

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.23/6
19 April 1966

Limited Distribution

CONTRACTING PARTIES
Twenty-Third Session

Page 70/71

SUMMARY RECORD OF THE SIXTH MEETING

Held at the Palais des Nations, Geneva
on Thursday, 31 March 1966, at 3 p.m.

Chairman: Mr. J.A. LACARTE (Uruguay)

	<u>Page</u>
<u>Subjects discussed:</u>	
1. Trade in cotton textiles	70/71
2. Import restrictions applied contrary to GATT and not covered by waivers	86

1. Trade in cotton textiles (L/2583)

The CHAIRMAN said that, in accordance with the provisions of the Long-Term Arrangement Regarding International Trade in Cotton Textiles, the Cotton Textiles Committee had carried out the major review of the Arrangement in the light of its operation during the three years since it entered into force. The Committee's report on this review had been distributed in COT/M/5, attached to document L/2583.

The DIRECTOR-GENERAL, in his capacity as Chairman of the Cotton Textiles Committee, presented its Report. On previous occasions, when this item had been on the agenda of the CONTRACTING PARTIES, he had emphasized its importance and the great responsibility that rested upon the CONTRACTING PARTIES in dealing with the subject. One reason was that, in this area of international trade, a number of governments found themselves constrained to maintain restrictions that were contrary to basic provisions of the General Agreement, or to require their trading partners to enter into arrangements that had equivalent effect. This in itself was a serious circumstance but was also exaggerated by the fact that this situation existed with respect to one of the few industries where a number of developing countries had managed to manufacture products that competed effectively in the markets of industrialized countries. The discussion on this occasion had a heightened importance because, as the CONTRACTING PARTIES were aware, the Cotton Textiles Committee had, at its last meeting, carried out the major review of the operation of the Long-Term Arrangement, provided for in the Arrangement, which preceded

the discussion that would take place later in 1966 in order to ascertain whether the Arrangement should be discontinued, modified or extended. The Cotton Textiles Committee had made its Report to the CONTRACTING PARTIES in the form of a simple record of the discussions that took place in the Committee. The reasons why this Report had taken this form in the past were evident. He thought that it was regrettable that the Cotton Textiles Committee, in carrying out its responsibilities for the major review, could not have done more in the way of formulating considerations or conclusions for deliberation by the CONTRACTING PARTIES. He had urged upon the Committee, in the course of the discussions, that an attempt should be made to draw up conclusions at the end of the review, with the idea that these conclusions would be a valuable focus for the discussions when this matter came before the CONTRACTING PARTIES. In fact it proved impossible to arrive at agreed conclusions, although this was not, in the circumstances, surprising, it was nevertheless regrettable.

It had been expected that the Long Term Arrangement would be a co-operative arrangement that would yield mutually satisfactory advantages to all the participants; in the sense that it would provide conditions for an orderly growth of the trade in cotton textiles, whilst at the same time providing adequate safeguards to overcome the fears of market disruption that had led to restrictive measures in a number of countries. He had hoped that, in a Committee of that importance, it might have been possible to have arrived at some objective assessment, after three years of operation, of what effect the Arrangement was having and to what extent it was fulfilling the purposes and objectives which were set out in its preamble. In the light of the inability of the Cotton Textiles Committee to agree on objective judgments or conclusions of this kind, he had himself summed up the discussion in the course of the review, and had formulated certain conclusions, which he had invited the Cotton Textiles Committee to adopt as their own; but it had not been possible to reach agreement. These conclusions were therefore incorporated in the Report of the Committee without, in any way, engaging its responsibility and merely as conclusions of the Chairman, which "in his opinion", as the Report said, "seemed to merit consideration by governments and the CONTRACTING PARTIES". It might well be, therefore, that the CONTRACTING PARTIES, in considering this Report, would take into account the conclusions put forward on the personal responsibility of the Chairman of the Committee.

There were one or two points in the Report to which he wished to draw attention. The first was the comprehensive study on cotton textiles prepared by the secretariat to assist the Committee in carrying out its review. It was a survey of major developments in production and trade, an analysis of structural changes in industry, and a description of relevant industrial and commercial policy measures. It was a document of some importance and this had been recognized by the Cotton Textiles Committee. He was glad to say that there had been a broad measure of agreement in favour of its publication. Although it had been prepared in careful

consultation with experts of interested countries, in order to ascertain that the factual data were accurate and beyond discussion, the report appeared to cause serious concern to the European Economic Community, which had reservations on some points of the study and were concerned that it might lead to erroneous conclusions. They had not therefore supported the recommendation that the report be published. He thought nevertheless that he should proceed with publication on his own responsibility, and had done so with the added confidence that every effort had been made to ensure that the facts were accurate and should not give rise to concern. These facts had been assembled with the objectivity that, he hoped it was recognized, the secretariat would in any case have brought to bear, but the additional precaution had been taken of consulting with national experts in this study.

