

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

COT/14

27 November 1963

Special Distribution

Original: English

LONG-TERM ARRANGEMENT REGARDING TRADE IN
COTTON TEXTILES

Information Transmitted by the United Kingdom

The attached note - setting out the views of the Government of Hong Kong on a request¹ made to it to restrict the export of cotton towels to the Federal Republic of Germany - has been submitted to the secretariat by the United Kingdom delegation for transmission to the Cotton Textiles Committee.

¹The original request made by the Federal Republic of Germany was circulated in document COT/6 (page 10).

(1336)
No. 72E

Her Britannic Majesty's Embassy present their compliments to the Federal Ministry for Foreign Affairs and have the honour to refer to the Ministry's Note No. III B 7 - 84.02/1-92.11 of the 23rd of August, 1963 requesting the Government of Hong Kong to restrict the export of cotton towels to the Federal Republic.

The Government of Hong Kong are unable to accept that the information given in the Ministry's Note is evidence of market disruption, or threat of disruption, within the meaning established by Annex C of the Long-Term Arrangement regarding International Trade in Cotton Textiles.

The Hong Kong Government find it difficult to understand how disruption can be claimed to have arisen from the low level of exports in the categories concerned. In the view of the Hong Kong Government the arguments purporting to show the existence or threat of disruption must be based upon the accepted GATT definition and not upon any other different or arbitrary criteria; in particular, and without prejudice to the importance of the other elements incorporated within that definition, there must be precise evidence that a "sharp and substantial increase" has taken place. While the rise in exports referred to in the Ministry's Note may be regarded as relatively sharp it certainly cannot be considered as being substantial in absolute terms.

The Hong Kong Government wish to draw the attention of the Federal Government to the fact that it is impossible to reach a conclusion on the existence and extent of disruption in the absence of any figures for Federal German domestic production and consumption. For example, increased imports from Hong Kong may be replacing imports from elsewhere or indeed creating a new market without affecting the demand for the domestic product. It is conceded that, under the terms of the Long-Term Arrangement, the importing country has the right to determine disruption, but it is the view of the Hong Kong Government that it is also obliged, under Article 3, paragraph 1, of the Arrangement, to make detailed factual information available to the exporting country in order that the latter may have a basis for deciding whether or not to accept a request for restraint. According to the information available to the Hong Kong Government, imports of towels from Hong Kong represent less than 0.5% of total production of towelling in the Federal Republic. If this information is correct, it is hard to see how Hong Kong imports could have a seriously disruptive effect on the German market.

The criteria for market disruption, as established by Annex C of the Long-Term Arrangement, are generally defined as containing four elements. The definition of the second of these elements reads as follows:-

"These products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the markets of the importing country."

Under the accepted GATT interpretation of this clause (see paragraph 26 of the Record of Understandings, Document L/1813) the meaning is that the prices of the particular imported products which it is sought to restrain should be compared not only with the prices of domestically manufactured goods, but also with the prices prevailing in the market for goods from other sources of supply. The comparison given in the Ministry's Note relates only to goods manufactured in the Federal Republic.

The Hong Kong Government consider it of great importance that any restraint accepted by it should work to the benefit of the German industry only and not to that of Hong Kong's competitors. The Ministry's Note gives no information on imports of cotton towels from other sources, but the Hong Kong Government understand that substantial imports are in fact received from Belgium, the Netherlands, India and Japan. They would be grateful to know whether the Federal Government has taken or contemplates taking any action in respect of these sources of supply.

Although they are not prepared, on the information given in the Ministry's Note, to accept the need for the action envisaged, the Hong Kong Government, are prepared to enter into consultations with the Federal Government, and express the hope that the Federal Government will provide the further information necessary for this purpose. The Hong Kong Government would prefer such consultations to take place in Hong Kong.

Pending the outcome of the consultations referred to above, the Hong Kong Government have made arrangements, without prejudice to Hong Kong's rights under the Long-Term Arrangement, to ensure that the restraint levels requested are not meanwhile exceeded. In view of this assurance the Hong Kong Government hope that the Federal Government will agree that the sixty day period of consultation specified in paragraph 3 of Article 3 of the Long-Term Arrangement has no great significance in relation to the Federal Government's request and that the interests of neither party will be prejudiced should it prove impossible, as appears likely, to complete the necessary consultations within sixty days.

The Federal Government's request relates to the twelve month period commencing on the 1st of August, 1963. Having regard to the fact that the restraint level for cotton shirts established under the Long-Term Arrangement relates to the twelve months commencing on the 1st of October, 1962, the Hong Kong Government consider that it would be administratively more convenient if any restraint level which may later be mutually agreed were to commence from the 1st of October, 1963, and should be in respect of the second year of the Long-Term Arrangement.

The Cotton Textiles Committee of the GATT are being informed of the Hong Kong Government's views on the Federal Government's request.

Her Majesty's Embassy avail themselves of this opportunity to renew to the Federal Ministry for Foreign Affairs the assurance of their highest consideration.

British Embassy,
Bonn.

October 24, 1963.