GENERAL AGREEMENT ON TARIFFS AND TRADE

MEMORANDUM

TO: Heads of delegations who participated in the meeting of the Cotton Textiles Committee - 6-10 December 1965

FROM: Director-General

SUBJECT: Draft Report on the Meeting of the Committee held at the Palais des Nations from 6-10 December 1965

Attached is the draft report on the meeting of the Cotton Textiles Committee from 6-10 December 1965. Delegations are invited to submit any comments they might have as soon as possible and in any case not later than 23 February 1966.

The summing-up by the Chairman of the discussion in connexion with the major review of the operation of the Long-Term Arrangement already circulated to the members of the Committee in document COT/W/65 dated 21 December 1965, will be incorporated in the final version of the report following the summary of the discussion on this subject (Item I).

Six copies of this draft are being sent to the leader of each delegation and two copies, for information, to the permanent representatives of the participating countries in Geneva.
Subjects discussed:

I. The major review of the operation of the Long-Term Arrangement

II. Proposal concerning cotton textile imports into the United Kingdom

I. THE MAJOR REVIEW OF THE LONG-TERM ARRANGEMENT

1. For this major review the Committee had before it the following documents prepared by the secretariat in compliance with the decision of the Committee at its meeting in December 1964:

   (i) a study on cotton textiles surveying the major developments in production and trade, analyzing the structural changes in the industry and describing relevant industrial and commercial policy measures (COT/W/49 and Add.1 and 2);

   (ii) a preliminary report on restrictions on trade in cotton textiles outside the provisions of the Long-Term Arrangement (COT/W/50); and

   (iii) a factual analysis of the operation of the Long-Term Arrangement (COT/W/51) - this document will be attached as an annex to the final version of this report.
2. Many members of the Committee expressed appreciation of the study which the secretariat had prepared with the help and advice of experts (COT/W/49 and Addenda), which they found to be most informative and of great use in providing background material for the major review. Certain members of the Committee drew attention to a few technical points which in their view could have been treated differently. The Committee endorsed the proposal of the Chairman that the study should be published on the responsibility of the Director-General and that the members of the Committee who had any comments to make on the factual contents should submit them to the secretariat before 31 January 1966.

3. A summary of the discussions which took place in the Committee under the major review is given below in paragraphs 4 to 114. In the final version of this report the summing up by the Chairman, already circulated in document COT/W/65, will be inserted immediately after paragraph 114. Those parts of the general statements which refer to the proposal concerning cotton textile imports into the United Kingdom are in certain cases included under Item II of this report.

4. The Chairman in his opening statement, which is reproduced in full in document COT/W/53, recalled the choice facing the international trading community at the time the Long-Term Arrangement was negotiated and the judgment of governments at that time that the preferable approach was that of international co-operation instead of unilateral action. The Committee, when carrying out the major review, should take into account the circumstances which led to the negotiation of the Arrangement.
5. The Chairman thought it would be useful if he brought out some of the salient findings contained in the study (COT/W/49) in connexion with the developments in trade, production and consumption and the changes which had taken place in the structure of the industry.

6. It was clear from the study that international trade in cotton textiles had expanded between 1961-1964 and that the developing countries had figured more prominently in the expansion in cotton textile activities than the industrialized countries. Nevertheless, in the case of the less-developed countries also, expansion had slowed down. The process of industrialization in these countries had not represented a one-sided concentration on cotton textiles. Exports of clothing from Western Europe and North America had increased while those of yarn and fabrics had declined. Japanese exports of all cotton textiles had remained below the 1961 level. The less-developed participating countries, as a whole, had shown an increase of 40 per cent in value in exports of all cotton textiles, although some of these countries had experienced a drop in their exports to Asian and African countries during this period.

7. Imports into the participating countries of Western Europe and North America from participating countries as a whole were about $360 million higher in 1964 than in 1961. Of that increase a little less than half was attributable to the participating less-developed countries, thus increasing their share from 21 to 26 per cent, the rest of the increase being taken up by imports from Japan and other industrialized countries whose share, however, experienced a decline. The increase in imports from the participating less-developed countries did not, per se, indicate a further significant penetration of these markets by the less-developed countries in terms of higher ratios of import volumes to consumption. Imports from non-participating countries had also increased by about $70 million; as a result their share moved up from 12 to 13 per cent.
8. While per capita consumption of cotton goods in the industrialized countries remained almost static during the last decade there had been a considerable increase in the consumption of cotton textiles in the less-developed countries.

9. World production of cotton fabrics had remained virtually at the same level during the 1960's; a decline in the industrialized countries had been offset by a corresponding increase in the less-developed countries. In the industrialized countries the picture was one of a fall in production accompanied by a reduction in exports and a corresponding rise in imports; although there were considerable variations among these countries as regards the ratio of imports to consumption.

10. As regards the structure of the industry, there had been great changes in many countries in the direction of concentration of units, massive capital investment, rationalization and modernization. A decline in the number of machines had been compensated by higher output per machine resulting from the use of more advanced machinery and new techniques.

11. The cotton textiles industry had been essentially labour-intensive, in the sense of having a high ratio of labour in relation to capital; however, because of the large-scale investment in many countries this ratio had changed considerably. Investment in the industrialized countries in the last few years had not, in general, led to an increase in production of yarn and cloth taken together, but had been mainly geared to scrapping surplus capacity and continued modernization; in the less-developed countries, on the other hand, a major part of new investment had been used for additional machinery which necessitated an increase in manpower requirements. It was understandable that less-developed countries were concerned at the prospect of increased capacity being built up in the industrialized countries behind the shelter of trade restrictions.
12. Trade policy measures of a restrictive kind seemed to be the major policy measures used by industrialized countries; the structural changes which had taken place in their industries were in most cases only to a limited extent the result of industrial policy measures. In the less-developed countries, however, expansion was a significant element of national industrial policy.

13. In order to get a full understanding of all the aspects of trade in cotton textiles the Chairman mentioned that more attention should perhaps be given to the rôle of international marketing and prices. He also informed the Committee that all trade restrictions had not been fully notified by participating governments and invited the countries concerned to make a renewed effort in this respect.

14. Referring to future trends, a subject which was not covered by the study, the Chairman put forward some general points: the less-developed countries would continue their expansion in the cotton textiles industry which would continue to be an important part of their programme for better utilization of resources and the earning of foreign exchange; the industrialized countries would continue to increase the efficiency of their domestic industries while the markets for cotton goods could be expected to grow only slowly; a gradual liberalization of trade among less-developed countries would lead to greater competition, thereby contributing to increased efficiency in their cotton industry; the less-developed countries would try to expand the clothing industry, trade among the industrialized countries would continue to grow in novelty goods and specialities, and trade expansion and increased competition in the field of man-made fibre textiles would be likely to continue.

15. In weighing up how the trends and policy directions, which the developments in the cotton textiles field implied, matched the underlying objectives of the Long-Term Arrangement, the Chairman pointed out that, despite a general increase in exports, it was reasonable to assume that the operation of the Arrangement
had limited the trade of the less-developed countries and Japan in certain categories and that exports were still mainly concentrated on the same markets in the industrialized areas as before the Arrangement. Referring to document COT/W/51, he recalled that there had been an intensive use of the restraint provisions of the Arrangement, and consequently these provisions had not been used as sparingly as was envisaged, probably due to the interdependence between individual markets, and to the easy diversion in trade flows from one country to another. He also pointed out that the quotas referred to under Article 2 had in many cases only matched the minimum obligation under the Arrangement, and even these had not in some cases been taken up for various reasons.

16. Referring to the complexity of the problems that arose and to the fact that a great deal still needed to be done in this sector, the Chairman underlined the importance of the Kennedy Round in that it could offer the opportunity for negotiation on all interrelated elements. These elements would appear to be the greatest possible reduction of tariffs, the maintenance for some further time of the safeguard provisions of the Arrangement against any sudden disruption of existing patterns of production and a more liberal administration of the Arrangement.

17. In concluding, the Chairman reminded the Committee that the major review should be looked upon as a beginning of the second phase, which should give effect to the long-term and positive aims of the Arrangement, and expressed the hope that the tenor and direction of the Committee's deliberations would clearly demonstrate that it was playing an active and constructive rôle in this difficult field.
18. At a later stage the Chairman reverted to the point which he had made that a gradual liberalization of trade between less-developed countries would lead to greater competition, thereby contributing to increased efficiency in their cotton industries. He said that the problem did not arise from the Long-Term Arrangement, but from the progressive closing of existing markets in less-developed countries which were often of importance for other less-developed countries. This was perhaps a natural development when a number of new countries were building up their own industries and adopting policies directed towards self-sufficiency. The reasons for such a development included not only policies of self-sufficiency, but also very real balance-of-payments problems, which made it necessary for a number of less-developed countries in any case to restrict their imports to the bare necessities. However, it was worth some reflection as to whether more interchange of trade between the less-developed countries was an entirely unfeasible proposition and whether it would not be constructive and useful to look to the future; the industrialized countries had a high level of trade interchanges between themselves and this had been so even when their industries were developing.

19. The representative of Japan in his statement, which is reproduced in full in document COT/W/56, said that the objective of relaxing import restrictions as laid down in Article 2 of the Arrangement had been prevented from being fully realized. Import licences were allocated to people who had no prospects of importing cotton textiles; in certain member States of the European Economic Community import quotas included all kinds of fibres and there was still ambiguity as to how the aggregate imports of 12,000 tons in 1967 undertaken by the Community would be shared among the member States. Moreover, quotas should be indicated in terms of quantity rather than value and should permit a greater flexibility among categories. He expressed the hope that those countries maintaining import restrictions under Article 2 would find it possible to indicate
complete schedules for the liberalization of cotton textiles by the next meeting of the Committee and that the technical obstacles standing in the way of increased access would be removed as soon as possible. Referring to the Nordwijk agreement and the adverse effect it could have on trade in cotton fabrics, he requested the governments concerned to guide the industries towards doing away with this agreement at an early stage. He further pointed out that the bilateral arrangement concluded with the United States fell far short of what the Japanese Government hoped to achieve and added that negotiations were in hand to improve its administration.

