Outline address for the conference on

"World Textile Trade - an International Perspective"

The EEC view

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1. Background

The Community's textile imports have been growing continuously for many years now. Since the first MFA came into force, opening up our markets, the rate of growth has increased. The volume of our imports rose by some 80 % between 1973 and 1976.

With consumption sluggish, an increase of this magnitude was bound to lead to stagnation in our own textile industry, with all the social and regional upsets inevitable at a time of recession. Nearly half a million jobs were lost between 1972 and the end of 1976, and a number of Community regions where the textile industry is concentrated were particularly hard hit.

Until the early 1970s, the rapid expansion in other sectors of the economy cushioned the social impact of this decline. This is no longer happening.

In addition, the profitability of textile firms has dropped steeply, particularly as a result of pressures from low priced textile imports, and any investment in modernization has hence become extremely risky, even in branches of the textile industry where Community firms could keep or regain their competitive edge under normal conditions of competition.

It should also be pointed out that the pressure of imports on the Community was exacerbated by the success of other industrialized countries, particularly the United States and Japan, in containing the growth of their own textile imports. This meant that over the period 1973-1976 three quarters of the increase in the industrialized world's textile imports was absorbed by the Community. The latter despite its much lower level of consumption, imports nearly three times as much as the United States, for instance.

In 1976, the volume of Community imports shot up by 22.6 % from 1975 levels. It was against this background that the Community was called on to decide whether the MFA should be renewed. Admittedly, the 1977 figures now available show some improvement over 1976 : in 1976, textile imports stood at 1 876 000 tonnes, dropping to 1 802 000 tonnes in 1977. It should, however, be borne in mind that the Community took a number of restrictive measures in July and August 1977. Moreover, the improvement in the figures did not prevent the loss of another 60 000 jobs in the EEC's textile and clothing industry in 1977. Again, the supplying countries should not complain too loudly about the influence of the 1976 figures on the Community's textile trade policy, since it was these figures, which are relatively favourable from the suppliers' point of view, which were taken as the basis for quantitative limits under the Community's bilateral agreements.

2. Renewal of the MFA

The situation outlined above meant that the Community could not simply renew the MFA as it stood and run the risk of total disruption of its markets and textile industry.

It was not easy to choose the best policy for the trade in textiles : should the concepts of cumulative market disruption and global external quotas be included in the MFA, or was it preferable to abandon the MFA and resort to unilateral measures of restraint ?

Aware that opting for the second of these two approaches would be likely to trigger off a wave of international protectionism, the Community decided in the end to uphold the MFA. The Commission also felt that the disastrous experience of recent years was due less to the MFA itself, than to the way in which the Community had applied it - a view confirmed by the experience of the United States.

We therefore appealed to the good sense of the supplying countries and our major industrialized partners, which responded by accepting a certain degree of flexibility in the application of some of the provisions of the MFA, including the possibility of jointly agreed reasonable departures on specific points in specific cases.

The Community, anxious to avoid a repetition of certain past problems, had made it clear that it would only renew the MFA if it managed to conclude satisfactory bilateral agreements with all the major low-cost supplying countries. Suitable arrangements had to be made with various Mediterranean countries that enjoy preferential links with the Community. All this seemed a gigantic, well-nigh impossible task ; but it was successfully completed.

The bilateral textile agreements negotiated by the Community, along with the related arrangements and other provisions adopted at the same time, establish, for each category of textile import from low-cost countries :

1) actual quantitative limits for every category of sensitive product from all countries which are large suppliers of the category in question (the limits are based on 1976 performances plus modest growth rates ; for eight categories of highly sensitive products these limits are linked to internal global ceilings) ; or

2) a potential restraint mechanism for
   (a) the same sensitive products, where these come from countries which are relatively minor suppliers of the category concerned ;
   (b) products not hitherto classified as sensitive, but which could become so.

This "basket extractor" mechanism is a regulatory device which makes it possible to prevent the undesirable effects of build-up of imports.

If these measures are to be effective, it will be necessary to monitor compliance with the agreements and arrangements, and establish careful surveillance of trade developments.

It is worth emphasizing at this point that our bilateral agreements reflect the Community's constant concern to favour the poorest countries and make some room for new market entrants. These countries, particularly where they are only small suppliers, have explicitly or implicitly been given higher growth rates, and the basket system is flexible enough to allow considerable growth, within certain limits.

