

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## COTTON TEXTILES COMMITTEE

### Statement by the Representative of the United Kingdom

#### Addendum

I think it might be most helpful to delegates who have raised a number of extremely interesting questions about our proposals if I try to reply under a series of four or five major heads. I hope and believe that, in doing so, I shall in fact succeed, with one exception, in answering all specific questions that have been raised by other delegations. If, when I have finished, I have not answered any questions, I should be grateful if I can be reminded of any points which I may have missed, and perhaps deal with them at a later stage. I suggest that it might be slightly later, because I fear that this initial statement may be rather a long one and delegations may be very tired of hearing from the United Kingdom by the time I have finished with it.

The first, and clearly the major, point that was raised by a number of distinguished delegates was "Why do the United Kingdom consider that the proposals they have put forward are wholly consistent with the basic objectives of the Long-Term Arrangement?", and as a corollary to that question "Why do the United Kingdom not believe that their proposal involves a modification of the Agreement?"

I think that the first clear view we would wish to express is that the basic objectives of the Long-Term Arrangement are surely to give substantial and growing access to the markets of the industrialized countries to imports of cotton textiles from less-developed countries. The whole of the Long-Term Arrangement consists of a series of measures to ensure that this objective is reached, and a series of devices to act as guides to both the less-developed countries and the developed countries on ways of reaching it. I was glad to see, in this connexion, Mr. Chairman, that you shared the view which I expressed yesterday, that the Long-Term Arrangement is not basically a juridical document. It is a document designed to achieve an end - designed to show an end that can be achieved. But its objective remains the achievement of its end..

I do not believe that any delegation here present would claim that the United Kingdom has failed to give substantial access to cotton textile imports from the less-developed countries. I do not want to go repeating our claim, that we have in this respect gone further than any other major industrialized country.

We had indeed gone further than any other major industrialized country in this respect in 1962, when the Long-Term Arrangement was concluded. As a result of the situation then prevailing in the United Kingdom (which is analyzed briefly in the United Kingdom Protocol attached to the Long-Term Arrangement) we were granted, with the consent of the vast majority of the Committee, a "no-growth" reservation. We accepted participation in the Arrangement subject to this Protocol reservation because the Protocol recognized the position in which we then were, and because, I must admit, that neither we, nor I believe anybody else, foresaw how the situation in regard to cotton textile exports from developing countries would in fact develop throughout the succeeding years.

In 1962 we had bilateral arrangements with three major traditional suppliers. We conceived that, if we were exempted from the growth obligation, there might be other suppliers coming forward but that they would probably be relatively small suppliers. Provided that we could reach agreement with them, in a reasonable way, the "no-growth" formula would prevent a further excessive rise in our imports.

In fact events turned out very differently. The new suppliers during the last two or three years have appeared on the scene not only in very large numbers, but with surprisingly large and growing capacities for the export of cotton textiles.

We could I believe, within the framework of the Long-Term Arrangement, have adopted quite ruthless measures to prevent the growth of imports from these suppliers. We could have availed ourselves of Article 3 - which we have never done - and which I would like to emphasize, we are not now doing. We could have availed ourselves of Article 3, and we could have held down the pattern of our trade to a pattern very like that of 1962, in which we had a few large traditional suppliers and virtually no room for new countries.

We did not in fact do any such thing. It is significant that, although we were granted the "no-growth" Protocol in 1962, our total imports from all sources between 1961 and 1964 rose by some 14 per cent in volume. But, within that growth, imports from Group II countries rose in value by 60 per cent. This is a formidable growth in value; and it is, I believe, the kind of growth which is of the greatest importance to the developing countries, because it represents a growth in the earnings which they all need for economic development.

These are the circumstances in which we had to consider what we should do when our existing bilateral agreements expired, as they all did, at the end of the current year. We evolved the proposals which have been put before this Committee, because it seemed to us that we had reached a point where the disruption of our industry, which had persisted and indeed increased for some three years, could not be carried further.