20. With reference to the commitment by the United Kingdom for an annual increase of 1 per cent in its imports in the five years beginning 1966, the representative of Japan said that the United Kingdom was proposing to place cotton textile imports virtually under a more restrictive régime than before. The United Kingdom had not yet found it possible to remove the import surcharge; this measure, together with the existing quota restrictions, had the effect of nullifying the objectives of the Arrangement.

21. The representative of Japan said that the definition of cotton textiles should not be broadened. He also underlined the concern of his Government with the rising share of non-participants in world exports of cotton textiles. He further mentioned that the Japanese industry had been making strenuous efforts in rationalization and modernization and emphasized that structural adjustment should be pursued in importing countries. He also informed the Committee that his country had dispensed with quota restrictions on cotton textiles some time ago except for two very minor items.

22. As regards the future of the Arrangement, the Japanese Government would be ready to give constructive consideration to this matter in the context of the Kennedy Round, provided that importing countries took concrete and meaningful
steps to improve the administration of the Arrangement. He stated, however, that any question of extending the same type of arrangement to the field of other fibres would run contrary to the provisions of Article 1.

23. The representative of Jamaica in his statement, which is reproduced in full in document COT/W/60, expressed doubt as to whether the major review could be carried out in the period allotted for the present meeting of the Committee and hoped that more time could be provided. The major review was a proper time for consideration to be given to the future of the Arrangement, unless it was envisaged that there would be a special meeting of the Committee early in 1966 to deal specifically with this matter.

24. He referred to the informal talks which had been held to consider the possibility of an overall arrangement in the context of the Kennedy Round, pointing out that his delegation had not received an invitation to attend any of these talks. In his view, the review of the Long-Term Arrangement should not be conditioned by what transpired in the Kennedy Round, as it was not even certain that anything would happen in the Kennedy Round.

25. He said that the putting into effect of the new United Kingdom scheme would be tantamount to a major amendment to the Long-Term Arrangement; his delegation, therefore, took the view that when this scheme was being discussed consideration should also be given to the matter of extending, modifying or discontinuing the Arrangement.

26. In reviewing how the Long-Term Arrangement had affected Jamaica, he pointed out that the restrictions imposed by the United States were based on performance levels which were still relatively low and were disappointing as regards the prospects of the garment manufacturing industry. Even those quotas which had been fixed under the United States-Jamaica bilateral agreement had not been fully achieved; it was impossible for a shortfall in one category to be made up by
exceeding the ceiling in some other categories. The operational arrangements for these quotas must recognize shifts in consumer spending. In addition, conversion factors were much too high, with the result that exports on the basis of dozens were not as high as the quota figures expressed in terms of square yards would indicate. Difficulties of that kind, amongst others, should be recognized and remedied if Jamaica was to agree to the extension of the Long-Term Arrangement.

27. Commenting on the remarks made by the representative of Jamaica as to the duration of the major review and the discussion in the context of the Kennedy Round, the Chairman said that the Committee should not contemplate a particular terminal date for its meeting until it could see what was necessary for it to discharge its task properly. With regard to the discussions in the context of the Kennedy Round, he said that he had addressed, at the end of August, to all members of the Committee who were also participating in the Kennedy Round, a communication inviting them to consider the possibility of an overall negotiation setting out certain ideas which he thought might prove a useful basis for such discussion, and he would certainly recommend the widest possible participation in discussion of that kind. The prospects of the Kennedy Round would depend on the determination of governments to make it a success and it was not only the major countries but also the small countries, which had a stake in the success of the negotiations.

28. As regards the purpose of the present meeting and its relation to the meeting which would follow at a later stage to consider the future of the Long-Term Arrangement, the Chairman said that the position was quite clear. It would certainly not be appropriate for the Committee at the present meeting to consider particular proposals for amending the Arrangement, but there was nothing to stop a member from giving notice of any change which, in the light of the review, he felt should be incorporated in the Arrangement at the appropriate time.
29. The representative of Spain drew the attention of the Committee to certain specific points contained in document COT/W/54 which set out the difficulties encountered by his country with regard to the application of the Long-Term Arrangement.

30. Since the entry into force of the Arrangement, Spanish exports had gone down as a result of the restrictive interpretation given to its provisions and the unilateral measures taken by some importing countries outside the provisions set forth in the Arrangement for such cases.

31. As regards exports to the United States, bilateral agreements had had restrictive effects on Spanish exports to that country, not only because the new quota system had considerably reduced the volume of exports to that market, but also because the new textile categories had disrupted and disorganized the traditional flow of these exports.

32. At a later stage the representative of Spain (COT/W/54/Add.1) stated that Spain would forward to the United States authorities proposals for more facilities and more flexibility in the present bilateral agreement and expressed confidence that the United States would give the most sympathetic consideration to them.

33. As regards exports to the United Kingdom, the British import system to be introduced in 1966 would mean not only disruption of Spain's present export trade but also the risk of a substantial reduction in exports.

34. The quota fixed by Italy was much smaller than that which would have resulted from application of Annex B or when taking as a basis the best performance in past years as recommended by the Cotton Textiles Committee.

35. A new import system for cotton yarn established by Belgium in 1965 had resulted in an almost 53 per cent reduction of imports from Spain as compared with the figure for 1964. Later in the discussion the representative of Spain
reiterated that the Belgium licensing system with regard to imports from Spain was not provided for in the Long-Term Arrangement; he requested that the present commission to examine Spanish import applications should be abolished and that the Spanish authorities should be officially informed of the result of this action.

36. He further stated that his delegation considered that all these restrictive measures were contrary to the principles underlying the Long-Term Arrangement and expressed the hope that the Committee would give priority to examining the problems he had mentioned and that necessary measures should be adopted to ensure that: there was more flexibility in applying the restrictive measures so as not to lead to any reduction in exports of exporting countries or any disruption of their lines of production; importing countries should not establish restrictive measures, or new systems of import restrictions, or fix quotas according to procedures inconsistent with the provisions of the Long-Term Arrangement. In the event that these measures were not carried out in the importing countries, Spain would have carefully to examine future plans in order, if necessary, to consider its position as a signatory to the Arrangement.

37. The representative of the United Arab Republic in his statement, which is reproduced in full in document COT/W/63, said that the textile industry in his country occupied a predominant rôle. A sharp increase in machinery, production and domestic consumption had taken place between 1960 and 1964. There was a substantial surplus to be disposed of on export markets, in particular in the western markets which were the major source of foreign exchange. Although total exports of yarn and fabrics had increased over the past five years, yarn exports to participating countries had not expanded in the same proportion and exports of fabrics had, in fact, declined. Further expansion in capacity was contemplated and consequently an increase in exports was to be expected. Against this background, some countries had invoked Article 3 arbitrarily, thus violating the Arrangement.
38. Referring to the bilateral agreement concluded with the United States, the representative of the United Arab Republic said that the quota fixed in this agreement was not fulfilled due to difficulties encountered in the United States market, particularly those due to conditions prevailing there following the promulgation of one-price cotton.

39. Pending discussions with the United Kingdom a quota had been fixed unilaterally and imports were subject to import licensing. Further, the quota fixed for the five years from 1966 to 1970 would be smaller than that for 1965; this constituted in his view a breach of the Arrangement.

40. As a result of the restrictions imposed by Italy, exports to that market had fallen despite the fact that they were very small and therefore could not have been the cause of disruption.

41. The arbitrary measure taken by Belgium in December 1964 to limit the granting of import licenses for cotton yarn from certain countries, including the United Arab Republic, had a catastrophic effect on the volume of exports to this traditional market.

42. As regards the future of the Long-Term Arrangement, the representative of the United Arab Republic proposed that: the objectives set out in the preamble to the Arrangement should be reaffirmed; the restrictions on cotton textiles incompatible with the General Agreement should be rapidly eliminated; recourse to Article 3 should be limited only to the cases where market disruption was fully justified, taking into account the ratio of import volumes to consumption, the production in the exporting country and its capacity to export and the importance of these exports to the country's economic development; special account should also be taken of the provision of Article 3, paragraph 5, in order to avoid damage to the production and marketing of the exporting country; the growth factor set out in Annex B, as well as the percentage by which the ceilings within the aggregate limit fixed in the bilateral agreement could be exceeded should be increased; and, certain new elements should be introduced into the criteria of market disruption such as the need to establish a relationship between a sudden upswing in imports and the volume of local production.
43. The representative of Belgium, referring to the point raised by the representative of the United Arab Republic that the decision by Belgium to limit the granting of import licences for cotton yarn had had a catastrophic effect on United Arab Republic exports, said that since the beginning of 1965 Belgium had removed the temporary free entry of cotton yarn for those products which were to be re-exported within the Community: in cases where imports of cotton yarn from the United Arab Republic were subjected to external custom duties the re-export within the Community was open. This created a problem of a nature to prejudice and damage part of the United Arab Republic export growth as United Arab Republic exports would have less outlets in the Belgium market, especially as the markets of the United States and the United Kingdom were practically shut for Belgium products made of fine Egyptian yarn, and had to be replaced by other markets which were the markets of the Community. He said that they would try, therefore, to solve this problem through bilateral discussions so as to avoid real damage to exports of yarn from the United Arab Republic.

