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COTTON TEXTILES COMMITTEE

Draft Report on the Meeting of the Committee Held
at the Palais des Nations from 26-29 September 1966

Chairman: Mr. E. Wyndham White

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I. Acceptance by Greece

The Chairman welcomed the representative of Greece which had become a member of the Cotton Textiles Committee by virtue of its acceptance of the Long-Term Arrangement.¹

II. The fourth annual review of the operation of the Long-Term Arrangement

The Committee had before it document COT/W/73 and Add.1² which summarized notifications of actions so far received by the secretariat under the various Articles of the Arrangement. Also before the Committee was document COT/W/74 and Add.1 describing developments in production of, and trade in, cotton textiles during 1965, and following up the analysis contained in Chapter II of A Study on Cotton Textiles prepared for the major review last year.

¹ See document COT/60/Add.1.

² This document will be attached as an annex to the final version of this report.

The representative of Japan in his statement, which is reproduced in document COT/W/77, said that the efforts made towards import liberalization, particularly by some member States of the European Economic Community, had so far not brought about satisfactory results as these only related to a very limited range of products of little export interest to Japan; further, equal treatment between exporting countries had not been secured. He therefore requested these countries: to indicate the time schedule for import liberalization; to transfer the quota administration from governments of importing countries to the governments of exporting countries in order to enable exporters fully to utilize import quotas; to increase substantially the amount of quotas; to permit shifts among categories as well as the "carry-over" and the "carry-in"; and to eliminate the ambiguity as to how the Community's commitment with respect to the increase of quotas was to be implemented by individual member States.

Japan hoped that the United States, through the process of industrial adjustment, would find it possible to open fully its market in the near future. Japan also reiterated its request for the early removal of the new system governing imports of cotton textiles into the United Kingdom; with respect to countries not subject to the global quota, including Japan, the products under voluntary restraint should be liberalized and shifting between categories and "carry-over" and the "carry-in" granted. Commenting on other importing countries, notably some of the European Free Trade Association countries, the representative of Japan pointed out that what he had said regarding some of the member States of the Community practically applied to these countries as well. As regards Canada, it was to be hoped that early liberalization and the establishment of an annual quota increase could be assured.

In connexion with the Nordwijk Agreement, the Japanese delegation were not fully convinced that the governments whose industries were said to be party to this Agreement, were not directly involved in its implementation. He reiterated the apprehension previously expressed by Japan as to the adverse effect on trade of the Agreement and requested the governments concerned to re-examine the situation so as to bring about the removal of the Agreement as soon as possible.

In conclusion the representative of Japan said that the administration of the Long-Term Arrangement by the importing countries had not been satisfactory to his country and he urged for improvements along the lines he had indicated.

The representative of the United Arab Republic in his statement, which is reproduced in full in document COT/W/85, said that exports from his country to participating countries had fallen during the fourth year of the Arrangement due to the very detailed division of categories, the lack of swing among them, and the way in which import licences were administered. He pointed out that restrictions still existed in most importing countries and that, in certain cases, the quotas calculated on the basis of the reference year 1962 were insufficient.

Referring to the United Kingdom system, he said that although the United Kingdom had partly satisfied the request made by the United Arab Republic the system was still inconsistent with the Long-Term Arrangement. He expressed the hope that the overall quota would be increased and that this special system would be removed as soon as possible.

The representative of the United States in his statement, which is reproduced in full in document COT/W/79, said that the fourth year of the Long-Term Arrangement had permitted exports to the United States to expand substantially, particularly from developing countries; these countries had been able to predict with reasonable certainty the levels to be exported while the United States industry had also been able to plan its future with confidence.

Since the coming into force of the Short-Term Arrangement United States imports of cotton textiles had more than doubled. As regards trends in trade during the fourth Arrangement year imports of cotton textiles were estimated to have increased by 36 per cent as against 19 per cent in the third year. Cotton fabrics increased by about 13 per cent, made-ups, primarily household goods, by about 29 per cent, apparel by about 15 per cent, while yarn recorded a five-fold increase. The tendency to upgrade the value of exports to the United States market had continued, in particular for apparel items which were highly sensitive in the domestic market. The bulk of imports came from exporting participating countries. Developing countries supplied two thirds of total imports, thus registering a 60 per cent increase over the third Arrangement year; imports from developing countries in the fourth year were larger than total United States imports from all sources in any year prior to 1965. The developed countries supplied about 9 per cent and Japan about 25 per cent of total imports. A number of new suppliers, for the most part non-participants, began to export to the United States.

The ratio of imports to consumption had continued to rise and reached a level of about 9 per cent, as against 7.4 per cent in the third year and 5.2 per cent in the base year for the Short-Term Arrangement, despite the fact that consumption of cotton textiles in the United States over the same period had risen only slightly. Furthermore, the five leading cotton textile categories accounted for 40 per cent of total imports. It was, therefore, to be hoped that exporting countries, when planning their future exports, would bear in mind that a continuation of the present rate of growth in imports, and an undue concentration of exports, could create pressures on the United States market affecting both imported and domestically manufactured cotton goods.

