

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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COTTON TEXTILES COMMITTEE

Draft Report on the Meeting of the Committee Held at the Palais des Nations from 8-10 October 1969

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I. The seventh annual review of the operation of the Arrangement

1. The Committee had before it documents COT/W/114 and Addendum 1¹ which summarize notifications of actions so far received by the secretariat under the various Articles of the Arrangement during the seventh year of its operation as well as other arrangements relating to trade in cotton textiles. Also before the Committee were documents COT/W/115 and Addenda 1-3 describing, in Parts I and II, developments in production of and trade in cotton textiles over the period 1962-1968.

2. A number of participating countries made statements reviewing national trends in production of and trade in cotton textiles, conditions in their industries and developments in the implementation of the Arrangement. A summary of these statements follows below in paragraphs 3 to 49.

3. The representative of the United States, in his statement which is reproduced in full in document COT/W/118, said that his Government believed that the Arrangement, at the conclusion of its seventh year, had functioned to the advantage of all countries concerned, both exporters and importers. Cotton textile imports into the United States during the seventh Arrangement year amounted to 1.7 billion square yards equivalent as compared with just over 800 million square yards during the base year for the Short-Term Arrangement. Over this period, imports of cotton textiles and apparel rose faster than domestic output. The substantial increase in imports of

¹These documents will be attached as an annex to the final version of this report.

apparel, fabrics and other goods underscored the shift toward more highly manufactured goods for export to the United States which had been occurring in recent years. Between the first and seventh Arrangement year the value of apparel imports increased by 80 per cent. This shift to more labour-intensive goods helped the exporting countries, but it placed a greater burden on United States labour and industry. Imports from developing countries increased significantly. In the process of providing access for the many new suppliers who entered the market, the United States consistently met the fundamental equity obligation in Article 6(c) of the Arrangement. He said that the actual growth of imports into the United States had been much higher than the annual rate of 5 per cent contemplated in the Arrangement. This situation, further accentuated by a declining domestic output, had produced an increasingly severe impact on the United States cotton textile market.

4. The representative of the United States pointed out that imports at these high levels had produced a number of problems. The most difficult of these arose when agreement limits were overshipped. He emphasized that a more timely exchange of better statistical information on trade and mutual adherence to the terms of bilateral agreements would contribute to a better operation of the Arrangement. He added, however, that in the current year some decline in the number of administrative and overshipment problems was noted, thanks to a joint effort to improve the administration of the bilateral agreements.

5. As regards the importance of the textile and apparel industries in the United States, he pointed out that these industries remained the largest employer of labour of any manufacturing industry, and that their present and potential contribution in providing employment for a large group of people could not be over-estimated.

6. The spokesman for the European Economic Community in his statement, which is reproduced in full in document COT/W/117, said that, after the serious recession in the Community's cotton industry during 1967, an improvement occurred only in the second half of 1968. Reviewing general trends in the Community's consumption, trade and production, he said that in 1968 apparent consumption for all cotton textiles was at roughly the same level as the previous year. Exports registered a further decline while imports continued to increase, thus resulting in a deficit of the order of 5,000 tons. Production in both the spinning and weaving sectors recorded a new decline. After analyzing certain aspects of these trends in greater detail, he referred to prospects for 1969. In this connexion, he said that the improvement noted in 1968 was clearly confirmed in the first three months of 1969 when production in the weaving sector increased by almost 10 per cent. This improvement was beneficial for exporting countries since their exports to the Community increased substantially as compared with the corresponding period of 1968.

7. Referring to the implementation of the Arrangement by the Community, he said that increases in Article 2 quotas were allocated to the exporting countries concerned in accordance with the undertakings given by member States when the Arrangement was renewed. The régime governing imports was further relaxed when Italy liberalized thirteen statistical cotton textile sub-items at the beginning of 1969. As regards restrictions under Article 3, Italy renewed the voluntary restraint agreements concluded in 1968 with the Republic of China and the United Arab Republic.

8. In connexion with Article 4 agreements, he said that for India and Pakistan trade with member States had, since 1968, been governed by bilateral agreements under which India doubled and Pakistan trebled sales in 1968 as compared with 1967. A bilateral agreement was also concluded between the Benelux countries and Hong Kong. The bilateral agreement between the Federal Republic of Germany and Hong Kong continued to be applied. In addition, member States and the Commission of the European Communities on the one hand, and Japan on the other, conducted negotiations for the conclusion of bilateral agreements between Japan and each of the member States. He further pointed out that the bilateral agreements concluded with the aforementioned exporting countries involved considerable improvements in the trading régime with these countries as regards both quantities and administration.

9. In conclusion, the spokesman for the Community said that, despite the adverse circumstances with which the Community's cotton industry had had to contend itself, the member States had continued to apply the Arrangement in conformity with the principles underlying its conclusion.

10. The representative of Japan said that although some progress had been made as a result of his Government's efforts to improve trade relations with major importing countries in the field of cotton textiles, there still remained a number of difficulties. Excessive fragmentation of categories and items for cotton textiles resulted in lack of flexibility and various administrative difficulties. Further, reluctance on the part of importing countries to relax and eliminate quota restrictions hampered a sound development of trade in these products. He therefore urged importing countries to take more positive steps in keeping with the objectives of the Arrangement.

11. Referring to trade relations with some of the major importing countries, he said that recent negotiations between Japan and the member States of the Community proved to be fruitful and it was expected that arrangements under Article 4 would shortly come into force between Japan and member countries of the Community. While it was regrettable that such arrangements could not have been concluded much earlier, it was hoped that they would prove to be conducive to the improvement of trade relations in cotton textiles.

12. He further referred to the restrictive effects of the Noordwijk Agreement on Japan's export trade and reiterated his appeal to the countries in the Community to exercise their influence for an early elimination of such restrictive practice.

13. With regard to trade relations between Japan and the United States, he referred to the bilateral arrangement currently effective between both countries. He added that the existence of numerous specific limits and ceilings continued to be detrimental to the smooth and practical operation of the arrangement.

14. As for the arrangement with Canada, he said that negotiations were currently under way. He expressed hope that the Canadian authorities would find it possible to lessen restraint on those items the quotas of which had not yet been fulfilled, and also to provide a larger increase for the items which were subject to restraints.

15. He said that it was encouraging to note that the United Kingdom had embarked upon structural changes in its cotton textile industries, in consonance with the recommendations contained in the report of the Textile Council. It was to be hoped that such efforts would prove to be successful and that the relaxation and elimination of existing restraints would be undertaken at the earliest possible date.

16. The representative of Canada said that his Government was in the rather special position that Parliament had not given it the power to place any quantitative limit on imports except in certain quite narrowly defined circumstances. However, it was found necessary from time to time to request some exporting countries to restrain their exports of specific cotton products to Canada. In each case, the request was formulated strictly in accordance with the principles of the Arrangement and was presented to the exporting country in the context of a detailed analysis of current conditions in the Canadian market. He emphasized that Canada had followed a highly selective approach in this matter and had resisted the tendency to global coverage of textile imports. Canada's per capita imports of textiles from the developing countries and Japan in 1967 were considerably higher than any other industrialized country. Moreover, Canada had followed and would continue to follow a policy of agreeing to the discontinuation of restraints as soon as disruption was no longer occurring or threatened.

17. Throughout the life of the Arrangement Canada's policy had generally been to agree to increases in the levels of the restraints notwithstanding the Canadian reservation incorporated in the special protocol to the Arrangement. Between 1962 and 1967 imports of cotton textiles as defined by the Arrangement increased 22 per cent by volume and throughout this period imports continued to account for almost 50 per cent of domestic consumption. In the same period, imports from developing countries increased by approximately 80 per cent whereas imports from traditional developed sources decreased by 26 per cent. In 1968 there was a very sharp drop in imports of cotton textile products due to the fact that textile products of man-made fibres began to make significant inroads into the demand in Canada for textiles predominantly of cotton.

