

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COT/143/Add.2

5 April 1970

Special Distribution

Original: Spanish

ARRANGEMENT REGARDING INTERNATIONAL TRADE IN COTTON TEXTILES

Restraint Request Made by Canada under Article 3

Information Transmitted by Mexico

Addendum

The following communication has been received by the Director-General from the Permanent Delegation of Mexico for notification to the Cotton Textiles Committee.

COMMENTS BY THE GOVERNMENT OF MEXICO CONCERNING THE RESTRICTIONS IMPOSED BY THE GOVERNMENT OF CANADA ON MEXICAN EXPORTS OF COTTON YARN

I have the honour to refer to document COT/143 of 14 November 1969 which includes the text of the restraint request under Article 3 and Annex B of the Long-Term Arrangement Regarding International Trade in Cotton Textiles as submitted to the Director-General by the Canadian Mission.

In support of this request, as is already known to the Cotton Textiles Committee, the Government of Canada pointed out that in the first months of 1969 Mexican exports of cotton yarn to the Canadian market had reached a total of 2,005,000 lb. by the end of August and that this product was being offered to Canadian importers at duty-paid prices which were from 15 to 20 per cent below Canadian spinners' prices, thus causing serious disruption in Canada's domestic market.

On 21 November 1969 the Government of Canada applied on imports of cotton yarn from Mexico a surtax of 50 per cent of the value of the goods declared in the Consular Invoice which, added to the existing 17.5 per cent duty rate corresponding to most-favoured-nation treatment, brings the total charge to 67.5 per cent. The Government of Mexico considers that this action is not consistent either with the Trade Agreement which has been in force between the two countries since 1946, or with the spirit and the letter of the Long-Term Arrangement Regarding International Trade in Cotton Textiles, because as a consequence it has become prohibitive for Mexico to export cotton yarn to that market.

Accordingly, Mexico considers it appropriate to inform the Cotton Textiles Committee that it disagrees with this action, since Mexico has always acted consonantly with the concepts and stipulations set forth in the Long-Term Arrangement and has faithfully abided by the international commitments into which it has entered. It therefore wishes to bring the following considerations to the notice of the Cotton Textiles Committee.

Mexico believes that one of the basic objectives of the Long-Term Arrangement Regarding International Trade in Cotton Textiles, as stated in the preamble, is to promote the development of less-developed countries possessing the necessary resources, such as the raw materials and technical skills, by increasing their sales in world markets of products which they can efficiently manufacture.

Mexico is the world's sixth producer and third exporter of cotton and consequently has sufficient raw material to produce manufactured and semi-manufactured articles which it can send to various foreign markets.

The Mexican textile industry is one of the principal manufacturing sectors of the country and the cotton branch has 2.23 million spindles and 46,671 looms. The size of this industry and the fact that it is constantly being modernized enable it to produce yarn and fabrics of high quality and at prices competitive in the international market.

The international commitments entered into by Mexico have always been scrupulously complied with, as evidenced by the Bilateral Agreement concerning Trade in Cotton Textiles concluded on 2 June 1967 between the United States and Mexico on the basis of mutual agreement between the two nations. This Agreement afforded access to the United States market for Mexican cotton textiles over a period of four years.

When the Government of Canada asked the Mexican authorities to sign a bilateral agreement within the framework of the Long-Term Arrangement Regarding International Trade in Cotton Textiles, it did not completely fulfil the requirements set forth in Article 3, paragraph 1, of that Arrangement concerning disruption caused or threatened to its industry by imports of cotton yarn from Mexico, since it did not give a detailed, factual statement of the disequilibrium that had occurred; its Note of 19 August 1969 refers mainly to the request for consultations to be initiated between the two countries and to the historical background as far as Mexico is concerned. The foregoing was further borne out during the conversations which took place in this connexion between officials of the two countries at Mexico City on 28, 29 and 30 August 1968 and at Ottawa from 8-12 September 1969.

Nevertheless Mexico, being fully aware of the responsibilities it accepted as a signatory member of the Long-Term Arrangement Regarding International Trade in Cotton Textiles and the rights which derive from that instrument, addressed a request to the Government of Canada for an annual quota equivalent to 3.9 million lb. of cotton yarn, which was based mainly on the letter and the

spirit of the Long-Term Arrangement, on the treatment which had been accorded by Canada to imports from various sources, and on the deficit which has been a traditional feature in the balance of trade between Mexico and Canada. In response, the Government of Canada offered a quota of 1.3 million lb. for the period 1 September 1969 to 31 August 1970 and of 1.4 million for the ensuing annual period.

Subsequently the Government of Mexico pointed out that an agreement might be reached on the basis of 2.5 million lb. for the year 1970, Canada having proposed a quota of 1.8 million lb. for the year 1 October 1969 to 30 September 1970 and 1.6 million for the ensuing twelve-month period.

As no settlement had been reached on the question of the export quota for Mexican cotton yarn, the Government of Canada, as from 21 November last, imposed a surtax at the rate of 50 per cent of the value, thus preventing Mexico from competing in the Canadian market and causing serious prejudice to its textile industry, which had planned its production with a view to exports to that country in accordance with the requirements of Canadian importers. There is thus a risk that the good trade relations between the two countries may deteriorate, and consequently the Canadian Government was asked to reconsider its attitude and to rescind the Decree introducing the surtax, which would make it possible to reach a mutual satisfactory agreement as to the level of exports of cotton yarn from Mexico.

Mexico considers that the action taken by the Government of Canada is not in accordance with the provisions of paragraph 1 of Annex B of the Long-Term Arrangement Regarding International Trade in Cotton Textiles, in which it is stated that the minimum level of restraint which may be introduced unilaterally by an importing country under the provisions of Article 3 shall be the level of actual imports during the twelve-month period terminating three months preceding the month in which the detailed and precise notification was submitted to the Cotton Textiles Committee of the disruption caused in the market of the importing country.

Mexico has not received any such documentation, and has no knowledge of its having been submitted to the Cotton Textiles Committee, but if that body considered that the Canadian notification contained in document COT/143 of 14 November 1969, in which it is stated that Mexican exports of cotton yarn to the Canadian market reached a level of 2,005,000 lb. during the first eight months of 1969, satisfies the requirements laid down in paragraph 1 of Article 3, then the level of restraint should have been fixed in accordance with the level of our exports during the first twelve of the previous fifteen months, reckoned from the date on which the request was received.

By introducing on 21 November 1969 the surtax at the ad valorem rate of 50 per cent on Mexican exports of cotton yarn, the Government of Canada has made access to the Canadian market completely impossible for Mexico and has entirely prevented it from competing with other supplying countries.

Lastly, Mexico has pleasure in adding that, subsequent to the facts mentioned in the comments given above, the Governments of Mexico and Canada had conversations at Mexico City on 2 and 3 March of this year which resulted in a provisional agreement for a period of seven months extending from March to September 1970.

Mexico wishes to point out that it was agreed that the Canadian surtax would be eliminated and that imports of Mexican yarn would be permitted up to the limit of the most recent offer by Canada, to the extent corresponding to the seven-month period covered by the agreement.¹

It was also agreed that during the period covered by the agreement, the two Governments, Canada and Mexico, would endeavour to arrive at the signature of a bilateral agreement within the general framework of the Long-Term Arrangement Regarding International Trade in Cotton Textiles of GATT.

¹The level agreed upon for the seven-month period beginning 1 March 1970 is 152,000 lb. monthly plus an additional one-time quota of 76,000 lb. to be exported during the whole period.