44. He also informed the Committee as spokesman for Benelux that, due to a substantial rise in imports of cotton textiles, with low-price imports having a growing share, and a drop in production despite great efforts aimed at structural adjustment, their Governments were confronted with appeals from the industries for the imposition of restrictions. It was difficult to take any decision in the absence of exact data. Thus, their Governments were obliged to introduce an information system to enable them to evaluate the soundness of complaints of market disruption made by the industry. This system was officially introduced in July 1965 and was known as "price control" which, in fact, was an inaccurate term since the purpose was to collect information and not to exercise control. He emphasized that any measures which might be taken by Benelux on the basis of information collected would be in strict compliance with their obligations deriving from the Arrangement.
45. Commenting on the point made by the representative of Spain that difficulties were encountered due to the Belgium system covering Spanish import licensing, the representative of Belgium reverted to some of the points mentioned above and added that the figures mentioned by the representative of Spain were based on statistics for the first eight months of 1965. The new information system enabled Belgium to obtain up-to-date information and, according to this, imports from Spain during the first ten months of 1965 had reached about the same level as for the calendar year 1964; with an average import rate of 600 tons for the last two months, imports in 1965 would exceed those for the preceding year. He said that this matter would be the subject of bilateral consultations as Belgium preferred to reach an agreement rather than resort to the use of safeguard clauses.

46. The representative of Pakistan in his statement, which is reproduced in full in COT/W/61, referred to the secretariat study and made some observations as to the grouping of countries.

47. He recalled that when the Arrangement had been negotiated the developing countries had been assured that the restrictions which constituted a major departure from the provisions of the General Agreement would be applied for a limited period to facilitate the necessary adjustments in the industrialized countries. The Committee should consider on the basis of the secretariat study whether: (i) there had been, or there was, any serious damage to domestic producers in the industrialized countries, or threat thereof, as a result of imports from developing countries; (ii) the necessary adjustments in the industrialized countries had been carried out, and (iii) there had been growing opportunities for exports from developing countries. In the light of the conclusions reached on these issues, the Committee must decide whether there was any justification for the continuance of the restrictive provisions of the Arrangement.
48. After referring to trends in production of yarn and fabrics in the industrialized countries of North America and Western Europe described in the secretariat study, the representative of Pakistan pointed out that the emergence of less-developed countries as producers and exporters of cotton textiles had not led to any fall in production of yarns and fabrics in these countries, either before or after the Long-Term Arrangement. The decrease in the number of workers employed had been due primarily to the introduction of labour-saving devices; there was no evidence to show that this was due to increased imports from developing countries. The cotton industry in most of the industrialized countries, as a result of modernization and technological advances during the last decade, was strong enough to compete on even terms with the industry of the less-developed countries and there was therefore no need for special measures of protection. If the industry in any industrialized countries was in need of some special assistance the correct remedy was not the imposition of arbitrary restrictions on imports, but the grant of adjustment assistance. It was the hope of his country that the industrialized countries would vacate a part of their cotton textile field to the developing countries and make possible a substantial increase in Pakistani exports; he expressed regret that these hopes had not materialized.

49. Referring to changes in the pattern of trade, the representative of Pakistan pointed out that the rate of growth of exports of yarn and fabrics from less-developed participating countries as a whole had declined considerably during the Long-Term Arrangement period when compared with 1953-1960. The Long-Term Arrangement had, in fact, arrested the growth of these exports and there had been no noticeable improvement in the ratio of imports to consumption of cotton textiles in the industrialized countries.

50. As far as Pakistan was concerned the cotton industry was the largest industry and had to play a very important role in earning foreign exchange. However, quantitative restrictions continued to be maintained on its exports by the
United Kingdom, inconsistent with its obligations under the General Agreement. Exports to France, Germany, Italy and Austria were subject to quotas which were small in size and categorized in such a way that it became impossible for Pakistan to utilize them. Several categories were subject to quantitative restrictions in the United States as well. Pakistan's capacity to export was considerably greater than the quotas provided.

51. The representative of Pakistan drew the following conclusions: exports from less-developed countries did not constitute a threat to the industry of the developed countries; in view of the modernization and rationalization of the industry in the industrialized countries special protective measures were no longer necessary; the Long-Term Arrangement had not led in practice to a substantial and orderly growth of cotton textile exports of less-developed countries. He wondered therefore, if these conclusions were valid, whether a return to freer trade would not be opportune.

52. Referring to negotiations on textile problems in the context of the Kennedy Round, he reiterated that if the review envisaged in Article 8(d) was to be combined with negotiations on tariff reductions in the Kennedy Round, all elements of the problem should be equally open to discussion and negotiation.

53. In concluding, the representative of Pakistan said that the United Kingdom proposals had an important bearing on the Arrangement and it would be more convenient to deal with these after concluding the major review; he would, therefore, defer his comments on these proposals.

54. The representative of India in his statement, which is reproduced in full in document COT/W/62, said that he was generally in agreement with the conclusions on the working of the Long-Term Arrangement reached by the representative of Pakistan. As regards how far the objectives of the Arrangement had been fulfilled, the secretariat study brought out that the safeguards against market disruption had been liberally used even in situations when they were not called for, with the result that importing countries had succeeded in preserving and strengthening their
production structure. The Long-Term Arrangement had, therefore, brought complete 
satisfaction to importing countries and growing gloom to the exporting countries.
The industrialized countries had increased their competitive capacity, thus 
threatening the very export potential of less-developed participating countries. 
The contraction in the cotton sector was the manifestation of a shift from cotton 
to man-made fibres; taking consumption of cotton, rayon and other man-made fibres 
together, the textile industries of the developed countries had made substantial 
progress throughout the period of the Long-Term Arrangement.

55. As regards the promotion of exports of less-developed countries, this had 
been very disappointing. As restrictive arrangements were applied to the 
less-developed participating countries, they were worse off than non-participants. 
So far as the European Economic Community was concerned, the less-developed country 
was faced with quotas and high tariffs; when imports were restricted to quotas 
there should be no tariff.

56. The representative of India pointed out that structural adjustment in the 
industrialized importing countries, instead of proceeding in the direction of 
enabling a progressively larger access for goods which less-developed countries 
were in a position to export - as visualized in Article 1 - had, in fact, 
proceeded in the opposite direction.

57. Increasing resort was being had to restrictions inconsistent with the 
objectives of the GATT, with the result that the efforts of less-developed 
countries to invest in and build their industries in sectors where increasing 
export opportunities would have been available were impeded. Under the Arrangement, 
the subjecting to categorization of Indian imports into the United Kingdom had 
resulted in some setback; furthermore, while the countries observing voluntary 
quota restrictions remained where they were, others had substantially expanded 
their exports to that market. In the EEC countries the administrative procedures 
adopted by the Federal Republic of Germany and France for operating the quotas had 
greatly hampered their fulfilment and it would be more helpful if the two countries 
considered transferring the administration of the quota to the exporting countries. 
Continued operation of the Nordwijk Agreement and the OECD preference given on non-
commercial grounds had severely restricted access for Indian exports, particularly 
greys to the European Economic Community countries.
58. The representative of India said he supported fully the point made by the representative of Japan that little or no progress had been made towards the progressive relaxation of pre-existing restrictions inconsistent with the provisions of the GATT. Further, the exporting countries did not derive any benefit from the growth which was required under Article 2 of the Arrangement. This Article had also created a climate in which increasing resort was being made by the developed countries to tariff and commercial and non-commercial policies which were calculated to shut their markets to less-developed countries.

59. Restraints under Article 3 were imposed on categories in which India had the ability to expand exports. The base period approach had resulted in the quantities being fixed at an unduly low level. Best-year performance and good export potential of the exporting country and its need to earn foreign exchange should be taken into account if restraints under Article 3 became unavoidable. Importing countries, when making structural adjustments, should aim to discard Article 3 restraints. Categories should not be narrow and detailed. Some objective criteria should be laid down for concluding that a threat of disruption had, in fact, arisen, having due regard to the ratio of imports to consumption in the importing country. The possibility of increasing imports through a shift of the local production to more sophisticated goods should be examined; or, alternatively, the liberal use of the provision for the granting of adjustment assistance provided for in the Trade Expansion Act of the United States, and the promotion of similar legislation by other developed countries, would take care of the adjustments which shifts in demand might call for.

60. India had been particularly hit by the operation of the Long-Term Arrangement. The Arrangement had not achieved its objective, as the developing countries had failed to increase their export earnings and the industrialized countries had failed to bring about an orderly shift from less remunerative to more remunerative employment of labour and capital. The review of the working of the Long-Term Arrangement disclosed that the concept of orderly growth by departure from the
GATT principles had failed and to India the Arrangement had come to mean legalisation of illegal restrictions and discriminatory action to frustrate, rather than promote, growth of exports of less-developed countries.

61. With respect to the future of the Arrangement, the representative of India said there was a heavy responsibility on the importing countries to indicate the steps they proposed to take during the year 1966 and he suggested that, to enable them to give their fully-considered response to this appeal, a meeting of the Committee be convened early in 1966.

62. The representative of the United States in his statement, which is reproduced in full in COT/W/59, said that the three years of the Arrangement had been good years both for the exporters of cotton textiles to the United States and for the United States industry.

63. After referring to different developments described in the secretariat study, he pointed out that the decade of the fifties had witnessed an unprecedented burst of activity in the cotton textile industry and that heavy imports were quickly felt in the markets of the industrialized countries; the resulting problems were too massive to be handled through existing mechanisms.

64. The Long-Term Arrangement had promoted expansion of trade in cotton textiles while providing the necessary safeguards for the industries of the importing countries. In the view of the United States, a most encouraging aspect of the secretariat study was the fact that under the Long-Term Arrangement world trade in cotton textiles had grown faster than production. The Arrangement had also sheltered the cotton textile industries of participating countries, both importers and exporters, from unrestrained and destructive competition and had given industry the new assurance that encouraged technological change and adjustment.