18. Commenting on the arrangements that Canada had entered into with twelve exporting countries, he said that in five cases the restraint was limited to cotton yarn and the remaining seven were concerned either wholly or in part with a total of some eight cotton products. Canada believed that its record in this area spoke for itself particularly when taking account of the fact that Canadian producers were under constant pressure from low-priced imports.

19. He stressed that the seventh year of the Arrangement had been in some ways a disappointing one from Canada's point of view. This disappointment arose out of what appeared to be a growing unwillingness on the part of certain exporting countries to recognize the need to restrain their exports to Canada of certain products, even after they had been presented with detailed evidence of damage to Canadian producers and of the obligations which Canada had to other signatories of the Arrangement who had already agreed to restrain their exports to Canada of the products in question. Experience had shown only too clearly that, given this situation, consultations on requests for export restraints could degenerate into confrontations between exporting and importing countries based largely on the bilateral bargaining strength of each. Canada considered this development to be quite contrary to the spirit of the Arrangement.

20. After referring to difficulties experienced by the Canadian textile industry in the area of cotton textiles, he said that these difficulties had been increased by the declining trend in many countries in recent years in the use of major weight cotton products. This situation had been reflected in Canadian production as well as imports. The impact of the rapidly growing use of textiles, of man-made fibres and of blends of these fibres with cotton became most evident by 1968. The Canadian market for cotton fabric decreased by 23 per cent from 1965 to 1968 whereas the market for polyester/cotton fabric increased by 371 per cent. In the case of cotton shirts the Canadian market between 1966 and 1968 decreased by 49 per cent whereas the market for shirts wholly or in part of man-made fibre had increased by 240 per cent. Imports had had a very significant share of the growth in demand for these non-cotton products. Canada had concluded, on the basis of the evidence, that some of these blends were directly substitutable for and competitive with cotton within the terms of the Arrangement. Unfortunately, the provisions of the Arrangement, including Article 6(b), were not really adequate to cope with the problems of substitute products since exporting countries were generally unwilling to admit the existence of specific cases of deliberate substitute in Article 6(b) terms. It was also clear that many exporting countries were genuinely afraid that any sign of willingness on their part might appear to be giving sanction to an extension of the Arrangement into a much wider field of man-made fibre products. As a result Canada had had to resort to separate bilateral negotiations outside the Arrangement.

21. In conclusion, the representative of Canada said that while his Government considered that there were certain shortcomings in the Arrangement and in its interpretation and application by some member countries, it had served a useful purpose.

22. The representative of the United Kingdom said that the year 1968 saw a further, though small, decline in production and a further substantial increase in imports, thus bringing United Kingdom production to a level 40 per cent below that of 1961. The net effect had been that in the woven sector - and in this connexion he emphasized that the United Kingdom had not restricted imports of knitted cotton items even though imports from the developing countries had in recent years risen very substantially - imports accounted for 53.2 per cent of total consumption in 1968. An exceptionally high proportion of the United Kingdom requirements came from developing countries: in 1968 the proportion of total consumption imported from the "restricted" countries was 33.6 per cent.

23. In 1969, the overall share of imports had fallen. This was, in part, due to a further small decline in home production, but more particularly because of the very heavy fall in the volume of imports in the first six months of the year. Even so, imports accounted for no less than 44 per cent of the United Kingdom market in the first half of this year. The corresponding figure for the "restricted" countries was 25.4 per cent.

24. Meanwhile, employment in the industry in the United Kingdom had continued to fall. From a total of 197,000 in 1961 the Lancashire industry declined to 125,000 in 1968. In the United States, by contrast, according to figures published by the American Textile Manufacturers Institute, there had been an increase in textile employment between 1961 and 1968. In the last decade some 1,000 mills had closed in Lancashire. Nor had this development ceased: ninety-four mills closed during 1967 and getting on for a further fifty during 1968.

25. The representative of the United Kingdom speaking on behalf of Hong Kong said that since the Committee last met in October 1968, Hong Kong had concluded new or had extended existing arrangements under Article 3 with Australia, Sweden and Canada. With regard to Article 4, the only new arrangement made by Hong Kong under this Article during the year was a renewal of the agreement with Canada on cotton fabrics to operate for one year from 1 October 1969. Hong Kong's current bilateral agreements with the Federal Republic of Germany and the Benelux countries would expire at the end of this year and consultations were expected to be held very soon to decide their future.

26. The only operation of the Arrangement affecting Hong Kong outside Articles 3 and 4 was the continued restrictions by France under Article 2. The maintenance of these restrictions seemed to Hong Kong hardly consistent with Article 2, which spoke of "relaxing restrictions progressively each year with a view to their elimination as soon as possible". The Cotton Textiles Arrangement had now entered its eighth year of operation and Hong Kong's quota in France was still only 400 metric tons.

27. He pointed out that some importing countries pressed for conditions in Article 4 agreements which were more restrictive than would be expected in the light of the other provisions of the Arrangement. He was thinking in particular of growth and flexibility provisions. The exporting country must always be under some pressure to agree, when the alternative was a series of disruptive and time-consuming consultations under Article 3. He therefore urged that this tendency towards the use of Article 4 in a restrictive manner should be avoided, and that such arrangements should be made only when market disruption existed over a wide range of products.

28. The representative of Mexico said that the bilateral agreement concluded with the United States and which was to continue in force through 30 April 1971, had been applied to the satisfaction of both countries. In connexion with restrictions under Article 3, he said that in September 1969 the Canadian Government had requested his Government to restrain exports of cotton textiles from Mexico to Canada. Following consultations, it had not been possible for his Government, up to the present time, to consider this restriction justifiable under Article 3. He stressed the importance his country attached to the objectives set out in the preamble to the Arrangement.

29. The representative of Israel referring to paragraph 1 of Article 2, said that the Arrangement was conceived as a stop-gap measure which would have given time to the major importing countries to make the necessary adjustments to the structure of their cotton textile industries. Thus, it was never intended to become a permanent feature of the international economic landscape. He said that it was an open question whether the existence of the Arrangement had led to an orderly enlargement of the cotton textile market or whether it had brought about a self-imposed stifling of the development of the cotton textile industry, especially in the developing countries.

30. It was Israel's experience that the present manner of the application of the Arrangement, i.e. the imposition of quotas on numerous categories and sub-categories of different items, forced the industry into an economic straight-jacket and prevented the normal exploitation of market opportunities, and the development of this industry. In this connexion he expressed his Government's dissatisfaction with the inelastic manner in which the provisions of some of the bilateral arrangements were interpreted by certain of the major importing countries. He therefore urged that these countries should adopt a much greater elasticity in approach.

31. The representative of the Republic of Korea, after referring to the importance of the cotton textile industry to his country's economic growth, said that the rate of expansion of cotton textile exports from Korea had drastically slowed down since 1964. This was mainly due to import restrictions imposed by some major developed countries. Small quotas allocated to his country hindered the growth of exports. Moreover, outlets for the newly-developed items such as garments and made-up articles were severely restricted. He expressed concern on the fact that, at this late stage in the life of the Arrangement, some developed importing countries including member States of the Community continued to maintain quantitative import restrictions under Article 2. The quotas allocated to Korea under this Article were not only negligible but were also sub-divided into too many categories. Besides, administration of these quotas was left to the discretion of the importing countries. Some countries continued to practise a discriminatory importing licensing system directed to his country. He therefore urged that these quotas should be increased having due regard to the fact that Korea was a newcomer to the European market. Further, these quotas should be administered by the exporting countries. Importing countries should co-operate positively with a view to enabling exporting countries to fully utilize the quotas.

32. Referring to Article 3, he said that consultations under this Article had proved unfavourable to the exporting countries since there was no alternative but to accept the restraint levels as specified by the importing countries. With respect to Article 4, he pointed out certain technical difficulties encountered by his country because of the rigid application of the bilateral agreement concluded in accordance with this Article. He requested that the views which he had expressed on the various problems faced by his country be considered by the importing countries during the remainder of the Arrangement.

