

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

COT/W/23

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COTTON TEXTILES COMMITTEE

Draft Report of the Meeting of the Committee Held at the
Palais des Nations from 2-6 December 1963

Chairman: Mr. E. WYNDHAM WHITE

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Conclusions

The conclusions adopted by the Committee (COT/18) will be inserted here.

I. Acceptance by Jamaica

1. The Committee welcomed the acceptance by Jamaica of the Long-Term Arrangement (see COT/2/Add.1). By virtue of this acceptance, Jamaica also became a member of the Cotton Textiles Committee.¹

II. Review of the operation of the Arrangement

2. The Committee had before it notifications of action taken by parties to the Arrangement during the first year of its operation; these are contained in documents COT/1 and COT/3 to 17. Also before the Committee was document COT/W/15 which summarized these notifications.

3. A summary of the main trends of the discussion follows below in paragraphs 4-20. A summary of the main individual statements made under this item will be found in Annex A.

4. It was clear from the discussion in the Committee that exporting countries were disappointed and concerned about the way the Long-Term Arrangement has been implemented during the first year of its existence. In fact it was suggested at one stage during the discussion that the desirability of undertaking some revision of the Arrangement should be considered.

5. Particular emphasis was put by the less-developed exporting countries on the need for greater opportunities for their exports of cotton textiles. This, as these countries pointed out, was intended to be a basic objective of the Arrangement and, in this connexion, particular regard should be had to the wording of the Preamble, where it was recognized that action should be "designed to facilitate economic expansion and promote the development of less-developed countries possessing the necessary resources such as raw materials and technical skills by providing larger opportunities for increasing their exchange earnings from the sale in world markets of products which they can efficiently manufacture".

6. This was a clearly expressed objective but in the opinion of several countries the Arrangement had so far had the opposite effect and had, in fact, reduced the export opportunities of less-developed countries. The rate of growth of imports into major markets was not expected to exceed 3 per cent per annum during the period of the Arrangement, whereas the average growth attained

¹The other members of the Committee are listed in document COT/2.

in recent years had been at a much higher rate. While it was true that the Arrangement was not expected to lead to an increase in the rate of growth of exports, it had nevertheless been envisaged that it would promote orderly growth at a reasonable rate. Action taken under the Arrangement had the effect of jeopardizing the success of the development plans of less-developed countries and it was suggested that the industrialized countries should take steps to ensure that an increasing percentage of their import needs was supplied by less-developed countries. One exporting country, however, expressed the view that this process would have to be gradual as it might have considerable effects on the structure of the textile industries in exporting countries.

7. The point was made that the Long-Term Arrangement had presented a practical solution to a particular problem. The type of co-operation for which it had provided was undoubtedly preferable to unilateral action which, had the Arrangement not been negotiated, would probably have been taken following the massive increase in exports in the preceding period. Less-developed countries stressed the importance they attached to the fact that the Long-Term Arrangement should be looked on as a transitional measure which would permit the adjustments envisaged in Article 1 of the Arrangement to be put into effect.

8. Countries which had taken action under the Long-Term Arrangement maintained that such action fully conformed with the spirit and letter of the Arrangement. In most cases reference was made to the increase in the volume of imports, the continuing contraction of domestic industry and growing unemployment in the textile sector. In the case of the United States for instance, imports of cotton textiles from the less-developed countries increased by more than 13 per cent during the first year of the Long-Term Arrangement as compared with the Short-Term Arrangement year. On the other hand, mill consumption of raw cotton declined by 6 per cent during the twelve months ending July 1963 and the consumption of cotton textiles tended to decline during the first year of the Long-Term Arrangement. During the first nine months of 1963 the number of unemployed in the textile industry was strikingly higher than the high overall national unemployment rate of 5.7 per cent.

9. The importing countries concerned referred to difficulties they for their part had experienced in the administration of the Arrangement. They stressed the importance of avoiding delays in replying to requests to consult under paragraph 1 of Article 3 and in holding such consultations. Further, in some cases, exports had not been held at the proposed restraint level during the sixty-day period following the request to consult. There were also problems connected with trans-shipment.

10. It was very apparent from the discussion that a main cause of apprehension on the part of the exporting countries and their insistence on the need for strict conformity by importing countries with the provisions of the Arrangement is the fact that the Arrangement places the powers of judgment and decision, for example in the determination of market disruption, in the hands of importing countries.

11. A crucial element in the concern felt by exporting countries related to the question of market disruption and its determination. This is only to be expected as the imposition of restraints or restrictions under the Arrangement are dependent on this question.
12. "Market disruption" is defined in Annex C of the Arrangement and there was considerable discussion about this definition, and about the exporting countries' contention that the invocation of Article 3 had on occasions been based on situations which exceeded the intention of the definition.
13. As regards the determination of market disruption, it was stressed that the present provisions should be carefully applied and that the exporting country should be fully consulted about the situation at as early a stage as possible. It would be helpful if regular periodic discussions on a bilateral basis distinct from the consultations referred to in Articles 2 and 3 could be held between exporting and importing countries. Some exporting countries expressed the view that the description of market disruption should be understood to contain an implicit reference to a sharp and substantial increase in the level of imports compared to domestic production or supply, that the question of the price differential between domestic and imported products should be examined and that adequate allowances should be made for quality differential. Attention should also be given to the need to obtain the maximum comparable statistical information in cases of alleged disruption. Importing countries said that they were, of course, fully prepared to have the additional discussions suggested.
14. Serious concern was also expressed by exporting countries that, in cases where restraints were already in operation, importing countries might not have taken all the relevant considerations into account before making their requests for restraint, and importing countries are requested to review these cases. The importing countries maintained that in examining cases of market disruption all the relevant factors had in fact been taken into account.
15. Exporting countries also expressed concern on the operation of the provisions of Annex B relating to the fixing of restraint levels. It was considered that the base periods should not be confined to one year only and the following suggestions were made on the way in which the trend of imports could be taken into account: (i) the first year of the Long-Term Arrangement or the year of the Short-Term Arrangement whichever was greater; (ii) the best performance in past years; (iii) the past trend as well as future possibilities. In this connexion it was also suggested that consideration should be given to the position of countries newly entering export markets. Importing countries pointed out that in many cases where restraint was requested a level had been indicated above that which would have resulted from a strict interpretation of Annex B. One of the countries which had been exempted from the growth formula had in fact allowed an element of growth in the arrangements which it had concluded in the past year.

