

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

COT/M/12

17 August 1972

Limited Distribution

Cotton Textiles Committee

MINUTES OF THE MEETING OF THE COMMITTEE HELD
FROM 5 TO 6 JUNE 1972

Chairman: O. Long

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The Chairman welcomed the representative of Argentina which had become a member of the Cotton Textiles Committee by virtue of its acceptance of the Arrangement (COT/219).

1. Accession by El Salvador

The Chairman referred to the communication from El Salvador expressing the desire to become a participant in the Arrangement (COT/217), and to the memorandum supplied by El Salvador on the position of the cotton textile industry in El Salvador (COT/W/142). He stated that the accession would be subject to conditions to be agreed upon by the Committee as provided for in Article 11, paragraph 2, of the Arrangement.

The Committee approved the accession by El Salvador, subject to the condition that it undertook not to introduce new import restrictions or intensify existing restrictions on cotton textiles. The Chairman said that the secretariat would contact the Salvadorian delegation with a view to completing the necessary legal steps in this regard.¹

¹This was effected by an exchange of letters on 6 June 1972. Consequently, the accession of the Republic of El Salvador became effective as of that date (see COT/226).

2. Review of the operation of the Cotton Textiles Arrangement

The Committee had before it a secretariat note summarizing notifications of actions taken by participating governments under the various provisions of the Arrangement (COT/W/137 and Add.1) and a note on the evolution in cotton textile production and trade during 1969 and 1970 (COT/W/140 and Add.1 and corrigenda). These served as a basis for discussion under this item in the agenda.

The Chairman recalled that there had been a general consensus to dispense with the 1970 review because of the extensive discussion relating to the extension of the Arrangement which had taken place in October 1969 and May 1970. Since then various developments and special circumstances had made it necessary or advisable to postpone the review. Consequently, in carrying out the present review, it would be in order for members of the Committee to bring up relevant events and developments of the past three years.

The representative of the United States said that the Arrangement had provided the mechanism to deal effectively with international trade in cotton textiles, and that his country's adherence to its principles had contributed to its successful operation. The United States had administered the Arrangement in a fair, logical and flexible manner. It had at present bilateral agreements with twenty-nine major exporting countries and had invoked Article 3 in respect of five non-participants only in those cases where imports caused or threatened to cause market disruption. The United States had consistently met the equity obligations of Article 6(c) of the Arrangement; it had been possible for many new countries to enter its market without adversely affecting the position of other suppliers.

Cotton textile imports into the United States had risen from 4.7 per cent of the domestic market in 1961 to 12.7 per cent in the year ending March 1972. Imports from the developing countries had increased significantly from 634 million square yards equivalent in the Short-Term Arrangement year to 1,136 million square yards equivalent in 1971, thus increasing their share in United States total cotton textile imports from 57 to 71 per cent. These increases reflected the United States commitment to the objectives of the Arrangement. There had also been a shift in imports towards more labour intensive products such as apparel and made-up goods, which had had a great impact on labour and industry in the United States. In value terms, total imports had reached a record of \$657 million in the year ending March 1972, or 190 per cent over fiscal year 1961. This increase had been caused mainly by a substantial rise in imports of cotton apparel products. Over this period the share of the developing countries had increased from 45 per cent to 56 per cent. The United States balance of trade in cotton textile products had changed from a surplus of \$74 million in 1961 to a record deficit of \$299 million in the year ending March 1972.

Referring to difficulties encountered by the United States in the implementation of the Arrangement, he said that the most pressing problem was one of over-shipment beyond agreement limits. His Government believed that improved statistical data on exports and a more timely exchange of information would contribute to the

better operation of these agreements and had assisted a number of exporting countries in improving their administration of the bilateral agreements. These improvements had related to visa systems, import controls, timely clarification of classification problems, exchange of statistical information and consultations whenever needed.

The textile and apparel industry in the United States was the largest employer of all manufacturing industries. It contributed significantly to the economies of many small communities, and enabled the unskilled and semi-skilled workers and minority group members to enter the industrial economy. It also provided income for domestic producers of cotton, wool and man-made fibres, as well as those in many other related industries.

