

20 January 1965

MEMORANDUM

TO: Heads of delegations participating in the meeting of the Cotton Textiles Committee - 30 November to 4 December 1964

FROM: Executive Secretary

SUBJECT: Draft Report of the Meeting of the Committee held at the Palais des Nations from 30 November to 4 December 1964

..... Attached is the draft report on the meeting of the Cotton Textiles Committee from 30 November to 4 December 1964. Delegations are invited to submit any comments they might have as soon as possible and in any case not later than 10 February 1965.

The record of specific points raised and discussed during the meeting, already circulated to the members of the Committee in document COT/W/43 dated 9 December 1964, will be incorporated in the final version of the report as part 2 of the second annual review of the operation of the Long-Term Arrangement (Item III).

Six copies of this draft are being sent to the leader of each delegation and two copies, for information, to the permanent representatives of the participating countries in Geneva.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COT/W/45

20 January 1965

Special Distribution

COTTON TEXTILES COMMITTEE

Draft Report of the Meeting of the Committee Held at the Palais des Nations from 30 November to 4 December 1964

Chairman: Mr. E. WYNDHAM WHITE

	<u>Page</u>
<u>Subjects discussed:</u>	
I. New participants in the Long-Term Arrangement	2
II. Request for accession to the Arrangement by the Republic of Korea	2
III. The second annual review of the operation of the Long-Term Arrangement Part 1 - summary of the discussions which took place in the Committee Part 2 - record of specific points raised and discussed	2
IV. Problems concerning the structure and future development of trade in cotton textiles	15
V. Reviewing the technical aspects of the material on trends in capacity and production and suggestions for further studies	20
VI. Reporting and notification procedures under Articles 2, 3 and 4 of the Arrangement	21
VII. Collection and circulation of statistics	22

I. NEW PARTICIPANTS IN THE LONG-TERM ARRANGEMENT

1. The Chairman welcomed the representatives of the Republic of China, Finland and Turkey which had become members of the Cotton Textiles Committee since its meeting in 1963.

II. REQUEST FOR ACCESSION TO THE LONG-TERM ARRANGEMENT BY THE REPUBLIC OF KOREA

2. The Chairman recalled that the communication which had been received from the representative of the Republic of Korea, expressing the desire of his Government to accede to the Long-Term Arrangement, had been circulated to the members of the Committee in document COT/41. Referring the Committee also to COT/W/30, which set out comprehensive data on the cotton textile industry in Korea and information on quantitative restrictions maintained by that country, he said that the relevant provision under which the Committee should consider this application was Article 11. Paragraph 2 of this Article provided for the accession of a government, not party to the General Agreement, on terms to be agreed between that government and the participating countries. It was further provided that such terms would include an undertaking by any government acceding to the Arrangement under this provision not to introduce new import restrictions or intensify existing restrictions on cotton textiles.

3. The representative of Korea, who was present at this meeting, assured the Committee that the Korean Government accepted the obligations under the Arrangement.

4. The application for accession by Korea was warmly welcomed by the Committee. The Chairman said that, in accordance with the accepted procedure, the next step would be for the Republic of Korea to submit a letter accepting the obligations of the Long-Term Arrangement, including those stipulated in Article 11, paragraph 2. The effective date of Korea's accession to the Arrangement would be the date on which this letter was received by the Executive Secretary¹.

III. THE SECOND ANNUAL REVIEW OF THE OPERATION OF THE LONG-TERM ARRANGEMENT

5. The Committee had before it notifications of actions taken or contemplated under Articles 2, 3 and 4 by parties to the Arrangement during the second year of its operation. These are contained in documents COT/3/Add.1, COT/5/Add.1, COT/7/Add.1-6, COT/8/Add.1 and COT/19 to COT/40. The Committee had also before it document COT/W/27 which summarized these notifications. Also before the Committee was document COT/43 containing arrangements relating to exports of cotton textiles to the United Kingdom. A summary of the discussions which took place in the Committee under this item is given as Part 1, in paragraphs 6 to 60 below. ¹The record of specific points raised and discussed, which was circulated in document COT/W/43, as Part 2, will be reproduced after paragraph 60 in the final report.⁷

¹This was received on 10 December 1964; consequently, the accession of the Republic of Korea became effective as of that date (see document COT/42/Add.1).

Part 1

Summary of the Discussions which took place in the Committee

6. The Chairman drew the attention of the Committee to the fact that it was not just engaged in a factual review but an assessment of what was taking place in the light of the objectives which are set out in the preamble to the Arrangement. He expressed the hope that in their statements delegates would take into consideration the conclusions which were reached at the end of the first review and the actions taken in pursuance of those conclusions.
7. The representative of the United States in his statement, which is reproduced in full in document COT/W/35, said that, in his view, the Long-Term Arrangement had been successful in the achievement of its objectives and had confirmed the judgement that multilateral action in this field was to be preferred to unilateral action both from the standpoint of the importing and the exporting countries.
8. With respect to the implementation of the conclusions adopted at the first year's meeting of the Committee he stated that the United States had been successful in applying these over the past year, and pointed out several specific measures which had been taken, or were contemplated, in this connexion.
9. During the second year of the Arrangement the United States had endeavoured, in the case of main suppliers, to encourage bilateral arrangements under Article 4 in lieu of existing Article 3 restraints in order to liberalize such restraints. A few new restraint actions had also been initiated. Only three participating countries were, at the end of the second year, restraining exports to the United States under Article 3. Under the equity provisions of Article 6 three restraint actions were also initiated with non-participants. Several of the restraints were interim measures and consultations were continuing with a view to reaching a mutually acceptable solution.
10. Ten major Article 4 arrangements had been effected with participating countries and three with non-participants; six of these had been concluded over the past year. Under these bilateral agreements twelve suppliers were entitled to ship, during the third year of the Long-Term Arrangement, a total of 340 million sq. yds. which implied an increase of over 25 per cent in the categories previously restrained. The United States Government believed that through these agreements it had made a very substantial effort to provide extended export opportunities for developing countries consistent with the objective of the Long-Term Arrangement. In addition, consultations with bilateral partners were held on adjustment of existing Article 4 arrangements.

