COTTON TEXTILES COMMITTEE

Report of the Technical Sub-Committee

INTRODUCTION

1. The Technical Sub-Committee met from 11 to 22 December 1961 and from 8 to 13 January 1962.

2. Representatives of the following governments participated in the meeting: Australia, Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, India, Italy, Japan, Kingdom of the Netherlands, Norway, Pakistan, Portugal, Spain, Sweden, the United Kingdom and the United States. The Commission of the EEC participated in the meeting and the OECD was also represented.

3. The following governments were represented by observers: Czechoslovakia, Switzerland, Yugoslavia and the United Arab Republic.

4. This report, together with the annexed draft long-term arrangement, is submitted for the consideration of the Cotton Textiles Committee. The members of the Technical Sub-Committee examined the problems concerned from a strictly technical point of view and no government is committed on any points contained in the text of the draft arrangement. It was recognized that no representative could come to any definite conclusion regarding the text of the draft arrangement, or any part thereof, until some of the major issues involved had been settled and until the percentage increases contemplated in Annexes A and B and elsewhere were decided and the other necessary quantitative data were available.

DRAFT LONG-TERM ARRANGEMENT

5. The Sub-Committee proceeded in its work on the basis of the conclusions contained in the report of the Cotton Textiles Committee on its meeting in October 1961 (L/1659). In the elaboration of a draft for the consideration of the Cotton Textiles Committee, the Sub-Committee took account of proposals which had been submitted to the Committee by the United States (L/1592), Japan (L/1596) and the European Economic Community (Spec(61)321), a draft long-term arrangement submitted to the Sub-Committee by Japan (Spec(61)388), and a statement to the Sub-Committee by the representative of the United Kingdom which was distributed in document Spec(61)383.

6. In certain articles of the draft arrangement the text contains alternative solutions; these have been indicated by square brackets.
(a) Preamble

7. The Preamble as contained in the annexed draft long-term arrangement corresponds closely to the Preamble to the Short-term Arrangement (Annex to L/1555); the only significant departure from it is the reference to the Declaration on Promotion of the Trade of Less-Developed Countries (Annex to L/1657) adopted by Ministers during their meeting in November 1961. As in the Short-term Arrangement, inverted commas have been used around the word "disruption" in the third paragraph of the Preamble.

(b) Article 1

8. This Article is introductory in character. A number of members of the Sub-Committee wished to insert in the text of the Article a specific reference to the adjustments that may be required in importing countries to meet the changing pattern of production and trade in cotton textiles. A compromise text was finally agreed which refers to world trade in cotton textiles. As the arrangement concerned trade matters only, it was considered to be preferable to omit reference to production, although this did not imply that adjustments to production would not take place. The representatives of the member States of the European Economic Community were unable to support this draft sentence and wished to have time to reflect on it.

9. Secondly the Article contains a recognition that, as in the Short-term Arrangement, nothing in the long-term arrangement would affect the rights and obligations under the GATT of contracting parties which become parties to such an arrangement which, as is indicated in Article 1, represents a special practical effort of international co-operation aimed at solving the problems involved on a mutually acceptable basis.

10. Thirdly, the Sub-Committee generally recognized that any long-term arrangement on cotton textiles should not create a precedent with respect to other sectors of international trade. It was also recognized that a limited group of countries could not, in the context of the negotiations of a particular arrangement, preclude any action which the CONTRACTING PARTIES might wish to take in the future. The text has been drafted in order to take into account both these considerations.

(c) Article 2

(i) Paragraph 1

11. It was not possible to reach agreement on the inclusion of a target date for the elimination of import restrictions maintained inconsistently with the provisions of the GATT, and two alternative texts are therefore contained in this paragraph. It should be noted that the date of 30 September 1967, proposed by the representative of Japan, would not be modified even if the duration of the long-term arrangement was for three years. This means that the countries concerned would have two additional years after the termination of the arrangement in which to eliminate all the import restrictions concerned.
A proposal which is reproduced in square brackets provides for the possibility of an importing country maintaining certain restrictions, if the Cotton Textiles Committee recognizes that there are exceptional circumstances justifying the maintenance of such restrictions.

(ii) Paragraph 2

12. It was suggested that the provisions of this paragraph would not prevent participating countries from making technical changes in the level of quotas for various items as long as this did not affect access to their markets.

