

GENERAL AGREEMENT ON TARIFFS AND TRADE

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MEMORANDUM

TO: Heads of delegations who participated in the meetings of the Cotton Textiles Committee - 15 to 17 December 1969 and 25 to 27 May 1970.

FROM: Director-General

SUBJECT: Draft Report on the two Meetings of the Committee held at the Palais des Nations

Attached is the draft report on the meetings of the Cotton Textiles Committee from 15 to 17 December 1969 and 25 to 27 May 1970. Delegations are invited to submit any comments they might have as soon as possible and in any case not later than 17 July 1970.

The Protocol providing for the extension of the Arrangement Regarding International Trade in Cotton Textiles has already been circulated to the members of the Committee in document L/3403 dated 15 June 1970. The Protocol will be annexed to the final version of the report.

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

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COT/W/127

25 June 1970

Special Distribution

COTTON TEXTILES COMMITTEE

Draft Report on the Meetings of the Committee held
at the Palais des Nations from 15-17 December 1969
and from 25-27 May 1970

Chairman: Mr. O. LONG

Subject discussed: Future of the Cotton Textiles Arrangement

1. The Cotton Textiles Committee, acting pursuant to Article 8(d) of the Arrangement Regarding International Trade in Cotton Textiles, initiated discussion on the question of extension, modification or discontinuance of the Arrangement at its meeting from 8-10 October 1969.¹
2. Discussion of this issue was continued by the Committee at its meeting from 15-17 December 1969. It was clear from the discussion that many participating countries were generally of the view that it would be necessary to extend the Arrangement for a further period. However, it was felt that it would not be possible to proceed to a determination under paragraph (d) of Article 8 until the bilateral negotiations between participating countries concerned had either been concluded or been carried very much further. With a view to proceeding with these negotiations expeditiously, the Committee agreed, with the exception of one delegation, on a working hypothesis² based on a prolongation of the Arrangement in its present form for a period of three years. It was understood that this working hypothesis would not prejudice the final position of participating countries as to the future of the Arrangement.
3. At its meeting from 25-27 May 1970, the Committee resumed its deliberation to ascertain whether, in the interim between the last two meetings, sufficient progress had been made in the bilateral negotiations, thus permitting a firm decision to be reached as to the prolongation of the Arrangement.

¹A summary of the discussion is contained under Item 3 (pages 18-29) of document L/3288.

²See COT/W/123 and Add.1.

4. As a result of the deliberation in the Committee, a protocol was established providing for the prolongation of the Arrangement for a further period of three years, beginning 1 October 1970. It was agreed that the protocol should be open for acceptance on 15 June 1970. If acceptance, however, gave rise to difficulties for one or more countries, then, under those circumstances, the Chairman would call the Committee together before 30 September 1970 to deal with this situation.

5. Following its deliberations on the future of the Long-Term Arrangement, the Committee adopted the following conclusions:

I. The Committee reaffirmed that the Long-Term Arrangement was to be regarded as an exceptional and transitional measure designed to deal with special trade problems in the cotton textile sector and to achieve an orderly expansion of trade in cotton textiles in accordance with the principles and objectives set out in the Preamble to the Arrangement.

II. The Committee reaffirmed the principles and objectives of the Long-Term Arrangement as well as the basic objective of the participating governments towards achieving the liberalization of trade through the General Agreement.

III. The Committee recognized that changes have taken place during the lifetime of the Arrangement in trade and production of cotton textiles as well as in the structure of the textile industry in many countries.

IV. It was therefore agreed to undertake discussion on the state of international trade in cotton textiles and the longer-term development of such trade beyond the period of extension of the Long-Term Arrangement.

6. A summary of the main trends of the discussion which took place in the Committee at both meetings (December 1969 and May 1970) follows below.

MEETING FROM 15-17 DECEMBER 1969

7. The Committee had before it document L/3288 which contains, in addition to the report on the Seventh Review, a summary of the discussion it had initiated on this issue.

8. Most participating countries were generally of the view that it would be necessary to extend the Arrangement for a further period. A final decision on the extension would however, in the view of the exporting countries, depend upon some improvements in the way in which the Arrangement was operated. In this connexion, some exporting countries could only agree to an extension subject to certain modifications in the Arrangement to ensure its satisfactory working in the future. Likewise, other changes were sought by certain importing countries to make the Arrangement more satisfactory to them. Some other exporting countries pointed out that the Arrangement had been intended to be a temporary and exceptional measure and stressed that a routine prolongation would involve the danger of perpetuating such a provisional measure.