The other point to which he wished to draw attention was point (viii) in the conclusions on page 29 of the Report, and the connected paragraph 16 on page 4. These paragraphs referred to an initiative which he, as Chairman of the Trade Negotiations Committee, had taken in the context of the Kennedy Round, to suggest that the Kennedy Round provided a unique opportunity to negotiate an overall settlement in the field of trade in cotton textiles that would contain three basic elements: first, as broad a measure as possible of tariff reduction on cotton textiles; secondly, negotiated undertakings to liberalize and improve the administration of the Long-Term Arrangement; and thirdly, the continuation for a further period, of the safeguards against real or apprehended market disruption as embodied in the Long-Term Arrangement. In the course of the discussions in the Committee, this initiative had received a broad measure of support, and he had felt encouraged to carry out further consultations with interested governments which were both members of the Cotton Textile Arrangement and were participating in the Kennedy Round, in the hope that, through these consultations, the necessary basis could be found for initiating negotiations along the lines he had suggested. He regretted to have to say that, owing to the reticence or reserve of some of the countries principally concerned, it appeared to be doubtful whether it would, in fact, be possible to establish the basis for a multilateral negotiation on these lines. If this were in fact so, the countries concerned would, in his view, be missing an opportunity; but he recognized that some governments might reasonably experience some difficulty in engaging in negotiations that might seem to imply giving a degree of permanence to the Long-Term Arrangement, which, in the light of their experience, they could not, at this time, contemplate, particularly as the Arrangement itself provided, in specific terms, for a full discussion of the matter later this year. This was a point that he himself had had fully in mind when making the proposal, and he had been careful to stipulate that the acceptance of negotiations in the framework of the Kennedy Round, on the basis he had suggested, must necessarily be without prejudice to the rights of governments in the course of the discussions that would take place under Article 8 of the Arrangement with a view to considering its discontinuance, modification or prolongation.

Having concluded his remarks, the Director-General submitted the report of the Cotton Textiles Committee for consideration by the CONTRACTING PARTIES.

Mr. AOKI (Japan) said that his delegation fully supported the adoption of the report of the Cotton Textiles Committee (document L/2583). The major review of the implementation of the Long-Term Arrangement had been very useful for making clear the present positions of exporting and importing countries in respect of cotton textile trade. The Long-Term Arrangement was designed to achieve orderly expansion of trade in cotton textiles, while providing importing countries with a reasonable breathing space during which they were expected to push forward the structural adjustment of their industries. Japan had been conducting its cotton textile exports in an orderly fashion, and would continue to do so. Regarding the performance of importing countries, Japan believed that the Long-Term Arrangement could have made an even greater contribution toward the expansion of world trade in cotton textiles had the importing countries adopted more liberal policies. His delegation had pointed out the need for the improvement of the administration of the Long-Term Arrangement at the major review session of the Cotton Textiles Committee and had requested, particularly, that importing countries should take steps to further liberalize imports of cotton textiles, and remove technical obstacles standing in the way of increased access, as soon as possible, so as not to nullify the objectives of the Long-Term Arrangement. He earnestly hoped that importing countries would give serious consideration to this request.

In this connexion, Mr. Aoki stressed the importance of structural adjustment in the field of cotton textile trade. The Japanese industry was making strenuous efforts with a view to structural adjustment, and had kept in mind the export needs of the less-developed exporting countries. He hoped that structural adjustment would be energetically pursued by importing countries, and that restrictions on the import of cotton textiles would be removed at the earliest possible date. Regarding the question of the extension of the present Long-Term Arrangement, it was unnecessary to say that it was an instrument of a temporary and transitional nature, and should not be extended or renewed lightly. However, in view of the fact that the tariff reduction on cotton textiles envisaged within the context of the Kennedy Round might add to the burden of the industries concerned in importing countries, he wished to state that, provided importing countries undertook to improve the administration of the Long-Term Arrangement and reduced tariffs to the greatest possible extent, his Government would be prepared to give favourable consideration to this question, with a view to providing importing countries with another breathing space.

Mr. AYUB (Pakistan) said that this was a matter of very great concern to his country and to many other developing countries. In addition to the searching examination of the operation of the Long-Term Arrangement, on the basis of the

statistics gathered by the secretariat, the Committee had considered the new scheme of the United Kingdom for the regulation of its imports of cotton textiles. Discussion of this item had remained inconclusive and the Committee had decided to meet again some time before the session of the CONTRACTING PARTIES. However, due to circumstances beyond its control, the Committee had not held this proposed meeting.

So far as the working of the Long-Term Arrangement was concerned, the Chairman of the Cotton Textiles Committee, in his opening statement to the Committee, had pointed out that there had been an extensive use of the restraint provisions of the Arrangement and that these provisions had not been used as sparingly as had been envisaged when the Arrangement was negotiated. The Chairman of the Committee had also pointed out that Article 2 quotas had, as a whole, only matched the minimum obligations undertaken when the Arrangement was negotiated. In view of this observation, he did not think any useful purpose would be served by going into the details of experience of the Long-Term Arrangement.

Mr. Ayub said he wished to express appreciation for the study prepared by the secretariat and to place before the CONTRACTING PARTIES a few facts that the study had brought out so that the CONTRACTING PARTIES could see the operation of the Long-Term Arrangement against the background of the facts that had not been questioned by any member of the Committee. While the rate of growth of exports of yarn and fabrics from less-developed participating countries, as a whole, was 15 per cent per annum during 1953-60, it fell to 4 per cent per annum during the operation of the Long-Term Arrangement. This was borne out by Table V of the report of the secretariat. He could subscribe to the points made by the Chairman, at the last meeting of the Committee, about the changes that were taking place in the structure of the cotton industry and about the concern of less-developed countries at the prospect of increased capacity being built up in the industrialized countries behind the shelter of trade restrictions. His delegation fully subscribed to these points and was indeed greatly concerned about these matters. The Long-Term Arrangement had been negotiated to provide for orderly expansion of exports of cotton textiles of developing countries, and to avoid market disruption. The Arrangement had largely failed in its objective of promoting orderly growth of exports of less-developed countries, but had succeeded very well in so far as it had served the interests of the developed countries. When the Arrangement had been negotiated, it had been hoped that adjustments would take place in a manner that would allow developing countries to expand their exports. What in fact had happened was quite contrary to all the assurances given in this regard.