13. It was pointed out in the Sub-Committee that, if a country not a contracting party to GATT were to accept the long-term arrangement, the participating countries which were contracting parties to GATT would be at some disadvantage in certain respects since, for example, the participating country which was not a contracting party would have no GATT obligations regarding the removal of restrictions. The Sub-Committee considered that this point would have to be covered in the terms of accession for such a country and Article 12 on acceptance and accession has been drafted to provide for such possibility.

(iii) Paragraph 3

14. This paragraph provides for practical methods of relaxation of import restrictions on cotton textile products. It was not possible to reach agreement in the Sub-Committee on a single formula and two alternative texts have therefore been included. One of these provides for minimum increases in quotas over the period of the long-term arrangement, while the other envisages bilateral negotiations for the determination of quotas without any quantitative commitments being set out in the arrangement. It will be noted from the first alternative text that, in order to compute the level of quotas to be opened by the end of the period of validity of the arrangement, the percentage increase would be applied to the quotas opened in the base year for products subject to restrictions at the end of the period. It was understood that the annual percentage increase would likewise be based on the items remaining under restrictions for the licensing period concerned.

15. The Sub-Committee was not in a position to suggest the actual percentage of increase nor the base year referred to in Alternative A; preference was, however, expressed by some members of the Sub-Committee for 1962 as the base year.

16. Some members of the Sub-Committee expressed the view that, if actual imports of any cotton textile product fell considerably short of quotas for two consecutive years, the import restrictions on such product should be discontinued.

17. The Sub-Committee recognized that the wording used in this paragraph might not be sufficiently clear to safeguard the right of contracting parties under the GATT to maintain certain restrictions permitted by the provisions of the General Agreement.

1The representative of the member States of the European Economic Community expressed doubts as to the desirability of including this paragraph in the draft arrangement.
(iv) Paragraph 4

18. The Sub-Committee was of the opinion that the provisions of this paragraph were not a repetition of the obligations under GATT, since all the participating countries might not enjoy full GATT treatment in their trade relations with other participating countries. For that reason the word "equitable" has been used in the text instead of the word "non-discriminatory" which would have a more strictly legal connotation. Further, this paragraph was understood to imply that the same considerations should apply when importing countries relax their remaining import restrictions.

(v) Paragraph 5

19. The provisions of this paragraph are intended to provide for a special method of increasing quotas which are nil or negligible; in the absence of such a special method the operation of the automatic formula in alternative A of paragraph 3 would not be meaningful.

(vi) Paragraph 6

20. This paragraph deals with the particular problem of re-exports after processing.

(vii) Paragraph 7

21. The Sub-Committee agreed that, if a participating country was not in a position to give details of quotas one month before the beginning of the licensing period, because bilateral negotiations were not completed by that date, that country would have met the requirement contained in this paragraph if it notified the Cotton Textiles Committee of the arrangements in force provisionally for the imports of the products concerned pending the completion of the negotiations and if it communicated the final quotas as soon as practicable after the conclusion of such negotiations.

(d) Article 3

22. This Article contains the safeguard provisions available to importing countries in order to meet cases of market disruption or the threat thereof. The Sub-Committee agreed that resort to these provisions should be strictly limited to the cases where market disruption as defined by the CONTRACTING PARTIES exists or is threatened. The procedure is based on the provisions of the Short-term Arrangement, but the Sub-Committee came to the conclusion that it was necessary to define more clearly the scope of the consultation contemplated between the importing and the exporting countries concerned, and to lay down certain rules concerning the administration of the measures introduced under Article 3. The Sub-Committee had also to advise ways and means of giving effect to the objectives set forth in the Preamble to the draft arrangement of providing growing opportunities for exports of cotton textile products and avoiding harmful effects on the economic expansion of less-developed countries.

