

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## ARRANGEMENT REGARDING INTERNATIONAL TRADE IN COTTON TEXTILES

### Information on Steps to Facilitate Adjustments in the Cotton Textile Industries

In compliance with paragraph C(h) of the conclusions adopted by the CONTRACTING PARTIES on 24 November 1967 relating to trade of developing countries (BISD, Fifteenth Supplement, page 72) importing countries participants in the Cotton Textiles Arrangement were requested in GATT/AIR/640 to notify to the secretariat, for the information of the Cotton Textiles Committee all relevant information on the measures taken or contemplated by them to facilitate adjustments in their cotton textiles industries during the period of special protection provided by the Cotton Textiles Arrangement.

Attached are the notifications received from the following importing countries in response to GATT/AIR/640:

Australia  
Austria  
Belgium  
Canada  
Denmark  
Finland

France  
Germany  
Netherlands  
Norway  
Sweden  
United States

Further notifications will be circulated as addenda to this document.

AUSTRALIA

The Australian Government maintains no restrictions on the importation of cotton textiles which are contrary to GATT and only a small part (about 20 per cent) of the Australian market is met from Australian production. There is therefore little scope for adjustment in the Australian industry.

AUSTRIA

The structural changes which occurred in the Austrian cotton industry within the period from the year prior to the entry into force of the short-term arrangement on cotton textiles until the expiration of the fifth year of the validity of the Long-Term Arrangement Regarding International Trade in Cotton Textiles are shown below.

	<u>October 1960 until</u> <u>September 1961</u> (1)	<u>October 1966 until</u> <u>September 1967</u> (2)
Production index of cotton industry (average 1956 = 100)	104.9	87.1
Consumption of raw cotton	28,159 t.	21,947 t. (= -22.1%)
Consumption of cotton yarns	25,337 t.	23,122 t. (= - 8.7%)
Production of cotton yarn	27,788 t.	20,755 t. (= -25.3%)
Apparent consumption of cotton yarns (production + imports - exports)	29,976 t.	27,454 t. (= - 8.4%)
Production of cotton fabrics	19,818 t.	19,767 t. (= - 0.3%)
Apparent consumption of cotton fabrics (production + imports - exports)	23,265 t.	22,243 t. (= - 4.4%)
	<u>At 30 June 1961</u>	<u>At 30 June 1967</u>
Number of employees	22,973	17,398 (= -24.3%)
	<u>At 31 August 1961</u>	<u>At 31 August 1967</u>
Number of spindles (3-4 cyl. and 2 cyl.)	580,593	465,416 (= -19.8%)
	<u>At 30 June 1961</u>	<u>At 30 June 1967</u>
Number of looms	11,793	7,534 (= -36.1%)

These figures show that consumption of raw cotton decreased by 22.1 per cent, consumption of cotton yarns by 8.7 per cent, production of cotton yarns by 25.3 per cent, apparent consumption of cotton yarns by 8.4 per cent and apparent consumption of cotton fabrics by 4.4 per cent. The number of employees dropped by 24.3 per cent, the number of spindles by 19.8 per cent and the number of looms by 36.1 per cent. In this context it should be underlined that the above-mentioned

decrease in capacities and in the number of employees in the cotton industry is only partially due to rationalization measures; nor was the decrease in production limited to processed cotton. In any case, over the period under consideration, no increase in the production of textile fibres other than cotton (chemical textile fibres) occurred in Austria as was for instance the case in other industrialized countries. This is shown by the production index relating to the cotton industry which (taking all processed textile fibres into account) amounted in the year before the entry into force of the short-term arrangement on cotton textiles to 104.9 (average 1956 = 100) and dropped in the fifth year of the validity of the Long-Term Arrangement Regarding International Trade in Cotton Textiles down to 87.1 per cent. In the period under consideration the quantity of processed textile fibres other than cotton (chemical textile fibres) did not increase as it happened in other industrialized countries.

