APPENDIX I - HANDLOOM PRODUCTS

(a) MFA Treatment of Handlooms and Hand-Made Items

1. The MFA clearly intended that hand-made products should be traded free from restrictions. The MFA also represented an improvement and clarification of the special treatment given under the previous LTA which confined itself to handloom fabrics. Article 12:3 states:

> "This Arrangement shall not apply to developing country exports of handloom fabrics of the cottage industry, or hand-made cottage industry products made of such handloom fabrics, or to traditional folklore handicraft textiles products, provided that such products are properly certified under arrangements established between the importing and exporting participating countries concerned".

2. Various problems have however arisen in interpreting handloom exemption in the various bilateral agreements. The most serious is within the EEC. The Community accounts for over 40% of the overseas market for Indian handloom goods (the main source). In 1977, a dispute arose over Indian shirts, blouses and shirts certified as 'handloom', some of which were clearly not, but utilised powerloom fabric. Apart from abuse, and careless licensing procedures, there were genuine difficulties in identification. A mission of Community experts led by Commissioner Haverkamp to the subcontinent declared itself unable to accept that there was a sufficiently clear cut distinction between handloom and powerloom fabrics for the authorities to be able to guarantee satisfactory certification. There was a separate (and very much less convincing) complaint that the limited use of foot operated (sewing) machinery in garment assembly factories invalidated the handloom provision.

3. Following unilateral action by the UK and France on Indian products, the EEC itself instituted Community quotas in April 1977 for controversial items (skirts and blouses) from India and Pakistan which, in effect, subsumed handloom and machine-made products within the same quotas. The Indian government referred the matter to the TSB on the grounds that the EEC's action breached the exemption for handloom items, was excessively restrictive in relation to growth trends and capacity installed for the year, and was unilaterally imposed, not bilaterally agreed, and export administered. The TSB upheld the Indian complaint arguing that the EEC's action was 'illogical and illegal'. But the Community made no attempt to observe the

recommendation and its negotiator declared "no doubt India has a very strong legal position. But for the Community it is not a legal situation. It is an unusual and non-rational situation arising out of the unemployment situation"[38].

4. In the second phase of the MFA, the Community sought to regularise the situation through bilateral agreements. Quotas were introduced for Indian dresses and shirts (and skirts for Pakistan) incorporating handloom items. In addition the bilateral agreements sought to remove the elements of ambiguity in the definition of handlooms which existed in the first set of agreements (for those items for which certified products were still exempted); ie,

(a) more rigorous definition of hand-working to embrace making-up operations. Hitherto, certification was designed to ensure that it was the three primary actions of weaving - picking, beating and shedding - which should be provided by hands or feet without power. Made-up items and folkloric items were included in the exemption. The definition has been narrowed down to one requiring that garments and other products should be made by hand, denying the use of hand or foot operated machines. An exemption was made of Sri Lankan batiks.

(b) several countries were excluded altogether from hand made product exemption (including Egypt, Brazil and Guatemala).

(c) the protocols of many of the bilateral agreements (other than India) envisaged consultations "with a view to finding a quantitative solution" - should exempted products "cause difficulties" to the EEC.

5. A similar combination of quota restraints, more restrictive definitions and exclusions have been introduced in other importing countries. The <u>USA</u> introduced, and India accepted, restraints in 1976 but this was an emergency measure and subsequently withdrawn. Imposition and withdrawal had a great deal to do with fashion demand. Quotas were withdrawn in mid-1977 after evidence that the upsurge in demand for India's handloom items, experienced in the Spring and Summer of 1976, had fallen away; quotas were in fact substantially underutilised. There were however, subsequently, further restrictions which make handloom and machine made goods subject to the same quota and a more restrictive definition of exemption products ("value added to a particular handloom item by hand that is, in the case of garments, hand-stitching and all other such like processes should be done by hand").

There are defacto controls on handloom items as part of quotas on garments in Canada and in other importing countries. There have been problems with particularly restrictive definitions of handloom items in the Nordic countries and these are also the only countries which impose significant trade barriers on fabrics (tariffs on coloured items) and non-garment made ups (quotas for bedlinens and towels).