1 The representative of the member States of the European Economic Community expressed doubts as to the desirability of including these paragraphs in the draft arrangement.
(1) **Paragraph 1**

23. There was general agreement concerning the procedure for consultation, although the definition of the scope of such consultation led to lengthy discussion in the Sub-Committee. Some importing countries stressed the need for a definite reference, in the request, to restraint of exports at a specified level, whereas exporting countries and certain importing countries felt that this might appear to limit the scope of the consultation which, in their opinion, should be more flexible and should enable the countries concerned to discuss freely the practical methods for removing or avoiding disruption, either by restraining imports at the appropriate level, which may or may not be the level proposed by the importing country, or by other means which may be more appropriate and which would take into account the particular circumstances of the case and, in particular, the trend of the trade in the cotton textile products under discussion. The text of paragraph 1 of Article 3 is intended to make it clear that the request may, if the importing country so desires, include the level of restraint believed to be appropriate. Taken together with paragraph 3 of Article 3, it is clear that the inclusion of this specification in the request does not limit the scope of the consultation to consideration of any one solution of the problem of market disruption.

24. The view was held by some members of the Sub-Committee that a solution to the problems of market disruption should be found through consultation and negotiation by the parties concerned, without the need to lay down in advance in the arrangement the terms on which the negotiations should take place. For that reason, these members felt that paragraphs 2 and 3 of Article 3 should not be retained. Other members of the Sub-Committee, however, considered that paragraphs 2 and 3 were an indispensable part of the arrangement.

(ii) **Paragraph 2**

25. The emergency clause is based on the wording of the Short-term Arrangement but is drafted in such a way as to make it clear that the measures introduced in critical circumstances would be of a temporary nature and would not extend beyond the period specified in paragraph 3 of Article 3. In other words, these temporary measures should not be considered as a substitute for the measures which may have to be taken later under paragraph 3 of Article 3.
26. It was not possible to reach agreement concerning the time limit provided for in this paragraph. The representatives of certain importing countries considered that thirty days was the maximum which they could accept to meet the requirements of a situation which might involve a serious risk of damage to their domestic industry, whereas the representatives of exporting countries considered that a period of sixty days was necessary to enable the countries concerned to complete their consultation; they pointed out that if the situation were critical the risk of damage could be forestalled by resorting to the provisions of paragraph 2.

27. This provision provides for a limited swing to take account of administrative difficulties which arise in enforcing a given level of restraint on cotton textiles subject to measures taken under Article 3. It was, however, suggested by some members of the Sub-Committee that the scope of this provision should be extended to cover the changing market situation in the importing country.

28. The United States representative proposed that it was necessary for the operation of the procedures under Article 3 and, in particular, for the application of the "growth" formula to provide for a number of categories, and suggested that the same classification should be used as is contained in Appendix B of the Short-term Arrangement. The United States representative indicated, however, that further consideration could be given to this list if it were considered necessary. In this connexion, the view was expressed in the Sub-Committee that, if the categories approach were adopted, countries using the Brussels Nomenclature should have the opportunity of using a different classification based on that Nomenclature or on the SITC.

29. Other members of the Sub-Committee considered that the use of categories was neither desirable nor necessary, and suggested that the operation of the procedures in Article 3 should be more flexible and should be based on the actual items or groups of items causing or threatening to cause market disruption. It was recognized, however, that there might be cases when it would be difficult to operate on the basis of individual items, either because the measure could not easily be limited to the actual product giving rise to market disruption or because the necessary statistical information would not be available on that basis. To meet this point a proposal was made (Alternative C) which would allow the importing country, subject to certain safeguards, to extend the scope of the measure taken under Article 3 to a group of items, on the understanding that this group should be defined as narrowly as possible. Alternatively, the suggestion was made that, while normally the procedures of Article 3 should relate to the actual product or products causing or threatening to cause market disruption, the importing country, when it would be difficult to operate on the basis of individual items or groups of items because of the lack of necessary statistical information or for other administrative reasons,
should be entitled to extend, subject to certain safeguards, the measures to the category or categories to which the product or products belong. This suggestion is contained in Alternative B.

30. It will be noted that throughout the draft arrangement, reference is made to cotton textile "product" or "products". These words were used since it is not yet decided whether the approach should be or should not be by categories.

(vi) Paragraph 6

31. Paragraph 6 attempts to deal with the problem of a possible unfair application of measures of restraint to the exports of two or more countries whose exports are responsible for market disruption. The difference between the two alternative texts is that, under Alternative A, the importing country would be obliged to apply the measures to all the countries whose exports are responsible for market disruption whereas, under Alternative B, the importing country would not necessarily be obliged to apply the provisions of Article 3 to all such countries. As the Sub-Committee understood that the intention of those members supporting Alternative B was to enable the importing country to exercise its discretion only in cases when there were good reasons for refraining from applying a measure taken under Article 3 to a particular exporting country, the suggestion was made that a compromise might be reached if words reflecting this understanding were inserted in the text of paragraph 6.

