

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1854

23 October 1962

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COTTON TEXTILES COMMITTEE

Report on Meeting Held at the Palais des Nations, Geneva,
10-12 September 1962

I. Introduction

1. The Committee met from 10-12 September 1962 under the chairmanship of Mr. E. Wyndham White, Executive Secretary, in order to consider a number of matters prior to the date envisaged for the entry into force of the Long-Term Arrangement.

2. The following members of the Committee participated in the meeting:

Australia	Germany, Federal Republic of	Pakistan
Austria	India	Portugal
Belgium	Italy	Spain
Canada	Japan	Sweden
Denmark	Netherlands, Kingdom of the	United Kingdom
France	Norway	United States

The Commission of the European Economic Community also participated.

3. The following Governments were represented by observers:

Brazil	Mexico
China, Republic of	Rhodesia and Nyasaland,
Colombia	Federation of
Finland	Switzerland
Israel	United Arab Republic

4. The Council of Ministers of the European Economic Community, the European Free Trade Association, the Organisation for Economic Co-operation and Development and the United Nations were represented.

II. Paragraph 12 of the Record of Understandings (L/1813)

5. As stated in the footnote to page 3 of L/1813 the Governments of the United Kingdom and Japan did not agree with the interpretation given in paragraph 12 of the Record of Understandings. Written statements containing their points of view as well as a communication received from the United States Government on the matter were reproduced in document L/1821.

6. The representative of Japan said that since the beginning of the meeting his delegation had discussed the matter with the United Kingdom and United States delegations. The three delegations had agreed to continue discussions on procedures for dealing with deliberate substitution where it was proved and to inform the Committee on the outcome of these discussions. The Japanese representative then submitted the text for a new footnote¹ which would replace the present footnote on page 3 of the Record of Understandings.
7. The representative of Canada said that, as an importing country, Canada was vitally interested in the question of deliberate substitution, especially since, unlike some of the other importing countries concerned, Canada's tariff structure was such that the possibility of deliberate substitution arising was greater. His delegation was ready at any time to consult with any exporting country which had a different view from that appearing in paragraph 12 of the Record of Understandings. Until such consultations took place and an agreed interpretation emerged between Canada and the exporting countries, the Canadian Government would continue to be guided by paragraph 12 of the Record of Understandings as it now stood.
8. The representative of the United Kingdom said that his delegation could not at this stage withdraw its views on this question and supported the new footnote proposed by the Japanese representative. It was in the interest of all concerned to prevent deliberate substitution. At the same time there was the need to avoid disturbing the development of normal trade and he hoped that recourse to Article 6(b) of the Arrangement would be rare.
9. The representative of Australia said his delegation could not agree with the views expressed in paragraph 1 of the Japanese communication as set out in document L/1821, namely, that the provisions of Article 6(b) only applied to exceptional cases of deliberate substitution. The understanding of the Australian delegation was that Article 6(b) should be applied to all cases of deliberate substitution. But it was to be hoped that such cases would be rare. He could not agree with the understanding given in paragraph 3 of the Japanese communication which appeared to rule out import restraint on substitute textiles and left it purely as a matter for voluntary restraint. As regards paragraph 2 of the communication, what was involved was not really a question of the interpretation of Article 6(b) since the situation referred to in paragraph 2 would normally be dealt with under Article 8 of the Arrangement. Article 8 provided that any difference of opinion between the participating countries on the interpretation of the Arrangement should be referred to the Cotton Textiles Committee "for discussion".
10. The representative of the United States said that he supported the proposed new footnote to paragraph 12 of the Record of Understandings but wished some clarification on paragraph 2 of the Japanese communication in document L/1821 which stated that "any recommendation of the Cotton Textiles Committee on a particular case should be respected by the countries concerned".

¹See paragraph 14.

11. In reply the representative of Japan said that, although primary judgment of the matter lay with the importing country, his Government felt that the recommendations of the Cotton Textiles Committee should be respected by the importing country.

12. The representative of the United States said that he interpreted the reply of the Japanese representative to be along the lines of a statement made previously by the United States delegation that "the United States Government gives its assurance that it will give due weight to the recommendations of the Cotton Textiles Committee with regard to cases of deliberate substitution, but will not necessarily be bound by these recommendations". The representative of Japan concurred.

13. The representative of Denmark said he wished it to be recorded that the views of his delegation on this matter coincided with those of the United States delegation.

14. It was agreed that the footnote to paragraph 12 should be replaced by the following:

"While all members of the Committee remain determined to prevent deliberate substitution within the terms of Article 6(b), some members have a different understanding of the matter from that set out in this sentence. It has been agreed that the members concerned will consult together and report back to the Committee in due course."