Referring to developments in the domestic industry during the fourth year of the Arrangement, the representative of the United States explained that, despite the high level of activity due to a combination of civilian demand and military requirements and the continuation of modernization, their industry continued to face serious problems, such as: cyclical fluctuations - which seemed to have passed the peak; relatively low profit and wage rates; unemployment in certain sectors, particularly the apparel sector; and a continuing decline in the share of cotton in total fibre consumption. Labour and industry were concerned about the recent rate of increase in textile imports and the effect that the rapid rise in imports of man-made fibres was having on the cotton industry. The United States Government had to take this concern into account when shaping its policies, and specifically in its administration of the Long-Term Arrangement.

Commenting on the implementation of the Long-Term Arrangement during its fourth year, the representative of the United States said that his Government had resorted to Article 3 with respect to four countries, only one of which was a participant, in order to prevent disruption and preserve a proper measure of equity for other suppliers whose exports were under Article 4 bilateral agreements. Several new bilateral agreements had been negotiated and existing ones amended or liberalized. The United States had provided a substantial degree of liberalization for most suppliers; some of these measures of liberalization were already in effect, and others were due to come into effect when agreement was reached on the extension of the Long-Term Arrangement. It was on this basis that the United States Government had reached understandings with many suppliers, as it was its view that the Long-Term Arrangement should be extended in its present form, thereby providing a basis on which trade in cotton textiles could continue to grow in an orderly manner.

In conclusion, the representative of the United States said that this most creditable record by the United States during the fourth Arrangement year had been possible largely because of the Long-Term Arrangement and was fully consistent with the goals set out in the preamble to the Arrangement.

The representative of Canada said that his country had resorted to the provisions of Article 3 in a fairly limited number of cases. Increases in restraint levels had been agreed to each year, although the provisions set out in the Protocol exempted Canada from the obligation to increase automatically access to the Canadian market for items under restraint. Despite the growth in exports of cotton products to certain markets from a number of the developing countries, the Arrangement was not successful in reducing the disruptive pressure on the few but important markets that were relatively open. The situation in the markets which were restrictive remained the same although the objective of

the Arrangement was to bring about an easing of the burden of adjustment by sharing it amongst the industrialized countries. He urged that importing countries should seek to dismantle import quotas and replace them by negotiated export restraints. There were of course problems of diversions to third countries but when these became serious his country dealt with the exporting country concerned on a practical basis.

Referring to paragraph 3 of Article 3, with respect to the sixty days period, the representative of Canada said that this was not a practical sanction in the Arrangement; some governments negotiated in a very expeditious manner while others made it a practice to prolong negotiations often for periods of time in excess of one year and not to give any consideration to the quantitative provisions set out in Annex B. It was not advisable for the exporting countries to oblige importing countries to make concerted use of Article 3 to impose import restrictions. He also referred to the provision on substitution of directly competitive textiles and said that the problem really concerned the definition of what was cotton. The definition in the Arrangement covered a lot of products which were not really cotton while it did not cover other items which were now part of the cotton market. It was a difficult technical problem which gave rise to certain difficulties in bilateral negotiations.

The spokesman for the European Economic Community in his statement, which is reproduced in full in document COT/W/78, reviewing trends in the Community's trade, consumption and production, said that between 1962 and 1964 there had been a moderate increase in internal consumption, a massive increase in imports and a decrease in both exports and production. Since the second half of 1964, the situation had greatly deteriorated owing to the abrupt decline in demand in several member States. This recession was further accentuated in 1965, despite some recovery in the second half of the year, and greatly affected trends during the fourth year of the Arrangement. In 1965 consumption showed a decrease of over 8 per cent as compared with 1964, while imports, though they remained at the same level as the previous year, represented an increased share in the consumption of the Community of 1 per cent over 1964. A decrease in deliveries of yarn and grey and finished fabrics was offset by an increase in deliveries of made-up articles and apparel. Imports from Group II countries fell in volume by about 4 per cent, but in value terms they increased by 16 per cent. Japan increased its sales by 7 per cent and Hong Kong by 22 per cent. Group I countries showed a reduction in overall exports to the Community of about 6 per cent, while the State-trading countries recorded an increase of 2 per cent. The contraction which had developed in the Community's exports since 1962, due to increased competition from Japan and the developing countries, continued in 1965 thereby bringing about a further deterioration in the balance of trade in cotton textiles. Similarly the gradual decline in production, which began in 1962 was strongly accentuated in 1965. As compared with 1964, output in the Community as a whole showed a decrease of 9 per cent in

the spinning sector and 11 per cent in the weaving sector. The difficulties encountered by the industry in 1965 led to an increase in the rate of decline of manpower and machinery.

Reviewing trends in 1966, the spokesman for the Community said that the provisional figures for the first half of the year suggested an increase in the overall output of the Community of an estimated 8 per cent for the spinning sector and 12 per cent for the weaving sector. However, the industry had not regained a satisfactory rate of activity and production was still below the 1964 level. On the other hand, imports registered a further expansion.

Referring to the implementation of the Arrangement by the Community he said that despite the difficulties which prevailed in 1965, increases in quotas, with respect to the four countries originally concerned, had been granted at a rate corresponding to the initial undertakings given by the Community. In addition, France and the Federal Republic of Germany had opened quotas for three other exporting countries. Two tariff items had been liberalized by France during the fourth Arrangement year. As regards recourse to Article 3, only one new restraint had been introduced - by the Benelux countries; the Federal Republic of Germany had renewed an existing restraint while Italy had removed the restrictions previously imposed on grey and bleached fabrics.

