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SUMMARY RECORD OF THE FIFTH MEETING

Held at the Palais des Nations, Geneva
on Monday, 15 March 1965, at 2.30 p.m.

Chairman: Mr. J. LACARTE (Uruguay)

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1. Committee on Trade and Development - appointment of Malawi

The CHAIRMAN recalled that the Committee was composed of those governments which had declared their intention to accept the responsibilities of membership by undertaking to provide suitable representation at meetings of the Committee and to participate actively in its work. The Executive Secretary had received a request from the Government of Malawi to be admitted as a member, for which purpose it intended to make available an officer from the Malawi mission in London for full participation in the Committee's work. The CONTRACTING PARTIES agreed to the appointment of Malawi as a member of the Committee.

2. Trade in cotton textiles - report by Cotton Textiles Committee (L/2360)

The CHAIRMAN said that the Long-Term Arrangement Regarding International Trade in Cotton Textiles had been in force for two and a half years. Article 8(c) of the Arrangement provided that its operation should be reviewed annually by the CONTRACTING PARTIES. The Cotton Textiles Committee had met in December 1964 and had conducted the second annual review. Its report appeared under Item III of the minutes attached to document L/2360.

The EXECUTIVE SECRETARY, Chairman of the Committee, said that the Committee thought the best way to report to the CONTRACTING PARTIES was to furnish a detailed record of its discussions. The record gave an account of the operation of the Long-Term Arrangement during its second year. He reminded the CONTRACTING PARTIES that the Arrangement presents a serious and direct challenge in the context of the need for the less-developed countries to expand their export earnings. The discussion of the report should be regarded as an occasion for a serious search of conscience. Restrictions on imports of cotton textiles continued to be widespread and many exporting countries viewed this situation with considerable concern. With respect to the question of market disruption the need for strict adherence to the spirit and objectives of the Agreement had been stressed. On the other hand, several major markets had increased their imports from less-developed countries, including the United Kingdom and the EEC. The United States continued to absorb great quantities of foreign cotton textiles. Some of the older cotton textile producing countries in Asia had suffered declining markets in less-developed countries of Asia and Africa which had started their own textile industries. On the question of structural adjustment, the evidence available pointed to increased efficiency and rationalization of production capacity in the developed countries. Canada, the United Kingdom and the EEC and other European countries had reported substantial reductions in installed machinery. In these countries and in the United States modernization measures were not directed towards increased productive capacity. Japan aimed at scrapping surplus capacity and producing higher quality goods. On the application of the equity provision relating to non-participants, the CONTRACTING PARTIES were referred to paragraph 14 of the report. During the current year a major review of the Arrangement would be carried out. The Committee had instructed the secretariat to prepare material for the review covering the operation of the Arrangement, developments in production of and trade in cotton textiles during the three years, and structural changes in production capacities. The Executive Secretary pointed out the possibilities of reducing tariff barriers to trade in cotton textiles in the Kennedy Round and thought the CONTRACTING PARTIES would attach importance to the reaffirmation of the basic objectives of governments participating in the Long-Term Arrangement contained in paragraph 61 of the Committee's report.

Mr. COLLYMORE (Jamaica) said that the Long-Term Arrangement had been used to establish a series of bilateral agreements on the ground of market disruption. Jamaica had had to agree to export restrictions on the whole range of cotton textiles. The Arrangement had become a charter for restriction, and they did not wish to see it renewed in its present form after 1967. No provision had been made for new starters, and increases from zero upwards resulting in high percentage increases had been the basis of claims for market disruption. The growth of the textile industry in Jamaica had been stifled, and the climate created by the Arrangement was not encouraging for manufacturers. Because of its simplicity and high labour content, developing countries relied on the textile industry in the early stages of industrial development. One country imported only 8 per cent of its total cotton textile requirements; this could not constitute disruption. On the other hand if the import performance of some other countries were followed, there would be no real cotton textile trade problem. Unless the review undertaken later this year included major amendments it would be meaningless.