15. The representative of Italy, speaking in the name of the member States of the European Economic Community, stated that he would all the more readily support the new wording of the footnote since the member States of the EEC were not in entire agreement with the text of paragraph 12.

16. It was the understanding of the Committee that in the consultations referred to in the new footnote all members having a vital interest in the matter would have an opportunity to play their full part.

III. The percentages for Annex A

17. The percentages which are to appear in Annex A, in accordance with paragraph 3 of Article 2 of the Long-Term Arrangement, had not been communicated to the Executive Secretary and members were asked to indicate their position in this regard.

18. The representative of Austria, referring to paragraph 21 of the Record of Understandings, submitted certain figures to the Committee on quotas which had been drawn up in negotiations between Japanese and Austrian delegations (Spec(62)233). With regard to imports from India and Pakistan, there was an agreement between the Indian Cotton Mills Federation and the All-Pakistan Textile Mills Association, on the one hand, and the Association of the Austrian Textile Industry, on the other, concerning import quotas within the framework of the Short-Term Arrangement. This agreement included the understanding that negotiations concerning imports under the Long-Term Arrangement would take place well before the end of 1962.

19. The representative of Norway said that his Government was negotiating with Japan and Hong Kong and its decision regarding acceptance of the Long-Term Arrangement had to await the outcome of these negotiations.

20. The representative of Denmark said that it was the intention of the Danish Government to accept the Long-Term Arrangement provided that the leading trading nations among the GATT countries also became parties to the Arrangement. However, the final decision would depend on the conclusion of the bilateral negotiations which were taking place with Japan. His delegation would inform the Committee on the outcome of these negotiations.

21. The Chairman said that the whole basis of the Long-Term Arrangement was that there would be two categories of importing countries, those not maintaining import restrictions and, therefore, relying upon the provisions of Article 3 as a safeguard against market disruption, and those continuing to maintain import restrictions. With respect to the latter, the guarantee to exporters consisted in the specific assurance contained in Article 2 that import quotas would be increased progressively by declared and stated percentages incorporated in Annex A. From information obtained so far, the only certainty was that there would be incorporated in Annex A a percentage figure to be calculated by the European Economic Community corresponding to the figure of 12,000 tons fixed for total cotton textile imports under quota during the last year of application of the Arrangement adjusted to take account of any liberalization measures applied. The Austrian representative had provided specific figures relating to particular countries, but had given no indication as to when or how these would be translated into a percentage figure applicable to all exporting countries. The Short-Term Arrangement would expire at the end of September, and it was implicit in previous discussions that there should be a smooth transition from the Short-Term Arrangement to the Long-Term Arrangement. In reply to a request for clarification, the Chairman confirmed that the Long-Term Arrangement would become effective on 1 October as between those countries which had accepted it.

22. The representative of Sweden indicated the general background against which his Government would judge whether or not it could accept the Long-Term Arrangement. The Swedish cotton textiles industry had traditionally been responsible for the main part of the supply of cotton textile fabrics to the domestic market, the share of the domestic industry before World War II and up to the beginning of the 1950's being about 70 per cent. As a result of increases in textile imports this percentage had declined to about 50 per cent in 1960-61. On the other hand Swedish imports of cotton fabrics and blended fabrics had gone up by 60 to 70 per cent during the decade. In recent years the share of cotton textiles imported from developing countries and territories (including Hong Kong), and Japan had grown, and in 1961 had risen to about one third of the total volume of imports into Sweden. It might be of interest to exporting countries, especially the developing countries to note that annual per capita consumption in Sweden of cotton

textiles imported from the six low-cost exporting countries - Spain, Portugal, India, Pakistan, Hong Kong and Japan - was now well over 1 kg., while according to calculations, the corresponding figure for the EEC countries was about 0.1 kg.

23. The representative of Sweden enquired whether goods imported under the global quota of the European Economic Community could subsequently be trans-shipped freely within the Community. In reply, the representative of the Community said that the movement of such goods within the Community would be governed by the provisions of the Treaty of Rome.