11. The representative of the United States further pointed out that over-shipment of restraint levels as well as the circumvention and negation of existing restraints by trans-shipments and third-country transactions continued to be a serious problem. Some exporting countries had also been reluctant to agree to the elimination of existing restrictions no longer needed with the objective of taking advantage of the flexibility provisions of paragraph 4 of Article 3. The United States had also encountered a problem with regard to the implementation of the equity provisions of the Long-Term Arrangement relating to non-participants. Certain non-participating countries refused to accept requests for restraint on the grounds that they should not be subjected to the provisions of the Long-Term Arrangement. The United States for its part had taken the position that it could not permit non-participants to benefit from the restraints imposed on participating countries. He emphasized it was important for the Committee to examine all ways in which cotton textile trade might be restrained outside the Arrangement.

12. Although imports into the United States increased in a large number of categories the enactment of one-price cotton legislation was an important factor which substantially affected both the conditions of the United States cotton textile market and the pattern of imports in some categories thus resulting in a slight fall in overall imports. However, the unit value of all cotton textile imports was 7 per cent higher than a year earlier. The increase occurred in some twenty-five categories for which reductions in raw material, resulting from one-price cotton, were insignificant compared with the wide differences between domestic and import prices of these products. Developing countries largely contributed to this increase and continued to account for nearly two thirds of total imports into the United States as compared with 55 per cent three and a half years ago. The recovery in the United States cotton textile industry remained modest; unemployment remained substantially above the national level and wages substantially below the average for all manufacturing industries. He emphasized the contribution made by the United States to the expansion of trade in cotton textiles from developing countries, and stated that the policy of providing trade opportunities in the United States market for developing countries would be continued.

13. Later in the discussion, the representative of the United States referring to the problem raised by some of the exporting countries regarding the division of restraint levels into a large number of categories, pointed out that this was consistent with the objective of the Long-Term Arrangement to avoid concentration on particular items and said that such problems could be solved in the context of bilateral consultations with the partners concerned.¹

¹Other comments on specific points raised by some of the exporting countries have been incorporated in the relevant portions of this record.

14. The Chairman referring to the point raised with regard to the implementation of the equity provision relating to non-participants said that it was obviously one of the most important and delicate points that had been raised in the general discussion. A dilemma arose out of the possible conflict between the commitments of the parties to the Long-Term Arrangement to each other and their commitments under the General Agreement. It was evident that the Long-Term Arrangement could not as such override these commitments, particularly as regards countries which were not party to the Long-Term Arrangement. If this matter was to be raised in the CONTRACTING PARTIES very careful consideration would have to be given to the whole of the circumstances surrounding the problem. It had been seen in the past that members of the Committee had attached great importance to this matter and it continued to be their view that the equity provision was a very vital element in the whole Arrangement.

15. The representative of Japan in his statement, which is reproduced in full in document COT/W/34, stated that the Long-Term Arrangement had provided a practical solution of a transitional character. However, his Government still found that the Arrangement had not been implemented in a fully satisfactory manner. He drew the attention of the Committee to the fact that in accepting the Arrangement the spokesman for the European Economic Community had announced that the commitments of 12,000 tons was likely to be exceeded in the course of bilateral negotiations. To his knowledge, he said, no such excess over the figure of 12,000 tons had occurred. After referring to other difficulties encountered in the operation of import quotas established by the EEC, in particular to the problem of how to separate quotas for cotton textiles from other textiles, he pointed out that ambiguity still existed as to how the aggregate imports of 12,000 tons in 1967 undertaken by the Community would be shared among the member States. He also referred to several specific difficulties which Japan had experienced with respect to the bilateral agreement concluded with the United States and pointed out that the aggregate level of restraint had been divided into such a large number of categories that the exporters were left with little room for diversifying their exports. He stated that his country attached great importance to the question of the detailed division into categories and requested that this be taken up by a technical group at the major review in 1965.

16. The representative of Japan referred to the import surcharges recently imposed by the United Kingdom and also drew the attention of the Committee to the fact that an important importing country had taken action to raise the customs duty on a certain item of cotton textiles and mentioned that his Government believed that the increase in customs duty on a wide range of cotton textile products already carried out, or now under consideration, by some participants was clearly a breach of Article 7 of the Arrangement. However, his Government would continue its efforts to secure redress, for any nullifications caused by such measures, through bilateral discussions with the parties concerned. In conclusion he pointed out that some important countries were reported to have made the exclusion of cotton textile products from their exceptions list in the Kennedy Round conditional on the extension or renewal of the Long-Term Arrangement. He emphasized that it would not be appropriate for any country to assume at the present time that the Arrangement would in fact be extended or renewed and his Government took the position that it would be futile even to discuss this question if it were not preceded by discussion on structural adjustments.

17. At a later stage the representative of Japan expressed the hope that the problems he had raised would be reflected in concrete actions on the part of the Community and the United States. Referring to the suggestions which had been made that special treatment should be given to the less-developed exporting countries he emphasized the responsibility of all importing countries in relaxing and finally eliminating the existing import restrictions through accelerated efforts to reorganize their domestic cotton textile industries.

