

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

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LONG-TERM ARRANGEMENT REGARDING TRADE
IN COTTON TEXTILES

Information Transmitted by the United Kingdom

The attached two documents - concerning requests made to the Government of Hong Kong by the United States Government to restrain exports of certain cotton textiles products from Hong Kong to the United States - have been transmitted by the United Kingdom delegation for information and circulation to the Cotton Textiles Committee.

Memorandum of Agreement

1. The Government of Hong Kong enters into the following undertakings in respect of the exportation of certain cotton textile products from Hong Kong to the United States of America during the twelve-month period 1 October 1962 - 30 September 1963:
 - (a) In respect of the thirty categories of goods listed in the second column of the Annexure, Hong Kong undertakes to limit the amounts exported to the United States to the levels set forth in the third column, these being the levels at which such exports were restrained during the year 1 October 1961 - 30 September 1962 as a result of the operation of the Short-Term Cotton Textiles Arrangement.
 - (b) Hong Kong will not request the United States Government to accept Hong Kong exports of these goods at higher levels than those set out in the Annexure on grounds of hardship caused to individual merchants as a result of the operation of the Short-Term Arrangement.
 - (c) In respect of goods falling within Categories 5 and 9 as set out in the Annexure, Hong Kong undertakes to consult with the United States authorities sometime during the spring of 1963 (provided that at that time the United States Government still wishes to initiate such consultation) about the possibility of reducing the restraint levels in these two categories by 503,000 square yards in the case of Category 5, and by 5,033,000 square yards in the case of Category 9, in return for some compensating arrangement. This undertaking includes the assurance that the Hong Kong authorities will in all good faith make every effort to accede to any American request in this matter, but it is also understood by both Governments that should it prove impossible to reach mutual agreement Hong Kong will be free to ship goods in these two categories up to the full amounts shown in the Annexure and will not, by reason of so doing, be in breach of this Agreement.
 - (d) The Hong Kong Government undertakes to supply to the United States Consulate-General in Hong Kong, within reasonable and practical limits, all such statistical information as the United States authorities may require:
 - (i) in order that the United States Government may be assured that the terms of this Agreement are being adhered to; and
 - (ii) in order to ensure that the United States Government has full and prompt information about the actual volume, and where necessary about the potential volume, of exports to America from Hong Kong of other cotton products not dealt with in the Annexure to this Agreement.

It is understood that the practical arrangements for the carrying out of the above undertaking will be the subject of continued consultation between the Hong Kong authorities and the United States Consul-General in Hong Kong with a view to settling the details at an early date.

- (e) Finally, and in addition, the Hong Kong Government will voluntarily impose some degree of spacing upon the exportation to the United States of the products listed in the Annexure; but the details of such spacing arrangements will not form a part of this present Agreement.

2. The Government of the United States enters in return into the following undertakings in respect of the same matters:

- (a) The United States will accept the importation for consumption in America of the cotton products listed in the Annexure up to the export restraint levels shown therein, and provided that these levels are not exceeded, will not seek, for example by requesting restraint under the terms of the Long-Term Cotton Textiles Arrangement, to restrict to any lower level the flow of any of these goods from Hong Kong into America.
- (b) The export restraint levels shown in the Annexure will not be reduced in respect of any or all of the goods shipped from Hong Kong during the period 3-10 March 1962, and subsequently placed in bond in the United States.

3. Both Governments further agree that the restraint levels mutually accepted and set forth in the Annexure will be treated in all respects as though they were restraint levels arrived at through the formal operation of the provisions of that Arrangement.