33. The representative of Austria, after reviewing developments in trade, production and consumption of cotton textiles in Austria over the period 1960 to 1968 and the first half of 1969, stated that the share of domestic production in apparent consumption had continued to decline, and that the ratio of imports to domestic production and consumption in Austria was much higher than that recorded by most of the other importing countries. The share of foreign deliveries had continued to rise, although apparent consumption dropped from 51,000 tons in 1960 to 47,000 tons in 1968, or by about 8 per cent. The increasing pressure exerted by imports of cotton textiles especially during the past four years was evidenced by the drop in the production of cotton yarn and fabrics in Austria. There was also a sharp decline in the production of yarn and fabrics of staple fibre. As a result of the increase in imports the foreign trade deficit in cotton textiles continued to aggravate.

34. He further pointed out that in Austria, as in many other industrialized importing countries, demand for more sophisticated end products and blended goods was increasing. Furthermore, knitted fabrics were being substituted for woven fabrics to an increasing extent. This tendency evidently affected selling opportunities for simple cotton fabrics of the kind produced by the developing countries.

35. In conclusion, he said that despite the difficult situation prevailing in the Austrian market, the undertakings by Austria to expand access for cotton textiles from the developing countries and Japan had been observed. As a result of the bilateral agreements concluded with the exporting countries concerned, a substantial growth factor was established for exports of cotton textiles from these countries. In undertaking this growth factor, Austria had abided by the objective set out in the preamble of the Arrangement, namely that trade opportunities for the developing countries possessing the necessary raw materials and skills should be increased.

36. The representative of Norway said that from 1965 to 1968 the Norwegian consumption of cotton yarns decreased in weight by about 13 per cent while cotton fabrics and made-up household textiles increased by 2 per cent. Over the same period Norwegian imports of cotton textiles totally increased by 16 per cent with a yearly average of about 5 per cent. Imports from exporting, participating countries showed an increase of 27 per cent; their share of total imports of cotton textiles increased from about 25 per cent in 1965 to 27 per cent in 1968. At the same time imports from other countries increased by 13 per cent. Even if this share of the imports to the Norwegian market was extremely high, his delegation was of the opinion that the Arrangement had been a useful instrument in securing orderly marketing of cotton textiles, and had given the exporting developing countries a fair share of the increase in imports.

37. The representative of Sweden said that imports of cotton textiles increased from \$113 million in 1967 to \$122 million in 1968. The developing participating countries increased their exports to Sweden by as much as 222 per cent during the years 1961 to 1968. Their share of total imports increased from 14 per cent in 1961 to 26 per cent in 1968. Furthermore, in 1967 Sweden had the highest proportions among Group I countries as regards imports and net imports to estimated apparent consumption of all cotton goods. The figure for 1968 was higher than that registered in 1967. On the other hand, Swedish production of cotton yarn and cotton fabrics continued to decline.

38. The representative of the United Arab Republic said that cotton was the mainstay of the Egyptian economy with its various sectorial activities. Output of cotton yarn and fabric increased over the past seven years by about 50,000 tons or 25 per cent more than the 1962 level. The hope was entertained that this modest rise represented by an average annual rate of 3.5 per cent would be accompanied by a parallel increase in exports to importing participating countries. Unfortunately, the operation of the Arrangement over the past five years had shown a negative result of 12 per cent, despite the fact that his country had observed the provisions of the Arrangement by accepting and adhering to the bilateral agreements and quota limitations by several importing member countries. In this connexion, however, the liberalization of cotton imports by Denmark was very much appreciated by his delegation. This was, in his view, a step in the right direction and he urged that other importing countries should follow suit to honour the objectives of the Arrangement.

39. In conclusion, he said that his delegation was concerned about the severe competition from man-made fibres which had shown a disturbing effect on the market for cotton textiles.

40. The representative of India, referring to the Preamble to the Arrangement said that it was quite obvious by reading the intention proclaimed in this Preamble that the basic objective was expansion, with particular reference to assisting the developing countries and keeping in mind the declaration on the promotion of trade of less-developed countries adopted by Ministers. As a result of repeated admonition and pointing to these main objectives, in the last two or three years there had been a much greater tendency and willingness on the part of the developed countries to achieve some implementation.

41. Referring to difficulties encountered by India, he mentioned, in the first place, the problem of handloom products. The interpretation of his delegation of Article 9 of the Arrangement was that anything made on handlooms in the cottages or in units with a small number of handlooms - the fabrics and anything produced therefrom, were totally exempt from the provisions of the Arrangement. The other view advanced by some developed countries was that Article 9 specifically excluded only handloom fabrics of the cottage industry and nothing made therefrom. This was a very important point of difference and a solution should be found. Handloom fabrics made on cottage handlooms, i.e. the cloth by the piece, would be hardly a saleable item in any large quantities for reasons of competitive efficiency. It was in particular forms where designs were unique and the articles could be supplied only in small quantities that these particular fabrics had a chance of being sold. Items made on looms such as towelling, towels, pillowcases, bed sheets and handkerchiefs, and similar products, could hardly be called made-up articles.

42. He mentioned the difficulty of categorization and sub-categorization of items which militated against planning for production in Indian mills and inhibited export promotion efforts. Another difficulty encountered was that in one or two cases the administration in regard to the quantum of arrivals was extremely harsh and arbitrary based quite often on incorrect statistical material. There were further difficulties over certain administrative procedures in regard to the licences under the arrangements in one or two countries.

43. He said that a new kind of difficulty had appeared over the horizon in the last year or eighteen months. The economic difficulties which some countries were passing through had made it necessary for them to devise highly-restrictive measures; for instance, covering imports with a large value deposit. In one such case, largely because of the impact and the effect of this measure, India had been able to sell only half its quota in this market. He submitted that these measures only transferred the balance-of-payments difficulties to others who were in a much less able position to shoulder these disabilities and intensified their balance-of-payments difficulties. He therefore appealed that in such contingencies the balance-of-payments difficulties of the exporting countries - particularly if they were developing countries - should be especially borne in mind.

44. He said that there was also the valuation problem. There was an arbitrary valuation in some countries. On this, his delegation felt strongly that there was a great deal of fallacy in regard to cheapness. The basic objective of export trade was to earn the maximum possible amount of foreign exchange. Moreover, governments did not countenance cheap sales of fabrics very much below what they could fetch as a fair price on any particular market. His Government constantly resorted to the imposition of export duties and to expedients such as State trading etc., in order to prevent this leakage of foreign exchange earnings.

45. The representative of Pakistan reiterated the views that his delegation had been expressing in the previous meetings that the Arrangement, which was of a temporary and transitional nature, should lead as quickly as possible to the ultimate goal of liberalization of international trade in cotton textiles and that necessary adjustments should be made to achieve this objective. Pakistan was confronted with balance-of-trade problems which obviously hampered its plans for economic development. In this context, the growth of textile exports was of great importance to his country.

46. Referring to the problems raised by some developed countries in the field of non-cotton textiles, he said that his delegation was of the view that cotton textile problems should be tackled separately from that of other textiles not covered by the present Arrangement. In this context he drew attention to Article 1 of the Arrangement. As for the working of the Arrangement in its seventh year, he said that there was some improvement in utilization of the quotas due to revival of demand in the importing countries and some measures of simplification in import procedures agreed to by the EEC countries. Pakistan had fully utilized its quota for the United States market. In the United Kingdom, apart from the country quota which was fully utilized, Pakistan shared in the global quota with other countries. Excessive fragmentation of quotas into categories and sub-categories continued to pose problems particularly in cases where the ceilings were already low.

47. He further pointed out that the quotas in the EEC countries had not been fully utilized due to certain procedural difficulties that still persisted. He cited the instance of the French quotas, the present procedures are too cumbersome

and had retarded exports. He therefore urged further simplification of procedure and greater flexibility among categories to achieve better utilization of the quotas. He mentioned that initially the quotas allocated to his country were, on the whole, highly inadequate and they hoped for further improvements by mutual discussions.

