

# EUROPEAN PARLIAMENT

COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

DRAFT REPORT

on

the renewal of the Multi-Fibre Arrangement with  
particular reference to the situation  
of the European textile industry

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EXPLANATORY STATEMENT : PART B

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EXPLANATORY STATEMENT

A. PRINCIPLES

1. The MFA must be seen in the context of world trade which is currently in recession. Restoration of growth, which means raising the consumption levels of developing countries is a primary economic and political objective. A return to growth is the best way to reduce unemployment levels.

2. The Community is inhibited from liberalising its trade structures vis-a-vis developing countries because it incurs increasing deficits with the USA and Japan. It will only gain a reasonable room for manoeuvre if these developed country deficits can be limited through voluntary agreement perhaps within the OECD framework and on a global rather than sectoral basis. Moreover the Community should be prepared to exercise its rights under Article XIX of GATT in respect of import surges in particular sectors emanating from developed as well as developing countries.

3. The job loss in the textile and clothing industries has been massive and the consequences made more severe by the underlying unemployment problem, these people have no other jobs to go to. An end to recession and restoration of growth would do much to stimulate alternative employment, but this is not the case at present.

4. Consequently the industry must be protected from increased imports penetration so as to limit the further loss of jobs. This is necessary for political and economic reasons; although import penetration is only one factor contributing to the industry's decline it is quantifiable and action can be taken. The textile and clothing industries need tangible proof of the Community's interest and ability to protect them.

5. Protection cannot be justified if the result is merely to increase imports from the United States; thus the position of the USA both as regards her direct exports to the Community and her imports from low cost countries is fundamental to the Community's position in the MFA negotiations. An understanding needs to be reached with the Americans on both these points before the substantive negotiations in Geneva get under way.

6. Although the industry is entitled to a further period of protection it must be recognised that other Community objectives have equal importance. For example it would be as wrong to sacrifice the Community's Mediterranean policy to the needs of the textile industry as it would to sacrifice the industry to the needs of the Mediterranean policy. In its approach to the MFA the Community must seek to balance conflicting objectives so that the implementation of policy in one area will not prevent the achievement of aims in others. No single industry is so important that its needs must take precedence over all other interests.

7. By the same token the need to protect the textile and clothing industries must be considered in the context of the legitimate economic interests of retailers, wholesalers and importers and the requirement of consumers for a range of choice of competitively priced merchandise. Indeed an exaggerated degree of protection would be undesirable from the industry's own point of view as it would remove the stimulus and incentive needed to restore its competitiveness on world markets.

8. In submitting its conclusions to the Commission and Council, Parliament must attempt to reconcile these conflicting considerations into an objective set of guidelines which form credible negotiating objectives. Such a consensus will satisfy none of the various interests involved but they will certainly appreciate the overriding importance of achieving a proper balance, otherwise all will be the losers.

#### B. NEGOTIATING GUIDELINES

9. The Community must insist that the United States agree to take a greater proportion of low cost country imports by liberalising its existing quotas, unilaterally reducing duties and offering some tariff free quotas to developing countries along the lines of the GSP. This would relieve the present situation whereby the Community absorbs proportionately more low cost imports than the United States and it should be made clear that if the Americans fail to liberalise their position the entire negotiations would be at risk.

10. It is not practical to attempt to reserve a specific portion of the Community's market for the domestic producers, nor can existing levels of low cost penetration be arbitrarily reduced; on the other hand there has been a collapse of demand within the Community and this has placed the industry under enormous pressure. Under these circumstances it is clear that any increase in imports from MFA countries must take account of the state of demand even if in some cases this means zero growth.

11. Provided a satisfactory accommodation is reached with the USA the Community should seek to extend the present Multi-fibre Arrangement for a ten year period maintaining the existing legal texts and their interpretation. In the ensuing bilateral negotiations any increase in import levels for sensitive product categories should be justified on the basis of demand forecasts and ceilings should be reviewed at three year intervals to see if increases can be justified.

12. In the negotiations the Community should insist on improved access for its products to the domestic markets of the partner states. Where appropriate this could be achieved through the machinery established by framework or cooperation agreements, either with regional groups such as ASEAN or the Andean Pact or with individual trading partners such as India, Pakistan and China. Newly industrialised countries such as South Korea, Taiwan and Brazil should be pressed to accept a fuller range of obligations within the GATT and reduce their barriers to trade. The price clause in the bilateral agreements with state trading countries should be maintained.

13. Spain and Portugal are currently engaged in accession negotiations with a view to their becoming Members of the Community within the next five years. The arrangements for access for their textile products, which are governed for the time being by their association agreements, will be subsumed in the accession negotiations which will presumably determine appropriate restrictions during the run up to accession and a transition period thereafter. The Community's ability to absorb imports of textiles from outside will certainly be an important consideration in these negotiations, as will the ability of the candidate countries to take a share of the imports from low cost suppliers. While the results of these exchanges will have an important bearing on the Community's attitude to the MFA, Spain and Portugal are not parties to the MFA and it would be wrong to confuse its renewal with accession negotiations.

14. Because of the special problems currently faced by Turkey which has an association agreement with the Community it is felt that access for Turkish textile products should be determined bilaterally within the association machinery. As with Spain and Portugal the outcome of arrangements with Turkey will have an important influence on the Community's attitude to the MFA, but restraints on her textile exports should be tackled in another context. Similar considerations apply to Yugoslavia.

