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# GENERAL AGREEMENT ON TARIFFS AND TRADE

## PROVISIONAL COTTON TEXTILE COMMITTEE

Record of Meeting Held at the Palais des Nations, Geneva,  
from 23-27 October 1961

### A. INTRODUCTION

1. The Provisional Cotton Textile Committee<sup>1</sup> was set up by the governments which participated in the meeting on arrangements regarding international trade in cotton textiles, held in July 1961 under the auspices of the GATT. The Committee's task, as set out in section IIA of the Arrangements regarding International Trade in Cotton Textiles of 21 July 1961 (Annex to L/1535), is to:

- (a) undertake work looking toward a long-term solution to the problems in the field of cotton textiles on the basis of the guiding principles set out in the Preamble to the Arrangements;
- (b) collect all useful data for this purpose;
- (c) at an early date, not later than 30 April 1962, make recommendations for such long-term solution.

The Committee held its first meeting from 23-27 October 1961.

2. The following governments participated in the meeting:

Australia	Japan
Austria	Kingdom of the Netherlands
Belgium	Norway
Canada	Pakistan
Denmark <sup>2</sup>	Portugal
France	Spain
Federal Republic of Germany	Sweden
India	United Kingdom
Italy	United States

<sup>1</sup>The establishment of the Committee as the Cotton Textile Committee was confirmed by the CONTRACTING PARTIES at the nineteenth session (SR.19/3)

<sup>2</sup>Denmark and Norway did not participate in the July meeting.

The Commission of the European Economic Community also participated. Of the above Governments, the Governments of Australia, Austria, Norway, Pakistan and the United Kingdom had not formally accepted the Arrangements at the time of the opening of the Committee's meeting. The Government of Norway, however, had notified its intention to accept. During the meeting, the representatives of Australia and Pakistan stated that their Governments had decided to accept the Arrangements. The representative of Austria said it was hoped that his Government's acceptance would be notified in the very near future. At the conclusion of the meeting the representative of Hong Kong expressed the hope that his Government would shortly be able to inform the United Kingdom Government that it agreed to acceptance by the United Kingdom of the Arrangements on behalf of Hong Kong. The Government of Luxembourg, which did not participate in the July meeting and was not represented at the present meeting, has also accepted the Arrangements.

3. Mr. E. Wyndham White, Executive Secretary, was elected Chairman of the meeting.

4. The Chairman welcomed the participation and collaboration of representatives of the Organisation for Economic Co-operation and Development.

5. The following Governments were represented by observers:

Brazil	United Arab Republic
Mexico	Yugoslavia
Turkey	

6. In announcing that his Government had decided to accept the Arrangements, the representative of Australia said he wished to refer again to some of the points of particular concern to Australia which he had made at the meeting in July. This was to enable the Australian Government's understanding on certain aspects of the Short-term Arrangement (Section I of the Arrangements in Annex to L/1535), insofar as they affected the obligations assumed by Australia, to be placed formally on the record. First, the representative of Australia referred to the sentence in paragraph A of the Short-term Arrangement which read "nothing in this Arrangement shall prevent the negotiation of mutually acceptable bilateral arrangements on other terms". Paragraph 37 of the record of the July meeting (L/1535) made it clear that this related to existing bilateral arrangements. The Australian Government considered therefore that the provisions of the Short-term Arrangement would not replace or override bilateral arrangements between Australia and Japan. Furthermore, it was considered that the acceptance of the Arrangements by Australia would not establish new obligations between Australia and those countries with which no GATT relationship existed. Secondly, as he had stated in July (paragraph 44 of L/1535), the Arrangements in no way affected existing rights under GATT as, for example, the application of Article XIX and restrictions for balance-of-payments reasons under Article XII. Finally, the representative of Australia said it would be recalled that, at the July meeting he had explained the nature of the residual import licensing

measures formerly maintained for balance-of-payments reasons. It was the understanding of the Australian Government that representatives at the meeting appreciated the fact that Australia had one of the most open markets for cotton textiles and that the Australian measures did not amount to serious barriers to trade and that consequently Australia would not be expected to relax or remove these measures applying to cotton textiles as a result of the Short-term Arrangement.

#### B. GENERAL EXCHANGE OF VIEWS

7. Documents containing proposals regarding a long-term arrangement had been submitted by the United States (L/1592) and Japan (L/1596) and were distributed before the meeting. At a later stage during the meeting, proposals by the European Economic Community (Spec(61)321) were also distributed.

8. In reference to the proposals regarding a long-term arrangement put forward by his Government (L/1592) the representative of the United States referred to the following major principles which, in the view of the United States, should underlie any long-term arrangement:

- (a) participating governments must again state their willingness to provide growing opportunities for international trade in cotton textiles;
- (b) quantitative restrictions on imports of cotton textiles should be relaxed in accordance with an agreed schedule with a view to their elimination by the end of the arrangement;
- (c) participating governments should take measures to prevent their exports from having disruptive effects in import markets;
- (d) the long-term arrangement should have as its foundation the principles embodied in the Short-term Arrangement. The proposed schedules would, however, be reviewed annually in the light of market conditions;
- (e) the long-term arrangement should contain a formula based on growth of consumption in the importing countries. In this connexion it should be noted that cotton textile trade was not stagnating; the 1960's was a decade of growth;
- (f) the long-term arrangement should take into account the position of new exporters of cotton textiles and the need for those countries to have a proportion of the trade;
- (g) in order to provide a measure of stability, the long-term arrangement should be for a duration of five years with provision for renewal.