ANNEXURE

<u>Category</u> <u>Number</u>	<u>Item</u>	<u>Export restraint levels for</u> <u>the year 1 October 1962.</u> <u>to 30 September 1963</u>	<u>Unit</u>
5	Ginghams, carded yarn	3,354,717	Square yards
6	Ginghams, combed yarn	700,000	Square yards
9	Sheeting, carded yarn	46,694,454	Square yards
15	Poplin and broadcloth, carded yarn	1,500,000	Square yards
19	Print cloth type shirting, other than 80 x 80 carded yarn	625,000	Square yards
22	Drills and sateens	16,197,597	Square yards
24	Yarn-dyed fabrics, except gingham carded yarn	235,000	Square yards
25	Yarn-dyed fabrics, except gingham combed yarn	230,000	Square yards
26	Fabrics (including Duck) n.e.s. carded yarn	28,738,029	Square yards
28	Pillowcases, plain carded yarn	450,000	Numbers
30	Dish towels	784,920	Numbers
31	Towels other than dish towels	9,700,000	Numbers
33	Table damasks and manufactures of	35,000	Lbs.
39 (1)	Dress gloves)	215,000	Dozen
(2)	Work gloves.)		
42	Other T. shirts	255,000	Dozen
43	Knitshirts other than T. shirts and sweatshirts (including infants)	350,430	Dozen
44	Sweaters and cardigans	11,731	Dozen
45	Men's and boys' shirts, dress, not knit or crocheted	260,000	Dozen
46	Men's and boys' shirts, sport, not knit	715,000	Dozen
48	Raincoats, 3/4-length or over	10,831	Dozen
49	All other coats	39,247	Dozen
50	Men's and boy's trousers, slacks and shorts (outer) not knit or crocheted	700,000	Dozen
51	Women's, misses' and children's trousers, slacks and shorts (outer) not knit or crocheted	1,164,416	Dozen
52	Blouses and blouses combined with skirts, trousers or shorts	1,015,000	Dozen
54	Playsuits, sunsuits, washsuits, creepers, rompers etc. (except blouse and shorts; blouse and trousers; or blouse shorts and skirt sets)	120,000	Dozen
57	Men's and boys' briefs and undershorts	4,000	Dozen
60	Nightwear and pyjamas	450,000	Dozen
61	Brassieres	1,405,000	Dozen
62 (1)	Sweatshirts		
(2)	Men's, women's and children's matching sets	285,000	Lbs.
(3)	Other knitted or crocheted clothing		
64 (1)	Industrial wiping cloths	3,400,000	Lbs.

Her Majesty's Embassy for the United Kingdom presents its compliments to the Department of State and has the honour to refer to the Secretary of State's note of 31 May 1963, referring to the Long-Term Arrangement Regarding International Trade in Cotton Textiles which came into force on 1 October 1962, and requesting that Hong Kong impose restraint on its exports of four further categories of cotton textiles in order to prevent disruption in the United States market. The categories concerned are as follows:

<u>Category 1</u>	Yarn, carded, singles
<u>Category 16</u>	Poplin and broadcloth, combed
<u>Category 18</u>	Print cloth, shirting type, 80 x 80 type, carded
<u>Category 23</u>	Twill and sateen, combed.

2. This note is a formal notification that the Hong Kong Government is particularly disturbed at the levels at which these requests are made and finds it difficult to comprehend that the disruption alleged can be held to fall within the meaning established by Annex C of the Long-Term Arrangement Regarding International Trade in Cotton Textiles.
3. The Hong Kong Government wishes to know more fully, as set out in subsequent paragraphs, the grounds on which the United States Government bases these requests. It would appreciate further consideration being given by the United States Government to the levels at which these restraints have been requested as promised by the representatives of the United States Government at the time this request was handed to the Hong Kong Government representatives in Washington.
4. In the meantime, the Hong Kong Government has made arrangements, pending further consideration by the United States Government of the levels at which these restraints have been requested, and without prejudice to Hong Kong's rights under the Long-Term Arrangement, to ensure that the restraint levels requested are not meanwhile exceeded.
5. For record purposes, and in maintenance of its rights under the Long-Term Arrangement, the Hong Kong Government wishes to reiterate its views regarding those situations in which products may cause or threaten to cause market disruption with a view to showing that the elements necessary to determine such disruption within the meaning of the Long-Term Arrangement have not been adequately established in these requests by the United States Government.