3. Problems of adaptation

The commercial policy just outlined is designed to allow orderly free trade, channelled within limits that can be borne by the Community. It also provides a measure of stability for the Community textile industry and gives security of access to our markets for a period of five years, to those supplying countries which have concluded an agreement with the Community.

This five-year period of security and stability must be used by our firms, and by the industry in the developing countries, to adapt to the new world market conditions.

Let us hope that the low-cost supplying countries will be encouraged to aim for more diversified economic and industrial development.

The Community textile industry, for its part, will need to work hard at improving productivity. It must be able to stand up to the competition from other industrialized countries. In order to stay profitable, particularly in the face of competition from the low-cost supplying countries, the Community industry will have to make a major effort to specialize and innovate, as regards both manufacturing techniques and product lines.

Here one should [redacted] stress and stress again that, contrary to the unfortunatly widespread view, certain branches of the textile industry call today for highly advanced technology and considerable capital investment assets, in therms of comparative advantages, which the countries of Europe must be able to exploit to the full.

Naturally, as the Commission emphasized in its 1978 action programme, market forces - and hence firms - play, and must continue to play, a vital role in the redistribution of resources that is needed for industrial redeployment. And indeed, [redacted] as a result of our commercial policy, on textiles, a great many businessmen have recovered their morale and are determined to "get cracking".

If these efforts are to be fully effective, they will in certain cases need to be coordinated and stimulated at Community level. In its communication to the Council regarding the textile negotiations, the Commission therefore noted that :

"This external policy would be called into question if the Community's textile industries proved unable to adapt to the new situation to be shped by, among other things, the future bilateral agreements, and to make best use of the security resulting from such agreements, especially by intensifying and accelerating their efforts at restructuring their industry.
In this context an industrial policy must be worked out at Community level ...
Such a policy must include coordination of the measures taken by the individual Member States, intensified use of the Community's financial instruments, particularly in respect of employment and regional aspects, scientific and technological research projects, and improving Community methods of economic analysis".

4. <u>Economic outlook and international specialization</u>

This process of adaptation will undoubtedly meet with problems, particularly in the social field. Despite a certain short-term improvements, and the willingness to take measures to pull out of the recession, the mediumterm outlook does not seem to me to be particularly bright. It is not necessary to be a supporter of any one economic theory, or to believe in the inevitability of certain movements in the economy, to see that we are being faced from day to day with problems characteristic of a downturn in what is known in economic parlance as the Kondratieff cycle.(1) Hardly any industries are expanding fast ; a large number, however, are growing slowly, if at all , or even shrinking and overcapacity is rife, even if it is sometimes hard to quantify the extent.

(1) a long lasting downward more of prices

On top of all this, the textile industry is faced with the additional problem that consumption is by and large growing more slowly than incomes.

In this situation, [redacted] it is worth drawing the attention of the developing countries to the risks of excessively unilateral industrialization.

It seems sometimes as though, after a decade in which Prebisch's import substitution theory dominated development policies, we have entered an era in which everything is geared to the export drive. In some cases this has produced what one can only call enclaves of industrialization, completely alien to the host country.

Obviously, the developing countries do have certain comparative advantages, particularly in relation to production of certain textiles, and they must be free to develop these ([redacted] availability of raw materials and [redacted] low wage costs). As [redacted] already pointed out, however, there are branches of textile manufacture which have now become highly capital-dependent and require extremely advanced technology. Moreover, the raw material factor must not be over-simplified : sometimes transport costs are lower for the raw materials than for the finished product, which favours production near the market, and where natural fibres are concerned, there is a risk of concentrating on these to the detriment of food crops.

However all this may be, even if world trade were free, it does seem as though the semi-industrialized countries - and fortunately [redacted] there are several among the developing countries - are adding to the problems of adaptation [redacted] mentioned earlier by export subsidies and customs duties which are sometimes as high as 150 %.

It would be a good thing if we could find a better way of keeping taks on current developments, as the MFA allows us to do for the level of trade. It could for example be useful for the developing countries and the financial institutions helping them to be aware of recent or current investments.

This would be a step in the direction of a new international economic order geared to orderly, differentiated growth in our trade with the third world, for international specialization must become increasingly broadly based.