

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TEX/W/17
16 January 1975

Special Distribution

Textiles Committee

DRAFT REPORT ON THE SECOND MEETING OF THE COMMITTEE HELD ON 18-19 DECEMBER 1974

Chairman: Mr. O. Long

1. The Textiles Committee held its second meeting from 18 to 19 December 1974.

The Committee considered the following subjects:

- (a) accession by Paraguay;
- (b) the report of the Technical Sub-Group on documentation;
- (c) the question of notifications of new restrictions imposed
on non-participants;
- (d) the annual review of the operation of the Textiles Arrangement;
- (e) the membership of the Textiles Surveillance Body for the year 1975.

2. The Chairman, in his opening remarks, said that the present meeting was being held at a time when the textiles sector generally was encountering serious difficulties. When the authors of the Arrangement mentioned in the Preamble, a year ago, "the tendency for an unsatisfactory situation to exist in world trade in textile products", they were indeed, and unfortunately, showing foresight. The textiles sector was indubitably facing difficult problems that affected all its activities and all who depended on them, be they exporters or importers. The Arrangement and the procedures provided therein would be put to the test in the coming months. He, however, was convinced that all parties to the Arrangement would unite their efforts to overcome present and future difficulties in a spirit of constructive co-operation and in observance of the provisions of the Arrangement to which they had subscribed.

3. The Chairman then referred the Committee to document COM.TEX/4, giving the status of acceptances of the Arrangement as of 10 December. He informed the Committee that Poland had, in the meantime, ratified its acceptance of the Arrangement, and urged those participating countries which had not yet done so to expedite their ratification procedures.

(a) Accession by Paraguay

4. The Chairman recalled that the communication which he had received from the Government of Paraguay expressing its desire to accede to the Arrangement under Article 13(2), had been circulated to the members of the Committee in document COM.TEX/W/14. This Article provided for the accession of a government not party to the GATT on terms to be agreed between that government and the participating countries. Referring the Committee also to the procedure established by it in the case of non-contracting parties wishing to accede to the Arrangement¹, he noted that the Government of Paraguay had complied therewith in its request for accession

5. The application for accession by Paraguay was warmly welcomed by the Committee. The Government of Paraguay was, therefore, invited to send a letter to the Director-General of GATT, as the depositary of the Arrangement, confirming its notification for accession with reference to the decision taken by the Committee. The effective date of Paraguay's provisional accession² to the Arrangement would be the date on which this letter was received by the Director-General.

¹See report on the first meeting of the Committee in March 1974, COM.TEX/2.

²In its request, Paraguay mentioned that the accession will be subject to ratification. Paraguay will apply the Arrangement on a de facto basis as from the date of provisional accession.

6. The representative of Paraguay, who was present at this meeting as an observer, reiterated his Government's acceptance of the obligations under the Arrangement, and its determination to remain faithful to a policy of free trade. His Government would soon address a formal letter to the Director-General as requested¹, and would expedite its ratification procedures.

(b) The report of the Technical Sub-Group on textile documentation

(i) Reporting of textiles and clothing statistics

7. The Chairman of the Technical Sub-Group on textile documentation reported on the work of the Sub-Group and put forward the recommendations made in paragraphs 14 and 15 of its report (COM.TEX/3) for the establishment of a scheme of regular reporting of textile and clothing statistics.

8. The recommendations made by the Technical Sub-Group were fully supported. However, some representatives indicated that at this stage it would be difficult for them to supply the necessary information in the required detail or periodicity, but that every effort would be made to comply with the recommendations to the maximum extent possible according to the abilities of national statistical offices. There was agreement, therefore, on the need for re-examination of the statistical reporting scheme after two years with a view to assessing its adequacy and the progress made in terms of comparability of data. Should, furthermore, the need arise, the secretariat would be available to assist delegations on technical matters.

¹This was received on 23 December 1974; consequently, the provisional accession of Paraguay became effective as of that date (see document COM.TEX/W/14/Add.1).

9. The Committee then agreed that all participating countries be invited to supply the necessary information, recognizing that difficulties of a technical nature might occur in certain cases, and that the statistical reporting scheme be re-examined after two years.

(ii) Reporting on adjustment assistance measures

10. The Chairman of the Technical Sub-Group also noted that on the question of documentation regarding measures to facilitate adjustments, the Sub-Group felt that it was not technically competent to make specific recommendations, and left the matter to the Textiles Committee to indicate more specifically the nature and form of this reporting.¹

11. There was agreement that participating countries should provide to the Textiles Committee information on adjustment assistance measures in order that the Committee could carry out the tasks required of it under Article 10(2). There was also a general agreement that the information contained in the Textiles Study (L/3797) on this matter should be updated.