18. The Committee noted the intention of Japan to raise the question, at the technical level, of the detailed division into categories, during the major review in 1965.

19. The representative of Canada informed the Committee that his country maintained no restraints under Article 2 on imports of cotton textiles and, despite the continued threat of market disruption, a very sparing use was made of Articles 3 and 4. It was agreed with the exporting countries concerned to renew restraint agreements concluded during the first year of the Arrangement. Increases in restraint levels were made in all cases despite Canada's exemption from the growth provisions of Annex B. New restraints on a few additional items were also requested during the second year. With the exception of one non-participating country, in all cases agreements were satisfactorily reached. He drew the attention of the Committee to the fact that undue delay in responding to requests for restraints was detrimental to both the importing country and other exporters which had agreed to exercise restraint.

20. At one stage during the discussion the representative of Canada said that his country continued to encounter problems arising from shipments in excess of restraint levels and those connected with trans-shipments and expressed the hope that the exporting countries concerned would co-operate in minimizing such problems for Canada.

21. The representative of the United Arab Republic drew the attention of the Committee to the continuing deterioration in terms of trade of the less-developed countries and the consequent adverse effects on their economic development. To meet the threat posed by this, his country had embarked on a programme of industrialization while at the same time expanding agricultural production. He stated that cotton products were considered to be one of the most important export commodities of his country, accounting for nearly 17 per cent of total exports. In view of the fact that the rate of population growth was rather high, there had been no alternative but to adopt labour-intensive methods of production of cotton textiles resulting in some cases in higher costs.

22. Referring to the limited scope of the domestic market he said that it was imperative for the United Arab Republic to increase its exports of cotton textiles and expressed the hope that increased access would be available to the importing markets.

23. The representative of the United Arab Republic further pointed out that the basic objective of the Long-Term Arrangement was to facilitate economic expansion and promote trade in cotton textiles of the less-developed countries. Both the Long-Term Arrangement and the General Agreement stood for the liberalization of trade and it was unfortunate that developed importing countries were, under the protection of the Arrangement, limiting such imports by quotas on the grounds of market disruption. He said that bilateral agreements had reduced the export opportunities of the less-developed countries. These agreements could be accepted temporarily when imposing overall limits, but if they entailed additional restrictive measures they would certainly lead to adverse results on exports; this was particularly so in the case of countries with a short history of international trade in textiles as they were not able to plan their exports of every item several years ahead. He, therefore, suggested that, as an element of flexibility, the exporting country should be permitted to exceed, by a minimum of 30 per cent, the agreed level for any product provided that the restraint level for all products was not exceeded. In conclusion, he said that several countries, in connexion with the Kennedy Round negotiations, had submitted their exceptions lists and it would be unfortunate for the less-developed countries if cotton textiles were included.

24. The representative of Pakistan, referring to the experience of his country during the second year of the Long-Term Arrangement, said that exports of cotton textiles from Pakistan were subject to quantitative restrictions in several countries. While some improvement had been recorded in bilateral negotiations with the Federal Republic of Germany, the policy of the United Kingdom which, in his opinion, was inconsistent with the General Agreement, continued to be a source of considerable anxiety to his Government. The supplementary quota granted to three Commonwealth countries, namely, India, Hong Kong and Pakistan, was not enough and the share of Pakistan, at 3.31 million sq. yds. or one tenth of the total quota, in particular, was in complete disregard of its productive capacity.

25. The representative of Pakistan pointed out that the effects of the United Kingdom's protective measures were further accentuated by the introduction of the import surcharge which was likely to influence imports of cotton textiles. He expressed the hope that the United Kingdom would reconsider her policy in this respect.

26. Regarding the restraints imposed by the United States, he said that these restraints were accepted as a measure of compromise rather than being a satisfactory arrangement.

27. He further reiterated that the success of the Long-Term Arrangement was conditioned by an adherence to its main objective, which was an expansion of trade of the less-developed countries. Misuse of the concept of market disruption under this Arrangement was running counter to this objective. He therefore emphasized that in order to bring the operation of the Arrangement more in line with its spirit and objectives the definition of market disruption set out in Annex C should be examined so as to reach an informal agreement on broad guidelines which would enable the participating countries to conduct their negotiations in the light of some objective criteria.

28. Commenting on the reference to the restraints imposed by the United States as being a compromise rather than a satisfactory arrangement, the representative of the United States said that it was interesting to note that the compromise represented an increase of 25 per cent in the level of Pakistani exports to the United States.

29. The representative of the United Kingdom, in his statement which is reproduced in full in document COT/W/38, pointed out that imports of cotton cloth from low-cost producing countries into the United Kingdom in the first half of 1964 were 25 per cent higher than in the corresponding period of 1963 due mainly to a cyclical recovery of the British cotton textiles market and the increasing number of new suppliers.

30. At the beginning of 1964 purchases of cotton textiles from traditional suppliers were subject to restraint arrangements. However, large forward contractual commitments were found to exist with respect to some of the low-cost suppliers not subject to any restraint arrangements at that time. Accordingly, from 1 May 1964 specific licences were required for imports from many low-cost suppliers.

