ahead.

Other countries whose liberalism won commendation from the TSB were Sweden (a slight improvement in access to the Swedish market was noted); Switzerland (no quantitative restrictions, only price surveillance); Austria (overall, the Austrian market was judged to have become slightly more accessible); and even Spain (slight improvement). Canada, classed among the countries having liberalized imports, was something of a special case, although the TSB found that the scope of the import restrictions applied by Canada had been significantly reduced as regards both the products and the suppliers affected, it was necessary to bear in mind measures taken outside the framework of the MFA. Canada had used GATT provisions (particularly Article XIX) on a number of occasions to impose import controls in the form of tariff quotas or increases in customs duties. In addition to which, the Canadians caused a minor sensation in Geneva after the TSB had reported (its report covered the period from 1 January 1974 to 30 September 1976) by adopting a wide-ranging series of protective measures under Article XIX of the GATT.

Early in December 1976, Canada announced that it was imposing quotas (at 1975 export performance levels) on about twenty types of garment from jeans through skiwear and pyjamas to pullovers and cardigans. To justify the severity of these measures, the Canadian authorities pointed out that in the first seven months of 1976 their imports had risen at a rate of 52% (as compared to an average of 18.5% in 1975). That gave some indication of the problems encountered in the pursuit of the objectives enshrined in the MFA.

That brings us to the countries which, in the opinion of the TSB, had tended to restrict access to their markets following the entry into force of the MFA. Norway and Australia fell into that category, although the position of Australia was rather unusual in that when it signed the Arrangement it was not applying any restrictions to trade. It subsequently concluded Agreements (Article 4), adopted safeguard measures (Article 3), and even used Article XIX of the GATT. Finally, we come to the Community. The members of the TSB did not find it at all easy to decide whether or not the Community had opened up its markets. They noted that the EEC alone had introduced a three-year programme for the elimination of restraints (see p. 9), but the large number of agreements, on varying terms, concluded with different supplying countries made it difficult to draw any firm conclusions as to the Community's stance. At any event, those drawn by the TSB were rather ambiguous: although the phased elimination of restrictions would, when complete, amount to a liberalization, the TSB pointed out that a number of controls were still in force. Where these had been introduced for products previously imported without restraint, or were applied by a greater number of Community Member States, then it could be said that potential access had been reduced. On the other hand, the quotas imposed on products restrained for the first time were substantially in excess of past performance.

D. Special treatment for developing countries (Art. 6)

The MFA paid special attention to the needs of developing countries, recommending that importers allow poor nations (more favourable terms ... than for other countries", particularly with regard to base levels and growth rates[1]. New market entrants especially were to be accorded special treatment. Importers should bear in mind the importance of the trade in cotton textiles for developing countries when considering introducing restrictions in that field, and are asked to refrain as far as possible from using the international division of labour between developing countries (processing traffic, temporary admission, etc.) as a pretext for imposing import controls. But in any event "this special treatment should not cause undue prejudice to the interests of established suppliers or create serious distortions in existing patterns of trade".

A built-in inconsistency

The stress laid by the MFA on providing special treatment for the developing countries was in a sense paradoxical. One must not forget that the Arrangement was devised to cope with the problems of increasingly stiff competition from exporters, virtually all of which could be numbered amongst the Third World countries (and to some extent the Eastern bloc countries). There is a fundamental inconsistency here; the MFA was supposed both to

[1]See p. 6 for these terms.

provide the necessary flexibility for controlling imports from developing countries, and at the same time to ensure favourable treatment for those countries. The rather convoluted conclusions drawn by the TSB as to the application of Article 6 would suggest that this inconsistency was not resolved. According to the TSB, to judge whether and how far the treatment according to the developing countries had been favourable, it would have been necessary to compare it with the treatment shown to other countries. But nearly all the restrictive measures notified to the TSB were aimed at developing countries; the few exceptions, concerning Japan and a number of state trading countries, did not provide a basis for comparison, thus making it impossible to determine conclusively whether and to what extent developing countries were accorded favourable treatment. Some agreements, noted the TSB, made explicit reference to Article 6 of the MFA, but even where such a reference was lacking it was impossible to be sure that the parties had not taken Article 6 into consideration. The TSB's final remark, though, would seem to indicate that the MFA's signatories were not playing fair: stressing the importance of the textile trade for the developing countries, the TSB pointed out that it was vital, if the MFA's objectives were to be achieved, that importing countries should actually apply the provisions of Article 6. This would suggest that they had not, in fact, been applying them.

E. Textiles Surveillance Body (TSB) and Textiles Committee

The institutional side of the MFA

The MFA signatories set up "administrative machinery" for the purpose of supervising the operation of the agreement. The Textiles Committee, consisting of representatives of all the parties, is a conventional type of body, meeting at least once a year, and charged with preparing studies, analysing the current state of world production and trade in textile products, advising on ways of further liberalizing the trade, collecting statistics and carrying out regular reviews of the operation of the MFA. The establishment of the TSB, on the other hand, was one of the MFA's major innovations. The TSB consists of a chairman and eight members appointed by the participant States in such a way as to be broadly representative of the different interests involved. Although personally appointed by various countries, the members of the TSB are required to act as "wise men" rather than national spokesmen. The Community, the United States and Japan are "represented" every year, the remaining seats being allocated by rotation. In 1977, for example, Colombia, Hong Kong, Norway and Pakistan supplied members, while the eighth seat went on a rota basis to persons designated by Austria, Hungary, Malaysia and Turkey.

Nominations are made by the Textiles Committee.

The TSB is a standing body, meeting "as necessary", and in addition to the work normally involved in supervising implementation of the Arrangement, it has a specific remit under the MFA to formulate recommendations, especially in the case of a dispute between participating countries. The TSB, indeed, has been described as a tribunal. That is a slight exaggeration, since the MFA says no more than that "participating countries shall endeavour to accept in full the recommendations of the Textiles Surveillance Body", which does not suggest that the TSB is empowered to issue injunctions, much less to pass sentence. Nevertheless, so long as the TSB acts with moderation, it has the potential to become a sort of moral authority as the expounder of MFA orthodoxy. In practice it plays an important part in smoothing over differences of view between participating countries, and there is no lack of these in a sector as sensitive as textiles, whether over the adoption of safeguard measures, the negotiation of agreements, provisional or otherwise, or delays in the elimination of restrictions.

II. BACKGROUND: INTERNATIONAL TRADE IN TEXTILES AND CLOTHING

"Stop the invasion of cheap shirts", "Community textiles industry threatened by uncontrolled competition", "Let us close the frontiers" ... The problems affecting the textiles and clothing industry in Europe are often given sensational headlines, especially as from time to time a government announces its intention to use safeguard measures to curb imports.

As trade problems in the textiles and clothing industry grew increasingly more acute owing to the economic crisis affecting the Community, it became increasingly difficult to keep a cool head. It therefore seems to us important to go beyond the appearances, while being aware that they reflect an undeniably tense situation. A statistical picture of world trade would in fact make it easier to assess the real difficulties.

It is not easy to compile a record of trade in textile products since the entry into force of the MFA, since the application of the Arrangement coincided with the beginning of floating exchange rates, making comparisons awkward, and also with a world recession which did not spare textiles. The drop in consumer demand, particularly marked in 1974, has not made things any easier. We have however extracted some figures from the thousands assembled by the GATT experts in order to provide a more detailed picture of the particular situations which faced the countries engaged in the renegotiation of the Multifibre Arrangement. Taken together they accounted for 80% of world trade in textiles. Had Taiwan become a participant in the Arrangement, this proportion would be much higher again (Annex 2 contains a list of the main exporters and importers participating in the MFA).

Most developed countries are, overall, net importers of textiles and clothing with a deficit in 1975 of US $2 750 million. This situation reflects a deterioration in their position, since they were net exporters in 1970 (US $270 million). Since that date the deficit has been increasing steadily, although there have been fluctuations.

The cause of this deficit lay mainly in the deterioration in their trade balance in the clothing sector (deficit of US $4 950 million in 1975 as against US $940 million in 1970). The balance for textile products did not, however, deteriorate (surplus of US $2 200 million in 1975 as against US $1 210 million in 1970). Of even more significance is the fact that the deterioration in the developed countries' trade position was largely attributable to the developing countries' performances: whereas in their relations with the developing countries, the developed countries could in 1970 boast a surplus of US $170 million (a surplus of US $1 040 million for textiles and a deficit of US $940 million for clothing), in 1975 they had a deficit of US $2 900 million (a surplus of US $1 750 million and a deficit of US $4 650 million respectively). Furthermore, the developed countries' overall deficit in relation to the developing countries continued to rise over the last few years (1972: a deficit of US $1 530 million; 1973: a deficit of US $2 560 million; 1974: a deficit of US $2 660 million). By way of comparison, it is to be noted that in 1975 the developed countries recorded a surplus (textiles and clothing) of US $150 million with regard to the Eastern bloc countries, a figure which had been relatively stable since 1970. The developed countries remained the top world exporters of textiles and clothing (US $15 250 million in 1975 out of a world total of US $31 300 million). Most of these exports consisted of textiles (US $11 450 million as against US $3 800 million for clothing). The

developed countries' share of world textiles and clothing exports nevertheless diminished considerably: 49% in 1975, as against 59% in 1970. The decrease is particularly significant in the case of clothing (from 1970 to 1975 it dropped from 46% of world exports to 31%, as against 61% and 65% respectively for textiles). Most of the developed countries' export trade (54.4% in 1975, of which 49.3% for textiles and 69.7% for clothing) was conducted among themselves. The proportion of the industrialized countries' exports going to developing countries was 36.7% (41% for textiles and 23.7% for clothing). The remainder (8.9%) went to the Eastern bloc countries.

In addition to being the top exporters, the developed countries were also the top world importers of textiles and clothing (US $18 000 million out of a world total of US $31 300 million). Imports of textiles (US $9 250 million in 1975) were at practically the same level as imports of garments (US $8 750 million). The developed countries' share of world textiles and clothing imports remained relatively stable (1975: 58%, as against 57% in 1970). The figures do not indicate the same stability for textiles (49% of world imports in 1975, as against 52% in 1970) considered separately from garments (71% and 66% respectively). The developed countries' textile and clothing imports were equitably distributed between themselves (46.1% in 1975) and the developing countries (47.2%). The proportions changed if textiles (61% of the imports come from developed countries and 30.3% from developing countries) are considered separately from garments (31% come from developed countries and 63.4% from developing countries).

Situation country by country

The outline which we have just given of world trade by the developed countries is too general and each country had to take its own situation into account. What therefore, was the position of the ten industrialized countries participating in the MFA? An initial, very valuable, indication is provided by each country's trade balance and also by the development of that balance over the preceding few years. On the basis of this criterion, these countries could be classified as follows:

(i) Deficit of US $1 739 million (1975): this, the largest deficit[1], belonged to the United States, which was thus the largest net world importer of textiles and clothing. It could therefore have been expected to show a rather protectionist attitude during the negotiations, but it must be remembered that since 1970 its deficit had been relatively stable (US $1 574 million in 1970). What is more, this figure had even "improved" since 1972 (a deficit of US $2 382 million).

(ii) Deficit of US $1 097 million (1975) for Canada; a considerable deficit which had been increasing since 1970 (a deficit of US $475 million).

(iii) Deficit of US $871 million (1975) for Sweden; there too the deficit had kept on increasing since 1970.

(iv) Deficit of US $719 million (1975) for Australia; an appreciable deficit which was nevertheless lower than in 1974 (US $1 046 million).

(v) Deficit of US $502 million (1975) for Norway; a considerable deficit for a small country and one which had been increasing since 1970 (a deficit of US $223 million).

---

[1] Exports (fob) minus imports (fob); for the other countries the imports are cif, except for Canada and Australia.

(vi) Deficit of US $402 million (1975) for the Community[1]; in absolute value this deficit was very small since it was lower than that of a country like Norway. It nevertheless reflected a striking deterioration in the Community's external position, since the Nine had traditionally been net exporters. Since 1970 their surplus has started to decrease, dropping from US $1 586 million to US $699 million in 1974. The year 1975 was a turning point for the Community industry, which started to lose ground. It was the first year in which the trade balance was in the red. For the first six months of 1976 the deficit (US $815 million) was even higher than that recorded for the whole of 1975.