32. On the other hand, both proposals in the text of this paragraph provide that, if resort is made to the provisions of Article 3 with respect to two or more exporting countries, the measures should be applied in an equitable manner. In this connexion it was recognized that the concept of equity meant that the measures would have to be applied to the exporting countries in as fair a manner as possible, taking into account all the relevant circumstances and, in particular, the relative degree of market disruption caused by the exports of the various countries concerned. The Sub-Committee was of the view that importing countries, in considering all the relevant circumstances, should have particular regard to the situation of less-developed countries dependent on the export of certain cotton textile products.

(vii) Paragraph 7

33. This paragraph takes into account the conclusions reached by the Cotton Textiles Committee at its meeting in October 1961 (L/1659, page 14) that "it was desirable not only to avoid disruption in the domestic markets of importing countries, but also to avoid disruption in the production and marketing of exporting countries". The paragraph provides for collaboration regarding the procedures to be applied to that effect.

(viii) Paragraph 8

34. In regard to this paragraph it was agreed that the importing countries should keep under constant review the measures applied under this Article so as to ensure that they were maintained for no longer than was strictly necessary.
35. In this Article the Sub-Committee has deleted the reference to bilateral arrangements which was contained in the Short-term Arrangement, as some arrangements may involve more than two countries. It was agreed that the arrangements envisaged in this Article would not include ad hoc arrangements which may be reached in the course of the consultation provided for under paragraph 1 of Article 3, but would take the form of bilateral or multi­lateral arrangements concluded or sponsored by participating governments. The Sub-Committee did not suggest the communication of the actual texts of the arrangements as this might create administrative difficulties, but it considered that this form of communication might be the most practical way of meeting the requirement of this Article in most cases.

36. The representative of the Netherlands, supported by the representative of the member States of the EEC wished it to be recorded that, in the view of his delegation, the judgement as to whether a bilateral arrangement was consistent with the objectives of the long-term arrangement should rest with the parties to the bilateral arrangement.

37. The Sub-Committee has put forward this Article in the hope that such practical co-operation might enable the participating countries, inter alia, effectively to prevent the threat of market disruption and thus avoid the need to resort to the measures of restraint contemplated in Article 3.

38. There was agreement in the Sub-Committee that, as in the Short-term Arrangement, there was need for provisions in the long-term arrangement to prevent the circumvention of the arrangement in particular by trans­shipment, substitution of directly competitive textiles and action by non-participants.

39. The text concerning trans-shipment contains two sets of provisions. According to the first sentence of this paragraph, the importing and exporting countries (but not the countries of trans-shipment) agree to collaborate to prevent circumvention through trans-shipment and re-routing; the reason why this provision does not apply to the countries of trans-shipment is that those countries would generally not be in a position to take any effective action. On the other hand, when an importing country has doubts as to the
origin of a particular consignment, it would enter into consultation with the country of trans-shipment i.e., the country in which the consignment is supposed to have originated, in order to determine the real origin of the consignment. The question was raised whether the provision of this paragraph applied only to goods which have been trans-shipped or re-exported without processing or whether this also covered the goods which had undergone some degree of processing. The Sub-Committee agreed that resort could be had to this procedure when the importing country considered that the degree of processing involved had not changed the origin of the goods.

40. The Sub-Committee agreed on the basic principles to be applied with a view to avoiding circumvention by substitution of fibres other than cotton. It was, however, not possible to adopt a final text because of divergence of view concerning the cases which would be considered as cases of circumvention. Some members of the Sub-Committee felt that the provisions on substitution should only be invoked when measures had already been taken under Article 3, in order to limit imports of cotton textiles, whereas other members of the Sub-Committee felt that market disruption in cotton textiles could result from imports of products containing directly substitutable fibres prior to the application of the measures under Article 3 and thereby justify recourse to this Article for such products.

41. As regards the provision concerning non-participants, the Sub-Committee agreed that, if an importing country resorted to the measures envisaged in Article 3, the exports of the participating countries concerned should not be treated more severely than those of any non-participating country provided, of course, that the exports of such country were also responsible for market disruption. The Sub-Committee considered that it was not necessary to provide anything more in the arrangement, but it was agreed to provide for a procedure for consultation to cover other possible cases of frustration.