In conclusion, the spokesman for the Community said that, in spite of the great difficulties encountered by the EEC industry, and the fall in consumption, the Community had applied the Arrangement in a liberal manner.

The representative of Austria stated that as a result of the expanded access to the Austrian market, imports of cotton yarn from the participating developing countries and Japan increased between 1960 and 1965 from 3 per cent of total imports to 18 per cent, and those of cotton fabrics from 20 per cent to 26 per cent. On the other hand the unfavourable developments in the domestic cotton industry and foreign trade in cotton textiles continued during the fourth year of the Arrangement. Compared to the twelve-month period preceding the coming into force of the Short-Term Arrangement the ratio of imports to consumption rose from 12 per cent to 25 per cent as regards cotton yarn, while imports of cotton fabrics represented 30 per cent of domestic consumption. During the same period significant structural adjustments took place in the Austrian cotton industry; the number of spindles declined by 12 per cent, looms by 31 per cent, and employees by 17 per cent. Consumption of raw cotton continued to decline. There was also a sharp decline in the production of yarn and fabrics of man-made fibres; this decline was all the more significant as the Austrian cotton industry processed staple fibre to a very large extent. This contraction in the Austrian cotton industry had been aggravated by the fact that per capita consumption of cotton textiles was relatively low in Austria as compared with other industrialized countries, and no increase in demand could be

anticipated as the rate of population growth had remained rather stagnant over the last decade. Consequently, additional imports of cotton textiles would probably result in a further curtailment of production, the market having reached saturation point. Nevertheless, expanded access to the Austrian market for cotton textiles from developing countries and Japan would continue during the fifth year of the Arrangement.

The Chairman, referring to document COT/W/74, pointed out the contrast between expanding consumption in North America, which was attributed to a high rate of activity in an expanding economy, and the decline in consumption in the countries of Western Europe. He therefore asked whether the Community had any explanation as to why the trends in consumption seemed to be different despite a high rate of economic activity in Western Europe as well.

In response the spokesman for the European Economic Community said that he had no precise theory on this point but believed that it was due to cyclical fluctuations.

The representative of India in his statement, which is reproduced in full in document COT/W/81, said that Article 2 of the Long-Term Arrangement had remained a dead letter. Four years had elapsed since the coming into force of the Arrangement and the Community was not yet in a position to furnish information regarding changes in quotas envisaged for the fifth year. The quota levels in some of the member States of the Community for the years 1965 and 1966 did not reflect their acceptance of progressive liberalization of trading opportunities for the less-developed countries. These restrictions should be eliminated during the fifth year of the Arrangement which would mean a time-table for such action. The procedures for permitting imports into some of the EEC countries continued to remain illiberal: and the action taken by the Community to establish the origin of the finished cloth when exported to other member States and associated territories was a retrograde step. He added that the Nordwijk Agreement would appear to be gaining legal validity.

The United Kingdom, which had not previously invoked any of the provisions of the Long-Term Arrangement, had in the fourth Arrangement year covered their entire imports by a whole series of restrictions. Indian exports had been restrained and categorized without allowance for a reasonable growth or recognition of carry-over.

The representative of India, referring to the point made by the representative of the United States that the developing countries had expanded their exports of cotton textiles into that country during the fourth year of the Arrangement, said that it was important to understand the several reasons for this increased intake. The increase in the ratio of imports to domestic consumption had to be judged against the background of the domestic industry's

prosperity, strained capacity, low inventories, high defence demands and well-assured long-range prospects. These factors were relevant with a view to projecting conclusions for the future. The growth had been non-disruptive having remained in the Long-Term Arrangement era considerably lower than during the years 1953-60. He said that the increase in imports had been more or less confined to one importing country; restrictive practices had continued to be in operation during the fourth year, while one developed country had imposed new restrictions.

The representative of Pakistan in his statement, which is reproduced in full in document COT/W/82, recalled his delegation's statement at the major review and said that trade policies of the major developed countries with regard to cotton textiles had restricted trade opportunities for the less-developed countries and were likely to have serious repercussions on their long-term prospects. The Arrangement had weakened the hands of the governments of the importing countries in relation to domestic pressures and Article 3 opened the door for arbitrary decisions by these countries while the exporting countries had no safeguards to fall back upon. The industry in the developed countries being modernized was no longer in need, if it ever had been, of protective measures. The Cotton Textiles Committee had acted only as a forum for debate and had not succeeded in preventing the importing countries from doing what they had decided to do in advance of the Committee's meetings. The Arrangement had been operated as if paragraph 1 of Article 2 hardly existed.