31. Imports of cloth from nine countries increased from 18 million sq. yds. in 1963 to an annual rate of over 40 million sq. yds. in 1964 and made-up goods from £200,000 to £2 million. The picture thus revealed was disturbing when considered with the volume of imports which the United Kingdom was already accepting from traditional suppliers. Thus, there had been no alternative but to approach these nine countries and seek mutually acceptable arrangements with them. In addition, equity considerations led the United Kingdom to accord supplementary quotas to the three large Commonwealth suppliers - India, Hong Kong and Pakistan - to the amount of 33 million sq.yds. between the middle of 1964 and the end of 1965.

32. After pointing out that roughly 30 per cent of the consumption of cotton textiles into the United Kingdom was met by imports from low-cost participating countries and that the figure was over 40 per cent if total imports were considered, he expressed the hope that other developed countries would bring their performance closer to that of the United Kingdom.

33. Commenting on the reference made by the representatives of Japan and Pakistan to import surcharges recently imposed by the United Kingdom he stated that this was a temporary measure and not meant as a protective device. The British Government continued to attach great importance to increasing the opportunities of the developing countries for expanding their trade. He believed that the import surcharges when viewed in their historical context would be seen not to have seriously disrupted the smooth working of the Arrangement.

34. The representative of Jamaica stated that instead of a multilateral regulation of trade in cotton textiles, a series of bilateral agreements had been negotiated on grounds of market disruption. In Jamaica's case, all the sixty-four categories had been restricted. Referring to the bilateral agreement concluded with the United States on 1 October 1963, he pointed out that the complexity of the imposition of ceilings accentuated the difficulty encountered in its operation. He further stated that during the first year of the agreement Jamaica's quotas were substantially under-shipped due to two main reasons. First, the initial uncertainty resulting from the sudden imposition of restrictions and the negotiations leading up to the signing of the bilateral agreement which prevented manufacturers from making advance commitments. Second, the shortfall of the quota by some 2.2 million yards during the first twelve-month period due to prolonged negotiations with the United States regarding the ceilings for some five specified categories. The same uncertainty resulting from restrictions by the main importing countries prevented Jamaica from seeking alternative markets.

35. Regarding the administration of the operation of this agreement the representative of Jamaica stated that the very existence of restrictions limited the freedom of manufacturers in conducting their business. There was also the difficulty of making adjustments in the allocation of quotas between individual manufacturers. Owing to the fact that the market for most of these products was seasonal and that the manufacturers in some cases had forward commitments for raw materials, the ability of the Government to make timely adjustments in quota allocations was severely limited. Also the specialization of different manufacturers in different items made the shift in production difficult.

36. In conclusion he appealed to the United States to avail itself of the opportunity afforded by the Kennedy Round to provide for a "new deal" for the export of cotton textiles from developing countries.

37. Commenting on some of the points raised, the representative of the United States said that his Government endeavoured to make adjustments in the bilateral arrangement concluded with Jamaica on major points brought to its attention by the Jamaican Government. He pointed out that Jamaica had

a rather unique situation regarding cotton textiles as all of the producers for export to the United States were American companies. However, this did not mean Jamaica would get any more favourable treatment nor, conversely, did it mean that the United States Government had insisted on more rigorous terms. The United States seemed to be the only real market for Jamaican apparel export industries. It would be quite consistent with the objectives of the Long-Term Arrangement if other markets could be found for Jamaican products with a view to spreading the impact of trade among the industrialized countries. Besides, Jamaica had two separate and distinct textile industries; the domestic market being served by one industry and the export market by another. By Government regulations neither could supply the other's market. The export industry experienced difficulties but the Government of Jamaica had not decided to permit its goods to enter the domestic market even though the Jamaican customer could certainly benefit by lower-price goods produced for the exporting industry.

38. In response the representative of Jamaica recalled that the American investors in his country were reluctant to seek other markets in view of the fact that it would cost them quite a lot of money to find markets elsewhere and also because of the uncertainty in all the major importing markets. He further stated that the impact of restrictions was a severe setback to employment and some of the rural areas were very hard hit. With respect to the situation of the textile industry in Jamaica, he further pointed out that the domestic market was very small and local industry, which consisted usually of a small number of workers, was uneconomical. It was therefore imperative for the export industry, employing more workers, to seek bigger markets elsewhere.

39. The spokesman for the European Economic Community, in a statement which is reproduced in full in document COT/W/36, reviewed trends in the Community's trade, consumption and measures taken by the Community for the implementation of the various provisions of the Long-Term Arrangement.

40. Imports of cotton textiles and garments of all fibres, except wool, into the Community from third countries increased by more than 60 per cent, raising the share of imports in relation to total consumption from 5.2 per cent to 8.2 per cent. The share of developing exporting countries in the total Community imports rose from 63 per cent to 67 per cent for yarn, from 20 per cent to 26 per cent for grey fabrics and from 32 per cent to 46 per cent for garments. Shipments from Japan rose by 46 per cent for finished fabrics and 34 per cent for garments; the United States almost doubled the volume of its exports of finished fabrics to the Community. On the other hand, the Community's exports showed a substantial drop with an overall decline of 10 per cent.

41. Available statistical data for 1964 showed that expansion of exports to the Community in 1963 had continued in 1964. Despite an increase in apparent consumption of about 3 per cent the output of yarn and fabrics continued to decline in 1963 as compared with the preceding year.

42. Although there had been a substantial increase in imports during the second year of the Arrangement, only the Federal Republic of Germany entered into an agreement under Article 3; this was with Hong Kong to restrain exports of cotton nightwear. The Belgium Government held consultations with the Government of the United Arab Republic with a view to reaching an agreement on cotton yarn in accordance with Article 4.