24. The Chairman, in reply to a request for clarification as to the correct interpretation of the relevant provisions of the Arrangement in respect of Annex A, said that in his opinion the position was clearly set out in Article 2. The key commitment, in paragraph 3 of that Article, involved the undertaking to expand imports of cotton textiles which were subject to restrictions at the date of entry into force of the Long-Term Arrangement. While this would not exclude the mechanics of bilateral agreements, the obligation related to a percentage figure for the restricted products, taken as a whole, and this would be the percentage indicated in the Annex. The question of the division of this percentage between individual exporters was dealt with in paragraph 4 of Article 2, which provided that the participating countries should administer their restrictions in an "equitable manner". However, while in bilateral negotiations assurances might be given regarding the share of individual exporting countries, the basic obligation related to a given percentage increase for the imports from countries whose exports were subject to restrictions, taken as a whole. Further, on the accession of a new country to the Arrangement, and subject to any terms that might have been agreed, pursuant to paragraph 2 of Article 11, between that country and the countries already participating in the Arrangement, the percentage figures in Annex A would continue to apply automatically to the exporting countries taken together, it being understood, however, that the basic quota to which such percentages applied would be modified to take account of the amount of the quotas opened to the newly-acceded country during the base year.

25. The representative of France asked for clarification on the relationship between the provisions of Article XII of the GATT and the requirements of Annex A. He wished to enquire what would happen during the period of the Arrangement if some participating countries renounced Article XII. Would not such countries be subject to Annex A if they still maintained quantitative restrictions?

26. The Chairman said that, if a contracting party was maintaining import restrictions under Article XII of the GATT and then ceased to be entitled to resort to that Article during the currency of the Long-Term Arrangement it should, in fact, eliminate the import restrictions concerned. Any maintenance of residual restrictions would be subject to the rules and procedures of the GATT. One must assume that the minimum requirement, insofar as cotton textiles were concerned, would be the application by such countries of Article 2 of the Long-Term Arrangement provided that the countries concerned wished to remain parties to the Arrangement.

27. The discussion was concluded with the understanding that certain members of the Committee would be communicating percentage figures to be included in Annex A in the near future and that the situation would be reviewed again at the next meeting of the Committee which was subsequently fixed for 26 September.

IV. Terms of accession for non-contracting parties

28. The Governments of the United Arab Republic, Colombia and the Republic of China had submitted enquiries regarding the terms of accession to the Long-Term Arrangement under paragraph 2 of Article 11 of the Arrangement.

29. The representatives of the three countries informed the Committee that their Governments were prepared to accept the obligations of the Long-Term Arrangement. The representative of the United Arab Republic said that his Government had applied to join the GATT and had formally declared its acceptance of all the obligations of the General Agreement.

30. The United States representative said that in his view it had not been the intention of the drafters of the Arrangement that paragraph 2 of Article 11 would be used in such a way that there would have to be negotiations with each individual country which applied for accession to the Arrangement.

31. The Committee noted that, in accordance with the provisions of paragraph 2 of Article 11, accession of a government which is not a party to the GATT and has not acceded provisionally to it, is to be on terms to be agreed between that government and the participating countries. Therefore, technically, there is a difficulty of procedure, since the countries which will participate in the Long-Term Arrangement will not be known until 1 October, when the Arrangement enters into force. Further, the Committee noted that a condition for accession to the Arrangement, which is spelled out in paragraph 2 of Article 11, requires the acceding government to undertake "not to introduce new import restrictions or intensify existing import restrictions on cotton textiles insofar as such action would, if that government had been a party to the GATT, be inconsistent with its obligations thereunder".

32. The Committee noted that the United Arab Republic had applied to accede to the General Agreement, that it had declared itself ready to accept all the obligations of the GATT and also to accept the aforementioned condition for accession to the Long-Term Arrangement. In view of these circumstances, most members of the Committee indicated that they favoured the accession of the United Arab Republic and that if, upon the entry into force of the Long-Term Arrangement, the Executive Secretary were to receive a letter of acceptance from the United Arab Republic, accompanied by the undertaking quoted above, this should, in their opinion, be regarded as an effective instrument of accession. The representative of the European Economic Community, however, explained that the Community had not had sufficient time to reach a definitive conclusion on this application and would communicate its final decision to the Executive Secretary at an early date.

33. The Committee agreed that the enquiries from the Governments of Colombia and the Republic of China would be referred to their Governments for urgent study and undertook to examine these applications at its first meeting after the Arrangement had entered into force.

V. Imposition of restraints on imports under Article 3

34. The representative of Portugal asked that the Committee place on record its understanding in connexion with measures of import restrictions imposed in accordance with Article 3, that the period of restraint would start from the date on which the request for consultation was received by the exporting country and not, as was the case under the Short-Term Arrangement, from an earlier fixed date, and that the restraint would relate to any goods exported after that date.

35. The Chairman said that it had to be accepted that the whole text of the Arrangement meant exactly what it said but, as the representative of Portugal had made this specific request, it would be recorded in the record of the meeting that there was unanimous agreement in the Committee that the point raised was unequivocally settled by the provisions of paragraph 3 of Article 3.