6. As for the future, the access position of handloom products could be threatened by various developments which extend the measures already introduced:

(a) cutbacks in the quotas for 'mixed' categories covering handloom and machine made items. Comitextil in the EEC argue that they are presently "artificially high",

(b) extension of existing quotas to more items and more importing and exporting countries,

(c) attempts to tighten the conditions for currently exempted items. For example, 'fclklore' items, which have hitherto presented few problems, are now being put under much closer scrutiny and in the UK shipments of such 'Indian items' as Kurtas, and gararas have been refused admission outside quotas. Even countries such as Finland define folkloric items tightly (to exclude zip fasteners for example).

7. So far the Indian authorities have tried to protect the position of handloom weavers by guaranteeing them a fixed share of the 'mixed' quotas (66 2/3% for the US and 50% for other countries, including the EEC). This system has not been easy to operate since fashion affects the relative demand of power and handloom items and that for handlooms is currently insufficient to fill the quota allocation. Thus unused handloom quota has had to be switched in the last few months of the year. There is also a problem of 'crowding out' of handlooms by powerlooms for these fabrics where certification by the authorities is imperfect and where powerloom items can be passed off as handmade. At the time of writing however the balance was shifting back towards handlooms.

(b) The Importance of Handloom Exports

8. The restrictions potentially affected a variety of countries which have

a tradition of handweaving (Mexico, Guatemala) or handprinting, or with Batiks (Indonesia, Malaysia, Sri Lanka). But they fall with greatest severity on India (and to a lesser extent Pakistan) which have a sufficiently large handweaving sector to be able to produce substantial volumes of fabric for making up by the garment exporters.

9. The current significance of handloom exports for the Indian economy can be described in several ways. First, handloom goods provide a useful source of export earnings. The following figures give a rough breakdown (given that the boundary between handloom/powerloom items is a murky one).

	1977/78	1978/79	1979/80
		(bn. Rs.)	
A. Handloom textiles exports:	2.58	3.03	2.88
of which (fabrics	0.82	0.63	0.64
cotton (made-ups	0.35	0.29	0.26
(garments	1.09	1.69	1.51
silk items	0.32	0.40	0.47
other items	0.01	0.02	n.a.
B. Total textile and clothing (cotton and silk)	4.84	6.72	7.73
C. Total exports	54.08	57.26	64.27

Source: Monthly Statistics of Foreign Trade, for Overall Figures.
HEPC, for handlooms.
1979/80 data provisional.

10. The contribution of the handloom sector (of approximately 5% in these two years) is however rather understated by the figures. The import content of exports is very low (in contrast with important exports such as engineering goods and cut-diamonds). There is little opportunity cost in terms of other tradeable items (as is the case with major cash crops).

11. Second, and more important, there is employment. To get some appreciation of rough orders of magnitude we need estimates of the share of exports in handloom production and of total handloom employment. Rs. 11 bn of goods was produced by the handloom sector in 1978/79 and around Rs. 3 bn exported. But the garments component (Rs. 1.7 bn) has only a 70% fabric content. On this basis exports contribute 22% of production by value though this is almost certainly an overestimation since values of exports are greater than of goods marketed domestically. In practice, 15 to 18% of production is probably exported, in terms of volume. There are currently somewhere between 3 to 4 million looms - probably 3.8 mn - though 1979/80 output figures suggest that the equivalent of only 2.2mn are operational 300 days per annum.

The government's own estimates are that each loom provides the equivalent of full time (300 days a year) employment of 2.4 persons per loom. Thus, there is the equivalent of 5.3mn jobs of which perhaps 900,000 for exports. In fact the situation is a great deal messier. Many looms work for only part of the year and there are rather more ancillary family workers than those indicated by the theoretical coefficients. Thus the number of people dependent on handloom exports for their livelihood could be nearer to 1.5mn. In very few cases are there opportunity costs in terms of labour in other activities. At the margin the investment required per additional job is close to zero since there is so much spare capacity. Even where investment is involved, the average capital per worker is currently around Rs.150 as against Rs.14,000 in the mill sector and substantially more in much of the modern sector.

