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COTTON TEXTILES COMMITTEE

Statement by the Representative of the United States
1 December 1964

The past year has brought many new problems, challenges and opportunities for the twenty-eight participating governments in the Long-Term Cotton Textile Arrangement. We, from the United States, look forward to continuing with our colleagues from other countries the discussion begun last year concerning our respective experiences with this international co-operative venture.

We believe the record of the first two years of this agreement shows that the Long-Term Arrangement, despite difficulties from time to time, is of benefit to all countries concerned with international trade in cotton textiles. We believe that this record has confirmed the wisdom of a collective effort to establish an international arrangement that would permit the solution of problems of common concern to both importing and exporting countries in the field of cotton textiles. We believe that it has also confirmed the judgment that multilateral action in this field is to be preferred to unilateral action both from the standpoint of the importing and the exporting countries.

At this point, as the Long-Term Arrangement enters its third year, I should like to restate what we consider as the principal goals and objectives of the Long-Term Arrangement.

The Long-Term Arrangement means to the United States a practical way whereby developing countries have the opportunity to expand their exports, particularly to the industrialized countries.

The Long-Term Arrangement means to the United States an opportunity for industrialized countries to open their doors to trade from the developing countries with the assurance that such action will not result in economic and social dislocation in their domestic economies.

The Long-Term Arrangement means to the United States a unique multilateral venture capable of meeting a difficult problem without resort to national unilateral actions.

Despite occasional difficulties and setbacks, we believe this agreement has been successful in the achievement of these objectives.

The United States continues to be the world's largest market for cotton textiles. Over seventy countries export cotton textiles to the United States. The United States is a market open and free from unilateral import quotas. It is a market supplied by a domestic industry which is intensely competitive and widely diversified. It is a market also supplied by an extremely active and financially strong group of traders promoting imports from an ever-growing list of countries.

I should like to report on the record, the experiences, and the problems of the United States in implementing the goals of the Arrangement over the past year.

1. Implementation of last year's conclusions

At its meeting last year, this Committee adopted a series of conclusions in order to improve the implementation of the Long-Term Arrangement for both the exporting and the importing countries. The United States has been successful over the past year in following these suggestions. At this point I should like to summarize our record in this field:

First, we have added more information to our statements on our domestic market situation, including, whenever possible, production data and price statistics. Other members of this Committee undoubtedly are aware of the difficulties in this area. For example, comprehensive data on apparel production by fibre content have not heretofore been available in the United States. An entirely new statistical programme has been instituted to obtain more comprehensive and reliable data on cotton textile production. In time, we expect to have available production statistics exactly corresponding to the cotton textile categories now used in classifying cotton textile imports.

More comprehensive price data are also a particularly difficult area since importers are generally reluctant to provide such data. Additional data have been obtained, however, and the increased information continues to confirm the existence generally of substantial price differentials between domestically-produced and imported textiles. Work is continuing on the analysis of pricing techniques and pricing bases for imported and domestically produced cotton textiles.

Second, the United States, over the past year, reviewed all Article 3 restraints outstanding against participating and non-participating countries. Several restraints were dropped and others have been proposed to exporting countries for elimination. Thirteen other restraints were eliminated as a result of bilateral agreements. Others were liberalized.

Third, over the past year the United States has held bilateral consultations with five participating countries and three non-participating countries concerning prospective levels of trade. Consultations are planned with five exporting countries, including three participants. The United States also consulted with several countries concerning extensive revisions of existing arrangements.

Fourth, the United States co-operated with a number of suppliers on problems related to the classification of cotton textiles. Such co-operation took the form of exchanges on classification procedures. In certain cases, the United States, in an effort to limit its restraint requests, provided detailed technical specifications of the goods covered under the restraint. The United States has agreed in response to some requests to provide greater flexibility for related categories.

These are the main points of our efforts during the past year to implement last year's conclusions of this Committee. These efforts will be continued in the months and years ahead.

2. Record of implementation during second Long-Term Arrangement year

The United States initiated few new restraint actions during the past year. Existing Article 3 restraints were in many cases liberalized as part of Article 4 bilateral agreements. In several important cases, the United States discontinued Article 3 restraints.

At the present time, the United States maintains Article 3 restraints on exports from only three countries that were participants in the Long-Term Arrangement as of the end of the second Long-Term Arrangement year. A total of only ten separate restraints involving seven separate products are in effect. Three of these restraints were initiated during the second Long-Term Arrangement year, and the others were renewals from the first Long-Term Arrangement year.