9. The representative of the United States said his Government hoped that the present meeting would result in agreement on the general outline of a long-term plan so that the work of drafting a long-term arrangement could be passed to a sub-committee which would report at a later date to the full Committee. It might also be necessary to set up a statistical sub-committee.

10. The representative of Japan, in reference to the United States proposals (L/1592), said that, while the proposals contained a number of constructive suggestions, they contained certain points which it would be difficult for Japan to accept. First, it was inappropriate to divide countries into two separate groups, namely importing and exporting countries; many industrialized countries in Europe and North America both imported and exported cotton textiles. Secondly, while it was not entirely clear what type of schedule was actually envisaged in the United States proposals, it was doubtful whether the approach suggested was appropriate or practical, as it appeared to amount to putting "ceilings" on cotton textile exports for a period of five years. Thirdly, in the view of the Japanese delegation, where a bilateral agreement on export "ceilings" existed between participating countries, the schedules should be drawn up on the basis of such "ceilings". Fourthly, the United States proposals did not indicate what sort of categories were contemplated in connexion with the application of the safeguard provisions. Japan was strongly in favour of reducing to a minimum the number of categories; it was of fundamental importance to determine categories as broadly as possible in whatever arrangement was made. Finally, it would be difficult for Japan to accept an arrangement of five years' duration; Japanese industries held the firm view that any international arrangement regarding cotton textile trade should be of short duration.

11. The representative of Japan then drew attention to the following salient features in the proposals submitted by his Government (L/1596):

- (a) the proposed long-term arrangement should be consistent with the basic objectives and principles of the General Agreement;
- (b) quantitative restrictions on cotton textile imports from participating countries should be eliminated by a specified time, subject to the safeguard provisions contained in the Japanese proposals;
- (c) orderly exports should be achieved in the first instance by means of voluntary restraint. In the absence of any agreement on such restraint, safeguard provisions might be resorted to;
- (d) countries participating in the proposed arrangement should increase significantly cotton textile imports from other participating countries.

12. In conclusion, the representative of Japan pointed out that his Government's proposals were based on the guiding principles set out in the Short-term Arrangement and were not designed simply to favour countries whose major interest lay in exports of cotton textiles. It would also be noted that the Japanese proposals contemplated the introduction of the key-country system in respect to the provisions regarding the entry into force of the proposed long-term arrangement.

13. The representative of the European Economic Community, in reference to paragraph E of the Short-term Arrangement, said that the necessary measures to give effect to the increase in the Community's import quotas for 1962 of about 60 per cent, as compared with the 1961 global figure for all the member States, were being elaborated. The representative of the Community enquired what was

the juridical status of the Short-term Arrangement as regards its entry into force, and added that, as the member States and the Commission had not yet studied the United States proposals (L/1592) in depth, he wished at this stage only to make certain preliminary comments on the proposals. First it was desirable to consider whether it was opportune to proceed at the present time with a substantive discussion of the detailed provisions of a long-term arrangement before knowing which countries would in fact participate in the Short-term Arrangement and how this Arrangement would function. The first task of the Committee should be to decide on the terms of reference for the two sub-committees proposed by the United States. In the view of the Community, the sub-committee entrusted with the task of formulating a draft long-term arrangement should, initially, examine the factors which disturb the economies of importing countries and, in the light of such an examination, study possible solutions which could mitigate the disruption of markets and the consequences which such disruption entailed on the economic and social plane.

14. Continuing, the representative of the Community said that, while accepting the principle of the progressive increase in cotton textile imports from "low-cost" countries, the member States did not consider that it would be possible to fix as of now a date for the elimination of quantitative restrictions.

15. In conclusion, the representative of the Community, in reference to the first part of the United States proposals (document L/1592, page 3) quoted figures to show that, calculated on the only admissible basis of exchanges between the Community and third countries, i.e. excluding exchanges brought about within the framework of the internal market of the Community, the proportion of imports from "low-cost" countries was considerably higher than the figure given in the United States proposals.

16. The representative of Canada said that the United States representative had stated a number of the principal objectives which should underlie a long-term arrangement. He pointed out, however, that it would be difficult to accept the application of the principle of unlimited growth to the Canadian market, as the share of the market held by Canadian domestic industries had been considerably reduced over the last years to the benefit of exporting countries. It would, therefore, be necessary to examine carefully the technique used for arriving at the sort of schedule envisaged in the United States proposals. The representative of Japan had referred to this aspect of the question when expressing the view that the arrangements in certain bilateral agreements should in some way be reflected in the schedules.

17. In reference to the observations made by the representative of the European Economic Community regarding the increase by 60 per cent in the member States' global quotas for imports of cotton textiles for the year 1962, the representative of Canada said it would be necessary to see a specific statement on this subject from the Community before being able to judge the practical effects of such an increase. In connexion with the comments of the representative of the Community referred to in paragraph 15 above, the representative of Canada made the point that, in view of the tariff advantages which accrued to the member States of the Community while they were in the process of achieving a customs union, it was difficult to understand why they should also find it necessary to maintain a highly restrictive system of quantitative restrictions.

