

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COT/143/Add.3

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ARRANGEMENT REGARDING INTERNATIONAL TRADE IN COTTON TEXTILES

Restraint Request made by Canada under Article 3

Information Transmitted by Canada

Addendum

The following communication has been received by the Director-General from the Canadian mission for notification to the Cotton Textiles Committee.

I have the honour to refer to previous notifications by the Canadian Government, circulated as documents COT/143 on 14 November 1969, and COT/143/Add.1 of 1 December 1969, concerning a request made on 19 August 1969, by the Government of Canada to the Government of Mexico to restrain exports of cotton yarn from Mexico to Canada.

I wish to inform you that following consultations on 2 and 3 March in Mexico City, the Governments of Canada and Mexico reached agreement on the level of cotton yarn which may be exported from Mexico to Canada during an interim period from 1 March 1970, to 30 September 1970. Pursuant to these consultations, the surtax which had been applied under the provisions of Section 7(1a) of the Canadian Customs Tariff to importations of certain Mexican cotton yarns exported to Canada after 21 November 1969, was revoked as of 4 March 1970. The Government of Mexico agreed to limit exports of cotton yarn to Canada to a monthly level of 152,000 pounds during the period from March to September 1970. In addition, a single exquota amount of 76,000 pounds may be exported during the interim period.

Both Governments agreed to undertake during the period of the present agreement, discussions leading to the signing of a long-term agreement on cotton yarn within the general framework of the Arrangement Regarding International Trade in Cotton Textiles. Both Governments shared the view that the successful conclusion of the consultations would contribute to an expansion of the trade relations between the two countries.

In view of the fact that in this instance the Canadian Government found it necessary to take action to restrict imports of Mexican cotton yarns in November 1969, when agreement could not be reached on an appropriate level of exports of Mexican yarn to Canada, the Canadian authorities consider that it would be helpful to review, for the information of the Cotton Textile Committee, the circumstances in which such action was taken.

The Canadian cotton yarn industry has been subject to competition from imports of low-priced cotton yarn for many years. Because of the disruptive nature of such imports consultations consistent with the provisions of the Arrangement were held with the Governments of Israel, Portugal and the export corporations of the People's Republic of China which resulted in these sources agreeing to restrain their exports of cotton yarn to Canada. Subsequently, the United Arab Republic, Greece, the Republic of Korea, Colombia, and Spain have recognized damage being caused to the Canadian cotton yarn industry by such low-priced imports and have agreed to restrain their exports of cotton yarn to Canada.

In all its discussions with countries exporting low-priced yarn to Canada, the Canadian Government has been conscious not only of its rights under the Arrangement to take action to prevent or remedy disruption of the Canadian cotton yarn market, but also of its obligations to provide factual information in support of its requests for restraint and to seek to preserve a proper measure of equity where imports from several participating countries are causing or threatening disruption of the market. With respect to the latter, the Canadian Government accepts an obligation to seek to ensure that the interest of countries restraining their exports to Canada are not prejudiced by unlimited increases in competitive imports from other countries.

When imports of cotton yarn from Mexico at low prices rose sharply from nil in 1966 to 318,000 pounds in 1967, the Canadian Government initiated discussions with the Government of Mexico with a view to preventing further disruption of the Canadian yarn market. The Government of Mexico was requested on 29 February 1968 to enter into consultations provided for under Article 3 of the Arrangement aimed at the conclusion of a mutually acceptable agreement to limit exports of Mexican cotton yarn to Canada. As in all such cases, the level of restraint Canada proposed was determined in accordance with Annex B to the Arrangement. Factual supporting information was provided to the Mexican authorities at the time the request was made. Additional information and statistics were subsequently provided in response to requests by the Mexican Government. In view of a subsequent decline in level of imports of Mexican yarn and a slight improvement in the domestic market situation, it was mutually agreed in November 1968 that no action needed to be taken at that time to limit exports of Mexican cotton yarn to Canada. The Canadian Government, however, reserved the right to seek resumption of consultations in the event that circumstances were again to change.

Following a sharp increase in imports of cotton yarn from Mexico in the first quarter of 1969 to almost double the level for the whole of 1968, a resumption of consultations was requested in June. Additional information and current statistics on Canadian imports and production were provided to Mexican authorities.

On 19 August, the Mexican Government was formally requested to restrain exports of cotton yarn to Canada under the provisions of Article 3. The level of restraint proposed was determined strictly in accordance with Annex B; i.e. the level of imports in the twelve-month period ending three months preceding the month in which the request for consultation is made to the exporting country. To supplement the information provided earlier to the Mexican authorities, the Canadian Government referred in support of its request to the continuing sharp growth in imports of cotton yarn from Mexico at low prices and to the serious decline in the order positions of Canadian spinners beyond the first half of 1969.

No agreement had been reached on the request for export restraint or on any alternative solution within the sixty-day period prescribed in Article 3(3); i.e. by 19 October. The Canadian Government nonetheless refrained from exercising immediately its rights under Article 3(3), in order to exhaust all possibilities of finding a mutually acceptable solution.

In view of the continuing sharp increases in imports of low-priced cotton yarn from Mexico, it was evident that if such imports were permitted to increase further, Canadian producers and workers would suffer further serious injury. Moreover, the interests of countries already restraining exports of low-priced yarns to Canada would be seriously prejudiced. Accordingly, a surtax of 50 per cent of the value for duty was applied to certain cotton yarns imported from Mexico after 21 November 1969, excluding goods bona fide in transit as of that date.

The Canadian Government is aware that this measure does not enable a precise level of imports to be achieved. As indicated in Interpretative Note 1 of Annex E, participating countries have recognized that in the event action must be taken to limit imports pursuant to the Arrangement, Canada would not be in a position to ensure that imports will not fall below the minimum level as defined in Article 3(3). In this connexion, the Canadian Government wishes to draw to the attention of members of the Cotton Textile Committee that consequent to coming into force of the Anti-Dumping Act on 1 January 1969, the provisions of Section 40A (7)(c) of the Customs Act were replaced in Canadian law by those of Section 7(1a) of the Customs Tariff. The latter authorizes the application of a surtax sufficient to prevent further injury or threat of injury rather than the application of special values for duty purposes.

The Canadian Government considers that throughout its discussions with the Mexican authorities, it acted in a manner fully consistent with the aims and objectives of the Arrangement and fulfilled its obligations under the Arrangement both to Mexico as a signatory and to other participating countries already restraining exports of low-priced cotton yarn to Canada.