65. United States imports of cotton textiles increased sharply during the third Long-Term Arrangement year to a new all time high, thus confirming that the drop during the preceding year was attributable to a lull and a temporary uncertainty in the United States textile market. About 92 per cent of these imports came from the developing countries and Japan, with the developing countries alone accounting
for about 60 per cent of the total, while the developed countries of West and East Europe and North America accounted for only 8 per cent; the United States considered it probable that imports from the developing countries would increase further during the fourth year of the Arrangement. About 50 per cent of these imports were concentrated in nine categories, six of which were in the apparel group which represented the most attractive exports of all cotton products because the high value added maximized employment opportunities and dollar earnings. Nevertheless, the apparel categories were among those most susceptible to disruption; changing supply and market conditions had produced some fluctuation in imports of some other cotton textile products. The strong concentration on specific categories had created particularly severe price pressure on the market for similarly produced domestic goods. Imports had also gained a larger share of the United States market; the Long-Term Arrangement itself was a factor in this increased share. Bilateral agreements provided for an annual growth rate of 5 per cent whereas domestic consumption was increasing at the rate of 3 per cent.

66. The United States had not resorted to the provisions of Article 3 with respect to imports from any participating country during the third year of the Long-Term Arrangement and seven restraints were dropped during that period. In administering the bilateral agreements concluded with seventeen exporting countries, the United States had tried to accommodate particular problems which the exporting countries had encountered thereafter. The United States had also observed its obligations under Article 6(c) to ensure that exports of participants were not restrained more severely than were exports of non-participants.
67. The Long-Term Arrangement had helped to restore confidence in the future of the United States cotton textiles industry. Nonetheless, the industry was confronted with several serious problems, such as cyclical fluctuations; profits, although rising, were still among the lowest in industry; textile wage rates continued to lag behind the average for manufacturing industries; there were high unemployment rates, particularly in the apparel sector and a declining share of cotton in total fibre consumption.

68. He pointed out, for consideration by the Committee, certain facts portrayed in the secretariat study: there was a significant over-capacity in production facilities; over-zealous stimulation of exports intensified depressing price effects in the limited and highly competitive world markets; more attention needed to be paid to the apparent disparity between export prices and the higher domestic prices for similar goods in some of the highly protected markets of the exporting countries; and growing competition from man-made fibre textiles required some new thinking as to how to stimulate demand for cotton products.

69. Presenting the views of the United States on the future of the Long-Term Arrangement the representative of the United States said that his Government supported efforts under way to extend the Long-Term Arrangement in its present form and was already engaged in talks with the Government of Japan. The United States was ready to consult similarly with other exporting countries prepared to work within the framework of the initiative taken by the Director-General of GATT. Policy decision on this matter should be reached soon, so as to avoid confusion and apprehension in the market.

70. At a later stage, commenting on the reference made by the representatives of Spain, the United Arab Republic and Jamaica to the inability of their countries to fill ceilings in bilaterals with the United States, the representative
of the United States pointed out that these were exceptions as most bilateral partners had filled ceilings. The situation referred to was not caused by bilaterals and certainly not by the Long-Term Arrangement. The United States planned to enter into discussions with the countries concerned and explore reasons for shortfalls.

71. With regard to the point made by Spain that the United States had established a new system of import quotas for cotton textiles, he pointed out that the United States had no import quotas for Spain or other countries; there was a bilateral agreement with Spain, under which Spain controlled its exports of cotton textiles to the United States. He added that he found confusing the different time periods used in the statement of the Spanish delegate when referring to exports to the United States. The bilateral agreement with Spain provided for a significantly higher level than the level of Spain's exports to the United States over the last few years, but unfortunately, whatever the reasons were, the ceilings had not been filled or did not appear to have been filled during 1965.

72. As regards the statement made by the representative of Pakistan, the facts presented in this statement showed only one side of the picture through the selection of various points in the secretariat study; the United States statement might have given the other side. However, the situation with regard to the exports of the developing countries during the period of the Arrangement certainly had not been as adverse as indicated by the representative of Pakistan. With regard to the point made by the representative of Pakistan that the industrialized countries should vacate part of their textile industry to the developing countries, the situation in the United States market would indicate that this was happening; the growth of consumption was much less than the growth in imports. Imports from Pakistan had risen considerably in the third year of the Long-Term Arrangement in comparison with the Short-Term Arrangement year. Referring to the comment by the representative of Pakistan on a return to freer trade in cotton textiles, he stressed that the initiative taken by the Chairman provided the Committee with the appropriate framework within which to move ahead in that direction.
73. In reference to the point made by the representative of India that the textile industries of the importing countries had made substantial progress if the production of man-made textiles was added to that of cotton, the representative of the United States drew attention to the point made by the Chairman in his opening statement that the markets in the industrialized countries for cotton goods could be expected to grow only slowly due to competition from man-made fibre textiles and said that, in his judgement, the use of man-made fibres in the production of textile products was related to modern advances in technology, to market promotion and other factors and not to the existence of the Long-Term Arrangement. However, so far as the United States market was concerned, imports of both types were increasing. With regard to the proposals by the representative of India that a meeting be held early in 1966 to allow importing countries to respond to his suggestion regarding various modifications of the Long-Term Arrangement, he reiterated that the United States had no reason to believe that the countries now participating in the Arrangement could find a better basis for mutual agreement than the terms of the Arrangement as it stood.

74. The representative of the United States also referred to the point made by the Chairman that consideration might be given to the question of restrictions on cotton textile trade among the developing countries and said that this was similar to the thought previously expressed in the United States statement, that high consumer prices, especially in low-wage countries, held down internal consumption and world demand for cotton textiles and added that these were questions which should be considered by the Committee; he therefore invited comments from exporting countries.

75. The representative of Pakistan, referring to the point made by the United States that he had shown only one side of the picture, said that this was inevitable when explaining how the problem appeared to Pakistan, the other side had already been set out both by the representative of the United States and by representatives of the other principal importing countries. As the
Long-Term Arrangement was intended to be a temporary arrangement, it was disturbing that attempts were being made during the meeting to make out a case for a permanent and definite continuance of the Arrangement. It was feared that the Long-Term Arrangement would be used as a precedent to be extended into other fields of industry and this was a matter to which the Committee should not be indifferent. In reference to the point made by the representative of the United States that Pakistan's exports to the United States market had risen, the representative of Pakistan said it was gratifying that an opportunity existed for growth despite the restrictive provisions of the Long-Term Arrangement. However, the problem for the less-developed countries was that their requirements of foreign exchange for imports for their economic development continued to grow but their capacity to earn foreign exchange through trade was severely restricted, with the result that the imbalance in their trade with the developed countries was increasing yearly. It was frustrating to find that a few million yards of exports which were insignificant in terms of United States total consumption were likely to create an alarming situation in that market. As regards his point that industrialized countries should vacate some of the textile industry field for the developing countries, what he had in mind was that the time had come when there should be a more rational division of labour between the industries of the developed and developing countries. He reiterated the conclusions he had made earlier; on the point that the Long-Term Arrangement had not led in practice to a substantial and orderly growth in the cotton textile exports of the less-developed countries, he was not contending that the exports had not increased or that there had been no possibilities for growth, he was merely contrasting the rate of growth of exports from less-developed countries as a whole in the 1953-60 period with the rate thereafter.
76. The representative of Spain, referring to the comments made by the United States representative, recognized that exports from Spain had not attained the quota fixed in the bilateral agreement but stated that the lack of flexibility was responsible for the shortfall. After explaining the reason why different time periods were used in his statement, he added that, if the United States had allowed greater flexibility in the present agreement, it would have been possible for exports from Spain to reach the level attained prior to the entry into force of the Long-Term Arrangement.

77. The representative of India, in clarification of the point he had made regarding the position of synthetics, said that, according to an analysis which his delegation had made out of the statistical data contained in COT/W/49, there had been a pronounced shift from cotton to man-made fibres in the developed countries and the contraction in their cotton sector was really a manifestation of this shift. He also reverted to the point he had made as to the possibility of the developed countries accommodating increasing imports of cotton textiles through a shift of local production to more sophisticated goods, and said that it was largely a problem of adjustment to take account of the difficulties which certain units in the importing countries might experience. He appealed to the developed countries to examine the feasibility of this type of adjustment being brought about in the manner they considered best suited. He further requested the member States of the Community to transfer the licensing to the less-developed countries; they could have some kind of statistical control at the other end if they so desired. He underlined the importance his country placed on this proposition which was something he had put forward for the last three years.
78. The spokesman for the European Economic Community in his statement, which is reproduced in full in COT/W/57, reviewed the trend in the cotton situation as regards the Community over the period 1962-1964, and the tendencies which had emerged in the first half of 1965. Referring to document COT/STAT/38 containing statistical data for the European Economic Community, he said that, in the Community as a whole, the general picture was one of an increase in imports accompanied by a decline in exports and a fall in production. This trend prevailed in 1963 and had become more marked in 1964. The countries which benefited most from the increase in imports were the developing participating countries. Japan, although its share in total deliveries was declining slightly, increased its sales substantially in the same period. Imports from industrialized countries other than the EEC member States increased, mainly due to larger exports from the United States.

79. He pointed out that, over a period of three years, the volume of Community imports of cotton textiles had risen far above the estimate given by the spokesman for the Community in 1962 for the five years of the Arrangement, and that the rate of growth of these imports was incomparably higher than that recorded in other major importing countries. He further drew the attention of the Committee to the fact that a major part of the Community's imports came from exporting countries whose prices were causing or threatening to cause market disruption. On the other hand, exports were declining and as a result there was a marked deterioration in the Community's trade balance for cotton textiles. Apparent consumption of cotton textiles in the Community had increased and the share of foreign deliveries in relation to the Community's consumption had grown from 5.7 per cent in 1962 to 10.1 per cent in 1964. In the first half of 1965 imports from participating countries stood at the same level as in the first six months of 1964. Community exports had declined by nearly 10 per cent.
80. Despite the gravity of the situation in many EEC countries, the undertakings by the Community to enlarge quotas had been observed and many products had been liberalized. Recourse to the safeguard clause had been extremely limited. Only the Federal Republic of Germany and Italy had invoked the clause, and this had been done in fully justified circumstances. With respect to the restriction which had been imposed by Italy, the Italian Government had decided to remove import limitations as from 1 January 1966 and to introduce an "all-licences-granted" system on a temporary basis.

