

GENERAL AGREEMENT
ON TARIFFS AND
TRADE

ACCORD GENERAL SUR
LES TARIFS DOUANIERS
ET LE COMMERCE

RESTRICTED

Limited C
GATT/CP.3/23
14 May 1949

Original: ENGLISH

CONTRACTING PARTIES

Third Session

Item 13 of the Agenda

ADOPTION OF EMERGENCY MEASURES TO RESOLVE THE CRISIS OF

THE CUBAN TEXTILE INDUSTRY

STATEMENT OF THE DELEGATION OF CUBA

Mr. Chairman, the Government of Cuba has requested the Chairman of the CONTRACTING PARTIES to include on the Agenda of this Session an item relating to "Crisis of the Cuban Textile Industry and the Need to Adopt Emergency Measures in Order to Solve it". This item appears as No. 13 on the Agenda and is the object of consideration at this moment.

Mr. Chairman, the Cuban textile industry is now undergoing a most severe crisis, and, unless emergency measures are adopted at once, the industry will be wiped out of Cuba's economy, with dangerous results to the Cuban national economy in general and subsequent repercussions on international trade.

The present picture now before the Cuban Government cannot be more sombre. I cannot emphasize enough the seriousness of this situation. The reduction in production and, in certain cases, the complete closing of factories has caused social unrest of national proportions; the workers, in showing their discontent, have seized factories, city halls, and other governmental offices, demanding that the Government adopt adequate measures to solve the crisis. In the many clashes between the police and army against the workers there has been violence and

bloodshed and extensive damages to private property. The tension and unrest have become well nigh unbearable and deferment of further violent action has been made possible only by virtue of the assurances offered by the Government that a satisfactory solution will be found within the framework of international obligations and in accordance with the provisions and spirit under which the General Agreement on Tariffs and Trade was conceived.

As is well known, the economic and industrial capacity of Cuba is not developed to the point where compulsorily displaced workers can be absorbed by other industries. Displacement of this nature is now taking place in the textile industry.

My Government, having full confidence in the good faith and the spirit of understanding of the Contracting Parties to the General Agreement, as well as in the efficacy and sincerity of the objectives stated in the provisions of this Agreement, appears before you to state its problem and to seek those remedies that the Agreement itself provides.

My Government takes this exceptional course because of the emergency and the utmost urgency of the case, and does it with the firm belief that it does not have within its reach any other procedure as adequate or efficacious which will permit it to meet the grave problem now confronting it.

We are confident that we will demonstrate to the entire satisfaction of the CONTRACTING PARTIES the righteousness of this appeal and that in the consultation which we request to be opened we shall prove the justice of our petition and, therefore, shall obtain from you the release from present obligations which is indispensable to rescue our textile industry from ruin and to promote once more its future development for the good of all.

The need and purpose of the industrialization of Cuba.

It is fundamental to every country to establish and develop industries, that is to say, to industrialize itself. This aim is recognized by both the General Agreement on Tariffs and Trade and the Havana Charter as one of their objectives. For Cuba it represents, in addition, the only possibility of diminishing, if not eliminating, the violent crises caused in its economy by exclusive dependence on the exportation of sugar. Industrialization also offers the most effective means of providing employment to the great number of those workers who are seasonally and/or permanently unemployed in our country. To illustrate this point I might add that in the year 1925 the level of sugar production was about the same as it is at this moment, whereas at that time the population of Cuba was approximately one half of what it is to-day. Therefore, in addition to the seasonal unemployment brought about by the fact that the factory work in the sugar industry lasts for a period of only three to four months, each year our economy is burdened by a larger number of men who must find work in sources other than the production of sugar, or, in general, in production for export.

Not being in a position to provide full employment for that portion of the population that is able and willing to work, our country is not able to achieve the progressive improvement in standards of living in a manner commensurate with constant technical advancement, and to which it is entitled by virtue of its participation in the concert of democratic nations.

Cuba wants and is determined to industrialize itself in the interest of **rescuing** its economy from the cyclical upheavals caused

by its dependence on an agricultural economy only, and in the interest of providing full employment, thus preventing the social and economic difficulties normally caused by unemployment.