Referring to documents COT/W/73 and COT/W/74, the representative of Pakistan said that restrictions had spread during the year under review and the absolute level of quotas imposed by France and the Federal Republic of Germany on Pakistan's exports continued to be so low that it was hardly worthwhile for exporters to make a serious effort to penetrate these markets, particularly when the very restrictive accompanying licensing procedures were also taken into account. The statistics showed no improvement in the ratio of imports of cotton fabrics from Group II countries and Japan to total consumption in the EEC as a whole. During the fourth year the United Kingdom, which imported a substantial part of its requirements of cotton goods from developing countries, had turned towards restrictions. From the legal point of view the United Kingdom had set a very dangerous precedent and he expressed the hope that it would examine this problem again and give Pakistan its legitimate share in the United Kingdom market. The only relief for Pakistan during the fourth year resulted from its bilateral discussions with the United States.

The representative of Pakistan looked forward to the disappearance of restrictions which had seriously reduced the opportunities available to Pakistan to earn the foreign exchange desperately needed for its economic development.

The representative of the United Kingdom for Hong Kong said that he believed that if there must be a special arrangement for controlling international trade in cotton textiles it should work to the interest of both exporting and importing countries. Importing countries should not implement the Long-Term Arrangement in a rigid manner and impose restrictions in the absence of an agreement simply because of their unilateral right under Article 3. Hong Kong, as a major exporter uniquely dependent upon overseas markets, attached great importance to the concept of export restraint embodied in Article 3. If free trade in cotton textiles was not possible at this stage and if some exporting countries were obliged to forego their GATT most-favoured-nation rights of entry, then the avoidance of import restrictions was of paramount importance. Otherwise, restricted entry was coupled with a loss of commercial bargaining power and the subsequent scramble by exporters for a share of the limited access permitted would deny them a reasonable business return. It would also superimpose upon the situation of quantitative market disruption a situation of price disruption. It was, therefore, in the interest of both importing and exporting countries to operate Article 3 and 4 restrictions on an export-control basis. The importing country, of course, must be satisfied that the exporting country had the administrative ability to operate an effective control system. Many requests for restraint received by Hong Kong had been, in its view, poorly supported by the kind of evidence envisaged in paragraph 1 of Article 3, this failure extended also to countries with a highly sophisticated statistical service.

The representative of Hong Kong emphasized that the importing country had no right under the terms of the Long-Term Arrangement to impose import restrictions if the exporting country had conceded restraint at the minimum level defined by the roll-back formula. Referring to document COT/W/73, where the new restraint imposed by the Benelux countries on imports of shirts from Hong Kong was recorded, he stated that agreement had been reached on the following points: first, the categories to be restrained, secondly, the roll-back period, even on the basis of import statistics rather than export statistics and thirdly, the duration of restraint. In Hong Kong's view the restraint level itself and the form of control must follow automatically. However, the Benelux countries had been unable to agree to this for reasons quite outside the ambit of the Long-Term Arrangement and had felt obliged recently to impose import restrictions. Thus, for the first time Hong Kong faced the prospect of shipments, licensed for export, being disallowed on arrival at the port of entry although restraint within the level indicated by the roll-back formula had been exercised for

many months. He stated that it was his understanding that, as long as consultations were in progress, the imposition of import restrictions would be operated on an informal basis. Both parties concerned were still in consultation and he expressed the hope that a solution would be found although at the moment Hong Kong did have this problem of establishing its export control rights under Article 3. Without prejudice to further consultations, Hong Kong felt that the imposition of import restrictions, despite its willingness to concede restraint on the minimum basis provided for in Article 3, was an unfortunate development.

The representative of the Netherlands, in reference to the point made by the representative of Hong Kong regarding the restraint imposed by the Benelux countries, said that bilateral talks had started formally in the spring of 1965. There had, however, been a certain lack of easy communication since most of the consultation had taken place in writing but the presence of the representative of Hong Kong in Geneva offered a good opportunity to pursue the discussions. While he could not promise that a solution to the problem would be found, he could confirm that consultations were continuing.

The representative of Norway said that the liberal import policy pursued by his country with regard to cotton textiles had led to a situation where imports covered between 65 and 70 per cent of total consumption; domestic industry provided the rest. Thus, Norway had more than fulfilled, not only its obligation under the Long-Term Arrangement, but also the expectations on which the Arrangement was based. He further pointed out that exports of cotton textiles from less-developed countries were still mainly concentrated on the same markets as before the Arrangement. Import restrictions in the most important markets tended to cause additional pressure on the small and open markets and this was a problem which had caused great concern to his Government. With about two thirds of domestic requirements covered by imports, Norway might have reached the point where even small increases in imports would cause great difficulties for its domestic industry.

The representative of Sweden, reviewing the development of cotton textile imports into his country, pointed to the substantial increase that took place in the fourth Arrangement year. During the period 1961-65 the share of Group II countries in the Swedish market had increased by more than 90 per cent; the share of net imports in relation to estimated consumption was now 52 per cent. About 30 per cent of total imports came from Group II countries and Japan. On the other hand, domestic production of cotton textiles during the fourth

Arrangement year had continued to fall. For several years mergers had taken place in the industry thus resulting in a substantial reduction in machinery and adjustments to prevailing market conditions. Sweden had pursued a liberal import policy, although it had requested consultation with one country under Article 3. The Long-Term Arrangement seemed to have helped Sweden keep a virtually open market. Without the Arrangement many countries might have strengthened their protective devices with the result that his country would have been forced to follow suit.