Mr. SUZUKI (Japan) said that his delegation fully supported the adoption of the report of the Cotton Textiles Committee. In their view the implementation of the Arrangement by important importing countries was incompatible with the original intention. The arbitrary invocation of Article 3 by a major importing country had adversely affected the cotton textile exports of Japan and the less-developed countries. It was to be hoped that in implementing the Long-Term Arrangement, importing countries would have due regard for the points raised and discussed in the Cotton Textiles Committee and contained in Part 2 of the report. These, covered, inter alia, sparing invocation of Article 3, avoidance of the sub-divisions into excessively detailed categories, and the need for greater flexibility among categories. With regard to structural adjustment, their delegation intended to contribute to the secretariat studies. His delegation looked forward to the forthcoming major review. The renewal of the Long-Term Arrangement was directly connected with the Kennedy Round negotiations, and it could not be assumed that the Arrangement would be extended.

Mr. SWARUP (India) wished to put the statistical position, in so far as India was concerned, into its right perspective. India's cotton textile exports fell from 814.60 million yards in 1959 to 531.15 million yards in 1963, after touching a low of 508.36 million yards in 1962. This led to the belief that widespread import restrictions were still applied. To carry out its development plan India needed to expand its export earnings, but had received requests to restrain exports to markets where India was only a marginal supplier. He had understood that one of the operating principles of the Arrangement was to be the equalization of pressures on different national markets. In practice markets were not opened up sufficiently. For the major review the secretariat should carry out a comparative study of the performance of the main industrialized countries. In order that a study of a comprehensive, objective and technical nature might be carried out, one or two experts should be appointed. His Government would be happy to supply such an expert. He also thought the overall impact of cotton textile imports from developing countries should be studied, including the beneficial effects to both less-developed and developed economies. Possibly, too, what constituted market disruption needed to be redefined. A thorough examination should be made of this question. With respect to structural adjustment, his delegation felt it was more important to study what could be done to promote changes in the pattern of production, rather than just study changes per se. For this purpose the information furnished by some contracting parties was not complete. His delegation had suggested that textile products manufactured from hand-made fabrics should receive special treatment because of their widespread social implications. Finally, they looked forward to the Kennedy Round solving most of the problems connected with the cotton textile trade.

Mr. AKHTAR MAHMOOD (Pakistan) said that trade in cotton textiles was causing his country a great deal of frustration. Their textiles were under quantitative restrictions in four of the most important industrialized countries,

they had recently received a restraint notice from another important industrialized contracting party, and yet another was considering similar action. In view of certain specific assurances by the EEC, and reiteration by parties to the Long-Term Arrangement on the sparing invocation of Article 3, they had hoped for a period of quiet. To fulfil its Third Plan Pakistan would have to import goods and services to the value of \$7.1 billion, of which they would earn \$3.9 billion if their exports rose by 7.5 per cent per year. In 1969-70 Pakistan hoped to earn \$63 million from textile exports, double the anticipated figure for 1964-65. While appreciating the credits and other assistance given to his country to help bridge the import gap, he urged the contracting parties to consider the problem of textile exports in the light of the above data. The negative aspects of the Long-Term Arrangement had received greater emphasis than its positive objectives. His country had spent large sums and much energy in building markets in a certain country, only to have barriers put in the way which forced them to turn to a fresh market. Perhaps the Long-Term Arrangement had become a means for some contracting parties to escape their GATT obligations. If at the third review it was found that most of the less-developed countries were dissatisfied with the working of the Long-Term Arrangement, it seemed necessary to find a way of bringing it into line with the spirit and provisions of the enlarged General Agreement.

Mr. RISTIC (Yugoslavia) said that the Long-Term Arrangement represented a concession by the exporting countries in the sense that they renounced the immediate liberalization in order to obtain it progressively over a period of five years. But application of the Arrangement over two-and-a-half years had not led to the liberalization which the developing countries had a right to expect. Yugoslavia's experience in this respect was the same as that of other developing countries. Moreover the same restrictive import policies were being applied to products other than cotton textiles, with the object of avoiding dislocation of home markets. If this went on the developing countries would be subject to widespread trade restrictions not in conformity with GATT rules and still less with the recently adopted Part IV. According to information reported by the press, not only did cotton textiles figure amongst the lists of exceptions in the Kennedy Round, but also a good many other industrial products coming from developing countries such as shoes, chinaware, glassware, etc. If this were true it could be questioned whether we were moving towards liberalization of exports from developing countries, or towards an extension of their control. He therefore expressed the hope that within the framework of the Kennedy Round and the discussions in the Committee on Trade and Development, these problems would be clarified and solved in conformity with the provisions of Part IV of the GATT.