Among the developed countries participating in the MFA, two others had deficits in 1975: Switzerland (a deficit of US $184 million) had a relatively stable balance, whereas Austria's deficit leapt from US $70 million in 1974 to US $147 million in 1975 (as against only US $3 million in 1970). There was also Finland, which achieved a slight surplus (US $24 million) in 1975. Lastly, there was Japan, whose situation differed radically from that of its industrial partners. It was the only country with a permanent surplus. Since 1970 this positive balance had been fluctuating, according to whether it was a good or a bad year, between US $1 000 million and US $2 000 million. During the period 1973-75 it even increased regularly (from US $1 100 million to US $1 900 million). For the first six months of 1976 the results were just as favourable (surplus of US $1 000 million).

The deficits recorded by the developed participating countries were to a large extent attributable to their trade with the developing countries. This was especially true of the two major trading blocs. Between 1970 and 1975 the Community's and the United States' deficits with the poor countries reached almost US $2 300 million and US $1 100 million respectively. In the same period the Community (a surplus of US $350 million) and the United States (a surplus of US $675 million) succeeded in increasing their surpluses in relation to their industrialized partners. It would also seem that the Community and the United States were the favourite markets of the developing countries, which did not manage to produce the same performances in the other countries. In fact, however, during the period 1970-75 the deficits of countries such as Canada, Australia and Sweden were due as much to the developing as to the developed countries. In the other countries (Norway, Austria, Switzerland) the negative balance was due largely to the increase in imports from the developed countries.

At the end of the first period of application of the MFA, the problem for the industrialized countries was to know how to share the "burden" constituted, in their view, by exports from the developing countries - exports which had no less than tripled in comparison with 1970 (US $4 000 million), whereas, over the same period, the developed countries had difficulty in even doubling their exports (which rose from US $8 000 million to US $15 000 million).

What, therefore, was the form taken by the problem faced by the ten industrialized countries participating in the MFA as regards distributing the imports from the developing countries? In 1975 these countries imported almost US $9 600 million worth of textiles and garments from the developing countries. For the latter, the Community was by far the main market (50.8%), followed by the United States (27.2%), Japan (7.1%), Canada (3.8%), Sweden (3.6%), Australia (2.8%), Switzerland (1.9%), Austria (1.1%), Norway (1%) and Finland (0.7%). Rather than this state of affairs, however, it was the increase in the percentages which was causing difficulties in certain developed countries. From this point of view, the Community was particularly affected, since it was the trading partner which, over the preceding few years, had

[1]A deficit of about US $1 300 million in 1976.

opened its frontiers to the greatest degree. Its share in "the ten"'s imports from the developing countries thus rose from 39.6% in 1970 to 50.8% in 1975 (and even 53.1% for the first six months of 1976). The share of some of its partners did indeed also increase, but by no means to the same extent: Japan (5.5% in 1970 and 7.1% in 1975); Austria (0.5% and 1.1%); Switzerland (1.7% and 1.9%). Apart from the case of Norway (stability at 1%), all the other industrialized countries imported relatively fewer products than the Community from the developing countries. This was particularly true of the United States (39.2% in 1970 and 27.2% in 1975, but 28.4% for the first six months of 1976).

The developing countries as a whole were (and still are), net exporters of textiles and garments (a surplus of US $3 000 million in 1975). Since 1970 (a year in which there was a deficit of US $900 million), their surplus has not ceased to increase. The reasons? The boom in exports of garments for which the positive balance, from US $1 060 million in 1970, had risen to US $4 850 million in 1975. At the same time, however, there was a decline in the balance for textiles (a deficit increasing from US $1.15 million in 1970 to US $1.85 million in 1975). The developing countries' surplus for textiles and clothing was formed almost solely with the developed countries (a surplus of US $2 900 million in 1975 as against a surplus of only US $100 million with the Eastern bloc countries).

The developing countries exported US $12.15 million worth of textiles and garments in 1975 (as against US $15 250 million for the developed countries and a world total of US $31 300 million). They are, overall, the main world exporters of clothing (US $6 600 million out of a world total of US $12 400 million). They therefore effect more than half the world's exports. In the case of textile exports, however, they do not bear comparison with the developed countries (US $5 550 million as against US $11 450 million in 1975). For several years their share of world exports has tended to increase considerably (39% in 1975 as against 30% in 1970) owing to their sales performances for garments (53% of world exports in 1975, as against 38% in 1970), which are not equalled in the textiles trade (29% and 25% respectively).

The developing countries imported US $9 150 million worth of textiles and garments in 1975 (as against US $18 000 million for the developed countries and a world total of US $31 300 million). They are, relatively speaking, fairly small-scale importers. Their purchases from other countries are made up of an overwhelming proportion of textiles (US $7 400 million in 1975, out of a world total of US $18 400 million). They import very small quantities of garments, however (US $1 750 million out of a world total of US $12 400 million). Their textiles and clothing imports come mainly from the developed countries (US $5 600 million as against US $2 700 million from other developing countries in 1975). The developed countries are also their main textile suppliers (US $4 700 million in 1975 as against only US $900 million for garments). The developing countries' share of world imports of textiles and garments remained relatively stable (30% in 1970; 29% in 1975).

Most of the above findings stood out plainly in the general outline we drew of the structure of the developed countries' trade. What must now be done - this being the newer aspect - is to present the situation of the developing countries which were playing the most important role in world trade in textiles and clothing. Important differences were to be seen among the eleven main developing countries participating in the MFA, and the group may be subdivided as follows:

(i) Countries with large surpluses for textiles and for clothing

Only the Republic of Korea was in this situation: since 1975 it had recorded a sizeable double surplus (US $395 million for textiles, US $1 144 million for clothing).

(ii) Countries with a large deficit for textiles and a very large surplus for clothing

This too applied to a single case, namely Hong Kong, which in 1975 had a net deficit for textiles of US $374 million, counterbalanced by a surplus of US $1 900 million for clothing.

(iii) Countries with large or small deficits for textiles and small deficits for clothing

There were three countries in this category:

Singapore (a deficit of US $244 million for textiles and a surplus of US $56 million for clothing);

Yugoslavia (a deficit of US $81 million and a surplus of US $180 million respectively);

Israel (a deficit of US $34 million and a surplus of US $96 million).

(iv) Countries with a very large surplus for textiles and a very small surplus for clothing

India (1974 figures: a surplus of US $810 million for textiles and a surplus of US $163 million for clothing);

Pakistan (a surplus of US $330 million and a surplus of US $31 million);

Egypt (1974 figures: a surplus of US $211 million and a surplus of US $45 million).

These three countries were particularly active in the cotton textiles trade.

(v) Countries with a small surplus for textiles and for clothing

Brazil (1974 figures: a surplus of US $167 million and a surplus of US $115 million);

Turkey (1974 figures: a surplus of US $84 million and a surplus of US $91 million);

Spain (a surplus of US $58 million and a surplus of US $132 million).

There was no rivalry in the relations between the exporting countries of the Third World. It should be said that the arrival of newcomers on the market since 1970 to some extent disrupted the hierarchy of values. The case of Korea is particularly significant in this respect. In the sphere of textiles its share in the total exports from the developing countries which are participants in the MFA rose from 5.3% (US $85 million) in 1970 to 17.6% (US $649 million) in 1975. This boom in Korean exports no doubt spared certain countries (Hong Kong, Singapore, Spain, Yugoslavia), whose

share in exports from the "Group of Eleven" remained relatively stable (around 17%, 3.5%, 6%, 5% respectively) between 1970 and 1975. They considered affected certain traditional exporters, however, whose share of the market decreased: drastically in the case of Pakistan (from 20% to 10.2%) and seriously in the case of India (from 28.9% to 22.3%) and to a lesser extent for certain other countries such as Israel and Egypt.

The Koreans have made equally spectacular headway in the clothing trade. In 1975, they accounted for 27.2% of the total exports of the main developing countries participating in the MFA (the Group of Eleven), whereas in 1970 the figure was 18%. Here Korea's share increased mainly at the expense of Hong Kong (58.8% in 1970 and 48.2% in 1975). The other countries' share either increased slightly (Singapore: around 2.5%; India 3-4%; Pakistan: around 0.5%; Spain: around 4%; Egypt: around 1%) or declined slightly (Yugoslavia, Israel). Two other countries followed Korea's example, although to a much lesser extent. Brazil and Turkey increased their share of the total exports by the Eleven, especially for textiles (increased from 2% to 7.4% for Brazil and from 1.6% and 3.5% for Turkey).

Lastly, a word about the Eastern bloc countries, three of which participate in the Multifibre Arrangement (Hungary, Poland and Romania[1]). The Eastern bloc countries as a whole account for 12% (US$ 3 900 million in 1975) of world exports (10% for textiles, i.e. US$ 1 900 million) and 16% for clothing (i.e. US$ 2 000 million). Their share of world imports is about equivalent (13%, i.e. US$ 4 150 million). Overall, in 1975 these countries had a total deficit of US$ 250 million caused by net textile imports (US$ 350 million), which the net clothing exports did not succeed in counterbalancing (US$ 100 million).

Even though the Eastern bloc countries' share of the world trade in textiles and clothing seems fairly slight, the effects of their prices policy on Western markets should not be overlooked.

[1] Romania actually belongs to the group of developing countries.

III. THE COMMUNITY AND THE GENEVA NEGOTIATIONS

The participating countries were offered three options under the Arrangement that came into force in 1974: it could be "extended, modified or discontinued". (Art. 10(5)). The decision was to be taken by the Textiles Committee (see page 6). The Committee met twice after the date on which the decision was due (December 1976), in March and April 1977, but failed to reach a final conclusion, although a majority of delegations were in favour of renewing the Arrangement as it stood. Only the Community Delegation, represented by the Commission, stood firmly in favour of modification.

The Community played a key part in the Geneva negotiations. To some extent the Textiles Committee's inability to take a decision, even as late as mid-1977, was due to delays by EEC Member States - due of course, largely to the importance of the issues at stake - in finalizing the Commission's negotiating mandate. However, on 21 June of that year the Council gave the Commission its mandate and in July the real business of negotiations got under way. But the talks ended in deadlock, a hard core of developing countries considering that the joint statement put out by the USA, the EEC and Japan amounted to a perversion of the Arrangement. The EEC, which, it will be remembered, had ordiginally asked for the MFA rules be modified, had by then agreed to renew the Arrangement as it stood provided that it was allowed to limit the growth of some of its imports. It wanted authorization to depart from the normal MFA rules (which stipulated that imports must grow by 6% a year) when negotiating bilateral agreements with its suppliers, by fixing quotas restraining imports at or about the 1976 performance level.

The Community nevertheless decided to invite its main suppliers to negotiate as though the Geneva talks had reached a successful conclusion. This was in the upshot a gamble which paid off, since a broad consensus was subsequently reached for the renewal of the MFA. However, before dealing with these bilateral Brussels talks it is necessary to look at the positions adopted by the various parties as represented in Geneva, in order to grasp the several preoccupations of the negotiators, which depended to a considerable extent on each country's experience of the MFA as it had been applied.

p. 18 contd.

1. The position in the Community

A number of explanations can be offered for the contents of the Commission's negotiating mandate, but broadly speaking they can be a arranged in three categories.

A. Failure to exploit the MFA fully at Community level

The Multifibre Arrangement offered its signatories a variety of instruments designed to enable them to bring order to their trade in textiles and garments. In that sense the MFA was a framework agreement, under which the signatories had then to make the most of the opportunities offered them. Here the Community proved rather slow off the mark - part of the price to be paid for joint action, which imposes its own limitations. Having concluded the Arrangement, - which does not apply to intra-Community trade, where complete freedom remains the rule - the Nine had to discuss ways in which the instruments now at their disposal could be wielded jointly; a problem which did not face the other MFA participants, who applied their policies on a unilateral basis. In this sector, so vital for the wellbeing of the Community's industry as a whole, it was important not to act in haste. Harmonization of the different national positions was a complex task, achieved only after much hard work on the Commission's part. Each Member State has different preoccupations: one lays stress on its pricing policy, another is primarily concerned for its export interests; yet another sees the situation largely in terms of its effects on employment ... These and other issues had to be hammered out before the Nine could arrive at a joint stance.