The decreases in the number of spindles by about 20 per cent and in the number of looms by about 36 per cent is almost exclusively due to the closure of enterprises of the Austrian cotton industry. Since this process of shrinking did not come to an end in this branch of production it is assumed that both further cotton spinning mills and weaving mills will be shut down. In this connexion I wish to mention that the enterprises shut down mainly produced raw products and simple cotton fabrics of the kind cotton weaving mills in developing countries are producing.

Through this reduction of capacity, as described above, the Austrian cotton industry contributed substantially to a solution of the international problem of capacities existing in the field of cotton textiles industries.

The development which is taking place in Austria in this area might very well lead to improving opportunities for sales of cotton textiles produced in developing countries. On the other hand it must not be overlooked that in industrialized importing countries demand for products of high quality and for differentiated fashion articles as well as for articles consisting of mixtures of cotton and synthetic textile fibres is increasing. This tendency evidently affects selling opportunities of simple cotton fabrics. Furthermore, sales on the Austrian market were in so far rendered more difficult as the consumption of cotton yarns during the reporting period constantly declined. As mentioned above, consumption of cotton yarns decreased by about 8.5 per cent and consumption of cotton fabrics dropped by about 4.5 per cent. During the period under consideration imports of cotton yarns rose by more than 115 per cent whereas in the same period domestic production decreased by more than 25 per cent. Imports of cotton fabrics showed a decline of about 5 per cent.

## BELGIUM

### I. General

Since 1950, the Belgian Government's policy has consistently been to encourage and promote industrial development and structural adjustments in the Belgian economy, and this fundamental action was extended further during the economic recessions of 1954/55 and 1958/59.

It should be pointed out, however, that Belgian industrial policy has hardly ever been sectorially slanted. Most measures taken were intended to pursue general objectives (expansion of the economy and employment) and the methods used were limited to economic incentives without any direct intervention in business management.

Since 1953, a number of laws have been passed to foster productive industrial investments. Since 1959, moreover, legislation has been aimed at producing a better geographical distribution of such investments, in order to meet the problems of certain regions which are either less favoured or undergoing industrial reconversion.

Except in the case of the coal industry, the measures taken have been designed to boost the economy as a whole, rather than any particular industrial sector. One of the major objectives has been to solve the serious unemployment problem that has plagued various parts of the country for many years.

### II. Aid to industrial development

Among assistance measures for the reconversion of individual undertakings, industrial sectors or the economy as a whole, mention should first be made of the laws on aid to investments; those of 17 and 18 July 1959 (assistance for the establishment of new industries, aid to regions undergoing economic and social difficulties) and the temporary law of 14 July 1966 for the benefit of certain regions in difficulties. They provide for the following types of aid:

- reduced interest rates,
- State guarantees for certain credits,
- capital subsidies,
- ten years' exemption from anticipatory levy on immovable property,
- interest-free advances for the perfecting of prototypes,
- expropriation of land for industrial plants.

All these forms of aid may be granted on productive industrial investments, in particular on reconversion investments, for example to firms wishing to drop certain production lines in order to manufacture articles with greater or better quality finish or products for which demand is rapidly expanding. The reason for reconversion may be a shrinking market, a labour shortage, or increased international competition, due among other things, to growing import volumes from developing countries.

Mention should also be made of fiscal incentives to speed up depreciation schedules, especially in the research field or where mergers are envisaged, since these often imply reconversion.

The National Investment Corporation, created under the law of 2 April 1962, is authorized to take State shares in the capital of new or expanding industrial undertakings. Reconversion needs may be taken into account in the Corporation's decisions.

The National Employment Board offers aid for vocational training and rehabilitation (royal decrees of 20 and 24 March 1961). Training assistance is available for staff recruited with a view to industrial reconversion, and rehabilitation aid comprises contributions to the remuneration of workers affected by the reconversion of their place of employment. In certain cases, the Board grants removal allowances, travel allowances and re-installation allowances.