The representative of Sweden referring to the point made at the major review that restrictions in one market normally led to a diversion of trade flows to other more open markets, and that those countries with relatively open markets, would face difficulties in maintaining their liberal import policy when restrictions continued to be widespread, said that this consideration was of paramount concern to Sweden.

The Chairman, referring to the point made by the representatives of Norway and Sweden that their countries had a high percentage of imports from Group II countries, asked these representatives if they could inform the Committee whether this situation did or did not generate any undue pressure on the price level. He stated that the main argument used to sustain the case of market disruption generally was the depressive effect it had on prices. In the case of Norway and Sweden there was a situation where imports from allegedly low-priced countries represented a relatively high proportion of total imports. This, in fact, was an interesting phenomenon which should provide more knowledge about the rather vague concept of market disruption. It was to be noted that one of the benefits of international trade was that efficient producers did exercise pressure on domestic prices.

In response, the representative of Norway said that, in view of the fact that Group II countries were considered as low-price producers, it could be deduced that imports from these countries might create pressure on the price level.

The representative of Sweden said that although he did not have precise figures or exact knowledge of such pressure on the price level, he could state that the Swedish industry felt, of course, a certain pressure caused by increased imports from Group II countries.

The representative of Canada, commenting on the question of prices, said that it should not always be assumed that the problem was just a difference in efficiency. Some of the greatest difficulties arose from exports that were

subsidized in the most intricate fashion and the understandable reluctance of governments in some industrialized countries to use anti-dumping duties and countervailing duties as they might well do under the terms of the General Agreement. One of the principal difficulties facing Canada in this connexion was that his Government was trying in a rational manner to take account of the difficulties facing often outmoded and inefficient industries in certain of the so-called low-cost countries.

III. Discussion in accordance with Article 8(d) on the future fate of the Long-Term Arrangement

The Chairman said that there was a close connexion between paragraphs (c) and (d) of Article 8. Thus, the debate on the future of the Long-Term Arrangement had to take place on the basis of the major review. A Study on Cotton Textiles prepared by the secretariat in connexion with the major review would also provide a factual background for this discussion.

As for the procedure to be followed, he believed that such an important decision was obviously one that could not be arrived at precipitately. Equally, it was difficult to form a judgment as to the wisdom, or otherwise, of an extension of the Arrangement solely on the basis of its past operation. It was, therefore, necessary to have some estimates as to the probable policies and intentions of governments regarding their actions under the Arrangement in the future. This was what had led him to suggest that it might be desirable to arrive at an overall compromise on the whole problem of trade in cotton textiles, including consideration of tariff reductions and also the prospects for arriving at some understanding on the more liberal administration of the Arrangement, in the context of the Kennedy Round negotiations. However, this created quite understandable problems for the exporting countries because it strongly implied a commitment in principle that they would be prepared to envisage the extension of the Arrangement. Also, the conditions under which the Arrangement might hypothetically be extended had to be presupposed if that was to provide the basis for a trade negotiation of the comprehensive kind that he had suggested. In those circumstances the overall package-deal as such was not one that generally commended itself. The Committee was therefore faced with the problem of considering the future fate of the Arrangement exclusively within the framework of paragraph (d) of Article 8, and also with the dilemma that it was difficult to form a judgment unless one could envisage under what condition the Arrangement could be expected to operate if it were to be extended.

The Chairman therefore suggested, for consideration by the Committee, that at the present meeting the Committee should not attempt to arrive at a definite conclusion but would proceed to a preliminary exchange of views on the question in general terms, and subsequently adjourn the discussion to allow for bilateral consultations between governments with a view to ascertaining what the conditions for continued application of the Arrangement would be. The Committee would resume the discussion toward the end of November in order to arrive at a firm decision before the end of the year.

The representative of the United Arab Republic supported the procedures suggested by the Chairman and said in his statement, which is reproduced in full in document COT/W/83/Add.1, that the hopes of the less-developed countries for a substantial increase in their exports of cotton textiles, and consequently in their foreign exchange earnings, had not been realized because of the restrictions maintained and introduced against them by a certain number of industrialized countries making a concerted use of the safeguard provisions. Exports from less-developed countries did not constitute any threat to the industry of developed countries, which having been modernized no longer needed any special protective measures. Reviewing trends in the cotton textile industry in the United Arab Republic, he said that in the first nine months of the fourth Arrangement year, the downward trend which had developed over the last two years in exports to participating countries had continued.

Commenting on the future fate of the Arrangement the representative of the United Arab Republic referred to Article 1 and said that a period of five years had been considered appropriate for the adjustments referred to in this Article. Therefore, an extension of the Arrangement for a further period would be in the interests of the less-developed countries only if they could have a formal guarantee that the objectives set forth in the preamble would be observed and that it would be administered much more liberally. In this connexion, he proposed: that the objectives of the Long-Term Arrangement, taking due account of the rights and obligations of the CONTRACTING PARTIES under Chapter IV of the GATT, should be re-affirmed; that the provisional character of the Arrangement and the intention not to extend its application to other sectors should be recalled; that the restrictions inconsistent with the General Agreement should be eliminated rapidly and that new restrictions other than those authorized under Article 3 should not be introduced, that recourse to Article 3 should be limited to fully justified cases, taking into consideration the ratio of imports to consumption, production in the exporting country and its capacity to export and the importance of these exports to the country's economic

development, that the annual percentage increase should be raised to 10 per cent; that the degree of flexibility among categories with respect to Article 3 restraints should be raised to 10 per cent and in the case of bilaterals to 30 per cent and that a "committee of good offices" should be established under the aegis of the Director-General to find a mutually acceptable solution in the event of any disagreement, in line with the procedure adopted in connexion with Article XXIII of the GATT.