The adjustment of the United Kingdom industry to the new pattern of world trade in cotton textiles has been constant and it has been dramatic. I will produce figures for the last two or three years in a little while. The adjustment and the re-organization are not yet complete. We outlined in the Aide Memoire why we considered that we needed a further period of respite from imports, and why we considered that it was appropriate that that respite should be given, broadly speaking, at a reasonable level. The level I will also deal with separately; but granted that we were going to seek a respite at a given level (which was our principal objective) all the other decisions involved in our proposals flowed from that single decision.

We also wanted to find the means whereby those of our traditional suppliers who have been subjected to restraint for a very long time - six years in fact - should not be excessively penalized because they had accepted restraint. At the same time we wanted to meet a difficulty which has been raised in the course of the general discussions by a number of distinguished delegates, namely that there was a tendency in the application of Article 3 and Article 4 to freeze the pattern of trade at the stage at which restraints began to be applied. We sought therefore to find, within our proposals of fixing a total limit to imports, a means for providing at least a reasonable degree of access for countries which were not our suppliers in 1962. I mentioned yesterday the extent of that access which the proposals will in fact provide.<sup>1</sup>

This is why we believe our scheme to be wholly consistent with the objectives of the Long-Term Arrangement. There remains the technical question of the basis on which we are formally approaching this Committee with the scheme. In our view what we have tried to do is to produce a multilateral negotiation under Article 4. We have devised what we thought was the most reasonable and equitable way of distributing the amount of imports which we could afford to take, and we have come before this Committee to consult them and to hear their views on these proposals.

We are not attempting to impose these proposals under Article 3. Therefore a number of questions which were raised yesterday, and the tenor of which was that we had not observed Article 3 procedures, do not in our view arise. We are laying these proposals before the Committee because we believe that this is the right way of tackling a peculiar and unique problem, a problem which was recognized as unique among the major industrialized countries in 1962, and which remains - as far as I am aware - no less unique today. The solution, in a sense, is also unique. But this seems to us both right and appropriate.

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<sup>1</sup>COT/W/58/Add.1

If I may move the second point that was raised by a number of delegations, I would say that it is a reasonable question to ask why the United Kingdom considers that there exists an overall state of disruption in its cotton textile industry. I would have thought the question more reasonable if the imports which the United Kingdom had been taking had been of a much lower scale than they are now. I would have thought that there was a prima facie case for saying that a country which is meeting 40 per cent of its consumption from imports, and approximately 35 from imports from the developing countries, that this might evoke a certain hesitation in questioning whether disruption in that country was probable.

I am not going to describe the enormous decline in the British cotton industry from the days when it was in its zenith until now. But the shrinkage of the industry has continued, is continuing, and will continue over the next three or four years at a fairly smart pace. Between 1960 and 1964 some 3 million spindles went out, 37,000 looms went out, and the labour force diminished by 36,000. I accept the point which was made by the distinguished delegates from India and Pakistan that one cannot regard these statistics as statistics of disaster; to some extent they are statistics which reflect the reshaping of the industry. But clearly the industry is not being reshaped in such a manner as to become a great cotton textile exporting industry, or a major feature of the British economy. The industry is being shaped so that we shall have in the United Kingdom - and we hope we shall be well on the way to having this by 1970 - we shall have a smaller, viable, effective and vigorous textile industry. I believe that there is every prospect that it is moving in the direction in which the delegates, and specially the distinguished delegates of India and Pakistan, consider to be the right one - namely in the direction of a high degree of specialization in those functions to which it is best fitted, and not in a direction which will require the perpetual need for special measures of protection from imports from other countries.