43. The Member States of the Community had observed the obligations deriving from the provisions of Article 2. The quota increases granted in 1963 and 1964 were still larger in relation to the rate which the Community undertook to observe than the figures indicated, if account was taken of liberalization measures applied since the coming into force of the Arrangement. In addition, quotas would be opened for all new participating countries which so requested.

44. The spokesman for the Community concluded by emphasizing that the implementation of the Long-Term Arrangement by the EEC had resulted in a very substantial increase for the exporting countries, not only of their export possibilities, but also of their actual shipments to the Community market.

45. The representative of Austria stated that the obligation which had been accepted by his Government under Article 2 of the Arrangement had been met regardless of the unfavourable development in Austria's domestic cotton industry and foreign trade in cotton textiles which continued during the second year of the Arrangement. During that year imports of cotton yarn increased by 30 per cent whereas domestic consumption dropped by 11 per cent. The ratio of imports of cotton yarn to domestic consumption rose by 19 per cent, whereas imports of cotton fabrics represented 32 per cent of consumption. The domestic market, therefore, was being saturated, and the selling of cotton textiles both of domestic and foreign production was becoming increasingly difficult. However, access to the Austrian market for cotton textiles from developing countries and Japan would continue to be expanded in accordance with the considerable growth factor provided for Austria in Annex A.

46. The representative of India said in a statement, which is reproduced in full in COT/W/33, that agreed conclusions should be reached to ensure a more meaningful operation of the Long-Term Arrangement in the next three years. While conceding that the importing country applying Article 3 to India's exports had not ignored the conclusions reached last year, he stated that the preambular provisions of the Arrangement had not received adequate recognition and emphasized that the developing countries should be accorded special treatment. Countries imposing quota restrictions had a specific obligation to provide enlarged market opportunities for the less-developed countries.

47. He suggested, therefore, that as a measure of assistance to the export promotion efforts in respect of categories not so far restrained under Article 3 an understanding should be reached whereby exporting countries would be guaranteed a large measure of immunity from the application of Article 3 during the remainder of the operation of the Long-Term Arrangement. Such an understanding could be conditioned by an undertaking on the part of the exporting countries to keep a close watch on the trend of exports of these categories with a view to avoiding sudden and sharp increases. Exports from India were concentrated in a few categories and flexibility by acceptance of the principle of an overall quota would be of mutual interest. If this was not possible restraint levels should be on the basis of groups of categories.

48. As regards quotas he said that an important cause of the difficulties experienced by his country in utilizing the quota fixed by the European Economic Community was the procedure followed for the issuing of import licences in the Community and emphasized that, following the procedure accepted by the United States and the United Kingdom, the EEC countries should agree to the quota system being operated by India; this would facilitate the utilization of allocated quantities. A measure of tariff relief in the Community would also be of valuable assistance to India. Referring to textile products manufactured out of handloom fabrics in the cotton industry, he underlined the importance of treating these on a par with handloom fabrics.

49. The representative of Norway stated that his Government had liberalized practically all imports of cotton textiles. However, under Article 2 of the Arrangement there were restrictions on certain items of cotton textiles from Japan and in accordance with Article 4 an agreement with Hong Kong had been reached. During the second year of the Arrangement the restraint on imports from Japan had been relaxed and the restraint level on exports from Hong Kong had been increased. Imports of cotton textiles from the developing countries represented at present about 20 per cent of the total consumption in Norway.

50. He emphasized the responsibility of all importing countries to expand access for cotton textile products to their markets and pointed out that if no such growing opportunities were provided, it might lead to the rapid increase in imports to a small country such as Norway and thus threaten it with market disruption in some sectors of the cotton textiles industry. He also stressed the need for co-operation from exporting countries with a view to achieving a balanced development of world trade in cotton textiles.

51. The representative of Sweden said that his country had continued its liberal import policies; imports of cotton textiles, with the exception of some imports from one country, were wholly liberalized. The volume of imports from 1962 to 1963 increased by 13 per cent and the corresponding increase

from developing countries was 19 per cent. The trend towards increased imports had continued through 1964. Production in Sweden of cotton yarn and fabrics in 1964 had continued its downward trend. For several years modernizations had taken place in the Swedish cotton textiles industry resulting in a substantial reduction of machinery and the industry had gradually adjusted its production to the market situation.

52. The representative of Australia informed the Committee that his country had no import restrictions or quotas in force as at 1 October 1964. This represented no change from the position existing in the previous year and no changes were envisaged.

53. Referring to document COT/W/28 which indicated an increase in imports into Australia, he pointed out that 80 per cent of that increase came from participants of which 70 per cent came from the less-developed participating countries and Japan. Accordingly, his country was making a contribution to the objectives of the Long-Term Arrangement.

54. The representative of Mexico underlined the importance his country placed on the preamble to the Arrangement and pointed out that due account should be taken of the repercussions which the limitation on exports of cotton textiles might have on the economic development of the less-developed countries, particularly those possessing raw materials. These countries should be provided with large opportunities for increasing their exports into the world market. As the imposition of the restraints under the Arrangement was dependent on the question of market disruption the importing country should establish that prejudice to their domestic markets existed; disruption was often mentioned in the case of Mexico though Mexican exports represented less than 1 per cent of the total world trade in cotton textiles.

55. He pointed out that the base period for the determining of restraint level should not be confined to the twelve months of the last fifteen months as this criterion did not truly reflect the potential for exports of the exporting country in its historical perspective. He also expressed concern at the operation of Annex B relating to the annual increase in the restraint levels. He stated that a percentage increase of 5 per cent was inadequate, and that it should be made higher in order to enable developing countries to benefit from the objective of the Arrangement.

