

EUROPEAN PARLIAMENT

Working Documents

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DOCUMENT 1-61/81

Report

drawn up on behalf of the Committee on External Economic Relations

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

Rapporteur : Mr Michael WELSH

12.5

On 20 November 1980 the European Parliament referred a Motion for a Resolution (Doc. 1-604/80), tabled by Mr WELSH and others pursuant to Rule 14 of the Rules of Procedure, to the Committee on External Economic Relations as the Committee responsible and to the Committees on Development and Cooperation and on Social Affairs and Employment for their opinions; on 17 December 1980, the European Parliament referred a Motion for a Resolution (Doc. 1-725/80), tabled by Mr de la MALENE and others pursuant to Rule 14 of the Rules of Procedure, to the Committee on External Economic Relations as the Committee responsible, and on 19 December 1980 a Motion for a Resolution (Doc. 1-765/80) tabled by Mr BONACCINI and others pursuant to Rule 25 of the Rules of Procedure.

The Committee on External Economic Relations appointed Mr WELSH rapporteur on the Multi-Fibre Arrangement at its meeting of 27 January 1981. The Committee decided, at its meeting of 17 March 1981, to consider all three Motions for a Resolution in one single report.

It considered the report at its meetings of 24/25 February, 10 March and 17/18 March 1981.

At its meeting of 18 March the Committee adopted the Motion for a Resolution unanimously.

Present: Sir Fred Catherwood, Chairman; Mrs Wiczorek-Zeul, Vice-Chairman; Mr Welsh, Rapporteur; Mr Boyes (deputising for Dr Seal); Mr Cohen (deputising for Mr Martinet); Mr de Courcy Ling (deputising for Lord O'Hagan); Miss Forster (deputising for Mr Spicer); Mrs Fourcade; Mr Giummarra; Mr Hänsch; Mr Louwes; Mr Nicolaou; Mr Pelikan; Mrs Pruvot (deputising for Mr Irmer); Mr Radoux; Mr Rieger; Prinz zu Sayn-Wittgenstein; Mr Seeler; Sir John Stewart-Clark; Mr Vande meulebroucke.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	
A. Principles	8
B. Negotiating Guidelines	9
C. Other Recommendations	11
ANNEX I: Motion for a Resolution (Doc. 1-604/80) .	13
ANNEX II: Motion for a Resolution (Doc. 1-725/80) .	15
ANNEX III: Motion for a Resolution (Doc. 1-765/80) .	16

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

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

The European Parliament,

- having regard to the Treaty of Rome and particularly Article 113 thereof,
 - having regard to the Lomé Convention and the Agreement of Association with a number of third countries,
 - considering the serious unemployment situation existing in the Community today which particularly affects female employment which is at a high level in the textile industry (about 70%),
 - having regard to the Multi-Fibre Arrangement of 1976 and the protocols annexed thereto,
 - having regard to the motions for resolution by Sir James Scott-Hopkins, Mr Seal and others (Doc. 1-604/80) and Mr Bonaccini and others (Doc. 1-765/80) and by Mr de la Malene and others (Doc. 1-725/80),
 - aware that the Commission will shortly be making proposals to the Council for authorisation to negotiate an extension of the Multi-Fibre Arrangement following its expiry at the end of 1981,
 - noting that the Council has undertaken to consult Parliament on the content of any further arrangement within the framework of the Westerterp procedure (Answer to Question H 412/80 of 15 October 1980),
 - noting that the Commission has undertaken to consider Parliament's opinion before making its proposals to the Council (Answer to Question H 527/80 of 12 January 1980)
 - having regard to the report of the Committee on External Economic Relations, (Doc.1-61/81),
1. Concludes that it has the right to give a clear political expression of opinion to guide the Commission in the formulation of its proposal for a negotiating directive;

Employment in the textile industry

2. Considers that in the light of accelerating job losses in the textile and clothing industries and an unforeseen increase in the rate of imports at a time of falling consumption, it is not possible to revert to the straight-forward rules of GATT and as the Commission has itself acknowledged a further period of restraint is essential. Furing this period of restraint the textile industry should be reorganized and improved according to the overall Community strategy for the industry;
3. Recognises that while the interests of the textile and clothing industries warrant due consideration, the overall objective of Community policy must be to expand world trade and end the recession;
4. Recommends the Commission to seek a ten year extension of the Multi-Fibre Arrangement maintaining the current legal texts and interpretations thereof to give the textile industry both in the developed and the developing countries a much needed period of stability;

Role of the United States

5. Recommends the Council and Commission to draw up, in addition to the MFA, a proposal for the development of exports of textiles and clothing to markets outside the EEC; to promote initiatives designed to adjust the structure of European industry to new technology and research; finally stresses the need for the Commission to evolve a political initiative for the flow of trade in textile and clothing products without passively accepting the actions of multinational concerns;