Mr. FERNANDES (Portugal) drew the attention of countries participating in the Arrangement to the difficulties caused by the way importing countries were interpreting the concept of market disruption, and also the equity clause. The principles behind the Arrangement should be taken into account and measures of restraint should be regarded as the exception and not the general rule.

Mr. SAKELLAROPOULO (Canada) drew attention to the very sparing use made by Canada of restraint arrangements under Articles 3 and 4. He believed the Arrangement could work effectively if applied in this way. Also if all importing countries were to assume a fair share of the burden, the problems which gave rise to the Arrangement would disappear. With respect to the coming review and the study suggested by the Indian representative, the volume of imports into each importing country during the base year for the Short-Term Arrangement, which was applied in 1961, should be taken into account, because that was the year when some contracting parties had decided to take restrictive action. The study should also take into account the share of each importing market held by total imports, by low-cost imports and by imports from developing countries.

Mr. EVANS (United States) said that the many facets of the problem had been dealt with to some extent in the Committee and would be the subject of the major review in the autumn. Certain proposals, for example the suggestion on hand-loom textiles made by the representative of India, were being seriously considered in Washington. Other problems would be the subject of the secretariat study to be undertaken with the assistance of experts. The study should be as broad as possible. With respect to the Kennedy Round, delegations should not pay too much attention to press reports concerning a subject on which the press had no right to be informed.

The EXECUTIVE SECRETARY said that the major review would proceed on the basis of a comprehensive study of underlying factors. The outlines of the study were being submitted to experts and would include an examination of historical developments in production, location and trade; a comparison of total manufacture and trade; the reasons for special developments in the textile industries, including the decline in relative demand in industrialized countries, technological trends and fibre competition; an analysis of changes in production, consumption and trade flows, taking 1952 as base year and comparing it with 1960-1964; changes in capacity and technical and economic structure and their impacts on production and trade, bearing in mind questions of productivity and tendencies for the industry to become more labour intensive; the importance of cotton textile production and trade to the economies of various countries and the impact that changes have had on economic development in these countries; an examination of policy measures in developed and less-developed countries and the aims and effects of these policies, including an estimate of the effects of the Long-Term Arrangement and an examination of future trends, including plans for the development of the industry. The programme was ambitious, but with expert assistance it was not beyond the secretariat's capacity. A study of the application of market disruption criteria, as suggested by the Indian delegate, had not been included as this was not considered to be a matter for study by the secretariat. The Committee felt that it should be decided, under paragraph (b) of Article 8 of the Arrangement, whether a study of this problem should be made on the basis of proposals put forward by members. This fell into a different category from the specific and objective elements being suggested to the experts for inclusion in the report that would be prepared as a basis for the review.

Mr. COLLYMORE (Jamaica) asked whether the study would include the actual import performance of the major importing countries, in relation to their home consumption and production of cotton textiles. This might indicate whether the Long-Term Arrangement would really be necessary after 1967.

Mr. SWARUP (India) wished that the list of points to be studied had been available earlier, so that his delegation could have looked closely at them. However, since his Government was contributing an expert, he would leave them to the latter's consideration. He wondered whether two meetings of the experts were sufficient, and emphasized the importance of an impartial technical assessment of the problem.

The EXECUTIVE SECRETARY confirmed that imports in relation to consumption would be taken into account, over the period 1953 to 1960-1964. He said that the study outline he had described was only tentative and had been prepared for the meeting of experts. The experts might suggest supplementing or modifying these proposals. The secretariat would also consider with the experts the necessary arrangements to carry out the studies effectively and would take advantage of the technical facilities of the International Federation of Cotton and Allied Textile Industries. The experts would meet from time to time with the secretariat in an expert capacity, not as governmental representatives. The number of meetings and the liaison arrangements with the experts would be such as to ensure that the study would be technically well-founded. He agreed that the study should be objective. The national viewpoints would be defended and expounded by the members of the Committee when they examined the completed studies.

