

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COTTON TEXTILES COMMITTEE

Statement by the Representative of the United States at the Meeting of 5 December 1963

The period under review by this meeting, the twelve months ending 30 September 1963, has witnessed the beginning of a unique international experiment in which all of the governments around this table have been engaged. The joint venture of our twenty-four governments represents the first multilateral effort of a group of friendly nations to pursue policies which will minimize injury to an important sector of our national economies by avoiding disruptive trade, while at the same time providing for growing trade opportunities.

When the Long-Term Cotton Textiles Arrangement was negotiated in January and February 1962, it was recognized by the nineteen governments which drew up the Arrangement, that the achievement of this objective was essential, however difficult to fulfil. To provide for increasing trade in cotton textiles from the developing countries while avoiding, in the interest of all, the disruption of the markets of the older established cotton textile-producing countries, presented all of us with a complex problem of mutual accommodation.

Yet, despite many problems and unforeseen difficulties in implementing a venture as unique as the Long-Term Arrangement, we believe that for the United States the first year's operations have furthered the objectives of the Long-Term Arrangement. The meeting this week should provide all of us with a better basis for appraising how well the objectives have been followed for all countries.

I should like to report on the participation of the United States in the first year of the Long-Term Arrangement. I should like to tell you what has happened to cotton textile trade with regard to the United States' market and what has happened to the cotton textile industry in the United States in the period under review. Also, I should like to mention some of the problems which the United States has encountered to date in its participation in the Long-Term Arrangement.

1. United States trade in cotton textiles

The record of import trade in cotton textiles into the United States during the first year of the Long-Term Arrangement indicates quite clearly that the United States has provided growing opportunities for the cotton textiles produced and exported to our market by the developing countries in accordance with the objectives of the Long-Term Arrangement. Indeed, I was struck by the statement in the forthcoming report of the GATT secretariat on International Trade in 1962 that increases in exports to the United States (and to a smaller extent to Australia and New Zealand) were the only bright spots in the sales endeavours of the major Asian suppliers of cotton textiles.

It is important to note that the United States entered the Long-Term Arrangement after having experienced an increase of 37 per cent in its imports of cotton textiles during the period of the Short-Term Arrangement over the base period of that Arrangement.

During the first year of the Long-Term Arrangement, United States imports of cotton textiles from the developing countries continued to rise. They reached a level of 718 million square yard equivalents, an increase of more than 13 per cent from the level of such imports during the Short-Term Arrangement year (634 million square yards) and 58 per cent more than imports from the developing countries during the twelve months ending 30 June 1961, the base year of the Short-Term Arrangement (455 million square yards).

Between the base period of the Short-Term Arrangement and the first year of the Long-Term Arrangement, developing countries accounted for 85 per cent of the increase in United States imports of cotton textiles. In the former period, imports into the United States from the developing countries accounted for a little more than half of our total cotton textile imports; during the first year of the Long-Term Arrangement the developing countries accounted for almost two thirds of the total.

These increases in imports, measured in quantitative terms, do not tell the full story, particularly for individual countries. Not only have imports from the developing countries into the United States increased on an overall basis; it is important to note that there has been a decided trend from the primary stages of manufacture to imports of the more advanced stages of manufacture. The implications to the foreign exchange earnings of the developing countries of a combination of an increased volume and an increased unit price in terms of square yard equivalents are apparent.

It is also important to point out that these gains of the developing countries were widely distributed among the various low-income regions of the world. For example, cotton textile imports from India increased by almost 200 per cent between the Short-Term Arrangement year and the first Long-Term Arrangement year. Those from Pakistan by 280 per cent; from the United Arab Republic, 45 per cent; from Spain, 60 per cent; from Jamaica, 50 per cent. Imports from these important suppliers increased in the aggregate from 91 to 194 million square yards. If imports from a few major suppliers among the developing countries did not show gains during the first Long-Term Arrangement year over the preceding twelve-month period, all of these countries had previously registered impressive increases during the Short-Term Arrangement year, and still had substantially higher levels during the first Long-Term Arrangement year than they had during the base period of the Short-Term Arrangement.

Taking cotton textile imports from the developing and the industrialized countries together, we find that total imports into the United States amounted to 1,123 million square yards during the first year of the Long-Term Arrangement compared to 1,113 million square yards during the Short-Term Arrangement and 813 million square yards during the base period of the Short-Term Arrangement, an increase of 300 million square yards.

At the same time, United States exports of cotton textiles declined by 10 per cent during the first year of the Long-Term Arrangement and reached the lowest level since 1940.

While there has been an increase in total United States cotton textile imports, there has been a decline in imports from the industrialized countries. As a result of market influences and in the absence of any restraints under Article 3, United States imports from these countries declined by 16 per cent between the Short-Term Arrangement and the first Long-Term Arrangement year.

Furthermore, the total figures I have given you do not show the substantial increases in imports of certain categories or products. There were seventeen such categories or products where imports increased by 15 per cent or more. During the first year of the Long-Term Arrangement, imports of these categories increased by some 100 million square yards equivalents, a rise of one third in the import pattern for these categories.