36. The representative of the United States said that, as far as the United States was concerned, a major administrative problem arose from this particular wording in the Arrangement. If a request for restraint made by the United States Government were received, for example, on the thirteenth day of the month with regard to one product, on the fourteenth day of the month with regard to another product or with another country, etc., there could conceivably be a whole series of twelve-month periods of restraint which would create all sorts of administrative complications. One of these complications would be in statistical reporting of imports and exports. Normally this was done on a calendar month basis, and it would require the exporting country and the importing country to revise their statistical reports so that when a restraint went into effect in the middle of the month, their statistical reports would be adjusted to that date. He suggested that if a request for restraint was received before the fifteenth day of the month the restraint might date back to the first day of the month and if it were received in the latter half of the month it might date from the last day of the month. Unless there were serious objections, it would be the intention of his Government to act accordingly.

37. The representative of the United Kingdom said that his delegation could not say whether the United States proposal was acceptable as it stood. Some time was necessary to consider what the implications might be.

38. The Chairman said that if, in applying the provision as it stood, difficulties should arise in particular cases, the parties concerned would presumably settle the matter among themselves. If it should be found, in practice, that some change in the Arrangement would be sensible and appropriate,

solutions could then be considered. It was difficult, perhaps dangerous, to begin drafting interpretations to the Arrangement in advance of actual experience in dealing with particular cases.

VI. Experience under the Short-Term Arrangement

39. A note by the Hong Kong Government, submitted to the Committee by the Government of the United Kingdom, was distributed in Spec(62)232. The representative of the United Kingdom, in presenting this note, said that no definite decisions or resolutions were sought at the present meeting of the Committee. The paper was largely of an informative character and was offered to representatives of participating governments in the hope that it might be of use in considering specific points which might come before the Committee from time to time. There were, however, two specific points raised firstly, that dealing with the venue of consultations which may be undertaken within the provisions of the Arrangement, and secondly that relating to the possibility of quotas being fixed under the Arrangement at a level which was virtually negligible or even nil. While it was appreciated that the working of the Arrangement must inevitably result in certain cases in restriction of trade, which, if left to itself would naturally expand, some concern was felt regarding the possibility that these provisions might be so operated as to prevent a certain line of trade from coming into being at all.

40. In his remarks on the Hong Kong note the representative of the United States said that the problem of spacing trade was a most important one under the Cotton Textiles Arrangements and he stressed the need for exporting countries to ensure that exports did not become concentrated at any particular point of time during the course of the Arrangement. His Government hoped that its experience in this regard under the Short-Term Arrangement would not be repeated under the Long-Term Arrangement. Nevertheless, it was understood that many exporting countries were in a position to maximize their exports of cotton textiles to the United States market beginning 1 October and this possibility was causing his Government considerable concern. The explanation given for the concentration of exports at the beginning of the Short-Term Arrangement was that the so-called equalization fee case which was then pending before the United States Tariff Commission had created an incentive for exporters to concentrate their exports. The equalization fee case had now been decided in such a way that this incentive no longer existed.

41. The representative of the United Kingdom said that the spacing of trade was a matter not contemplated in the Arrangement itself. However, the Government of Hong Kong had already begun informal discussions with the United States authorities on the subject, and his delegation would do its best to meet the point made by the United States representative.

42. The Committee took note of the paper from the Hong Kong Government. It was agreed that the two specific proposals contained in the paper would be discussed at an early meeting of the Committee, namely:

(i) the level of restraint when exports in the base period are nil or negligible,

(ii) the venue of consultations held under the provisions of Article 3.

VII. Notifications of action taken by participating governments

43. It was agreed that notifications of action taken by participants in the Long-Term Arrangement pursuant to Article 3 of the Arrangement, should be circulated to all contracting parties to GATT as well as to countries participating in the Arrangement.

VIII. Statistical data

44. It was agreed that members of the Committee would draw the attention of their governments to the fact that participating countries would be expected, in order to ensure the effective operation of the Arrangement, to communicate to the secretariat statistics of imports and exports and other information, as envisaged in the report of the Statistical Sub-Committee (L/1717, Section II, pp. 4-5) and in accordance with Article 5 of the Arrangement.

IX. Publication of the Long-Term Arrangement

45. The Executive Secretary was requested to make available a printed text of the Arrangement after its entry into force. It was agreed that the text should be accompanied by the Record of Understandings reached by the Committee at its meeting in February (L/1813).

X. The next meeting of the Committee

46. It was agreed that the next meeting of the Committee would begin on the afternoon of 26 September.