6. General observations

- (1) The Hong Kong Government finds it difficult to understand how disruption can be claimed to have arisen from the very low level of exports in the four categories.
- (2) The Secretary of State's note refers to the Short-Term year and fiscal year 1961 as if they were accepted yardsticks for the determination of disruption. The Hong Kong Government cannot accept any argument based on this premise. It is its view that the arguments purporting to show the existence or threat of disruption must be based upon the accepted GATT definition of disruption and not upon any other different or arbitrary criterion: in particular, and without prejudice to the importance of the other elements incorporated within that definition, there should be precise evidence, separately presented in respect of each product, that a "sharp and substantial increase" has taken place.
- (3) The Hong Kong Government is appreciative of the additional information given on pricing as requested in paragraph 4(3) of the Embassy's Note No. 182 of 16 May 1963, but wishes to point out that in regard to the pricing information given in respect of Category 1 no details are given of the prices at which Hong Kong yarn is offered in the United States market.
- (4) The Hong Kong Government finds it difficult to reach any conclusion on the existence and extent of disruption in the absence of any specific figures relating to United States production and consumption of Category 1, Category 18, and Category 23 cotton textiles. No data are given in regard to consumption of Category 16 cotton textiles in the United States, only domestic production data in respect to 1961. The Hong Kong Government wishes to know whether domestic production of this category of cotton textiles increased or decreased during 1962 and the early part of 1963.

7. Particular observations

Category 1, yarn carded, singles

It is noted that United States imports from all sources in this category have increased during the last two years but it is not considered that Hong Kong exports of this item could have in any way contributed to the alleged disruption of the United States market. In fiscal year 1961,

United States imports from Hong Kong represented 0.78 per cent of total imports. During the period of the Short-Term Arrangement they were nil and during the first seven months of the Long-Term Arrangement they were 0.18 per cent. In terms of actual imports from Hong Kong, the quantities were 68,000 lbs. in fiscal 1961, nil during the Short-Term Arrangement year and only 18,000 lbs. during the first seven months of the Long-Term Arrangement. Far from increasing, therefore, United States imports from Hong Kong have decreased absolutely and in relation to imports from other sources. Such imports cannot therefore be regarded as constituting a sharp and substantial increase of a particular product from a particular source.

8. The Hong Kong Government has observed that during the Short-Term Arrangement and the first seven months of the Long-Term Arrangement substantial imports of Category 1 yarn were received from Greece, France and Spain and would wish to know whether restraints are pending with these countries. The reason for this enquiry is that the Hong Kong Government considers it of great importance that any restraint accepted by it should work to the benefit of the United States industry only and should not give Hong Kong's competitors preferential access to the United States market.

9. Category 16 - Poplin and broadcloth combed

The decrease of 47 million square yards in United States domestic production during 1961 in the Short-Term Arrangement year, as stated in the Secretary of State's note, implies that such decrease is due to an increase in imports over the same period from all sources. It is hard to see how this implication can be sustained in the light of the fact that total imports during the fiscal year 1961 were 6.1 million square yards and 24.0 million square yards during the Short-Term Arrangement year, a net increase of only 18 million square yards. It would seem therefore that the decrease in United States domestic production cannot be attributed to this increase in imports but that other and more significant causes have contributed to such decrease.

10. In any event, total imports into the United States from all sources during the Short-Term Arrangement year represented only 6.4 per cent of domestic production. Imports from Hong Kong at the current level of import into the United States represent only 0.00205 per cent of domestic production. It is difficult to understand how such an exceedingly low level of imports in relation to domestic production can possibly be interpreted as constituting serious damage or threat thereof to domestic producers.

11. It is also noted that total imports into the United States during the first seven months of the Long-Term Arrangement are running at a much reduced rate in comparison with the Short-Term Arrangement year. If this rate continues, they will amount to approximately half that obtaining during the Short-Term Arrangement year. Present indications are therefore that far from there being a sharp and substantial increase or potential increase of imports of this particular product into the United States, a considerable and significant reduction is likely to take place.

12. Category 18 - Print cloth type shirting 80 x 80 type, carded yarn

It is conceded that the offerings of imported goods in this category might be represented as constituting an argument in support of a claim to a threat of disruption, but it is difficult to understand how they can be represented as having had a serious disruptive effect on the United States market, as maintained in the Secretary of State's note, in the absence of any data in support of such contention.