Three restraint actions were also initiated, under the equity provisions of Article 6, with exporting countries that do not participate in the Arrangement. Several of the restraints are interim measures and consultations are continuing with a view to reaching a mutually acceptable solution.

These actions were not taken lightly. I will speak in a moment of the increasing concentration of United States imports in fewer products, and the substantial rise of United States imports in some twenty-five categories. As I have just indicated, the United States, over the past year, has made substantial efforts to make its market data more complete, including production and price statistics. A statement on the market situation was submitted to the Secretariat for each new restraint, and these statements were circulated to all countries participating in this Committee.

Over the past year, the United States has also endeavoured, in the case of many supplier countries, to negotiate bilateral arrangements under Article 4 in lieu of existing Article 3 restraints in order to liberalize such restraints. Ten major Article 4 arrangements are now in effect with participating countries, and three with countries that are not participants of the Long-Term Arrangement. Six of these agreements have been concluded since last year's meeting of this Committee, including agreements with Portugal, the Philippines, India, Greece, Turkey and Yugoslavia. Agreements are under discussion with several other important suppliers.

I may cite here a few figures from twelve bilateral arrangements now in effect, or agreed, with developing countries. (I do not include our arrangements with Japan or Hong Kong.)

At the time agreements with these twelve suppliers were negotiated, restraint actions in effect with these countries totalled 268 million square yards equivalent, covering many of the products in which these countries had experienced their most rapid growth. Under the bilateral agreements, these twelve suppliers are entitled to ship, during the third year of the Long-Term Arrangement, a total of 340 million square yards - an increase of over 25 per cent - in these same categories previously restrained. In addition, the United States agreed to eliminate thirteen specific ceilings.

With respect to overall levels of trade, it might be noted that for the agreement periods beginning during the third year of the Long-Term Arrangement, these twelve countries may ship a total of 400 million square yards in the categories covered by the agreements. This is almost twice the volume the United States imported from these countries, in the same categories, during United States fiscal year 1961, a total of only 220 million square yards.

As part of all these agreements, the United States has agreed to waive its rights to invoke Article 3. The agreements generally have a term of three or four years and provide annually for 5 per cent growth. All the agreements also provide for considerable flexibility of exports. The United States Government believes that through these agreements it has made a very substantial effort to provide expanded export opportunities for developing countries consistent with the objectives of the Long-Term Arrangement.

In addition to the negotiation of new arrangements under Article 4, the United States has always been prepared to consult with bilateral partners on adjustment of existing Article 4 arrangements. A series of such consultations were held in Washington and in other capitals over the past year. In the case of Spain, the United States this fall negotiated an entirely new agreement which involved the elimination of some twenty specific category ceilings and substantial increases in twenty others. In the case of India, the United States agreed to a change in marketing periods in order to forestall loss by India of part of the agreed export levels due to unusual circumstances. In the cases of the Republic of China and of Jamaica, the United States agreed to revisions in several export ceilings.

3. United States imports of cotton textiles

This faithful implementation of last year's conclusions and a sparing use of restraints during the second year of the Long-Term Arrangement would have permitted an increase in imports, and did, in fact, result in increases in a large number of categories. However, there was an important offsetting factor which substantially effected the volume of imports in some categories - to such an extent in fact that overall imports were slightly lower.

This new development was the enactment of one-price cotton legislation, which affected in a major way both the condition of United States cotton textile markets and the pattern of United States cotton textile imports during the greater part of the past year. One-price cotton was one of the objectives of President Kennedy's Seven-Point Program of assistance to the United States textile industry announced on 2 May 1961, and more recently reaffirmed by President Johnson. Legislation establishing one-price cotton became effective on 11 April 1964. As a result of the measure, domestic mills are no longer required to pay a higher price for raw cotton than foreign users of United States cotton. The measure, unless renewed, will expire in mid-1966. The Administration will seek legislation to continue one-price cotton and hopes to obtain early legislative action.

An important temporary effect of the new legislation, both before and after its passage by Congress, was the hesitation and uncertainty that it created in United States cotton textile markets. Domestic production and imports were both adversely affected. Manufacturers, wholesalers, and importers trimmed inventories in anticipation of price reductions reflecting the reduced cost of cotton. This reluctance to make forward commitments affected particularly many lower-value, coarser, and heavier cotton textile items, such as yarn and sheeting, for which cotton constitutes the major part of total cost.

The market uncertainties caused during the passage of legislation on one-price cotton affected the domestic market to such an extent during the early months of the second year of the Long-Term Arrangement that imports declined noticeably in the yarn and fabric groups. There were however continuing increases in the household and apparel groups and there are indications of a recovery in yarn and fabric imports.