The United States cotton textile industry continued to be in a difficult position. The industry's raw material and labour costs had risen sharply, and the supply and demand situation had not permitted the industry to pass on these higher costs and had resulted in a further lowering of profit margins. These conditions in the cotton sector paralleled those in the textile industry as a whole. Capital expenditure for new plant and equipment in 1972 was projected to be 2 per cent above 1971, but 24 per cent below the 1966 level. Both indices for textiles and apparel products were 6 to 7 per cent below the 1969 highs. Total employment was more than 60,000 below the peak of early 1969.

In addition to the recent depressed economic conditions many changes had been occurring in the textile and apparel industry which had become a multi-fibre industry. While cotton's share of the market had fallen from 62 per cent in 1961 to 37 per cent in 1971, and the use of other fibres increased, international trade in textile and apparel products expanded significantly. Imports into the United States had increased from 1.5 billion square yards in 1962 to a record of 6.4 billion in the year ending March 1972, and the increased import penetration was particularly marked in the apparel sector. The trade deficit over this period increased from \$103 million to \$1.8 billion.

In conclusion, he reiterated that his Government was prepared to accept continued growth on a reasonable and orderly basis in the export of textile products to the United States market, and that the growth should be shared equitably by both domestic and foreign manufacturers.

The representative of Austria said that in applying the Annex A provisions, the import quotas under Article 2 had been greatly increased. Imports under bilateral agreements concluded in accordance with Article 4 to supersede Article 2 quotas had continued to grow. Total quotas had increased to over 1,300 tons for 1971-72 from 340 tons in 1962, apart from other liberalization measures. Some exporting countries had not been able to fully utilize the quotas allocated to them because the Austrian market for cotton textiles was comparatively small and that per caput consumption was lower than in other developed countries. Although the market for imported cotton yarns and grey fabrics was limited, the share of the developing countries in imports from all sources had more than doubled since 1961. As regards finished cotton products, imports consisted largely of highly fashioned articles, and the saturation of the market made it difficult for both domestic and foreign producers to sell cotton textiles.

In conclusion, he said that Austria had abided by the stated objectives of the Arrangement, and expressed the hope that developing countries would successfully make full use of the expanded access to the market.

The representative of Pakistan thought that the working of the Arrangement had not been encouraging and that the objective of providing larger opportunities for developing countries to increase their export earnings from cotton textiles did not seem to have been met. Trade policies of the developed countries continued to be restrictive on the pretext of market disruption or through other administrative devices. Pakistan had agreed to the extension of the Arrangement because of the argument that the developed countries needed more time to adjust their industries. However, while in the absence of sufficient efforts the desired adjustments had not been brought about, some developed countries were taking steps to re-equip and modernize their industries, which had made it even more difficult for developing countries to sell their products in their markets.

The quotas made available to Pakistan by the developed countries were still small and the annual increases inadequate. They should provide better export opportunities to developing countries, such as his own, in line with their export potential in this sector. The recent measure taken by the United Kingdom to impose a tariff of 15 per cent on imports of woven cotton textiles from the Commonwealth countries, in addition to the retention of quota restrictions during 1972, was, in the view of Pakistan, contrary to the declared objectives of the Arrangement.

In conclusion, he reiterated the views that the Arrangement being a transitional measure, trade in cotton textiles should be free from all import restrictions and enjoy low duties or duty-free treatment.

The representative of the United Kingdom pointed out that changes in import duties fell outside the purview of the Arrangement and were therefore not a suitable matter for discussion in this Committee. In relation to the objectives of the Arrangement, it might be pointed out that more than 53 per cent of cotton textiles consumed in the United Kingdom (in 1971) was imported; the preponderant part of this came from the Commonwealth countries.

The representative of Canada, reviewing recent action in Canada, drew particular attention to the Textile and Clothing Board which had been established in May 1971 to carry out selective product-by-product enquiries. During an inquiry the Board was required to determine whether or not the particular sector of the industry had been seriously injured, or was threatened with serious injury, by reason of imports. Only if the Board found injury, and the adjustment plan submitted by a company was acceptable within the terms of the Act, could it recommend special protective action. No protection was to be afforded which would encourage production that had no prospects of becoming competitive with foreign goods.