16. An important element in the discussion was the stress put on the need for those countries which imposed quantitative restrictions to increase access to their markets so as to relieve the pressure on other markets and increase the less-developed countries' export opportunities. The representatives of certain countries, access to whose markets was relatively unrestricted, emphasized the importance which they attached to the balanced development of world trade in cotton textiles. If severe restrictions were imposed by some countries, this might lead to a rapid increase in imports on their markets which might force them in turn to apply restrictions. This problem was especially severe in the case of small countries with open markets.

17. The hope was expressed that in the light of paragraph 19 of the Record of Understandings the figure of 12,000 tons to which the EEC is committed would in practice be exceeded. In this connexion, it was also pointed out that only about 25 per cent of imports into the EEC from the less-developed countries were subject to restrictions, and that, as regards the many items which were unrestricted, these countries could improve their relative position by export promotion and by greater efforts in completely free markets like the Benelux countries. It was also stated that not all the quotas open to less-developed countries were filled and suggestions were made for helping the less-developed countries to fill the quotas open to them. The suggestion was also made that consultations should be held with a view to abolishing quotas which are perennially unused. It was considered that it might be possible to use the consultation provisions already contained in the Long-Term Arrangement or to raise these matters in the new discussions which the Committee had now agreed should be held.

18. It was recognized that it would be appropriate to draw the attention of the CONTRACTING PARTIES to the effect of tariff barriers on trade in cotton textiles in order to ensure that this should be taken fully into account in the arrangements for the forthcoming trade negotiations.

19. The problem of categories was also raised and, inter alia, the view was expressed that the division of existing categories into sub-categories would make exporting more difficult. A further suggestion was that the restraint level should be on an overall basis and not according to categories. It was also suggested that the definition of cotton textiles should be established based on existing international classifications.

20. Following their discussion on the administration and implementation of the Arrangement and the suggestions made for improvements in this respect, the Committee adopted certain conclusions. These conclusions have already been circulated in document COT/18.

III. Problems concerning the structure and future development of trade in cotton textiles. Suggestions for studies

21. The Committee had before it a preliminary analysis by the secretariat of recent developments in production and trade in cotton textiles (document COT/W/20) based on statistics from published sources (document COT/W/11). It was suggested in document COT/W/12 that in order to carry out its broader responsibilities as to future trade in cotton textiles, the Committee would need to have, inter alia, estimates of future trends in consumption, production, productive capacity, etc. in order to follow structural changes and adjustments and to discuss prospects for a further expansion of international trade in these products. A summary of the general discussion is given in paragraphs 22 to 30 and the discussion on studies is contained in paragraphs 31 to 34.

(a) A summary of the general discussion

22. Representatives of less-developed exporting countries underlined the importance which they attached to a substantial increase in their export earnings from cotton textiles. Such an increase was essential for the successful completion of their development plans. It was recognized, however, that exports of cotton textiles should expand in an orderly way and that there would be problems of adjustment in the industries of the older established producing countries. It was because trade in cotton textiles gave rise to special problems that the Long-Term Arrangement had been negotiated. It was an exception to the provisions of the General Agreement and of the Action Programme. The Arrangement should not be regarded as an end in itself; it provided a breathing space during which necessary adjustments could be made as laid down in Article 1.

23. The representative of the United States stated that his Government had introduced several measures designed to increase the competitiveness of the domestic industry and that the Trade Expansion Act provided adjustment assistance, both to firms and to workers, made necessary as a result of increased imports following tariff concessions granted under trade agreements.

24. The representative of Canada recalled that the Canadian industry had experienced a substantial contraction and that his country imported a substantial volume of cotton textiles. His country had, therefore, qualified for exemption from the growth formula contained in Annex B of the Arrangement.

25. The representative of the United Kingdom referred to her statement on developments in the trade of the United Kingdom and recalled that her country had also been exempted from the growth formula.

26. The representative of Japan said that Japanese industry was considering a sharp reduction in the number of spindles. This question was also under careful consideration by the Japanese Government but such structural change was inevitably confronted with a number of domestic difficulties. It was rather difficult to foretell what would happen to production if this reduction was carried out. Production of certain items might increase as a result of increased productivity but, on the other hand, there could be an increase in imports from the developing countries as Japan might cease to produce certain types of products. In such circumstances Japan would be obliged to export sophisticated items and it would be necessary for industrialized countries to open up their markets accordingly. In conclusion, he said that the equipment which might be scrapped was not necessarily outmoded and that Japan would not be eager to proceed to a unilateral dismantlement of the industry.

27. The representative of Norway and Sweden pointed out that the process of adaptation had already taken place in their countries and that their industries were considered competitive under normal conditions. Their markets were open. They pointed out that if other countries used the provisions of the Long-Term Arrangement to restrict access, imports might be thrown in great quantities on to the small relatively open markets, thus setting off a chain reaction.

28. It was the feeling of several delegations that it was essential that trade in cotton textiles should show a balanced as well as an orderly growth and that it was desirable that a balance sheet of potential supply and demand should be drawn up. It was also suggested that countries engaged in trade in cotton textiles should co-ordinate their policies.

29. The representative of the European Economic Community pointed out that, while it was the ultimate aim of the member States to eliminate restrictions on imports as soon as possible, the specific obligation which had been accepted by the European Economic Community under Article 2 of the Arrangement was to increase imports of goods subject to quota by 88 per cent during the life of the Arrangement.

30. The representative of India said that the exports of the less-developed countries had not expanded. In spite of their natural economic advantages, as defined in the preamble to the Long-Term Arrangement, in the production of cotton textiles their costs of production had increased. Referring to a recent study (extracts of which are reproduced in document COT/W/19/Add.1), he pointed out that the impact of a decline in textile production on employment and unemployment in the cotton industries of the advanced countries would be marginal. Refuting the contention of some that the problems of the textile industry in advanced countries were due mainly to the unfairness of competition from low wage countries, the study pointed out that the less-developed countries must earn foreign exchange to pay for their imports from

the industrialized countries. Another study also warned that the singling out of under-developed suppliers to bear the major burden of restraint raised serious issues regarding the whole pattern of industrial production and added to the uncertainties which already existed regarding the outlook for foreign exchange earnings of under-developed countries. An investigation into production, consumption and imports of cotton textiles would establish that it was not exports from the less-developed countries which had benefitted from the increased demand in the importing countries. Such an investigation would also establish whether it was necessary to have a set of rules which would facilitate increased imports from the less-developed countries which was the basic objective of the Long-Term Arrangement. The representative of India also referred to the important effect of tariff barriers on trade in cotton textiles and stressed that countries should not include cotton textiles in their lists of exceptions during the forthcoming trade negotiations.