Aid to new undertakings is also granted by the public authorities (State, provincial, communal, intercommunal organizations) which make available industrial sites either belonging to or expropriated by them. General measures to aid individual regions, such as infra-structure projects, collective equipment, creation of industrial zones, are also worthwhile mentioning, because reconversion at the regional level is intimately connected with reconversion at the sector level. Indeed, regional development difficulties stem from the fact that the regions are all too often dependent on economic sectors that are in difficulty (agriculture, coal-mining, textiles, rolling stock, etc.) and in order to boost the economy in these regions, the public authorities are obliged to promote their economic reconversion. In this way, the measures mentioned above can be used by the State to promote such reconversion.

It should be stressed, however, that none of the measures mentioned above are adopted specifically with a view to ensuring broader outlets for imports from developing countries; they do, however, have the effect of facilitating structural adjustments in the event of keener competition from whatever source occurs and in addition they help to channel investments and manpower towards the high technology sectors. One consequence of this is that Belgian consumption of mass-produced products or those requiring relatively little processing increasingly depends on imports in which the developing countries have their share.

Although there are no specific measures to promote structural adjustments in relation to international trade, it is nevertheless a fact that, because of the importance of this trade in the Belgian economy, any rationalization undertaken within the framework of general legislation will automatically affect trade. Furthermore, the economy is so hinged on trade that the application of such measures is often made necessary by changes in the structure of trade.

### III. Effects of the measures taken

It is not easy to assess the exact scope of the effects of these laws, in other words their influence on the volume and direction of investments, especially in the textile sector, because of the concomitant influence of other factors such as the development of the economic situation, technical progress, etc. What is sure, however, is that the effects have been positive.

Over the period 1962-67, the textile industry (all fibres) received low-interest credits totalling BF 3,584 million out of a total of BF 60,350 million for industry as a whole. The corresponding investments in the textile industry (all fibres) were BF 7,227 million and for industry as a whole BF 129,267 million. The figures for the cotton textile industry alone are not known.

Over the same period there has been a reduction in the number of spindles in spinning mills from about 1.5 million to about 1.2 million while production capacity remains the same. The manpower in this sector has fallen from 15,700 workers to a mere 9,500.

In 1967, a large-scale merger brought together more than one third of the spinning mills and weaving mills in the cotton textile sector. Because of this the industry has benefited from some of the advantages of the laws of expansion. From 1962 to 1966 there was a 15 per cent decrease in the number of simple and semi-automatic looms, only 10 per cent of which have been replaced by automatic looms, while over the same period, manpower in that sector also decreased by 15 per cent.

CANADA

The particular position of Canada was recognized in the protocol relating to the reservation to Canada's acceptance of the Long-Term Arrangement. As stated in the protocol, in the decade preceding the entry into force of the Arrangement Canada had experienced substantial contraction in its cotton textile industry, and was importing a substantial volume of cotton textiles, in particular from less-developed countries and territories and Japan, in relation to Canadian production of cotton textiles. Canada accepted no obligation to increase automatically, under the provisions of paragraphs 2 and 3 of Annex B of the Arrangement, access to the Canadian market for each item subject to restraint. Nevertheless, the share of Canadian consumption taken up by the imports of woven cotton textile products from developing countries increased from 7.1 per cent in 1960 to 12.5 per cent in 1965. While figures for 1966 and 1967 are not yet available it is likely this share has increased further since 1965.

While the Canadian Government has taken no measures specifically in respect of the cotton textile industry, programmes available to all Canadian industry have been established to permit modernization of production facilities and retraining of unemployed workers.



DENMARK

With one exception, Denmark's imports of cotton textile articles are not subject to quantitative restrictions. As will be seen from the attached specification, imports have increased from 1961 to 1967 by almost 70 per cent, except imports of "non-grey cotton goods" and "miscellaneous cotton goods". Imports from developing countries show increases for all commodity groups, notably for "grey cotton piece-goods" and "cotton cloths", notwithstanding competition from synthetic materials.