Any Government measures based on the Board's recommendation were to be reviewed annually by the Board to determine if they were still justified or should be relaxed and whether the companies' plans were in fact being followed. Any

measures affecting imports would, as far as possible, be arranged through negotiation, although the Government retained the power to impose quantitative restrictions in urgent and justifiable cases. So far the Board had found serious injury and recommended special measures only in the case of cotton yarn and shirts.

The restrictions recommended by the Board affected a narrower range of yarns than had been hitherto subject to restraints. Arrangements had been accordingly negotiated or renegotiated with almost all disruptive sources. In view of the severe penetration of imports of shirts (cotton and man-made fibre) and the impracticability of negotiating restraints, a global quota had been introduced with minimum guaranteed reserves for each of the suppliers which had been restraining shirt exports to Canada. This action was taken under Article XIX of the GATT (see L/3613). Arrangements had been made, or offered, for certain former restraining countries, replacing the import quotas with controls at the exporting end.

The representative of Portugal referred to the satisfactory implementation of his Government's bilateral agreement with the United States and to the likelihood of an early solution to one administrative problem on account of the comprehension and goodwill shown by the United States authorities.

The spokesman for the European Economic Community said that between 1968 and 1970 the import/consumption ratio for cotton yarn had increased from 3.4 to 7.1 per cent, and that for all other cotton goods from 14 to 18.6 per cent. Developing countries had benefited greatly from this expanded access, and EEC imports from developing participating countries had increased much more rapidly than those of other countries, now representing 76 per cent of total imports from participating countries. This tendency, combined with a decline in EEC exports had made the Community a net importer of cotton products (trade deficit in 1970 was 55,940 tons as compared with a trade surplus of 98,000 tons in 1961). Although activity in the Community's textile industry had increased by about 4.5 per cent in 1971, cotton textile production had not followed the general pattern; the provisional data showed a substantial decline, particularly in the spinning sector. On the other hand, imports from all sources of all cotton products seemed to have continued to grow in 1971.

The Community had concluded bilateral agreements under Article 4 with all principal suppliers, and thereby had suspended all quantitative restrictions on imports of cotton textiles from these countries. These agreements provided for substantially increased imports and greater export opportunities, particularly for the developing countries. The previous quotas and present restraint levels were: India 7,800 and 11,500 tons, Pakistan 2,700 and 4,300 tons, Korea 3,053 and 6,850 tons, Egypt 3,000 and 3,600 tons. The transfer of the import quotas to export restraints should be welcome to the exporting countries.

Parallel to these efforts, the Community had also included cotton textile products in its offer within the context of the Generalized System of Preferences.

In conclusion, he said that the Community, in conformity with the underlying principles of the Arrangement, had pursued a policy of providing substantial and orderly increasing export opportunities for supplying countries, particularly developing countries.

The representative of Sweden said that Swedish imports of cotton textiles had increased from \$122 million in 1968 to \$163 million in 1970, but, as a consequence of sluggish economic activity, had declined to \$152 million in 1971. Participating countries had supplied about 90 per cent of the total. Over the last decade, while imports from all sources had increased by 127 per cent, those from Group 2 countries had grown by 334 per cent. Imports per capita had almost quadrupled. Despite this rapid growth of imports, domestic production of cotton yarn and fabrics had declined.

The representative of Israel expressed misgivings about certain countries' practice of applying restraint measures beyond the scope provided for in Article 3 of the Arrangement and the related annexes. Israel had been able to settle most of the differences on these matters through bilateral consultations. Such consultations had been initiated with the United Kingdom but had not been concluded.

The representative of Japan reiterated the position of his Government that the Arrangement should be a transitional and exceptional measure. With reference to the statement made by his Government in October 1971 when signing the protocol extending the Arrangement (COT/W/136), he stated that his Government was still against the further extension of the Arrangement.

Japanese production of all textile goods increased by only 0.9 per cent in 1971, as compared with the average growth rate of 9 per cent in 1965-1970. This had been mainly due to the general economic stagnation and the deterioration of export opportunities in some advanced countries, as evidenced by the Japanese/United States agreement on trade in wool and man-made fibre textiles. Another factor was the increasing competition from developing countries. Exports of all textile goods grew by 15.8 per cent in 1971; exports of man-made fibre products grew by a smaller margin than in previous years, while those of cotton textiles had fallen in 1970 and remained unchanged in 1971. Imports, in contrast, had grown substantially, particularly for cotton products; they in fact had doubled annually over the last three years, rising from \$23 million in 1969 to \$77 million in 1971.