(b) Suggestions for studies

31. In order to define more precisely in what direction the Committee's study programme should proceed, the Committee considered document COT/W/12, which suggested the kind of information which would be needed, and document COT/W/13, which gives an appraisal of the present situation of the joint GATT/ILO study on cost comparison in the textile industry.

32. As far as the latter study is concerned, the representatives of Japan and Austria stated that considerable difficulties were encountered in compiling some of the information requested. The representative of the European Economic Community pointed out that the data which have already been submitted are now out of date and inadequate in view of the evolution of the cost of production in the textile industry. It was recognized that difficulties encountered so far will also be experienced in the future. The representative of Sweden mentioned that his Government had submitted a great deal of information and his delegation would like to see some use made of it.

33. The Committee endorsed the suggestions made in document COT/W/12 relating to material for studies. Although reference was made to difficulties which some governments may encounter in establishing future trends, the need for participating countries to co-operate fully with the secretariat in supplying the relevant material was generally stressed. The representative of the European Economic Community stated that, as far as additional information to that obtainable from other sources is concerned, the Community would collaborate in this field to the utmost and cited in this connexion the evolution of structures, ratio of utilization of equipment and obstacles to the various shift systems. He felt, however, that the secretariat, before publishing the results of any investigation, should submit them to technical experts for approval. The Austrian delegate referred to paragraph 3 of document COT/W/12 and said that it would be very difficult for his Government to supply details of future plans for the textile industry.

34. It was agreed that the secretariat should use all available sources and take full advantage of the work being undertaken by other organizations; it should mainly concentrate its attention on what is lacking, so as to avoid duplication of effort. It was understood that the secretariat would keep in close contact with the governments of participating countries and try to use general questionnaires sparingly. When the necessary information has been collected, it will be presented to the Committee or a subsidiary body for review. It was also understood that, as the secretariat's resources are limited, priority should not be given to the study on cost comparison but, if possible, some use might be made of the material already collected.

IV. Reporting and notification procedures under Articles 2, 3 and 4

35. The Committee recognized that, taking into account the additional information regarding quotas granted by individual members of the European Economic Community for both 1962 and 1963 which had been communicated to the Committee during the meeting, the notifications so far received in connexion with Article 2 had been adequate from the procedural point of view. As for Article 4, it was agreed that notifications under this Article raised no procedural problems.

36. In reviewing documents COT/6, COT/7 and COT/17, the Committee noted that there had been differences of procedure and approach as regards notifications under Article 3. There was general agreement that the Committee should be fully informed without delay both about requests for restraint as well as all the details concerning arrangements concluded as a result of such requests.

37. The representative of Canada drew the attention of the Committee to the fact that it was neither in the interests of the importing countries nor of the exporting countries to have the requesting country notify the restraint level to the Committee at the same time as the request is notified, as this might restrict the flexibility of the negotiations. He pointed out that in making known initially the level of restraint an increase in imports might occur and Canada, for instance, had no legislation to control such a development. A situation like that may also open the way for pressure from the domestic industry to make the requesting country ask for a minimum level.

38. The view was generally held that maximum flexibility in the negotiations is of great importance to both countries concerned and therefore the restraint levels should not have to be reported before the conclusion of all negotiations. Accordingly, it was suggested that the notification should be submitted in two steps: (i) immediately when the request was made; and (ii) when the restraint levels were agreed upon. Together the two notifications should give all details.

39. The representative of Japan pointed out that, in conformity with paragraph 1 of Article 3, the Committee should in all cases be informed by a factual statement of the reasons and justifications for the request. In this connexion the representative of the United States suggested that such reasons and justifications should be communicated when an agreement has been reached, in view of the importance of making a submission in a form which avoids error and is known to be factually correct. Some delegations referring to the need for flexibility in the negotiations, endorsed the suggestion made by the United States.

V. Collection and circulation of statistics

40. The Committee took note of document COT/W/14 and of the difficulties encountered by some countries in producing the statistical information requested in document COT/W/8. In this connexion the representatives of the United States and of the European Economic Community suggested that submission of statistics on a quarterly, instead of a monthly, basis would meet the requirements of the Committee for the discharge of its functions.

41. The Committee recognized the need for comparable and up-to-date statistical data on cotton textiles and noted that, although some statistics are collected and published by other international agencies, certain data which were considered by the Statistical Sub-Committee to be indispensable cannot be obtained from these sources. Moreover, these statistics do not cover all the participating countries and do not distinguish cotton clothing from clothing of all fibres. The representative of the European Economic Community had some doubt whether countries could produce comparable statistics on cotton clothing, but added that the European Economic Community was willing to co-operate fully with the secretariat in the fulfilment of the statistical programme.

42. The Committee agreed that the secretariat should proceed with the collection of statistics directly from the participating countries and that participating countries should co-operate fully with the secretariat with a view to enabling the statistical programme to be effectively carried out. The Committee endorsed the suggestions made by the secretariat in document COT/W/14. If possible a standard lay-out should be used by all countries, but all members should be consulted prior to its adoption. It was also agreed that the secretariat should, when necessary, consult with national statisticians concerning the specific problems encountered by the various countries in furnishing the requested data. If experience shows that a major round of technical consultations are needed, a meeting of the Statistical Sub-Committee may be called.