The best argument in support of the Long-Term Arrangement was that the developing countries were better off under the multilateral arrangement than under a system of unilateral trade restrictions. They had been told that the choice was not between free trade and the Long-Term Arrangement, but between a multilateral and a unilateral system of restrictions. They wished to know in what sense the Long-Term Arrangement was a multilateral arrangement. It was, of course, a multilateral arrangement in the sense that more than two countries had signed it and were imposing restrictions or were subject to restrictions under it. But apart from this purely arithmetical sense, was there any other sense in which the Long-Term Arrangement could be considered a multilateral system? There was no denying the fact that each of the major importing areas, the United States, the EEC, and the United Kingdom, had their own understanding of the Long-Term Arrangement, which had resulted in varying forms and intensities of restrictions. All were aware that the essence of the Arrangement, namely, Articles 2 and 3, were subject to hardly any form of international supervision. The importing countries were the sole judges as to whether or not their markets had been disrupted or were likely to be disrupted. He had come to believe that "market disruption" was a concept that belonged more to the realm of mysticism than to the domain of rational discourse.

Summing up, the points he wished to bring to the attention of the CONTRACTING PARTIES were as follows: first, the rate of growth of exports of cotton textiles of developing countries had declined considerably during the period of the operation of the Long-Term Arrangement compared to the rate of growth observed during 1953-60; secondly, behind the shelter of the Long-Term Arrangement, developments were taking place in the textile industry of the industrialized countries that were detrimental to the interests of the developing countries; and thirdly, the essence of the Arrangement had never been subjected to any kind of international supervision.

He did not have to argue that the Long-Term Arrangement was a major departure from the provisions of the General Agreement. Pakistan had accepted the Long-Term Arrangement as a temporary measure in a spirit of co-operation, in order that the trade problems of both the developing and the developed countries could be solved in a satisfactory manner. The past experience of the working of the Arrangement had, however, shown that the hopes and expectations held at the time the Arrangement was negotiated had not materialized. The Arrangement had served the purpose of only one set of countries. It had made little or no contribution to the solution of the economic and trade problems of the developing countries. He therefore wondered how long the CONTRACTING PARTIES would continue to tolerate this grave breach of the General Agreement.

Mr. Ayub said he had not commented in any detail on the new United Kingdom scheme as it was expected that the Cotton Textiles Committee would meet soon and he would have full opportunity to participate in its work. However, the views his delegation had expressed in the last meeting of the Cotton Textiles Committee had not changed, because so far the United Kingdom had not indicated its acceptance of the various suggestions they had put forward to make the United Kingdom scheme more fair and just in its application to Pakistan. They did, however, hope that, when the Committee met again, the United Kingdom would come forward with constructive solutions which, while not sacrificing the vital interests of the United Kingdom, would give them some hope of expanding Pakistan's export earnings from cotton textiles.

Dr. HARB (United Arab Republic) said that the report of the Committee defined clearly the position of his Government. He emphasized the vital importance of the textile sector to the United Arab Republic and hence the necessity of respecting strictly the fundamental principles on which the Arrangement was based. With respect to the Director-General's suggestion that the future of the Long-Term Arrangement should be discussed within the framework of offers of tariff reductions in the Kennedy Round, their position would be expressed in a note to be submitted to the Director-General during the week. His delegation emphasized that the principle of tariff reductions of the order of 50 per cent had been decided by the Ministers of Trade in May 1963 and it had been equally understood that all important products exported by the less-developed countries would not be included in exceptions lists. The less-developed countries had noted with anxiety that textile products did, in fact, figure in the exceptions lists presented by most of the developed countries. Textile products should be subject to the 50 per cent tariff reduction.

The Arrangement was no longer fulfilling its main object, namely to offer growing outlets for textile exports from developing countries in the markets of developed countries. If prolongation of the Arrangement beyond its initial period was envisaged, certain modifications would be necessary, it being understood that any anticipated examination of the Arrangement should in no case prejudice the stipulations of paragraph (d) of Article 8 of the Arrangement. Required modifications had already been expressed at the preceding meeting of the Cotton Textiles Committee, and in the note that would be presented to the Director-General. Only when these conditions had been fulfilled, would they be ready to envisage the prolongation of the Arrangement for a new period. With respect to the United Kingdom scheme for regulating its import policy up to 1970, their position had also been defined at the above-mentioned meeting. Bilateral meetings had taken place between their two countries and his Government hoped that the new proposals, the United Kingdom Government was about to make, would meet the views expressed by his delegation.

Mr. MASSA (Spain) expressed his opinion in favour of any step designed to achieve a wider liberalization in cotton textiles by the industrialized importing countries, in particular by not excluding cotton textiles from the 50 per cent across-the-board reduction. The Spanish Government was in favour of the renewal of the Long-Term Arrangement in cotton textiles, but only if this Arrangement was fully respected by the signatory countries. The experience acquired had made it quite clear that there had not been full compliance by some countries with the letter and the spirit of the Arrangement, and that restrictive measures different from those envisaged in the Arrangement had been applied. The Spanish Government would support the renewal of the Arrangement, provided the signatory contracting parties adhered to its spirit and contents; otherwise it would not be in favour of its renewal and would even reconsider its position as a signatory.

Mr. SAKELLAROPOULO (Canada) said that whenever a subject of such complexity is discussed some generalizations were inevitable. He had heard speakers refer to importing and exporting countries as if these two groups were monolithic. This was not the case and it was important to bear in mind the distinction between the performance of individual countries. It was not unnatural that each one of them should claim to be in a unique position, but it was not often that such claims received international recognition. Such recognition was accorded to Canada when, because of the high rate of growth of their imports and of the contraction to which their cotton textile industry had been subjected in the post-war years, it was specifically exempted from the so-called growth provision of the Arrangement. Despite this exemption, Canada had provided for growth in the few items from the few countries that were under restraint, and had done this each year since the Arrangement was first established, despite pressures from industry to make use of legal rights embodied in the Arrangement. They hoped this had not escaped the notice of the exporting countries, since it would obviously be pointless to resist pressures if those who were to benefit did not feel that the outcome was particularly worthwhile. Canada had made very sparing use of the Arrangement, but to continue in this manner would imply some solution to the two problems pointed out in points (ii) and (vi) of the Chairman's conclusions that is, the uneven distribution of exports to various markets, and the diversion of trade to some markets, including notably Canada's, caused by the continued maintenance, or very slow relaxation, of restrictions in other countries. The Arrangement had been useful to Canada in two ways: to some extent the problems of market disruption had been overcome, and provision had been made for increased imports, notably from developing countries. Canada would like to see the Arrangement renewed, but would support those who had entered pleas in favour of its more liberal administration. This would not only benefit the developing countries directly, by allowing for an increase in their exports to some markets, but it would also safeguard the access they already enjoyed in other freer markets.