Imports in the household and apparel groups during the second Long-Term Arrangement year increased to 456 million square yards equivalent compared to 436 million in the first Long-Term Arrangement year and 340 million in fiscal 1961. Imports in the yarn, fabric, and miscellaneous groups in the second Long-Term Arrangement year were 576 million square yards equivalent. This was less than the 687 million imported during the first Long-Term Arrangement year, but more than 100 million in excess of imports during fiscal 1961.

At last year's meeting, the United States noted the substantial rise in imports from developing countries that has accounted for most of the increase in total cotton textile imports into the United States over the last three and one-half years. During the past year these countries as a group maintained their high share of the United States import market. Developing countries continued to account for nearly two thirds of total United States imports as compared with 55 per cent three and one-half years ago. Developing countries also largely accounted for the substantial rise in imports in some twenty-five product categories.

Over the past year, the drive of supplying countries to diversify into products of a higher value gained new momentum. The unit value of all cotton textile imports reached a new high and was 7 per cent higher than a year earlier.

The aggregate level of United States imports during the second year of the Long-Term Arrangement reflects these varying influences. In quantitative terms, imports amounted to 1,031 million square yards, compared with 1,123 million square yards during the first year of the Long-Term Arrangement and 812 million square yards during fiscal year 1961. Imports totalled \$295 million during the second year of the Long-Term Arrangement within 2 per cent of the previous year but \$70 million more than in fiscal year 1961. This modest decline in imports, as measured in terms of quantity, is attributable in large degree to the uncertainty in segments of the United States cotton textile market, created by the introduction of one-price cotton. There is every reason to believe that it will be temporary. In fact, all the available data suggest that the decline has halted and the trend has already reversed.

To illustrate this point, imports in three lower value products, which traditionally account for roughly one third of total United States imports - yarns, sheeting, and miscellaneous fabrics other than duck - fell by 65 million square yards. It was in these products that market uncertainty was most severe during the first nine months of the second year of the Long-Term Arrangement. In passing it should be noted that, it was in these products in the yarn and fabric groups that disruption had been most severe previously. Conversely, imports rose in twenty-five other product categories by an aggregate of 58 million square yards or an average of 22 per cent. Half of these categories had increases in excess of 20 per cent, and some of these were in excess of 100 per cent. Most of these were products relatively advanced in manufacture for which reductions in raw material costs resulting from one-price cotton were insignificant compared to the wide differences between domestic and import prices of these products. Market uncertainty in these products, therefore was negligible.

We expect excellent markets in the United States this year for imported cotton textiles in all groups. Even imported yarn, which we anticipated would be seriously challenged by domestic spinners when one-price cotton became available to them, should enjoy a good market in the United States. The domestic producers of sales yarn have lowered their prices to reflect savings in cotton costs even though labour and other production costs have increased since enactment of this legislation. The temporary fall off in yarn imports clearly seems to be primarily the result of earlier uncertainty in the United States yarn markets when the legislation was pending and the result of the short-term requirement of yarn users for near deliveries in order to meet their own delivery demand and replenish inventories. Imported yarn, as recently as the past two weeks, is still being offered at 4 to 5 cents (and in at least one case, as much as 7 cents) under domestic prices in yarn constructions which sell in the 40 to 60 cent price range. These differentials are in a market where 1 or 2 cents is more than sufficient to determine the supplier.

The continuing rise and increasing concentration of imports in the more advanced stages of manufacture has created a serious problem for the United States with regard to the implementation of the Long-Term Arrangement. Already in 1962, imports amounted to more than 25 per cent of total United States production in eight categories. In 1963 these import ratios further increased. Most of the categories involved represent advanced stages of manufacture, particularly in the apparel field. While it is an objective of United States policy to provide opportunities for the orderly growth of trade, the United States cannot afford to ignore the problems faced by domestic producers in many of these segments of the United States cotton textile market when there is already a heavy concentration of imports.

4. Condition of the United States cotton textile market

An upswing is now under way in the United States cotton textile industry, as price adjustments and rising consumer spending have erased the uncertainties prevailing earlier this year. However, compared to most other manufacturing industries in the United States, the recovery in the United States cotton textile industry remains modest. Sales of cotton textiles, starting from fairly low levels, have only recently regained the operating levels of 1962. Let me summarize the highlights of these recent developments.