VI. The United Kingdom reservation

43. The representative of Pakistan recalled that a reservation had been attached by the Government of the United Kingdom to its acceptance of the Long-Term Arrangement, under which the United Kingdom accepted no obligation to increase access to its market under the provisions of paragraphs 1 and 3 of Article 2 and paragraphs 2 and 3 of Annex B of the Arrangement. The Government of Pakistan had not accepted this reservation and, after discussion (a summary of which is contained in document COT/M/1, pages 2 and 3) a paragraph referring to this had been included in the protocol relating to the reservation. The Government of Pakistan understood that the reservation of the United Kingdom applied as between the United Kingdom and all other participating countries except Pakistan but that, as far as trade between Pakistan and the United Kingdom was concerned, the United Kingdom could not claim exemption from paragraphs 1 and 3 of Article 2 and paragraphs 2 and 3 of Annex B. It was also the understanding of the Government of Pakistan that the reservation did not exempt the United Kingdom Government from any of its obligations under the General Agreement with respect to trade with Pakistan. The representative of Pakistan also recalled that under the Action Programme agreed by the Ministers of all industrialized countries except the European Economic Community, quantitative restrictions on imports from less-developed countries which are inconsistent with the provisions of the GATT shall be eliminated within a period of one year, or where special problems exist, by 31 December 1965. The Action Programme had been accepted by the United Kingdom Government subject to certain qualifications set out in paragraphs 3 and 4 of the Ministers' conclusions (MIN(63)7). It was the understanding of the Pakistan Government that the United Kingdom Government by virtue of its acceptance of the Action Programme and of its obligations under the GATT, was bound to eliminate restrictions on imports of cotton textiles from Pakistan within one year or, if it is agreed that special difficulties exist, by 31 December 1965.

44. The Chairman indicated that the effect of the reservation entered by the United Kingdom was that the Long-Term Arrangement did not apply as between the United Kingdom and Pakistan in respect of trade in cotton textiles. On the second point raised by the representative of Pakistan, it was clear that the reservation attached by the United Kingdom to the Long-Term Arrangement could in no way affect the obligations of the United Kingdom under the General Agreement or the rights of other countries vis-à-vis the United Kingdom under that Agreement. Referring to the last point raised by the representative of Pakistan, the Chairman said that the Action Programme was an activity of the CONTRACTING PARTIES pursuant to the General Agreement under Article XXV. The reservation attached to the Long-Term Arrangement could not, therefore, be invoked by the United Kingdom in order to deny any obligations which it had assumed as a contracting party

to the General Agreement, including any obligations assumed by the United Kingdom under the Action Programme. As to the interpretation of the Action Programme and an examination of the rights and obligations deriving therefrom, it would, however, be inappropriate for this Committee to take cognizance of the matter, which should be pursued in the appropriate body established by the CONTRACTING PARTIES, that is, either in the Action Committee, the Council of Representatives, or at a meeting of the CONTRACTING PARTIES themselves.

45. The representative of the United Kingdom said that the ruling given by the Chairman was precisely the interpretation which the United Kingdom had placed on the situation.

VII. Request for accession to the Long-Term Arrangement by the Republic of China

46. The Chairman said that a communication had been received from the Government of China expressing its desire to accede to the Long-Term Arrangement under Article 11. Paragraph 2 of that Article provided for the accession of a Government not party to the General Agreement on terms to be agreed between that Government and the participating countries. This request presented certain problems because the Government of China was not recognized by some parties to the Arrangement and acceptance of that Government's request would not necessarily, therefore, have the effect of bringing the Arrangement into force as between those parties and the Republic of China. Accordingly, he proposed that as part of the terms referred to in paragraph 2 of Article 11, that it be agreed and understood that the Arrangement would not be in force between the Republic of China and those countries which so notify the Executive Secretary in writing.

47. It was agreed that if no objection to this proposal had been lodged with the Executive Secretary by 15 January 1964, the Executive Secretary would consider an acceptance by the Republic of China as effective on the terms proposed above. Participating countries which do not wish that the Arrangement shall enter into force between themselves and the Republic of China should notify the Executive Secretary by the same date.

48. The representative of the United Kingdom said that the United Kingdom was prepared to acquiesce in this procedure, but that as Her Majesty's Government recognized only the Government of the Chinese Peoples' Republic as entitled to speak on behalf of China they would in due course inform the Executive Secretary in writing that they would not regard the Long-Term Cotton Textiles Agreement as coming into force between the United Kingdom and the authorities in Formosa.

49. The representative of the United Arab Republic said that his Government also recognized that the Government of the Chinese Peoples' Republic was the only government which represented China and reserved his position on this subject up to the 15 January 1964.

VIII. Other matters

(a) Definition of cotton textiles

50. The representative of Japan stated that his country had encountered difficulties when an importing country, using the expression "other textile manufactured products ..." in Article 9 as key words, treated as cotton textiles products which could not justifiably be so regarded. He proposed therefore that a small group of experts to tackle this problem should be set up.

51. The representative of the United States pointed out that Article 9 and Annex E lay down a double criterion of weight and value; he felt that the criterion is clear but that problems might arise in its application. Thus, the practical solution in this connexion would be to initiate bilateral discussions with the exporting countries. The representative of the United Kingdom felt that the Arrangement should apply to cotton textile products as such and not to other items where cotton is only incidental.

52. The view was held by some members that difficulties which the interpretation of Article 9 and Annex E give rise to in practice could not have been foreseen. It was recalled that the definitions included in Article 9 and Annex D were the result of thorough discussion by the Statistical Sub-Committee, as shown in document L/1717. It was felt that more thought had to be given to the Japanese proposal.

(b) Statistical classification

53. The point raised by the Indian delegate and set out in document COT/W/19, in which he proposed that a satisfactory solution to the problem of categorization would be to follow the SITC classification for comparative statistical purposes, was also discussed by the Committee. The representatives of the United States and the United Kingdom felt the SITC to be too broad and not an ideal classification for defining categories.

54. The Committee recognized that these two points ((a) and (b) above) pose important, but difficult, problems and it was suggested that advice might be sought from the agencies responsible for the SITC and the Brussels Tariff Nomenclature, namely the Statistical Commission of the United Nations and the Customs Co-operation Council. The participating countries were also invited to inform the secretariat of any suggestions they might have on the subject. Should it be felt that there are possibilities of reaching conclusions beyond those reached by the Statistical Sub-Committee (see document L/1717) a meeting of experts might be called.