56. Later in the discussion the representative of Mexico emphasized that the definition of market disruption set out in Annex C and the procedure to be followed to determine its existence should be examined and an agreement reached on broad guidelines which would enable participating governments to conduct negotiations in the light of some objective criteria.

57. The representative of Colombia stated that his country believed that the Arrangement aimed at increasing the exports of textile products with the consequent broadening of the possibilities of earning more foreign exchange, which was so necessary for the harmonious development of less-developed countries. Despite the fact that the first two years of the Arrangement had not been satisfactory for his country, he still put his trust in what was intended to be the spirit of the Arrangement.

58. He pointed out that, where action was contemplated by an importing country for reasons of market disruption under Article 3, it was necessary to take into account the disruptive effects which the introduction of restraint levels might cause to the industrial programmes established in the exporting countries, which were operating within the spirit of the Arrangement. He emphasized concern at the sudden increase of tariffs which also limited the possibility of expansion in trade, and urged that competition in cotton textiles in the world market should not be hindered by prejudicial restrictions which were contrary to the very aims of the Arrangement.

59. The representative of Portugal said that the basic problem of the Arrangement was to be found in the application of the concept of market disruption. He considered it fundamental that a procedure should be established to fix the conditions which gave rise to market disruption and to determine its existence. He, therefore, suggested that studies should be carried out by a competent group of the parties concerned and if a satisfactory solution could be found the operation of the Arrangement would be more in line with its spirit and objectives.

60. A number of specific points which emerged in the course of the general discussion on the administration and implementation of the Arrangement during its second year, and various suggestions put forward in this respect, were considered by the Committee. These are brought together and set out in Part 2 below.

Part 2

∩The contents of COT/W/43 will be inserted here in the final version of the report∩

IV. PROBLEMS CONCERNING THE STRUCTURE AND FUTURE DEVELOPMENT OF TRADE IN COTTON TEXTILES

61. The Committee had before it an analysis by the secretariat of recent developments in production of and trade in cotton textiles (document CCT/W/28) and a preliminary survey on production and productive capacity in the world cotton textiles industry, including some estimates of future developments in certain markets (document CCT/W/29 and addendum 1)¹. Also before the Committee was document CCT/W/32 which contains information transmitted by Japan concerning its structural adjustments. Similar information transmitted by the United Kingdom and the United States during the meeting was circulated to the members of the Committee in documents CCT/W/37 and CCT/W/40 respectively.
62. In the course of discussion, representatives of several countries, in particular the exporting countries, underlined the great importance which they attached to the subject of structural adjustment and recalled that, in their opinion, the primary purpose of the Long-Term Arrangement was to assist the process of re-adjustment required by the emergence of new sources of supply. This was an absolutely necessary counterpart to the restrictive aspects of the Arrangement and should receive much more emphasis than it had in the past.
63. The representative of Japan pointed out that his Government had embarked upon a scheme for promoting structural reorganization in the cotton industry by putting into effect the new textile industry equipment law on 1 October 1964 with the aim of scrapping surplus capacity and shifting to higher quality goods. He believed that the success of this would also depend on what other industrialized countries were doing in this field. He was convinced that structural reorganization could best be achieved by exposing the domestic industries to world competition through the liberalization of imports. In the view of his Government the Long-Term Arrangement was designed to give to the cotton textile industries in importing countries a five years breathing space, which should be used to reorganize these industries as well as to liberalize imports. In the absence of such efforts the Japanese Government feared that the Arrangement might be perpetuated contrary to the original intention.
64. The representative of India emphasized the great importance his Government attached to the problem of structural adjustment. He expressed the wish that firm indications on investments, import policy, etc., should be available from developed importing countries so that the less-developed countries could form a correct judgement of the situation. It would be unfortunate if the position arose where it could be said that under the umbrella of the Long-Term Arrangement developed importing countries had brought about the restraint of imports and used the breathing space of five years to enhance substantially domestic production and their competitive position. Referring to the secretariat's paper

¹For a discussion on the technical aspects of this survey see under item V below.

on recent developments in production of and trade in cotton textiles (document COT/W/28) where it was stated that the less-developed countries had, during the period 1959-63, increased their exports of cotton textiles by 18 per cent, he pointed out that India had not shared in this growth since his country's exports of cotton fabrics had fallen by about 40 per cent between 1959 and 1962 and these only increased marginally during 1963.

65. The representative of Canada drew the attention of the Committee to the fact that during the 1950s the Canadian cotton textile industry experienced a substantial contraction and a structural adjustment of considerable importance, in large part due to the pressure of very high imports. Since about 1960 the situation had been more stable. He mentioned that in the United States, as a result in part of various measures taken by the Government, there had been a significant expansion of textile mill capacity and this increase in capacity, combined with a return to one-price cotton, could result in a substantial growth in the competitive pressure of United States products in the Canadian market. Canada was maintaining its traditional position as a relatively open market, but the Canadian market did not have the capacity to absorb continually increasing quantities from both established and new producers. There should be a renewed effort by those countries whose markets still remained relatively restricted to carry their share of the burden of adjustment.