One of the first points the Community had to settle under the first MFA was whether a broad range of products should be covered by the import restrictions to be proposed to non-member countries, or whether only the most "sensitive" products should be affected. The question was discussed, and the second alternative preferred. This policy, known as the "selective approach", does not seem to have been as successful as was hoped at the time. In some cases, for example, restrictions applied only in respect of one Community Member State, vulnerable to a sharp rise in its imports of some "sensitive" product. But unless a corresponding set of controls are imposed at intra-Community frontiers, flouting the otherwise undisputed ground rules of the common market, it was inevitable that there would be deflections of trade between Member States. Moreover, the small number of products restrained by the Community undoubtedly caused exporting countries to branch out into different lines. To avoid coming up against the restrictions, they tended to diversify their sales to the Community. The United States, on the other hand, which had adopted the opposite, "global" approach, with "comprehensive quotas", did not appear to suffer from this type of problem. The US had, in fact, pursued the logic of its approach to considerable lengths, establishing groups of products for which the mean import growth rate was set at 6%, but imposing lower rates within the group for some products, while accepting faster growth for others.

Another question which the Community could not ignore was how to distribute equitably among the Member States the additional volume of imports from the supplier countries, given that the burden of textile and garment imports, particularly the latter, was not always equivalent from Member State to Member State (see Annex 3). After sometimes heated discussions, the Nine finally agreed on a method of balancing out the "sacrifices" to be made by each of them. When the Article 4 bilateral agreements were concluded between the Community and non-member countries, the import growth (under the 6% rule) was to be shared out in accordance with a standard formula (see Annex 4), on the understanding that these basic proportions could be adjusted in certain cases. Once agreement had been reached on this principle, it was high time to get on with the substantive task of negotiating bilateral agreements with supplier countries, whose exports to the Community were threatening, in the absence of safeguards, to get out of hand. For each of those suppliers it was necessary, despite the difficulty inherent in any new enterprise of getting recent, harmonized statistics, to achieve a result which would be to the satisfaction of all parties. And, of course, the exporting countries had their own interests to promote, which did not necessarily coincide with those of the Community, particularly since Washington had taken rapid action to safeguard the US market under the MFA provisions, and the exporters were therefore tending to demand greater concessions from the Community. It was also in their interests to delay completion of the negotiations, thus winning a respite during which they could push up sales to the Community and hence get more generous quotas (because of the system of calculating base levels: see p. 5).

In the event the first bilateral agreement under the original MFA (with India) was not concluded until 19 April 1975, i.e. fifteen months after the entry into force of the Arrangement. The negotiations with the three main suppliers, Hong Kong, Taiwan[1] and Korea (which between them accounted for 40% of the EEC's textile imports from developing countries) did not reach a conclusion until even later, on 13 August 1975, 10 July 1975 and 22 December 1976 respectively. During the final year of the MFA's validity the Community was still negotiating with Hungary, the Philippines and Thailand.
(For the list of all agreements concluded by the Community, see Annex 5). By way of comparison, the United States concluded agreements with its main suppliers in 1974, putting the final touches to its "safety net" in subsequent negotiations with the remaining countries.

B. <u>The Community: an open market</u>

Framing a Community policy for textile and clothing imports was not made easier by the fact that the Community has traditionally maintained open frontiers. The negotiation of import restrictions must have seemed to non-member countries to herald an ominous change in that attitude. Nevertheless, the tariff wall protecting the common market has remained one of the lowest in the world, with import duties ranging from 8.5% to 17% (cp 8-32% for the US and 14-28% for Japan).

Apart from Japan, moreover, the Community is the only country to have included textiles in its offer on generalized preferences. (The system of generalized preferences launched by UNCTAD calls on the industrialized countries to open zero-duty tariff[2] quotas for the developing countries, and in general to facilitate access to their markets for poor countries. In 1977 the offer covered imports worth over $500 million. Hong Kong does not qualify for these preferences).

In addition, the Community had concluded preferential agreements with a number of countries, which are thereby enabled to export their industrial products (including textiles and clothing) to the Nine at concessionary tariff rates (full exemption from duties or substantial reductions) without quantitative limitation. The agreements covered two main groups of countries: the Mediterranean countries (notably Portugal), Morocco and Tunisia; and the African, Caribbean and Pacific (ACP) States having signed the Lomé Convention - none of which could be regarded - yet - as major textile or garment exporters[3].

---

[1]Taiwan of course is not a member of the MFA, but the Community applied the provisions of the Arrangement to it on an autonomous basis.

[2]In the case of the Community, quotas apply to "sensitive" products; in other cases indicative ceilings are established. When a quota opened by the EEC is fully used up, the normal customs duty is restored.

[3]With the exception of the Mauritius free zone, where a number of Hong Kong industrialists set up operations, the major ACP textile producers produce primarily for the domestic market (Ivory Coast, Madagascar, Upper Volta, Tanzania).

Although a number of these countries are MFA signatories (e.g. Spain and Turkey) they could not in principle be made to accept voluntary restraint as the provisions of the preferential agreements take precedence over those of the Multifibre Arrangement. In practice, as we will see, compromises have been worked out, as the Community was unwilling to leave the preferential countries out of its 1977 negotiating scheme, at least in respect of the most sensitive products.

C. Pressure from both sides of industry

For a number of years now the textile and clothing manufacturers and unions in the EEC have been calling attention to the decline of the industry. Since 1973, nearly 300 000 jobs have been lost (see Annex 6), and within the industry itself the blame for the problems of a sector in which the trade balance swung into the red for the first time in 1975 is laid primarily on the excessive ease with which developing and Eastern bloc countries have obtained access to the EEC market. Three documents presented to the European authorities in recent years illustrate this view of the reasons for the crisis, and the demand for counter-measures.

- The EEC textile and clothing industries' manifesto (October 1975), drafted by Comitextil, the body representing the textile producers' federations from the nine Member States. Their representatives pointed out in the "manifesto" that the textile and clothing industries "are presently going through the most serious crisis of their post-war history". They stressed the importance of the industries, with their 4 million jobs, and sophisticated technology ($400 000 is the cost of providing one job in a modern mill), and noted that "if the Community had to import all the textile and clothing it consumes it would face a bill of the order of US $40 000 million". For security reasons too "it is as unrealistic to seek to abandon important parts of textile production as to stop producing basic foodstuffs". Their conclusion was unequivocal: "to maintain viable and prosperious textile and clothing industries within the Community", the essential need is for orderly development of the international trade in textiles and clothing. To that end, Comitextil called for (1) use of all the powers contained in the Multifibre Arrangement, for the benefit of the Community textile industry; (2) continued application of the common customs tariff to all imports except those from genuinely less developed textile producing countries (e.g. withdrawal of GSP from the developed Asian producers, Yugoslavia and Brazil, and maintenance of the exclusion of Hong Kong and the state trading countries).

- The European textile and clothing industries and the international division of labour (May 1976) is a "solemn warning" drafted jointly by Comitextil, the European Clothing Industries Association and the European Trade Union Committee: Textiles, Clothing and Leather, which represents unions in these industries in Brussels. Industrialists and the unions cooperated to enlarge on the ideas already present in the 1975 manifesto, attempting a thorough-going refutation of theories on the international division of labour, which in their view would, if applied to the Community industry, result in a transfer of the activities of the textile seotor to the Third World.

The authors of the paper, which was presented to Community authorities, pointed out that "the textile and clothing industries have already paid a heavy price for the policies pursued so far". They produced figures in support of this contention: some 750 000 jobs were lost in Western Europe's textile industry between 1963 and 1975 (over one in four), and 300 000 in the clothing industry. As a result of political decisions, a number of traditional markets had been closed to exports from Western Europe countries, which for their part had made a big effort to increase their imports, and in 1974, had alone absorbed 34% of all exports from the developing countries and 48% of the exports from the same countries to the industrialized countries. For certain finished products, such as shirts or trousers, imports were accounting for up to 80% of home consumption.
"To avoid aggravating the present social problems in Europe and creating an explosive situation", it was necessary to alter the Community's commercial policy on textiles and clothing. Industrialists and unions alike criticized the theory of the international division of labour which in their view had lead to "a textile mono-industrialization in countries of the Third World, without bringing about a sound industrial development". "Consumer goods industries", they added, "are not necessarily those which benefit growth". In any case, the decision to develop the Third World's textile industries was not a particularly wise one, since growth in that sector was significantly lower than the world growth rate for manufacturing industry as a whole. They noted further that the theory of the international division of labour had been "conceived at the beginning of the industrial revolution, in an economic and sooial climate completely different from the one we know today. It presupposed complete mobility of labour, of capital, and utter freedom of trade. The social aspect of the problem oreated by the transfer of operations to other parts of the world was never, at any time, taken into consideration".
Again, "the principles of perfect competition are smashed by the ever growing intervention by governments. Import restrictions ... are usually only an answer to the abnormal conditions of competition existing in international markets, ... the consequence of investment or export aids, of competitive devaluations or price policies. ... The conditions ... prerequisite for an international division of labour as oonceived in the minds of its authors have not been fulfilled".

In the eyes of these representatives of the industry, the theory of comparative costs suffered from two major weaknesses: the comparative advantages and disadvantages existing at any given moment were continually called into question because of technological change; and they were looked at only in connection with individual industries, without taking into consideration the costs to the economy as a whole, or of the need to import certain semi-essential goods or technology.

If the sacrifices made by Europe's industry had actually benefited the developing countries, they would not have been in vain. But, contended the authors, this has not been the case. "Applying ... the idea of the international division of labour has led to over-industrialization in a limited number of territories and countries". In Hong Kong, Korea and Taiwan, "the use... of very modern machinery, coupled with the exploiting of underpaid labour, has attracted a great deal of capital in search of maximum profit". Coupled with this was the threat from state-trading countries "whose sales policies are based on entirely artificial exchange rates".

"In short", they continued, "the international division of labour has brought about a situation, at world level, of imbalance as harmful to the industrialized countries as to the genuinely developing countries", which have been unable to take advantage of the opening up of the industrialized countries' markets. "Their share of the total exports of the so-called developing countries as a whole has remained very small; furthermore, due to the competition they have met, prices received have been unremunerative and in fact have contributed to a further impoverishment of their economy".

On the basis of these findings, textile and clothing industries and unions formulated a number of concrete proposals:

(1) the introduction of a set of rules for world trade, including "differentiation ... between genuinely developing countries and the over-industrialized countries in the textile field";

(2) "Tariff preferences must only be granted to genuinely developing countries and should be withdrawn from those countries which do not or no longer need them";

(3) countries at present wrongly described as "developing" should open their frontiers more;

(4) infant industries should not qualify for exceptions to GATT trade rules on export subsidies and dumping.

In conclusion "any international agreement on trade should include a social clause. The terms of such a clause should ensure that the rights under the agreement could only be invoked by those countries having ratified and applied the international norms inherent in the conventions and recommendations of the International Labour Organization, in fields such as: security of employment, guaranteed income, fair conditions of work, security, hygiene and health".

- Strategy of the European Textile and Clothing Industries (October 1976)
This document was produced jointly by Comitextil and the Common Market Committee of the European Clothing Industries Association, who after outlining the problems faced by the industry in Europe (loss of jobs, rising imports) went on to comment on the Community's commercial policy. In their view, the measures which had been taken up to that date in application of the (first) Multifibre Arrangement had been "too late, too weak, and insufficiently coordinated". At the same time, the Community had been continuing "to make a series of new concessions to countries with which preferential agreements, unbalanced so far as textiles are concerned, have been concluded", and "to be the only major economic bloc to grant substantial tariff preferences for textile products". The European textile and clothing industries accordingly felt that it was time for a change of direction, and called for the adoption of "all measures necessary to recreate the economic conditions necessary for the development of the EEC's textile and clothing industries". It was important to remember that "each additional tonne of deficit corresponded roughly to one job lost - in the short term, a loss of hard currency - in the longer term, a weakening of the Community's economic power".