81. In concluding the spokesman for the EEC said that the manner in which the member States had applied the Arrangement had resulted in broader access to the Community market for the exporting countries and in a considerable extension in their sales.

82. Later in the discussion, in response to the questions put by the representatives of Japan, India and Pakistan concerning the administration of quotas, the spokesman for the European Economic Community stated that the member States were fully disposed to seek a satisfactory solution through bilateral discussions with the countries concerned. He maintained, however, that the administration of the German and French quotas permitted India and Pakistan to swing from one category to another and the sub-division was only in a small number of categories. As to the allocation of quotas for 1966 and 1967 between the member States, he stated that there would be an annual increase in each quota so as to respect the figure of 12,000 tons in 1967. He further pointed out that many liberalization measures had been introduced since the entry into force of the Arrangement, adding that imports under quota accounted for less than one-tenth of total imports for the Community; since 1962 imports from Japan, India and Pakistan had substantially increased. Referring to the Nordwijk Agreement, he said it was strictly a professional agreement under which the trade sectors did not introduce any additional import restrictions; once internal duties had been completely eliminated within the Community that agreement would no longer apply between the member States.
83. Since the entry into force of the Arrangement, the trade restrictions applied by certain countries had resulted in a growing share of exports towards the Community's market. Thus, after three years of operation of the Arrangement, the percentage of EEC imports in relation to its consumption was substantially above the present level in the United States. The Community could not therefore concur in some of the conclusions made by the Chairman in his opening statement, in particular, that exports of cotton textiles from the less-developed countries were still mainly concentrated on the same markets in the industrialized areas as they were before the Arrangement.

84. The representative of the EEC made some technical observations in connexion with document COT/W/49. Stating that the Community would have wished that the document had been discussed in the Committee, he expressed reservations regarding it and would have preferred a procedure which would have enabled the participating countries to make any corrections or amendments to it.

85. The representative of Spain said (COT/W/54/Add.1) that his delegation noted with satisfaction the removal by Italy of the present restrictions as from 1 January 1966 and requested some clarification concerning the control system to be established in order to ascertain its possible repercussions on exports from Spain.

86. In reply, the spokesman for the European Economic Community said he had no details of the procedures to be adopted by the Italian Government. However, these procedures would not in any event entail the turning down of licences. It was an open free licensing system to enable the administration to gather certain elements of information.

87. The representative of the Republic of Korea said that, from the secretariat study, it was obvious that the cotton textile industry would continue to be an important source of foreign exchange earnings and of employment opportunities for developing countries. However, the large investments which were being made
by advanced countries in modernization and rationalization of the industry, under an artificial protective shelter, would result in depriving the developing countries of whatever advantages they had over developed countries in cotton textile trade. In addition, trade in cotton textiles would be faced with keener competition from man-made fibres. Under these circumstances, countries which imported a low ratio in relation to their domestic production should liberalize their import policy and should pursue an overall relaxation of import restrictions on made-up articles, which offered better opportunities for developing countries. He expressed the hope that these two points would be considered by the Committee. Referring to the operation of the Long-Term Arrangement, he said that his country, as a newcomer to the international market had probably been subjected to more severe restrictions than other exporting countries. Article 3 had been invoked unjustifiably to keep the level referred to in Annex B purposely low and, accordingly, the percentage increase provided for meant very little as it was applied to a very low level. Unused quotas granted to some exporting countries should be made available to other countries which could easily fill them. The Long-Term Arrangement should not be a charter for maintaining the status quo of 1962; it should be operated in such a way as to afford increasing opportunities to newly developing countries.

88. The representative of Austria, referring to the secretariat study, pointed out that a fall in production of cotton textiles in the industrialized countries of North America and Western Europe had tended to be accompanied by a decline in exports and a concurrent rise in imports. On the other hand, less-developed participating countries as a whole had shown a considerable growth in exports. Thus, the first group of countries had increased access to their markets for cotton manufactures from the second group of countries during the period of the Short-Term and Long-Term Arrangements. As regards the technical and economic structure of the cotton industry, it was to be feared that cotton industries with low capital investments and relatively unskilled operators would in the long run be unable to compete in the export market.
89. The changes which had occurred in the pattern of world production and trade in cotton textiles had brought about certain structural changes in the Austrian cotton industry. As compared with the twelve-month period preceding the coming into force of the Short-Term Arrangement, the number of spindles and looms and labour employed had declined. This contraction was further illustrated by a considerable decline in production of yarn and fabrics. In 1965 a number of Austrian firms had been shut down and the great majority of firms were confronted with serious difficulties concerning investments, production and marketing. It was imperative for the industry to renew its equipment and to adopt capital-intensive production methods. The structural changes which had occurred in the Austrian cotton industry had been the result of measures taken by the industry itself and no increase in production capacity had taken place.

90. In concluding the representative of Austria said that the industrialized countries, in renewing their equipment, should likewise try to avoid any significant increase in output, so that increasing consumption, if any, could also be shared by the developing countries. If this could be accomplished, effect would be given to the long-term and positive aims of the Arrangement.

91. The representative of Turkey said that his country was a newcomer to the world market and had in recent years gained access to the markets of some of the industrialized countries, particularly the Federal Republic of Germany, the United Kingdom and the United States. As a result, exports had shown some increase during the last few years, though the level attained was still far below Turkey’s export capacity. It was difficult to assess precisely the extent and degree to which the upward trend in exports had been due to the existence of the Long-Term Arrangement. As far as his country was concerned, he could safely state that the Long-Term Arrangement had had no adverse effect and Turkey regarded it as a useful international instrument contributing to a smooth and orderly flow of cotton products in the world market. However, his
Government felt that the Long-Term Arrangement as it stood was inadequate to meet the requirements of the developing countries, especially those countries which had only had access recently to the world market; an overall revision, especially of Article 3 was therefore necessary.

92. He entertained the hope that the current trade negotiations would offer the opportunity to negotiate on the cotton textiles problems with a view to bringing about a higher degree of liberalization in trade and rendering the greatest possible reduction of tariffs on cotton textiles.

93. The representative of the Republic of China said that the cotton textiles industry in his country started rather late i.e. in 1953, but had rapidly become one of the largest export industries. Since the peak year of 1963, exports of cotton goods had been decreasing, for the following reasons:
- Import quotas fixed by many of the industrialized countries;
- The competition from many of the newly-independent nations and the self-sufficiency in the developing countries;
- Smaller quantity but higher value resulting from improvement of quality and diversification of products;
- And the competition from synthetic fibres on the world market.

94. Restraints on exports from the Republic of China were imposed by the United States, Canada, the United Kingdom, the Federal Republic of Germany and Italy, either through bilateral agreements or unilateral action. Differences on both sides in the interpretation of goods classification and the date of shipment had led to disruption in the flow of trade between importing and exporting countries; he, therefore, suggested the establishment of a universal standard for textile classification which would be relatively simple and easy to determine, thus leaving no room for further disagreement or dispute.

95. The representative of the Republic of China pointed out that the textile industry in the developed countries had greatly improved during the three years of the Long-Term Arrangement through modernization and rationalization, thus
enhancing its competitive position vis-à-vis the industry in the developing countries. However, there had been no review of the market disruption factors which might no longer exist. A wider flexibility should also be allowed in restraint levels. In this connexion his Government fully supported the suggestion made during the second annual review that exporting countries should be permitted to exceed by a minimum of 30 per cent the individual restraint levels, provided that the overall quota was not exceeded.

96. The representative of Canada said that the Canadian cotton textiles industry in the 1950's and earlier had undergone structural adjustments, with imports achieving a very high proportion of the Canadian market. As for Canada's role since the entry into force of the Arrangement, he drew the attention of the Committee to three points. First, Canada maintained no Article 2 restriction. Second, there had been a substantial increase in imports of cotton textiles since 1962. Third, there had been significant changes in the sources of Canada's imports: an increasing proportion of imports were coming from less-developed participating countries and this trend had been accelerating recently. Many of the imports were at very low prices and in some cases serious problems had arisen. Every effort had been made to keep requests for restraints under Article 3 to an absolute minimum. Where requests had been made, the restraint levels had generally been substantial in relation to the size of the Canadian market and increases had been agreed to each year, although Canada was specifically exempted from the growth formula.

97. Referring to the problems Canada had encountered in the operation of the Arrangement, he pointed out that, in a number of instances where requests for restraints had been made, there had been long negotiation delays. The definition of cotton textiles in Article 9 failed to take account of the new blended textiles containing 50 per cent or less by weight of cotton. These products were being imported increasingly in place of goods under restraint. When problems arose from this cause, Canada would wish to consult with its trading partners to find solutions that were equitable.
98. The representative of Canada further pointed out that, in order to promote the foreign exchange earnings of the less-developed countries, there must be a renewed effort by those countries that were still relatively restrictive to provide improved access to their markets.

99. The Canadian delegation was prepared to support realistic proposals to renew the Arrangement for a further period. Their experience had shown that the two objectives of the Arrangement were not incompatible, as it had enabled Canada to deal with the problem of market disruption, while at the same time permitting an increasing proportion of the growing volume of Canadian imports to come from less-developed participating countries.

100. The representative of Sweden in his statement, which is reproduced in full in COT/W/64, said that, in Sweden, total consumption of cotton goods and imports during the period 1961-64 had increased, while domestic production had declined. The increase in imports was particularly high from less-developed participating countries. This development had continued through 1965. Compared with estimated consumption of cotton goods in Sweden, imports from less-developed participating countries and Japan had increased by roughly one third during the same period. The decrease in production was due to the fact that industry had had to adjust itself gradually to the prevailing market situation, through the scrapping of obsolete machinery and the concentration of units.