(h) Article 7

42. This Article is intended to cover the case of countries which already provide access to their market which exceeds a certain percentage of their total market for cotton textiles. No conclusion was reached in the Sub-Committee on this point, but a suggestion was made that the matter referred to in this Article might more appropriately be dealt with in a Protocol to the arrangement.
(i) Article 8

43. The representatives of exporting countries considered that some safeguard should be introduced in the long-term arrangement to protect export interests against the possible nullifying effects of measures which might not be inconsistent with the GATT obligation of an importing country. It will be noted that the text of alternative A of this Article provides for a procedure for reference to the Cotton Textiles Committee. Some doubts were expressed as to whether this procedure would be entirely satisfactory and it was suggested that a possible solution could be found by inserting in the arrangement recognition that the procedures of Article XXIII of the GATT were available to the country concerned if necessary.

(j) Article 9

44. This Article sets out the functions of the Cotton Textiles Committee. It was noted in the Sub-Committee that the Commission of the European Economic Community would participate in the work of the Cotton Textiles Committee, as it did in other subsidiary bodies of the CONTRACTING PARTIES.

(k) Article 11

45. The Sub-Committee did not attempt to define what was meant by "a threat of market disruption" but was of the opinion that further consideration might be given to this matter.

(l) Article 12

46. The Sub-Committee considered that the arrangement should be open for acceptance to all governments which were either contracting parties to GATT or have acceded provisionally to the General Agreement. It considered, however, that as the participating countries maintaining restrictions on the importation of cotton textiles from other participating countries would have agreed to undertake a definite percentage increase in their quotas during the period of the arrangement, this obligation should be extended to all countries maintaining restrictions wishing to become party to the arrangement, subject to the provisions which may be included in Article 7 of the arrangement (exemption from certain obligations of the arrangement in favour of countries which cover a large part of their domestic requirements by imports). It would appear necessary, therefore, to provide for a procedure which would satisfy the other participating countries that countries wishing to become party to the arrangement would accept meaningful obligations in this respect.
47. Another point which the Sub-Committee considered should be covered in this Article is the question of accession to the arrangement by non-GATT countries. The Sub-Committee felt that the arrangement, and in particular Article 2, contained certain obligations which countries parties to the GATT might have some difficulty in accepting in relation to countries which have not accepted the same basic obligations for the conduct of their commercial policy. For that reason, the Sub-Committee is of the view that the most practical procedure would be one similar to that envisaged in Article XXXIII of the GATT, for accession. As, however, the circumstances will not be exactly the same, the Sub-Committee would suggest that the terms of accession in such cases should be approved by the participating countries themselves, rather than by a qualified majority of the Cotton Textiles Committee.

48. The Sub-Committee did not have time to consider the full implications of the draft of this Article, which should be looked upon as tentative.

(m) Article 13

49. The Sub-Committee was not in a position to recommend a definite list of key countries but considered that the number of key countries should be as small as practicable. The following list may serve as a basis for discussion by the Cotton Textiles Committee: Canada, France, Federal Republic of Germany, India, Japan, Pakistan, Portugal, Spain, United Kingdom and United States of America.

(n) Article 14

50. The Sub-Committee agreed to the insertion of a clause which enables any participating country to withdraw from the arrangement on sixty days notice. This provision, which is found in a number of international agreements, was inserted in order to eliminate legal difficulties existing in a particular country. The time-limit of sixty days contained in the Article is to be considered as tentative.

(o) Annex A

51. The intention is that, in Annex A, the individual participating countries concerned should be listed and that the percentage increases referred to relate to those to be granted by the individual countries in respect of imports from the other participating countries as a whole.
52. The Sub-Committee had before it two approaches to the problem, one (Alternative A) based on adjustments in the level at which imports (or exports) of products causing, or threatening to cause, market disruption might be restrained. This approach provides for increases or decreases in such imports in relation to increases or declines in domestic consumption. The other approach provides for a level of restraint based on actual imports of the products concerned during a preceding period increased by a certain percentage. In the text of Annex B covering this approach, two proposals are taken into account, one (Alternative B) that the previous twelve months period should be taken as the basis, and the other (Alternative C) that the period should be the three-year period preceding the application of the measures concerned. The introduction of the three years average is designed to even out fluctuations which result from the textile cycle.