This increase in imports had resulted from the Government's policies of trade liberalization and assisting industrial adjustment. Moreover, Japan had implemented its offer under the Generalized System of Preferences with regard to cotton textile imports.

There had been certain improvements in the administration of the bilateral agreements concluded recently under Article 4 with the European Economic Community and with the United States. It was to be regretted that the Canadian Government

had imposed unilateral import restrictions on shirts, but subsequent consultations on this matter had recently been concluded. Discussions had also been held with the United Kingdom on the latter's quota restrictions, and it was to be hoped that the effort would not be adversely affected by the accession of the United Kingdom to the EEC. It was also to be hoped that the quotas still maintained in Austria, Norway and Sweden would be substantially improved.

The representative of Spain said that the Arrangement had been accepted as a temporary, transitional measure, but it had a tendency to persist. It had also failed to enhance the bargaining power of exporting countries as it had been expected to. At previous meetings of the Committee his delegation had expressed concern and had proposed, without success, textual changes to improve the operation of the Arrangement in the future.

Exports of cotton yarn and fabrics from Spain had shown a declining trend. A particular problem faced by his country arose from the way the term "temporary importation" was interpreted by a trading partner. He expressed the hope that agreement could be reached through bilateral channels on this point.

The representative of India said that some of the bilateral agreements reached prior to the last extension of the Arrangement had been accepted as an act of faith, in the belief that its principles and objectives would lead to a fuller liberalization of trade. Developments in the last two years, particularly in cotton textiles, had caused serious concern to his country, which depended heavily on cotton textiles for its export earnings. The expectation that no new measures would be imposed by importing countries had also been belied. The disappearance of the United Kingdom's duty-free treatment for imports from the Commonwealth countries had had serious effects on Indian exports.

In 1971, India had agreed to restrain its exports of certain types of cotton yarn to Canada, in spite of the absence of injury to domestic Canadian industry, and a recent request had been made by Denmark regarding certain types of apparel. Contrary to the expectation that the new lease of life given to the Arrangement would see a gradual relaxation of restrictions, quantitative ceilings and high customs duties had in fact been more widely used. The extension of trade restrictions and restraints under the cover of the Arrangement after such a long "transitional" period was disquieting.

The representative of India reiterated the plea that developed countries exclude handloom products from their restrictive arrangements and referred to such features in the control systems of importing countries as the minute sub-division of goods for quota purposes, the lack of flexibility for inter-group

substitutability, the impossibility of carry-over, etc. which had impeded full utilization of the quotas and had made it difficult for the Indian cotton textile industry to plan in advance or to diversify its production. All these unnecessary impediments to trade should be eliminated. It would be most desirable if a single quota were to be set for imports into all EEC markets.

It was disappointing that most developed countries had excluded cotton textiles from the General System of Preferences. There had also arisen some practical difficulties in the implementation of the offer made by the EEC under the GSF which were awaiting solution through bilateral consultation.

The representative of the Republic of Korea said that his Government had entered into a series of bilateral negotiations with importing countries for greater access to their markets. The requests represented by his country, though modest and fully justified in view of Korea's late entry into this trade, had not been fully accepted. In most cases Korea had been obliged to accept quotas which did not reflect its particular needs. Difficulties had also arisen not only from the small size of the quotas that some importing countries had provided but also from their minute sub-division. Disputes concerning the classification of certain items had seriously hampered their timely entry. There was also the problem of undue delay in obtaining licences.

The Arrangement was a transitional measure. It had often been operated against the expectations that the exporting countries were entitled to have on the basis of its preamble. For these reasons the Arrangement must be terminated at an appropriate time in the interest of both importing and exporting countries.

The representative of Norway considered that the Arrangement had been a useful instrument in assuring orderly trade in cotton textiles. Textile imports into Norway had increased by 18 per cent between 1967 and 1970, while those from Group 2 countries and Japan had risen by 21 per cent. Developing countries had therefore had a fair share of the increase in Norway's cotton textiles imports. Domestic production had declined by about 19 per cent over the same period.