101. Referring to the point made by the Chairman in his opening statement, that actions taken to restrict the flow of imports had led to diversion of goods to other markets, he said that this tendency was necessarily of great concern to Sweden. He expressed the hope that importing countries would fully take into account the possible effect of their measures on the policies of other importing countries, and would find ways and means to apply the Arrangement in a manner which would lead to larger opportunities for exporting countries, as well as to a better balance as regards the performance of importing countries.
102. The representative of Sweden further pointed out that the Long-Term Arrangement seemed to have helped Sweden to keep its market virtually open for foreign producers; without the Arrangement many countries might have strengthened even further their protective devices, which could have forced Sweden to follow suit. As regards the situation after 1967, the Swedish authorities felt that an arrangement along the lines of the present one should continue to govern trade in cotton textiles, adding that this would not rule out the possibility of some modifications of the present Arrangement.

103. In concluding, the representative of Sweden said that international trade in cotton textiles was hampered not only by quantitative restrictions but also by very high tariffs in some countries and the Kennedy Round seemed to provide a good opportunity to tackle these problems.

104. The representative of Norway, referring to the secretariat study, said that Norway's imports of cotton textiles from all sources amounted to 68 per cent of consumption, which was the highest figure that had been mentioned; clothing and other made-up articles accounted for more than half of these imports. Developing countries and State-trading areas represented nearly 20 per cent of consumption. Norway's experience during the first three years of the Arrangement supported the point made by the Chairman in his opening statement, that exports of cotton textiles from the less-developed countries were still mainly concentrated on the same markets in the industrialized areas as they had been before the Arrangement. As the major markets maintained restrictions, this concentration tended to increase. Norway foresaw continuous pressure directed towards its small market during the remaining years of the Long-Term Arrangement, unless present restrictions in the bigger markets were relaxed. Should new restrictions be imposed, Norway might have to reconsider its policy in order to preserve the remaining hard core of its cotton industry. He expressed the hope that the present concentration of imports - in relation to consumption - from the less-developed countries would be given serious consideration when the fate of the Long-Term Arrangement was considered.
105. The representative of Portugal stressed the importance of the initiatives taken by the Chairman aimed at exploring the possibilities offered by the current negotiations in the context of the Kennedy Round to introduce a greater degree of liberalization of trade in cotton textiles. He said that exports from Portugal had shown a decline in 1963-64 and this declining trend had become more accentuated during the first ten months of 1965, when exports were about 14 per cent less than in the same period of the preceding year.

106. Referring to the factual analysis of the operation of the Arrangement contained in document COT/W/51, the representative of Portugal pointed out that Portuguese exports to the United States were limited under a bilateral agreement, covering all cotton textile categories which was to continue in force until 31 December 1966. Portugal had accepted a limitation with respect to its exports of cotton yarn to Canada.

107. When considering the future of the Long-Term Arrangement, Portugal would certainly express its concern in particular as to the necessity for ensuring a greater expansion of exports, having due regard to the importance of the textile industry in the economy of the exporting countries and, therefore, to the need to apply the criteria of market disruption in a more rational and less unilateral manner.

108. The representative of Israel underlined two points made by the Chairman in his opening statement, firstly, the fact that the process of industrialization in the developing countries had not represented a one-sided concentration on the cotton textiles industry; secondly, that the countries in the process of industrialization would have to continue the expansion of their cotton textile industries. The cotton textile industry offered major opportunities for industrialization, as the requirements of capital and infra-structures were limited. It was up to the Long-Term Arrangement not to defeat this trend but to prevent, or at least to alleviate, the economic and social problems which might result in industrialized countries.
109. Referring to document COT/W/51 he pointed out that many restrictive measures had been imposed on Israel by a large number of importing countries under the provisions of Articles 2, 3 and 4. These restrictions were imposed despite the fact that the cotton industry in Israel was a high labour cost industry, concentrating mainly on high-quality products. The yearly increase in exports of 5 per cent over the base year, or any other figures of a similar magnitude, was practically meaningless with respect to small countries in the early stages of industrialization and which had only started to export. Nevertheless, Israel would be willing to enter into negotiations for a new arrangement, provided that it was drawn up in such a way as to ensure that it could be invoked only on such occasions when the situation of market disruption clearly and unambiguously existed and that suppliers not responsible for such disruption were excluded from any action taken.

110. As to the venue and form of any future negotiations, he considered that the proposals made by the Chairman in this respect were eminently suitable. However, the British proposals as communicated to the Committee had already cast their shadow on any future negotiations. By trying to impose unilateral arrangements for a period well in excess of the validity of the present Arrangement, the United Kingdom anticipated the results of any future negotiations and deprived the negotiators of their freedom of action. His country considered these proposals as contrary both to the letter and spirit of the Long-Term Arrangement and therefore proposed that the Committee should make the necessary arrangements for a further meeting, if necessary before 1 January 1966, the date on which the new system was supposed to be implemented.

111. In concluding, the representative of Israel, informed the Committee that restrictions maintained by Israel for balance-of-payments reasons on imports of cotton yarn and certain cotton fabrics, as noted in COT/W/50, had been lifted.
112. The representative of Finland said that Finnish imports of yarn and fabrics increased in 1964, representing 39 per cent of total consumption. A considerable part of these imports came from developing countries and this tendency had been growing yearly. At the same time, domestic sales of the Finnish cotton industry had been declining steadily since 1960 and total production had never again reached the 1960 level. Finland had been a party to the Long-Term Arrangement for a little more than one year and so far it had not invoked any article of the Arrangement in order to restrict imports; neither had it concluded any bilateral arrangement.

113. As to the future of the Long-Term Arrangement, he supported what had been said by the representatives of Sweden and Norway, adding that, if such an arrangement was carried out by all its partners in the spirit which had been originally intended, it was a useful instrument for the orderly development of world trade in cotton textiles.

114. The Chairman, referring to the suggestions which had been made for the eventual modification or amendment of the Long-Term Arrangement, mentioned that one of the problems that would confront the Committee at the stage when this question arose would be to make a judgement as to how far the purposes behind the suggestions could in fact be met by improvements in the way in which the Arrangement was operated rather than through changing the text which, in the light of experience in the negotiations leading up to the conclusion of the Long-Term Arrangement, would obviously be extremely difficult to negotiate and agree upon. He was gratified to hear the generally positive reaction which had been accorded to his own suggestion that the potentialities of the Kennedy Round should be fully utilized with regard to the cotton textiles problem. This suggestion was not intended to impair the rights which members of the Committee had under the Long-Term Arrangement to propose either its termination or modification in accordance with the provisions of paragraph (d) of Article 8. He had been influenced by the fact that the major trading countries, in describing their own objectives in the Kennedy Round, had placed considerable emphasis on their desire
to contribute through negotiations and commercial policies to improving the trading opportunities of the developing countries. There was a certain intellectual difficulty in combining the negotiation in the context of the Kennedy Round and the parallel operation under the Long-Term Arrangement and it seemed that the best procedure to follow was a fairly pragmatic one, that is, without impinging in any way upon what had been agreed in the context of the Long-Term Arrangement, to implement to the full the broad possibilities which existed through negotiation in the field of cotton textiles in the Kennedy Round. He therefore expressed the hope that countries which were members of the Cotton Textiles Committee and also participating in the Kennedy Round negotiations would take up the invitation he had addressed to them in August 1965, to explore to the full the potential areas of progress and negotiation opened up in that context without any prejudice whatsoever to the rights of the parties to the Long-Term Arrangement under its terms.
II. PROPOSAL CONCERNING COTTON TEXTILE IMPORTS INTO THE UNITED KINGDOM

115. The Committee also discussed the proposal presented by the United Kingdom Government concerning cotton textile imports into the United Kingdom which had been circulated to the members of the Committee in document COT/59.

116. In introducing the proposal (the statement is reproduced in full in document COT/W/58) the representative of the United Kingdom outlined the background of events which had led to the introduction of this scheme. He pointed to the very large increase in imports which had occurred in 1964 as a result of a cyclical upswing in the market. In 1964 many new suppliers had begun to send substantial quantities of cotton textiles to the United Kingdom. The introduction of specific licensing for imports in 1964 had given an indication that forward contracts had been placed by 1 May 1964 for something like 120 million square yards of cloth and for additional amounts of yarn and made-up goods. These forward contracts were over and above the very high level at which imports were already running. In this situation the United Kingdom was obliged to approach the nine new exporting countries with a view to negotiating on some kind of restraint arrangements. Although during the course of the negotiations import levels were offered well above the minimum provided for in Annex B of the Long-Term Arrangement, it had only proved possible to arrive at an agreement with two of the countries which had entered into negotiations. In the circumstances prevailing during this period, it was impossible to reconcile what the supplying countries regarded as their legitimate entitlement and the United Kingdom's legitimate rights. Of particular importance when considering the United Kingdom's trade in cotton textiles was the fact that about one third of her total cotton textile consumption was being met by imports from developing countries. It was this situation and the practical failure to negotiate restraint arrangements that had led to the proposals which were embodied in the aide memoire circulated to governments last autumn and which were now before the Committee.
117. In a later statement, the representative of the United Kingdom, expressing his country's views on the nature and operation of the Long-Term Arrangement, said that the Arrangement remained a framework in which it was possible for importing and exporting countries to reduce to manageable dimensions differences of view and policy which otherwise could be irreconcilable. Nevertheless, it needed to be recognized that the Long-Term Arrangement was not really a precise formulation of legal obligations. It was rather a guide to a way in which particular problems could be approached. The United Kingdom proposal was to be considered a multilateral-negotiated scheme established under Article 4 of the Arrangement.

118. The Chairman said that in his opinion there was a good deal of wisdom in the description of the nature of the Long-Term Arrangement given by the representative of the United Kingdom. He did not think it was the intention, when the Long-Term Arrangement was being drafted, to draw up a precise treaty or code of rights and obligations and that the Arrangement must be considered and judged mainly as a mechanism for trying to work out a number of difficult problems.