First, mill employment has continued its long-term decline and in the first half of 1964 was 12 per cent below the levels of the late 1950's. Unemployment in the industry has remained substantially above the national level. Wages in the industry, which were increased twice during the past year and five times since 1959, remain substantially below the average for all manufacturing industries.

Second, profits remain low and business failures high as compared to other United States manufacturing industries. For the first half of 1964 net profits were $2\frac{1}{2}$ per cent of sales, unchanged from 1962 and down from the 3 per cent rate attained in 1959. There were twenty-one business failures involving firms with current liabilities of \$5.5 million, as compared with failures involving liabilities of \$4.2 million in all of 1962.

Third, the current upswing is partly fed by temporary factors, such as the rebuilding of inventories depleted earlier this year.

Nevertheless, the current upswing does contain many hopeful signs pointing to a brighter future for both domestically-produced and imported cotton textiles in the United States.

First, there have been adjustments in prices, particularly in yarns, which will strengthen the competitive position of cotton relative to other fibres. Although one-price cotton is only recent, its effects have been felt throughout the industry. By September, mill consumption of cotton had increased by 6 per cent over the level of a year ago.

Second, the domestic textile industry has continued to step up its rate of spending on research, product development, and new equipment. For 1964, total investment spending of the textile sector is expected to reach approximately \$800 million, as compared with \$500 million only four years ago. This year's investment will represent the largest percentage increase of any manufacturing industry.

Third, active spindleage in the United States has been declining for many years and is now some 4 million units less than in 1956. As a result of these scrapping and modernization programmes a better balance exists today between plant capacity and market demand in the United States, permitting better and more economic utilization of existing equipment.

Fourth, consumer demand for textiles in the United States is strong. Per capita consumption of fibre is expected to advance markedly this year and cotton will be a major beneficiary. Present projections of market trends indicate that this expansion will continue into 1965.

One effect of the present strength of consumer demand has been a new surge of orders to overseas suppliers. This rise in orders will undoubtedly continue. Imports are expected to rise in the months ahead.

Thus, a strong and healthy cotton textile industry in the United States is not only important for the industry itself, its employees, and the United States economy, but also in the long run it is the best guarantee of expanding export markets for cotton textile producers abroad. Through a vigorous programme of market research, product development, advertising, and sales promotion United States manufacturers have pioneered many of the products, markets and uses in which overseas suppliers now do profitable business in the United States. If United States cotton textile producers are unable to share in the growing United States market and lose the contest of inter-fibre competition, overseas suppliers of cotton textiles will unlikely be able to maintain their share of United States textile markets. For all these reasons, we are greatly encouraged by the recent evidence that the United States cotton textile industry has begun to share in the general expansion of business which has been under way in the United States for almost four years.

5. Problems in the implementation of the Long-Term Arrangement

At this point, while I am speaking of United States policy during the second year of the Long-Term Arrangement, it may be useful to comment briefly on the position of exporting countries in their relations with the United States. As the United States noted at last year's meeting, the Long-Term Arrangement is not a one-way street. The Arrangement imposes reciprocal obligations on both the importing and the exporting countries to co-operate in maintaining orderly markets.

In this connexion, I regret to say that my Government has not always had the full co-operation of exporting countries. The United States tried to avoid formal restraint action by consulting with exporting countries about our concern over rising imports in particular categories. In only three cases did the country concerned take steps to ensure an orderly development of trade in the product by limiting the rate of exports.

Overshipments of restraint levels continued to be a serious problem for certain products although co-operation of exporting countries generally was much improved during the second year of the Long-Term Arrangement. In some cases, these overshipments resulted from misunderstandings of the products covered by the restraint requests under United States classification procedures. Also, conflicting demands have been made on the United States with regard to this point by exporting countries. On the one hand, exporting countries wish to see a restraint action as narrowly circumscribed as possible; on the other, they quite properly point to the need for simple definition of the products to be covered so that the restraint can be easily administered by their export control authorities.

A growing problem over the past year has been the circumvention and negation of export restraints by trans-shipments and third-country transactions. The United States has agreed in principle to the institution of a comprehensive certification system with two suppliers who proposed such systems in order to prevent further circumvention of their export arrangement through third-country transactions. A certification procedure has also been instituted with two other suppliers to prevent large-scale trans-shipments of velveteen.

The United States has also found that some exporting countries have been reluctant to agree to the elimination of export restraints no longer needed. Under the flexibility provisions of paragraph 4 of Article 3, shortfalls in exports of products subject to restraint can be transferred to other restraints, effectively increasing permissible levels of trade in each of these other products by 5 per cent. In certain cases, this provision has acted as an incentive to exporters to resist elimination of restraints.