48. The representative of Greece said that the way the Arrangement had been implemented was of great concern to his country. The restrictions imposed by the importing countries under the Arrangement had affected adversely and seriously the economies of the developing countries which had neither the means nor the infra-structural pre-requisites for an industrial adjustment and employment redistribution. These restrictions, he believed, were not in accordance with the letter and spirit of the Arrangement. He drew attention to the fact that the modernization and expansion of the Greek cotton industry, had been achieved against heavy expenses and serious financial burdens. This rehabilitation was motivated by the recommendations of international economic bodies that the developing countries should diversify their production by making every possible use of their natural resources and domestic raw material. However, the restrictive measures which were still being applied hampered the development of the industry.

49. The representative of the Republic of China referred to certain difficulties his country had experienced under the Arrangement. The quotas allocated by importing countries to Taiwan started at very low levels; this made export opportunities very limited. The sub-division of these small quotas into many categories and the rigid application of these limits made it difficult for the cotton textile industry in Taiwan to utilize fully the assigned quotas. He pointed out that the quotas fixed to some other countries were ten times greater than that allocated to his country if calculated on the same number of spindles. He said that the exportation was limited, not because of the Arrangement as such, but because in certain cases the Arrangement was unfairly operated. He therefore felt that an improvement in the administration of the Arrangement was necessary and he hoped that this recommendation would be taken into consideration by the importing countries.

II. Adjustments in the cotton textile industry

50. The Chairman recalled that the Committee, during its last meeting held on 22 October 1968, discussed adjustment measures notified by importing participating countries in compliance with the conclusions adopted by the CONTRACTING PARTIES on 24 November 1967. Following the discussion in the Committee it was agreed that additional information should be collected and that the secretariat, in consultation with delegations, should prepare a study on adjustment policies as well as on the adjustments that had actually occurred in the cotton textiles sector. This study had been prepared by the secretariat on the basis of replies by participating countries to the questionnaire drawn up for this purpose and was before the Committee in Parts III and IV of document COT/W/115.

51. He expressed gratitude to IFCATI for the valuable help rendered by them, and also to the International Cotton Advisory Committee for supplying advance data on mill consumption of the different apparel fibres in 1968.

52. Many members of the Committee expressed appreciation of the Study on Adjustments prepared by the secretariat and found the factual information contained therein most useful. It was, therefore, suggested that participating countries should continue to report to the secretariat on development in the field. A summary of the discussion, which took place in the Committee, on adjustments is given in paragraphs 53 to 81.

53. The spokesman for the European Economic Community said that although the process of adjustments in the cotton industry began prior to the Arrangement there was no doubt that, since its coming into force, this movement had gained impetus under the influence of four essential factors: (i) growing pressure of imports on an increasingly open market; (ii) conjunctural crises which periodically affected the industry; (iii) technological developments and (iv) the various measures applied in certain member States. Between 1962 and 1968 there was substantial contraction of overall employment from 500,000 workers to less than 350,000. As regards equipment, spindles declined from 18 million to 14 million and looms from 369,000 to 243,000. These figures revealed that the equipment contraction effort made in the Community was by far the most important because, for the period considered, it reached: for spinning, 24 per cent as against 17 per cent for Group I as a whole, and for weaving, 28.2 per cent as against 25 per cent. This result was attributable to the action taken by the governments of the member States. In this connexion, he mentioned the essential features of the specific adjustment measures taken by the Governments of the Netherlands, France and Italy (COT/W/115).

54. He underlined that, in addition to these specific measures, cotton textile undertakings in all the member States could benefit from fiscal, financial or social aid under provisions that were either of a general character or were designed to promote the adjustment of less-favoured areas or the reconversion of undertakings.

55. He pointed out that important studies were in hand at the present time in the Community's institutions with a view to examining in detail the actual structure of the various textile industries, in order to determine what measures could be contemplated at Community level. These measures would speed up still further the rationalization and adjustment of the sector to new economic and technological conditions, in a harmonious way and within the framework of the Common Market. In these studies, particular attention was of course being given to the cotton industry.

56. In conclusion he said that although the process of adjusting this sector to new world conditions was already well under way, it was not yet completed. The Community and national authorities, as well as those responsible within the sector concerned, were firmly resolved to do everything possible in order to attain that objective.

57. The representative of Poland referred to his statement in the Committee on Trade and Development on 4 November 1968 (COM.TD/60/Add.13). In this statement he had mentioned that special attention had been given by his Government to changes in certain patterns of the textile industry with a view to enabling more imports of semi-finished and finished articles from the developing countries. Reviewing changes in the cotton textile industry, he said that there was a fall in overall employment from 143,300 in 1967 to 141,600 in 1968. This fall was apparent in both manual and non-manual labour. The number of firms went down from 227 in 1960 to 212 in 1968. With respect to the number of machinery, spindles continued to decline while looms remained static during recent years.

58. The representative of Spain said that in view of the serious recession in 1967/68, the cotton textile industry had submitted a plan for its reorganization to the Government which the latter had approved by the Decree of July 1969. The plan, which was optional for all firms, provided for the scrapping of 8,800 looms and 300,000 spindles. It prohibited the installation of new plants or the development of existing production facilities. The Government and the remaining firms would finance the loss of those firms which closed down. The plan was mainly concerned with the social aspects such as, among others, the reallocation of workers. It was, however, the obligation of the remaining firms to employ as many as possible of the workers becoming redundant as a result of the restructuring of the industry.

59. In conclusion, he said that the objective of this plan was to secure an equilibrium between supply and demand, reduce the number of factors of production and units, improve productivity and stimulate concentration.

60. The representative of Austria said that the continuous process of adaptation of the cotton industry to changing market conditions and modern requirements had brought about substantial structural adjustments in the Austrian cotton industry. Between 1960 and 1969 production factors experienced considerable decline: enterprises by 37 per cent; spindles by 27 per cent; looms by 42 per cent; and employees by 29 per cent. This decline was reflected in the production index.

61. These structural adjustments were the result of measures taken by the industry itself. There were no legislative or governmental measures designed specifically to assist adjustment in this industry, nor were such measures under active consideration. However, some measures had been adopted by the Austrian Government to facilitate investments and structural adjustments in industry generally, such as accelerated depreciation allowances, the establishment of investment reserves, tax relief provisions, the promotion of research and granting of credit guarantees. However, it might be assumed that the legislation in question would not produce tangible results for the cotton industry.

62. He pointed out that no increase in production capacity had taken place as a result of the adjustments made by the Austrian cotton industry. He urged that industrialized importing countries should likewise try to avoid any significant increase in output so that increasing consumption, if any, could also be shared by the developing countries. The contraction of the Austrian cotton industry

related mainly to enterprises producing fabrics of the kind produced by weaving mills in developing countries. In this way Austria had contributed substantially to a solution of the world-wide problem of production capacities in the cotton textile field.

63. The representative of Norway said that the manpower engaged in the Norwegian textile industry had decreased steadily during the last years; from 1966 to 1968 the decline was 12 per cent. In the cotton textile industry alone the number employed decreased by 20 per cent from 1967 to 1968. This trend had continued so far in 1969. Most of this contraction hit regions where there were few, if any, alternatives for other employment. The Norwegian Government had this problem under continuous consideration in order to find solutions within the framework of its international obligations. He added that his Government had appointed last year a special commission to study the textile industry. The report of the commission was expected to be published shortly.

64. The representative of the United Kingdom said that the domestic cotton textile industry had been a continuing problem since before the war. Over the years various policies had been tried to deal with this situation. In 1959 the Government tried a major scheme of scrapping and re-equipment. Then in order to deal with the growing problem of imports, the Global Quota Scheme was introduced. However, imports had increased, especially from developing countries.

65. Following the introduction of the Global Quota Scheme, the Government invited, in 1966, the Textile Council to examine means of improving the productivity and efficiency of the industry. The Council reported earlier this year and they made a number of important recommendations in fulfilment of their mandate. These recommendations were addressed, some to the industry itself and some to the Government.

66. The Council recognized the paramount need for the industry to reduce its costs in order to become more competitive with other industrialized countries. This, they considered, meant that substantial new investment would be required in plant and machinery in the industry between £100 million and £150 million by 1975. They also considered that this new machinery must be operated on a 168-hour multi-shift basis.