119. The representative of Jamaica expressed his dissatisfaction with the new proposal of the United Kingdom, in his view it was not only contrary to the Long-Term Arrangement but even went further, calling for a modification of the Arrangement itself. He considered therefore, that now was the appropriate time to discuss any modification of the Long-Term Arrangement. He suggested that a working party should be set up to examine the proposal in detail. The representative of Jamaica pointed to the inequitable nature of the scheme which excepted all the highly-developed countries and said that the restriction of imports from developing countries which were not causing market disruption was against the very spirit and intention of the Arrangement. He felt that imports from all countries should be equally controlled. He disagreed with the
United Kingdom delegate's contention that the proposal had been devised on a multilateral basis; in fact, this was far from being the case, as a number of bilateral arrangements existed, or were still to come, and there was also a global quota system for certain countries.

120. In his view the scheme was not equitable even for the countries belonging to the global quota group as, under the scheme, they were dependent on the United Kingdom importers who were free to use their licence with request to any country they wished. He referred to the substantial cut in the apparel group for the global quota countries made at the expense of one country in particular.

121. In reference to Article 11 of the Long-Term Arrangement, the representative of Jamaica pointed out that, under this Article, any party to the Arrangement, not a member of the GATT was obliged not to introduce new restrictions or intensify existing ones; if this was applicable to non-GATT members, it should apply equally to those who were contracting parties. As regards the legal position of the new proposal, he felt that it was essential to have the legal aspect fully examined as well as the position of the transitional arrangements, in view of the fact that the implementation of these arrangements might prejudice any later decision.

122. The representative of Israel referred to his observations on the United Kingdom scheme contained in his general statement (see paragraph 110) and in particular to his Government's serious concern about the proposals and their likely effects on trade relations between the two countries. He indicated that consultations were taking place with the United Kingdom Government on this matter, but so far without results.

123. He noted from the statement of the representative of the United Kingdom that the proposed scheme was to be a multilateral negotiated arrangement under Article 4 of the Long-Term Arrangement. He reminded the Committee that
arrangements under that Article had to be "mutually acceptable" and suggested that machinery be established in order to facilitate the necessary negotiations. It might be possible for the United Kingdom scheme to be ultimately implemented under the provisions of Article 4 and with the consent of the parties concerned. However, as far as the interim arrangements were concerned, these could not be justified under any of the provisions of the Long-Term Arrangement. Furthermore, such a unilateral imposition of discriminatory quotas was contrary to the provisions of the GATT. The aim of any mutually acceptable arrangement negotiated under Article 4 would, in accordance with the Long-Term Arrangement, have to be the prevention of market disruption. Such arrangements should therefore only be made with countries whose exports caused or threatened to cause disruption in the market of the United Kingdom. It was obvious that this did not apply in the case of all the countries for which quotas had been fixed.

124. As to the administration of the quota system, he understood that import licences were to be issued on a "past-trade" basis which would create particular difficulties to exporters in Israel. He felt that these details needed to be fully gone into and asked that the "Notice to Importers No. 1115" be made available to the Committee.

125. From a more general point of view, the representative of Israel stressed that the Long-Term Arrangement had been negotiated, inter alia, to provide safeguards for the smaller countries which had agreed to forego some of their rights under the General Agreement. In considering any new measures under the Long-Term Arrangement, the Committee had an obligation to take this fact into account. He hoped that members would not content themselves merely with observing whether their own particular interests had been taken care of.

126. Summing up, he said that the British proposal needed to be fully examined and, for this reason, he supported the proposal for the establishment of a working party which would be able to report to the Committee after full
discussion of these measures. Furthermore, arrangements should be made for the Committee to be able to meet at short notice, in case the consultations at present going on failed to produce positive results and it proved necessary to have recourse to paragraph 3 of Article 7 of the Long-Term Arrangement.

127. In his statement (reproduced in full in document COT/W/54/Add.1) the representative of Spain, having welcomed the frankness of the British authorities in presenting the proposed measures to the Committee, said that the measures were totally contrary to the spirit of the Long-Term Arrangement and that there was no provision for such measures in the Long-Term Arrangement. He pointed out that the bilateral agreement signed by the United Kingdom and Spain to regulate Spain's textile exports to the United Kingdom had been scrupulously observed by Spain and the Government accordingly considered that, as a prerequisite to a solution of the present difficulties, the agreement which is due to expire on 31 December 1965 should be renewed. However, if the proposed measure were to come into force, his Government would interpret this as meaning that the United Kingdom had withdrawn de facto, if not de jure, from the Long-Term Arrangement, and that the restrictive measures imposed on Spanish exports must be considered as being discriminatory and contrary to normal trade relations between the two countries.

128. The representative of Pakistan, while questioning the basis for the new proposal under the Long-Term Arrangement, enquired whether the provisions of the GATT had been taken into account in the formulation of the proposal. He would also like to have an explanation of the rationale behind the scheme which provided for substantially large quotas for two countries and the rest for other countries on a global system. The new scheme excluded a number of industrialized countries which had been, and continued to be substantial exporters to the United Kingdom market. Recalling the basis on which Pakistan
had been offered a quota, based on the 1962 quota unilaterally established by the United Kingdom, he felt that the alternatives offered to Pakistan, namely either to accept the 1962 quota or join the global quota group, did not provide adequate scope for Pakistan's export capacity. He suggested that in the process of the reorganization and reduction in the size of the United Kingdom textile industry, a part of the textile field should be vacated as a matter of deliberate policy, so as to provide increasing outlets for similar products from developing countries.

129. The representative of Pakistan made the following specific points:

(i) he did not believe that the textile industries of the less-developed countries alone should be subjected to quantitative restrictions. This system should apply to all countries - developing or developed;

(ii) if there was to be a global system the quotas should not be based on an average of years which included some abnormal years, in the sense that, in addition to quantitative restrictions, exports to the United Kingdom had to bear an import surcharge first of 15 per cent and now of 10 per cent - which distorted the trade figure for 1964 and 1965 and so influenced the size of the quota. He thought a more appropriate basis would be the 1964 figure before the import surcharge was established. He asked that the size of the quota be enlarged to take into account past imports in years prior to the coming into force of the import surcharge;

(iii) in principle, in the interests of uniformity and equitable treatment, there should not be separate quotas for any country. Instead, a compromise should be made between the traditional
suppliers and the global quota countries. He suggested that the three traditional suppliers, India, Hong Kong and Pakistan, should be given half the traditional quota and should also be given the opportunity to compete in the global quota group;

(iv) he considered the rate of growth of only 1 per cent as inadequate compared to the 5 per cent provided under the Long-Term Arrangement and which had been incorporated in a number of bilateral arrangements between several developing countries and developed countries. He hoped that the annual growth rate would be increased;

(v) the new scheme should apply for two years and should be reviewed by the Committee when it reviews the operation of the Long-Term Arrangement. He had no objection to the introduction of the scheme on a transitional basis for six months provided it was subject to review.

130. The representative of Japan expressed his concern over the proposal to which he had referred in his general statement (see paragraph 20). He had indicated that the commitment of an annual increase of 1 per cent for imports from many exporting countries made the scheme more restrictive than the present situation. His Government felt that the United Kingdom should base its import policies on the spirit and the guiding principles of the Long-Term Arrangement, and solve its problems by means of adjustment measures. It would be unfortunate if the United Kingdom proposal cast a shadow on the future of the Long-Term Arrangement. Referring to Japanese exports, he said that these had been under restriction for many years either through quantitative restrictions or bilateral arrangements. He noted the substantial increase in exports from non-participating countries to the United Kingdom.
131. The representative of Turkey expressed his Government's deep concern at the proposed arrangement which seemed to offer no opportunity of access to the British market for some exporting countries, including Turkey.

132. The representative of Portugal reserved the position of his Government on this subject.

133. The representative of the Republic of Korea stated that the global quota, if it was justifiable, would at least help countries to compete in a framework on a purely commercial basis. Nevertheless, his delegation, while being in accord in general with the global quota system, shared the view that the United Kingdom proposal should be operated within the framework of the Long-Term Arrangement and not independently. The grouping of the countries was not favourable to the Republic of Korea. Moreover, countries with British preferential treatment had an advantage over the others, whereas all countries concerned should have an equal chance to compete and should have the same tariff applied to their imports of cotton textiles into the United Kingdom. The fixing of the base period by averaging 1962 and 1964 was inequitable to countries under global quota, and he did not think that the 1 per cent annual growth rate mentioned in the quota would be sufficient to bring the global quota to the 1964 level. There was also no provision for increasing the size of quotas for "other" countries. He would like to have details of the licensing arrangement.

134. The representative of the United Arab Republic, endorsing the general view expressed by other representatives, said that the United Kingdom proposal was in contradiction to the Long-Term Arrangement on several grounds. Although
paragraph 2 of the aide memoire stated that the United Kingdom Government would continue to accommodate developing countries increasing exports of cotton textiles to the British market, he did not believe that the new global quota system would offer such possibilities; moreover, the 1 per cent annual increase in the quota did not seem to correspond to the expansion needs of these countries. In connexion with paragraph 4 of the aide memoire, which referred to the necessity for an overall annual limit on imports for the next five years, except in the case of imports from certain countries which did not have disruptive effects, the representative of the United Arab Republic considered that the exports from the United Arab Republic were not large enough to have any disruptive effects. The United Kingdom proposal discriminated in favour of the developed countries as against the developing countries which were newcomers to this market. He enquired whether the scheme applied to all newcomers, or whether a special quota was available for those who were not mentioned under the heading "others" in the global quota. He would also like to know whether exports of certain categories or products not mentioned in the scheme were in fact to be excluded from the United Kingdom market for the next five years.