18. The Chairman, in reference to the comment of the representative of the EEC on the inadvisability of proceeding to a substantive consideration of a long-term arrangement before the number of countries participating in the Short-term Arrangement was known, pointed out that it was the hope and expectation that those countries which had not yet accepted the Arrangements of 21 July 1961 would indicate during the course of the present meeting their intention of doing so. If that assumption proved to be ill-founded, the situation would have to be re-examined. Recalling that, at the July meeting, the idea of a key-country approach to the question of the entry into force of the Short-term Arrangement had been discarded, the Chairman said that, if difficulties arose over the non-acceptance by countries represented at the July meeting, the implications of paragraph D of the Arrangement would have to be carefully considered. He added that, in accordance with the ruling given at the July meeting, nothing in the Short-term Arrangement derogated from the GATT rights and obligations of contracting parties.

19. The representative of Denmark said that, during the past years, Denmark had followed a liberal policy and imports of textiles, including cotton textiles, had in fact increased more than domestic consumption. A substantial part of this increase represented imports from "low-cost" countries. It was the hope of the Danish Government that the Committee's deliberations would lead to a solution of a liberal nature and thereby make an important contribution to the economic development of countries striving to this end. A liberal long-term arrangement would have the further major advantage of eventually making resort to the procedures contemplated in such arrangement superfluous. If, on the other hand, there was not a liberal approach, the need for regulation of and intervention in international trade would increase from year to year. Generally speaking, the principles contained in the United States proposals (L/1592) were acceptable to Denmark, although much would depend on how the proposals, and in particular the suggested schedules, were worked out. In this respect the Danish representative associated himself with the views expressed by the representative of Canada. It would not be realistic to expect Denmark to accept a system which put the main burden on those countries which had been pursuing liberal policies and whose industries were already faced with keen competition from abroad.

20. The representative of India stressed the important considerations which, in the view of his Government, had to be taken into account in the approach to any long-term arrangement. The full text of the statement of the representative of India is annexed to this record.

21. The representative of Norway underlined the view of his Government that the long-term arrangement should be seen as an element of technical and economic support to less-developed countries; thus, action should be taken to change the existing paradoxical situation whereby industrialized countries, on the one hand, provided aid to the industries of less-developed

countries and, on the other hand, created obstacles to the exports of these countries. Secondly, the long-term arrangement should provide for those countries which, at the present time, permit the importation of hardly any cotton textiles gradually to open up their markets to these goods. In this way the pressures at present exerted on the markets of a limited number of countries would be diminished. Against this background, the representative of Norway continued, the long-term arrangement now envisaged should be of a multilateral character including all the major importing and exporting countries. The arrangement should give importing countries the possibility of taking action when disruption of their markets was threatened; in this way the necessary adjustments in the textile industries of importing countries should be able to proceed with fewer difficulties. In conclusion, the representative of Norway expressed his Government's view that the principles to which he had referred, a number of which were contained in the Short-term Arrangement, should form the basis for the proposed long-term arrangement.

22. The representative of Pakistan made some preliminary comments on the United States proposals (L/1592). He said that, in the view of his Government, any arrangement agreed upon should lead to the liberalization of international trade in cotton textiles; the greater emphasis should be placed on the removal of all restrictions on cotton textile imports from the less-developed countries rather than on new ways and means of restricting the exports of these countries. Any long-term arrangement should not contain restrictive provisions similar to those in the Short-term Arrangement; in this connexion it appeared that the United States proposals envisaged possibly some "ceiling" type restrictions. It was desirable that there should be provision in the long-term arrangement for an expansion of imports of cotton textiles by industrialized countries in specific terms, since only in this way could there be a definite expansion of trade.

23. Continuing, the representative of Pakistan said that any long-term arrangement should be for a specified period of perhaps two and not more than, say, three years, during which time industrialized countries currently imposing restrictions on imports of textiles should finally remove such restrictions. Pakistan might have difficulty as regards the establishment of a base period. It would not be satisfactory to decide on a base period for Pakistan on the basis of existing installed capacity or of statistics of past trade. In conclusion, the representative of Pakistan stressed the need for the less-developed countries to be able to earn more foreign exchange to enable them to buy capital goods from the industrialized countries. The way to do this was to afford unrestricted opportunities to the less-developed countries to export their simpler manufactured goods such as cotton textiles.

24. The representative of Australia welcomed the fact that both the United States and the Japanese proposals aimed at an overall expansion of trade in cotton textiles with emphasis on the opening up of restricted markets. The effect of heavy restrictions in certain importing countries was to intensify and concentrate pressure on the few open, or practically open, markets such as Australia. The proposals, therefore, were justifiably directed towards the problem of quantitative import restrictions. It was particularly necessary to deal with the problem of discriminatory restrictions. Two important points would, however, have to be taken into account if agreement was to be reached on a long-term arrangement. These were the question of bilateral arrangements and of emergency action, both of which were covered in the Short-term Arrangement. In conclusion, the representative of Australia said that, from Australia's point of view, there might be difficulty concerning the choice of a base year; the question of the schedules would therefore have to be thoroughly discussed.

25. The representative of Austria, in connexion with the comments of the representative of the United States referred to in paragraph 8(e) above, expressed the view that the "ceiling" for cotton textiles consumption had been reached for some years to come; orders in Austria were declining and the same decline appeared to be taking place in other European countries. Having expressed agreement with the aim of bringing about an orderly expansion of international trade in cotton textiles in a manner which would avoid market disruption in importing countries, the representative of Austria stressed the disadvantageous position of small industrialized countries in the light of the present upsurge of cotton textile imports; because of this, the volume of current imports of cotton textiles by consuming countries in relation to domestic production as well as consumption should be taken into account. The representative of Austria, having quoted some statistics of imports of cotton textiles, said that the significant increase in such imports envisaged in Section II, paragraphs 1 and 2 of the United States proposals, must be seen against the background of these statistics. In this connexion, he also referred to his statement at the July meeting (paragraph 11 of L/1535).