Role of the United States

6. Recognizes that the United States did not reduce its tariffs to the same level as the Community during the Tokyo Round and that their share of the Community market in synthetic fibres has grown rapidly due to a certain number of advantages from which the American industries benefit; and consequently asks the Commission to enter into negotiation with the United States with a view to obtaining both moderation in their exports of synthetic fibres and a reduction of the strain which exists on Community markets in opening the United States market to low cost imports to an extent which is reasonable to the climate of consumption and exports;

Renewal of the Multi-Fibre Arrangement

7. Urges the Commission to conduct the negotiations for the renewal of the Multi-Fibre Arrangement on new principles. These new principles should take account of:
 - the foreseeable evolution of consumption within the Community and in each Member State,
 - a fair opening up of third country markets whether such countries are industrialized or developing,
 - the need to maintain the present level of international trade, but also to favour those exporting countries which are among the poorest, notably those of the ACP;

Bilateral agreements

8. Recommends the renewal of the various bilateral agreements, but considers that owing to the collapse in internal demand, increases in import levels can only be justified if consumption in the category concerned can be shown to have increased and recommends that import levels be reviewed at three year intervals to see if increases can be justified;
9. Considers that in the interest of expanding trade, bilateral partners should be requested to grant improved access to their domestic markets under the provisions of the GATT. This should be a factor to be taken into account when fixing or reviewing increases in import levels;
10. Insists on the maintainance of the price clause and on the importance of reciprocity in bilateral agreements with state trading countries;

Agreements with Mediterranean countries

11. Considers that access for Spanish and Portuguese textile and clothing imports will properly be dealt with in the context of the accession negotiations, but notes that the dispositions arrived at will have an important bearing on the Community's ability to reduce the restraints on other low cost suppliers and emphasises that the dispositions arrived at will have an influence on the Community's capacity to accept textile imports from third countries;
12. Considers that similar considerations apply to Turkey and Yugoslavia with whom bilateral arrangements should be made in the context of their respective agreements;
13. Recommends that the Mediterranean preferential countries be invited to accept a market discipline along the lines of the 1973 MFA in return for improved access for Community textile products to their markets;

General

14. Urges the Commission to make proposals for a new outward processing regulation which would provide, inter alia, that applicants for an outward processing permit would be required to show that they had manufactured or purchased at least three times the quantity of similar products inside the Community during the previous twelve month period; in addition all products treated by outward processing should be regarded as imports and counted as part of the quota for the Member States concerned;
15. Requests the Council to assess the Commission's proposals against the European Parliament's recommendations and refer the outcome of the negotiations for Parliament's opinion;
16. Requests the Commission to report progress in these vital negotiations at regular intervals to Parliament through its Committee on External Economic Relations;
17. Invites the Commission to take note of the recommendations for improving the mechanism of the orderly marketing system for textiles attached to this report;
18. Concludes that the overall purpose of a new Multi-Fibre Arrangement is to create a situation by the time this agreement expires in which free trade in the textile sector can be restored;
19. Instructs its President to send this Resolution to the Council, the Commission and the Director General of GATT.

EXPLANATORY STATEMENTA. 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.

MOTION FOR A RESOLUTION DOCUMENT 1-604/80

tabled by Mr WELSH, Mr SCOTT-HOPKINS, Mr DE FERRANTI, Mr BEAZLEY,
Mrs KELLET-BOWMAN, Mr NORMANTON, Mr PEARCE, Mr PURVIS, Mr SPENCER,
Mr KELLET-BOWMAN, Mr BALFOUR, Mr FERGUSSON, Mr PRICE, Mr DE COURCY
LING, Mr SIMMONDS, Mr DALZIEL, Mr JOHNSON on behalf of the European
Democratic Group

Mr SEAL, Mr MEGAHY, Mr ENRIGHT, Mr COLLINS, Mrs BUCHAN, Mr BOYES
with request for urgent debate pursuant to Rule 14 on the negotiations to
conclude a further Multifibre Arrangement

The European Parliament,

- having regard to the Treaty of Rome and particularly Article 113 thereof,
 - having regard to Commission Document 1/277/80 EN reporting on the operation of the present Multifibre Arrangement,
 - noting that the Council has declared that an essential objective of the next MFA is to retain a reasonable share of the market for Community industry,
 - aware that the discussions have already commenced in Geneva concerning the renewal of the Multifibre Arrangement for a further period,
 - noting that the Council has undertaken to consult with Parliament on the content of any further arrangement within the framework of the Westterterp procedure (Question H. 412/80),
 - concerned at the mounting job losses in the Community textile and clothing industries on top of a contraction of 700,000 jobs between 1973 and 1978,
 - aware that any scheme to regulate trade in textiles must be seen in the context of the Community's overall trade policy, particularly as regards developing countries,
1. Insists that Parliament be given an opportunity to make its views known on the objectives of a future MFA before the Commission's negotiating mandate is approved by the Council;
 2. Expects that it will be regularly informed through its Committee on External Economic Relations on the progress of these vital negotiations;
 3. Urges the Commission, in framing its negotiating mandate to take the following considerations into account:
 - (a) the need to consider textile imports from all low-cost sources in determining acceptable import quantities;
 - (b) the need to have a system of review of quota ceilings at regular intervals so that the rate of import penetration does not exceed the rate of growth in Community demand for textile products;