9. Following informal consultation, it was generally felt that it would be desirable to avoid prolonged discussion on textual changes; this might, in the view of some countries, jeopardize the extension of the Arrangement itself. It was pointed out that it would be difficult to reach an agreement on the details of such changes but participating countries should instead endeavour to see to what extent the purpose behind the different suggestions for modification could be achieved in bilateral negotiations. It was therefore suggested that the Committee should agree on a working hypothesis based on a prolongation of the Arrangement without change. This would stimulate participating countries to proceed with bilateral talks and to concentrate on specific aspects of concern instead of devoting energy to the whole question of the future of the Arrangement.

10. The hope was expressed that, at this meeting, an agreement in principle could be reached on the future of the Arrangement. However, in view of the fact that certain bilateral discussions among participating countries had started only recently, while others were scheduled to commence in the near future, it was felt by certain exporting countries that there should be a great deal of intensive consultations before pronouncing themselves definitively on this question. It was, however, stated that, although the Arrangement would expire only on 30 September 1970, it would be desirable to reach an early decision on its future, thus avoiding any uncertainty which would adversely affect international trade in cotton textiles.

11. The point was also made that serious consideration should be given to the phasing out of the Arrangement. After an extension had been agreed, the Committee should engage itself in a series of examinations and subsequent discussions of the whole question of trade in cotton textiles and of possible alternative action. In this respect, it was pointed out, however, by importing countries, that it would be difficult to undertake, at this stage, any commitment on the phasing out of the Arrangement as discussion of this nature should take place in the Committee after the extension had been accepted.

12. Many exporting countries stated that it was difficult to agree to the idea of an extension without changes, in the absence of an assurance on the part of the importing countries to liberalize and relax extensively existing restrictions with a view to their early elimination. It was, therefore, suggested that a basic understanding should be reached in the Committee on a set of guidelines to govern both bilateral negotiations and, in the interim period, the progressive relaxation of restrictions.

13. On the working hypothesis that the Arrangement should be extended in its present form, the representative of the United Kingdom, speaking on behalf of Hong Kong, suggested certain understandings to be agreed upon for the future operation of the Arrangement. These suggestions, together with others put forward by the representatives of Spain and the Republic of Korea, have been distributed to the Committee in document COT/W/122. Some other points were also mentioned by certain exporting countries. While it was pointed out by some exporting countries that there were differences, both in views and in interests, among exporting countries, the suggestions contained in this document could generally serve as guidelines for conducting future negotiations.

14. The point was raised as to whether it would be practicable or feasible for the Committee to try to reach agreement on all of these points during this meeting. One major importing country stated that it would endeavour, in the course of bilateral talks, to offer increased export opportunities to the exporting countries and to relax progressively restrictions on trade in cotton textiles. It would accept this sort of commitment rather than a guideline governing bilateral consultations, as it doubted the utility of reaching an agreement on general guidelines, particularly in view of the fact that the problems differed among individual exporters. In its view, the various problems raised could be discussed and resolved in the course of bilateral talks.

15. Other importing countries stated that a distinction should be made, however, between those problems which could be resolved through bilateral consultations and those problems of a longer-term nature which could be discussed multilaterally in the Committee. In their view, suggestions concerning such longer-term problems should be discussed multilaterally since importing countries could not take any fundamental commitment on these questions in isolation as it was necessary to have certain balance for these.

16. Following its discussion, the Committee¹ agreed that:

In the course of bilateral consultations or negotiations which should be held in the near future, importing countries should, in the light of the concepts, principles and objectives of the Long-Term Arrangement, endeavour to offer increased export opportunities and more flexible conditions for the operation of bilateral arrangements. Further, they should endeavour, in the framework of these consultations, to give specific indications concerning the treatment which they would grant to exporting countries, including new exporting countries, during any period of extension.

These consultations or negotiations would imply no commitment as to the future of the Long-Term Arrangement. However, they should be based on the hypothesis of an extension of the Long-Term Arrangement in its present form for a period of three years. The Committee would resume the discussions early in 1970 with a view to accepting the renewal or taking other action which might be necessary.

Finally, the Committee also agreed that, as soon as possible after the extension of the Long-Term Arrangement has been agreed upon, it would undertake discussions on the state of international trade in cotton textiles, and the longer-term development of such trade beyond the period of extension of the Long-Term Arrangement.

¹The representatives of Japan and Pakistan reserved the position of their Governments.

On 23 February 1970, the Government of Pakistan subscribed to the agreement reached in the Committee (see COT/W/123/Add.1).

17. The spokesman for the European Economic Community declared that, since this working hypothesis would open the way for a multilateral discussion in the very near future on the basic problems encountered, the Community could see no reason why, in the meantime, any additional restrictions should be introduced in a field which was very close to that of cotton textiles.