67. The recommendations which were addressed to the Government were twofold. In the first place, the industry sought financial help for the investment which they had identified as being necessary. This the Government had refused. The Council had also recommended that there should be a substantial restructuring of the industry, and particularly that it should become more vertical in character. While the Government was not specifically asked to assist in this respect, it had in fact taken certain measures. It had, therefore, in the year under review, appointed two consultants to advise on the best methods of effecting amalgamations within the industry which could lead to greater efficiency. There were already in this section of the industry some very substantial firms by world standards. It

was not expected that the answer to the industry's problems would lie in the creation of more large firms. In fact the Government had taken certain steps to ensure that there were to be no amalgamations between the large firms in the Lancashire industry for a period which had not been specified. The hope was that, during this period, smaller firms would form themselves into the nuclei of more efficient productive units than hitherto. The Government was not at present putting money into this particular exercise, although the Industrial Reorganization Corporation was available for assistance and advice.

68. The second main recommendation of the Council which was addressed to the Government concerned the protective régime. The Council concluded that none of the measures they had suggested would in themselves be adequate unless the question of import penetration was tackled. In this respect they identified the system of duty-free entry of imports from a number of sources as being a major contributory cause to the underlying problem of the industry. It was recognized that the quota system had proved inadequate, certainly to the needs of the United Kingdom industry. As a result the Textile Council recommended that instead of a system of quotas there should be a tariff on duty-free imports from the Commonwealth; this would provide a more predictable and stable basis of protection. The Government, after very careful consideration, decided to accept this recommendation taking into account that the tariff was the normal means of protection for industries recognized by the GATT.

69. From enquiries made within the industry in the United Kingdom the Government had satisfied itself that investment would be more readily forthcoming if a tariff was introduced at the beginning of 1972, when the quotas would disappear. Despite the new investment, the industry would continue to decline in size. It was expected that employment in the industry would have gone down by a further 40 per cent by 1975. The number of firms in the industry would have diminished by two thirds by that date, and the number of mills by a half. Thus, the Government was not being unduly protective, nor putting money into new investment. It was merely giving the industry an opportunity to compete under the protection of a moderate tariff on equal terms with other developed countries.

70. He said that they felt able to take these decisions in the British industry because the situation in textiles was changing so rapidly. The textile industry, which was marked in the United Kingdom by a new technology, new processes and new fibres, was by and large a prosperous industry and a growth industry. He believed that this was the same in a large number of other countries, certainly in the developed countries. However, there was the particular problem of the cotton sector. It might be that certain elements of this problem would spill over in time to other sectors, but he believed that the considerations there would be quite different from those which had pertained in cotton. There would be different factors, much greater capital intensity, different fibres, not necessarily those produced by the developing countries themselves. Thus, during the deliberations about the future of the Arrangement, these factors should be borne in mind.

71. The representative of Sweden said that developments in the domestic cotton textile industry continued to be characterized by adjustments through mergers and close-downs. International competition as a result of Sweden's liberal trade policy had forced the industry to such structural adjustments. In the 1960's the number of units declined considerably; further close-downs were expected. Between 1960 and 1968 the number of spindles and looms decreased by about 55 per cent and likewise production of cotton yarn went down by about 45 per cent. The number of employees had followed the same course. The cotton textile industry in Sweden was mainly concentrated in one single area where almost all inhabitants were directly or indirectly dependent on textile production. This fact constituted a particular difficulty for the adjustments of the cotton industry.

72. In conclusion he reiterated what he had said at previous meetings in connexion with the difficulties encountered from the diversion of trade flows to the more open markets. He therefore urged participating countries to keep the problem in mind when reviewing their restrictions.

73. The representative of Canada, after referring to the information on adjustments in the Canadian textile industry set out in COT/W/115, informed the Committee that his Government had initiated a full-scale review of the Canadian textile industry. This review was designed to examine the present situation and future prospects for the industry.

74. The representative of India recalled what he had said at last year's meeting, that "the structural adjustments seemed to be happening very gradually. However, the information notified in COT/105 and addenda would need careful examination because these structural adjustments might be illusory. The contraction in production which was apparent in some developed countries might have been taken over by substitutes which were gravely threatening the exports of developing countries." He said that his fears of last year seemed only to be borne out even more markedly in what had been said this year. There was a certain amount of pleasure expressed by developed countries that man-made fibre production was on the increase in some of these countries whereby further investment in this field had been undertaken.

75. He recalled that, in the objective of the Arrangement, special emphasis was put on promoting the development of less-developed countries possessing the necessary resources such as raw materials, technical skills, etc. It seemed to him that, in the process of adjustment, not enough attention had been given to this factor. It was regrettable to see government action being taken in the form of abruptly and suddenly changing an existing system, abolishing the quota, introducing tariffs where there were none, etc. which could but lead to fresh investments not only in the cotton field but in the fields which could be substitutes for cotton fabrics. He stressed that this was of major concern to his country and needed to be carefully examined.

76. He accepted the general principle that protective regulation by tariff should be possible, certainly in most circumstances, rather than a regulation by quota. However, there were special circumstances which should be considered in this context. For thirty-seven years the production and marketing methods in India had been geared to the United Kingdom market on the basis of duty-free entry. For India to be told that in only two years from now they would pay a tariff of 15 per cent was unsettling, while some developed countries would enjoy duty-free entry. This created a situation which was and continued to be considered seriously in bilateral discussions between both Governments. He hoped that jointly they would find an equitable solution.

77. Turning to the problem of cotton and substitute fabrics, he questioned the rationale behind government action taken to encourage further new investment in fields which could but affect cotton textile and man-made fibre blended fabrics exported from less-developed countries. The rationale of the argument whereby the developed countries wished to protect themselves against man-made fibre fabric imports (for instance under Article 6 of the Long-Term Arrangement) should also similarly be used for the assistance of the developing countries, by not taking government action which might reduce the intake of imported cotton fabrics but increase the production of man-made fibre fabrics inside the importing countries themselves. He said that it was regrettable to hear of the declining importance of cotton and added that it would be in the joint interest of all participating countries that cotton should be given a few years of time yet to reign in this world.

78. In conclusion he said that the problem was a complicated one and needed a great deal more informal discussion and, at a later stage, formal discussion, before any satisfactory solution could be found.

79. The representative of Japan said that the Japanese textile industry had suffered for a long time from structural problems such as the existence of a number of small-scale firms, delay in modernization and the existence of excessive out-dated equipment. This situation was further aggravated by a sharp rise of wage rates of the order of 15 to 18 per cent annually in the past three years and the rising increases of cotton textiles imports from developing countries.

80. To cope with such a situation, the Government had enacted the Act on Provisional Measures for Structural Reorganization of Specified Textile Industries and was currently carrying out five-year modernization programmes of the industry. The five-year programmes started in 1967 regarding the spinning and weaving industries. These programmes, which were carried out upon the initiative of enterprises with the assistance of the Government, aimed in the first place at modernization of equipment. The Government provided certain adjustment assistance measures, such as public loans, to firms which attained certain specified guidelines, namely the shift to higher capital intensity and sophisticated end products.

The second aim was to optimize the scale of firms through mergers or groupings of small-scale firms below the specified standards established by the Government for this purpose. Thirdly, the scrapping of out-dated surplus equipment. In the spinning sector, a certain number of spindles had been simultaneously scrapped by concerted action of all the enterprises belonging to the industry in accordance with the guidance and standards given by the Government; the finance of this programme was shared by enterprises. In the weaving sector, the public loan was only extended to those weavers prepared to scrap surplus equipment.

81. The representative of Japan said that these structural reorganization measures were still in process and were being carried out fairly smoothly. He drew the attention of the Committee to the necessity and desirability of adjustments and urged that the utmost effort should be made in this respect.