26. Continuing, the representative of Austria said his Government was currently studying the possibility of expanding the liberalization of imports from GATT countries. Consequently, he would have to reserve the position of his Government on any time limits concerning liberalization. He added, however, that a provision such as the one in Section III, paragraph 1, of the United States proposals (L/1592) might encourage low-cost countries not at present participating in the Arrangements to expand their production of cotton textiles in the hope that, by accepting the long-term arrangement, they would automatically have access to the markets of industrialized countries. He would have to reserve the position of his Government on this point.

27. Commenting on the Japanese proposals (L/1596) the representative of Austria expressed the view that the formula proposed in Section I, paragraph 1, was not appropriate for dealing with the problems of market disruption. The modernization or reconversion of so-called inefficient domestic enterprises was a serious national problem. As regards the removal of quantitative restrictions on imports of cotton textiles for re-export, he would have to reserve his Government's position on account of current Austrian legislation.

28. The representative of the United Kingdom said that it had been the understanding of his delegation that when the long-term arrangements were discussed at the July meeting, a solution different from the short-term arrangements was in mind. The short-term arrangements were in effect a holding operation, and if it had then been envisaged that they should be extended into the long-term, delegations would have looked at them more critically. It therefore might be wise to wait and see how the short-term arrangements worked out in practice before extending them for five years. If, on the other hand, the intention was to have a long-term arrangement which was based on something other than an extension of the short-term arrangements the situation would be different. The proposals which had already been put forward deserved careful study but needed clarification. It would be difficult to draft without agreement on principles and on such basic points as the growth formula. As regards the proposed schedules, it was not clear whether these would be worked out in advance or whether they would be worked out bilaterally.

The representative of the United Kingdom went on to say that it would not be equitable to base any arrangements on the concept that all importing countries started from the degree of liberalization they had now attained. For example, in the United Kingdom, total retained imports of cotton textiles accounted for 40 per cent of the domestic market, and three-quarters of this quantity came from low-cost producers. The United Kingdom could not be expected to undertake to increase these quantities step by step with other countries whose imports represented a far less significant proportion of their domestic consumption or which had barely started to import cotton textiles. International trade in cotton textiles should be most expanded where it was at present subject to greatest restriction, so as to give relief to other countries where there was greatest liberalization.

29. The representative of Sweden said it would be helpful to the work of the Committee if the following information could be provided:

- (a) some kind of consolidated statistics on the lines of those quoted by the representative of Austria;
- (b) the specific statement regarding access to markets referred to in paragraph E of the Short-term Arrangement; this would clarify what the position was likely to be on the import side on 1 January 1962;
- (c) some indication from exporting countries regarding excess capacity and prospects for future expansion.

30. In reply to certain questions that had been raised, the representative of the United States made the following points:

- (a) the United States proposals (L/1592) only represented a draft outline and were subject to modification;
- (b) the distinction between importing and exporting countries, referred to by the representative of Japan, could be dealt with at the drafting stage;

- (c) the United States had two kinds of schedules in mind for the long-term arrangement. First, there would be schedules on a country-by-country basis for the relaxation of quantitative restrictions. Secondly, there would be schedules which would represent a formula for "growth" in consumption which would be shared by exporting countries;
- (d) the United States considered that a five-year period for the duration of a long-term arrangement would be useful for planning purposes from the point of view of industry;
- (e) while the United States proposals envisaged the formulation of a long-term arrangement on the foundation of the principles embodied in the Short-term Arrangement, it would be noted that some important additions would be made. Moreover, the arrangement would not be static for the proposed period of five years.

C. EXAMINATION OF ELEMENTS OF LONG-TERM ARRANGEMENT

31. As a result of its discussions the Committee reaffirmed its reference in the Short-term Arrangement to the desirability of undertaking work looking toward a long-term arrangement and came to the conclusion that it was necessary to undertake a detailed examination of the elements which would be contained in such an arrangement. With a view to facilitating such an examination the Committee reviewed the main points contained in the proposals put forward by the United States (L/1592), Japan (L/1596) and the European Economic Community (Spec(61)321).

32. The Committee then decided to establish a technical sub-committee which would proceed further with the examination of the points considered by the Committee. The technical sub-committee would report to the Committee at its next meeting and would make recommendations concerning the form and substance of a long-term arrangement. The technical sub-committee would proceed on the basis of the proposals referred to above (L/1592, L/1596 and Spec(61)321) and of the discussion in the Committee, on the understanding that, if as a result of its examination, it came to the conclusion that a different form of long-term arrangement was technically preferable, it should report accordingly and submit appropriate recommendations to the Committee.

33. The Committee focussed its attention in particular on the following specific questions, as suggested by the Chairman in document Spec(61)323:

(1) Objectives of the long-term arrangement on cotton textiles

34. Following expressions of view on this question by some representatives, the Committee agreed that the objectives of a long-term arrangement are those set out in the Arrangements regarding International Trade in Cotton Textiles dated 21 July 1961 (Annex to L/1535).