66. The representative of the United States pointed out that the centre of gravity of the export trade in cotton textiles had shifted increasingly during recent years from the industrialized to the developing parts of the world. The productive capacity and the levels of operation of the cotton textiles industry in the developing countries had continued to expand. This raised the question whether considerable adjustments were not already very much on the way at the present time. In the United States there was stagnation in the industry as far as output was concerned, despite an investment of 800 million dollars during 1964. The high rate of investment in the cotton textile industry in the United States was for the purpose of renovation and modernization and not for the purpose of entering into new lines of production or any major extended increased output of existing lines. He could not accept, of course, that the concept of structural adjustment was to be interpreted to mean that the United States textile industry and those industries of other industrialized countries should go out of business to make room for the textile industries of the less-developed countries. The welfare of some two million people directly engaged in the textile industry in the United States would always be of great concern to his Government. The representative of the United States further referred to the observation made by the secretariat in document COT/W/29 that the cotton textile industry had become a capital-intensive industry. He reminded the Committee that when these problems were first discussed in 1961 everyone regarded the cotton textile industry as being labour-intensive and he wondered if this change had created any problems for the less-developed countries.

67. The spokesman for the European Economic Community explained that the process of adaptation and structural adjustment in the cotton textile industry in the Community had been taking place for some years and was still under way. Since the entry into force of the Long-Term Arrangement these measures had been accentuated; between 1953 and 1963 the number of spindles had fallen from 23.6 million to 16.9 million, a reduction of 25 per cent, looms from 521,000 to 327,000, a reduction of about 40 per cent and labour from 640,000 to 500,000. He stated that the means and measures to promote the efforts of adaptation varied from one member State of the Community to another. In some countries there was individual action, in others there was a collective initiative of the whole industry, sometimes supported by the government concerned. The countries of the EEC were faithful to the idea of free enterprise and governmental action in this field could not be considered as an obligation. People in the industry were fully aware of the evolution in the textile markets and had to take the necessary measures of adaptation which were deemed essential. However, this required a certain amount of time and it was often difficult to provide the necessary capital for modernizations. He also pointed out that the replacement of old machinery by new equipment did not aim at increasing the existing capacity of production but was intended to improve the productivity of the industry and stated that without prejudging the evolution in the years to come this process in all probability would continue.

68. The representative of Sweden also pointed to the fact that for several years a modernization process had been taking place in the Swedish cotton textile industry, which had resulted in a substantial reduction in installed machinery, and thus the industry had gradually adjusted its production to the prevailing market situation.

69. The representative of the United Kingdom mentioned that the reorganization of the British cotton textile industry had continued. There had been a further contraction in the number of spindles and looms in place and in the labour force, even in 1964, despite the cyclical improvement in market conditions.

70. The representative of Austria said that significant adjustment in the cotton textile industry had occurred in the industrial countries, particularly in Europe, over the last twenty years. The industry in these countries had, on the one hand, continued to supply export markets in third countries while, on the other hand, they had to face severe difficulties in the home markets caused by imports from those countries. In 1951, 18.5 per cent of the quantity of cotton fabrics produced in Western Europe was exported to non-European markets while in 1962 such exports amounted to only 9.5 per cent. Imports of yarn and fabrics from non-European countries rose from 1.5 per cent of European production in 1952 to 8.5 per cent in 1962. The changes which had occurred in the pattern of trade in cotton textiles had brought about structural adjustment in production, resulting in a great decrease in the number of spindles and looms

installed in the European cotton industry. This contraction continued in most of the OECD countries and in Austria, for instance, the number of spindles declined by 8 per cent and the number of looms by 12 per cent between 1958 and 1963. The adjustments which had occurred in the Austrian cotton industry were the result of measures taken by the industry itself and the Austrian Government had taken no direct or indirect action to increase the competitiveness of the domestic cotton industry. In the absence of the necessary legislation the Austrian Government was not authorized to take any steps or measures which could influence the production of the domestic cotton industry.

71. The representative of Norway referred to the survey on productive capacity which he regarded as being of great importance and interest. As the survey clearly showed, the Norwegian industry had gone through a period of readaptation and adjustment and increased substantially its productivity. It could now be regarded as competitive under normal market conditions.

72. The representative of Pakistan, in a statement which is fully reproduced in document COT/W/42, asked whether governments of developed countries, by providing sheltered conditions, were not encouraging investment in an industry which developing countries, given their resources, could operate efficiently and thereby discouraging the consumption of manufactures of developing countries. There was little evidence before the Committee to indicate that the problems of the developing countries had any bearing on domestic policies of the developed countries. He emphasized that between "getting out of business" altogether and using protective instruments such as quotas there was considerable room for constructive action. If the observation made in the secretariat's paper was correct, that the industry is increasingly becoming capital rather than labour intensive, then the developed countries would no longer be able to make the reference to competition from the so-called "low-wage" industries of the developing countries to protect their capital intensive industries. Referring to document COT/W/28, he stated that, in his opinion, the rise in exports recorded for Pakistan during 1963 merely underlined the extent to which exports had fallen in 1961 and 1962.

73. The representative of the United Kingdom for Hong Kong felt that, although needed, statistical and other analysis, or round table discussions were in themselves unlikely to cause structural changes in the cotton textile industry. Such structural changes depended to a large extent on decisions taken in the private sectors, and the influence of governments usually lay largely in the field of political decisions. In his opinion, an important step would be an early promulgation of whatever new pattern of international trade obligations the participating countries wished to see brought about. If, for instance, industries now enjoying a high degree of protection were not to

continue in this position then surely one of the first things for the government to do would be to tell them so and give them as much notice as possible. He felt that the Committee's task fell into two parts; the first, or negative task, being to bring the international trade position into some semblance of order by restraint actions, etc., and the second being to give effect to the long-term and positive aims of the Long-Term Arrangement. He regarded the first task as more or less completed and wondered whether the forthcoming major review could not be looked upon as the beginning of the second phase and result in the provision of growing opportunities for exports of cotton textiles. In view of this he wondered whether it would not be desirable for the major review to be held in the middle of 1965.