Mr. AGANAYE (Chad) said his country was facing mounting problems in finding outlets for its raw cotton. Efforts were being made to process it further, a remedy naturally resorted to by developing countries, and the first textile factory would shortly come into operation. It was hoped that this new industry would not be limited to exploiting the domestic market only. Chad depended to a very great extent on its cotton exports, in whatever form, and the problem was therefore acute. Any agreement on textiles should take account not only of the interests of developing countries possessing a textile industry, but also of those starting this activity; the door should remain open to them when they reached the stage of exporting the manufactured product. In this respect the developed countries had a great responsibility. In general, the latter possessed highly evolved textile industries whose productivity they were continually improving. Countries with well-diversified economies got rid of surplus primary products at little cost to themselves but to the detriment of certain developing countries whose products could no longer find outlets. Besides this, parallel to their textile industry, they were developing the production of synthetic products. The largest natural fibre producer had admitted its impotence before the rising tide of synthetics and had even given the main impulse to the production of synthetic substitutes. In a long-term perspective his country did not want to follow a policy of processing natural products if this meant running up against even more intractable problems at a later stage.

Mr. EMRE (Turkey) said that Turkey was a newcomer to the world cotton textiles market and had in recent years begun to gain access to the markets of some of the developed countries, notably the Federal Republic of Germany, the United Kingdom and the United States. As a result, Turkish exports of cotton textiles had shown some increase during the last few years, although the level attained was still far below export capacity. It was difficult to assess precisely the extent and degree to which the upward trend in exports had been due to the existence and operation of the Long-Term Arrangement. As far as Turkey was concerned, it could be said that the Arrangement had had no adverse effect and constituted a useful international instrument contributing to a smooth and orderly flow of cotton products in the world market. However, the Turkish Government felt that the Arrangement, as it stood today, was inadequate to meet the requirements of the developing countries, especially those countries that had only recently had access to the world market. A revision of the Arrangement, especially the provisions of Article 3, seemed therefore necessary. His Government still hoped that the Kennedy Round trade negotiations would offer the opportunity to negotiate on the cotton textiles problem with a view to ensuring a higher degree of liberalization in trade and to bringing about the greatest possible reduction of tariffs on cotton textiles. The recent regulation concerning cotton textile imports into the United Kingdom continued to exert unfavourable effects on Turkish exports. It was hoped that the United Kingdom authorities would soon find it possible to offer better opportunities of access to the British market for the goods in question.

Mr. PRADHAR (India) said his delegation wished to thank the Director-General for the time and attention he had devoted to finding a solution for the undoubtedly difficult problem that the international community was facing in this sensitive field. His delegation regretted that these efforts had not so far borne fruit, but were convinced that the work which had begun had thrown up factual information with which trading countries could attempt a more objective approach to the solution of their problems. His delegation had participated in the major review of the operation of the Long-Term Arrangement over the previous three years and had examined the exhaustive information made available by the secretariat with a view to ascertaining how far the objectives of the Arrangement had been fulfilled. He referred to the observations made by his delegation at the meeting of the Committee, as fully recorded in document COT/W/62, and to some of the important conclusions that had emerged as a result of the examination of the data presented to the Committee in document COT/W/49.

Firstly, the study clearly brought out that the procedures made available to the developed importing countries to take action to avoid disruptive effects in individual markets and on individual lines of production in both importing and exporting countries, while ensuring that the trade in cotton textiles proceeded in a reasonable and orderly manner, had been used too freely and too often in situations that did not call for them.

Secondly, due to large-scale investment and modernization, the textile industries of developed participating countries had increased their strength and competitive capacity on a scale that threatened the export potential of the developing exporting countries. This was evident from the fact that in terms of output per spindle or loom in Group I countries; there had been an increase of 90 per cent in output per spindle and more than two thirds in output per loom, between 1953 and 1964. On the other hand, in Group II countries yarn output per spindle had increased by 35 per cent over the same period.

Thirdly, an exporting participating country was worse off than a non-participating exporting country. He referred to the Chairman's conclusions (on page 28 of document COT/M/5) where it was stated that, during the period of the operation of the Arrangement, the rate of growth of imports into the industrialized countries had for various reasons been lower in the period 1961-64 than during the 1950's. During the period 1960-64, exports of developing countries had shown an increase of 15.6 per cent, while during the same period intra-EEC trade more than doubled and EEC exports of textiles and clothing to the world rose by 49 per cent. In the case of EFTA, exports increased by 26 per cent, and in the case of the

United States by 19 per cent. What was even more remarkable, the exports of non-participating countries had shown a rise of 18 per cent, as against a rise of 15.6 per cent in participating developing countries' exports. In view of these facts, even if it could be substantiated that it was the rapid growth prior to 1961 that led to the Arrangement and by implication, the growth in the subsequent period was bound to be less, what consolation was there for developing countries to derive from the fact that their growth was lower than that of developed countries and non-participants?