ANNEX A

Review of the Operation of the Long-Term Arrangement

Summary of Main Statements

1. The representative of Japan said in a statement reproduced in full in document COT/W/17 that the Long-Term Arrangement had provided a practical solution of a transitional character. It called upon exporting countries to maintain orderly exports providing that importing countries afforded increased opportunities for imports. In doing so the importing countries should adhere strictly to the definition of market disruption and resort to the measures envisaged in the Arrangement sparingly. Since the coming into force of the Arrangement the Government of Japan had concluded bilateral agreements with a number of countries. These agreements would be honoured in good faith but it would be too much to say that the Government of Japan was fully satisfied with the agreements which should be operated in a manner consistent with the spirit of the Arrangement. After referring to several specific difficulties encountered in the operation of these bilateral agreements, the representative of Japan stated that the United States had gone beyond the definition of market disruption contained in the Arrangement and he took the opportunity to urge in particular that, in invoking Article 3, countries should abide strictly by the relevant provisions of the Long-Term Arrangement and the Record of Understandings and should forthwith provide the Committee with necessary information as provided for in this Article.
2. The representative of Japan drew the attention of the Committee to the fact that difficulties had been encountered in discussions with the United States on the definition of cotton textiles, and suggested that the Committee should tackle this problem in the sense of Article 9 of the Arrangement and might well base itself on established international classification such as the Brussels Nomenclature or the Standard International Trade Classification. In conclusion, he pointed out that if existing categories were further divided into sub-categories with specific import quotas assigned to individual sub-categories, it would make exporting more difficult and would impede the efforts of exporters to diversify their export items.
3. At a later meeting, referring to the suggestion which had been made that importing countries should allow less-developed exporting countries a more than proportionate share of any increase in imports, the representative of Japan said that this process would have to be a gradual one and reminded the Committee that Japan had restrained its exports for several years before the Geneva Arrangements had been negotiated.
4. The representative of the United Kingdom speaking on behalf of Hong Kong stressed that the exporting countries had expected that the Long-Term Arrangement would allow an orderly expansion of trade in cotton textiles and that the possibility of requesting restraint would be a safeguard only resorted to in exceptional circumstances. However, no less than 97 per cent of Hong Kong's

exports to one market were subject to restraint and a tendency existed towards the generalization and extension of restrictions, partly as a result of the equity provisions but also of demands by domestic industry for protection. There was a real danger that the Arrangement would be operated simply as a charter of restriction.

5. The representative of the United States, in a statement which is reproduced in full in document COT/W/18, reviewed trends in United States trade and production and actions by his Government under the Long-Term Arrangement. The first year's operations of the Arrangement for the United States, he believed, have furthered its objectives.

6. Imports into the United States had risen substantially, particularly from the developing countries, all of which had shared in the increase in either the Long-Term or the Short-Term Arrangement years. With a 58 per cent increase since the base year of the Short-Term Arrangement, the developing countries now accounted for two thirds of total imports into the United States. The total increase from all countries during this period was 310 million square yards. Although imports from industrialized countries declined in the Long-Term Arrangement year, imports from developing countries increased 13 per cent or 84 million square yards. Total imports in seventeen categories increased 33 per cent or 100 million square yards. Meanwhile, exports declined, making the United States recently a net importer of cotton textiles.

7. Domestic consumption of cotton textiles continued to stagnate, resulting in declining mill activity, a higher ratio of imports, and substantial unemployment in both the textile industry and generally in the United States. It was also recalled that domestic mills continued to operate under the two-price system, paying more than the world price for raw cotton.

8. In administering the Arrangement, the United States has abided by its spirit and letter. Only five participating countries were now restraining exports to the United States under Article 3, four of them in an average of only three categories. The Article had been applied on an equitable basis to all countries whether or not participants in the Arrangement. The Arrangement represented the only non-tariff limitation on imports into the open competitive United States' market. Restraint levels were often fixed at levels higher than the formula of Annex B, and no supplying country had been refused access to the United States' market even if the formula provided a zero level. However because of the equity provisions in the Arrangement and the efforts of importers to find alternative sources of supply, one request for restraint sometimes engendered others. The restraints have been reviewed and in some categories dropped.

9. Bilateral agreements under Article 4 have replaced and liberalized Article 3 restraints with six participants and one non-participant. Other agreements were under discussion. They also provided exporting countries with assurances for future trade, greater flexibility, and growth.

10. Some exporting countries had not given sufficient regard to their obligations under the Arrangement to avoid undue concentration of exports in a period of time or a specific category, to respond promptly or to avoid maximizing exports during the consultation period, and to develop without delay the certification procedure for handloom fabrics of the cottage industry.

11. The representative of the United States concluded by emphasizing the collective responsibility of all the industrialized countries in expanding access for the products of the developing countries.

12. Commenting on the reference to the alleged lack of co-operation of certain exporting countries the representative of Pakistan said that importing countries introducing measures envisaged in Article 3 should seek to avoid damage to the production and marketing of the exporting country as stipulated in paragraph 5 of this Article.

13. The representative of the United States pointed out that due account had been given to this particular problem and the effective date of restraint in the case of Pakistan was postponed six weeks.

14. The spokesman for the European Economic Community recalled the principles set out in the preamble of the Long-Term Arrangement, notably the need to provide the less-developed countries with larger opportunities to increase their exchange earnings from the sale of cotton textiles, avoiding at the same time a disruption of the markets of the importing countries. The Community provided increased access to its market by the enlargement of quotas and the elimination of quantitative restrictions on certain products. During the five years of the Arrangement the Community was to increase imports subject to quota from 6,383 tons for the year 1962 to 12,000 tons for the last year of the application of the Arrangement. In 1963 the quota was to be raised by 18.5 per cent or one fifth of the total increase contracted for. During the first year of the Arrangement several cotton textile items had been liberalized in particular cotton yarns, woven pile fabrics and knitted underwear.

15. The member States of the Community had also conformed to the spirit of the Arrangement in that recourse had only been had to the safeguard provisions of Article 3 in exceptional cases. Despite an increase in imports of the Community of 50 per cent in the first half of 1963 compared with the first half of 1962 of cotton textiles from the eight principal exporting countries only one member country had invoked Article 3 and then only on three specific commodities.