The representative of Turkey stressed the importance of the cotton textile industry to the Turkish economy, and outlined its evolution during the first and the second development plans (for 1963-1967 and 1968-1972). Between 1969 and 1971, the number of spindles had risen from 1,200,000 to 1,540,000 and looms from 22,600 to 29,250; according to preliminary estimates the number of spindles was expected to further increase in the coming years by between 500,000 and 1 million. Over the same period production of cotton yarn had

increased from 165,000 tons to 189,000 tons, and cotton fabrics from 825 million metres to 870 million metres, the targets for 1972 being 200,000 tons and 945 million metres respectively. Exports of cotton yarns and fabrics had developed satisfactorily between 1969 and 1970, with yarn increasing from 7,644 tons to 16,472 tons and fabrics from 3,300 tons to 3,579 tons.

The Arrangement had undoubtedly rendered useful services by affording a legal framework for international co-operation. Unfortunately it had also been used as a convenient means for legalizing restrictions. The small quotas granted to Turkey in no way corresponded to its export potential, and could not always be fully utilized because of minute sub-division.

As previously stated, the Turkish Government would urge that importing countries give particular attention to the need for new exporting countries to expand their exports of cotton textiles.

The representative of Poland stressed the importance of the cotton textile industry to Poland, which had always been a net exporter of these products and was, therefore, interested in gaining non-discriminatory access to the markets of the developed countries. The importing countries should provide better trading opportunities through the progressive relaxation and elimination of existing restrictions.

During the 1960's Polish exports of cotton fabrics had shown a rising trend, but this trend had since been reversed due to growing domestic demand and increasing intake by the apparel industry. The limited access to the markets of the export opportunities provided by developed countries had not corresponded to Poland's export potential. As imports of raw cotton were expected to be kept at the current levels until 1975, cotton yarn and fabrics would be imported into Poland in considerably increasing quantities during the coming years.

The representative of Colombia said that his Government believed that the Arrangement had been a useful instrument in bringing some order in international trade in cotton textiles. He described the position held by this industry in Colombia's gross national product and employment, as well as its dynamic effect on the agricultural sector. The cotton textile industry represented 3.9 per cent of Colombia's total exports in 1971, as against 1.6 per cent in 1967. Textile exports had increased from 14.5 per cent of total industrial exports in 1967 to 22.7 per cent in 1971.

With reference to Colombia's agreements with the United States and Canada, and the importance of the textile sector in the four-year export plan commencing 1971, he stated that his Government intended to enter into consultation with the United Kingdom and the EEC. It would also approach developed countries which had not included cotton textiles in the GSP offers about the possibility of this gradual inclusion.

The representative of the Arab Republic of Egypt said that the Arrangement had been envisaged since its inception as a transitional measure. It was accepted as a catalytic agent for the normalization of trade in cotton textiles, and as a set of rules based on self-restraint and spirit of international co-operation. Evidently, free trade in the true sense, as advocated by GATT, would have given greater impetus to the expansion of developing countries' exports which needed to be widely diversified. His delegation had entered into consultations with various importing countries in an effort to improve the implementation of the Arrangement. While some of these countries were not in a position at this stage to undertake to provide greater flexibility in their import systems, satisfactory solutions were not beyond hope.

3. Adjustment measures in the cotton textiles industry

The Chairman recalled that the Committee had discussed this subject in October 1969, and had asked participating countries to continue to keep the secretariat informed of new developments in this field. The responses that had been received, though not abundant, did contain very useful information on changes in policies and on new measures. These had enabled the secretariat to compile a fairly comprehensive descriptive paper (COT/W/139 and Add.1). It was of interest to note that a number of countries had commissioned studies to ascertain the possibility of further adjustments in their cotton textile industry and the ways and means that might be used. In certain cases, measures had been adopted, or were being considered, on the basis of such studies.