12. The ensuing discussion was based on a draft questionnaire which the secretariat prepared as one way of bringing up to date the information in the previous Textiles Study. In the course of the discussion, reservations about specific questions contained therein were made, and certain views were expressed as to the country coverage. It was felt that further study of this questionnaire was needed. It was also noted that the analysis by the Committee of information provided by participating countries should be made in the light of the objectives, aims and principles of the Arrangement.

¹See COM.TEX/3, Section F, page 11.

13. The Committee then invited participating countries to give further consideration to this matter, and particularly to the draft questionnaire. They should inform the secretariat of such further views by the end of February. On receipt of these views and, after such further consultations as might be required, the secretariat should be instructed to proceed with the collection of such additional information as would permit the updating of the material contained in the 1972 Textiles Study and broaden, where necessary, its coverage. The updated information should be available for the next annual review by the Committee.

(c) Notification of new restrictions imposed on non-participants

14. The Chairman recalled that the Committee had been requested by the Textiles Surveillance Body to consider the question of the notification by all parties to the Arrangement of new bilateral agreements and new restrictions imposed on non-participants. The request by the TSB was set out in paragraph 18 of its report to the Committee (COM.TEX/SB/44).

15. The Chairman of the Textiles Surveillance Body, in his statement which is reproduced in full in document COM.TEX/W/16¹, explained the rationale behind this request, and reiterated that the TSB had regarded such notifications as highly desirable and necessary in safeguarding the equity benefits for participants, and that all members thereof had agreed to supply such information.

16. Most countries agreed that such notifications should be made available to the TSB. It was noted that though the provisions of the Arrangement contained no explicit legal obligation for the reporting of such measures, the Committee was empowered in terms of Article 10(2) to request participating countries to furnish

¹This document will be annexed to the final version of this report.

such information. Some countries, however, stated that it would be difficult for them to provide such notifications without the consent of their trading partners, particularly in cases of bilateral agreements that were not restrictive in character. In this respect, it was pointed out that if any party failed to notify a restraint agreement entered into with a non-participant, it would be difficult to determine whether any discrimination had taken place. It would thus not be open to a country which did not notify agreements to argue discrimination against it.

17. Following its discussion, the Committee endorsed the view by the TSB that the notification of new restrictions and new bilateral agreements imposed on non-participants was highly desirable and necessary in safeguarding the equity benefits for participants implicit in Article 8, paragraph 3, of the Arrangement.

18. The Committee, therefore, requested all parties to the Arrangement to submit such notifications to the TSB. Those countries which found it difficult to notify such measures were invited to reconsider the situation and make every effort in the negotiations to seek the consent of their trading partners with a view to acquiescing in the Committee's request.

(d) The annual review of the operation of the Arrangement

19. The Committee then proceeded to review the operation of the Arrangement as required of it under Article 10(4). To assist in this review, the Committee had before it, as provided for in this Article, a report by the TSB on its activities during the period from 23 April to 15 November 1974.

20. The Chairman of the Textiles Surveillance Body introduced its report and updated it in the light of the discussion which took place in a subsequent meeting of the TSB held on 4-6 December 1974.¹ In the course of the discussion, he confirmed certain understandings and gave clarifications on specific points sought from him.

21. A large number of representatives expressed appreciation of the report of the TSB and of the statement by its Chairman. They noted with satisfaction that the TSB had settled down to its task in a business-like manner and had evolved useful and effective procedures for the discharge of its functions. Its work during the running-in period had been conducted in a most useful and constructive way in a situation with many disturbing economic tendencies. Given the present world textile situation, and the way in which the situation manifested itself in individual countries, many representatives reaffirmed the importance they attached to the rôle of the TSB and urged that it be encouraged to continue its work effectively.

22. The main points which emerged in the course of the discussion under this item are brought together and set out briefly hereunder.

23. Reference was made to the satisfactory settlement by the TSB of a particular case brought before it. It was hoped that in dealing with disputes referred to it, the TSB would continue to use its good offices to facilitate sound and equitable solutions.

24. The guidelines the TSB had adopted for equity in treatment², were generally supported. The view was expressed, however, that it would have been preferable if the TSB member concerned had been excluded during the recommendation stage

¹See COM.TEX/W/16.