2. The EEC's negotiating strategy

We have seen that three sets of circumstances - the problems of applying the MFA at Community level, a market which was too easily accessible, and pressure from industry and the unions - influenced to various extents the attitudes adopted by the Member States towards renewal of the Arrangement. Obviously, a more general source of anxiety was also the Community's worsening textile trade balance in recent years (see page 13). In practice the 6% import growth rate stipulated in the MFA had turned out to be simply a notional minimum rate. Between the entry into force of the MFA and the conclusion of the first bilateral agreements with the Community's three largest suppliers (Hong Kong, Korea and Taiwan), their exports to the EEC increased by 20% (in value). During the period 1970-74 the EEC's textile and clothing imports rose by 225%, as against 64% for the United States. Overall, the rate of penetration (the ratio of imports to consumption) in the Community was put at 20% (10% for the US). For some products (e.g. cotton trousers, tee-shirts, undergarments, pullovers, socks and stockings, shirts) it was much higher. To take a single example: shirts. With total EEC consumption estimated at 250 million pieces, imports (i.e. extra-EEC), which in 1973 accounted for just under 45% of this figure (118 500 million pieces), had risen to cover 68% of consumption. From 1973 to 1975 the Community's imports rose by 35%. Seventy per cent of these imported shirts come from the three major suppliers: Hong Kong (120 million pieces: 36.6%), Korea (25.2%) and Taiwan (8%). A further 12% come from Eastern bloc countries (20 million pieces). The provisions of the MFA offered no means of checking the flow of these imports, either because the quotas had been set too high (e.g. for Hong Kong), or because they were exceeded (Korea and Taiwan).

Obviously, the situation in which the EEC Member States were placed at the time when the renewal of the MFA was being discussed had its effect on the negotiating directives given to the Commission, which by virtue of the Treaty of Rome is authorized to speak for the Nine in international trade negotiations. Early in January 1977, the Commission had accordingly proposed to the Member States a draft mandate for the renewal of the MFA. This mandate, after discussions among the Member States, was approved by the Council in a slightly modified form at the beginning of March. The Commission could not go on to implement the mandate, however, until internal agreement was reached between the Nine, who were determined to secure the firmest possible guarantees on the balanced application of any new arrangement.

A. The Commission's brief

The Member States had approved most of the general terms suggested by the Commission, including an agreement that the new arrangement should run for five years instead of four. They were also keen to re-affirm the exporting (and importing) countries' obligation to afford full and prompt opportunity for consultations or negotiations; a provision designed to counter the reluctance or tardiness of exporters in acceding to importers' requests. The Member States also wanted "realistic and equitable" treatment for new MFA members; such a clause was designed to ensure that the Nine would not have to offer new countries certain privileges (particularly with respect to the elimination of quantitative restrictions) accruing to the original MFA countries, without corresponding guarantees. Similarly, the Community wanted to ensure that in future extra conditions could be imposed on MFA countries which were not members of GATT, and also felt that importing countries should be more strongly represented on the TSB.

- A new definition of "market disruption" (Annex A)

  We have seen (cf page 5) that the purpose of recourse to the MFA's Article 3 (consultations, provisional agreements or safeguard action) and Article 4 (bilateral agreements) was to remedy or prevent "market disruption", but that it was extremely difficult to prove such disruption. The EEC was therefore eager to arrive at a more flexible definition, while retaining the same two basic factors.

- "A sharp and substantial increase" in imports should not be the only relevant criterion. The Commission, with the backing of the Nine, suggested taking certain other factors into account: the rate of market penetration, the trend of domestic consumption and the cumulative effect of imports. The significance of the third of these factors lay with the Community's desire to show that for certain categories of products the market situation could not be judged

solely by reference to major suppliers, but should be assessed as a whole, taking all supplying countries, large and small, together. "Market disruption", in other words, was not necessarily caused by one or two of a group of suppliers, but by all of them, which calls for a special sort of safeguard action.

- The MFA recognizes that "prices substantially below those prevailing ... in the market of the importing country" may contribute to market disruption. To prove disruption, however, it is necessary in theory to be able to point at the same time to a sharp and substantial increase in imports. In the view of the MFA, then, the volume and price elements "generally appear in combination". The Commission and the Member States wanted to make certain - the wording of the Arrangement being somewhat vague on this point - that it was possible to take the two factors separately, and cite either the price or the volume of imports as proof of disruption, without having to prove both together. The Member States had further agreed among themselves that prices clauses might be incorporated in future bilateral agreements.

- A more flexible minimum growth rate for imports

  (Annex B)
  We have already seen (page 5) that restrictions imposed by an importing country could not, in the first instance, be set below a certain base level equal to the volume of actual imports during the preceding twelve-month period, and that for any succeeding years the base level had to be increased by 6% (the growth rate) a year. Bilateral agreements concluded pursuant to Article 4 were required to be more liberal overall that these minima, which could be departed from only in exceptional circumstances. As the Member States were anxious to comply with the letter of the Arrangement, they sought fuller definitions of base levels and growth rates which would spell out the limitations.

- Base levels: During the bilateral negotiations held under the first MFA, a number of the Community's trading partners stepped up their deliveries, while at the same time stalling on the negotiations, with the aim of artificially raising the base levels. To prevent similar practices recurring, the Community wanted to ensure that in future the request for consultations or negotiations would be used to fix the reference period for calculating base levels. In addition, the MFA allowed exceptions to the rule for establishing reference periods, which operated solely in favour of exporting countries, which could ask for several years' performance to be taken into consideration if the normal twelve-month period was unfavourable to them. The EEC wanted this possibility to be open to importers as well, allowing them to plead "exceptional circumstances" (high penetration rates, cumulative effects) to obtain a more favourable reference period.

- Growth rate: The Nine wanted an Arrangement which would benefit the smaller suppliers, especially the poorest among them, at the expense of major exporters; such discrimination would be reflected in the growth rates, which would need to be correspondingly lower for supplying countries with a sizeable market share. The Community's innovatory proposal was that the annual growth rate should vary inversely in relation to the import penetration rate (i.e. of imports from all sources), and even, in exceptional cases, be cut to under 1% for supercompetitive countries with a large share of the market.

Cottage industry products: The MFA does not apply to hand-made cottage-industry products. It is not always easy, however, to tell whether some articles are hand-made or not. This is not simply hairsplitting. During the first nine months of 1976 India exported 7 116 000 shirts to the United Kingdom whereas their annual quota was only about 710 437 pieces. India claimed that the quota had not been exceeded, since the products involved were hand-made. United Kingdom experts attempted to disprove this assertion, without really succeeding. It was to avoid repetitions of this sort of situation that the EEC wanted a fuller definition of hand-made products, and they were particularly keen that to ensure compliance with the letter of the MFA, which stipulates that in the absence of certification (or origin control) arrangements between the importing and exporting participating countries concerned, the MFA would apply to hand-made products.

B. Joint discipline for the Nine

Thus the Community found itself confronted once again with the massive task of negotiating a series of bilateral agreements with its main suppliers. To avoid delays which could prove fatal to the equilibrium of the internal Community market, the Member States had worked out a set of ground rules for guidance in their dealings with the exporting countries, and these, added to the earlier decisions on the selective approach and the burden-sharing formula, provided a solid platform for the Community's conduct of the negotiations. The Community's aim was to achieve a real stabilization of imports, particularly for products with a high penetration rate (import/consumption ratio) on the Community market. Stabilization would offer the industry in the Community a breathing-space during which it could adapt itself to the new market conditions, and should also be beneficial to new suppliers. After long discussions the Member States finally decided on the following method to achieve these objectives: the Community established import ceilings for eight highly sensitive products (cotton yarn, woven cotton fabric, woven synthetic fabrics, shirts, blouses, trousers, pullovers and tee-shirts). These were not, strictly speaking, quotas, but upper limits which the Community would take into account in negotiating with their suppliers, thus getting a chance to favour "newcomers" at the expense of countries which had already taken a big share of the Community market (for the products in question this could vary from 25% to 60%).

Finally, the Community planned to conduct all the negotiations for bilateral agreements with its suppliers simultaneously, so that the agreements could all be signed by a date some time before the end of 1977, when the 1974 MFA was due to expire.

By calling for extremely specific changes to the operation of the MFA, the Community clearly set itself apart from the other participants, whether developed importing countries or developing exporting countries, who, officially at least, had all voted to renew the Arrangement as it stood.

Industrialized countries: the United States had come out in favour of a straight renewal of the MFA, but their representative in Geneva had indicated that he was willing to examine any proposals for amendments. There was considerable pressure on Washington from the US industry, and in a resolution published in February 1977 the American Textile Manufacturers Institute (ATMI) made it clear that it wanted further protection of the US market. What the American industrialists were asking for was that import growth should be reined back to match the growth of domestic demand (3% in 1977, as against the MFA minimum of 6%).

Japan was an avid supporter of the original MFA, which in its view should form the basis for further liberalization of trade in textiles and clothing.

The Scandinavian countries (Sweden, Norway and Finland) were in favour of the original Arrangement, since it contained a clause (known in Geneva as the "Nordic clause") which allowed them to protect a "minimum viable production of textiles", so long as it was used judiciously in practice.

The other industrialized countries (Canada, Australia, Austria and Switzerland) were by and large in favour of renewal.

Developing countries: in defending the original MFA, these countries hoped to consolidate the liberalization of textile trade which had taken place over the preceding few years. Those with new textile industries were keen to obtain guaranteed outlets for their future production. The major exporters, realizing that the calls for protectionism in the industrialized countries were chiefly directed against them, were anxious to avoid any changes in the MFA which might allow discrimination against them.

C. The bilateral agreements: a race against the clock

By the beginning of July the stage was set. The MFA members had prepared their different negotiating strategies. The Textiles Committee, meeting in Geneva from 5 to 23 July, needed to work out a formula for renewing the MFA. Arduous discussions failed to produce any unanimity among the delegations, but a majority of the participants (representing 85% of the world's textile trade) did come up with the outlines of a new arrangement. This agreement was based on a document submitted by the Community, the US and Japan, according to the terms of which the Textiles Committee recognized that:

(i) the MFA should be extended in its original form, the agreement of the EEC to signing a renewed MFA being conditional, however, on the satisfactory completion of its negotiations for bilateral agreements with its Third World suppliers;

(ii) any agreement would contain a reference to the difficulties being experienced by the EEC and the exporting countries' intention to bear these in mind during bilateral negotiations. It would also make it explicitly clear that the EEC could in certain cases depart from the normal MFA rules, i.e. that for sensitive products it would be allowed to establish import quotas at 1976 levels, which in some cases involved cut-backs rather than the increases stipulated in the MFA.

"A hard core of exporting countries", to use the words of the EEC's negotiator, Mr Trân Van Thinh, remained, however, opposed to this compromise approach, which would open the way for a renewal of the MFA subject to certain assurances to be given to the Community. The "hard core", which included India, Pakistan, Egypt and Brazil but none of the major South-East Asian exporters, must doubtless have felt justified in taking that stand when, as the Geneva negotiations commenced, they learned of the safeguard action taken by Brussels to control imports of various textile products; the Commission, in order to ease the difficulties of certain Member States, had been obliged to adopt a series of import restrictions for the second half of 1977. Cotton yarn imports were restrained for the Community as a whole; for France, tee-shirts and men's and women's shirts were controlled; for the United Kingdom, tee-shirts and men's shirts; and for Germany, Benelux and Denmark, tee-shirts again.