The United States has also encountered a problem with regard to the implementation of the equity provisions of the Long-Term Arrangement relating to non-participants. Since the inception of the Long-Term Arrangement, the United States has consistently followed a policy of implementing the Long-Term Arrangement impartially between countries participating and those not participating in the Arrangement. Since restrained trade is frequently diverted to new suppliers, no other policy is equitable. Certain non-participating exporting countries, on the other hand, have refused to accept requests for restraint on the grounds that they should not be subjected to the provisions of the Long-Term Arrangement. Some exporting countries have been reluctant to recognize that disruption in the markets of the importing country is often created by the cumulative effects of imports from all sources of supply. The United States, for its part, has taken the position that it cannot permit non-participants to benefit from the restraints imposed on participating countries. We have found that restrained participating countries share this view with us.

Finally, I would like to mention here a problem which, while not directly related to the United States, is of considerable concern to this Committee. In preparing for this meeting, we have once again been struck by the fact that certain countries continue to control imports of cotton textiles by licensing systems and other means outside the Arrangement; furthermore, in certain cases formal and informal restrictions by private interests on the marketing of imported goods may be important and effective impediments to international trade in cotton textiles.

I feel it is particularly important this year that the Committee examine all facts, not only about the way in which all importing countries have implemented the provisions of the Long-Term Arrangement since last year's meeting, but also the ways in which cotton textile trade may be restricted outside the provisions of the Arrangement.

6. A look toward the future

This is the record of the United States with regard to the implementation of the Long-Term Arrangement during its second year. We will be interested to hear the reports of our colleagues from other countries with regard to their experiences and the opportunities, problems, and challenges which they faced in implementing the Arrangement.

As the Long-Term Arrangement enters its third year, it also may be appropriate for the Committee to give increased attention to the broad trends in world production and trade in cotton textiles as they have been developing since the inception of the Short-Term Arrangement in 1961. The secretariat has been circulating considerable statistical information since last year's meeting which would be useful in the Committee's deliberations on this matter. We believe that the general trends, indicated by these and other statistics, are encouraging. Many new countries have joined the ranks of exporting nations during the last three years and now contribute a significant share of total world trade in cotton textiles. New and established supplier nations have done well and exports from developing countries have reached new heights. The centre of gravity of export trade in cotton textiles has shifted increasingly, during these years from the industrialized to the developing parts of the world. At the same time, while this has been happening, the productive capacity and the levels of operation of cotton textile industries in the developing countries have continued to expand.

I believe all of us will be very much interested to hear from our colleagues in developing countries about the performance of the cotton textile industries in their respective countries, particularly overall rates of growth in exports and production.

We also hope that this discussion could lead this Committee to take a forward look at prospective developments in world trade in the years ahead. Considerable work is also being done in this area by other international bodies, such as the OECD Textiles Committee and the International Federation of Cotton and Allied Textile Industries. Furthermore, the resources of the International Cotton Advisory Committee, which is concerned with trade in cotton and collects data related to cotton consumption, could be tapped for this purpose. The secretariat has already been keeping in close touch with the work of these bodies. I believe my colleagues will agree that this co-operation should be continued.

Likewise, the statistics collected by the secretariat on imports and production are vital to an understanding by each of our countries of developments in the field of cotton textiles. We need to continue our co-operative efforts in this area and to correct deficiencies in our statistical reports.

We all recognize that the Long-Term Arrangement is subject to the imperfections inherent in an arrangement of this sort. However, seen in a broader perspective the Arrangement has been highly successful in harmonizing the interests of exporting and importing countries. The Long-Term Arrangement has proven itself a good instrument to resolve difficulties of developing and developed countries alike in a rapidly changing situation. It provides a framework within which developing countries have been able to increase their exports considerably without running the risk of unilateral quota restriction. It is also an instrument which enables the industries of the developed countries to make necessary adjustments in the face of rising competition from imports. The record of the United States cotton textile industry in this regard is highly encouraging and I hope that other importing countries will be able to report this ~~work~~ similar progress in their own countries.

Once again, the United States believes that it can point to its contribution to the expansion of trade in cotton textiles from developing countries. We believe the record of the last two years shows that problems between developing and developed countries in this area of trade can always be resolved when there is a mutual desire of accommodation within the framework of the Long-Term Arrangement. United States policy will continue to provide trade opportunities for developing countries in the United States market.

As the Long-Term Arrangement enters its third year, it looks better and better as a living instrument for resolving in a spirit of mutual accommodation important problems in one of the major commodities in world trade.