²See COM.TEX/SB/30, Annex 1.

of the deliberations, or even if he took no part at all in the consideration by the TSB of such a dispute; thus, leaving it to a spokesman of his country. The Chairman of the TSB confirmed that the practical effect of the TSB guidelines was to ensure that both TSB members and non-members were treated completely equally throughout the deliberations, including any preconsultation processes which might be necessary. Attention was also drawn to the consultation procedures adopted by the TSB with respect to Articles 3 and 4 notifications¹, if the review of an agreement took a course which called into question the policy of a party thereto.

25. As regards the review by the TSB of the notifications submitted to it under Articles 3 and 4 of the Arrangement, it was confirmed that such a review was carried out by the TSB on a case-by-case approach, having due regard to the procedure established by it for these notifications. In this connexion, it was pointed out that these notifications should not establish any precedent for the negotiation of new bilateral agreements under Article 4, or for the subsequent review by the TSB of such agreements. The point was also made that it would be open for the TSB to revert to the matter, especially in those cases where differences of approach to bilateral agreements proved to be damaging to a party's interests, e.g. by deflection of trade. In such cases, any party would be entitled at any time to have recourse to the provisions of the Arrangement, bearing in mind the need for equitable treatment of participating countries referred to in the Arrangement, and particularly in Article 4(2).

26. It was noted that in the course of the year there had been actions taken by some participating countries that had reflected a lack of full appreciation of the new régime. These had been brought under close and critical scrutiny

¹See COM.TEX/SB/35, Annexes A and B.

by the TSB. Thus, in some instances, changes resulted, or undertakings were given, indicating a gradual acceptance and realization that the Arrangement was designed to achieve liberalization, and not restriction of trade in textiles.

27. Reference was made to the discussion initiated by the TSB on the concept of market disruption, and to the differences in views on certain elements thereof. It was, therefore, suggested that further efforts should be made by the TSB, with a view to clarifying this key concept.

28. It was widely stressed that textile industries throughout the world were experiencing serious difficulties, and these threatened to become even worse in the near future. A number of developed and developing countries referred to social as well as economic problems they were facing in the textile sector. Mention was made inter alia of a decline in activities, closures, unemployment, increases in stocks, bankruptcies and pressure on prices. The social, economic and ultimately political consequences were all the more accentuated when sudden surges of imports tended to concentrate on narrow ranges of sensitive products. Attention was drawn to the disruptive effects the introduction of restrictions might cause in the exporting countries.

29. It was recalled that when the Arrangement was under negotiation, the volatile nature of the textile trade had been very much in the minds of the authors. If the objectives for which the Arrangement was concluded were to be fulfilled, there was a need for all participating countries to refrain from taking restrictive measures which could trigger a chain reaction, and to pursue the liberalization of existing restrictions. Many representatives urged those participating countries required by Article 2 to take actions designed to eliminate their existing restrictions to live up to the letter of their obligation thereunder, and report such actions to the TSB before the deadline of 31 March 1975.

30. Referring to the elimination of existing restrictions, the representative of Romania recalled that the Protocol for the accession of his country to GATT provided that contracting parties still maintaining quantitative restrictions inconsistent with Article XVIII should not increase the discriminatory element in these restrictions, undertake to remove them progressively and should have as their objective to eliminate them before the end of 1974. Should this agreed objective not be achieved, and for exceptional reasons should a limited number of restrictions still be in force as of 1 January 1975, the parties would examine them with a view to their elimination. He added that the Protocol did not justify the restrictions and should not, therefore, rule out the provisions of the Textiles Arrangement being applied to their elimination.

31. It was observed that, while recourse had been had to the Arrangement on the grounds of avoiding market disruption, not much evidence had been provided of the progress made towards the achievement of the main objective, i.e. the liberalization of trade in textiles. In this connexion, it was pointed out that the Arrangement should be seen, not only as giving a guarantee against unjustifiable restrictive measures, but also as enabling necessary actions to be taken rapidly, effectively and fairly.

32. Despite the difficulties encountered by the domestic industries, certain countries reported that they had been able to remove some of the existing restrictions or to bring others into conformity with the Arrangement, thus providing an expanding access to textile products. They would continue to do so and to withstand pressures, thus honouring their commitments under the Arrangement.