The representative of Spain referred the Committee to the plan approved by his Government for the restructuring of the domestic cotton textile industry, which was described in documents COT/W/139 and Add.1. In supplementing the information contained therein, he said that as of 16 March 1972, the Management Committee in charge of the implementation of this plan had approved 184 cases. This involved the scrapping of 190,532 spindles and 7,776 looms, or 63.3 per cent and 88.3 per cent respectively of the total target. The displaced labour force amounted to 9,393 workers, or 72.9 per cent of the target. Apart from its positive effects from the social point of view, the plan had greatly benefited the existing enterprises and had contributed to their being more effective. Its successful implementation had stimulated interest by other enterprises in other sectors of the textile industry, as well as other industries which had to face the same problems that had now been solved in the cotton textile industry, and its basic principles had been incorporated in the third Economic and Social Development Plan to be approved by the Parliament.

The representative of Austria said that the changes which had occurred in the pattern of world trade in cotton textiles had brought about certain structural adjustments in the Austrian cotton textile industry. During the ten-year period beginning 1 October 1960, the ratio of imports to domestic consumption had risen from 12 per cent to 32 per cent as regards cotton yarn, whereas imports of cotton fabrics now represented 44 per cent of domestic consumption. Over the same period the number of spindles had declined by 29 per cent, looms by 48 per cent, employees by 33 per cent and the number of enterprises dropped from 123 to sixty-seven.

The Austrian Government had not taken special measures to facilitate structural adjustments in the cotton textile industry, mainly for reasons of internal policy which was not sectorally oriented. Thus, the measures taken so far were applicable to industry in general. These general measures and their possible effects on the cotton textile industry were discussed in COT/W/134. In supplementing the information contained therein, he said that under the Government measures providing for loans, the European Recovery Plan Fund was the most important source of finance for industrial development projects. Loans granted by this Fund to the textile and clothing industries amounted to about 6 per cent, on an average for the past four years, of total investments in these industries. Interest allowances granted under the Small Industries Structural Improvement Act had been of minor importance aggregating less than a half per cent of total investments in the textile and clothing industries in both 1970 and 1971. Under the provisions of the Research Promotion Act grants and loans extended to these industries had amounted to a half per cent of the amount granted to all industries. Thus, the assistance granted by the Government under the relevant legislation had been rather limited as compared with total requirements, and the industry had to rely mainly on private resources in making the required adjustments.

The representative of the United States said that the principal direct adjustment assistance measures used by his country were those provided under the Trade Expansion Act of 1962. In general, this statute provided that firms or groups of workers might become eligible for adjustment assistance if it could be shown to the satisfaction of the Tariff Commission that there had been an increase in imports due in major part to a previous tariff concession and that this increase in imports had been the major cause of injury. This statute was of general application to all sectors of the economy and not specifically designed for textiles. Its purpose was to provide an alternative, in certain cases, in specific situations which might otherwise require a tariff adjustment or other trade restrictive measure.

Owing to a stringent interpretation of the law, the adjustment assistance provision had not become operative until late in 1969. In the textile area two textile firms and several groups of textile workers since had become eligible for trade adjustment assistance. In such cases, the affected workers received assistance in the form of benefit payments for an extended period of time, training for new jobs, job placement services, and relocation allowances. The firms became eligible for technical assistance, loans and certain limited tax benefits. In one instance a textile firm in the South had been converted into a data processing company and most of the workers involved had been re-employed in the new enterprise.

There were no Government adjustment assistance measures of particular application to the textile industry. The process of adjustment in this highly competitive industry was determined, in the main, by market forces. There had,

in any event, been a sharp adjustment in the industry as the share of the United States market supplied from domestic sources had decreased continuously since 1960 under the pressure of rapidly increasing imports.

The representative of Norway said that in view of the rapid technological developments in textile machinery and in the fibres used, the coming on the scene of new exporting countries and market groupings in Europe, the Norwegian textile industry had had to adapt itself to these new conditions. While the production of all cotton textiles had declined, that of cotton yarn had recorded a substantial fall of about 28 per cent from 1967 to 1971. The number of workers employed had decreased by about one fourth over the same period, most of the textile industry being concentrated in regions where there was little alternative employment. In dealing with the problems of the textile industry, the Government had appointed a special Commission in 1968 to study the overall situation. Partly as a result of the report of this Commission, three of the biggest cotton mills had merged into one firm at the beginning of 1972. It was anticipated that this development would lead to a better structure of this sector.