2. Condition of the United States cotton textile industry

The rising level of cotton textile imports into the United States from the developing countries has represented a significant contribution to the strengthening of trade relations with these countries and to the expansion of

needed foreign exchange earnings of the low-income regions of the world. However, I would be less than candid if I did not point out that this has not been without cost to the United States economy. Let me detail some of the elements of this cost.

First, mill consumption of raw cotton - the best measures of cotton textile mill activity - declined by 6 per cent during the twelve months ending July 1963.

Second, total domestic consumption of cotton textiles has continued to stagnate and has actually tended to decline during the first Long-Term Arrangement year.

Third, the ratio of imports to domestic consumption of cotton textiles continued to rise during the first Long-Term Arrangement year, reaching 7.6 per cent for this period. This compared with 6.6 per cent during the Short-Term Arrangement, 5.2 per cent during the base period of the Short-Term Arrangement, and 3 per cent in 1958.

Fourth, the changing pattern of imports to the more advanced stages of manufacture has compounded the adverse effect of a rising import level on production and employment.

While we recognize that some other countries import a larger portion of their total consumption, these countries either did not have established domestic industries capable of providing all their needs or arrived at their higher import ratio over a long period of time, in some cases resulting from special trade and political ties with the exporting countries involved. Not only is competition felt directly by the mill sector but the important garment sector is suffering as well.

Fifth, the United States, which has traditionally been a net exporter of cotton textiles, has now clearly become a net importer. Since 1962 the gap between rising imports and declining exports of cotton textiles has been widening rapidly. The ability of the United States cotton textile industry to export has been increasingly inhibited by restrictions on imports and increased tariff protection imposed in various other markets.

Sixth, the textile industry is the largest employer of labour in manufacturing in the United States. Yet during the first nine months of 1963, the number of unemployed in this industry represented 9.5 per cent of the labour force in apparel and 6.9 per cent in textile mill products, levels strikingly higher than the high overall national unemployment rate of 5.7 per cent. Moreover, because textile mills in many small towns in the North-eastern and Southern parts of the United States represent the only source of factory employment in the community, the decline of this industry has had particularly severe social and economic effects.

To conclude this brief statement on the condition of the United States cotton textile industry, it is important to note that domestic mills have continued to operate under the so-called two-price cotton system which forces them to pay a substantially higher price for raw cotton than foreign mills pay for the same cotton. This is a domestic problem which is now being considered by the United States Congress.

3. Resort to Article 3

Concern has been expressed by some participating countries in the Long-Term Arrangement that the United States has resorted to Article 3 more often than was envisaged when the Arrangement was negotiated almost two years ago. I think it is important to the Committee's review of the first year of the Long-Term Arrangement to examine the situation fully and to ascertain all of the facts.

At the present time only five countries which are participants in the Long-Term Arrangement are restraining their exports of cotton textiles to the United States pursuant to a request from my Government under Article 3. In the case of four of these countries, an average of only three products or categories are under restraint. In the other case, a country which is the third largest supplier of cotton textiles to the United States market, the number of products or categories under restraint is more extensive.

In taking action to request restraint from an exporting country, the United States has acted consistently with the spirit and the letter of the Long-Term Arrangement. We have invoked our rights under Article 3 only to insure an orderly development of trade where there has been disruption or a threat of disruption to a particular segment of the United States cotton textile market.

It should be remembered that the United States market is an open, highly competitive market. Imports are subject only to duties. The United States does not follow the practice of some other governments of imposing quantitative restrictions on imports or prohibitive import duties, nor is the American textile industry permitted by our domestic anti-trust legislation to enter into industry-to-industry agreements which have in some countries taken the place of either quantitative restrictions or resort to Article 3.

In requesting restraints under Article 3, the United States Government has been careful to safeguard the rights of exporting countries and to proceed in an equitable manner toward all supplying countries, whether or not these countries were participants in the Long-Term Arrangement. Restraints have often exceeded the levels applicable under the formula of Annex B. No country is denied some access to the United States market in a cotton textile product merely because the absence of a previous history could result in a zero level of restraint under the formula of the Long-Term Arrangement.

The experience of the United States during the past year has been that when a request for restraint is made to a major supplier in a particular product, our importers, in an effort to find alternative sources of supply, have generally responded by contracting for supplies in countries which had not previously been significant sources of imports into the United States. Thus, the initial restraint request soon engenders additional requests to other supplying countries in order to avoid the circumvention of the original request and to ensure equity in accordance with the provisions of the Arrangement. Indeed, at the present time, cotton textile exports from ten non-participants are subject to restraint under Articles 3 and 6C.

During the course of the negotiation of the Long-Term Arrangement, W. Willard Wirtz, now Secretary of Labor in the United States and spokesman for our delegation at the time, said the following: "The United States Government regards a long-term world Cotton Textile Agreement as a means of bringing about expansion of world trade in cotton textiles by making it possible in the course of expansion to safeguard the legitimate interests of domestic producers in importing countries". He also pointed out, "No-one will disregard the inevitability of strong domestic pressures being exerted on the governments of importing countries to treat the base period import levels referred to in the agreement as the measure of market disruption --- Surely none can have any doubt that when imports of a category of textiles approach the base period figure there will be close consideration given the question of whether a situation of market disruption exists or is developing. We say advisedly that we will propose to initiate proceedings under this Agreement when but only when market disruption occurs or is imminently threatened." We have done just that. Every restraint request under Article 3 has taken full account of the objectives of the Long-Term Arrangement and the commitment made by the United States Government.