In conclusion, the representative of the United Arab Republic re-affirmed his Government's resolve to pursue efforts within the framework of real international co-operation intended to safeguard the interests of all participating countries, having due regard to the legitimate aspirations of the developing countries.

The representative of Japan gave his delegation's full support to the procedures suggested by the Chairman. He expressed the hope that by the end of November his delegation would be able to make sufficient progress in the negotiations with importing countries to be able to form a judgment on the question of an extension of the Long-Term Arrangement.

The representative of Pakistan asked whether the bilateral consultations referred to by the Chairman were to be conducted with the EEC as a whole or with the individual member States of the Community. He added that it was important to establish a time-table and that the Chairman should use his good offices to arrange these consultations with a view to reaching a satisfactory solution to the problem towards the end of November.

At a later stage, the representative of Pakistan expressed the hope that the Community would have no difficulty in co-operating with the GATT secretariat in establishing such a time-table, so that the exporting countries concerned could pursue this matter at Geneva and bring it to a satisfactory conclusion.

The Chairman, in response to the question raised as to the organizing of bilateral discussions with the Community, said that he was not entirely clear how the administration of the Arrangement adapted itself to the internal constitutional arrangements of the EEC. He asked the spokesman for the Community if he could provide some guide for the exporting countries on the way in which the consultations would be conducted with the Community.

Later in the discussion, the spokesman for the European Economic Community in his statement, which is reproduced in full in document COT/W/78/Add.1, said that contact should be made either directly, or through the secretariat of the Council of the Community, with the representative of the Netherlands which was the member State holding the office of the President of the Council of the Community at the present time. The Community would take part in the discussions under the same conditions as in the Committee itself.

The representative of the United Kingdom for Hong Kong in his statement which is reproduced in COT/W/84, recalled that his country had contributed both to the major review, and to the informal discussions initiated by the Chairman for an overall settlement of the problem of international trade in cotton textiles. Agreement could not be reached, largely because certain importing countries did not agree to each of the three elements of the package deal being equally negotiable. Hong Kong had joined certain other countries in responding to the proposed package deal combining tariff cuts and the future of the Long-Term Arrangement, but the response generally was such that grave doubts were cast on the feasibility of an agreed basis being found for a multilateral negotiation. It was his understanding that negotiations on cotton textile trade in the context of the Kennedy Round would not be resumed until after the future of the Arrangement was settled.

The representative of the United Kingdom for Hong Kong said that his country was prepared to support an extension of the Arrangement in its present form for three years only, provided that it would be applied and administered in a reasonably liberal manner. Specific and concrete assurances should be given that existing restrictions would be progressively relaxed to the maximum extent and new restrictions sought only if they were unavoidable; Hong Kong did not necessarily seek multilateral negotiations as a means of establishing these specific assurances. It was his Government's view that prior to bilateral contacts there should be at least a multilateral exchange of ideas as to the manner in which the Arrangement should be applied and administered. This would provide useful guidelines for the bilateral negotiations, lay down common standards of behaviour relating to greater flexibility and expanded access which importing countries might be expected to follow, and also provide some safeguard against newly-participating countries applying and administering the Arrangement in a less liberal manner. Hong Kong's ideas on these common standards of behaviour, which had already been made known, related to swing, growth, carry-over, categorization, export controls and Article 2 restrictions. Hong Kong was satisfied with the United States ideas, expressed in preliminary discussions, for a more liberal administration of the Arrangement. However, before taking a final decision on the future of the Arrangement, Hong Kong must also have a clear idea as to the intentions of the other importing countries.

The representative of the United Kingdom for Hong Kong emphasized that these bilateral negotiations must be arranged expeditiously and that the GATT secretariat, as a central clearing house, could perhaps assist in this respect. The importing countries should not assume that the mere efflux of time would in itself result in a renewal of the Arrangement. The retention by the importing countries of their unilateral rights was presumably explained by their wish not to return to an untidy bilateral world in which they would, in any case, be in breach of their obligations under the General Agreement and which would probably serve the cause of expanding trade in cotton textiles less well in present circumstances than a continuation of the Arrangement. It was true that, in return for these unilateral rights, access had been multilateralized under the Arrangement, but if a decision not to extend it deprived the exporting countries of such multilateralized access, there would be consequences too for importing countries. There would almost certainly be a collapse of the price structure as a result of the speculative pressure which would build up as the trading system adjusted itself. Finally, he stressed that the future fate of the Long-Term Arrangement should be examined during the coming three months so that participating countries could come to a decision before the expiration of the present term.