33. It was recalled that exports of handloom fabrics of the cottage industry and made-up products thereof, were excluded from the provisions of the Arrangement. Notwithstanding this, restrictions on certain products continued to be maintained by one importing country. In this respect, divergence of opinion was said to exist as to whether or not electric sewing machines might be used in making made-up cottage industry articles. It was, therefore, suggested that it would be useful if a precise definition of such products could be made by the Textiles Committee or the Textiles Surveillance Body.

34. Reference was made by an importing country to the problem of circumvention by transshipment and third country transactions. In order to solve this problem, the importing country concerned had introduced the so-called "back-to-back" licensing system whereby import licences were issued upon presentation of export licences.

Tariff quotas on textiles by Australia

35. In the course of the review of the operation of the Arrangement, many delegations commented and expressed concern about the recent introduction by Australia of tariff quotas on a number of textile goods. It was stressed that all governments should adhere to existing procedures and notify without delay any modifications in their commercial policies. It was remarked that the Australian measures had not, as yet, been officially notified to the CONTRACTING PARTIES to GATT, nor to the parties to the Textiles Arrangement. This situation was all the more regrettable in view of the increasing pressures on many governments to have recourse to protective measures in the textile sector.

36. The representative of Australia stated that his country did not believe that the Textiles Committee was the forum for discussion of tariff action. He, however, outlined the following events for the information of members of the Committee: on 5 December 1974, his Government announced action by way of tariff quotas on acrylic apparel yarn, knitted man-made fibre fabrics and terry towels, following its consideration of the report¹ of the Textiles Authority. This report concluded that in order to overcome serious damage to domestic producers of the specified goods, there was a need for more restrictive measures than those provided for under the Textiles Arrangement. The restraint measures permitted under the Arrangement to remove market disruption were, in some circumstances, potentially disruptive levels. The total value of imports of textiles and clothing items referred to in this report increased by about 80 per cent in the year July 1973 to June 1974, compared with an average annual growth rate of about 15 per cent in the two preceding years. This increase was from an already high base, and imports accounted for an estimated 55 per cent of market supplies in 1972/73, rising to about 65 per cent in 1973/74.

37. A major reason for the increase of imports into Australia was its reliance in the past on the tariff, and the general absence of restraint agreements to protect domestic producers which was normally practiced by other textile importing countries. Since the increase in imports had been particularly high, the permissible restraint levels would, therefore, perpetuate the disruptive situation. This would be contrary to the basic objectives of the Arrangement.

¹The report has been publically released, and is available from the Australian mission. Public statements by the Ministers concerned will also be made available.

38. Thus, with a view to removing the disruptive effects, the Australian Textiles Authority concluded that it would be necessary to reduce the imports of the goods concerned below the level recorded in the base period, and that the most appropriate measures in this instance were tariff quotas. Such measures were entirely consistent with Australia's obligations under the GATT and in no way inconsistent with its membership of the Textiles Arrangement.

39. Subsequently, on 9 December 1974, the Government announced that, as a result of decisions taken on reports of the Industry's Assistant Commission, tariff quota arrangements would also be applied to imports of nylon and polyester yarns, woven man-made fibre fabrics and foundation garments. In describing the circumstances against which these decisions were made, he referred to substantial increases in imports, and the adverse effect of these on employment and the policies introduced by the Government for the restructuring of the industry.

40. The Australian Government hoped that this tariff action would reduce imports to non-disruptive levels from which, over the next year, it might be possible to negotiate restraint arrangements. The tariff action related to import duties which were unbound, and was consistent with Australia's rights under the GATT.

41. In concluding, the representative of Australia said that if it was considered that this action should be the subject of further discussion, then Australia believed such discussions should be undertaken in the GATT Council.

42. Among the main points raised concerning the statement of the representative of Australia was that of the competence of the Textiles Committee to deal with this matter. In this connexion, it was recalled that the measures were taken

with the express purpose of cutting back trade to levels substantially below those which would have been possible through the application of the provisions of the Textiles Arrangement. Moreover, these tariff quotas would have the same effect as import quotas, and could even be more prohibitive than quotas established under the Arrangement since the latter were negotiated and, therefore, mutually acceptable and not arbitrarily imposed. Thus, these measures would undermine the objectives of the Arrangement, and could call into question its effectiveness and value.

43. It was also pointed out that these measures constituted an important development in textile trade and, therefore, there was a need for precise information thereon to be notified to the Textiles Committee. With reference to Article 9(1) of the Arrangement, the opinion was expressed that the Australian tariff measures were to be regarded as "additional trade measures" referred to in this Article and should, therefore, be examined by the Textiles Committee.