- (c) the need to insist that quota allocations to the newly industrialized supplier countries are related to the degree of access they allow to Community products;
 - (d) the importance of discussing the desirability of promoting industrialization in those sectors where the Community already has surplus capacity;
4. Calls on the Commission to explore the possibility of negotiating a mutually acceptable agreement as regards EEC/USA textile trade, including the reduction of US tariffs to EEC levels, and encourage the US to take a greater share of low cost imports;
 5. Calls on the Commission to re-examine the system for surveillance monitoring of textile products originating in third countries established by Decision 47/80;
 6. Instructs its President to forward this Resolution to the Council and the Commission.

JUSTIFICATION

The Commission will submit its proposed mandate to the Council in December. It is important that Parliament asserts its right to be consulted and places preliminary views on the record before the mandate is submitted.

MOTION FOR A RESOLUTION DOCUMENT 1-725/80

tabled by Mr de la MALENE, Mr LALOR, Mr NYBORG, Mrs EWING, Mr ANSQUER,
 Mr CLEMENT, Mr COUSTE, Mr CRONIN, Mr DAVERN, Mr DELAU, Miss DE
 VALERA, Mr DOUBLET, Mr FANTON, Mr FLANAGAN, Mrs FOURCADE,
 Mr GERONIMI, Mr ISRAEL, Mr de LIPKOWSKI, Mr REMILLY, Mr TURCAT,
 Mr VIE and Mrs WEISS

on behalf of the Group of the European Progressive Democrats
 with request for urgent debate pursuant to Rule 14 of the Rules of Procedure
 on the situation in the textile and clothing industry

The European Parliament,

- concerned at the deterioration in the state of the textile and clothing industry which has now reached intolerable limits,
 - deploring the absence of any vigorous decisions from the Commission or the European governments,
 - aware that a reduction in imports would enable our textile industries to win back the European markets and recover their strength before embarking on a new economic battle,
1. Calls for the renegotiation of the Multifibre Arrangement;
 2. Recommends that all imports be subject to quotas expressed as a percentage and not a quantity in relation to their potential sales in the Common Market;
 3. Welcomes the introduction of customs duties which are levied in all countries, in particular USA;
 4. Calls for the reduction and monitoring of imports into the Community of goods manufactured by multinational undertakings established in developing countries;
 5. Demands the introduction for intra-Community trade of country-of-origin labels, backed up by proper surveillance, to prevent any deflection of trade;
 6. Instructs its President to forward this resolution to the Commission and Council.

Justification of the request for urgent debate

Emergency measures are required to alleviate the serious problems faced by textile and clothing undertakings.

MOTION FOR A RESOLUTION DOCUMENT 1-765/80

tabled by Mr BONACCINI, Mr LEONARDI, Mr CAROSSINO, Mrs CARETTONI ROMAGNOLI,
Mr GALLUZZI, Mr VERONESI, Mrs BADUEL GLORIOSO, Mrs BARBARELLA,
Mr CARDIA, Mr CERAVOLO, Mrs CINCIARI RODANO, Mr D'ANGELOSANTE,
Mr DE PASQUALE, Mr FANTI, Mr FERRERO, Mr GOUTHIER, Mr IPPOLITO,
Mr PAPPAPIETRO, Mr SEGRE, Mrs SQUARCIALUPI and Mr VITALE

pursuant to Rule 25 of the Rules of Procedure on the Multifibre Arrangement

The European Parliament,

- having regard to the seriousness of the problems currently facing Community industry and the textile sector in particular;
- whereas the bilateral voluntary restraint agreements between the EEC and non-member exporting countries need to be redefined,
- whereas the possibility of a subsequent liberalization of the rules governing the access of textile products to the Community market should not be considered separately from the problems of reviewing existing Community policies and of defining a common industrial policy,
- bearing in mind also the clear connection between these problems and the overall negotiations for a redefinition of international economic relations which will begin in the UN in January,

Requests the Commission to report to Parliament as soon as possible on progress made in the initial stage of the negotiations for the renewal of the Multifibre Arrangement and to agree on the terms of reference to be assigned to the delegation participating in them.