74. Commenting on the last point mentioned by the representative of Hong Kong, the Chairman stated that it was somewhat premature at this stage to decide when in 1965 the major review could be held, especially in the light of the considerable preparatory work which would be needed. He said that he would keep in touch with the participating countries on this subject.

V. REVIEWING THE TECHNICAL ASPECTS OF THE MATERIAL ON TRENDS IN CAPACITY AND PRODUCTION AND SUGGESTIONS FOR FURTHER STUDIES

75. The Committee discussed the technical aspects of the preliminary statistical survey on production and productive capacity (COT/W/29 and Addendum 1), conducted with the generous co-operation of the International Federation of Cotton and Allied Textiles Industries (IFCATI). This survey could be considered as the first step in the implementation of the decisions made by the Committee last year that the secretariat should try to secure material on present and future trends in consumption, productive capacity, etc.

76. The Committee considered the material most useful and the survey, though preliminary, clearly showed the great changes which had taken place in the world cotton textile industry. However, in view of the fact that the problem of structural changes would be one of the most important subjects to be discussed at the major review in 1965, it was felt that the material should be further scrutinized and supplemented. It was therefore agreed that additional extensive studies should be undertaken by the secretariat regarding the present position, the plans for development of the cotton textile industry in both developed and less-developed countries, with specific reference to investments, changes in the pattern of production and, to the extent possible, projections for the future; it being understood that it might be difficult to make meaningful projections on consumption of cotton textiles. Data on exports should be examined so as to bring out the underlying trends and the effect of the Long-Term Arrangement on the exports of participating countries should be fully analyzed.

77. The Committee further agreed that major producing countries, both developed and less-developed, should nominate experts to meet from time to time with the secretariat, in their capacity as experts and not as representatives of their governments, in order to help and advise the secretariat in assessing the material collected, as well as in the undertaking of further studies deemed useful. IFCATI should be invited to revise and supplement the material they had so far submitted on a preliminary basis. Full account should be taken of the material included in the OECD study on the cotton textile industry soon to be published, although it was recognized that this material only covered countries in Western Europe and North America and contained very little information about future developments. In addition, the secretariat should continue to take advantage of the work being undertaken by some other organizations and, if necessary, visit some of the importing and exporting countries in order to secure adequate information.

VI. REPORTING AND NOTIFICATION PROCEDURES UNDER ARTICLES 2, 3 AND 4

78. The Committee reviewed, from the procedural point of view, the notifications received in accordance with Articles 2, 3 and 4 and recalled what was contained in the conclusions adopted at the first review in 1963, particularly the need for an early disclosure of all relevant information concerning actions taken or contemplated under these Articles.

79. With regard to the notification procedure under Article 3 the representative of the United Kingdom for Hong Kong suggested the following points for consideration by the Committee: (i) an importing country requesting restraint under Article 3 is under an obligation to communicate to the Committee a detailed factual statement of the reasons and justifications for the request; it might be found convenient to put such a statement in a separate annex or appendix attached to the note or other instrument in which the request was embodied; (ii) if upon receipt of such a request the exporting country concerned wishes to query the validity of the argument or the accuracy of the substance of the detailed factual statement, it should be entitled to communicate the terms of such counter argument to the Committee; and (iii) when an agreement is reached its substance should be communicated to the Committee in terms mutually agreed upon between the importing and exporting countries concerned.

80. The Committee endorsed these suggestions on the assumption that the procedure agreed upon last year would still remain in effect and on the presumption that the second point was not intended to modify the provisions of Article 3 whereby the judgement as regards the domestic market conditions rested with the importing country concerned.

81. The representative of the United States pointed out that some importing countries continued to control imports of cotton textiles by different means which were outside the provisions of the Arrangement and emphasized that the Committee ought to be informed of restraints of all kinds which were in effect with regard to trade in cotton textiles. The general view in the Committee was that such information should be collected under Article 8(a) of the Arrangement, although it was understood that, in order to avoid duplication of work, full use would be made of the notifications submitted under the various requirements and procedures of the GATT.

VII. COLLECTION AND CIRCULATION OF STATISTICS

82. The Committee took note of the progress which had been made in the implementation of the statistical programme during the past year. Questionnaires had been sent out by the secretariat each quarter and the material received had been regularly circulated to the Committee in a standard form. In the case of several countries the material was still incomplete and had been received with a considerable time lag. Some countries did not adhere exactly to the definitions of the commodity groups for which data were requested and factors for the conversion of quantities into weight were not always given. Many important countries still did not submit data on cotton clothing but only on clothing made of all fibres. These deficiencies to some extent hampered international comparisons.

83. The spokesman for the European Economic Community said that the Community would be able by 1965 to report cotton clothing separately. The representative of Canada felt it would be desirable if information on re-exports could be made available. In this connexion, attention was drawn to the fact that the regular questionnaire requested information on re-exports, when of any significance, but it was mentioned that many countries probably had difficulties in submitting such data.

84. The Committee reaffirmed the importance it attached to the statistical programme as a means of understanding the developments in cotton textiles and urged the participating countries to continue their efforts to correct deficiencies in their statistical reporting. The need for participating countries to submit data in strict conformity with the questionnaires was especially emphasized. The three countries which had not yet submitted any statistics were requested by the Committee to do so. In view of the fact that the statistical information collected was of considerable general interest and not published elsewhere, it was agreed that the statistical documents (COT/STAT/- series) should be regarded as documents which were not restricted in character and which could be distributed to all those who were interested.