III. Discussion concerning the future of the Arrangement

82. The Chairman said that the Committee was required to discuss, pursuant to Article 8(d), the question of the extension, modification or discontinuance of the Arrangement. On the basis of the debate the Committee had had on the review and on adjustments, it would inaugurate the discussion on the future of the Arrangement, thus proceeding with preliminary exchange of views. He recalled that the last time the Committee fulfilled its obligations under Article 8(d), it initiated discussion on this issue and then adjourned until a later date to allow for bilateral consultations between the participating countries concerned. After these bilateral consultations were satisfactorily completed, the Committee resumed its discussion and arrived at its final decision on this question. He said that it might be that the Committee would wish to follow a similar procedure on this occasion. This was agreed.

83. The spokesman for the European Economic Community, in his statement, which is reproduced in full in document COT/W/119, said that the European Economic Community had not yet determined its definitive position as regards the future of the Arrangement. At the present time, its position was entirely open to the possibility of renewing the Arrangement.

84. He said that the Arrangement had enabled the European Economic Community to progressively increase possibilities of access to its market. In this connexion, he referred to quota increases in pursuance of Article 2, and to the conclusions of bilateral agreements under Article 4. He also recalled that the first extension of the Arrangement had enabled the Community to grant tariff concessions in the textile sectors where tariffs were already low.

85. He pointed out that developments in production of and trade in cotton textiles showed that the objectives set out in the preamble to the Arrangement, designed in particular to promote the development of trade of less-developed

countries, had been largely observed. Statistics revealed that between 1960 and 1968 the developing countries increased considerably their machinery and production in both the spinning and weaving sectors, while developed countries experienced falls in machinery as well as in output. Cotton textile exports from the developed countries increased by only 21 per cent, whereas developing countries had achieved an increase of 96 per cent.

86. Commenting on the problem of non-cotton textiles, he said that if detailed examination showed that problems existed, then it might be opportune to study, in the context of the GATT, equitable solutions that would avoid isolated or bilateral action.

87. The representative of Japan said that the Arrangement, as laid down in Article 1, had been regarded as an exceptional and provisional measure in order to give a breathing-space to the cotton textile industries in the advanced importing countries for their industrial adjustment. This measure was put into effect in 1962 for a period of five years, and was extended in 1967 for an additional three years. There was, in their view, a danger of perpetuating an exceptional and provisional measure.

88. He further stressed that, although the Arrangement aimed at a reasonable and orderly development of cotton textile trade by placing an obligation on participating countries which maintained residual restrictions on cotton textiles to progressively relax them with a view to their elimination, the efforts for the relaxation of these restrictions were still far from sufficient. Moreover, the actual operation of the Arrangement had tended to be extremely restrictive because of the establishment of excessively small quotas, minute categorization, limitations on flexibility, etc.

89. In conclusion, he said that in the light of the above-mentioned factors, the Government of Japan had felt and continued to feel that the extension of the Arrangement was, as a matter of principle, not desirable for the healthy development of trade in cotton textiles.

90. Later in the discussion, the representative of Japan suggested that the Committee should meet within a short time to continue its discussion of this issue. At that meeting, he would expect to hear the reasons why certain countries supported an extension of the Arrangement. Referring to the suggestions made by the EEC and the United Kingdom concerning the problem of non-cotton textiles, he said that he was not in a position to respond immediately to their suggestions. He would, however, report the matter to his Government.

91. The representative of the Republic of Korea said that his country had acceded to the Arrangement on the understanding that it was merely a transitional measure and that importing countries would liberalize the trade in cotton textiles by adjusting their cotton textile industry as soon as possible. He regretted, however, that progress made in the liberalization had been far from satisfactory.

92. In an effort to contribute to freer world trade, his country liberalized import régimes in 1967 by adopting Negative List Systems, even under adverse positions of balance of payments and despite the various unfavourable economic and social conditions at that time. He believed that, in discussing the future of the Arrangement, the principles of world trade liberalization should be kept in mind. He reiterated that the liberalization of trade in cotton textiles should be realized at the earliest possible date and, therefore, further extension of the Arrangement was no longer necessary.

93. In conclusion, he expressed deep concern about the statements made by certain representatives concerning the trade in non-cotton textiles and added that it was hoped that any new move which would adversely affect free trade would not be made.

94. The representative of the United Kingdom said that by September 1970, when the Arrangement would have been in force for eight years, they would certainly be bound to conclude that imports from the developing countries still accounted for a very small percentage of consumption of cotton textiles in most developed countries. There seemed to have been at least two reasons for the Arrangement not to have achieved the expectations which were held out to the developing countries in 1962. The first related to the concept of market disruption. Importing countries had shown that they had no uniform or harmonized standards by which they judged whether the level of imports was such as to cause serious damage of the kind described in the Arrangement. At the same time, it was clear enough from the statistics of relative market penetration by imports, that the major importing countries had very different views about their obligations under the Arrangement. The second shortcoming was that the operation of the Arrangement offered little prospect that there would ever be any equalization in the performance of the importing countries.

95. There was a further and vital point which should be kept in mind in the coming months. That was the changing nature of the problem which faced the cotton textile industry in the developed countries. Since 1966, the switch to woven man-made fibre and knitted goods had resulted in a tremendous decline in the demand for cotton goods, which, combined with rapidly increasing productivity in the industry, had in turn resulted in a more than proportionate decline in employment. Adjustments had been reported to have taken place in the cotton industries of the developed countries but, bearing in mind that in at least some cases the proportion of imports from the developing countries was of the order of 5 per cent or less, it was obvious that the difficulties of the industry were not going to be solved by the regulation of imports.

96. In fact, the problem was the continuing one of an increasingly less important sector of a large and prosperous textile industry. The problem which the Arrangement set out to solve was one in which a number of developing countries were able to compete very strongly in the market of the developed countries, in circumstances where many of their European competitors were making use of an outdated technology. In these conditions, low wages in the developing countries were necessarily decisive. However, these conditions no longer obtained to anything like the same extent. There was still a problem of adjustment. The easiest measure was for the cotton industry to switch to the use of man-made fibres. The United Kingdom had not been very successful at this.

97. The representative of the United Kingdom, referring to the question of non-cotton textiles, said that although it was arguable whether this question was one for discussion in this Committee, it was quite clear that, in the view of some, there was a problem in this field. The United Kingdom had taken the view from the facts at present available that the problem, if it existed, was not on a scale to warrant action on the lines of what was being done in the field of cotton textiles. Nevertheless, if some contracting parties thought that there was a problem, some opportunity should be found in GATT for discussing its scope and significance. If a proposal was made for such discussion, they were not going to dismiss it out of hand. Secondly, it was feared that arrangements securing restraints negotiated outside the framework of the GATT rules would inevitably produce important side effects and might lead to adverse developments in the field of trade liberalization.

98. Turning to the future of the Arrangement, he said that since the United Kingdom was proposing to rely, as from 1 January 1972, on the tariff for protection, they would be content to see the Arrangement come to an end in 1972. In any event, they believed that thinking should now be directed towards the eventual termination of quota restrictions and, if the Arrangement was to be extended for a further period, the intention should be, in their view, to work towards its termination in two or three years and to take steps, during any period of extension, to progressively relax the Arrangement's provisions.

99. The representative of India said that the Arrangement had been looked upon, firstly, as a means of developing world trade and promoting economic expansion positively, with particular reference to the development of less-developed countries; secondly, as a means of assisting in necessary adjustments in the industry. Thus, the Arrangement had been regarded as a transitional device. Whether the period of transition was over and whether the Arrangement had to continue in the same or in a modified form was a very complex matter, calling for judgment of a political nature, taking into account all relevant social and economic factors.

100. It was the view of his delegation that the adjustment was not proceeding in the way in which the idea had been conceived. It seemed that in several developed countries the cotton textile industry was not only reviving itself to produce

mixed fabrics and man-made fibre fabrics, but actually expanding, in spite of grave labour shortages in many of these countries. It seemed, therefore, that the purpose for which the Arrangement had been negotiated and put into force had not been fulfilled. In fact, the implementation had been working in a somewhat negative way of keeping a restraint on the textile industries of the developing countries. Under this restraint, the domestic industry in the developed countries had diversified itself in such a way that the opportunities for the developing countries of diversifying themselves, producing what they could with their raw materials and skills and exporting and earning more foreign exchange, had been hampered rather than helped. If the Arrangement had not served the purpose for which it had been negotiated, the remedy would obviously not be to leave the developing countries to their own resources in a world of changing technology. It would, therefore, be his submission, which he maintained strongly, that the objectives should be kept in view with the idea of finding out what could be done to help the developing countries, perhaps by modifying the way of thinking or administering the working of the Arrangement, if necessary, in a newly-negotiated form so that the objectives would be fulfilled and not frustrated.