(2) Measures for liberalization by countries restricting imports of cotton textiles

35. Several members of the Committee stressed the importance of rapid progress being made by countries now restricting imports of cotton textiles in the opening of their markets to such imports; this would ensure a better distribution of cotton textile trade over a large number of importing countries.

36. There was considerable discussion as to the kind of liberalization formula that should be written into a long-term arrangement. Both the United States and Japanese proposals (L/1592, L/1596) envisaged the elimination of quantitative import restrictions by the end of the long-term arrangement, whereas the proposals put forward by the European Economic Community (Spec(61)321) envisaged the elimination of such restrictions "as soon as possible". The most specific suggestion was that of Japan, which, in document L/1596, proposed that those participating countries at present maintaining import restrictions should substantially increase annually import quotas for participating countries and that, when a basic quota was nil or negligible at the time of the coming into effect of the proposed arrangement, a quota of an equitable and appropriate size should be established. The representative of the European Economic Community said that it was true that the Community's proposals as regards the elimination of quantitative import restrictions appeared to be more modest than those put forward by the United States and Japan. Rather than to attempt to establish a fixed timetable or schedule, however, the Community favoured a pragmatic approach and felt that, in practical terms and taking into account GATT obligations as regards the elimination of quantitative import restrictions, such an approach was likely to be more effective than the inclusion of a general objective.

37. Some representatives pointed out that, in the absence of all the relevant facts, it was difficult to judge what would be the best basis for a liberalization formula. It might be found that a percentage relaxation was not the best approach and that increased access to markets should preferably be measured in some other way, for example by reference to per capita consumption or in relation to a share of domestic production in importing countries. Attention should also be given to the question of the productive capacity and the expansion plans of exporting countries. The question of re-exports would also have to be considered.

38. The representative of the United Kingdom stressed that it was essential that, in the elaboration of any liberalization formula, full account should be taken of the position of countries like the United Kingdom which, while maintaining some import restrictions on cotton textiles, provided very substantial access to their markets. Such countries would be unable to accept that they should effect annual increases in imports of cotton textiles in the same way as countries which had not reached a comparable degree of liberalization. There must be an overriding concept of equity. It might well be argued that countries which were admitting substantial quantities of cotton textiles should be regarded as having fully discharged their obligations under any long-term arrangements. The representative of Australia expressed similar views to those put forward by the representative of the United Kingdom.

39. The representative of the United States pointed, inter alia, to the need for the relaxation of restrictions to be brought about in a way which was equitable vis-à-vis exporting countries. The representative of the European Economic Community pointed out that the proportionate share in the increased access to markets should not necessarily be the same for each exporting country; the question of production and other factors, such as those to which the representative of India had referred, should be taken into account. The Cotton Textile Committee would be able to check on the equitable application of this principle.

40. The representative of Austria wished it to be recorded that, in the view of his Government, mutually acceptable bilateral arrangements regarding increased access to markets where import restrictions were still maintained should also be permitted.

41. In reply to a question from the representative of Sweden, the representative of the Commission of the EEC said that the Community would provide, before the end of 1961, the breakdown of the increase of about 60 per cent which would result from the total increases of the import quotas which the member States would grant for 1962. He added that it was the hope of the Community, not only to increase existing quotas, but also to establish quotas where none existed at present.

42. The Committee noted that it was common to the proposals that had been put forward that a liberalization formula should be written into a long-term arrangement. As regards the type of formula which might be adopted, the Committee noted that various methods had been suggested, varying from the concept of an automatic increase in the size of quotas to the concept of a share of imports related to consumption or domestic production in the importing countries. It was recognized that these suggestions would need consideration at the technical level on the basis of an examination of all the relevant facts, including the situation of countries which, while maintaining some import restrictions on cotton textiles, were already affording to exporting countries a comparatively high share of the total supply on their markets. With respect to measures of liberalization regarding re-exports, the Committee agreed that this question should also be further considered by the technical sub-committee.

(3) Provisions relating to action to be taken with respect to exports or imports in order to avoid market disruption in the countries which are not maintaining import restrictions and provisions relating to the administration of such measures

43. The representative of the United States, in reply to questions, explained that the establishment of schedules, as suggested in his Government's proposals (page 6 of document L/1592), in no way entailed the creation of an overall "ceiling" on exports of cotton textiles generally or of individual categories. The concept of a "ceiling" would only apply in cases where there was disruption in particular items or categories. On the one hand, the United States proposals included the concept of growth in consumption but, on the other hand, they would permit an importing country, if market disruption occurred, the possibility of requesting export restraint on the part of the exporting country.

44. The representatives of India and Pakistan pointed out that exports of cotton textiles from their countries had not caused market disruption in importing countries. Any long-term arrangement should therefore not place limitations on the exports of countries such as theirs.

45. The representative of Hong Kong pointed out that there should be two essential prerequisites to any suggestion that the conditions of the Short-term Arrangement should be carried over into a long-term arrangement. First, any request by an importing country that an exporting country should exercise restraint should go to some impartial body for discussion and determination. Secondly, any annual growth factor provided for should be sufficient to mitigate the adverse effects of the arrangement on exporting countries. If the growth factor was small, the proposed long-term solution would, in fact, be no solution at all.

46. The representative of Hong Kong also expressed his Government's objection to the use of narrowly-defined categories. Inter alia, the composition of trade in cotton textiles varied considerably. The use of the sixty-four categories annexed to the Short-term Arrangement could mean a significant cut-back in Hong Kong's trade with the United States; this was hardly in line with the premise that there should be no overall restriction of imports. Further, the United States proposal regarding a base year level was not related to the current trade pattern. The Japanese proposal in this connexion (paragraph 2(2)(i) of document L/1596) was more realistic. Finally, the representative of Hong Kong stressed the need to integrate into any long-term arrangement provisions protecting exporting countries against disruption of their export trade.