44. The view was expressed that any participating country when considering restrictive measures in the textile sector should bear in mind, first and foremost, the provisions of the Arrangement. GATT rules were not impaired in any way by the Arrangement, but it should be considered that the Arrangement applied to all measures outside the normal GATT safeguard procedures which were designed to restrict normal trade flows, regardless of the means employed towards this end.

45. Attention was drawn in the Committee to the adverse effect these measures might have on exports of the textile items for which tariff quotas had been introduced. One representative stated that of the six items in question, his country was the principal supplier of five items.

46. The representative of Australia gave certain clarifications sought from him in the course of the discussion, and stated that the comments made in the Committee would be brought to the attention of his authorities.

47. The Chairman noted that Australia was prepared to take this matter up at the GATT Council, and welcomed the fact that the Australian authorities would be informed of the discussion on this subject, as well as the request for the examination of the measures by the Textiles Committee. He pointed out that some members of the Textiles Committee were not contracting parties to GATT, and drew attention to the fact that the Textiles Arrangement provided for consultation procedures in Article 9 thereof. These procedures were open to all members of the Textiles Committee, both contracting and non-contracting parties. In case of divergence of view as to the interpretation or application of the Arrangement, the matter might be referred to the Textiles Committee for its opinion as provided for in Article 10(3).

48. The representative of Australia reserved his delegation's position as to whether they would regard it as appropriate to engage in consultations in relation to a tariff matter under Article 9 of the Textiles Arrangement.

Reporting to the GATT Council

49. Following its discussion, the Committee addressed itself to the question of reporting on the review to the GATT Council as required by the provisions of Article 10(4). The Committee agreed to a suggestion put forward by the Chairman that, after the draft report prepared by the secretariat on the meeting of the Committee being approved, a copy of this report, or those portions therein relating to the review of the Arrangement, together with a copy of the report by the TSB, should be transmitted by the Chairman of the Textiles Committee to the Chairman of the GATT Council.

(e) The membership of the Textiles Surveillance Body for the year 1975

50. The Chairman recalled that the Textiles Committee at its meeting in March 1974, had decided that the first term of the TSB membership would be limited to the running-in period ending 31 December 1974. Having regard to the tasks conferred upon this Body, and in the light of past experience, the Chairman drew attention to the criteria which, in his view, should be borne in mind by the Committee when considering the membership for 1975. In the first place, members were expected to be available at short notice and to devote much of their time to the activities involved. The TSB was considered as a standing body. Secondly, the members designated should be highly qualified and competent in the domain of textiles trade policy. Finally, members were expected to work as a coherent team for the common good.

51. The Chairman, referring to the consultations which had been held regarding the membership, proposed that the TSB for the year 1975 should be composed of members designated by the following parties: Brazil, Canada, EEC, Hong Kong, India, Japan and the United States. The eighth seat, a tripartite one, would be shared by the Philippines, Austria and a third developing exporting country to be named later when the status of definitive acceptances of the Arrangement was more complete.

52. The Chairman said that Poland had been proposed for membership of the TSB during 1975, sharing in the tripartite seat. There had been a wide measure of support for this proposal, but for reasons connected with the question of overall balance in representation, it had not been possible to reach a consensus. The Chairman, therefore, requested the Committee seriously to keep in mind the candidacy of Poland for the 1976 term of the TSB.

53. The representative of Poland welcomed the statement by the Chairman, and said that a crucial element in the concern felt by his country was the interpretation put by some parties to the Arrangement on the notion of "balanced and broadly representative membership". This practically prevented other parties from taking a seat on the TSB, not only at the present time but also in the future. While appreciative of the work of the TSB, and fully confident of its members for the year 1975, he said that it would be understandable if his Government was to look at some of the TSB's recommendations with hesitance due to the absence of representation thereon by a Socialist country. He noted with satisfaction that there was a wide understanding among participating countries

that their claim was fully justified, and urged those parties concerned to reconsider their position.

54. The representative of Hungary maintained the position his Government had taken regarding the TSB at the first meeting of the Committee in March 1974.¹

As to Hungary's future position concerning the TSB and its candidacy for membership thereon, this would depend on the effectiveness and objectivity of the TSB when dealing with questions relating to Hungarian interests.

Date of next meeting

55. At one stage in the discussion, it was suggested that the Committee should agree on a meeting to be held in the spring. However, it was decided to leave this matter open, and the Chairman would fix the date of the next meeting after consultations with delegations.

¹See COM.TEX/2, page 6.