101. In India's view, tariffs and quotas should be discussed together because both had a bearing on the capacity of the developing countries to diversify their exports and increase their earnings of foreign exchange. Thus, after tangible protection had been given to the domestic industry of the developed countries through a system of quotas under the Arrangement, high tariffs should certainly be brought down very considerably and, if possible, eliminated in the context of the general scheme of preferences for developing countries or otherwise. In this connexion, he recalled what he had said at the last meeting and urged that developed countries should not include cotton textiles in the exceptions lists but should, in fact, include them in the scope of the application of the general scheme of preferences. He added that the reduction in tariffs obtained during the Kennedy Round was in many cases small and not satisfactory.

102. Referring to the question of growth rates under the Arrangement, he said that developing countries which had a small base in certain markets were not satisfied with the rate of growth granted to them in the negotiations. There should be a much larger growth of trade permitted to developing countries than to competing developed countries. With regard to the procedures of implementation, the problems of categorization, import deposits, licensing procedures, flexibility between groups, carry-overs, etc., these needed to be satisfactorily resolved.

103. In conclusion, he said that it might well be that, after due consideration and after improvement and modification, some regulating arrangement could be continued for a limited period and be reviewed after a short time. However, it was the view of his Government that, taking into account all of these aspects, a great deal of intense informal consultation was necessary before reaching a definitive standpoint in regard to the question of the future of the Arrangement after 30 September 1970.

104. The representative of Spain said that he was of the opinion that the Arrangement had not been fully satisfactory. He was not opposed to a certain order in international trade of cotton textiles as long as there were efficient guarantees for exporting countries. If a decision were to be taken to extend the Arrangement, he thought it advisable to introduce some modifications which would mean, for the exporting countries, better guarantees for the safeguard of their interests as well as more flexibility and improvement in the application of restraints imposed by the importing countries.

105. The representative of Portugal recalled that exporting countries had accepted the Arrangement as a temporary and painful solution to assist in the required adjustments. It was in this spirit that his Government had accepted the Arrangement and the Protocol extending it. With respect to adjustments, he said that it was opportune that the relevant study had been prepared and thought it would be useful if this information could be supplemented. He stated that the efforts which had been made by certain countries in the field of adjustment, and the problems which had arisen in this connexion, had his Government's full support and comprehension. Nevertheless, it was not admissible, in his view, to subscribe successively to extensions which would have the effect of rendering a temporary situation permanent.

106. The representative of the United Kingdom, speaking on behalf of Hong Kong, said that eight years should be long enough for a temporary Arrangement to last and for the required adjustments to be made. However, if the general consensus should prove to be that the Arrangement should be extended, Hong Kong would hope that some consideration might then be given to the question of whether the Arrangement could be improved. A priori it would seem that after eight years' experience of the operation of the Arrangement, quite a number of ideas on possible improvements should have emerged.

107. He reiterated the two points he had previously made. The first point was that Article 2 had had its day; it was essentially even more temporary than the Arrangement itself. The second point was that more precision should be given to Article 4 to secure that the arrangements under this Article were not less favourable than those which would have been provided for by Article 3.

108. He emphasized, however, that, in mentioning these points, Hong Kong was not suggesting any wholesale amendment of the Arrangement. No formal document could provide in detail for every case. A great deal depended on the spirit in which bilateral consultations were held, on the willingness of both sides to see each other's points of view and, when the consultations had been concluded, the setting up of administrative arrangements ensuring that the maximum possible use was made of the trading opportunities provided for. Nevertheless, he believed that some modifications to the benefit of both importing

and exporting countries, might be worth considering so long as such modifications were consistent with the aims of the Preamble of the Arrangement.

109. The representative of Denmark said that his Government believed that a modest protection of the Danish textile industry was still necessary. The Arrangement, in their view, had served a useful purpose and a function which was needed also in the immediate future. His Government was therefore of the opinion that the Cotton Textiles Arrangement should be prolonged for another three-year period.

110. The representative of the United Arab Republic said that his Government had accepted the Arrangement on the understanding that it was temporary in nature, in the sense that it had to serve, inter alia, as an instrument to assist in adjustments. By the end of the fifth year, his Government also subscribed to its extension as it had then been found necessary to give a longer span of time for the importing countries to achieve the required adjustments.

111. Contrary to what had been expected, cotton textile exports from the United Arab Republic had worsened under the extended Arrangement, where non-expansive quotas were either maintained or pursued by certain countries together with the imposition of severe restrictions.

112. He stressed that the Arrangement, in its present form, had fallen short of all expectations and urged that importing countries should adopt a more liberal attitude towards the cotton textile trade which represented great hopes for developing countries. Thus, his delegation found themselves in a position where they could not agree to a further extension of the Arrangement in the form in which it had been applied.

113. The representative of Norway said that his Government would favour a prolongation of the Arrangement and would like to take part in the negotiations which might be held in this connexion.

114. The representative of Sweden said that his Government considered it advisable to extend the Arrangement, without too many changes in its present character and form. He expressed hope that agreement on an extension of the Arrangement would contribute to a better balance between importing countries.

115. The representative of Jamaica referred to two points as being the most important that had emerged from the discussion. The first was the effect of the Arrangement on trade in cotton textiles, and the second related to adjustments.

116. Commenting on the first point, he thought it was true that the Arrangement had provided a set of guidelines for the functioning of world trade in cotton textiles during the last seven years and had permitted a reasonably orderly development of this trade. Thus, it could be said that the Arrangement had served a purpose over the last seven years. However, the declared intentions in the Preamble to the Arrangement had not been met to anything like the extent that was indicated when the Arrangement was first negotiated. Many importing countries had reported increases in imports but it was not certain that this would continue as a firm and positive intention.

117. Referring to the adjustments which had been made, he questioned what effect these adjustments would have on the desire or the need of developed countries to offer a significant market for the exports of developing countries. It seemed to him that there must inevitably be fear that the Arrangement, or an extension of it, could only give the developed countries the breathing space they needed to counter the market advantages which the developing countries had. It seemed to him that it might be necessary for the Committee to meet again in the near future to deal with this particular question.

118. The representative of Austria said that his Government was of the opinion that the Arrangement had been a useful instrument for the orderly development of world trade in cotton textiles, and that it should be extended in its present form. Difficulties arising from the implementation of the Arrangement should be settled through bilateral negotiations. He added that his Government was prepared to enter into bilateral consultations with exporting countries, if contacted, with a view to determining mutually acceptable conditions for the continued application of the Arrangement.

119. The representative of Finland considered that the Arrangement had contributed to the orderly development of trade in cotton textiles and thus had benefited both importing and exporting countries. In his opinion, it would continue to do so in the future, if import restrictions were applied with moderation and if they were gradually relaxed. His Government, therefore, would favour the prolongation of the Arrangement.

120. The representative of Poland said that his delegation had not yet determined its definitive position and that bilateral consultations had to be continued before taking a stand on the future of the Arrangement. However, in their view, the Arrangement provided for a code of conduct and had been useful. It seemed to him that the important question was not really whether the application of the Arrangement had or had not fully lived up to its objectives but rather what would have been the situation in the absence of the Arrangement. Thus, the importance of the issue under review needed serious consideration and, therefore, he would support the suggestion that the Committee should meet again in the near future to continue the discussion on this subject.

121. The representative of Pakistan recalled that the Arrangement had been conceived as a temporary expedient. When considering its future, the basic objectives should not be lost sight of and this temporary measure should not be converted to a permanent one. The best course would still be to terminate the Arrangement. However, if continuation of restrictions for some time more was felt to be necessary, he would concede reluctantly to the idea of a further extension for a limited period of time.