Having established this policy, which is consonant with the objective of this Organization of "raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods", it only remains for us to determine the nature of the production which needs stimulation in its establishment, maintenance and development. The first step in the process of industrialization consists of being able to produce those articles that are the prime necessities of life, that is to say, food, clothing and shelter. If any country is not able firmly to establish production of these elementary articles for its subsistence, any thought of industrialization is entirely illusory.

Cuba has tried to develop an economic policy based on these principles and has striven to maintain its textile production, at least at those levels that existed at the time of its participation in this international organization.

Establishment of the textile industry in Cuba - Lack of
tariff protection

The Cuban textile industry had its origin almost thirty years ago, when in 1920 small plants for the production of towels were started, and this was followed by the establishment of other factories for the manufacture of knit goods, such as underwear and men's hosiery.

Since its establishment in 1902 and up to 1927, no customs tariff had been promulgated by the new Cuban Republic. Up to then it had operated basically under the old colonial tariff. In 1927, the first genuinely Cuban customs tariff was adopted. It constituted a very small step towards protection for some of the industries which at that time were considered of possible immediate establishment in our country. Cuban legislators contemplated at that time the industrial activities which were being created and tried to protect these primary manifestations of the textile industry; but being unable to visualize the possibilities of fabric production in almost all types of textiles, and being able better to envisage the development of garment-making activities, they established very low duties for the large majority of textile fabrics, in the belief that they should be considered as "raw material" for the garment-making branch of the textile industry.

It is necessary to point out that in 1927 social legislation in Cuba was far from reaching the degree of progress it has now attained; wages were low, and workers did not enjoy any of the social benefits now in force in Cuba, such as paid vacations, maximum work week of 44 hours with payment of wages for 48, health and maternity insurance, old age and disability insurance. These benefits, basically adopted in accordance with the recommendations of the International Labour Organization (ILO), and which are now firmly established in our Constitution, represent an additional labour cost of 28.35 per cent over basic wages. These basic wages have been increased substantially as a result of the policy

of increasing wages encouraged by the Cuban Government in order to enable the workers to enjoy an adequate and decent standard of living, as provided in Article 61 of the Cuban Constitution.

It is important to draw attention to the fact that the protection afforded to the Cuban textile industry by the 1927 Tariff was necessarily small, since it was based on specific rates of duty predicated on the principle that textiles were the raw material of the garment-making industry. These rates of duty were maintained without any appreciable variations, notwithstanding the fact that costs of production progressively increased. Therefore, a very large shrinkage in the percentage of duty protection occurred. In other words, the actual ad valorem equivalent of duty protection to-day is considerably less than it was at that time.

These very low duties, which were only slight protection at best, were adjusted by Cuban Law of August 9, 1932 and at the time of the revision of our customs tariffs on the occasion of executing the Reciprocal Trade Agreement with the United States of America in 1934, and the net adjustment on textile items resulted in very small increases on some and decreases on others, with no appreciable change from the 1927 levels.

Notwithstanding the economic principle that the protective incidence should result in reasonable safeguard for the domestic industry when faced with the competitive production of foreign industries which operate within more highly developed economies and at greater productive and technical efficiency, the Cuban rates of duty were markedly lower (in some cases as much as 50 per cent) than those of other countries such as the United States, whose textile industry, moreover, obtained its raw materials, fuel and electric power at lower costs than Cuba's.

However, these very low duties on textile importations into Cuba continued in force with no modifications until the time that the General Agreement on Tariffs and Trade became effective.

Influence of the Second World War on the maintenance and development of this industry.

During the last war period, the Cuban textile industry was able to develop extensively, not as a result of tariff protection, because, as we have already stated, such protection was wholly in-existent, but on account of the inability of large textile producing countries to ship their products to the Cuban market. Consequently, Cuba became practically dependent upon the domestic industry for its requirements, and it was then that, due to the further development of the industry and additional investment of capital, the population of Cuba was able to meet its clothing requirements throughout that difficult period. Had it not been for this development of the industry, the Cubans would have been unable to meet their minimum requirements as was the case in other countries which, at that time, did not have a textile industry. In addition, our industry made it possible to ship our main export product, sugar, to the most remote theatres of war by supplying the necessary containers at times when they were not obtainable in the traditional markets because the

latter were devoted almost entirely to the production of war materials.