Fourthly, while the Arrangement required a structural adjustment in the industries of the developed participating countries which was expected to proceed in such a manner as to facilitate progressively larger access for the less-developed countries, actually the structural adjustment seemed to have proceeded in a direction that could lead to a contrary end result.

Mr. Pradhar said that, in the view of his delegation, the operation of the Arrangement had created a climate that encouraged, or certainly did not discourage, resort to restrictions inconsistent with the objectives of the GATT. Although under Article 2, the participating countries had agreed to progressively relax restrictions maintained by them that were inconsistent with the GATT, there had been no substantial progress towards any substantial relaxation and elimination of those restrictions. In some of the developed countries, imports of cotton textiles from less-developed countries were exposed to two-fold discrimination: whereas for trade among themselves no quotas or tariffs were applied, a less-developed country was bound by quotas and had to face high tariffs. The administrative procedures followed in operating the quotas put further obstacles in the way of the orderly expansion of trade in this promising item.

The secretariat study had also referred to a certain agreement operated by industries in some of the developed countries against imports of grey fabrics for processing and re-export. As a result of this agreement, industries in less-developed countries had been denied a share of the benefits that would have flowed from the expansion of trade in the export of finished fabrics. The existence of such an agreement constituted yet another non-tariff barrier directly aimed at restricting imports from less-developed countries.

When India subscribed to the Arrangement it was in the belief that the importing countries, faced with a situation giving rise to difficulties for the domestic market, would resort to regulation of imports sparingly and only as a temporary remedial measure. However, the importing countries seemed to have viewed the Arrangement as giving them a free hand for imposing whatever restrictive measures appeared to them feasible and effective. There was no other explanation that occurred to his delegation for the widespread use of the tariff and non-tariff

barriers to check exports from less-developed countries. This experience of the actual working of the Arrangement had given rise to irresistible pressures from trade and industry that made it impossible for the Indian Government to contemplate further regulation of trade in cotton textiles on the lines embodied in the Arrangement.

In the markets in which India had been subjected to Article 3 restraints, restrictions had been placed precisely on those categories where it had an ability to expand exports much faster. The study contained in document COT/W/49, taking cotton and man-made fibres together, far from establishing any market disruption in the last three years, had revealed a substantial growth in the textile industries of developed participating countries. It was unfortunate that unilateral judgment had been exercised in applying criteria of market disruption on the basis of narrow statistical exercises, by comparing imports for one period with those of another, without due regard to the obligations stated in the Preamble to the Arrangement.

In connexion with the criteria for market disruption, it was his delegation's duty to draw attention to the fact that, while one developed country could allow imports of up to 40 per cent of the level of consumption, in some other developed countries, where such levels were as low as 3 to 4 per cent, widespread action had been taken under Article 3 on the grounds of alleged market disruption.

Certain suggestions had been made to the CONTRACTING PARTIES for agreeing to the extension of the existing Arrangement for a further period, as a condition for securing tariff reductions in the Kennedy Round trade negotiations. The Director-General had referred to this in point (viii) of his conclusions in document COT/M/5. While the avowed object of the Kennedy Round was to reduce tariff and non-tariff barriers, it was strange that the opportunity provided by the negotiations to reduce tariff barriers was being utilized to further strengthen and increase existing non-tariff barriers. His delegation was therefore unable to appreciate why attempts were being made to link the offers of tariff reductions with the renewal of the Arrangement in the context of the trade negotiations. It would be more in consonance with the objectives of this exercise if they concentrated their attention on the elimination of non-tariff barriers and on a meaningful reduction in import duties.

India had been particularly hit by the operation of the Arrangement and it was unfortunate that the results which the developed countries, during the long negotiations preceding the Arrangement, had led them to believe would accrue to India by joining the Arrangement, had not been fulfilled. It had been thought that the Arrangement could help to bring about an international division of labour, and could help industrialized countries to bring about an orderly shift from less-remunerative to more remunerative employment of labour and capital. The facts as

revealed in the report of the Study Group and the discussions in the Cotton Textiles Committee had convinced his delegation that the present Arrangement had not, and could not, lead to the kind of results they were led to expect from it. It was their view that the present Arrangement, which constituted a departure from the basic principles of the GATT, had failed in achieving its objectives and it would be wrong for the international community to continue such a bad precedent for international trade in manufactures. He expressed the hope that the CONTRACTING PARTIES at this meeting would be able to impress on all concerned the need for early adoption of measures that would fulfil the objectives set out in the Preamble to the Arrangement and promote the expansion of the trade of developing countries in this promising item.

Mr. HILLEL (Israel) said that, in his view, one of the tasks of the Long-Term Arrangement was to offer suitable opportunities to newly industrializing countries to develop their cotton textile industries. Restrictive measures had been imposed on Israeli exports by a number of importing countries, under the provisions of the Arrangement, despite the fact that the cotton industry in Israel was a high-labour-cost industry, concentrating mainly on high quality products. Furthermore, the yearly increase in exports of 5 per cent over the base year was practically meaningless with respect to small countries, in the early stages of industrialization, which had only recently begun to export. Israel would be willing to consider the possibility of entering into negotiations for a new arrangement, but would wish to be assured that the provisions of the arrangement would be strengthened so as to ensure that it could be invoked only on occasions when a situation of market disruption existed clearly and unambiguously and that suppliers not responsible for the disruption were excluded from any action taken. It was appropriate that any new arrangement should take into consideration the special interests of countries like Israel and in particular the fact that Israel was not benefiting from any preferential arrangements. During the recent Council meeting, his delegation had expressed its deep concern about the British import restrictions on cotton textiles. He would not repeat all that was said on that occasion, but wished to stress that Israel's exports had been suffering severely from these restrictions which had been imposed contrary to the provisions of the Arrangement. It was understood that, by the middle of April, the United Kingdom would be in a position to submit to its negotiating partners its final propositions in this respect and he hoped that these propositions would meet Israel's needs and legitimate trade interests.