These measures were certainly not calculated to lower the temperature at the Geneva talks. But in spite of the failure to reach full agreement, a protocol renewing the MFA for a further four-year period was drafted, to be open for signature from 15 December. Thus by the beginning of September the deadline had been set and for the Community the countdown began. The Community had made up its mind not to be deflected from its course by the Textiles Committee's inability to hit on a unanimous formula, and went ahead with organizing a negotiating "round" designed to lead to the conclusion of bilateral agreements with over twenty supplying countries. The Commission was given a key part to play in implementing this strategy. After the inconclusive Textiles Committee session in July, the Commission had at once concentrated its efforts on obtaining from the Nine the means to conduct a swift and effective campaign of negotiations with the EEC's suppliers. These the Council of Ministers provided on 20 September, by approving the broad outlines of a Community textiles policy, based on a set of measures backed by the agreement, in principle, of all Member States:

(i) from 1 January 1978, a new system of surveillance and control would be introduced, covering imports of <u>all</u> textiles from <u>all</u> origins, and designed to produce full, accurate and up-to-date information on imports;

(ii) new rules of origin were needed to cover all textiles imports, to prevent abuses or possible deflection of trade;

(iii) any opening up of the Community's markets should be accompanied by reciprocal concessions on tariffs (some Third World countries maintain prohibitive customs duties) and non-tariff measures;

(iv) countries linked to the Community by preferential agreements would be invited to cooperate in the drive to slow the growth of textile imports;

(v) the Community's 1979 GSP (Generalized System of Preferences) offer

would substantially increase the volume of textiles which could be imported under the scheme, on the understanding that favourable treatment would be given to countries having made major concessions under bilateral agreements with the Community;

(vi) the policy of orderly opening up of markets would have to be backed up by a genuine industrial policy; such a policy, indeed, could not succeed in the absence of internal action.

On 20 September the Council, in addition to approving the outlines of the Community's policy, gave the Commission a mandate to conduct the bilateral negotiations, although the detailed negotiating directives had yet to be hammered out between the Commission and the Nine. In the event the directives closely followed the mandate which the Commission had received from the Member States for the July renewal negotiations in the Textiles Committee in Geneva. The model agreement which the Community proposed to the 25 supplying countries contained a set of reciprocal obligations; in return for voluntary restraint of exports by the suppliers, the Community would guarantee security of access to its markets. The negotiations proper were essentially concerned with fixing the restraint levels, and, in the case of the Eastern bloc countries only, price controls. The restraint levels offered to the various exporters were worked out according to the following system:

(i) the starting point for the calculation was the level of the Community's imports of each product for 1976. This provided a base level on which growth rates could be worked out. Obviously, the choice of 1976 as reference year meant that a number of supplier countries (particularly the South East Asians) had to accept cutbacks in their exports in cases where their 1977 performance had surpassed that of 1976.

(ii) Products were divided into six groups according to their rate of penetration (import/consumption ratio) on the Community market.

<u>Group I</u>: highly sensitive products; these were in fact the eight products which the Council had identified in June 1977 (see above), i.e. cotton yarn, other woven fabrics of cotton, woven fabrics of synthetic fibres, knitted shirts and tee-shirts; jerseys and

pullovers; men's and women's trousers; women's blouses; and woven shirts.

Group II: other sensitive products with a penetration rate of over 20% in the Community as a whole ;

Group III: other yarns, fabrics and simple made-up goods ;

Group IV: other garments and knitted or crocheted articles ;

Group V: all other MFA products ;

Group VI: products of flax and ramie ;

A global import growth rate was fixed for each group of products.

Once the scope of the Community's overall offer, product by product, had been defined, the total import volume had to be divided up amongst the various supplier countries, and this was worked out on the basis of 1976 trade patterns. It was this distribution of the volume which constituted the substance of the negotiations, and the whole operation was therefore dependent on the negotiations being conducted simultaneously, since the sum total of the quotas offered to each supplier could not exceed the global restraint level set by the Community. But the Community managed in every case to allow suppliers an overall annual 6% export growth rate. Obviously, the growth rate varied according to the product, and in some cases suppliers had to accept cutbacks to deliveries. Putting together this veritable jigsaw of restraint levels meant two months of frenetic activity for the Brussels computer experts, but the hail of figures could not obscure the stark fact that failure in the bilateral negotiations would have resulted in a dangerous degree of tension between the Community and its Third World trading partners. The Commission spared no effort to make sure that the Damoclean sword of the GATT Article XIX, which hung constantly over the negotiations, would not need to be issued, fearing that its use by the Community to counter the failure of negotiations could have given the signal for a rush into protectionism at international level.

IV. Man-made fibres

Europe's textile industries and trade unions took a close interest in the progress of negotiations on the Multifibre Arrangement. To them the connection between the development of trade and the fate of the industry in the Community was clear. An example of this link can be seen in the case of Western Europe's mand-made fibre producers, not only because 50% of their output goes to the clothing industry (the remaining 50% is used for domestic and industrial products), but because the share taken by man-made fibres in the world's total fibre consumption, today at 60%, has been on the increase and could be as great as 72% by 1985. The Paris-based International Rayon and Synthetic Fibres Committee, which includes the main Western producers, published in September 1976 a study on the future of the man-made fibre industry in Western Europe.

The study contained a critique of the principles governing the international textile trade, and attempted an assessment of the impact of imports on the job situation in Western Europe. Obviously, this kind of crystal-gazing is of limited value, but it does serve to point up a number of implications.

1. The irrelevance of GATT rules in the textile trade

Western Europe's man-made fibre producers considered that international trade was suffering from distortion, and that free trade had become an impossibility. In support of this contention they put forward a number of general considerations, the substance of which was that the foundations on which GATT had been based, in 1947, were crumbling. The energy crisis had made fast growth a thing of the past; completely free trade was ruled out by the developing countries' balance of payments problems; freedom of enterprise had been called into question with the appearance of the state-trading countries; the mobility of production factors, especially labour, had considerably diminished. All this meant, according to the IRSFC experts, that the comparative advantage rule no longer applied; and they went on to give a breakdown of the costs at each stage of the clothing industry. This shed a little more light on the conditions of competition between the developing and the developed countries. The IRSFC's contention was that the situation reflected in the imbalance between textile imports and exports in Western Europe was to some extent the result of real differences in costs, but more often of the fact that prices in many cases were not based on any real cost advantage. About the various stages in the production of clothing in the IRSFC study had this to say:

Petrochemicals: the petrochemicals industry, with its extreme technicality and highly-skilled labour force, sends 25% of its output to the man-made fibres industry. Apart from the labour element, two factors determine the industry's production costs: capital, and crude petroleum. The oil crisis at the end of 1973, noted the report, revealed the crucial incidence of crude oil costs in the price of naphtha derivates. This is shown by the United States, for example, which supplies 60% of its own requirements in oil, and by the end of 1974 had an advantage of 35 cents/kg for polyester over European producers totally dependent on imported oil. A 3-4 dollar difference in the price of a barrel of crude oil can make a difference of about 20% on the price of polyester (fibre). The question put by the IRSFC experts was: how was it possible to prevent oil producing or state-trading countries cornering these advantages? On this matter the GATT, they felt, could give no assistance.

Man-made fibres: fibre prices are largely determined by international supply and demand elasticity. In a recession, prices on the export markets are nearer marginal costs than average costs, and may even fall below them. Transport costs have risen, making it increasingly difficult for European producers to make a profit on deliveries to distant markets. All this means that only local markets can ensure a future for Europe's

man-made fibre industry. This assessment appears to be a realistic one, particularly in the light of the worldwide development of man-made fibre capacity to satisfy local industries' demand for fibres.

The textile industry: over the last ten years - and more markedly in the last five years - the textile industry has become highly capital-intensive. For that reason the IRSFC study concludes that it does not really enjoy a comparative advantage in the developing countries, which often have to borrow to pay for the costly machinery. How is it, then, that they manage to compete with the developed countries? They have achieved their position in two ways:

(i) the Korean/Taiwanese approach

This involves a highly-protected domestic market (by tariffs which range from 25% to 100%, or quotas). Thus protected local producers can charge high prices, passing on to domestic consumers fixed costs (loan redemptions) and overheads (interest on the loans), which are much higher than the labour costs. The study gives several examples. For a fabric in a 55% polyester 45% wool blend the costs can be broken down as follows: raw materials (fibres) - 37%, fixed costs and overheads - 35% (18% and 17% respectively), labour - 24.5%, and energy - 3.5%. For an acrylic fabric: raw materials - 48.5%, fixed costs and overheads - 39.5% (17.5% and 22% respectively), labour - 8%, and energy - 4%.

By passing their fixed costs and overheads on to local consumers, countries such as Korea and Taiwan can export on extremely favourable terms. Given that they also have highly-protected fibre producers and cheaper labour than the industrialized countries, the performance of such countries on world markets becomes understandable.

(ii) the Hong Kong approach

Hong Kong's internal market is not big enough to support the setting-up of fibre producers and spinning or weaving mills. It is much cheaper to go to foreign markets for raw material supplies, including fibres, which in an excess capacity situation can be obtained at knock-down prices. According to the IRSFC, a number of Asian producers have been able to get supplies of polyester staple at prices which would not have covered the raw material costs in Europe. The difference between European and Asian prices represented a sum greater than the value added by warp knitting, and over half the value added by weaving on a modern loom. It is also worth noting, although the IRSFC study did not bring this out, that Hong Kong, although a major exporter of textiles, is still a net importer[1]. This is because as well as its raw materials (i.e. fibres), it also imports large quantities of textiles to supply its garment-making industry.

---

[1] See Annex 2.

As well as these two approaches, the study also mentions a third, less clear-cut formula which is that adopted by the state-trading countries, whose export prices do not reflect real production costs. In general terms the developing and Eastern bloc countries are also accused of indulging in various practices which further boost their competitivity, such as production or export subsidies, multiple exchange rates, or open dumping. The IRSFC questioned the GATT's ability to prevent this sort of practice (which includes passing on fixed costs and overheads to domestic consumers); to do so would require, in their view, an army of international functionaries simply to uncover their occurrence. Added to this, the industrialized countries, less than easy in their own conscience, cannot speak out systematically against the developing countries. It was to be feared, indicated the study, that Western governments in coming out officially in favour of the development of poorer countries, but failing to increase their aid substantially to help those countries with their balance of payments problems, were simply throwing aid into the scale against industries such as textiles. The slogan "trade, not aid", therefore, appeared somewhat equivocal in that it both sanctioned operations forbidden under GATT rules and allowed the governments of developed countries to avoid moral and financial commitments which for domestic political reasons they were unable to undertake.

The clothing industry: Europe's clothing industry, asserts the study, is the most competitive in the world. With a few exceptions, the advanced machinery for improved production has been developed in Europe. Productivity has risen constantly. European manufacturers adapt quickly to changing fashions, and produce quality goods, increasingly using skilled labour. But with all these points in its favour, Europe's industry is unable to withstand competition from the developing countries, in an activity where labour costs are crucial. The prices of fabric or fibres counts for relatively little in the cost of garment production. The quintupling of oil prices had practically no effect on the price of the finished product. But in the developing countries, there is a pool of cheap labour which makes it possible to slash prices on the world markets. In addition to low wages, sometimes barely at subsistence level, there may be a virtual absence of social security provision. Social legislation, notes the report, varies widely, as does the degree of intervention from country to country. In the Far East, the law on employing children is rudimentary, and as wages rise according to age, the resulting situation is not hard to imagine. The IRSFC gives figures to suggest the order of magnitude of the wage gap between Europe and the Far East. The hourly rate for the German industry (1974/75 levels) was DM 6.78, in Hong Kong DM 1.75, and in Korea and Taiwan only DM 1. German firms also have to make social security contributions amounting to 59% of the hourly rate, whereas in the three Asian countries mentioned contributions were equivalent to only 10% of wage levels.

The developing countries consequently have a clear advantage at this culminating stage of the production garments, and this has a considerable impact on the various upstream industries. The IRSFC points out that this effect can be observed clearly in the United States, where despite unsurpassed productivity the man-made fibre and textile industries are completely vulnerable to imports of finished goods".

2. 1985: A bleak future?

What would be the implications for Europe of a rapid growth in textile and clothing imports? The IRSFC experts stressed the negative effects of a marked increase in sales by foreign countries in Europe:

(i) The transfer of industries would not only affect those industries in which the developing countries have an advantage
In other words, if the European countries continued to import large quantities of garments the clothing industry would not be the only industry that will have to be transferred abroad. "It is of the utmost importance to stress that imports have a direct effect on the man-made fibre industry irrespective of the stage reached in the manufacturing process. The nearer the imported article is to the finished product bought by the consumer the greater the number of processing sectors affected". "In other words, if a polyester-cotton shirt is imported there is not only a drop in production in the sector directly concerned but also in the weaving, man-made fibre spinning and petrochemical sectors". All the various stages in the European textile manufacturing process would have to be transferred abroad, regardless of whether they were competitive.

