

SERVICE LINGUISTIQUE

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

RESTRICTED

L/1164/Add.1  
17 May 1960

Limited Distribution

Original: English

RESTRICTIONS AND OTHER MEASURES RELATING TO THE  
PROBLEM OF MARKET DISRUPTION

Addendum

Information supplied by the Government of India

The Government of India has provided a statement in response to the secretariat questionnaire GATT/AIR/173. The statement, however, arrived after the completion of the secretariat paper L/1164 and, as requested by the Indian Government, is circulated herewith for the information of the contracting parties.

Statement by the Government of India in response to the  
questionnaire C.P.2/IR/173

Reply to questions  
I(a) and I(b)

No cases of any consequence have been experienced in the recent past.

Reply to question  
I(c)

No such measures have been adopted.

The Government of India are committed to a policy of giving protection to economic and efficient domestic industries. They have also a well-established system of investigation for determining the nature and quantum of protection required in the case of each such industry. The Tariff Commission makes recommendations on this behalf after enquiry into the circumstances relating to each industry. However, as India has been in balance-of-payments difficulties since the end of the last war and various measures have been taken to correct these difficulties, the factors which have been taken into account for determining the quantum of protection have not been the same as would have been applicable under normal conditions. Further, branches of industrial production for which no special safeguards have been considered necessary in the existing circumstances may require to be protected if there is any sudden change in the composition of India's import trade which affects prices and other conditions of competition in the domestic market.

Reply to question  
II(a)

India relies on the export of a small number of simple manufactures like cotton and jute textiles, leather goods, coir products and vegetable oils to maintain and expand her foreign exchange earnings. The industries producing these goods are based on the utilization of indigenous raw materials. The production and export of these simple manufactures are thus in the natural line of India's economic development and are also essential for maintaining minimum standards of living for a large section of her population. At present, however, larger production and export of these goods is inhibited by low productivity, difficulties over the expansion and renovation of plant and equipment and problems of marketing. Though the level of exports to the industrialized countries has been rising in recent years the increase has been a gradual one and has taken place largely towards countries which follow liberal trading policies and do not maintain any discriminatory restrictions. Since an increase in productivity is dependent on further technological development and on the rapid easing of difficulties relating to modernization of plant and equipment, a sharp increase in the

volume of exports such as would tend to disrupt markets in the importing countries, is unlikely prima facie. An increase in exports of this range of goods to the industrialized countries would appear to be in the interests both of India and the importing countries since production of such goods in a number of European countries is based on imported raw materials and also tends to be uneconomic because of the high labour cost. A number of countries, however, maintain restrictions with a view to protecting the domestic industries even when, in their circumstances, such protection is clearly excessive or unwarranted by the actual danger of disruption of the domestic market by sharp or sudden increases in imports. Among these measures are:

- (i) quantitative restrictions on imports for protective purposes
- (ii) the application of differential rates of duty according to the degree of processing to which the material has been subjected
- (iii) mixing regulations and licensing of imports on the basis of purchase of comparable local products.

Some specific instances of restrictions applied by certain countries which have a discriminatory impact on exports from India are listed below:-

---

Name of product	Countries imposing restrictions	Remarks
1. Cotton textiles	Federal Republic of Germany and France	It was suggested in April 1959 that India and Japan should agree to exercise "self-control" on their exports to Germany in accordance with an agreed arrangement. No specific proposal in this respect has however been made to the Indian Government nor has any arrangement been considered by the Indian Government. India holds that there is no justification for any restrictions being placed on imports from her.