13. The extremely low level of total imports and the absence of any data on United States production or consumption in this category make it difficult to appreciate how disruption can have occurred and in particular how disruption can have occurred as a result of imports from Hong Kong.

14. While the increase in imports from Hong Kong from nil in the Short-Term Arrangement year to approximately 100,000 sq. yds. in the seven months of the Long-Term Arrangement is termed a substantial increase for Hong Kong, it surely must be conceded that in terms of United States domestic production such an increase is insignificant. To put this matter in its proper perspective, it should be appreciated that one mill possessing one thousand looms can produce this quantity in twenty-four hours.

15. It is again noted that the prices of this particular fabric imported from Hong Kong have been compared only with domestic prices and not also with the prices prevailing in the market for other sources of supply. The attention of the Secretary of State is again drawn to the previous observations by the Hong Kong Government on this point as last noted in paragraph 4(3) of the Embassy's Note No. 182.

16. Category 23 - Twill and pateaen, combed

It is agreed that imports of this item from Hong Kong into the United States have increased significantly during the first seven months of the Long-Term Arrangement in comparison with imports during the period of the Short-Term Arrangement. But it is not conceded that this factor by itself can be deemed to constitute market disruption or a threat thereof. No data are given in the

Secretary of State's note regarding United States production or consumption of fabrics classified under this heading and it is not considered that the prices at which this Hong Kong product is offered are substantially below those prevailing for similar goods of comparable quality in the United States market.

17. It is noted that total imports of this item into the United States during the Short-Term Arrangement year amounted to 3.8 million square yards and that during the first seven months of the Long-Term Arrangement they amounted to only 1.4 million square yards. The annual rate of total imports of this item appears therefore to have declined. In these circumstances it is difficult to understand how it can be alleged that a sharp and substantial increase of total imports has taken place. It would appear that the increase from Hong Kong has been at the expense of other suppliers and not of the United States industry.

18. Conclusions

The levels of restraint requested are in all cases below the actual level of exports plus export authorization commitments obtaining at the date of the United States request. While the action of the United States authorities in confirming that licences for exports committed by an export authorization will be honoured is appreciated, the Hong Kong Government is most concerned lest a precedent be established of cutting back the restraint levels below the level of goods already exported or committed against export authorization. The existing system of reporting shipments committed forward in advance gives full information to the United States authorities of pending shipments. It should be noted that the provision of such information is not within the requirements of the Long-Term Arrangement. As far as is known to the Hong Kong Government, Hong Kong is the only exporting country that provides such information to the United States and it would appear that the provision of such information is seriously militating against Hong Kong which is consequently at a considerable disadvantage vis-à-vis its competitors. It is pointed out that had Hong Kong not provided this information in a spirit of full co-operation and in the interests of orderly marketing this disadvantage would not have arisen.

19. In the discussions held in Washington in May and June this year, the representatives of the Hong Kong Government requested that the restraint levels proposed by the United States authorities should be adjusted to the levels shown in the table below and this request is now confirmed for the reasons set out above:

<u>Category</u>	<u>Description</u>	<u>Revised restraint level proposed</u>
1	Yarn, carded, singles	300,000 lbs.
16	Poplin and broadcloth combed	1,000,000 sq. yds.
18	Print cloth shirting, 80 x 80 type, carded	120,000 sq. yds.
23	Twill and sateen, combed	1,200,000 sq. yds.

The Hong Kong Government would appreciate the United States Government's confirmation that the above revised restraint levels may be substituted for those set out in the original request in order that the views of the Hong Kong industry about these requests may now be sought, without prejudice, of course, to Hong Kong's rights under the Long-Term Arrangement and in particular to the right to engage in such further consultation as may be deemed necessary.

20. The Cotton Textiles Committee of the General Agreement on Tariffs and Trade is being informed of the Hong Kong Government's views on these requests for restraint in accordance with the provisions of the Long-Term Arrangement.

BRITISH EMBASSY,
WASHINGTON, D.C.
25 July 1963