The Danish cotton textiles industry has adapted itself to the growing imports. Thus, in 1966, one large spinning mill closed down in Copenhagen, and total Danish output of cotton yarn fell by 17.5 per cent in that year. The production of cotton goods by weaving mills has also been reduced appreciably in the last few years, but official statistics are not yet available to illustrate the extent of this reduction.

The labour force in the Danish cotton industry has also been reduced. In 1960, cotton spinning mills employed about 1,600 workers and cotton weaving mills employed about 2,200 workers; the corresponding figures for 1966 were 1,030 and 1,790.

Retraining facilities are available to redundant workers. In the fiscal year 1967/68 about DKr 35 million were spent on retraining of workers from all industries, but figures are not available to show the distribution of this amount over workers from individual industries.

It will be seen that the Danish cotton industry has adapted itself to a considerable extent to the changes in competition caused by the liberalized import policy. Under the basic market policy pursued in this country it is felt that the Government should generally leave it to individual enterprises to make such adjustment as conditions of competition may entail. Government grants are found justifiable only for assistance to redundant workers who are in need of retraining.

Imports of Cotton Textiles  
(in US\$ and metric tons)

	Totals and from developing countries							
	1961 US\$'000		1961 Metric tons		1967 US\$'000		1967 Metric tons	
	Total	Developing countries	Total	Developing countries	Total	Developing countries	Total	Developing countries
A. Cotton yarn	8,598	814	4,560	788	11,295	1,299	6,283	1,120
B. Grey cotton piece-goods	3,768	216	2,373	177	4,523	530	3,127	459
C. Non-grey cotton piece-goods	22,998	736	8,034	523	19,904	847	7,116	560
D. Finished household articles of cotton	3,070	113	1,249	62	5,293	1,096	2,037	559
E. Cotton cloths	6,746	1,502	1,711	531	14,791	3,948	2,874	1,150
F. Miscella- neous other cotton goods and finished cotton textiles	1,589	-	610	-	1,389	299	499	11
	46,769	3,381	18,537	2,081	57,195	8,019	21,936	3,859

FINLAND

The Government of Finland has not so far found it possible to take steps aiming at facilitating adjustments in the cotton textile industry, although the need of adjustments is generally recognized and will be dealt with as a matter of urgency.

FRANCE

The structural reform undertaken in the cotton textile industry and the adjustment of structures to new competitive conditions have, for the past ten years, been the goal of the industrial organization in this sector, backed by the French Government.

A professional association was created in 1960 for the prime purpose of intervening to settle the problems deriving from reductions in means of production in this industry.

As a result of this association's actions and together with voluntary withdrawals, the number of production units has been constantly diminishing, except in the year 1966. Thus, in 1967, fourteen spinning mills and nineteen weaving mills closed down. This process is expected to continue through 1968.

The comparative statistics for the end of December 1957 and the end of December 1967 are as follows:

	<u>Spinning mills</u>		<u>Weaving mills</u>	
	<u>1957</u>	<u>1967</u>	<u>1957</u>	<u>1967</u>
Production (in tons)	301,000	258,000	226,000	198,000
<u>of which cotton</u>	265,000	235,000	199,000	172,000
Personnel	59,000	35,000	72,000	51,000
<u>of which workers</u>	54,000	32,000	64,000	41,000
Equipment (in use)				
Spindles	5,610,000	3,729,000		
Looms			110,000	67,500

Thus, in an expanding textiles market, production in the cotton textile industry has been shrinking, and at the same time there has been a very substantial reduction in personnel, which cannot be attributed solely to improved productivity.

Rationalization is still being continued. Since 1967, it has been aided by a structural renovation fund for the French textile industry, financed out of a para-fiscal textile charge.

Having regard to the progressive loss of certain external markets and recent developments in the domestic market, the French cotton industry will be obliged to keep up these efforts for several years to come.

GERMANY, F.R.