MEETING FROM 25-27 MAY 1970

18. The Committee resumed its discussion under paragraph (d) of Article 8 at a meeting held from 25-27 May 1970. It was generally felt that the Committee should reach a decision on the future of the Arrangement at this meeting, if confusion were to be avoided and order maintained in international trade in cotton textiles. In this connexion, it was pointed out by an important importing country that uncertainties were affecting the forward plans of importers, production plans of mills, sales contracts as well as shipping schedules of exporters.

19. Major importing countries, in reporting on developments in the consultation and negotiations they held with exporting countries concerned, stated that they had complied with the working hypothesis evolved in the December meeting. They had offered increased export opportunities and more flexible conditions in the operation of the bilateral agreements concluded. Likewise, they were prepared to extend the same treatment and offer similar conditions to those countries with which they had yet to negotiate. They therefore urged an extension of the Arrangement.

20. For their part, many exporting countries stated that bilateral negotiations had led to broad agreements being reached with the importing countries concerned. Some of these countries which had completed their bilateral negotiations stated that they were in a position to pronounce themselves firmly in favour of a decision on the extension of the Arrangement. A major exporting country stated that, although it had not completed bilateral negotiations with one important importing country, they were ready to convey their acquiescence in the extension of the Arrangement for a period of three years, thus performing an act of faith in the hope that the importing countries concerned would give fullest consideration to their needs and difficulties having due regard to the objectives set out in the Preamble to the Arrangement. Other exporting countries in a similar position also conveyed their readiness to support the extension, on the same understanding. Some other exporting countries which had yet to negotiate, while joining the general consensus for an extension, stressed that adequate consideration should be given to the special problems, particularly those relating to the equitable distribution of quotas for the new exporting countries. One important importing country gave an assurance that they would give adequate and every possible consideration to those problems and the requests made by exporting countries during the course of the bilateral negotiations.

21. Attention was again drawn in the Committee to the transitional and temporary nature of the Arrangement. It was pointed out that this Arrangement fulfilled, in its early phase, an important function as an exceptional and a stop-gap measure. However, in the view of some exporting countries, certain disadvantages such as the rigid administration of the quotas and sub-quotas, and the distortion to the growth and diversification of the cotton textile industries in the developing countries, which seemed to be caused by the Arrangement itself, had long since begun to outweigh the short-term advantages. Attention was also drawn to certain

difficulties which arose for some other exporting countries from the liberal interpretation of the criteria of market disruption and the fixing of restraint levels as provided for in Annex B. In this connexion, it was pointed out that participating countries' exports were more severely restrained than the exports of non-participants. The point was also made, by Mexico, that the application of paragraph 1 of Annex E should not be interpreted in such a way as to invalidate or modify previous bilateral agreements concluded.

22. The view was expressed that it would be undesirable to give the present Arrangement a routine prolongation of life and it was the task of the Committee, therefore, to determine the best manner of phasing it out as speedily as possible. In this connexion, it was mentioned by other countries, that this further extension, while not excluding increased export opportunities, would be the best way to provide time to work for the phasing out of the Arrangement after the completion of its extended period.

23. As regards the period of extension, it was stated by an importing country that a five-year extension was desirable, while an exporting country remarked that, had they been certain that this was to be the last extension of the Arrangement, they would have even opted for a prolongation of four years rather than three. On the other hand, other participating countries favoured a period shorter than three years. However, these countries joined the emerging consensus in favour of an extension limited to three years, as set out in the working hypothesis.

24. Particular emphasis was put, by a number of countries, on the need for the Committee to proceed, as soon as possible, with a discussion on the state of international trade in cotton textiles and the longer-term development of such trade beyond the period of extension of the Arrangement.

Consideration of the Protocol extending the Arrangement

25. The Committee proceeded to consider a draft protocol, drawn up along the lines of the previous one, providing for an extension of the Arrangement for a further period of three years, i.e. until 30 September 1973.

26. The spokesman for the European Economic Community informed the Committee that the transitional period provided for in the Treaty of Rome expired on 31 December 1969 and that the Commission, on behalf of the Community, had since been in charge of conducting the negotiations to extend the Arrangement. This statement was reflected in the clause at the end of paragraph 4 of the Protocol.

27. The representatives of Austria and the Nordic countries submitted the percentage increase in the figures to be included in Annex A for their respective countries over the period of validity of the Arrangement. The spokesman for the European Economic Community stated that the Community was proceeding towards the conclusion of bilateral agreements under Article 4 in lieu of Article 2 restrictions. The Community, therefore, held the view that the modalities for the implementation of Article 2 were no longer relevant in their case. In the light of this declaration, the Community was excluded from Annex A and a footnote to this effect was inserted in the Protocol.