16. In 1962, imports of cotton textiles had accounted for about 6 per cent of total consumption in the EEC, 40 per cent of imports coming from the eight "low cost" countries. While it was difficult to be precise in 1962 items subject to quota represented about 10 per cent of total Community imports. About 27 per cent of imports from the eight "low cost" countries were subject to quota. During the first half of 1963 imports from these same eight countries showed an increase of 49.5 per cent over the same period in the previous year, 24 per cent of the imports from these countries being subject to quota. It could, therefore, be

seen that although imports from the less-developed countries accounted for a relatively small proportion of total EEC imports, a large number of items were not subject to restriction in the market of the Community and that on these items the developing countries themselves could improve their relative position by export promotion and market research.

17. Some members of the Committee pointed out that although the Community had agreed to increase imports of items subject to quota by 88 per cent during the life of the Long-Term Arrangement, the base figure on which increases in EEC quotas were calculated was insignificant. The member States of the EEC were urged to consider the possibility of increasing access for products at present subject to quotas above the minimum levels envisaged in Annex A to the Arrangement, which were extremely modest in absolute terms in relation to the size of the EEC market and in comparison with import levels in certain other highly industrialized countries.

18. The representative of the United Kingdom noted that in the information supplied by the European Economic Community in connexion with Article 2 of the Arrangement, the figures given for quotas opened in 1962 and 1963 for imports of cotton textiles from Japan, India, Pakistan and Hong Kong were aggregate figures for all member States of the Community taken together.

19. In response to requests, the Chairman supplied information on the size of quotas opened by individual members of the EEC in 1962 and 1963 for imports from these countries; these are set out in the attached table. In response to a request from several members of the Committee, the representative of the Community agreed to submit details of bilateral agreements or the relevant parts thereof which have a bearing on the operation of the Arrangement.

20. Some exporting countries indicated that difficulties had been caused by the establishment of quotas for textiles as a whole and that it was not easy to separate quotas for cotton textiles from others. In reply to a question raised by the representative of Pakistan, the representative of the Federal Republic of Germany stated that in the case of his country no quotas for non-cotton textile items were included in the figures given to the Committee. It was also suggested that some quotas remained unused as the cost of the establishment of new export channels could not be supported at the level of trade which would be allowed by the quota, especially where small quotas were sub-divided into a large number of unrealistic categories. Exporting countries requested the members of the Community to examine the possibility of removing these sub-divisions. In reply to a question from the representative of Pakistan, the representative of France said that although his country had opened two quotas for imports from Pakistan these categories could be amalgamated. The spokesman for the Community said that this question would be examined and an attempt made to ensure that as far as possible quotas granted would be filled.

21. It was pointed out that in the information before the Committee on quotas granted by the EEC, figures were only available for imports from Japan, India, Pakistan and Hong Kong. In reply to questions, the spokesman of the EEC said that other participating countries could make an application for quotas if they wished. If opened, these quotas would be additional to those already granted.

22. The representative of Pakistan in a statement which is reproduced in full in document COT/W/21 said that a thorough review of the Arrangement was necessary at this stage and that participating countries should not wait two more years for the major review. After referring to specific difficulties which Pakistan had experienced with relation to exports to the United Kingdom, the United States and member countries of the European Economic Community, he said that his country had quotas open to it for cloth which amounted to less than 3 per cent of its current restricted exports and about 1.5 per cent of its total exports of textiles including yarn. This was all that Pakistan had got in the shape of increased opportunities but, on the other hand, it was restricted by the United Kingdom and the United States in respect of over 50 per cent of its exports. It was estimated that Pakistan had lost exports amounting to about 100 million square yards as a result of restrictions and this had serious implications for the Second Five-Year Plan. Thus the Arrangement, which was ostensibly designed to give greater opportunity to the exports of the developing countries, had in fact considerably reduced the pre-existing opportunities. It had been estimated that during the years of the Arrangement the exports of cotton textiles from the developing countries would rise by only about 3 per cent. The growth rate attained in recent years without the help of the Arrangement had been about 20 per cent.

23. The representative of Pakistan said that his Government was prepared to concede that a situation might arise in which the cotton textile industries in industrialized countries might be seriously disrupted through unrestricted imports and that a request for reasonable restraint was justified in such circumstances. Pakistan had co-operated with the United Kingdom in voluntarily agreeing to restrain exports and the quota granted had been fair and adequate up to 1961. The quota at present granted to Pakistan was relatively small and what was now required was an increase which would not be damaging or disruptive to the British industry. It could not, however, be conceded that in the case of the United States or the EEC it would, generally speaking, be appropriate to apply restrictions on grounds of market disruption. Imports into these markets accounted for a relatively small percentage of domestic production or supply. The definition of market disruption, as contained in the Arrangement at present, would only be acceptable if it was clearly understood that it referred implicitly to the relation between the volume of imports and the volume of domestic production and supply; for instance when imports had reached a level of about 20 to 25 per cent of domestic supply. He also maintained that small differences in prices should not be taken as evidence of market disruption because without normal price differences international trade would come to a standstill.

24. At later meetings the representative of Pakistan also pointed out that under the existing terms of the Arrangement, it was not open for any country imposing restrictions to interpret market disruption in its own way and that the proportion

of imports to domestic production or supply was relevant and already implicit in the existing definition of market disruption, contained in Annex C. He emphasized that a country which sought to impose restrictions under Article 3 had to see that the industry also in the exporting country was not disrupted.

25. The representative of India recalled in a statement reproduced in full in document COT/W/19 that his country had ratified the Arrangement without any reservation. India believed that multinational co-operation could lead to an orderly progression in world trade and that this co-operation would be directed towards yielding under-developed nations a greater share in world prosperity. He emphasized that it would be necessary to adopt measures to suit individual cases and underlined the importance which his country placed on the preambular provisions of the Arrangement.

26. It should now be possible to review the operation of the Arrangement bearing in mind its main objective i.e. the orderly regulation and growth of trade in cotton textiles. He said that the Arrangement had not, so far, resulted in the opening up of markets which were still under restriction and had not allowed for the less-developed countries a due share in world consumption of cotton textiles. India would seek a liberal, just and equitable interpretation of the provisions of the Arrangement. A narrow and legalistic interpretation of market disruption has, in practice, resulted in a restricted statistical exercise without regard to other factors. It should influence the decision to apply restraint on a particular category of cotton textile that exports from less-developed countries were roughly about 2 per cent of world textile production and exports from India to the industrially advanced countries represented only a minute fraction of the total production of the domestic textile industry in these countries. It was, therefore, incomprehensible that there could be any significant effect on production in these countries even if imports from India increased substantially and there should be no question of applying any restraint on exports from India under any category. Reference had been made to the price of imported fabrics. When this was done, adequate allowance should be made for the superior quality of the textiles produced in the developed countries. In order to avoid recourse to seeking an amendment of this Article, the exporting country should be fully consulted in the determination of market disruption having regard to the basic objectives of the Arrangement.