The brunt of disruption in any cotton textile industry of course falls on the primary processes of the industries - spinning, weaving and finishing. Imports of apparel are of importance because they are the end products of those industries. If I were to take a reductio ad absurdum it would be fantastic to take an industry which produced efficiently large quantities of yarn, grey cloth and finished cloth, but which had no use for these goods when they were completed. The regulation of imports of apparel is therefore designed to prevent further disruption of the earlier stages of the industry and to try and secure a balanced decline in the industry and a balanced industry when the reorganization is completed.

We have also been asked why we appear to be working on the concept that disruption is straight across the industry. I think much of the answer to that is evident if you consider some of the statements in the secretariat's working paper about the consequences of restrictions on particular products of particular countries. If the share of your domestic market which is taken by imports is relatively small, you will have sectors of your industry which are virtually unaffected by imports and you will have other sectors which are seriously affected. In such cases it is right and proper that you should be asked to pick and choose when you report that imports are causing disruption. But when you have imports on the scale which we accept in the United Kingdom, you do very rapidly reach a state of affairs in which, if you choke off imports at one point, they enter at another. If you suppress or reduce imports from one country, they are replaced by imports from another. In those circumstances, the state of disruption horizontally across the industry, and vertically up and down it, is so vast that it is a quite artificial concept to imagine that you can say in these circumstances that overalls are being disrupted today and jeans are being disrupted tomorrow. The disruption is a constant factor and it moves across the industry according to the rises and falls in the imports of particular products, or the rises and falls in the imports from particular countries. We submit, therefore, with conviction and with certainty that we must regard the United Kingdom's industry as an industry in which disruption already exists, and has existed for a number of years. That I think is the answer to the second major point which was raised.

A third major point was the basis on which we have fixed the level at which we seek to stabilize our imports. We have taken, as the Committee will know from the Aide-Memoire, the average figure of 1962, 1963 and 1964. The reason for taking an average in this case is to try to arrive at a linear trend, rather than to select a single year which is bound to reflect the particular conditions in whatever the year chosen. As I observed in my opening remarks to this Committee<sup>2</sup>, all cotton trade is cyclical and the United Kingdom trade is more cyclical than most. Ours indeed, by the nature of the structure of our industry and for historical reasons, remains cyclical to a very high degree. I hope and believe that we shall tend, in the future, to grow nearer to the pattern of the cotton cycle in other countries, and to reflect a less exaggerated picture of it. This, in my view, will be a consequence of the increasing verticalization of the British industry. But, although that verticalization is now taking place, and indeed already exists financially over quite a considerable field, the practical integration of units within these vertical organizations is far from completed. From my conversations with those who are engaged on this task, I would consider that it will be three or four years before the vertical organizations which now exist in form are in fact operating as effective vertical organizations. By that time I hope that the extreme cyclical trends in our trade will have been modified.

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<sup>1</sup>COT/W/49.

<sup>2</sup>COT/W/58.

Given a cyclical situation it would be completely artificial to take one year, whether it be a tough year for imports or a boom year for imports, I do not believe any single year can be regarded as an average year. No part of a cycle, unless one is a mathematician of ability and can identify the part with great precision, can be regarded as the average of the cycle. All you can do is to try and ascertain the linear trend, and this is what we have done in selecting our base period. Within this broad picture we realized, however, that if we attempted to split the total into categories, also on an average basis, we should be committing a fallacy since the pattern of trade should reflect the latest position. Thus we should not try to freeze the pattern of our trade as between one product and another in the pattern of 1962 or 1963, or of the average of them. So, although we have taken as a basis for our limitation the period 1962-64, we have taken as the pattern for our categorization the year 1964.