Note: There are no comments on Articles 10, 15 and 16 and Annexes C, D and E as these are considered to be self-explanatory.
ANNEX

DRAFT LONG-TERM ARRANGEMENT

RECOGNIZING the need to take co-operative and constructive action with a view to the development of world trade;

RECOGNIZING further that such action should be designed to facilitate economic expansion and promote the development of less-developed countries possessing the necessary resources, such as raw materials and technical skills, by providing larger opportunities for increasing their exchange earnings from the sale in world markets of products which they can efficiently manufacture;

NOTING, however, that in some countries situations have arisen which, in the view of these countries, cause or threaten to cause "disruption" of the market for cotton textiles;

DESIRING to deal with these problems in such a way as to provide growing opportunities for exports of these products, provided that the development of this trade proceeds in a reasonable and orderly manner so as to avoid disruptive effects in individual markets and on individual lines of production in both importing and exporting countries;

DETERMINED, in carrying out these objectives, to have regard to the Declaration on Promotion of the Trade of Less-developed Countries adopted by Ministers at their meeting during the nineteenth session of the CONTRACTING PARTIES in November 1961;

The PARTICIPATING COUNTRIES have agreed as follows:
Article 1

In order to assist in the solution of the problems referred to in the Preamble to this Arrangement, the participating countries are of the opinion that it may be desirable to apply, during the next few years, special practical measures of international co-operation which will assist in any adjustment that may be required by changes in the pattern of world trade in cotton textiles. They recognize, however, that the measures referred to above do not affect their rights and obligations under the General Agreement on Tariffs and Trade (hereinafter referred to as the GATT) and do not lend themselves to a wider application than the one provided for under this Arrangement.

Article 2

1. Those participating countries still maintaining restrictions inconsistent with the provisions of the GATT on imports of cotton textiles from other participating countries agree to relax those restrictions progressively each year with a view to their elimination (Alternative A) as soon as possible (Alternative B) as soon as possible and, in any case, not later than 30 September 1967. In cases where the Cotton Textiles Committee recognizes that there are exceptional circumstances which prevent the elimination of any particular restriction, the participating countries will agree to the postponement of the termination of such restriction by the participating country concerned.

1 This sentence was generally acceptable to the Sub-Committee, but certain members wished to have time to reflect on it.

2 The representative of the member States of the European Economic Community expressed doubts as to the desirability of including paragraphs 2, 4 and 5 in the draft arrangement. Another member of the sub-Committee supported the deletion of paragraph 2.
2. Without prejudice to the provisions of paragraphs 2 and 3 of Article 3, no participating country shall introduce new import restrictions, or intensify existing import restrictions, on cotton textiles, insofar as this would be inconsistent with its obligations under the GATT.

3. (Alternative A) The participating countries at present applying import restrictions to cotton textiles imported from other participating countries undertake to expand access to their markets for such cotton textiles so as to reach, by the end of the period of validity of the present Arrangement, for the products remaining subject to restrictions at that date, taken as a whole, a level corresponding to the quotas opened in \( \frac{1}{1} \), for such products, as increased by the percentage mentioned in Annex A.

Where bilateral arrangements exist, annual increases shall be determined within the framework of bilateral negotiations. It would, however, be desirable that each annual increase should correspond as closely as possible to \( \text{one fifth} \) \( \text{one third} \) of the overall increase.

3. (Alternative B) Participating countries still maintaining import restrictions on cotton textiles shall enter into bilateral negotiations with the exporting participating countries concerned periodically, or at any time at the request of such exporting countries, with a view to achieving specific progress toward the agreed objective of relaxing and ultimately eliminating such restrictions.

4. The participating countries concerned shall administer their remaining restrictions on imports of cotton textiles from participating countries in an equitable manner and with due regard to the special needs and situation of the less-developed countries.

5. Notwithstanding the provisions of paragraph 3 above, if, during the licensing period preceding the entry into force of this Arrangement, a specific basic quota is nil or negligible, the quota for the succeeding

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\(^1\) The Sub-Committee did not attempt to determine whether 1961 or 1962 should be the base year, but some members of the Sub-Committee indicated a preference for 1962.
licensing period will be established at a reasonable level by the participating importing country concerned in consultation with the participating exporting country or countries concerned. Such consultation would normally take place within the framework of the bilateral negotiations referred to in paragraph 3 above.