The report was adopted.

The CHAIRMAN recalled that under paragraph 8(c) of the Arrangement there was to be a major review during the third year. This would be conducted by the Committee towards the end of 1965 and a report would be submitted to the CONTRACTING PARTIES.

3. European Economic Community - Information on implementation of the Rome Treaty

The CHAIRMAN said that, as at previous sessions, the representative of the Commission of the EEC wished to inform the CONTRACTING PARTIES about developments during the past year in the implementation of the Rome Treaty.

Mr. SCHLOSSER (EEC) read the statement distributed in document L/2394. He emphasized the EEC's record of expansion of extra-Community imports, both of industrial and agricultural products. He described the stage reached in the formation of the customs union, the Association Agreement with certain States, and trade agreements with other States. He also described progress towards full economic union and a common agricultural policy, and concluded with a description of measures to assist developing countries, particularly duty reductions on products of interest to them.

Mr. TZIRAS (Greece) made a statement, distributed in document L/2400, concerning the Association Agreement with the EEC. The Agreement was following its planned evolution and would progressively establish a full customs union, in conformity with Article XXIV of the GATT.

Discussion was deferred to a later meeting.

4. Central American Free Trade Area and Nicaraguan duty increases (L/2325, L/2390)

The CHAIRMAN said that the Government of Nicaragua submitted annual reports on the development of trade under the Treaties establishing the Central American Free Trade Area and the Nicaragua/El Salvador Free Trade Area. The statement relating to trade in 1963 was distributed in document L/2325. The Government of Nicaragua had also submitted a statement (L/2390) concerning the alignment of duties in the Nicaraguan tariff with the Common Tariff of the Central American Customs Union. This statement included a request for an extension of the time limit, in the Decision of 23 November 1961, for the renegotiation of those concessions in the Nicaraguan Schedule where duties might be increased in the alignment process.

Mr. SALAZAR (Nicaragua) said that, in addition to the information contained in document L/2325, he had transmitted to the secretariat two full reports on the progress made in the programme of Central American integration, covering the period October 1962 to November 1964, together with a table showing all treaties and protocols in force regarding economic questions within the framework of integration. He said that trade liberalization for products originating in the area had been almost completed. The Treaty for Central American Economic Integration had entered into force on 4 June 1961, and provided for unrestricted intra-trade within five years. The programme was being adhered to. Intra-trade had doubled since 1961 and was continuing to expand. Progress was being made in the establishment of a uniform import tariff, although some items still required negotiation. On 13 December 1963 the five Central American Governments (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica) had signed a uniform Central American Customs Code. In connexion with the alignment of customs duties, the Annex to document L/2390 showed which of the Nicaraguan duties bound in Schedule XXIX had decreased, increased or remained the same under the unified Central American tariff, and which were in process of negotiation. Since these negotiations were continuing, Nicaragua requested a three-year extension of the Decision of 23 November 1961, which authorized it to increase certain rates of duty where this was done within the framework of the Central American Equalization Agreements. At the end of this period the Government of Nicaragua intended to initiate the renegotiation of Schedule XXIX.

Mr. PROPPS (United States) said his delegation was pleased with the progress made by the Central American Common Market and that the expected establishment of free intra-trade by the end of 1966 was a considerable achievement. They were pleased also with the progress made in aligning the Nicaraguan tariff with that of the Central American Customs Union and, in view of the intention by the Government of Nicaragua to initiate renegotiation of Schedule XXIX upon completion of the equalization process, would support an extension of the Decision of 23 November 1961 for an additional three-year period.

Mr. CHAUMET (France) said that the member countries of the EEC were very satisfied with the degree of economic integration realized by the Central American Common Market. In addition to the creation of a common customs nomenclature and a common tariff, they considered the setting up of the following institutions to be particularly important: a Central American Development Bank; a Compensation Board which would permit foreign exchange economies; an Institute for Industrial Technology; and a Centre for Administrative Teaching and Training. Such efforts would contribute significantly to economic and social development in the area. The member States were in favour of extending the waiver accorded to Nicaragua.