The representative of Pakistan, referring to Article 1 of the Arrangement, said adjustments in the developed countries should relate to the problems and objectives set out in the Preamble. Thus, any adjustment to be undertaken must be made in a manner which would provide larger opportunities to developing countries. However, the steps taken by some developed countries to modernize their industry had been geared to lowering the cost of production. In fact, through the adjustment measures, these countries were concentrating on the production of the same goods which were being produced efficiently by the developing countries. Such adjustments were, therefore, contrary to the objectives of the Arrangement as it contracted export opportunities for developing countries. The required adjustment should aim at moving to lines of production which the developed countries could efficiently handle, thereby making room for the cotton textile goods produced by developing countries. The production capacity in the developed countries should be adjusted accordingly, and this would lend a real meaning to the word "adjustment" used in Article 1 of the Arrangement.

The representative of Sweden, referring the Committee to the information set out in COT/W/139 with respect to his country, said that the Swedish cotton textile industry had continued to be characterized by adjustments, mergers and closures. In updating this information, he pointed out that the number of companies in the cotton sector had declined from twenty-five in 1960 to thirteen in 1971, the number of employees from 11,000 to 5,000, the number of spindles from 370,000 to 135,000 and looms from 7,200 to 2,600. Production in the spinning sector over the same period had fallen from 23,000 tons to 9,500 tons, and in the weaving sector from 22,600 tons to 13,100 tons. Thus, the Swedish cotton textile industry had been reduced over the last decade to roughly half its former size, and this involved serious social and political difficulties.

Governmental measures taken specifically to assist the textile and clothing industry were rather limited in terms of budgetary expenditure and their effect on the industry was expected to be marginal. The aim of the measure was rather to facilitate the readjustment than to change the main course of developments within the industry concerned. The main responsibility for the adaptation to the new pattern of international competition remained with the textile and clothing industries themselves. Referring to the general adjustment assistance measures, he said that these measures played a very important rôle and had been applied to all branches of economic activity for many years, principally in the form of an active labour market policy. The budgetary cost of this main policy instrument had amounted to more than 600 million dollars during the last fiscal year; this was about 5 per cent of the budget and 1.5 per cent of gross national product. Countries with more open markets would encounter considerable difficulties in maintaining their liberal import policy if import restrictions elsewhere continued to be severe, thus leading to a diversion of trade flows.

The representative of India said that, though a number of developed countries had schemes for adjustment assistance, the emphasis seemed to be on modernization and technological improvement, and not on encouraging the shift of productive resources to sectors of their economy more propitious for growth. However, even with these improvements, the textile industry in the importing countries still did not appear to be near the stage when it could face international competition without restrictions. In assessing the effectiveness of adjustment measures, it would be necessary to consider how far these had created conditions for providing increased opportunities to developing countries in accordance with the objectives of the Arrangement. It might therefore be necessary for the Committee to examine the various measures with a view to suggesting how these could be improved to bring such structural adjustments as would lead to the gradual liberalization of trade in cotton textiles.

The analyses in COT/W/140 emphasized the interdependence which had developed in international trade in textiles because of the increasing production of this industry based on different fibres. He, therefore, pointed out that in many developing countries these technological changes and shifts in production had not occurred at the same pace as in the developed countries. However, the production patterns in the developing countries would also undergo changes and it was, therefore, necessary to ensure that efforts made in this respect were not frustrated through the imposition of new barriers. It had to be borne in mind that even with such shifts in production, cotton textiles would continue to be the most important item in exports of textiles for a number of developing countries.

The representative of Colombia, referring to the Preamble to the Arrangement, said that the objectives set out therein providing for larger opportunities to the developing countries must be read in conjunction with the question of adjustments in the cotton textile industry of the developed countries. Such adjustments should aim at facilitating, in the short run at least, exports from developing countries and at leading, in the long run, to the transfer of plants and workers

to other sectors of the economy in which the developed countries had a comparative advantage. In the meantime, while these adjustments were being carried out, any increase in imports of cotton textiles into these countries should be exclusively reserved to developing countries. His Government believed that some practical machinery should be set up in the Committee with a view to examining how structural adjustment could be improved to achieve these aims.