12. The benefits in terms of employment and foreign exchange are almost entirely of recent origin and are so far under-developed, with only a narrow range of items so far produced for world markets. In 1979/71, the value of handloom exports was under 10% of the late 1970s: exports of handloom garments were negligible and volumes of handloom fabrics perhaps a quarter, in volume, of todays - mostly for Africa and S.E. Asia. Given some indication therefore of the potential as well as the actual levels of employment and earnings it is unsurprising that high priority is given to maximising sales. Market access barriers are one major constraining factor when 80% of sales are to Europe and the USA; 40% to the EEC (of which 70% are garments); 25% to the USA (of which 63% are garments).

(c) Negotiating a Way Forward

13. The main appeal in negotiating better treatment for handlooms is bound to be a humanitarian one since unrestrained competition between machine made and handmade fabric items is likely to be at the expense of the latter for all except a limited range of complex fabric designs and specialities which the handloom weaver can produce more cheaply. While the principle of unrestrained imports may seem threatening to import competing industries the potential, let alone the actual, exports of the handloom sector in world trade are negligible in relation to the total and it requires only a little ingenuity and concern to devise means of accommodating them.

14. Importing countries have, however, a perfectly legitimate interest (mingled in practice with cruder protectionist sentiments) to ensure that the system is not abused as it undoubtedly was in 1976/77 as a backdoor

method of importing machine-made quota items. There are essentially three different levels at which problems of management arise;

(i) identification of fabric: for some fabrics when made-up into garments (and some other items) it is extremely difficult to differentiate the weaves. The diagnostic hand-weave characteristics - templeholes, uneven picking, bars - are clearly detectable in piece cloth and in items made of certain kinds of fabrics, notably those characterised by high density. Moreover, fabrics with many colour changes and check designs are not made on machines. On the other hand, cheesecloth and crepe items are genuinely difficult to differentiate. If the TSB could, with expert advice, identify a standard list of those products for which problems of identification do not arise this could greatly improve the present indiscriminatory approach of the main bilateral agreements.

(ii) garments manufacture: although it is a side issue from the question of quota abuse, importing countries have tried to impose stringent conditions on the use of, even, simple pedal operated sewing machines in garments assembly. This is absurd, since the nature of the final assembly stage does not detract from the handloom character of the textile process which actually generates the rural employment. (No doubt it could be argued, taking the argument to its logical conclusion that handlooms should use only handspun, not (as now) mill cotton, or be transported from Asia by mule instead, of by air and ship). Nonetheless one can imagine the concern if handloom garments were made (to take an extreme example) by laser controlled cutting machines. One way of dealing with this largely artificial problem is for the TSB, as in (i) to compile a list of garments processes which might be incompatible with its 'cottage industry' character.

(iii) folkloric items: although not yet a serious issue, the recent behaviour of EEC governments suggests that there may be mounting problems over classification. The same basic approach as adopted in (i) and (ii) might help resolve such problems.

15. In return for dcs accepting that handloom products be given genuinely unrestricted access subject to a multilaterally defined specification of certifiable products and processes the exporters could, in turn, offer the reciprocal concession of inspection rights to nominated officials in order to ensure that abuse does not occur.

APPENDIX II - ADJUSTMENT POLICIES

1. There are essentially three schemes for which trade related adjustment assistance is on offer. The United States provides for 'adjustment assistance' under the 1974 Trade Act. Technical or financial assistance is provided to firms in industries where imports have "contributed importantly" to reduced sales. The stated objective is to facilitate the orderly transfer of resources to alternative uses but there is no mechanism to ensure that assistance is so directed, rather than to relief action. Other US measures, to supplement the incomes of redundant workers and to help job search, training and relocation do assist workers leaving the industry. The 1979 White Paper (which led to intensified 'anti surge' measures against ldc imports) provided for measures to step up adjustment assistance much of it designed to raise productivity and to get assisted firms involved in an export drive. The US government includes among the objectives of these industry policy measures "to improve the viability of current lines of protection" as well as to diversify (with the relative weight of these objectives left unclear). One critical appraisal of the US scheme - while acknowledging its ambition - concluded that it was "flawed in conception and execution, as is clear from the failure to still the rising chorus of protectionism".[39]