Mr. SOMMERFELT (Norway) associated himself with the comments made by the Canadian representative. He thought a distinction should be made among importing countries in the same way as among exporting countries. His country imported some 68 per cent of its cotton textiles requirements, and, of these, 18-20 per cent came from developing countries. Half of this again consisted of clothing and other ready-made articles. During the three years during which the Long-Term Arrangement had been in force, the share of the developing countries in total imports of cotton textiles had increased by some 20 per cent. He thought this a rather impressive record. That was why he, like the Canadian representative, would lay stress on points (ii) and (vi) of the conclusions drawn by the Chairman of the Committee. In these circumstances, where the current of exports of cotton textiles seemed to grow increasingly in one particular direction, something would have to be done when the Arrangement was next examined.

Sir EUGENE MELVILLE (United Kingdom) said the Director-General had made himself a master of the cotton textiles problem, and he was sure he would continue to help find solutions to what seemed at present to be an intractable problem. So far as the Long-Term Arrangement was concerned, he associated himself with the statement made by the delegate of Canada. The continuance of the Arrangement in some mutually acceptable form was desirable in the interests of orderly world trade in cotton textiles and hence of both exporters and importers. The United Kingdom would be ready to join in discussion of the future of the Arrangement at the appropriate time, and would hope to make some contribution to the solution of the problem for the years ahead. As regards the United Kingdom's scheme, this was regarded as fitting into the concept of the Long-Term Arrangement and they thought that it helped with some of the problems referred to by speakers from exporting countries, using that definition loosely, including the problems referred to by the delegate from Chad. The proposals of last December had been fully set out in the attachment to document L/2583. He was grateful for the understanding shown by the delegates from Pakistan, the United Arab Republic and Turkey about the delay in the calling of a further meeting of the Cotton Textiles Committee. The uncertainty caused by the British election was partly responsible for this delay. His Government recognized that this delay had caused difficulties for some countries and regretted that these difficulties had occurred. They were not indifferent to the delay because the fact that such a large proportion of their cotton textiles requirements were imported made the United Kingdom more than usually dependent on overseas suppliers for an important sector of industrial material and they, therefore, wanted to reach a final settlement quickly. Ministers had considered the matter again, in the light of the bilateral discussions held between mid-February and mid-March with various countries which had expressed dissatisfaction with the plan, and it was hoped that the new Ministers would be able to take decisions soon after the new Government was formed. He hesitated to suggest a firm date for the next meeting of the Committee, but it was certainly their intention to be ready for a further meeting in time for final, and, he hoped, agreed solutions to be reached within a month.

Mr. RYDFORS (Sweden) felt that an arrangement along the lines of the present one should continue to govern world trade in cotton textiles. If the Arrangement had not been in existence it might have proved difficult for Sweden to continue its liberal policies and to keep its market open to foreign producers. But some modifications of the present Arrangement, and especially of its administration, might be desirable.

As the representative of a country that had not taken any restrictive measures under the Arrangement he wished to refer to point (vi) of the Chairman's conclusions: the tendency towards trade diversion was of great concern to his Government which hoped that importing countries would fully take into account the possible effects of their measures on the policies of other importing countries, and try to find ways and means of applying the Arrangement, now and in the future, in a manner that would lead to larger opportunities for exporting countries as well as to a better balance in the performance of importing countries. He also wished to stress that trade in cotton textiles was not only hampered by quantitative restrictions but also by very high tariffs in some countries. The Kennedy Round provided a good opportunity to tackle this problem also. It was essential to reach agreement on a modus vivendi for trade in cotton textiles. This necessarily called for willingness by industrialized countries to make constructive contributions. They would all have to approach this difficult and important problem with foresight and realism and in a spirit of compromise.

Mr. WILLENPORT (Austria) said that Austria was mainly an importing country of cotton textiles, and he wished to refer again to those structural changes in the Austrian cotton industry that had taken place since the entry into force of the Short-Term and Long-Term Arrangements. As compared with the twelve-month period preceding the coming into force of the Short-Term Arrangement, the number of spindles and looms and labour employed had declined. The number of looms for instance declined by 23 per cent and the number of operatives by 13 per cent. Also, a considerable decline in production of yarn and fabrics had taken place. In 1965, a number of Austrian firms had been shut down, and the great majority of firms were confronted with serious difficulties concerning investments, production and marketing. The structural changes that had occurred in the Austrian cotton industry had been the result of measures taken by the industry itself and no increase in production capacity had taken place. In the third year of the Arrangement, the ratio of imports of cotton yarns to consumption amounted to 18 per cent, whereas imports of cotton fabrics represented 33 per cent of consumption. His delegation was therefore of the opinion that Austria had already made a significant contribution to imports from less-developed countries. As far as the question of the renewal of the Arrangement was concerned, he wished to associate himself with those speakers who were in favour of a renewal in a mutually acceptable form. His delegation had no objections to an understanding that importing countries should apply the Arrangement with greater flexibility provided that, in doing so, an undue concentration of imports could be avoided.

Mr. BRODIE (United States) said that the United States Government thought the Arrangement was a practical one for the promotion of orderly world trade in textiles, the promotion of exports from developing countries, and the prevention of market disruption in the developed countries. Despite its shortcomings, it was their view that if they gave up this Arrangement, the situation in the world cotton market would probably be much less favourable, particularly as regards the developing countries. The recent history of imports of cotton textiles into the United States showed that the Arrangement had not prevented an expansion. United States imports of cotton goods in the third year of the Arrangement, the year ending 30 September 1965, amounted to 1.2 billion square yards with a value of \$354 million. This was a 19 per cent increase by quantity and a 20 per cent increase by value over the second year. In the twelve-months period ending 31 January 1966, imports had risen even further to 1.4 billion square yards. Thus the picture from the point of the United States market was a favourable one. His Government was fully prepared to work out with interested countries in the coming months some agreement on the "package deal" proposed by the Director-General.