Name of product	Countries imposing restrictions	Remarks
2. Jute manufactures	Federal Republic of Germany, France and Italy	Germany has agreed to liberalize imports progressively over a period of five years and to completely remove restrictions in 1964.
3. Coir products	Federal Republic of Germany, Benelux and Italy	All these countries prefer to import coir fibres and not mats or matting, the production of which in India is a small-scale cottage industry employing a large volume of labour in the rural areas.
4. Vegetable oils	Federal Republic of Germany, France, Italy and Benelux	<p>Benelux prefers to import vegetable oil seeds but not vegetable oils as there is a domestic crushing industry.</p> <p>Italy issues licences for vegetable oil seeds and oils on the basis that the importer will purchase a proportionate quantity of soya bean oil from Government store at fixed prices which are considerably higher than the free market price or alternately pay a premium on the import licence which is reported to be considerably higher for vegetable oils than for vegetable oil seeds.</p> <p>This regulation imposes a heavy fiscal burden on imports of vegetable oils into Italy and makes it difficult for Indian shippers to export vegetable oils to Italy at economic prices.</p>

The Indian Government consider that in any examination of this question the following aspects need to be taken into account:

- (i) The restrictions applied at present appear to have been imposed not so much with a view to protecting branches of industry from sudden disruption as to afford continuing protection to the domestic industry against the

possibility of competition from particular sources of supply. In certain cases the protection is an unjustifiable prolongation of incidental protection which accrued to domestic industries when restrictions were applied for balance-of-payments reasons.

- (ii) In the Indian Government's view the removal of these restrictions should encourage a more efficient utilization of resources in material and labour and promote a higher level of international trade. At the same time, because of the various difficulties mentioned earlier, they consider it unlikely that more liberal provisions for entry of Indian goods into the European markets would create a situation in which serious and sudden damage would be caused to domestic industries.
- (iii) Production costs are determined by a number of factors which include wages, cost of plant and equipment, raw material, energy resources and other basic facilities. The cost of particular goods would be thus determined by the total efficiency of production, to which labour contributes only one element. The danger of disruption of domestic markets can arise not only from goods exported from countries where the general wage level is low but also from other countries which are more efficient producers because of more efficient utilization of the other factors of production. Because of low productivity levels, countries like India need high measure of protection for some of their industries, at least in the early stages of development. Indeed, because of relatively low productivity, despite the low level of wages, India is, in many cases, not a "low cost" producer.
- (iv) The Indian Government consider that any system which affords continuing protection to inefficient domestic industries, which are incapable of competing on a long-term basis because of difficulties arising from excessive wage costs or non-availability of economic supplies of raw materials, would tend to restrict world trade and interfere with the efficient utilization of resources. Under conditions of full employment and a high level of investment demand, there would appear to be little or no justification for preventing available resources of labour and capital from being transferred to other sectors of the economy where they can be more fruitfully employed. At the same time, situations may arise in which a sudden influx of imports may disrupt sectors of economy and cause avoidable damage to various branches of production.

In such instances the use of protective measures may be justified. This, however, is a general problem which does not relate to imports from particular countries or particular sources of supply only. The Indian Government consider that the existing provisions of the GATT, namely, those embodied in Articles 6 and 19, are adequate for dealing with this problem and the temporary difficulties of the nature described above can be dealt with through the application of non-discriminatory measures which protect the domestic market from a disruptive flood of imports without penalising suppliers merely because of their greater efficiency of production and without interfering with long-term adjustments in the pattern of production and trade. In fact, the Indian Government consider that, in order to assist the less-developed countries to increase their earnings of foreign exchange by the export of the simpler manufactures for which they are fitted on grounds of economic efficiency or potential efficiency, and thus to service their development loans and to make capital re-payments the more easily, the more-developed countries should, through their economic policies, actively encourage and facilitate a re-orientation of their industrial structure towards progressively increasing manufacture of the more complicated and more sophisticated industrial products.

Reply to Question  
II(b)

No. The Indian Textile Industry, like the Textile Industries of Pakistan and Hongkong, has entered into a three-year arrangement with the Lancashire Cotton Industry for the imposition of certain voluntary ceilings on exports of textile fabrics for retention in the United Kingdom market. This arrangement provides for an annual level of exports from India in each of these three years which is higher than the best year's performance so far. The arrangement has been entered into with a view to giving the Lancashire industry an opportunity to rationalize and re-organize production on a more efficient and economic basis and cannot, therefore, be described as a measure intended to protect the domestic industry from disruption by imposing quantitative restrictions.