(ii) Existing industries would run into difficulties
Many firms are active in different sectors of the industry and integration of their various operations is the key to their stability; the rapid transfer of certain sectors would inevitably have a detrimental effect on others. There is a danger that, as a reaction to redundancies in certain sectors, trade unions and firms operating in the other branches of the industry would resist productivity improvements in those branches. The IRSFC also said that the loss of markets would make it difficult to achieve economies of scale, which are essential in several branches, especially those based on modern technology. The firms concerned would be less and less able to find compensation through exports for the loss of internal markets. The ultimate effect of a drop in production would be rising costs, a tailing off of research and development and a fairly generalized irreversible decline.

(iii) Redundant workers would have difficulty in finding new jobs
Opportunities for retraining will be limited by the prospect of only moderate growth in Europe over the next few years, the lack of mobility among workers and the concentration of textile jobs in economically depressed areas. Workers made redundant in the textile industry will not find new employment easily."If the growth of textile imports is not balanced by the development of new industries and an increase in foreign trade in the goods they produce, Europe might experience financial upheavals similar to those brought about by the rise in oil prices in 1973/74."

(iv) The United States might be one of the countries to benefit from the decline of European industries

Washington's policy on textiles was more realistic than that of the European authorities, in the view of the IRSFC. The Americans immediately applied all the safeguard clauses of the Multifibre Agreement without limitation. American manufacturers benefit from a more protected market and cheaper raw materials owing to the dual oil market and they have become increasingly competitive on world textile markets. America could become the undisputed centre of technical development in fibres and textiles.

In order to illustrate the dangers confronting the European textile industry in the years to come and the threat to European man-made fibre producers in particular, IRSFC experts engaged in the inevitably risky business of forecasting. They themselves recognized that "the uncertainties surrounding trends in the general economic situation in 1976 are such that it seems risky, or even foolhardy for anyone to want to make reliable forecasts for the years ahead". These reservations did not, however, stop them going ahead with their predictions, the purpose of which was to assess what proportion of the end consumption of fibres (textiles for domestic and industrial use) would be covered by Western European production in 1985.

The scenario is based on three assumptions:

(i) GNP growth of 3.5% per annum between 1974 and 1985
(ii) demand elasticity of 0.8%
end consumption in 1985 (on the basis of the above growth rate and demand elasticity) amounting to 6 million tonnes fibre equivalent.

The principal unknown factor is the future trend of textile imports (the authorts of the study ignore the trade share of what are, strictly speaking, non-textile products for domestic or industrial use).

A scenario that would please fibre producers

Net imports would increase at a rate of 3.5% per annum, i.e. at the same rate as GNP. If this happened the damage could be limited. Net imports would reach 550 000 tonnes fibre equivalent or 9.2% of end consumption (6 million tonnes). This percentage corresponds to the 1974 figure and would enable manufacturers to maintain production of man-made fibres. This rate of growth for imports was based on the assumption that the 6% clause in the Multifibre Arrangement would be amended. The percentage of sales in Europe of garments from abroad could then be limited to 18%.

A scenario that would spell catastrophy

Net imports would increase in this case by 16%, which means no improvement in the export situation and an 8% rise in imports.

In other words, the assumption here was that the Multifibre Arrangement would not be amended[1]. In this case, net imports would reach 1 750 million tonnes fibre equivalent or nearly 30% of end consumption. This would mean that in 1985 50% of Western Europe's clothing requirements would be covered by imports.

What would this mean in terms of jobs? The IRSFC has analysed the impact imports would have on various types of production, taking into account some minor changes in certain parameters and assuming a 4% increase in productivity in the textile industry.

The conclusion reached is that the level of employment in the textile industry would drop by about 1.6 million workers between 1975 and 1985, assuming a growth rate of 6%-8% in imports from the developing countries and state-trading countries only (imports from developed countries remaining at present levels) and assuming that Western Europe is unable to step up its exports. The clothing sector would be completely disrupted in some sectors and the weaving, spinning, man-made fibre and petrochemical industries would be in such a state of disarray that they would soon find it impossible to achieve economies of scale. For some sectors, for instance the cotton weaving or spinning sector and several parts of the garment-making industry the penetration of imports onto European markets would be so far-reaching that firms affected by this competition from third countries would have no chance of surviving.

[1] Plus a risky assumption with regard to exports.

V. The new bilateral agreements concluded by the EEC

A. Implementation of the new Community approach

As the first period of application of the MFA drew to a close, the Community found itself, as described above, confronted with an excessive growth of imports from its low-cost suppliers. The rapidity of this growth meant that the Community textile industries could not adjust in time, given the adverse economic climate.

In order to deal with this situation, the EEC took two crucial decisions:

- First, with the agreement of the great majority of its MFA partners and by way of derogation from the rules of the Arrangement, it decided that import growth could be authorized only on the basis of differentiation by product.

- Secondly, it abandoned the selective producy-by-product approach which it had adopted in the first round of MFA negotiations and turned instead to a global approach covering all MFA products.

These decisions were backed up by a number of other measures, in particular the inclusion of the "preferential" countries within the ambit of the negotiations.

1. The global approach v. the selective approach

After the first four years of operation of the MFA the Community found that the arrangements it had introduced at the time of the first round of negotiations in 1974 were not working satisfactorily.

It should be recalled that under these arrangements - the selective approach - the supplier countries were asked to restrict only their exports of few sensitive products, and in respect of one or two Member States only in many cases. This opened the door to damaging growth of imports of products not subject to restrictions.

For this reason the Brussels authorities adopted a global formula for the new MFA negotiations, analogous to that applied by the USA though with certain differences.

(a) Quotas for all products

All textile products covered by the MFA are now subject to quantitative limits

However, the Community approach presents a number of original aspects:

- Only eight "super-sensitive" products are subject to internal Community global quotas. In the case of these products, total imports into the nine Member States are guaranteed not to exceed the amounts laid down at the outset.

- At the same time, quotas have been established for certain products other than the eight super-sensitive products, but only in respect of the Community's major suppliers.

  For the rest - the small suppliers - special arrangements have been established, namely the "basket" system (see below), which should make it possible to prevent a dangerous increase in imports from any of these countries.

- Lastly, under the preferential agreements concluded by the Community with a considerable number of developing countries (Mediterranean countries and ACP States) the Community is not normally able to restrict imports from those countries except by invoking the safeguard clause in the agreements, with all the drawbacks that entails, and in any case the clause is not applicable to certain of the countries concerned, as we shall see in due course.

Hence the arrangements established by the Community cannot really be described as identical to the American system, which is completely closed against any unauthorized increase.

(b) The "basket" system

The principle of the basket system is as follows:

Once the Community had decided that certain imports must be stabilized at 1976 levels, or that growth must be authorized in accordance with certain percentages, it found itself faced with two possibilities:

- either the supplier country in question accounted for a sufficiently large share of imports from outside the EEC to warrant the negotiation of a specific quota;

- or it was one of the numerous groups of small suppliers and its market share was too small to warrant the establishment of rigid quotas. Moreover, according to the spirit of the MFA, such suppliers were supposed to increase their share of exports more rapidly than the major suppliers.

For each category of products, therefore, it was agreed to negotiate not on the basis of quotas but on a percentage of total imports from outside the EEC in a given reference year, this total representing the "basket".

No restriction is placed on a country's exports so long as it has not reached the agreed percentage for a given category of products. When it reaches the "exit from the basket" threshold, on the other hand, the Community can request consultations in order to establish a quota if necessary, where it considers that the product in question is sufficiently sensitive to warrant such restriction.

According to whether the agreement negotiated with the supplier country was "flexible" or "rigid", different "basket extractor" rates were applied in respect of the various groups of MFA products, as follows:

Group I ("political" products): 0.2% of total imports from outside the EEC;

Group II (sensitive products): between 1% and 1.5%;

Groups III, IV and VI: between 3% and 5%.

It is not yet known exactly what the 1978 basket extractor levels will be, in terms of volume, since the reference figures, i.e. imports in 1977, will not be available until May. They may therefore turn out to be higher or lower than the figures used in the negotiations, which were those for 1976.

An example will show how the system works:

Let us suppose that country X has negotiated with the EEC a basket extractor rate of 4% for babies' outer garments (Category 68 of Group IV), which are not particularly sensitive products. Assuming that imports into the Community from outside the EEC amounted to 10 000 tonnes in 1977, so long as exports of products in this category from country X to the EEC remain below 400 tonnes in 1978, no particular measures will be applied. If this figure is reached in 1978, however, the Community will be entitled to ask the country in question to negotiate the establishment of a quota and the basket extractor will no longer apply as regards the particular product and the particular country in question. Negotiations will not follow automatically since the Community authorities may consider that the level of imports does not call for any particular precautions.

The 400 tonnes represent in a sense a guaranteed minimum level of exports for the supplier country.

Two further remarks may be made on the "basket extractor" system:

The first concerns the threshold levels. We have seen that these varied within a range for the categories in Groups II to VI. In their offers of advantages to their negotiating partners, the Community negotiators were thus able to be selective to some extent, on the basis of flexible criteria:

- development criteria first of all, since the Community was anxious to foster the growth of exports from small suppliers in the developing countries;

- in addition to this, the particular situation of certain countries: for certain developing countries textile exports are so vital that it was

essential to keep the restrictions imposed on the growth of their sales to a minimum. This applied especially to India and Pakistan.

The second remark concerns the criteria for applying the basket extractor system: the system can apply to any supplier country whose sales of products in a given category are low, even though in general terms it may be a major supplier. Hong Kong, for example, which accounts for over 50% of textile imports into the EEC, is covered by the basket extractor arrangements for certain products.

2. Internal global quotas for "political" products

In the summer of 1977, when the Community Delegation was in Geneva for the negotiations on the renewal of the MFA, the situation on the Community market for certain textile products was deteriorating seriously as a result of the growth of imports originating in the developing countries.

Trade and business interests in certain Member States chose this moment to claim that the situation amounted to a crisis, which resulted in a chorus of demands from their governments for strict protection of certain products. Accordingly it was decided that eight super-sensitive products, labelled "political" products - since for considerations of public opinion the Member States concerned wished to protect the products in question at all costs - would be subject to internal global quotas that were not to be exceeded in the forthcoming years.

The following table gives details of the products concerned and of the internal global quota levels fixed by the Council. The final column shows the global quotas actually negotiated.

Category No	CCT heading No	Description	Total (negotiating directives) 1978	Total (under the agreements negotiated) 1978
1	55.05	Cotton yarn, not put up for retail sale	220 449 tonnes	227 716 tonnes
2	55.09	Other woven fabrics of cotton	209 270 tonnes	215 150 tonnes
3	56.07 A	Woven fabrics of man-made fibres (discontinuous or waste)	42 905 tonnes	43 873 tonnes
4	ex 60.04	Under garments, knitted or crocheted, not elastic or rubberized	235 270 (1 000 pieces)	234 873 (1 000 pieces)
5	ex 60.05 A	Outer garments and other articles, knitted or crocheted, not elastic or rubberized	171 074 (1 000 pieces)	160 540 (1 000 pieces)
6	ex 61.01 and ex 61.02 B	Men's and boys' outer garments and women's, girls' and infants' outer garments	109 534 (1 000 pieces)	116 884 (1 000 pieces)
7	ex 60.05 A II and ex 61.01 B	Outer garments and other articles, knitted or crocheted, not elastic or rubberized and women's, girls' and infants outer garments	111 530 (1 000 pieces)	105 417 (1 000 pieces)
8	ex 61.03	Men's and boys' under garments, including collars, shirt fronts and cuffs	177 986 (1 000 pieces)	173 090 (1 000 pieces)

It can be seen from the table that the Commission negotiators kept very closely to the figures laid down in the negotiating mandate they were given by the Council.