The representative of Mexico said in his statement, which is reproduced in full in document COT/W/85, that experience in the last four years had shown that the provisions of the Arrangement regarding the progressive relaxation of restrictions and the standstill rule had been put aside to give way to protectionist measures. Restrictions which might be justifiable under the Arrangement should be administered in full compliance with its relevant provisions. Due regard had also to be given to the adjustments referred to in Article 1 which the changing patterns of world trade made necessary. Thus, higher efficiency in the industrialized countries rendered additional protection measures contrary to the admitted principles governing trade and development.

In the event that the Long-Term Arrangement were extended, it was imperative to have a clear enunciation of such questions as market disruption and standstill regarding restrictions. The importing countries should adhere to the objectives set out in Articles 1 and 2 of the Arrangement and these objectives should be strengthened in the light of the Final Act of UNCTAD and of Chapter IV of the GATT. The Cotton Textiles Committee should have a more effective rôle by affording clear guidance through its decisions for constructive action. There should also be programmes for complete elimination of restrictions and equitable administration of those imposed temporarily - having due regard to the specific needs of less-developed countries vis-à-vis industrialized producers of identical items.

The representative of the United States reiterated that his country considered that the Long-Term Arrangement should be extended in its present form. The United States had not had any difficulty in arranging bilateral discussions with a number of exporting countries and did not expect to have any difficulty in arranging for discussions with those countries wishing to initiate negotiations. He supported the procedures suggested by the Chairman and the point made by the representative of Pakistan that the Chairman use his good offices to arrange discussions for those countries which, partly because of their limited representation in this difficult and somewhat technical field, might have difficulty in establishing contact with a number of countries.

The representative of Canada said that his Government considered that the Long-Term Arrangement should be extended. He supported the view of a number of delegations that the obligations of importing countries under Article 2 should be strictly adhered to.

The spokesman for the European Economic Community, in his statement which is reproduced in full in document COT/W/78/Add.1, commented on the suggestion made by the Chairman and said that, in the opinion of the member States, bilateral discussions would constitute a useful continuation of the work of the present meeting and would make it possible to clarify the requests for amendments or adjustments to the present Arrangement; the initiative for such contacts lay equally with all interested parties. Geneva would be an appropriate venue for such discussions. The member States, while sharing the hope expressed by the Chairman that a definite conclusion would be arrived at before the end of the year, were not in a position before bilateral discussions had even commenced to predict how fast these would advance; they therefore thought it more prudent not to undertake to arrive at a definite decision within a rigid time-limit.

The representative of Norway said his country was ready to accept an extension of the Long-Term Arrangement in its present form. This should not, however, exclude the possibility for some modifications which might be considered at a later date. He expressed the hope that the bilateral negotiations between the countries concerned might bring about acceptable conditions for international trade in cotton textiles, taking into account the inter-relation of import policies in the different importing countries.

The representative of Sweden stated that it was his country's belief that the Long-Term Arrangement had been of value to all parties concerned; certain countries were faced with difficulties concerning their exports but these could be solved. The situation on the international cotton textiles market would necessitate an international agreement after 1967. In this connexion it would

be recalled that the present Arrangement represented a compromise reached only after very difficult negotiations and it would not, therefore, be advisable to start discussing substantial changes in its text. It would be more appropriate to discuss fully improvements as regards the way and conditions in which the Arrangement could be expected to operate in future. He hoped that such improvements would lead to a better balance between importing countries.

The representative of India in his statement, which is reproduced in document COT/W/81/Add.1, said that while his delegation was generally in agreement with the procedures suggested by the Chairman, the establishment of a time-table for the conduct of bilateral negotiations, particularly with the Community, would enable the Committee to arrive at a positive conclusion early in December. He expressed hope that these discussions, which would necessarily have to cover all the aspects of the problem, would be rewarding. Article 1 of the Long-Term Arrangement indicated that the Arrangement was envisaged as a temporary adjustment mechanism to allow developing countries to gradually obtain an increased share of world trade in cotton textiles. The great strides which had been made in the domestic cotton textile industries of the developed countries under the Long-Term Arrangement raised expectations that the Arrangement would be given a "new look".

The representative of India recalled that at the major review he had dealt at length with the difficulties faced by the less-developed countries in expanding their exports under the Long-Term Arrangement. The more important difficulties had been: the non-observance of the obligations specified in terms of the preambular provisions; Article 2 remaining ineffective; unjust and discriminatory use of Article 3; and lack of appreciation of the equity provisions embodied in the Arrangement. The special protection given to the less-developed countries, which possessed the necessary raw materials and technical skill, had not received the degree of recognition as contemplated in the Arrangement. With respect to restraints under Article 3 the importing countries, in ignoring the need to establish a case of serious damage which was actual and not potential or imagined, had failed to make a concrete case for restraint based on objective criteria for market disruption. The exporting countries had no choice but unilaterally to accept the disruption statements of importing countries. His delegation still believed that the Long-Term Arrangement had intended participating countries to apply its provisions leniently, sparingly, and with every regard for the stability and growth of the economies of the restrained countries. Experience had shown that Article 4 was the most important Article in the Arrangement and more use had been made of it than was intended in offering comprehensive bilaterals as a concession for Article 3 restraints. As the threat of unilateral action was the alternative,

the exporting countries had had no choice but to agree to Article 4 agreements. One result of the proliferation of bilateral arrangements might be the imposition of restraints in the future, not perhaps on the basis of disruption, but to ensure equity with other participants in the Long-Term Arrangement. It had been the hope of his Government that importing countries would find it feasible to discontinue these restrictive arrangements. If, however, the international community found a measure of regulation necessary the rules for such a regulation would have to be modified; India had tabled proposals for modifications and these were intended to provide a basis for discussion. Public opinion in India continued to view with suspicion any suggestion that the concept of orderly growth by the departure from GATT principles embodied in the Arrangement had been achieved or could be achieved; deeds and not words would carry conviction.