Mr. GILDEA (United Kingdom) supported the previous two speakers and underlined the importance of increasing trade among developing countries. He was encouraged by the reports of the Nicaraguan delegate and by the very satisfactory progress that the Common Market seemed to be making. Such study as he had been able to make of the tariff decisions seemed to indicate that the rates had moved more downward than upward. Although a three-year extension was rather long for Article XXVIII negotiations, the case this time seemed to be fairly strong, and his delegation could agree to it.

The CHAIRMAN congratulated the Nicaraguan delegate for the thoroughness of the material submitted to the CONTRACTING PARTIES.

The CONTRACTING PARTIES took note of the Report and agreed to the Nicaraguan request for a three-year extension of the waiver. The Executive Secretary was asked to prepare a draft Decision for adoption at a later meeting.

5. Article XX, sub-paragraph (j)

The CHAIRMAN recalled that at an earlier meeting the CONTRACTING PARTIES had reviewed the need for sub-paragraph (j) of Article XX and had decided that it should be retained and that the CONTRACTING PARTIES should review the need for it again in 1970. The Executive Secretary had prepared the draft Decision contained in document W.22/7.

Mr. DONOVAN (Australia) suggested that, in line four of the paragraph introducing the draft Decision, the phrase "for a further period" be dropped. This would avoid the suggestion that the paragraph was being retained for only a particular period; it was being retained and the need for it was to be reviewed again in 1970.

The CHAIRMAN said this would be in accordance with what had been agreed.

The Decision was adopted.

6. Chilean import restrictions and surcharges (L/2392, L/2393)

The CHAIRMAN said that two matters concerning Chile's external trade regulations had been referred by the Council to the Committee on Balance-of-Payments Restrictions. The Committee had met during the session and the two reports would be presented by the Chairman of the Committee.

Mr. VOUTILAINEN (Finland), the Chairman of the Committee on Balance-of-Payments Restrictions, said that the Committee had conducted a consultation with Chile under Article XVIII:12(b). The result of the consultation was the report issued as document L/2392. In accordance with the Decision of the CONTRACTING PARTIES of 25 January 1965, the Committee also examined the balance-of-payments aspects of the Chilean request for a further extension of the waiver originally granted by the Decision of 27 May 1959 relating to the Chilean import surcharges. During a detailed examination, which was conducted concurrently with the balance-of-payments consultation, the Committee came to the unanimous conclusion that the balance of payments position of Chile justified a further extension of the waiver until the entry into force of the new customs tariff, or until 31 December 1966, whichever was the earlier, subject to the terms and conditions specified in the Decision of 27 May 1959. The Committee had prepared a draft Decision along these lines, contained in document L/2393. He complimented the Chilean delegation for the authoritative and complete information provided, and proposed that the CONTRACTING PARTIES adopt the reports and the Decision.

Mr. MARSHALL (Chile) said that his Chilean Government wished to maintain the surcharges as long as the balance-of-payments difficulties continued, and until the introduction of the new customs tariff which the Executive had presented to the National Congress for consideration. Chile's balance-of-payments deficit had been diminishing since 1961 and equilibrium was almost achieved in 1964. However, over the last six years Chile's total external indebtedness had increased by over \$800 million, and negotiations for the refinancing of debt due to be serviced in 1965-1966 had recently been concluded successfully. A new administration had taken over the Government of Chile four months ago, and it intended to carry out sweeping economic, social and political reforms, aimed at economic development and more equitable income distribution. They were tackling the problems of land reform, housing, education, the elimination of inflation and achievement of a high rate of economic growth. They intended to double exports within six years, an important element of which included an expansion of mineral ore production and copper refining. The programme included taxation reform and provision of private investment incentives. The effects of the programme on exports would not be felt for three or four years. They would have to obtain additional external credit, and maintain the existing restrictive foreign exchange system. The latter included the surcharges for which they were requesting an extension of the waiver. The surcharges would be incorporated in the new tariff so the waiver was necessary till the new tariff became effective and Chile could renegotiate on those products previously negotiated under the old tariff. They hoped that the new tariff would be approved by Congress within a reasonable period. Taking into account the time required for applying new tariff and administrative regulations, they had requested an extension of the waiver until the end of 1966, or until the new tariff came into force if this occurred earlier.