The CHAIRMAN, at the close of the discussion, stressed the importance of what had been said. Representatives would certainly have taken careful note of the comments made and due account would be taken of them when the time came for another review of the operation of the Long-Term Arrangement.

2. Import restrictions applied contrary to GATT and not covered by waivers
(L/2568 and Addenda; L/2577 and Addenda and L/2586)

The CHAIRMAN noted that it had been customary for the CONTRACTING PARTIES to review annually the notifications submitted by individual countries concerning import restrictions applied contrary to the provisions of the General Agreement and without the authorization of the CONTRACTING PARTIES. At the twenty-second session, it was noted that a large number of contracting parties had not responded to the question whether they applied such restrictions; further, some replies were so old as to suggest that there may have been changes that had not been notified. The Director-General had been asked to make a further effort to obtain a more complete response and to ensure that old notifications were brought up to date. Accordingly, a request had been issued in January and this had been supplemented by letters to a number of countries which had not replied to earlier enquiries. It was suggested to newly independent countries that they might prefer simply to submit descriptive material relative to their entire import control system, without prejudice to the consistency of measures maintained with their obligations under GATT. It was felt

that this would go far towards meeting the needs of individual countries and of the CONTRACTING PARTIES, by showing what restrictions were in force. The response by newly independent countries had been very encouraging; nine of these countries, which had not replied before, had submitted the information requested. In addition to the replies noted in L/2586, replies had been received for the first time from Burundi, Cambodia, Madagascar, Malawi and Togo, and a revised submission had been sent by Sierra Leone (L/2577 and Addenda). Response from countries which report restrictions inconsistent with the General Agreement and not authorized by the CONTRACTING PARTIES had been less full than expected. Since the issue of L/2586, a new notification had been received from Austria, and would be issued, but no new reply had been received from other countries listed without an asterisk in Category I on page 2 of L/2586. In one case, no negative list applicable to all or even most contracting parties had ever been received. The amount of information reported also fell short, in a number of cases, of what had been envisaged by the Panel which had examined the completeness of responses some years ago, (BISD Eleventh Supplement, pages 206 to 213). Fifty-five countries had submitted notifications at one time or another.

Mr. OHTAKA (Japan) was disappointed that some contracting parties had not responded to the invitation to submit information on their restrictions, while others, particularly Western European countries, had failed to supply information on restrictions maintained discriminatorily. He would renew the strong appeal, to the countries concerned, that discrimination against Japanese goods be abolished in conformity with the provisions of the General Agreement. These discriminatory restrictions were not only detrimental to Japanese exports but might well discourage the Japanese Government in its efforts towards trade liberalization. Ministers, meeting in 1963, had agreed that the problem of discriminatory restrictions should be resolved, along with other non-tariff barriers, in the context of the Kennedy Round, and he hoped that this would be done by the conclusion of the trade negotiations. Japan had notified the residual import restrictions she maintained (L/2568/Add.2) and was making strenuous efforts to promote the liberalization of imports; the percentage of liberalization of imports into Japan had now risen to a level comparable with that of Western industrialized countries. It was the policy of the Japanese Government to seek further liberalization, although the items now restricted were sensitive both economically and socially; Japan would announce a further liberalization in a very short time.

Mr. SMID (Czechoslovakia) said that his delegation had studied the notifications with care; some were clear but others required elucidation and explanation. Moreover, many countries had not yet submitted a notification so that the overall picture, as regards restrictions maintained, was incomplete. Some countries had not notified the maintenance of discriminatory restrictions against Czechoslovakia. It was true that, during 1965, certain restrictions on Czechoslovakian goods had been removed but a number were still maintained illegally and often for bargaining purposes or for reasons arising out of bilateral trade agreements. He hoped that those countries maintaining such restrictions against Czechoslovakia would cease to do so. He hoped too that the Kennedy Round would be used as an opportunity to settle this problem and normalize mutual trade relationships.

Mr. AGANAYE (Chad) said that he would be submitting to the secretariat a statement on restrictions maintained by his country.

Mr. HARAN (Israel) expressed disappointment that this item should remain on the agenda of the CONTRACTING PARTIES. The time had now come to seek means of dealing with the problem of illegal quantitative restrictions. Although the GATT normally sought to avoid an over-legalistic approach to problems, these illegal restrictions constituted breaches of contractual obligations and should be dealt with as such. Procedures for dealing with quantitative restrictions had been established at the seventeenth session, but today no solution was in sight. He thought that the CONTRACTING PARTIES should go further than just noting the existence of the problem and should attempt to formulate appropriate and effective procedures for dealing with it. In this connexion, he observed that restrictions maintained legally, for balance-of-payments reasons, were subject to a close scrutiny by the CONTRACTING PARTIES and the International Monetary Fund, but no such process was required in the case of illegal restrictions. Although he did not wish to make a formal proposal he would suggest that it would be appropriate to establish a panel of experts to examine the justification for the maintenance of restrictions and to carry out consultations on the basis of a plan, as did the Committee on Balance-of-Payments Restrictions. This panel could establish a time schedule for the removal of restrictions or, if necessary, recommend recourse to waiver procedures; it could also assess the damage caused to trade by the maintenance of restrictions; it could investigate the reasons for the maintenance of restrictions and, where appropriate, suggest alternative available measures, such as adjustment assistance for the industries concerned; and it could conduct a rigorous enquiry into the reasons for the maintenance of discriminatory restrictions. Countries maintaining inconsistent and unauthorized restrictions, whether they were contracting parties, provisional acceders or countries applying the GATT de facto, could be called upon to report annually or at six-monthly intervals on such restrictions still maintained. These reports could be sent to

the panel and to all contracting parties and the reports of the panel should be published and given the widest possible circulation. In the same way that it currently publicized liberalization measures, the GATT could notify instances of the maintenance of restrictions.