There is one additional and important feature of the level at which we have suggested fixing our imports. We recognize that growth in imports is of the utmost importance, not only of itself, but symbolically. An absolute and rigid freezing of a pattern is a dangerous practice at any time. As well as being dangerous it is highly discouraging; it leaves no hope for the future. In spite of the "no-growth" reservation we have decided, therefore, that under this scheme we shall aim at - and, I hope succeed, in - ensuring that the present ratio in the United Kingdom market between domestic production and imports continues. In other words, as our consumption increases, both imports and domestic production will maintain their present share of it. We estimate the increase in United Kingdom cotton textiles consumption at something under one per cent. It is not an easy estimate to make, because the figures are confusing and it is always difficult to sort out cotton from the other textiles. Nevertheless, we believe that somewhere between three-quarters and one per cent is the probable figure of growth. Accordingly our scheme provides for an annual growth in our imports from developing countries of one per cent each year between now and 1970.

I might perhaps add here that, in putting forward to this Committee a scheme for the years 1966 to 1970, we have been actuated, not by any desire to anticipate what may happen to the Long-Term Arrangement, or to influence any decision which may in future be reached about its modification, its continuance or its discontinuance. We stated in our Aide Memoire that, if and when the Long-Term Arrangement was modified in any way, we should take this into account in considering how to deal with imports during the last three years 1968 to 1970 of our scheme.

We have put forward a scheme running until 1970 for two reasons and only two. The first is that we believe and hope that by then the position of our own industry will materially have changed; and we are quite sure that it will not materially change in the sense of achieving the reshaping to which I have referred much before then. I have given you the evidence for that from my discussions with those who are in fact responsible for bringing about this change. The second reason is that, if we are putting proposals forward of what we believe to be highly logical and sensible kind, we have felt it right to give developing countries an assurance that we intended to abide by these proposals, and that they were no provisional measure which we would come back and seek to have made more restrictive.

This then is a plan for as much liberalization as our circumstances will allow; and it is an undertaking that that liberalization, unless some ghastly and unforeseen contingency occurs, will continue for a reasonable period ahead.

The third major point I think was raised was how did we, and why did we, decide that certain countries should be asked to participate in global quota, certain countries should receive country quotas and certain countries should not be subject to restriction.

To deal first with the countries who have been given country quotas, these are in fact our two oldest traditional suppliers. They were in 1962 our dominant suppliers. They have been subjected to restraint ever since 1959. I think it is an interesting speculation as to whether, if they had not been subjected to these restraints, many of the new countries which have secured access to our market would ever have been able to secure that access or, if they had, would have secured it on the scale on which they now have it. Certainly I think it is true that British importers, knowing of the strict quota limitations which India and Hong Kong had voluntarily accepted, thought it wise to explore other markets in order not to put their eggs in two baskets which might not be able to hold them. It is for this reason primarily, that we felt that it was right and proper that these countries should not suffer merely because they had voluntarily accepted, for a very long period before and since, the restraint of their exports to us.

We were also influenced by the fact that, if we adopted an overall global system, these very large competitors might have an excessively dominating effect upon other global quota countries, and that a total global quota system involving the two largest suppliers to the United Kingdom would tend towards price disruption in a way which would be beneficial neither to exporting countries nor to the United Kingdom industry.

That was the reason why we offered our three original suppliers the option of a country quota. Two of them accepted it; one preferred not to.

The countries which we have totally excluded from restriction are, broadly speaking, those countries whose exports to us have not in fact been disruptive over past years. This is not a question of theory. This is a question of ascertainable fact. These imports have not been disruptive. We are a trading nation and we are naturally not enthusiastic about restraining trade unless and until it is necessary. Countries whose imports to us have not been disruptive are clearly countries whose trade would be difficult to justify restraining. But it is quite clear to us that we should not be able to accept a position in which, as a result of the restraints accepted by others following these discussions (and I hope they will be accepted), countries not subject to restraint should benefit from the restraints of others. This is a matter which we shall watch with the greatest care.