Mr. EVANS (United States) said that as a member of the Balance-of-Payments Committee his delegation wished to record their appreciation of the frankness and responsiveness of the Chilean delegation. In the light of the Committee discussions, they favoured acceptance of the Committee report and supported the adoption of the Decision for an extension of the waiver.

The CONTRACTING PARTIES adopted the two reports. The Decision was adopted by forty-three votes in favour and none against.

7. Uruguayan Schedule - adjustment of aforos (L/2353)

The CHAIRMAN said that the text of a Decree by the Government of Uruguay had been distributed in document L/2353. The Decree provided for the adjustment of aforos in the customs tariff. He reminded representatives that the aforos were the legal values on which ad valorem duties were levied in Uruguay for certain imports. The matter required examination in accordance with the provisions of paragraph 6(a) of Article II. He called on the representative of the International Monetary Fund to make a statement on the changes in valuation of the Uruguayan currency which would be the basis for the adjustment of the aforos.

Mr. ANDERSON (IMF) said that in May 1961, the International Monetary Fund had advised the CONTRACTING PARTIES that the rate of exchange recognized by the Fund as applicable to most private imports into Uruguay on 10 October 1949 (the date of the Ancey Protocol) was Ur.\$1.90 per United States dollar; that the rate of exchange recognized by the Fund as applicable to imports at that time (i.e., in May 1961) was the free market rate, which since October 1960 had been stable at Ur.\$11.03 per United States dollar; and that each of these rates had been maintained consistently with the Fund's Articles of Agreement on the relevant dates. After various intervening changes, on 11 November 1963 the Bank of the Republic announced a new buying rate of Ur.\$16.30 and a new selling rate of Ur.\$16.40 per United States dollar, the latter applying to all imports. The rate of Ur.\$16.40 was recognized by the Fund and was maintained consistently with the Fund's Articles of Agreement for virtually all imports on 14 August 1964 when the change in the aforos currently being considered was introduced.

Mr. BOSCH (Uruguay) said the Uruguayan Government had considered it necessary to adjust the existing aforos, last revised on 23 June 1960, in order to bring the present incidence of the import tariff into line with the requirements of the overall reform now under study, and because this adjustment was also necessary to adapt the official valuation to exchange, fiscal, economic and technical requirements. Having regard to the fact that the change in the value of the Uruguayan peso had caused a much larger reduction in the incidence of the aforo increase under the 1960 Decree, and also of the increase mentioned in the Decree of August 1964, the Uruguayan Government, pursuant to the provisions of Article II, paragraph 6(a), and on the basis of the General Notes annexed to Schedule XXXI, requested the CONTRACTING PARTIES to consent to the application of the aforo increase now provided for in the Decree of 13 August 1964. As indicated in the statement by the representative of the International Monetary Fund, the increase under the Decree was smaller than the reductions which had actually occurred in the value of the Uruguayan peso.

The CHAIRMAN said that under paragraph 6(a) of Article II the CONTRACTING PARTIES could give their concurrence that the adjustments would not impair the value of the concessions provided for in the Uruguayan Schedule. He wondered whether the best procedure might not be to set up a working party utilizing the same procedure employed on the previous occasion when Uruguay made a similar request.

Mr. EVANS (United States) questioned the need for a working party. They had the information provided by the International Monetary Fund, and the facts were very simple. On the basis of these facts they were prepared to join in a decision of the kind required in Article II, that the increase in the aforos did not impair the concessions in the Schedule.

Mr. GILDEA (United Kingdom) said his delegation were also satisfied with the information available and would not press for a working party.

The CONTRACTING PARTIES agreed that the adjustments would not impair the value of the concessions provided for in the Uruguayan Schedule and requested the secretariat to prepare a draft decision for approval at a later meeting.

The meeting adjourned at 5 p.m.