The representative of the Arab Republic of Egypt said that the study prepared by the secretariat showed that the main efforts made by developed countries in the field of adjustments had been geared towards the scrapping of obsolete equipment and the elimination of marginal units, thereby increasing the efficiency of their cotton textiles industry. However, a further step of scaling down expenditure on new capital equipment in these countries had been awaited by developing countries. It might be advantageous to both developed and developing countries if the ideas contained in the principle of the international division of labour were to be applied. There were certain areas in cotton textiles which could be left entirely to developing countries, without causing any significant hardship to the developed countries, such as grey fabrics and similar products. For their part, the developing countries, including his own, had not spared any effort in modernizing their equipment and, in doing so, had imported the most advanced machinery from developed countries. The cotton textile industry of the developed countries had greatly benefited from the intensive application of capital, new technology and the expanded expenditure on research - factors which had contributed to a substantial increase in productivity regardless of the decline in the number of spindles and looms as brought about by various studies. In addition, more direct assistance had been given to the industry in the form of tax exemption, financial subsidies and loans or grants for the purpose of sustaining growth in an industry which had proved to be unable to withstand international competition.

4. State and longer-term development of international trade in cotton textiles

The Chairman recalled that at its last meeting in May 1970, the Committee had agreed that, as soon as possible, it should initiate a discussion on the question of the State and longer-term development of international trade in cotton textiles. It had been suggested by some members at that time that the secretariat should be asked, in consultation with interested governments, to attempt to formulate some guidelines for the discussion. In the light of this desire, the secretariat had made use of certain opportunities available to it to broach the subject with some delegations and had reminded participating countries of this intention of the Committee. The responses it had received were, however, insufficient for the formulation of any concrete proposals.

In the meantime, however, governments had become more and more aware of the fundamental changes in the textile industry and the emergence of situations of a broader scope than that dealt with by the Cotton Textiles Arrangement. The Council had recently considered a suggestion that a working party be constituted to make a factual study of various elements affecting trade in textiles in general. After

a preliminary exchange of views, the Council had agreed that this subject should be included on the agenda of its next meeting, to take place some time before the end of June 1972.¹

As the discussion on the question of textiles as a whole, including cotton textiles, had now been initiated in the Council, it would seem to serve no useful purpose, but would rather be confusing, if this Committee were to embark upon a discussion of this subject, even if it was restricted to cotton textiles. He, therefore, suggested that any such discussion be deferred pending the outcome of the exercise initiated by the Council. The Committee might reconvene, in the light of developments and taking account of the provisions of paragraph 8(d) of the Arrangement, at a suitable later date.

The Chairman, in inviting members of the Committee to comment on his suggestion, said that he did not intend to limit the scope of the discussion, but thought it useful to indicate the background against which the matter might usefully be discussed.

The representative of Japan said that his Government's position on the future of the Arrangement was well-known to the Committee, and that his delegation would be agreeable to deferring the discussion.

The representative of Pakistan regretted that responses by governments had been insufficient for the secretariat to formulate guidelines for discussion of this question. He emphasized the importance of cotton textiles to the economic development of many developing countries. It would be regrettable if the question of the state and longer-term development of international trade in cotton textiles were to be left aside indefinitely.

The spokesman for the Community expressed the view that while the difficulties giving rise to the Arrangement had continued to exist throughout its life span, the Arrangement had been found acceptable by all interested parties and considered preferable to possible alternative solutions. Considerable efforts had been made by the EEC countries, individually and at the Community level, in advancing the objectives of the Arrangement. The problems had become more complex, and more realistic solutions had, therefore, to be sought in a broader context and against the background of the principles and objectives of the General Agreement. With regard to the provisions of Article 8(d) of the Arrangement, the EEC considered that the question of the future of the Arrangement should be taken up again by the Committee as soon as possible but not until it could be dealt with in a constructive manner.

The Chairman, in summing up the discussion, noted the consensus that the Committee should be convened as early as possible but not before it was clear that it was in a position to examine and take a decision on the question of the future of the Arrangement.

¹The proposal has since been approved by the Council. See C/M/78 on the meeting of 27 June 1972 and L/3716.