47. The representative of Japan supported the statement of the representative of Hong Kong on the question of categories. The representative of India also agreed that the question of categories should be examined in the technical sub-committee.

48. The representative of Canada reiterated his Government's acceptance of the principle of the growth of cotton textile imports provided that this did not result in the continuation of the decline of the domestic industry's share of the Canadian market. He also stressed that the schedules should not constitute automatic "ceilings" on exports of cotton textiles to importing countries. If such "ceilings" were established, the result would be a restrictive rather than an expansionary arrangement.

49. The representative of the United States again stressed the tentative nature of his Government's proposals (L/1592). His delegation was not necessarily wedded to the concept of categories if a preferable technical alternative could be found. The United States proposal as regards the base year was equally tentative. Likewise his delegation was prepared to consider a formula incorporating the concept of avoiding disruption in the export trade of exporting countries.

50. The representative of Australia, in reference to paragraph 3 of Section II of the United States proposal, stressed the importance his Government attached to maintaining intact the provisions of GATT, particularly Article XIX.

51. The representative of the United Kingdom pointed out that the views he had expressed in connexion with the liberalization formula (paragraph 38 above) applied equally to the question being discussed under this heading. He also referred to the draft terms of reference proposed on page 4 of the EEC's proposals in document Spec(61)321, and in particular to paragraph A.3 which related to "artificial export incentive measures which may exist". In his view this question was relevant to the work of the technical sub-committee and should be considered as falling within the mandate of the sub-committee; this was agreed.

52. It was agreed that the measures envisaged in the three proposals which had been put forward would only be invoked in cases of market disruption. It was suggested that the safeguards in connexion with market disruption should also be available to a country which, while it maintained import restrictions on cotton textiles, nevertheless had achieved a high degree of liberalization and the Committee agreed that the technical sub-committee should consider this matter further. It was also agreed that the question of whether a long-term arrangement should provide for specific categories of cotton textiles and, if so, how many, should be examined by the technical sub-committee; this question was of particular importance. An alternative to the system of categories should, however, not be excluded from consideration. The Committee recognized that it was desirable not only to avoid disruption in the domestic markets of importing countries, but also to avoid disruption in the production and marketing of exporting countries.

53. The Committee agreed that the provisions in the long-term arrangement under this heading should have regard to the agreed objective of giving increased access to the exports of developing countries. One suggestion was that there should be a formula based on growth of consumption in the importing countries. The view was also expressed, however, that other criteria might provide a more effective means of achieving the agreed objective. Accordingly, it was agreed that alternatives should be considered. It was agreed that various formulae should be examined by the technical sub-committee. In this connexion, it was recognized that the special situation of countries which were already affording to exporting countries a comparatively high share of the total supply in their markets, would need to be taken into account.

#### (4) Bilateral arrangements

54. In reply to a question concerning the implications of the reference to bilateral arrangements in paragraph 3 of page 3 of the EEC proposals (Spec(61)321), the spokesman for the Community pointed out that this wording took up that used in the Short-term Arrangement. It was in no way the intention that the objectives of a multilateral arrangement should be limited or circumvented by bilateral arrangements. The latter should, on the contrary, be looked upon as a method of implementing the long-term arrangement.

55. The Committee noted that, as in the Short-term Arrangement, nothing in the long-term arrangement would prevent the negotiation of bilateral arrangements on other terms not inconsistent with the objectives of the long-term arrangement.

56. The representative of the Netherlands wished it to be recorded that, in the view of his delegation, the judgment as to whether a bilateral arrangement was consistent with the objectives of the long-term arrangement should rest with the parties to the bilateral arrangement.

(5) Provisions to prevent circumvention by:

- (a) non-participating countries
- (b) trans-shipment
- (c) substitution of directly competitive textiles

57. In connexion with an observation by the representative of Japan that imports of cotton textiles for re-export had no bearing on the question of market disruption, the representative of Canada pointed out that such re-exports could present problems for the country to which they were re-exported. Commenting on sub-item (c) of this heading, the representative of Canada recalled that, at the meeting in July, the Canadian representative had expressed a preference for the inclusion of man-made fibres within the coverage of the Short-term Arrangement.

58. The Committee agreed that the technical sub-committee should consider these questions and noted that, in the view of some members, the provisions contained in the Short-term Arrangement might not be suitable, in their present form, for a long-term arrangement.

(6) Functions of the Cotton Textile Committee

59. The Committee noted that all the proposals that had been put forward contained statements relating to the need for surveillance of the application of the arrangements by the Cotton Textile Committee.

(7) Duration of the arrangement

60. The Committee noted that periods varying from three to five years had been suggested for the duration of a long-term arrangement which would replace the Short-term Arrangement. It was agreed that this question could only be considered after a detailed examination had been made of the proposed content of such an arrangement.