The textile industry is now firmly integrated into the economic life of the nation, and although the figures which we will quote may not appear very large when compared with those of other countries of greater productive potentialities and greater industrial development, yet this industry is irreplaceable within the scope of our internal economy. In round figures, the Cuban textile industry represents a capital investment of \$45,000,000 and pours into our internal economy the very substantial amount of \$26,000,000 annually in wage payments, which in turn provide a means of livelihood to approximately 19,000 workers employed in the industry. Therefore, since it is reasonable to estimate that each worker has three dependent persons, it is a fair assumption that about 75,000 persons depend upon this industry for their livelihood.

To condemn these people, or a relatively large number of them, to destitution is an intolerable prospect which the Government of Cuba is obligated to prevent by constitutional mandate, and the General Agreement should not hinder our Government in following such a course.

The 1947 Tariff Negotiations at Geneva and their results.

If consideration is given to the fact that after the termination of the war activities importations began to increase considerably and that the customs tariff had ignored the development of the industry for twenty years, one can readily comprehend the unfavourable conditions under which the industry appeared before the Second Session of the Preparatory Committee held at Geneva for the purpose of drafting and framing the General Agreement and carrying out tariff negotiations.

Despite the fact that Cuba could have prepared itself by adopting certain protective measures, since it was well-known that the ultimate objective at that Session was tariff reductions, no such action was taken, and Cuba joined in the formation of the General Agreement on Tariffs and Trade without any previous alterations in its tariff regulations.

Mr. Chairman, the tariff items covering the textiles produced in Cuba for which we are requesting protection are affected by the 1947 negotiations, and are included in List IX (Cuba) annexed to the General Agreement. These items were negotiated with our principal supplier: the United States of America.

The negotiations with respect to these items were singularly difficult. Although our Delegation requested the establishment of rates of duty which, at that time, we felt to be the minimum required to provide some protection to our industry, the United States negotiators considered these unacceptable. After a long process of adjustments and difficulties, which at times appeared to be insurmountable, the negotiations were concluded on the basis of providing slight increases - not in the amounts which we were rightly requesting - but in very small amounts for those items produced in Cuba, in exchange for compensatory reductions in certain textile items, the production of which was not contemplated in Cuba - at least not at that time.

Mr. Chairman, we have no other alternative than to state, quite frankly and honestly, that when we found it impossible to secure the increases which we felt to be the indispensable minimum, we were compelled, in order to avoid a breakdown in the negotiations, to accept

insufficient increases on rates of duties which were already extraordinarily low. We were thus placed in a very serious position, for the results of these negotiations have threatened great damage to our national welfare.

The reasons for this acceptance were of course manifold, and we do not deem it timely nor pertinent at this time to enter into any detailed explanation of them. Although the very detrimental results of binding these duties at such low rates could not be fully visualized at the time, it is opportune to emphasize the fact - due to the great significance it bears in the proper understanding of this problem - that the importations of textiles into Cuba began to increase in large measure during the year 1947. Our negotiators in 1947 were guided, when making their estimates and calculations, by the import statistics of the immediately preceding year, that is, 1946, which were the most recent figures available, because the official statistics for the year 1947 were not published until early 1948.

When evaluating the preceding factors, it is essential that these importations for 1947 be used in the same manner as those for 1948, even though the GATT was signed October 30, 1947, because the large volume of increases of 1947 were taking place at the same time that the Second Session of the Preparatory Committee was convened at Geneva, and the full and complete impact of these increases was not fully evident to the parties negotiating the agreement. However, some of this impact was foreseen, and duty increases were requested which were intended as an initial step toward establishing some protection. As we have mentioned earlier, it was not possible to negotiate these increases successfully, and the final rates that were negotiated were not sufficient protection for the industry, and on rayon fabrics

were not, in any case, more than 2/3 of what was requested and, in most cases, were less than half.

It remains to be proved only that such increases were not enough to afford adequate protection to our industry. This is sufficiently demonstrated by the incontrovertible fact of the great losses suffered by our factories to the extent they have had to restrict production substantially or close down completely.