27. In paragraph 7 of Article 3, it was stated that importing participating countries may report the groups or categories to be used for statistical purposes to the Cotton Textiles Committee. He suggested that the SITC classification should be used.

28. Where action was contemplated for reasons of market disruption under Article 3, restraint levels should be on an overall basis and not according to categories as the latter approach would be inconsistent with the spirit of the Long-Term Arrangement and would deny a much needed flexibility for the less-developed countries.

29. He also stated India's case that the base period for determining the restraint level should not be confined to one year only and that the flow of imports should be judged with due regard to the best performance of individual suppliers during the immediately preceding five years.

30. The growth formula should be so designed as to afford increasing opportunities for imports from less-developed countries whose need to earn foreign exchange was specifically underlined in the Arrangement.

31. The representative of India also suggested that the wording of Article 9 should be so interpreted as to make the exception applicable to all handloom products whether in the form of fabrics, made-up articles or other manufactured items. It was also necessary that importing countries should accept readily consignments of textile goods covered by government certificate such as "handloom fabrics" as final and conclusive proof. Such acceptance should not be subject to any further verification. In conclusion he urged that cotton textiles should not be included in exceptions lists during the forthcoming trade negotiations and said that in addition to providing assured outlets for cotton textiles, it might become necessary to give less-developed countries preferential tariff and trade treatment. His country had experienced difficulties in the past year and a constructive, imaginative and developmental approach could alone give India and countries similarly placed the special and growing opportunities, particularly in the matter of earning more foreign exchange which the authors of the Arrangement had intended.

32. The representative of Sweden stated that, according to his country's interpretation, the definition of market disruption did not refer to the quantity or rate of expansion of imports as such, but to the effect of the rate of expansion of imports on profitability and employment in the domestic industry. He also suggested that if quotas existed which were perennially unused, there would appear to be no reason why these could not be abolished. He proposed that: (i) all participating countries should report to the secretariat details of quotas or parts of quotas not utilized; (ii) participating countries should also report any quotas which contained non-cotton goods. If there was any doubt on this, special consultations could be held and perhaps the matter could be the subject of arbitration; (iii) consultations should be held with a view to liberalization if quotas are perennially unused.

33. The representative of the United Kingdom recalled that, although home market consumption had remained relatively static, imports had risen steeply. Imports of woven cotton piece-goods had, for instance, risen from 99 million square yards ten years ago to 558 million square yards in 1962; in the first half of 1963 there was a further leap forward and an annual rate of 648 million square yards was reached. The ratio of imports to domestic consumption had increased from 36 per cent in 1959 to 42.6 per cent in the first half of 1963. The large majority of these imports came from the developing countries. The United Kingdom had to consider a network of obligations when examining the reasonable claims of home producers, the "big three" Commonwealth exporters and

other supplying countries, some of whom had entered the export market fairly recently. This had meant requests for restraint, details of which are set out in document COT/15. Numbers employed in the domestic industry, which was concentrated in a particular area of the country, had fallen by 60 per cent since 1951, and production of yarn and cloth had been halved during the same period. It was therefore to be hoped that there would be an expansion of imports into markets comparable to that of the United Kingdom, which might effectively help to take some of the growing pressures off the United Kingdom market.

34. The representative of Pakistan said that his Government had not accepted limitations on its exports to the United Kingdom. Quotas on the export of cotton cloth to the United Kingdom up to 1961 had been satisfactory and had, in fact, not been filled but the quota had been filled in 1962 and no increase had been allowed in 1963 or for 1964. It seemed that no increase was contemplated for 1965. Restrictions had also been arbitrarily imposed on cotton yarns. This restrictive policy had extremely serious implications for Pakistan's economic development and the success of her development plan. The Pakistan Government did not wish to make a formal complaint and was fully aware that a very large proportion of the United Kingdom's imports came from developing countries but this proportion was diminishing. It would be proper for other countries to increase the proportion of their imports coming from developing countries rather than for the United Kingdom to reduce this proportion.

35. It was pointed out by the representative of the United Kingdom that a decision had been taken only after thorough discussion. The United Kingdom sympathized with the anxiety of countries like Pakistan to maximize its export earnings. But a decision had to be made in the context of the network of obligations to which reference had already been made and of the equitable claims of other sources of supply. The quota on cotton yarn had in fact been fixed at a figure more than double that which might have resulted from a rigid application of the formula in the Long-Term Arrangement. Restrictions had been introduced on piece-goods after a sharp (and substantial) rise in imports from Pakistan had taken place at a time when restraints had already been accepted by two powerful suppliers.

36. The representative of Canada said that the Arrangement had worked fairly well and his Government had used its provisions sparingly. Restraints had been imposed on exports of three countries and involving three products: yarn from Portugal and Israel and on two items of cotton textiles from Hong Kong. A bilateral agreement had also been concluded with Japan. The requests had in each case been limited to items where disruption had actually taken place or was imminently threatened. Despite the Canadian reservation on the provision of a growth element an increase of 3 per cent was foreseen in the arrangements made with Japan and Hong Kong and imports from the low cost countries had continued to rise in recent years. The Canadian Government wished to continue to use the Arrangement sparingly as it had in the past but had not met two problems in particular in implementing the Arrangement; (1) delays had been experienced in receiving replies from some exporting countries to which requests have been addressed, and (2) the diversion of goods as a result of the very restricted access to certain other markets. He concluded by urging the exporting countries to co-operate to the extent possible.

