

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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DRAFT REPORT OF THE COTTON TEXTILES COMMITTEE

PART II

Record of Specific Points Raised and Discussed during the Second Annual Review of the Long-Term Arrangement

(This part will be preceded, in the final report,
by a summary of the discussions which took place in the Committee)

1. The Committee reaffirmed that the basic objective was to achieve the liberalization of trade through the General Agreement and that the Long-Term Arrangement was to be regarded as an exceptional arrangement designed to deal with trade problems which, if dealt with unilaterally, might lead to a greater restraint of trade than would be the case through co-operative action under the Long-Term Arrangement. In this connexion, the Committee stressed the objective of achieving an expansion in international trade in cotton textiles.
2. In the course of the Committee's discussions, the following specific points were raised and discussed. These are set out hereunder.
3. The point was made that under some bilateral arrangements the aggregate level of restraint had been divided into such a large number of categories that the exporters were left with little room for diversifying their exports; many countries were not able to plan their exports for every item several years ahead. It was agreed that this was a problem which could suitably be discussed in the course of bilateral consultations.

4. The problem of flexibility among categories was also discussed. It was pointed out that, where bilateral agreements were concluded in accordance with Article 4 of the Long-Term Arrangement on an overall basis covering a large number of cotton textile products, the exporting country should be permitted to exceed, by a substantial amount, the agreed level for any of the products which were not a cause of disruption in the market of the importing country; those products causing disruption might be exceeded by 5 per cent provided that the aggregate restraint level for all products was not exceeded. Similarly, flexibility would be appropriate when a considerable number of products were covered by restraint levels operating under Article 3.

5. Attention was again drawn in the Committee to the question of shipments in excess of restraint levels, but it was noted that this particular problem had become a lesser cause for concern than at the time of the first review of the operation of the Arrangement last year.

6. Reference was made to the problem of the circumvention and negation of export restrictions by trans-shipments and third-country transactions and, in this connexion, the Committee drew attention to the importance of co-operation between importing and exporting countries.

7. The attention of the Committee was also drawn to the problems which arise for importing countries when there is a delay in receiving replies from exporting countries to which requests for restraints had been made.

8. The participating countries reaffirmed the importance they attached to the implementation of the equity provisions of Article 6(c) of the Arrangement.

9. Alternative A. The parties to the Long-Term Arrangement reiterated their intention to invoke Article 3 only sparingly. It was felt that, in present circumstances, it would not, in practice, be necessary to have further recourse to the provisions of Article 3 during the remainder of the life of the Arrangement, particularly if exporting countries undertook to keep a watch on exports with a view to avoiding sudden and sharp increases.

Alternative B. Article 3 restraints should continue to be invoked as sparingly as possible in full recognition of the undertakings in Article 3, paragraph 7 of the Arrangement. In this regard, the Committee noted that an importing country might find it possible not to invoke the provisions of Article 3 in cases where the exporting country exercised care to avoid sudden and sharp increases in shipments of individual products and thereby limited the disruptive effects of such trade. Nothing in the foregoing should be deemed to impair the rights and obligations of the participating countries.

10. The view was expressed that, as regards the fixing of restraint levels, the time basis provided for in Annex B (the first twelve months of the last fifteen months) was not adequate. In this connexion, the Committee recalled what was contained in the conclusions which came out of the first review last year, namely, that..."As regards the fixing of restraint levels as provided for in Annex B it was considered that the past performance of imports from the particular exporting country concerned over a period of years and other relevant factors should be taken into account".

11. A proposal was made by a developing exporting country that the percentage increase of 5 per cent provided for in Annex B should be made higher in order to enable developing countries to benefit from the objective of the Arrangement.

The Committee agreed that a record of this proposal should be included in the report on the Committee's present meeting and that the question would be reverted to at the major review of the operation of the Arrangement to be held in 1965.

12. A further proposal was made that, in order to bring the operation of the Arrangement more in line with its spirit and objectives, the definition of market disruption set out in Annex C should be examined and an agreement reached on broad guide-lines which would enable participating governments to conduct negotiations in the light of some objective criteria.

Alternative A. [Attention was drawn to the difficulties which some participating countries stated arose from the definition of market disruption in Annex C. The Committee agreed that before there was question of referring this matter to the CONTRACTING PARTIES, the correct procedure would be for the Committee to discuss the matter under Article 8(b) of the Arrangement. It was suggested that participating countries should put forward any proposals they had regarding the modification of the definition in Annex C and these proposals could be examined in the course of the major review in 1965.]

Alternative B. [Attention was drawn to the difficulties which some participating countries stated arose from the definition of market disruption in Annex C. The Committee took note of these statements and agreed to bring the matter to the attention of the CONTRACTING PARTIES in order that the CONTRACTING PARTIES could, if they thought fit, re-examine the definition which had been formulated in earlier discussions on this subject.]

13. In the course of the discussion the view was expressed that account should also be taken of the disruptive effects which the introduction of restraint levels might cause in the exporting countries. In its discussion of this point the Committee noted that the Preamble to the Arrangement referred to avoiding "disruptive effects in individual markets and on individual lines of production in both importing and exporting countries".

14. The representatives of the European Economic Community and the United States said that their Governments would consider the proposal which had been put forward in the Committee that textile products manufactured out of hand-made fabrics should be treated on a par with handloom fabrics.

15. Some questions were specifically addressed to the European Economic Community. In the first place it was asked whether, and to what extent, the expectation had been fulfilled that the member States of the Community would exceed the figure of 12,000 tons referred to in paragraph 17 of the Record of Understandings reached by the Committee at its meeting of 29 January to 9 February 1962. In reply the spokesman for the Community stressed the great increase which had taken place in imports of cotton textiles into the Community and referred in this connexion to the secretariat paper COT/W/28. Certain questions were also asked with respect to the quota arrangements in the Community, in particular the problem of how to separate quotas for cotton textiles from other textiles. It was pointed out by the spokesman for the Community that this problem only arose in the case of Japan and Benelux and this could suitably be discussed in the course of bilateral negotiations. Finally, an enquiry was made as to whether the member States of the European Economic Community would agree to accept the principle of the quota system being operated at the exporting end in order to enable the exporting countries

to fulfil quotas. The spokesman for the Community in reply pointed out that this was a question which only arose with respect to only one of the member States of the Community and expressed the hope that a solution to this problem could be found.

16. It was agreed that the major review at the end of the third year of the life of the Arrangement should be carefully prepared, and instructions given to the secretariat for this purpose. It was decided that the work to be undertaken by the secretariat should include:

- (i) a detailed analysis of the operation of the Arrangement in the first three years of its existence;
- (ii) a description of developments in production of, and trade in, cotton textiles during those three years;
- (iii) further work on reviewing structural changes in productive capacity, production, etc. in the light of the comments made during the discussion in the Committee.

17. The Committee noted the intention of Japan to raise the question of the detailed division into categories at the technical level during the major review in 1965.

18. The Committee agreed that information should be collected under Article 8(a) on restrictions maintained on trade in cotton textiles outside the provisions of the Arrangement.