28. The representative of Norway said that, should the Community continue to be included in Annex A, he assumed that the percentage increase for it as a whole would have been 220 per cent. On this assumption, he would confirm the figure of 33 per cent for Norway. In response, the spokesman for the Community said that it was their intention to negotiate Article 4 agreements with exporting countries, thus eliminating any quantitative restrictions to be imposed during the period of validity of these bilaterals. However, if it was deemed preferable for the one or two countries with which they had yet to negotiate to continue the application of Article 2 quotas, the percentage increase had to be calculated in the light of this situation. This would be either by the inclusion of the increase granted to other suppliers which had opted for Article 4 agreements or by re-calculating the rate. The representative of Norway put a reservation concerning the percentage indicated against his country with the hope of lifting it as soon as possible.¹

29. The Committee adopted the Protocol. It was agreed that it would be open for signature on 15 June 1970. In case, however, acceptance would give rise to difficulties for one or more countries then, under those circumstances, the Chairman would call the Committee to deal with the situation prior to 1 October 1970.

Other matters

30. The representative of India pointed out that the problem of made-up handloom articles to which they had repeatedly referred in the discussions in the Committee over the last years, still remained unresolved. The necessity of exclusion of these goods from the operation of the Arrangement was stressed and hope was expressed that importing countries, and more especially the United States, would agree to such exclusion, not only in the context of evolving new bilateral agreements but even during the current period which was due to expire on 30 September 1970.

31. Some exporting countries expressed the hope that importing countries would endeavour to accord duty-free access to cotton textiles from developing countries as long as quantitative restrictions continued in this field. It was pointed out that tariffs and quotas on cotton textiles should be discussed together as both had a bearing on the capacity of developing countries to diversify their exports and increase their earnings of foreign exchange. In this connexion it was hoped that duty-free access to exports of cotton textiles from developing countries would be extended under the General Scheme of Preferences.

32. The representative of Canada informed the Committee of the new policy formulated by his Government in the field of textile and clothing industries. His statement has been circulated to the members of the Committee in COT/W/129. The spokesman for the European Economic Community also reported that the Community was in the process of elaborating industrial policy which would affect the textile industry, it being an important sector.

¹The secretariat has been informed that this reservation is withdrawn.

Future work

33. Participating countries stressed the importance they attached to the forthcoming discussion on the state of international trade in cotton textiles and the longer-term development of such trade. It was felt that careful consideration and thought should be given as to how the Committee ought to proceed with this discussion. Participating countries were, therefore, requested to reflect on these important problems so that proper preparation could be made. It was suggested that the secretariat, in consultation with delegations, would be entrusted with the task of proposing guidelines for the discussion. These guidelines might take into account, among other factors:

- (a) technological market and product changes;
- (b) the inter-action between domestic policies and the terms on which international trade is conducted;
- (c) examination of possibilities of ameliorating the impact of these policies with a view to bringing them more closely into line with the objectives of the General Agreement;
- (d) special attention to expanding and promoting the development of developing countries possessing the necessary resources such as raw materials and technical skills;
- (e) the situation of exporting countries which are not participants.

Delegations were invited to inform the secretariat of any ideas they might have in this connexion.

Date of next meeting

The next meeting of the Committee will be held some time in October/November 1970. The Committee will then conduct the Annual Review and initiate discussion on the longer-term developments.

ACCORD GENERAL SUR LES TARIFS DOUANIERS
ET LE COMMERCE

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MEMORANDUM

AUX: Chefs des délégations qui ont participé aux réunions du Comité des textiles de coton, du 15 au 17 décembre 1969 et du 25 au 27 mai 1970.

DU: Directeur général

OBJET: Projet de rapport sur les deux réunions du Comité tenues au Palais des Nations

Le présent mémorandum accompagne le projet de rapport sur les réunions du Comité des textiles de coton, qui se sont tenues du 15 au 17 décembre 1969 et du 25 au 27 mai 1970. Les délégations sont invitées à présenter leurs observations éventuelles le plus tôt possible et en tout état de cause le 17 juillet 1970 au plus tard.

Le Protocole prorogeant l'Accord concernant le commerce international des textiles de coton a été déjà distribué aux membres du Comité dans le document L/3403 en date du 15 juin 1970. Il sera annexé à la version définitive du rapport.

Six exemplaires de ce projet sont envoyés au chef de chaque délégation et deux exemplaires, pour information, au représentant permanent à Genève de chaque pays participant.