In conclusion, the representative of India expressed the hope that his views would receive adequate attention so as to assist India to continue its contribution toward the solution of the problem of developing cotton textile exports.

The representative of Colombia said that his delegation was in agreement with the procedure which the Chairman had suggested. His Government was in favour of the extension of the Arrangement, but this would not rule out the possibility of amendments which might render the Arrangement more efficient and more realistic.

The representative of Austria said this his Government was of the opinion that the Long-Term Arrangement had been a useful instrument for the orderly development of world trade in cotton textiles, and that it should be extended in its present form for another five-year period. Any difficulties arising from the implementation of Articles 2 and 3 should be settled through bilateral negotiations. His Government was in favour of such an extension, despite the increasing pressure which had been exerted on domestic production due to the steadily rising low-priced imports and the substantial growth factor of 95 per cent provided for Austria in Annex A of the Arrangement.

The representative of Spain gave his delegation's full support to the procedure suggested by the Chairman. He expressed satisfaction with the favourable contacts Spain had had with some importing countries in order to settle the problems he had mentioned at the major review. The Spanish delegation was in favour of an extension of the Long-Term Arrangement and was prepared to study in detail all proposals put forward in this connexion.

The representative of Greece supported the procedure suggested by the Chairman. He said that his country had concluded a mutually satisfactory agreement with the United States and would have been happy had it been possible to report the same in respect of some other importing countries. He expressed the hope that in the coming months the Government of the United Kingdom would provide some encouraging indications as regards the scheme of restrictions on its imports of cotton textiles.

The representative of the United Kingdom said that his Government subscribed to the principles of the Arrangement and would like to see it renewed. The real question was whether the Arrangement had been administered in such a way as to give effect to the objectives set out in the preamble. It was perhaps understandable that during the past year more criticism than praise had been directed at the United Kingdom, but, despite the exemption of the United Kingdom from the growth provisions, imports from Group II countries had increased very substantially between 1962 and 1965 and thus compared favourably with the performance of any other country or group of countries.

In the United Kingdom's view the objectives of the Long-Term Arrangement could best be implemented by its renewal in a manner which would lessen the disparities in the performance of the importing countries, while providing the opportunities for growth of exports from the developing countries. The United Kingdom, for its part, could certainly undertake to review its own arrangements in the light of the commitments which would be entered into by other countries in the coming month.

The representative of Portugal recalled that his delegation had accepted favourably the proposals put forward by the Chairman at the major review for arriving at an overall compromise on the whole problem of trade in cotton textiles within the context of the Kennedy Round. When considering the future fate of the Long-Term Arrangement within the framework of paragraph (d) of Article 8, the experience acquired in the past and the validity of certain criticisms expressed in the Committee should be taken into account, with a view to improving both the substance and application of the Long-Term Arrangement and eliminating certain elements of uncertainty such as those deriving from the concept of market disruption. Such elements of uncertainty in the Arrangement presented not only difficulties in the planification of production and investment but also severe obstacles to the progress of the textile industry. The importing countries should also improve their system of custom classification, as the detailed categorization gave rise to a number of problems with respect to the administration of quotas and the normal flow of trade. In conclusion, he gave his delegation's full support to the procedure put forward by the Chairman with respect to the initiation of bilateral discussions.

The representative of Finland recalled that he had stated at the major review that his country was in favour of the extension of the Long-Term Arrangement in its present form for five years and expressed his willingness to examine any proposals for improvements. In this connexion, he supported the procedure suggested by the Chairman and endorsed the point made by the representatives of Norway and Sweden as to the desirability of there being an improvement in the import policies of some developed countries which would be of great help to liberal countries like Finland.

The representative of Denmark supported the procedure suggested by the Chairman and said that his delegation was in favour of an extension of the Arrangement in its present form, eventually with some modifications.

The representative of Israel said he was in agreement with the procedure outlined by the Chairman, adding that his country could go along with an extension of the present Long-Term Arrangement provided it was linked to tariff reductions by the industrialized countries. Israel would expect its trading partners to fulfil their obligations under the Long-Term Arrangement and to conduct their import policies strictly in compliance with its provisions. It would be unthinkable that, in addition to existing preferential arrangements, new forms of discriminatory treatment would be adopted under the cloak of the Long-Term Arrangement. He expressed the hope that those countries maintaining restrictions would liberalize their import control measures similarly to the United States, thus allowing an orderly growth for textile trade of the developing countries.

The representative of Turkey supported the procedure suggested by the Chairman and said that his delegation believed that the renewal of the Arrangement would be useful provided certain improvements in favour of the exporting countries could be made. The Turkish delegation would, at a later stage, put forward some proposals in this connexion.

/The summing-up by the Chairman (COT/W/86) will be inserted here in the final version./