122. He urged, however, that suitable modifications should be made of some of the provisions of the Arrangement that had impeded its satisfactory working. He suggested that these modifications should be on the basis of better access to the markets of the developed countries and further liberalization of the restrictive provisions of the Arrangement with a view to early attainment of the free trade objectives. With the technological developments and the adjustments which had and continued to improve the competitive position of the industries of the developed countries, the proposed improvements should not pose any problems for their industries.

123. The representative of the United States, in his statement which is reproduced in full in document COT/W/118, referred to the changes which had taken place in world trade and production of textiles, and the emergence of today's multi-fibre industry. He expressed his Government's major concern on the tremendous surge of man-made fibre and wool textile imports. In their view, the dramatic growth of these imports, which had far out-paced the growth of the United States market, carried with it the same serious problems of market disruption that existed for cotton textile products at the time the Arrangement was negotiated. Action taken by a number of importing and exporting countries to regulate the flow of trade in these goods had the effect of channelling exports to the United States' unrestricted market. This situation, therefore, required an international solution.

124. The representative of the United States said that his Government fully recognized the importance of this trade to the exporting countries but, while it was prepared to accept a reasonable growth in textile imports, it was determined to ensure that this must be on an orderly basis and that the growth in the United States market was shared equitably by both domestic and foreign manufacturers. Overall United States imports of cotton, wool and man-made fibre textiles were at an annual rate this year of 3.7 billion square yards, compared with 3.3 billion in 1968 and 1.5 billion in 1964.

125. There were many people in the United States who felt that the only viable solution to the textile problems they faced should be attained through import quotas enacted in legislation. However, the United States Government was of the opinion that it would be a more appropriate alternative to negotiate an acceptable international arrangement which would establish a reasonable and orderly basis for the development of the United States textile market and for the continued growth of United States textile imports.

126. In conclusion, the representative of the United States supported the continuation of the Cotton Textile Arrangement beyond 30 September 1970.

127. At a later stage, the representative of the United States said that he did not believe that the objective facts of the situation confirmed the statements which had been made by some exporting countries that the Arrangement had failed to work out in a generally satisfactory manner. Examination of import statistics had revealed an impressive increase in imports by importing developed countries since the coming into force of the Arrangement. In addition, adjustment measures reported to the Committee represented a major effort by most importing countries to adapt their industries in such a way as to provide more access for cotton textiles from exporting countries.

128. With respect to the future of the Arrangement, he pointed out that most importing countries had serious problems in the very sensitive textile sector. In case of the abolition of the Arrangement, these countries would be forced to resort to other devices. The possibility of resorting to a unilateral restriction would certainly be less favourable than the present Arrangement which provided for a code of general conduct for participating countries in the field of cotton textiles.

129. Referring to the suggestions which had been made by some delegations to improve the Arrangement, he said that if the Arrangement was to be modified the United States would have some suggestions to offer, particularly in connexion with the growth formula which many producers and labour organizations considered to be too liberal. However, it seemed to him advisable to avoid opening up the Arrangement to major changes which could involve difficult and protracted negotiations. As had been suggested, a more appropriate approach would be for exporting and importing countries to discuss their respective problems bilaterally.

130. He referred to the point which had been made that cotton textiles should not be included in the exceptions lists when considering general non-discriminatory preferences for the products coming from developing countries. Commenting on this, he said that the Cotton Textiles Committee ought not to be involved in this subject in view of the fact that the whole question was under serious consideration by other international organizations.

131. As regards the question of non-cotton textiles, he said that it might be useful, as suggested by the United Kingdom and the EEC, to study this problem within the framework of the GATT. It was clear that cotton textile problems could not be isolated from problems of other fibres and perhaps such an examination could point the way to an overall solution. However, the study of these problems was likely to be difficult and time-consuming. He therefore hoped that the question of non-cottons, at least for the present time, would be kept separate from cottons. The future of the Arrangement should first be dealt with and then, in the not-too-distant future, the question of other fibres might be examined by GATT.

132. The representative of Canada said that, in considering the future of the Arrangement, the key question was whether the objectives of the Arrangement would be better served by its continuation or by its demise. It seemed that, by and large, the Arrangement had so far provided better access to the markets of developed countries as a whole. Thus, in his view, some form of arrangement along the lines of the present one would probably continue to provide better access than the absence of such an arrangement. In the light of some remarks made by certain exporting countries, he believed that the Arrangement was in some respects an imperfect instrument for carrying out the objectives and that, over the course of time, substantial differences had emerged in the views of participants as to their obligations, their responsibilities and even their rights under the Arrangement.

133. He said that, in his statement under review, he had pointed out two respects in which Canada would wish to see some discussion of possible amendments if the Arrangement was to be extended or modified.

134. A number of other important issues had been brought out at this meeting which, in his view, needed discussion and clarification. In this connexion, he mentioned, for illustration of a general difficulty, the point made by the representative of Korea that, as a late entrant, the quotas allocated to his country were often quite low. The force of this argument had been considered by Canada but it was found impossible to arrive at what might be regarded as an equitable distribution of the import share of the Canadian market, simply because earlier entrants had gained already a very substantial portion.

135. In conclusion, he said that his delegation believed that the objectives of the Arrangement would be better met if the Arrangement was renewed for a limited time but in a form modified in certain respects to take account of some difficulties that had arisen and to bring about a somewhat greater harmonization of attitudes towards responsibilities and rights.

136. The representative of Turkey said that certain modifications to the Arrangement were needed to take account of the important rôle of the cotton textile industries, both in the industrial development and in the foreign exchange earnings of the developing countries. He added that, provided certain easements of the application of the Arrangement were made and that quotas were distributed in a more equitable manner, his Government could accept that the Arrangement would continue as a temporary measure for an additional three years with a view to working out, in the meantime, a more appropriate mechanism.

137. The representative of Israel said that there should be some serious practical steps in the implementation of Article 2, paragraph 1. In this connexion, he welcomed the decision by the United Kingdom to abolish the quotas system by January 1972. In his view, if the Arrangement was discontinued, exporting countries would be immediately faced with a rush of unilateral restrictions. Thus, his Government was in favour of an extension of the Arrangement for a definitive period with a view to bringing about its complete phasing out and the return to a normal system of trade where the tariff remained the sole means of protection.

138. The representative of Mexico said that, in his Government's view, the Arrangement had introduced order in an industrial sector of paramount importance. It seemed to him that a better understanding on the part of the developed countries of the problems of the developing countries would ease the working of the Arrangement. He stated that his Government would favour an extension of the Arrangement.

139. The representative of Australia said that his Government was a supporter of orderly marketing in international trade and, therefore, would favour an extension of the Arrangement which had provided for this.

140. The representative of Colombia said that, in his view, certain modifications of the Arrangement might be necessary to bring about a better balance between exporting and importing countries. More favourable conditions for developing countries should be provided for. His Government was of the opinion that the Arrangement should be extended for a limited period of three years. During this period, a more adequate solution could probably be found.

141. The representative of Greece said that the working of the Arrangement had not been satisfactory to his country. However, if it was extended, there should be a new approach to the problems of the developing countries so that better access to the international markets for their exports of cotton textiles could be secured.

142. The observer from Ceylon informed the Committee that his country was a recent entrant into the cotton textile industry and, at present, was becoming export oriented. It was, therefore, necessary for them to seek market access in developed countries. His Government thought that the Arrangement had been of benefit to developing countries and therefore would favour its extension, at least for a limited period. Thus, if a decision was taken to extend the Arrangement, it should be modified so as to take into account the needs of these new entrant countries.

143. At the conclusion of the discussion, the Chairman suggested that the Committee should meet towards the middle of December; he would fix the exact date after consultations with delegations. The interval between the two meetings would provide the opportunity for bilateral consultations between participating countries. At the next meeting, the Committee would continue its discussion under Article 8(d) to see what progress had been made in the bilateral consultations. It would then be possible to judge whether, in the meantime, consultations and reflection had permitted certain essential points to emerge, thus furthering constructive discussion on this issue.

This was agreed.