(D) FUTURE PROGRAMME OF WORK

61. The Committee considered the proposals in document Spec(61)326. It agreed:

- (a) to establish a technical sub-committee open to all members of the Committee. The sub-committee would meet from 11-22 December and, if necessary, from 8-17 January 1962. It was agreed that Mr. Grandy (Canada) should be invited to be Chairman of the sub-committee. Mr. Wyndham White said it had been suggested that, should Mr. Grandy unfortunately not find it possible to accept the invitation because of the pressure of other commitments, he should nominate an independent Chairman; in this connexion Mr. Wyndham White said he would suggest Mr. Royer, who would be relinquishing his appointment as Deputy Executive Secretary at the end of 1961. It was recognized that the work done by individual members of the sub-committee would in no way commit their governments and that governments would be entirely free to take what position they wished as regards the draft proposals which came out of the sub-committee;
- (b) to establish a statistical sub-committee open to all members of the Committee. The sub-committee would hold its first meeting on 1 November. Observations made by certain representatives regarding the statistics referred to in paragraph 2(a) of document Spec(61)326 were noted by the secretariat;
- (c) to reconvene on 29 January 1962 to consider the reports of its subsidiary bodies. It was understood that this date was dependent on sufficient progress in its work having been made by the technical sub-committee.

62. At the conclusion of its meeting the Committee approved a communiqué (Press Release GATT/616) for release to the press.

ANNEX

Statement by Mr. T. Swaminathan (India)  
on 24 October 1961

We in the Indian Delegation are very happy to have been able to accept the short term arrangement in regard to cotton textiles following our meeting here in July last. We are also glad that a number of important importing and exporting countries have found it possible to accept these arrangements. This is evidence, if indeed evidence is required in this forum of GATT, of the practical and constructive realisation by member countries of the temporary difficulties of some importing countries. We are glad, again, to participate in a discussion of the approach that is necessary for taking a look at the problems of international trade in textiles over the somewhat longer term. We have held firmly that we do not see a real so-called problem in this matter. The GATT forum has always believed in the freest possible basis for international trade leading to an expansion of such trade, increasing employment, rising standards of living and consumption, and an equitable international division of labour. We have, of course, always had a pragmatic approach and have, for this reason, accepted various temporary restraints, both built into the structure of the General Agreement, and sometimes even outside it by voluntary agreement. We adhere to our view that cotton textiles are no more a problem commodity in international trade than any other commodity.

Nevertheless, we do appreciate that in the changing world there are problems which particularly the older industrialized countries might have to face in a transformation of their economies and their industrial structures to the newer patterns which are emerging as a result of the rapid strides which science and technology are making. This was the basis on which we, and, I believe, a number of other delegations, accepted the short term arrangements. A long term arrangement, however, is something more serious and has to be looked at from a rather more basic and fundamental point of view.

Even in regard to the short term arrangement, the preamble to the agreement of 21 July 1961, brings out the essential factors which have to be borne in mind in regard to cotton textiles as indeed in regard to other commodities and products entering into international trade. These are, to quote from the agreement of 21 July 1961, "to take cooperative and constructive action with a view to the development of world trade and that such action should be designed to facilitate economic expansion and in particular to promote the development of the less-developed countries by

providing increasing access for their exports of manufactured products". Of course, when there is disruption or a fear of disruption, the problem has to be tackled with equity and justice but nevertheless without forgetting the basic objective.

Mr. Chairman, I will not weary this committee by a repetition in detail of the characteristics of the Indian textile industry. I have done this in my statement to the meeting of July 1961 and my statement was, if I remember correctly, circulated. It is, however, as well to remember the following salient facts:

- (1) We are, and have been, considerable cotton producers for a long time.
- (2) Our agricultural productivity had been low and over the whole front of our agriculture we are making rapid and strenuous efforts to increase agricultural efficiency and productivity. Our production of cotton in the years to come will, therefore, be larger than what it is now, even without an increase in the acreage under cotton.
- (3) Our consumption of cotton textiles accounts for 90 per cent of production in the country. We are only marginal exporters of cotton textiles.
- (4) Our consumption of cotton cloth per capita is of the order of 16 yards, which is quite low compared to the industrialized countries of the world. There will and must be a rise in per capita consumption as our economic development plans produce the desired result and standards of living rise.
- (5) Our population is rapidly increasing almost at the rate of 1.9 per cent a year on a base population in 1961 of 438 million. The increase in consumption of cotton textiles through population growth is therefore likely to be very high.
- (6) We have been having severe balance-of-payments difficulties and will continue to have them for a considerable time yet during the process of economic development. We shall not, therefore, be in a position to import cotton textiles in any volume. Therefore, we have to increase our cotton textile production at least to deal with the increased requirements of the country. We have the resources to do this in cotton, labour, skills, and, lately even in internally manufactured equipment.

Nevertheless, it is obvious that we are most unlikely in the foreseeable future to be responsible for any disruption or even a threat of disruption in the markets of other textile producing countries.