Keen international competition in the German market has resulted in large-scale imports of cotton textiles and reduced production in the German cotton textile industry. Consequently, the number of cotton textile mills in the Federal Republic of Germany has been declining constantly in recent years. In 1962 there were 268 cotton spinning mills and 513 cotton weaving mills, while by 1967 there were only 211 spinning mills and 393 weaving mills. The cotton textile industry has made considerable efforts to adjust to competitive requirements through rationalization and attempts to improve its structure by means of co-operation between undertakings in this sector.

The Federal Government is encouraging these efforts to make structural adjustments by granting readjustment credits at a reduced rate (6 per cent per annum). In addition, certain fiscal obstacles to co-operation between undertakings in this sector and their merging, have, to a certain extent, been abolished. On the other hand, there is no specific programme for the cotton textile industry.

THE NETHERLANDS

In recent years, the Dutch cotton textile industry has been faced with serious difficulties arising from the considerable intensification of competition.

In order to overcome these, the industry has been thoroughly concentrated, both vertically and horizontally. The speed of this concentration can be judged from the fact that in 1959 sixteen undertakings owned almost 71 per cent of the total number of spindles and some 61 per cent of automatic looms. At the present time, about 86 per cent of spinning capacity and some 72 per cent of weaving capacity are held by six groups. Apart from these, several cotton firms are endeavouring to consolidate their position through joint ventures, in other words by co-operation with foreign undertakings.

Up to 1967, the extensive rationalization and adjustments required were accomplished without any financial assistance from the State.

Because of the cotton industry's difficult economic situation last year, the Netherlands' Government decided to grant this industrial sector guaranteed credits of f. 150 million in capital and in interest.

These credits will enable the cotton textile industry to undertake a vast programme of investment to modernize its means of production and, thus, increase its competitive capacity. The investments for which these credits were granted will be carried out in 1968, 1969 and 1970.

Generally speaking, the amount guaranteed will not exceed 50 per cent of the sum required, the other 50 per cent being put up by the cotton textile industry itself. The Netherlands' Government has not granted an interest compensation subsidy that the cotton textile industry had requested.

NORWAY

As regards the Norwegian textile industry far-reaching adjustments, rationalization and reduction in capacity have taken place both prior to and during the period covered by the Cotton Textiles Arrangement. The cotton textile industry is now covering only about one third of the home market consumption and there is very little room for further contraction without serious repercussions on the national economy as a whole.

In spite of this the industry continues systematically to adjust its production programmes away from those products where competition from developing countries is most severe. Instead, design-products, branded products and specialities are developed.

As the clothing industry is concerned, there has been a downward trend in the production of underwear articles in the last four years. Production of outer-garments of cotton must be seen together with the production of clothes made of textiles containing a mixture of cotton and other fibres, especially synthetics, which to a great extent has replaced articles of pure cotton. In these sectors the production has been comparatively regular with a clear tendency towards stagnation.

Imports of all types of clothing articles of cotton and articles of cotton mixed with other fibres, have increased considerably in the period. Most of these imports are delivered from EFTA countries as well as from so-called low-cost countries.

The number of factories in the clothing industry, largely small-sized, has been reduced by about 20 per cent.

### SWEDEN

As a result of Sweden's liberal trade policy Swedish cotton textile industry has in general had to meet a hard competition from abroad and not least from the less-developed countries. As a result of this competition and of the changing situation on world markets there have been adjustments, mergers, fusions and close-downs within the Swedish industry. This development can be regarded as a continuous process of structural or sectoral rationalization.

There are no specific legislative or governmental regulations in Sweden related to structural adjustment assistance. The adjustment that has taken place has been spontaneous. It has however been facilitated by general official policies such as an active labour market policy. In this connexion reference can be made to the decision of the OECD Council in May 1964, to recommend that member States re-examine their manpower policies with a view to increasing their ability to solve employment problems created by technical and economical developments.

A short account of the aims and objectives of the Swedish policy in this field is given below (cf. "Labour Market Policy in Sweden", published by OECD in 1965).