2. The Canadian Textile Policy, introduced in 1970, provides, under the General Adjustment Assistance Programme, for help to firms for restructuring out of existing lines, for payments to workers whose jobs are affected by import competition, and for **restructuring.** The Canadian authorities have sponsored an "upgrading of production and the vacation of low price categories"; indeed it is one of the conditions for recommending protection in enquiries held by the Textile and Clothing Board that sectors should submit plans for such restructuring. But several of the sources of special incentives to the industry - Federal aid for productivity assistance and regional assistance - are not focussed in this way. The Board moreover has no executive power and is increasingly criticised as leaning to the industry lobby. As in the USA the main emphasis of industry policy is now on helping firms to compete internationally and become 'more viable' without, necessarily, any 'positive' adjustment. Finally, the Dutch programme of 'adjustment assistance' has attracted a good deal of interest not least because it was concerned, to a much greater degree than the others, with ldcs and with an interventionist form of comprehensive structuring. The scheme is however now considered to have been a failure having disbursed only 5% of its small ($85mn) budget in the first four years.

The emphasis in Holland has shifted to straightforward assistance to the textile industry to make it more competitive, and to protection.

3. Special reference needs to be made to the UK which has perhaps the most experience of sectoral adjustment programmes in the textiles industry, aimed at rationalising and modernising a sector of the economy with problems of declining international competitiveness. The UK government notes that "it is not possible to distinguish between measures to improve viability of existing lines of textile production and those designed to encourage a move into more viable lines of production".[40] Both objectives have been involved. The Cotton Industry Act (1959) set out to re-equip and reorganise the industry with an ambitious programme of scrapping capacity, encouraging redundancy, promoting company mergers and re-equipping remaining firms. Caroline Miles noted that "the Act failed to achieve its stated objectives of restoring the industry's competitive position or its profitability and the pressure for import controls was...... intensified".[41] It is too early to judge subsequent schemes for woollens and clothing (and the government in power now has a different outlook to industrial intervention from the one which introduced them) but they had a similar mix of objectives and policies of which Keesing and Wolf concluded: "the aim has never been simply to compensate those leaving the industry or contracting their output, while giving the market the role of determining what production and industrial structure would be viable. On the contrary the aim was to create a financially viable industry in spite of the fact that it was unclear whether a profitable industry could be created without permanent protection".[42]

4. Several other countries - France, Belgium, have also had policies which are concerned - in a not dissimilar way - with textile industry restructuring. Belgium, which until recently had a modest programme of scrapping and re-equipment, is currently considering a 'restructuring' plan to cost BFr.35 bn ($2 bn) which has amongst its objectives the preservation of employment at the level of 100,000 workers. This kind of 'restructuring' and 'adjustment assistance' appeals considerably to textile firms and unions, not only in Belgium.

5. There is another group of industrial countries which have tried as far as possible to avoid being drawn into specific sectoral, 'adjustment', programmes. These include Germany - though there are substantial

subsidies from Land governments, and regional grants to textile firms - Denmark and Switzerland. By and large these are also the countries whose governments act as liberalising force in an MFA context. There is also the special case of Japan which does not maintain import quotas (though import penetration levels are low by OECD standards) and which has had an active industrial restructuring policy designed to be 'positive' in the sense used above.

Conclusion

6. In general, industry specific adjustment assistance programmes have not been strong or clearly focussed enough to head off protectionist pressure. Where they have been strong in principle and clearly focussed (as in Holland) they have not been taken up by firms. It is perhaps true also that specific programmes have generated beliefs in the industry that the government can 'save' it. The emphasis within such programmes has, seemingly inevitably, shifted towards preserving the branch or industry and towards re-equipping firms whose new investments then have had to be protected from 'low cost' competition.

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