In taking either a short term or a long term look at the problem which we are now considering, I am afraid we have in our preoccupation with the proximate problem, forgotten certain basic considerations although these have been mentioned in the preamble to the July Agreement. The trade of the less-developed countries is in many cases stagnant and, at any rate, is not expanding at anything like the rate at which the trade of the more industrialized countries is expanding. This has been leading steadily to a great widening of the gap in national and per capita incomes and standards of living and consumption, between the industrialized countries on the one hand and the less-developed countries on the other. This is bound to lead to stresses and strains both political and economic. We are already experiencing the consequences of these stresses and strains in many parts of the world. It has been conceded and stressed by the world's leading statesmen that this situation has to be remedied and remedied quickly through more rapid economic development of the less-developed countries than hitherto. The national and per capita incomes in these countries being what they are, the capacity for saving in these countries is rather low and foreign investment and foreign assistance, especially from the prosperous industrialized countries, must play a very important part in the development of the less-developed countries. There has been a very welcome and generous appreciation of this point in the last few years and the quantum of flow of investment and assistance has steadily increased. But this inevitably brings with it the responsibility of the less-developed countries to service their loans. It is only gradually dawning on experts throughout the world, in the less-developed countries no less than in the industrialized countries, that the only way this responsibility can be discharged is by enormously increased exports by the less-developed countries and more and more in the form of processed and semi-processed manufactures, as the raw materials will be more internally consumed by the growing industrial potential in these countries. In the case of India, cotton textiles are even today the third largest earner of foreign exchange and there is a very considerable potential of foreign exchange earning for India in this field for which in regard to raw material, labour, skills, etc., India is very eminently suited. It is, therefore, of paramount importance that there should be an expansion of India's exports of textiles into the more prosperous industrialized countries. This is applicable with particular force to the countries of the European Economic Community several of which have so far maintained very severe import restrictions against Indian cotton textiles. In this connection, we have been gratified by last year's efforts, however small, of the Federal Republic of Germany to let in some Indian textiles. We are hoping that in the year to come we shall have a substantial increase in this quota. We were even more gratified by the tentative and preliminary efforts of the Government of the Republic of France in the same direction during 1961. We have noticed welcome signs of a desire on the part of the Government of France to take a somewhat bolder step forward during 1962. We believe in

rendering thanks and giving credit where thanks and credit are due. We must emphasize, however, as the Canadian Delegate did yesterday, that an advance from zero to something, while it is an advance, is nothing to enthuse about. We would ask that in any consideration of a long term informal planning for the cotton textile industry of the world this factor should be strongly borne in mind. We would ask, with the Canadian Delegate, for a clarification, at the appropriate time, of what would constitute the 60 per cent increase to which the representative of the European Economic Community referred. We would urge, again, that a 60 per cent increase over a very inconsiderable - almost nil - starting point will neither satisfy us psychologically and emotionally nor make any contribution towards dealing with the basic problem of the developing countries, to which I have earlier referred.

We, in my Delegation, are beholden to the United States Delegation and to the Japanese Delegation for having come forward with papers making concrete suggestions. We would not wish, at this stage, to make any detailed analysis of or comment on these two papers. We would only wish to say in regard to the United States paper that we should like to see the basic objectives contained in the preamble to the July agreement fully brought out in any consideration of the long term examination of the problems of the cotton textile industries of the world. Both in regard to the United States paper and the Japanese paper, we would wish to state that taking the July agreement as the basis and the starting point for any long term arrangement might be a narrow and circumscribed action in regard to this very important problem. We would wish for a dynamic new approach which shows clearly and forcefully that the basic problems of development, finance and trade have been grasped and will be imaginatively dealt with, if, however, at the end of the day, the short term agreement has to be, by common consent, the basis, then one would be right, I think, in asking oneself whether it would not be a good thing to achieve some experience of the working of the short term agreement before we make it the base-line for the long term agreement. The Japanese Delegate asked yesterday what the United States Delegation had in mind when they spoke of schedules. We in my Delegation have had similar doubts. We have emphasized all along that where a country has not been responsible for either disruption or a threat of disruption there should be no question of the application of any restraints. We consider this basic to any long term arrangement to which we could give our assent or approval. From this point of view we would find it difficult at this point of time to tie ourselves to any schedules of quantities over any period of years. Bilateral arrangements on the basis of free and voluntary discussion are never precluded. We have an example of such an arrangement between the Indian textile industry (and some other textile industries) on the one hand and the Lancashire cotton textile industry on the other. Perhaps this kind of approach may be a practical and equitable way of dealing with problems that might exist between pairs of countries. It seems to us that even such bilateral arrangements are not called for in every case.

There is one aspect in this matter which so far we have not touched upon. The application of the United Kingdom for entry into the European Economic Community raises some special problems for countries like India who have had special relations with the United Kingdom. We do not yet know what kinds of problems will finally result if and when the United Kingdom enters the European Common Market. It is possible that there may be some impediments to the free flow of Indian and other cotton textiles even into the United Kingdom as hitherto. In such an event, it is obvious that more particularly as a developing country, with heavy obligations in regard to the financing of her economic development and the servicing of her development loans, India will have to be given facilities by the powerful and prosperous European Economic Community no less than by countries like the United States not only to continue to earn foreign exchange by the export of cotton textiles but actually to augment her receipts by such sales.

The Canadian Delegate yesterday referred to one aspect of this matter in his comments on the statement of the representative of the European Economic Community. But I see that at this most important point of time when we are taking a long term look at a very important industrial commodity which enters into international trade the basic problem of development and development finance has to be stressed more than any other aspect of this problem because development is, like international trade, a world problem. It is only by promoting development in the less-developed countries rapidly that the industrialized countries can have a secure long term basis for maintaining and developing still further their expanding economies. The emphasis, my Delegation feels, should be on a sophistication and a further diversification of the industries of the industrialized countries. A personal thought that occurs to me is that a planned redistribution of the world's economic and industrial activity is essential if we are to avoid in the field of industry, the problems of surplus and waste which we experience so acutely in some other fields. It goes without saying, of course, that sudden disruptions and upheavals have to be avoided. But the dynamics of advance and change in the world today are such that these problems may no longer be postponed indefinitely.