In endeavouring to conclude certain agreements rapidly by the deadline of 30 November, the negotiators slightly exceeded the directives as regards the first three categories and category 6. This initiative was eventually ratified by the Member States.

On the other hand the figures laid down in the mandate as regards the other four categories were not exceeded.

For this group of "political" products the preferential countries or the manufacturers in those countries gave more or less formal undertakings that certain levels would not be exceeded.

For these products the rate of growth of imports into the EEC may not normally exceed the rate of growth of consumption in the Community, and this represents a distortion of the rules of the MFA.

3. Import growth rate: a derogation from MFA principles

In the negotiations in Geneva, the great majority of supplier countries conceded the Community's need for a temporary derogation from certain of the principles of the MFA.

The derogation involved allows the Community not to apply automatically, as regards certain sensitive products, the 6% annual growth rate provided for under the Arrangements for imports originating in the developing countries.

However, it has undertaken that the overall growth rate for all imports of MFA products from the developing countries shall be 6%. This obligation has been fully met at the cost of allowing a much larger increase in imports of certain non-sensitive products.

It should be pointed that that Annex B of the MFA makes provision for the application of a lower growth rate. The derogation accorded to the Community depends essentially on proof of market disruption, and in order to justify a lower growth rate it would normally have had to provide such proof in respect of all the suppliers concerned and for all products. The Geneva consensus frees the Community from such a procedure and this constitutes the real derogation.

4. Imports from preferential partners

The Community is linked to a good many developing countries by preferential agreements. Under these agreements all quantitative restrictions on entry to the customs territory of the EEC have been abolished, generally speaking, as regards exports of industrial products from the countries in question and textile products in particular.

The only legal means open to the Nine for defending themselves against excessive imports from the countries concerned is the use of the safeguard clause. However, this procedure must be justified on specific grounds, for which it is not always easy to bring forward proof, and experience shows that it often leads to disputes and the ill-will of partners. Furthermore, it is not applicable to certain countries: the clause cannot be invoked in respect of Greek products since it was abolished by the Athens Agreement; it follows that, given the balance of treatment applied by the EEC as regards Greece and Turkey, the procedure can hardly be used against Ankara.

The Community authorities therefore opted for negotiations with the preferential countries (Mediterranean countries for the most part) for the purpose of securing their agreement on limiting their exports to the EEC to a certain level. The task was not easy, but in general fairly satisfactory compromises were reached.

5. The real goal: restructuring the Community industry

But the real goal of the measures adopted by the Community remains the restructuring over time of its textile industry. Moreover, this objective forms part of the MFA philosophy.

However, the present economic recession in the industrialized countries has made redeployment a sensitive issue and is causing the countries concerned to adopt more cautious policies.

6. Technical support measures

There were over 900 statistical headings to be dealt with in the negotiations if all the textile products affected by the MFA were to be covered.

Rapid progress was essential, however, since the agreements had to be concluded by the end of November 1977 so that they could be ratified by the Council of the European Communities before 31 December, when the MFA was due to expire.

It was for this reason that the Community adopted a new classification for textile products.

In addition, the administration of the new import arrangements entailed the establishment of a comprehensive surveillance system.

New classification for textile products

The Commission took the opportunity provided by the renegotiation of the MFA to institute a new classification system involving only 114 categories for MFA products. The new classification was adopted mainly with a view to a common industrial policy.

As may be imagined, however, it simplified the negotiations considerably.

Only the first eight categories contain products selected by reason of their particular sensitivity. The other categories represent a classification by type of product.

System of import surveillance

The quota arrangements adopted by the Community need to be backed up by a very smoothly functioning import surveillance system, with rapid central monitoring of statistics, since the national authorities are required to take a decision on applications for import authorization within five working days.

Similarly, the "basket" system needs to be vigilantly supervised if it is to be effective. Accordingly a surveillance system was established by the Commission in 1978.

B. The outcome of the negotiations

It should be recalled that the Community's objective was to conclude voluntary restraint agreements in respect of certain of the most sensitive articles with its principal developing country suppliers of textile products. In return the EEC gave the countries in question a guarantee of security for their exports within the volumes agreed. Most of the agreements are fully-fledged legal instruments but others are quite informal, taking the form of exchanges of letters or some other non-mandatory arrangement. This is notably the case with the arrangements agreed with the preferential Mediterranean countries.

With other countries, however, no arrangement was negotiated. These countries are small suppliers which at present do not constitute a danger on the Community market. Should their exports to the Nine rise too rapidly, the "basket" arrangements provide the EEC with a means of defending itself.

Taiwan represents a special case since the island has no international legal existence. Hence there were no official negotiations with this territory.

1. Twenty-two fully-fledged agreements

In order to give its operation as much weight as possible, the Community has set itself a target of carrying out negotiations with most of its low-cost suppliers. Many of them considered that their export potential was too slight to warrant entering into talks particularly since in general they were fully satisfied by the opportunities offered by the EEC on an autonomous basis.

Twenty-two fully-fledged agreements were therefore concluded and entered into force on 1 January 1978, although they will not be signed until later in the year.

The prospect of autonomous arrangements acted as a "sword of Damocles" prompting the Community's MFA partners to settle rapidly. Although some of the negotiations were difficult on account of what was at stake for the developing countries (notably in the case of India and Hong Kong), they worked out fairly well generally speaking and were completed within the necessary time to be ratified by the Council of the European Communities.

The real core of the consultations was represented by four of the twenty-two countries: Hong Kong, India, Korea and Brazil, who together with Taiwan accounted for the whole of the EEC's textile deficit in 1976.

The other eighteen developing countries which have settled with the EEC within the framework of the MFA are as follows:

Argentina	Pakistan
Bangladesh	Peru
Colombia	Philippines
Egypt	Romania
Guatemala	Singapore
Haiti	Sri Lanka
Macao	Thailand
Malaysia	Uruguay
Mexico	Yugoslavia

The details of the limitations agreed in the accords lie outside the scope of this information note. They can be found in Official Journal of the European Communities No L 42 of 11 February 1978.

2. Taiwan

No official negotiations took place since Taiwan does not legally exist as a state in the eyes of the international community.

However, the level of textile imports into the Community from Taiwan and its position as a buyer of European plant and equipment are such that consultations did nevertheless take place before the Community authorities fixed quotas unilaterally.

3. The preferential countries: informal "arrangements"

From the standpoint of the EEC there was a major obstacle to the inclusion of countries with which it was linked by preferential agreements in its programme of textile negotiations. All the agreements provided for completely free access for imports into the Community of industrial products originating in the countries concerned. Restrictive measures could be taken only by invoking the safeguard clause provided for under the agreements, except in the case of Greece, where the agreement with the Community does not contain a safeguard clause. Application of the clause was governed by very stringent criteria: grounds had to be given - with proof - and the measures were to be maintained no longer than was strictly necessary to remove the disturbances.

Moreover, the clause could be applied only in respect of the country responsible for the disturbances and not to all the preferential suppliers. Hence this solution was not a feasible one.

Instead, in order to persuade its partners to agree to the voluntary restraint of certain of their textile exports, the Community based its approach on the "cooperation" element in the agreements and its argument ran essentially as follows: cooperation means that we must inform each other of the difficulties being encountered in our respective economies, in order to avoid confrontations and the use of safeguard clauses; since the textiles sector in the Community is in difficulties it is normal that we should inform you of the branches of this sector where you are likely to run into problems and that you should help us to overcome the difficulties by adopting an understanding attitude.

Although all the EEC's partners hesitated over what they considered to be a breach of the agreements, in the end the above argument largely prevailed.

Arrangements were eventually agreed with five countries - Egypt, Morocco, Tunisia, Greece and Turkey - but they are not legally binding. For special reasons, furthermore, by the beginning of 1978 no agreement had yet been reached with Spain or Portugal.

(a) <u>Arrangements concluded with five countries by the end of 1977</u>

<u>Maghreb countries: Tunisia and Morocco</u>

The Brussels Decision of early July 1977 on measures restricting imports of textile products had caused great irritation in Tunis and Rabat (Algeria was not concerned since its textile industry has not been built up with an eye to exports).

Moreover, the Moroccan Government had decided on reprisal measures and was talking in terms of drastically reviewing its relations with the Nine. The Community had great difficulty in bringing the Moroccan authorities to the negotiating table.

After much discussion, however, Morocco and Tunisia finally came round to the point of view put forward by the Community, which argued that it could not leave them out of its overall plan to limit textile imports.

In an exchange of letters the two countries concerned agreed, as an exceptional and temporary measure, to exercise voluntary restraint of their exports of certain textile products to the Community. The figures laid down apply only to 1978 and will in any case have to be renegotiated. Tunisia and Morocco undertake to hold consultations with the Commission for the purpose of examining at intervals the trend in the textiles sector.

In addition, the Commission sent a more explicit Note Verbale to the two Maghreb countries. It stated that the Community expects the crisis in Europe's textile industry to last beyond 1978 and proposed that regular consultations be held in order to study the trend in the textiles sector on both sides and to establish by mutual agreement, for the year 1979 onwards, the annual rate of increase over the 1978 figures.

From the practical angle, the figures agreed for 1978 between Brussels and the Maghreb countries tend if anything to favour the latter, inasmuch as they are in excess of their real sales potential on the European market. Hence they are regarded as safety margins rather than actual restrictions.

The quotas negotiated concern only certain products in Groups I and II, i.e. the most sensitive products. The "basket extractor" arrangements do not apply to the Maghreb countries and any difficulties arising in respect of other products will be dealt with within the framework of consultations provided for under the agreement.

It should also be noted that the Community has undertaken to allocate to the two countries any unused quantities from the quotas granted to other countries. Furthermore, Tunisian and Moroccan goods exported under outward processing arrangements (Commission work) are to be charged against the two countries' quotas at the rate of only 50%. Moroccan and Tunisian textile products exported to the Community and subsequently reexported to other markets will not be included in the quotas.

EGYPT

Egypt is linked to the Community by a recent preferential agreement providing for free access to the EEC for its industrial products.

However, trade in certain textile products between the EEC and Egypt is governed by the MFA.

For this reason the latest round of textile negotiations with Egypt took place in the context of both the MFA and the preferential agreement.

As regards products, only one product was made subject to quota as a result of the latest round of negotiations, namely woven fabrics of cotton, other than gauze, terry fabrics, narrow woven fabrics, pile fabrics, chenille fabrics, tulle and other net fabrics.

The other products on the MFA list are governed by the basket extractor arrangements covering cases of sudden increase in exports.

With regard to other products, that is non-MFA products liberalized under the cooperation agreement, the EEC and Egypt have reached an informal agreement on cotton yarn.

GREECE: gentleman's agreement with firms

Greece too is a very special case.

Under the Athens Agreement, the EEC no longer has a safeguard clause to fall back on as regards most industrial products from Greece. In theory, therefore, the door is wide open to the full range of Greek textile products.

Does this mean that the Brussels authorities have no defence against excessive imports from Greece? That would be an oversimplification of the problem.

The fact that the Community is engaged in accession negotiation with Athens means that the problems must be approached differently from those involved in discussions with other non-member countries. Moreover, the Greek authorities are perfectly aware of the difficulties which the Nine are at present encountering in the textiles sector. So although their official stand remains uncompromising on the principle of non-acceptance of quotas for Greek exports to the EEC, they have left Greek firms quite free to agree terms with Brussels on maximum export volumes for 1978 and the minimum prices that are to be observed.

Accordingly, certain voluntary restraint undertakings have been given by the Greek exporters as regards the eight most sensitive products.

The agreement with Greek firms is not recognized by the Greek authorities. The Commission is trying to introduce a draft proposal for reactivating the safeguard clause under the Agreement but no way has yet been found of holding imports to the levels agreed with the firms.

TURKEY

For political reasons the Community endeavours to maintain a balance between the treatment it accords to Turkey and Greece respectively. Hence although the safeguard clause still applies to imports originating in Turkey, it is inconceivable that it should be used against Turkish textile products if it cannot be applied in respect of Greek products.

Turkey is the Community's major supplier of cotton yarn and for this and other sensitive products an arrangement has been reached between Brussels and Turkish firms to the effect that the levels agreed will not be exceeded.