135. The spokesman for the European Economic Community observed (the statement is reproduced in document COT/W/57/Add.1) that the member countries of the Community, in view of their interest in any system which could help overcome the threat of market disruption, saw the importance of the new approach proposed by the United Kingdom and they would follow closely the discussion on this subject and the reactions of other countries.
136. The representative of India, referring to the new measures, said that India had maintained voluntary restraint since 1959, and no growth formula had been built into this arrangement. He expressed his concern over the exclusion of a large number of countries from the quota system and requested that this point be reconsidered. He welcomed the point made by the United Kingdom delegate that, notwithstanding the new proposal which was intended to cover a period of five years, the United Kingdom was willing to consider the future of the Long-Term Arrangement in the light of different positions taken by many members of the Committee.

137. The representative of the United Kingdom for Hong Kong stated that Hong Kong's views were fully in accord with those expressed by the delegate for India.

138. In reply to the various points made by many delegates (reproduced fully in documents COT/W/58/Add.1 and 2) the representative of the United Kingdom reiterated his position that the United Kingdom proposal was consistent with the objectives of the Long-Term Arrangement. He explained that the basic objective of the Long-Term Arrangement was to give imports of cotton textiles from less-developed countries substantial and growing access to markets of the industrialized countries and the various provisions of the Long-Term Arrangement were directed towards the achievement of this objective. With respect to the point raised by the delegate of Israel, the United Kingdom Government had not imposed the scheme unilaterally, as they were all parties to the Long-Term Arrangement and he believed that he would be able to satisfy other delegations that the proposals were reasonable and sensible.

139. The United Kingdom had given substantial and growing access to its market for cotton textile imports from the less-developed countries. In fact, the United Kingdom had already gone further than any other major industrialized country in this respect in 1962 when the Long-Term Arrangement was concluded and, because of this situation, it had been exempted from the growth provisions of the Arrangement. In 1962 the United Kingdom had bilateral arrangements with three major traditional suppliers. It was felt at that time that, even if the United Kingdom were exempted
from the growth provisions other suppliers might come forward but that, if agree-
ments could be reached with them, the no-growth formula would prevent a further
excessive rise in imports. However, a very large number of new suppliers, with
growing capacities for the export of cotton textiles, had appeared during the last
two or three years.

140. In spite of the exemption from the growth provisions, total imports into the
United Kingdom from all sources between 1961 and 1964 rose by 14 per cent in
volume and, within that growth, imports from the less-developed participating
countries rose in value by 60 per cent. These, then, were the circumstances which
gave rise to the proposals. The United Kingdom could have availed itself of the
provisions of Article 3 to hold down the pattern of trade but they preferred not
to adopt such a course of action; instead of freezing the pattern of trade by
invoking Article 3 the proposal provided for a limit to total imports.

141. In substantiation of the case that there existed an overall state of disrup-
tion in the United Kingdom cotton textiles industry, the United Kingdom represen-
tative pointed out that 40 per cent of domestic consumption was met by imports,
and approximately 35 per cent by imports from the developing countries. Under the
new proposal, imports from new sources (i.e. excluding the three traditional
suppliers, Eastern European countries and Japan) would amount to about 6 per cent
of United Kingdom cotton textile consumption. These figures reflected the
existence of a disruptive element in the market. The brunt of disruption in the
cotton textile industry was borne by the primary processing industries - spinning,
weaving and finishing. Imports of apparel were of importance because they were
the end-products of these industries. The regulation of imports of apparel was
therefore designed to prevent further disruption of the earlier stages of the
industry and to facilitate a balanced reorganization of the industry and a balanced
industry when the reorganization was completed. In view of the large amount of
imports coming into the market, it was difficult to restrict imports from one
country or at one point without these being replaced by imports from another country
or other imports and the state of disruption was spreading both horizontally and
vertically in the industry.
142. As regards the question of discrimination between the traditional suppliers and the new suppliers, the representative of the United Kingdom pointed out that the traditional suppliers had already been subject to restraint for six years and could not be expected to be excessively penalized. The three traditional suppliers had been offered the option of a country quota and two had accepted this option. He added that one might speculate as to whether, if the traditional suppliers had not been subjected to the restraints, many of the new countries which now had access to the United Kingdom market would ever have been able to secure that access, at least on the scale on which they had secured it. As regards the global quota a ceiling was set for all countries which at present exported to the United Kingdom and the new countries would be able to compete for the quota as and when they sought to engage in the export of cotton textiles to the United Kingdom. A further factor which had an influence on the type of scheme adopted was recognition of the fact that, if the United Kingdom had adopted an overall global quota system, the very large competitors might have had an excessively dominating effect upon other global quota countries and that such a system involving the largest suppliers would tend towards price disruption in a way which would benefit neither exporting countries nor the United Kingdom industry. The countries which had been totally excluded from the restrictions were those whose exports to the United Kingdom had not been disruptive over past years.

143. Suggestions had been made that it would have been better to establish a series of country quotas by bilateral negotiations, but, as the offer to some countries could only have been very small, this would have looked unreasonable in view of the large size of the total of United Kingdom imports. However, he suggested that if all the members of the Committee concerned could let him know the size of the quota that they would request and if all these requests added up to 450 million square yards, he would gladly pass on these requests to his Ministers; such a possibility did not seem realistic.
144. Commenting on the basis on which the level of imports was fixed the repre­sentative of the United Kingdom explained that, as mentioned in the aide-memoire, the average figure for 1962, 1963 and 1964 was taken; the aim being, especially in view of the cyclical character of the United Kingdom trade, to arrive at a linear trend rather than to select a single year which would reflect the conditions in that particular year. He said that the scheme aimed at ensuring the present ratio in the United Kingdom market between domestic production and imports. It was estimated that the increase in the United Kingdom cotton textiles consumption was something under 1 per cent per year and the scheme therefore provided for an annual growth of 1 per cent in imports from developing countries between now and 1970. In putting forward a scheme covering the years 1966-1970, the United Kingdom Government was aware of the question of the future of the Long-Term Arrangement and had indicated in the aide-memoire that, if and when the Long-Term Arrangement was modified in any way, this would be taken into account in considering policy on imports during the last three years (1968-1970) of the scheme.

145. The representative of the United Kingdom pointed out that the interim scheme which had been suggested was devised for the purpose of finding a means by which trade could be kept moving during the early part of 1966, while the main discussion of the new scheme continued and its full administration was being brought into effect. As a large number of countries did not come under any quota system during 1965, their exports were based on the fulfilment of contracts which had been placed before specific import licensing was introduced on 1 May 1964. Hence there was in fact no basis on which country quotas could be allocated to all the countries which sought to export textiles in the early part of 1966. The interim scheme was based on the same concept as the major proposals, namely country quotas and a global quota. It had been made clear that, if any adjustments or amendments were to be made to the proposals as a result of discussions, the administration for the whole year 1966 would take those adjustments into account; no country which participated in the interim scheme would thereby have renounced in any way its right to benefit from any adjustments that might subsequently be made. He assured the delegate of Israel that any administration problems which arose during this interim period would be resolved.
146. In a later statement the representative of the United Kingdom stated that his Government was ready to accept a situation in which the proposal was subject to review either immediately or later. He reiterated that the question of a 1 per cent annual growth was intended to be in line with the growth rate of United Kingdom consumption and that, at this stage, a higher rate of growth could not be offered so as not to reduce the share of the domestic market held by the domestic industry. As regards the element of growth envisaged in the United Kingdom textile industry, this was assumed to be largely in synthetic fibres and in the wool and synthetic fields and not primarily in cotton or cotton mixtures.

147. In conclusion, the Chairman stated that the question before the Committee was a practical one of procedure rather than one of principle. He felt that the Committee itself should fully examine the scheme and not leave it to a working party. This examination had, in fact, now begun, although it was not at this stage a question of the Committee expressing approval or disapproval of the scheme. It was the normal practice when a multilateral discussion of this kind was being undertaken in the GATT for efforts to be made, through the maximum amount of consultation on a bilateral basis between the principal countries, to clear the ground in order to establish facts of special importance to particular countries.

148. As regards Article 11, which had been mentioned by the delegate of Jamaica, the Chairman indicated that the obligation requiring countries acceding to the Long-Term Arrangement which were not contracting parties to the GATT to accept the same commitments as those countries which were contracting parties to the GATT, paralleled the provisions in paragraph 2 of Article 2, and he felt that this established an essential balance in the Arrangement between non-contracting parties and contracting parties to the GATT.

149. With respect to the jurisdiction of the CONTRACTING PARTIES and of the Cotton Textiles Committee, it was in his opinion clear that an agreement of the character of the Long-Term Arrangement could not undermine the basic legal rights of
contracting parties under the General Agreement and there had always been an understanding to this effect. If a contracting party brought before the CONTRACTING PARTIES a complaint that a particular measure taken by a party to the Long-Term Arrangement represented a breach or departure from the provisions of the General Agreement, the judgment of the CONTRACTING PARTIES as to the seriousness of the situation would be influenced by whether or not the particular measure which was the object of the complaint was consistent with the Long-Term Arrangement.

150. The Committee:
(a) took note of the United Kingdom proposal on cotton textile imports;
(b) invited the United Kingdom delegation to report to the United Kingdom authorities the concern expressed in relation to the proposal during the Committee's discussions, together with the comments and suggestions which had been made;
(c) invited individual members of the Committee with special concern in this matter to accept the United Kingdom offer to enter into bilateral consultations in order to obtain further detailed information on the points of particular importance to them;
(d) agreed that, following these consultations, there would be a meeting of the Committee, before the next session of the CONTRACTING PARTIES (probably about mid-March '66) to take up this matter as well as other points that might arise in the meantime.

151. The Chairman added that with respect to the interim arrangement it would, of course, be open to any party to the Arrangement to invoke the provisions of Article 7 should it wish to do so, in which case it would then be incumbent upon the Committee to meet promptly in order to discuss the matter.