Mr. DO LAGO (Brazil) recalled that his delegation had, at the twenty-second session, hoped that, by this time, there would have been considerable reductions in the number of residual restrictions. It was regrettable that many such restrictions remained and that new restrictions had been introduced by a European country in respect of bananas, even after the acceptance of Part IV of the General Agreement. It was a cause of disappointment and concern that progress in this field had been so slow, particularly since many of the products affected by residual restrictions were of considerable interest to developing countries. He hoped that developed countries would take the opportunity of the Kennedy Round to seek a solution to this problem, but it had to be borne in mind that restrictions maintained contrary to the General Agreement could not be accepted as a factor in negotiations.

Mr. PRESS (New Zealand) observed that restrictions maintained contrary to the letter and spirit of the GATT had been in force for a considerable period. He was grateful that the Israeli representative had sought to stimulate further consideration of the matter. Should definitive application enshrine departures from obligations in the General Agreement, such as the maintenance of the illegal restrictions, it should not, he suggested, be contemplated yet. Countries such as New Zealand, which maintained quantitative restrictions for balance-of-payments reasons, were required to submit these restrictions to scrutiny in consultations with the CONTRACTING PARTIES and the International Monetary Fund to ensure that they "did not go beyond the extent necessary to forestall a serious decline in its monetary reserves". Whilst it was too early to react formally to the suggestion made by Israel, the CONTRACTING PARTIES might wish to set themselves the task of formulating, at their twenty-fourth session, procedures for dealing with illegal quantitative restrictions, which would have as their objective the removal of the restrictions, or for the establishment of a schedule for reduction of them or, where necessary, arrangements for recourse to waiver procedures. It was true that the question of inconsistent and unauthorized restrictions was probably more complex than that of restrictions maintained for balance-of-payments reasons, but they were particularly relevant in the context of the General Agreement and procedures should be considered, at the latest, by the twenty-fourth session.

Mr. SCHWARZMANN (Canada) said that his country had notified a number of restrictions but was concerned by the maintenance, in a number of countries, of an extensive range of illegal and unauthorized restrictions, particularly when these involved discrimination. Many of the restrictions maintained bore heavily on the trade of developing countries and many were, in fact, never notified. It

was urgent, therefore, that something should be done and the suggestions of the representative of Israel deserved the closest attention. He proposed that the secretariat consider the question of procedures for dealing with the matter and should submit their suggestions to the CONTRACTING PARTIES.

Mr. SWARUP (India) said that he wished to reserve the comments of his delegation on the question of illegal quantitative restrictions until the resumption of the discussion of the Report of the Committee on Trade and Development. He would, however, take the opportunity to associate his delegation with the statement by the representative of Brazil that such restrictions should not be regarded as negotiable. It was distressing that countries maintaining restrictions had not indicated how they intended to remove them.

Mr. LERENA (Argentine) pointed out that his delegation had made known its views on the subject during consideration of the Report of the Committee on Trade and Development, but he suggested that the CONTRACTING PARTIES should bear in mind the observations and suggestions made during this discussion and give consideration to the adoption of a plan for a gradual and immediate removal of all illegal restrictions. The Israeli representative had provided some good ideas and no opportunity for overcoming this problem should be lost.

Mr. BOSCH (Uruguay) said that the fact that this problem had been in existence for so long was a cause of anxiety to his delegation and he reserved the right to revert to it when discussion on the Report of the Committee on Trade and Development was resumed. Since 1961, Uruguay had been involved in a recourse to Article XXIII, designed to restore equilibrium in her trade relations destroyed by the maintenance of illegal measures. Action on this recourse had been held up, not only because a revision of the Article was being contemplated, but also because it had been hoped that the question of illegal restrictions would be settled within the context of the Kennedy Round. Thus, as he had said when commenting on the Report of the Director-General on the state of the Kennedy Round, the present state of negotiations was depressing, not only because of the opportunity that would be lost by failure, but also because the existence of the Kennedy Round had, in fact, inhibited progress in other areas. His delegation could support a number of the points made by Israel and, in due time, might elaborate some of its own.

Mr. PROPPS (United States) noted that certain aspects of the maintenance of illegal quantitative restrictions had been dealt with in discussion of the Report of the Committee on Trade and Development. The United States considered that notifications should be comprehensive and accurate. In its own notification, it may have erred in submitting too much information as it included restrictions maintained consistently with the terms under which the United States applied the GATT; this had been done in order to answer any questions which might arise in regard to their application. Such restrictions covered such items as books

sugar, wheat and wheat products, cotton and cotton waste and cotton textiles, some of which, he suggested, could only be dealt with in the context of general solutions to the problems confronting the trade in the goods concerned; for example, the Kennedy Round presented an opportunity in respect of wheat and wheat products. While he would not suggest that illegal restrictions were negotiable, the Kennedy Round might provide a basis for their removal or reduction. Other restrictions could be dealt with in groups dealing with commodity arrangements outside the GATT. He agreed that the question should be kept under close scrutiny and that consideration be given to suggestions for dealing with it.

The CHAIRMAN suggested that the CONTRACTING PARTIES take note of the expressions of dissatisfaction with the present situation as regards the maintenance of restrictions inconsistent with the provisions of the General Agreement and without the authorization of the CONTRACTING PARTIES, and invite the contracting parties concerned to respond as soon as possible to the request for full information so that the CONTRACTING PARTIES would have all relevant information at their disposal when they next came to consider the matter.

This was agreed.

The meeting adjourned at 6 p.m.