But, if this were not accepted as sufficient evidence, we deem it appropriate here to submit a comparison of Cuba's duties with those of U.S. and Canada, two large textile producing countries with more mature textile industries. Within fifteen different tariff item numbers, covering almost all of the textile fabrics imported into Cuba, the ad valorem equivalents of Cuban duties range from 10.21 per cent to 24.51 per cent whereas U.S. ad valorem equivalents on the same items range from 18.55 per cent to 57.20 per cent, and those of Canada start at 20.17 per cent and run to 45.20 per cent. From these percentages it can be seen that the duties for these two countries are, roughly, double those of Cuba. By quoting these figures we do not mean to imply that the ad valorem duties in U.S. or Canada are too high or excessive, but that Cuba's are too low.

Other factors which contributed to the aggravation of the textile crisis.

Independently of the purely economic causes that are aggravating the Cuban textile production problem, and in order to clarify the reasons that compel Cuba to take adequate protective measures in favour of its textile industry, it is important that we present several additional and supporting factors, and these are detailed

below:

1. At the end of the war, and after a period of economic adjustment, the large exporters entered the Cuban market again with greatly increased shipments. The domestic production was then faced with the competition of exports without the necessary element of protection which should have been provided by the customs tariff.

2. The exchange difficulties of the greater number of Latin American countries have compelled them to establish import or exchange control systems which have virtually made it impossible to export textile products to those countries, and almost all of the textile export allocations to Latin America have been concentrated on three markets, namely, Cuba, Haiti and the Dominican Republic. Cuba has not established restrictive measures of this kind and being by far the largest of these markets has been flooded with quantities much greater than those which we traditionally imported.

3. It is true that today there are appreciable recessions of one type or another in almost all countries. Actually, the textile industry has been the first to experience the process of recession in the United States, and as a consequence, textile prices have been reduced rapidly and drastically, not only in that country but in all markets that are influenced by the production of the United States. Although this condition is general, it is particularly acute in the case of Cuba, due to the peculiarities already set forth, and above all by reason of its limited economic potentiality and the demonstrated tariff disadvantages in which it is now placed.

4. The conditions prevailing in their own country encourage United States exporters to ship abroad part of their production at

prices below those prevailing in the U.S. market, in order that they may maintain higher production levels which consequently put them in a better competitive position in their own market. This is the real reason behind the below-cost sales which may properly be termed for all practical purposes and effects "dumping", that have been taking place in the Cuban market during the last year with products from the United States.

Conclusion

In order to conclude, Mr. Chairman, my Government believes that the General Agreement affords the necessary means to prevent the imminent ruin of an industry, especially an industry of the magnitude and rank of the Cuban textile industry, which, together with sugar and tobacco in the Cuban economy, represents the backbone of the economic life of the nation.

We, the Cuban Delegation, who have been very directly connected with the formation and establishment of this international organization, have been in constant contact with the distinguished representatives of the other contracting parties. We have reassured our Government and have calmed the serious anxieties of our industrialists and workers; by expressing to them our confidence in the sympathetic attitude that has always been characteristic of the contracting parties in their approach and solution to problems of this type within the rigid, yet realistic, framework in which the General Agreement is conceived and now functions.

Pertinence of the application of Articles XVIII and XIX

The Delegation of Cuba believes that the problem which is faced by the Cuban textile industry and which we have endeavoured to describe in its broad aspects is contemplated and envisaged in Articles XVIII and XIX of the General Agreement. We believe that

governmental aid is required in the form of protective measures to promote the industrial development of our country and furthermore, that the serious situation through which the industry is passing is attributable directly to the obligations which Cuba has undertaken pursuant to the General Agreement.

Because of the effect of such obligations, importations in such increased quantities and under such conditions have taken place which have caused, and threaten to continue to cause, irreparable damage to the industry.

Accordingly, Mr. Chairman, in presenting the problem for the consideration of the CONTRACTING PARTIES, we beg to request that, pursuant to the provisions of the above-mentioned Articles, we be exempted from the obligations undertaken.

At the same time, we wish to say that the Government of Cuba is willing, in exchange for the modifications to the status of its obligations related to textile products, to offer adequate and fair compensation to all contracting parties affected by the application of these emergency measures.

In closing, we would like to respectfully suggest to the Chair the advisability of appointing a working party to study the matter in all its aspects and to report its findings to the CONTRACTING PARTIES for their final decision.

Annecy, May 14, 1949.