The suggestion had been made that, within the limit of imports which we wished to fix, we might have succeeded in achieving a whole series of country quotas by bilateral negotiations which would have added up to the same figure as the figure we have proposed. We simply do not believe that this is a practicable proposition. I explained in my opening remarks why we had so far failed to achieve success in this field, and the Aide Memoire sets as succinctly as we can the same proposition. One of the difficulties in bilateral negotiations which we have had has been the very large size of our imports. Had our import of cotton textiles been very much smaller I have little doubt that countries with whom we were negotiating would in fact have regarded the kind of quotas we were offering as perfectly reasonable. But I can well understand why any single country, when approached for a bilateral agreement, and when it considered the size of the total United Kingdom imports, felt that the United Kingdom was being unreasonable in suggesting the kind of figure which it had put forward. It looked too small a part of our total imports. Everybody feels that they should have a larger share in the total imports. But if you add all those larger parts together, you arrive at a major expansion of the total level of imports, and this was a position which we simply could not afford to accept.

If by some miracle, I were greeted at the end of this Committee by all the delegates each handing me a piece of paper saying "This is our country quota, and you will find that all these add up to 450 million square yards", I would accept it tomorrow. I would take the pieces of paper home and put them before my Ministers and say "Ministers, these are the quotas that everybody wants. These are the quotas which will add up to the figure which we feel we can afford. You should accept". But does anybody really believe that this is a practicable proposition? I fear that the answer is that nobody really does. That is why we felt that the only realistic way of achieving the limitation we wanted was to introduce a global quota element into our calculations. Under this global quota we would set a ceiling for all those countries who at present exported to us; and new countries would be able to compete for the quota as and when they sought to engage in the export of cotton textiles to the United Kingdom. We are closing no doors to anybody and we hope we are opening those doors to the most efficient producers of the goods which British importers are prepared to buy.

The last point to which I would wish to come is one which always seems extremely difficult to explain. It is not difficult to explain because there is anything illogical in it. It is difficult to explain because it is a slightly complicated conception.

I was asked in particular by the delegate of Israel whether we could not postpone the operation of the interim arrangements which we have put forward, pending the discussion of our complete proposals. The interim scheme which we have suggested is devised for one purpose, and one purpose only, namely to find a means by which trade can be kept moving during the early part of 1966 while discussions on the main scheme may be continuing, and while its full administration is being brought into effect.



It would have seemed at first sight that this problem of keeping trade flowing could have been solved by continuing the quota system which was already in existence during 1965. However, with a very large number of countries no quota system at all was in fact in existence during 1965. Exports from those countries to the United Kingdom were based on the fulfilment of contracts which had been placed before specific import licensing was introduced on 1 May 1964. There was in fact absolutely no basis upon which we could allocate country quotas to all the countries who sought to export textiles to us in the early part of 1966.

The interim scheme which we have proposed was based, therefore, on the same concept as the major proposals, namely country quotas and a global quota. But in introducing it we have made it clear that if any adjustments or amendments are made to our proposals as a result of these discussions, our administration for the whole year 1966 will take those adjustments into account, and that nobody who participates in the interim scheme will thereby have renounced in any way his right to the benefit of any adjustments that may subsequently be made.

There is one final, not major but important, point which was raised in particular by the delegate of Israel. That is that, in transferring from one system of control to another system of control, there are bound to be administrative hitches of one kind or another. The delegate for Israel objected in principle to our scheme because he said that its incidence on his own country had been to damage trade in a particular product for which orders had in fact been placed. This is not our intention, and certainly we intend to try to iron out these administrative hitches as quickly as we possibly can. We shall expect and hope that any other country which is faced with a purely administrative of this kind will inform us so that we can consider whether we can resolve it. There may be cases, and there always are cases in administration where hard cases make bad law, where we cannot meet particular administrative difficulties because to do so would undermine the whole scheme. We hope those cases would be few. We hope that any instances that do come to our attention will be cases in which we can, by administrative measures, resolve a temporary difficulty which arises from the movement from one system of control to another.

I think, Mr. Chairman, I have covered the major points. There may be something that I have missed. If I have I apologize and I would be very ready to repair the omission at some other time that you consider suitable.