The United States has also been mindful of the provisions in paragraph 6 of Article 3, which calls for the relaxation and elimination of restraints as soon as practicable. The United States has, in fact, kept existing Article 3 restraints under review and has dropped several categories of products from restraint either during the initial twelve-month period of restraint or at the conclusion of such period.

Often bilateral agreements are used by governments to intensify restrictions on trade. It should be noted that the United States has, in a number of important cases, moved from Article 3 to Article 4 of the Long-Term Arrangement. This has been done in an effort not to make more restrictive Article 3 restraints, but rather to liberalize such restraints. Such agreements have thus far been completed with Hong Kong, Japan, the Republic of China, Jamaica, Spain, Israel, and the United Arab Republic. Other agreements are now under discussion with several other important suppliers. These bilateral arrangements under Article 4 provide assurance to the exporting countries as to the future level and pattern of trade at the same time that growth and flexibility are provided for the exporting country's cotton textile shipments to the United States.

4. Obligation of Exporters

In talking about the experience of the United States during the first year of the Long-Term Arrangement, I think it may be useful to comment on the position of exporting countries in their relations with the United States under the Long-Term Arrangement during this period. The Long-Term Arrangement is not a one-way street. The Arrangement imposes reciprocal obligations on both the importing and the exporting countries. In the case of the exporting countries, the Long-Term Arrangement clearly imposes an obligation to co-operate with the importing countries in maintaining orderly marketing patterns. The Preamble of the Long-Term Arrangement states that the development of the trade of exporting countries should proceed "in a reasonable and orderly manner so as to avoid disruptive effects in individual markets and on individual lines of production in importing countries". Conversations which have taken place between representatives of my Government and those of the governments of exporting countries have shown that several of the latter have not given sufficient regard to the obligation to avoid undue concentration of exports, either within a particular period of time or within a given product.

This is evident by the concentration of imports into the United States in particular products. Imports of only four categories accounted for 40 per cent of total cotton textile imports during the first year of the Long-Term Arrangement.

There also have been difficulties with certain exporting countries over the obligations implicit in the procedures of Article 3. The sixty-day period of consultation is not a period for exports to be maximized, nor does the sixty-day consultation period mean that an exporting country should wait until the last week of the period before responding to a request for restraint or beginning serious consultation.

In some cases, we understand that genuine problems have made it difficult for exporting countries to co-operate. Legal authority to control exports may not exist initially. Means of communication with the industry and with exporters may be imperfect. In some cases, American importers have no doubt contributed to the problem. Whatever the reason, and there are many others, it has frequently been our experience that during the sixty-day consultation period shipments have continued unabated and often have even increased substantially.

Difficulties have also been encountered by us in administering the exemption in the Arrangement for handloom fabrics of the cottage industry. It was agreed during the negotiation of this exemption in the Long-Term Arrangement that a certification procedure would be used to exempt handloom fabrics from the provisions of the Arrangement. Some exporting countries, however, have encountered difficulties in establishing the procedures that would insure the proper certification of shipments, and there have been lengthy delays in working out an effective system.

5. Position of other importing countries

One of the key elements in the concept of the Long-Term Arrangement is that a country such as the United States, which has an unrestricted market, should not alone be the recipient of growing exports of cotton textiles from the developing countries. The Long-Term Arrangement very clearly provides for the sharing among the industrialized countries of their collective responsibility to provide growing opportunities for the cotton textile exports of the developing countries. It is understood in the Long-Term Arrangement that countries whose markets were largely closed to low-cost imports of cotton textiles should reduce their restrictions over a period of time.

Secretary Wirtz, in the same speech to which I have already referred, said, "A constructive long-term multilateral arrangement must, as a matter not only of equity but of practicality, reflect a willingness on the part of all importing countries to share proportionately in absorbing cotton textile exports of the less-developed countries."

The United States delegation will be most interested in hearing at this meeting what steps other industrialized countries have taken to open their doors to the cotton textiles produced in the developing countries. To what extent has their ratio of imports from the developing countries to consumption increased during the course of the Short-Term and the first year of the Long-Term Arrangements? Furthermore, we would be interested in hearing whether the controls on imports which still exist in these industrialized countries have been implemented in such a manner as to provide equal opportunities for all developing countries.

Conclusion

These are the facts - the record of the United States with respect to the first year of the Long-Term Arrangement. During the year we and you have had many problems which quite naturally were to be expected under a new programme such as the Long-Term Arrangement. This experience should be useful in the years ahead and we confidently look forward to a satisfactory second Long-Term Arrangement year.

The United States has made a meaningful contribution to the expansion of trade through the Long-Term Arrangement. Progress has been made in meeting our common goals and we expect that this will continue in the future.