15. The other Mediterranean associates or "Preferential" countries present a particularly intractable problem; their agreements allow them freedom of access for manufactured goods while restricting exports of agricultural products, 40% of their GNP, in the name of Community preference. If the Community insists on tighter restraints on textile exports the entire Mediterranean policy would be at risk with serious political and economic repercussions. A reasonable compromise would be to invite them to accept a discipline similar to the 1973 MFA which foresaw 6% growth subject to safeguards against market disruption. In return they would be expected to offer preferential access for Community textile products by reducing their excessive tariffs on a unilateral basis.

16. The outward processing system has been used to enable manufacturers of Community textiles to benefit from low cost making up in certain Mediterranean countries. A new regulation is being discussed and it is recommended that this include provisions making it available to all operators provided they had purchased or manufactured three times the amount of similar products in the Community in the prior twelve months. An extension of the regime in this way would be to the advantage of the preferential countries and textile manufacturers, and would give retailers and importers a powerful incentive to place more business with Community manufacturers in order to protect their outward processing licences.

17. The less developed countries, most of whom are members of the Lomé Convention, account for only 1.2% of all textile imports, 1.5% in sensitive product categories, and there seems little reason for applying restraints on their textile imports beyond the safeguard provisions of Lomé. The Commission could however achieve an element of certainty for both supplying and importing countries by defining its interpretation of disruption through an adaptation of the basket extractor mechanism. This would involve using the present mechanism as a "divergence indicator" and introduce a second level at which there would be an automatic cut off pending consultations to produce a mutually

acceptable quota. Such a quota should normally be below the cut off level.

18. Although adoption of ILO Conventions on working conditions by developing countries is a desirable objective, it is considered that this should be pursued on its own merits and not in the context of the Multi-fibre Arrangement. In particular adherence to the Convention should not be used as a device to extract additional concessions from Community negotiators.

19. It is considered that the operation of the orderly marketing system could be improved in a number of areas and a list of recommendations has been attached to this report. Since these do not form part of the Commission's mandate they have not been included in the Motion for a Resolution but no doubt Parliament will wish to return to them in due course.

### C. OTHER RECOMMENDATIONS

20. It is suggested that the Commission undertake a full scale review of the current sensitive product categories and decide in each case whether sensitivity is still justified. In the interests of transparency the criteria applied should be made public.

21. With reference to the internal market, Community quotas were allocated to Member States according to their 1976 imports and increments allocated according to an agreed burden-sharing formula. The intention was to bring actual imports gradually into line with this burden-sharing agreement by differential quota increments. In 1979 the comparison between actual imports by Member States as a proportion of all low cost country imports and the burden-sharing formula was as follows:

	% TOTAL IMPORTS	TARGET FORMULA %
Germany	36.1	28.5
U.K.	22.2	23.5
France	11.5	18.5
Italy	12.8	15.0
Benelux	12.7	10.5
Others	4.6	4.0

As part of the preparations for the next MFA, it is recommended that the Community re-examine the system of quota allocation so that those Member States with strong domestic demand should increase their target share to take some pressure off those whose domestic industry is weak.

22. The Community already operates a quota reserve system, notably in connection with tariff concessions granted for agricultural products coming from third countries. It is suggested that this concept could be applied to textile imports through the Commission holding a portion of the total quota for each category under its direct control for allocation according to circumstances. If Member States had a facility to surrender a limited amount (5%) of their overall quota to the Commission for re-allocation, it would make the system more flexible and responsive to events in the market place and constitute a small but significant step towards a common textiles trading policy.

23. The Commission should introduce proposals for the harmonization of import procedures. In particular there should be one standard import licence form used in all Member States, conditions for its issue should be standardised, and compliance made as simple as possible.
24. The uneven performance of Member States in collecting import statistics has complicated the management of the system for regulating textile imports. If the Commission is to respond to market developments speedily, it must be assured of a steady supply of information presented in a compatible way.
25. Under Article 115 of the Treaty of Rome, Member States are permitted to take action to counter disruptive penetration of their domestic markets by products coming through other Member States in such quantities as to amount to deflection of trade. Until January 1980, they were permitted to maintain a system of import licences enabling them to monitor intra-Community trade in sensitive products originating from outside the Community which were subject to quota or voluntary restraint. Following a Court of Justice ruling (Case 41/76), the Commission withdrew the authorization on the grounds that automatic surveillance created unnecessary barriers to trade (Decision 47, 22.1.80). As a result of that Decision, application has to be made to the Commission for authorization for surveillance of products in free circulation on a case by case basis through a cumbersome and time-consuming procedure.
26. It is important that the rules for determining origin should be standardised around the existing EEC Customs Regulation. This means that the origin of a product is the place where it underwent a process which involved its moving from one tariff heading to another. Thus under normal circumstances a piece of cloth from one country which is made up into a suit in another acquires the origin of the country in which it was made up. Standardization on these lines would help to simplify procedures and improve the transparency of the system.
27. Considerable disquiet has been expressed about origin fraud and the Commission has recently sent a proposal to the Council recommending closer cooperation between Member States as regards exchange of information, and a permanent investigation group consisting of officials of Member State Governments. This cannot be regarded as an effective substitute for building up the Commission's own inspectorate. It is also regrettable that Member Governments frequently criticise the Commission's performance, but yet as members of the Council of Ministers consistently refuse to allow them to recruit the staff necessary to do the job properly. The present origin inspectorate consists of only 4 'A' grade officials.
28. In view of the widespread confusion surrounding the aims, objectives and limitations of the MFA, it is recommended that the Commission publish a booklet explaining how the system works and what it is designed to achieve in plain language. Charts showing the levels of penetration from different sources should be included. This booklet should be given the widest possible circulation.