#### Labour market policy in Sweden

The National Labour Market Board is responsible for questions relating to labour market policy in Sweden. The Board has been provided with great personal and financial resources enabling it to take prompt and effective measures. The parties of the labour market, workers and employers, are represented within the Board as well as within its regional agencies - the County Labour Boards.

The Swedish employment policy comprises many different measures. The most important administrative condition for a successful labour market policy is considered to be an effective public employment service.

A system of vocational guidance has been formed whereby vocational guidance throughout the country is organized and supervised. Guidance is given in direct relation to the employment opportunities available in the country and is based upon the right of free choice of the individual.



Short-term forecasting covering twelve-month periods and largely dependent on information gathered through the employment service organization combined with an "advance warnings" system obligating employers to inform the employment service of planned lay-offs or close-downs makes it possible to adapt the labour market policy in order to meet changing conditions.

A further aspect of employment policy entails measures designed to create employment. Among the measures used in Sweden to maintain a steady level of employment the following may be mentioned:

- Emergency works (public works of various types financed over the budget of the National Labour Market Board) can be started quickly and ended just as quickly in order to even out fluctuations in manpower demand. Governmental construction and other public works can be increased in the event of unemployment (and decreased in the event of over-employment). Industrial activity can be stimulated by means of additional public contracts, etc.
- Housing construction is used both as a means of general financial policy and for its selective influence on employment.
- Investment funds are used to encourage enterprises to invest during periods of recession with the aim to even out business fluctuations. According to existing provisions the enterprises may set aside a certain portion of their profits free of tax for future investment.
- Geographical mobility is facilitated by means of special allowances for those who have to seek and start work outside their own locality.
- Retraining and up-grading courses are arranged on a large scale. The programmes of these courses are worked out jointly by the employment authorities and the educational authorities in close consultation with the organizations of workers and employers.

In addition to these measures there are special schemes for the location policy in Sweden.

UNITED STATES

In addition to the benefits of the Long-Term Arrangement itself, several measures adopted by the United States Government have the effect of facilitating adjustments in the cotton textile industry.

Two tax reforms have stimulated modernization of production facilities in industry generally. One was the 1961 revision of the depreciation guideline schedules. In respect to the textile industry the depreciation schedules for most machines prior to 1961 were based on a useful life of fifteen to forty years. This was reduced to fifteen years. Depreciation schedules for finishing machinery were reduced from an average of fifteen to twenty years to twelve years. The second tax reform that facilitates adjustment was investment tax credits. Under these provisions a firm was allowed a credit of up to 7 per cent of its federal income tax for money invested in production machinery or buildings to house such machinery. This credit was temporarily suspended in October 1966, but was reinstated in March 1967.

The Government's manpower programme is designed to train people who lack the skills needed to find employment and to retrain workers whose present skills are not matched by employment opportunities. The Government supplies funds both for the training programmes and as subsistence allowances for the trainees. While the primary goal of this programme is to assist workers to attain the skills needed to obtain employment, it has proved beneficial to industry by up-grading the skills of the work force. The textile industry is eligible to participate in this programme, but the apparel industry is largely excluded since manpower funds are not available for training sewing machine operators.

In addition to these measures, which apply to industry generally, the Government has certain other programmes specifically for the cotton industry. Elimination of the two-priced cotton policy in 1964 improved the competitive position of cotton vis-à-vis other fibres used in the cotton textile industry. Legislation to continue the policy of one-price cotton is currently under consideration in the United States Congress. The Department of Agriculture's programme to improve the quality of cotton fibres through its plant-breeding programme and through research to identify and promote improved ginning practices has likewise contributed to cotton's competitiveness. The same Department is also conducting research to develop improved methods of producing durable press cotton fabrics, and the Cotton Producers Institute, established by legislation in 1967, is aimed at expanding the market for cotton products. These programmes assist the competitive position of the industry.

The United States Government has contributed \$1.6 million through the National Bureau of Standards to a co-operative research programme with the textile and apparel industries. This programme has had the dual goal of identifying the areas in which research was most needed and of encouraging textile and apparel firms to increase their research and development efforts.