37. The representative of Austria informed the Committee that in 1962 the quotas fixed totalled 343 tons and that, by an application of the figure for Austria in Annex A, the quotas to be established during the first year of the Arrangement would amount to 408 tons. Actually the quotas fixed for that year aggregated about 421 tons of retained imports. During the same period Austrian domestic production had decreased as had employment in the industry. During the first year of the Arrangement imports of cotton yarn from all sources increased by 19 per cent and cotton fabrics by 8 per cent as compared with the twelve months period preceding the Short-Term Arrangement. Imports have risen to represent 15 per cent of consumption of yarns and $32\frac{1}{2}$ per cent of consumption of fabrics. Austria had expanded access to its markets for cotton textiles from the developing countries and Japan and would continue to do so to an increasing extent in the coming years within the framework of the Long-Term Arrangement. Consultations with Israel on the basic quota are still in progress.

38. Commenting on this, the representative of Israel reserved his position pending the outcome of these consultations.

39. The representative of Spain said that his country had received requests from the United States to restrict exports of several categories of cotton textiles. His Government had found that Article 3 authorized the United States Government to request this limitation and the United States had interpreted the provisions of Annex B in a generous way. Since then Spain had signed a bilateral agreement with the United States. The consequence of this had been a considerable restriction of Spanish exports to the United States. This was not compatible with the aim of the Long-Term Arrangement which was to secure an orderly expansion of trade. He recalled that exports of gingham from Spain to the United States had fallen to exceptionally low levels in 1961 and 1962 due to exceptional circumstances. Although, as he had said, the United States interpreted the twelve months rule generously, the restraint level which had been applied to exports of these items was very much lower than Spain could supply under normal circumstances. He suggested that the various proposals which had been made on this question should be examined and that the rule might be complemented by a reference to past levels of trade. The restraint level should not be lower than exports in either the first year of the Long-Term Arrangement or the year of the Short-Term Arrangement, whichever was greater.

40. The representative of Jamaica stated that his Government felt that the Long-Term Arrangement was not working as it had been intended, partly as a result of the interpretation placed on it. He underlined the difficulties which were being experienced by relatively new exporters of cotton textiles. Jamaican exports to the United States had increased by 50 per cent between the period of the Short-Term Arrangement and the first year of the Long-Term Arrangement. This presented a misleading picture as during the Short-Term Arrangement few factories in Jamaica had reached an economic level of production. In October 1962, when this economic level was being reached, the United States had requested restraint

on three categories and restraint was imposed based on a period in the past. Employment had been reduced by 40 per cent, the effect being concentrated on certain rural areas. The United States had suggested that Jamaica diversify production. Diversification was undertaken but in March 1963 followed a request to restrain exports of two further categories. The base period formula had prevented increases in exports of new items. He expressed the hope that increased access would be available in other markets but concluded by pointing out that the operation of the Long-Term Arrangement might have serious effects on the industry in his country and on its export earnings.

41. The representative of the United States expressed his Government's concern for the problems which had been outlined by the representative of Jamaica. He pointed out, however, that the bilateral agreement which had been signed with Jamaica provided for a level of trade which was substantially higher than Jamaica had achieved before and also provided a not inconsiderable growth factor.

42. The representative of Hong Kong pressed for the rapid liberalization and elimination of quota restrictions maintained under Article 2. Referring to the question of market disruption, he said that difficulties could be largely removed by the adoption of a meticulous but at the same time liberal interpretation of existing provisions. This was all the more necessary because the Arrangement placed all the powers of decision in the hands of the importing countries. Finally, he referred to the growth formula built into Annex B of the Arrangement and said that out of more than forty cases of restraint under Article 3 of which he had had experience, in no case had there been conceded a growth element of 5 per cent in the second year of the Arrangement. In every single case the importing territory had claimed "exceptional circumstances of extreme difficulty". It was difficult to see how every case could properly be treated as an "exception". This underlined the need for a more liberal interpretation of this provision.

43. The representative of Australia, referring to document COT/16, page 2, reminded the Committee that his Government had no licensing controls on cotton textiles or on cotton made-up articles. He added that no changes in this situation are contemplated for the second year of the Arrangement. His Government had taken no action under Articles 3 and 4 of the Arrangement. Imports accounted for more than 60 per cent of total domestic consumption. He concluded by underlining the diversion possibilities mentioned by the Canadian delegate and expressed the hope that limitations on access to other markets would not throw a strain on small open markets such as existed in his country.

44. The representative of Norway said that his Government had liberalized textile imports about eight years ago. The industry had been relocated, its productivity was high and supplied about 40 per cent of home market needs without any substantial import restrictions. All imports from less-developed countries are free. Quotas had been established for the first year of the Arrangement at a realistic level on imports from Japan and details were given in document COT/16, page 7. An Agreement had also been reached with Hong Kong on two cotton textile

items. The text of this is reproduced in document COT/13. It was pointed out that the Norwegian market was small and that diversions of trade might be of real concern to the Norwegian Government if large markets were not open to imports and if readaptation measures were not taken. He concluded by urging other importing countries to readjust the industry and to open their markets.

45. The representative of Portugal stated that exporting countries signatory to this Agreement have never envisaged that the disruption clause would be applied to the benefit of the importing countries and thus the exporting countries would be at their mercy waiting optimistically for a generous attitude. The exporting countries agreed to the Arrangement because they felt that it should be designed to facilitate economic expansion and promote the development of less-developed countries by providing larger opportunities for increasing their export earnings. He said that the preamble to the Arrangement laid down fundamental basis for these objectives.

46. The representative of Portugal also pointed out that importing countries having recourse to measures envisaged in paragraphs 1, 2 and 3 of Article 3 should also consider the relevant provisions in paragraphs 5, 6 and 7 of this Article as well as Article 7 and emphasized that for the satisfactory working of the Arrangement a balance of interests must exist.

Quotas Granted to Exporting Countries by the Member States
of the European Economic Community in 1962 and 1963

		FRANCE	ITALY	F.R. GERMANY	BENELUX	TOTAL
Japan	1962	1,350 t.	300 ¹ t.	1,637 t.	850 ¹ t.	4,137 tons
	1963	1,525	580	1,803	930 ²	4,838 tons
India	1962	1,200 t.	-	625 t.	-	1,825 tons
	1963	1,355	-	756	-	2,111 tons
Pakistan	1962	225 t.	-	97 t.	-	322 tons
	1963	250	-	116	-	366 tons
Hong Kong	1962	225 t.	-	-	-	225 tons
	1963	250	-	-	-	250 tons
Total	1962					6,509 tons
	1963					7,565 tons

¹Definitive quota fixed after 1 October 1962.

²Negotiations in progress.