(b) No agreement with Spain or Portugal

By early 1978 no agreement had been reached with two of the EEC's principal partners, Spain and Portugal, and in any case the latter is not a participant in the MFA. It should be pointed out that relations between Brussels and these two partners are set in the very special context of their application for accession to the Community. Thus any negotiating position, even under a partial agreement, could have major repercussions on subsequent accession negotiations. The caution of Madrid and Lisbon and their desire to avoid any ill-considered haste are therefore understandable.

In the meantime, the Commission has informed them of the quotas which it expects them to comply with in 1978 so far as certain textile products are concerned.

SPAIN

Although Spain is a participant in the MFA, its trade with the Community in textile products is governed by the 1970 Agreement, the provisions of which take precedence over those of the MFA.

Apart from the possibility of its accession to the Community at some future date, Spain is engaged in the process of adapting with the Community authorities the 1970 preferential Agreement. On this question its traditional position is that additional concessions in the industrial sector will be accorded to the Nine only in return for agricultural concessions on their part. This was one of the reasons why Madrid dragged its feet until the first formal negotiating session, which was held in late January 1978.

The Member States are puzzled by the Spanish position on the matter of trade in textiles. Spain is attempting to play the Nine at their own game by alleging that it is encountering difficulties as a result of certain textile imports originating in the Community. In support of their argument they have produced, moreover, the following list of the products concerned:

(chiefly man-made textile products).

The Commission's negotiators do not appear to be willing to accept this point of view. They consider that the negotiations under way on textiles relate only to "low cost" products, and this is a description which cannot be applied to Community products but is relevant in the case of Spanish textiles.

At all events, the Community notified Madrid of the export levels which it did not wish to see exceeded in 1978 as regards the most sensitive products. In May, however, arrangements were established for administrative cooperation to enable trade in textiles to be controlled to the satisfaction of both sides.

For political reasons it was not possible for Brussels and Lisbon to come to an ad hoc arrangement until late April. The main reason was the political crisis of December 1977 in Portugal, which resulted in the resignation of the Government and disrupted the negotiations. The arrangement in question provides for certain Community and regional levels for a few highly sensitive products and above all for administrative cooperation. It will enable Portuguese exports to grow without creating difficulties for the Community.

4. Other small "low-cost" suppliers

Many of the Community's small suppliers of textile products have not concluded agreements because they did not consider it worthwhile to enter into negotiations from which they had nothing to gain. The quantities they represent are too small to justify placing curbs on their exports. They are covered by the Community scheme, however, where they have a "flexible" agreement, that is one without quantitative limits for the time being, as in the case of Bangladesh or Uruguay. In such cases they are covered by the basket extractor arrangements.

In addition, whether as small suppliers or new entrants on certain markets, they are accorded a higher growth rate under the MFA than the stipulated 6%.

The ACP countries (African, Caribbean and Pacific countries linked to the Community through the Lomé Convention) form a separate category. There has been no suggestion that they should be subject to restrictions but the question will no doubt be raised in the negotiations on the new Convention, which are scheduled to open in 1978. The Commission has already made informal contacts with certain of the countries concerned, particularly Ivory Coast. They will result in all probability in arrangements similar to those concluded with the other preferential countries.

Annex 1

COUNTRIES (OR GROUP OF COUNTRIES) PARTICIPATING IN THE MULTIFIBRE ARRANGEMENT

Developed countries

Australia	Austria	Canada
European Economic Community	Norway	Finland
Japan	United States	Sweden
Switzerland		

Developing countries

Argentina*	Brazil	Colombia*
Haiti	Egypt	El Salvador
Jamaica	Ghana	Guatemala
Korea	India	Israel
Nicaragua	Malaysia	Mexico
Philippines	Pakistan	Paraguay*
Sri Lanka	Portugal (for Macao)	Singapore
Turkey	Thailand	Spain
United Kingdom (for Hong Kong)		Trinidad and Tobago
		Uruguay
		Yugoslavia

State-trading countries

Hungary	Poland	Romania

*Countries which had not yet confirmed their acceptance or become participants in November 1976.

Annex 2

PRINCIPAL WORLD EXPORTERS AND IMPORTERS OF TEXTILES AND GARMENTS PARTICIPATING IN THE MFA[1]

1975 US$ million

IMPORTS (cif)[2]

Textiles: European Economic Community (3 395); United States (1 234); Hong Kong (967); Canada (873); Japan (775); Sweden (664); Australia (554); Austria (549); Switzerland (476); Singapore (374); Finland (332); Norway (288); Yugoslavia (259); Korea (254); Poland (200).

Garments: European Economic Community (4 039); United States (2 551); Sweden (647); Switzerland (594); Japan (540); Canada (472); Austria (324); Norway (319); Australia (211).

Textiles and garments: European Economic Community (7 434); United States (3 785); Canada (1 345); Japan (1 313); Sweden (1 311); Hong Kong (1 071); Switzerland (1 070); Austria (873); Australia (765); Norway (607); Singapore (435); Finland (417); Yugoslavia (283); Korea (258); Poland (245); Spain (241); Hungary (1974: 230).

EXPORTS (fob)

Textiles: European Economic Community (5 053); Japan (2 923); United States (1 625); India (1974: 823); Switzerland (723); Korea (649); Hong Kong (593); Austria (507); Pakistan (378); Brazil (271); Poland (253); Spain (248); Sweden (244); Egypt (1974: 238).

Garments: Hong Kong (2 033); European Economic Community (1 979); Korea (1 148); Poland (448); United States (421); Finland (342); Japan (332); Romania (291); Austria (219); Hungary (1974: 227); Yugoslavia (204).

Textiles and garments: European Economic Community (7 032); Japan (3 255); Hong Kong (2 626); United States (2 046); Korea (1 797); India (1974: 986); Switzerland (886); Austria (726); Poland (701); Finland (441); Sweden (440); Spain (431); Pakistan (409); Hungary (1974: 397); Yugoslavia (382); Brazil (373); Romania (353); Singapore (247); Egypt (1974: 284); Canada (241); Turkey (1974: 221).

Source: GATT Secretariat

[1] Imports or exports of US$ 200 million or more.

[2] Except United States, Australia and Canada (fob).

Annex 3

THE NINE: TRADE IN TEXTILES AND GARMENTS[1]

1974
(US$ million)

TEXTILES[2]

	Imports	Exports	Balance
Germany	2 937,8	3 615,6	+ 677,8
BLEU	1 230,2	1 927,7	+ 697,5
Denmark	447,3	226,0	- 221,3
France	1 768,3	1 909,1	+ 140,8
Ireland	237,7	192,9	- 44,8
Italy	1 056,4	1 786,1	+ 729,7
Netherlands	1 320,2	1 518,8	+ 198,6
United Kingdom	1 610,5	1 745,5	+ 135,0
Community	10 608,4	12 921,7	

GARMENTS

	Imports	Exports	Balance
Germany	3 078,2	975,2	- 2 103,0
BLEU	684,2	657,6	- 26,6
Denmark	205,6	166,7	- 38,9
France	682,1	1 160,9	+ 478,8
Ireland	82,2	100,5	+ 18,3
Italy	257,3	1 533,9	+ 1 276,6
Netherlands	1 115,9	471,0	- 644,9
United Kingdom	941,6	538,3	- 403,3
Community	7 047,1	5 604,1	

Source: The textile industry in the OECD countries, OECD 1976.

[1] Including intra-Community trade.

[2] Yarn, made-up articles and related products - except garments and knitted or crocheted goods.

Annex 4

Key to allocation of imports of textile products among Member States

	MFA[1]	GSP
D	28,5 %	27
F	18,5 %	19
I	15 %	14
BNL	10,5 %	10
UK	23,5 %	22
Irl	1,0 %	1
Dk	3,5 %	7

Example: The practical application of the sliding scale gives the following results in the case of other woven fabrics of cotton falling with CCT heading No 55.09 (in the case of India):

Member State	Percentage increase	
	1976/75	1977/76
D	20,1 %	16,3 %
F	16,8 %	16,5 %
I	30 %	30 %
BNL	20,03 %	16,3 %
UK	4,9 %	5 %
Irl	19,8 %	19,6 %
Dk	12,1 %	10,5 %
EEC	7 %	7 %

[1] This key is notional. It can be adjusted to take account of actual imports into the Member States in the past, broken down by exporting country.

Annex 5

Bilateral agreements concluded by the EEC under Article 4 of the MFA (the first Multifibre Arrangement)

	Initialled	Entered into force
Brazil	1.4.1976	1.1.1976
Colombia	29.4.1976	1.1.1976
Egypt	13.5.1976	1.1.1976
India	19.4.1975	1.1.1975
Korea	22.12.1976	1.1.1976
Hong Kong	13.8.1975	1.1.1975
Macao	27.9.1975	1.1.1975
Malaysia	23.10.1975	1.1.1975
Singapore	27.9.1975	1.1.1975
Pakistan	4.7.1975	1.1.1975
Romania	10.11.1976	1.1.1976
Yugoslavia	25.6.1976	1.1.1976
Japan	12.12.1975	1.1.1975
Taiwan[1]	10.7.1975	1.1.1975
Poland[2]		
Hungary[3]		
Philippines[3]		
Thailand[3]		

[1] Application of autonomous measures 10 July 1975 [Regulations Nos 1783/75 and 1849/75]

[2] Negotiations opened December 1976.

[3] Negotiations opened in 1977: agreements have been signed with Philippines and Thailand.

Annex 6

JOB LOSSES IN THE COMMUNITY'S TEXTILE AND GARMENT INDUSTRIES[1]

	Textiles		Garments	
	Employment 1975	Reduction 1975-1973	Employment 1975	Reduction 1975-1973
Belgium	97 000	10 800	58 400	8 300
Denmark	14 000	6 800	16 300[2]	500[2]
Germany	357 000	77 000	292 000	69 100
France	366 000	20 200	205 900	7 700
Ireland	19 000	4 000	14 100	2 800
Italy	410 000	16 600	214 500	+ 5 000
Netherlands	56 000	2 700	25 300	12 700
United Kingdom	486 000	29 400	309 900	16 400
Community	1 805 000	167 500	873 600	113 500

Source: Textiles: Comitextil
Garments: European Clothing Manufacturers Association

[1] Except Luxembourg.

[2] 1974 and 1974-1973.

PUBLICATIONS ABOUT 'DEVELOPMENT AID'

Other EEC publications about the Community's relations with the Third World in general and the Arab world in particular can be obtained from the following address:

Spokesman's Group and Directorate-General for Information
Publications distribution service, Room 2/83
Commission of the European Communities
Rue de la Loi, 200
B-1049 Brussels (Belgium)

The *Information* series of notes. These are published regularly in all the Community languages, and in some cases also in Arabic:

119/76	Tunisia—EEC
162/77	Cooperation agreement between Tunisia and the EEC
120/76	Algeria—EEC (+ Arabic)
121/76	Morocco—EEC
144/76	Jordan—EEC
147/77	Lebanon—EEC
161/77	The EEC's Generalized System of Preferences
139/77	List of agreements between the European Community and non-member countries.
172/78	Promotion of trade and marketing of ACP products

The *Information Note* series:

P 14	Cooperation agreements between the European Community and Algeria, Morocco and Tunisia
P 100	Cooperation agreements between the European Community, Egypt, Jordan and Syria

The *European Documents* series:

The European Community and the developing countries, No 1977/1

Dossier:

The European Community and the Third World
Brussels, September 1977 (English, French and German)

Europe Information:

4/78	Bananas: essential element of the world and Community markets
Special edition	EEC—Egypt cooperation agreement
10/78	Industrial cooperation and the Lomé Convention
Special edition	Ivory Coast and the Lomé Convention: tremendous opportunities
Special edition	EEC—Syria cooperation agreement
Special edition	EEC—Jordan cooperation agreement
Special edition	The world cocoa market
Special edition	EEC—ACP trade relations
Special edition	Development of the Community's generalized preferences

OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

Boîte postale 1003 — Luxembourg

Catalogue number: CC-NA-79-D01-EN-C