6. Participating countries shall, as far as possible, eliminate import restrictions on the importation, under a system of temporary importation for re-export after processing, of cotton textiles originating in other participating countries.

7. The participating countries shall notify the Cotton Textiles Committee as early as possible, and in any case not less than one month before the beginning of the licensing period, of the details of any quota or import restriction referred to in this Article.

1Article 3

1. If imports from a participating country or countries into another participating country of certain cotton textile products not subject to import restrictions should cause or threaten to cause disruption in the market of the importing country, that country may request the participating country or countries whose exports of such products are causing or threatening to cause market disruption to consult with a view to removing or avoiding such disruption. In its request the importing country will, at its discretion, indicate the specific level at which it considers that exports of such products should be restrained, a level which shall not be lower than the one indicated in Annex B. The request shall be accompanied by a detailed, factual statement of the reasons and justification for the request; the requesting country shall communicate the same information to the Cotton Textiles Committee at the same time.

1In the view of some members of the Technical Sub-Committee paragraphs 2 and 3 of the Article should be deleted, which would imply the deletion of the words in square brackets in paragraph 1.

2The use of the word "products" is intended by the Sub-Committee to be neutral on the question of whether Article 3 should refer to "categories" or "articles". The language might, therefore, be changed when a decision on that question is reached.
2. In critical circumstances, where delay would cause damage difficult to repair, the requesting participating country may, until the end of the period specified in paragraph 3 below, take the necessary temporary measures to limit the imports referred to in paragraph 1 above from the country or countries concerned.

3. If, within a period of 90 days after the request has been received by the participating exporting country or countries, there has been no agreement either on the request for export restraint or on any alternative solution, the requesting participating country may decline to accept total or retained imports from the participating country or countries referred to in paragraph 1 above of the cotton textile products causing or threatening to cause market disruption, at a level higher than that specified in Annex B.

4. In order to avoid administrative difficulties in enforcing a given level of restraint on cotton textiles subject to measures taken under this article or in order to adapt such restraint to the changing market situation in the importing country the participating countries agree that there should be a reasonable degree of flexibility in the administration of these measures. Where restraint is exercised for more than one product the participating countries agree that the agreed level for any one product may be exceeded by 5% percent provided that the total exports subject to restraint do not exceed the aggregate level for all products so restrained on the basis of a common unit of measurement to be determined by the participating countries concerned.
5. (Alternative A) If a participating country determines that a shift in the pattern of imports within any category (as defined in Annex D) is producing undue concentration of imports of any particular item and that such concentration is causing or threatening to cause market disruption, that country may invoke the procedures authorized in case of market disruption by imports of one category.¹ (Alternative B) In cases where it will not be practical to limit the operation of a measure taken under this Article to the product or products causing or threatening to cause disruption, the importing country shall be free to apply the measure to the category to which the product or products belongs (as defined in Annex D); provided that steps shall be taken to avoid adverse effects on the imports of other products in the same category which are not causing or threatening to cause market disruption or are not directly substitutable for the product causing or threatening to cause such disruption. (Alternative C) The participating countries recognize that in some cases it will not be practicable to limit the operation of a measure taken under this Article to the product or products causing or threatening to cause disruption. It is their intention, however, to avoid adverse effects on the imports of other products in the same group which are not causing or threatening to cause market disruption or are not directly substitutable for the product or products causing or threatening to cause such disruption. Consequently, the measures under this Article may be applied to the group of products to which the product or products belongs provided that such group of products shall be defined as narrowly as possible for the operation of the measure by the participating country.

6. (Alternative A) If exports from two or more participating countries are causing or threatening to cause market disruption, the measures envisaged in this Article will be applied in an equitable manner to these exports of all such countries. (Alternative B) If the measures envisaged in this Article are invoked in respect of exports from two or more participating countries, they should be applied in an equitable manner to the exports of such countries.

¹If the approach by categories is adopted, the choice would be between Alternatives A and B. If the approach by categories is not adopted the text to be considered is that in Alternative C.
7. If participating countries have recourse to the measures envisaged in this Article, they shall, in introducing such measures, do so in such a way as to avoid undue /unnecessary/ damage to the production and marketing of the exporting country and shall accordingly co-operate with a view to agreeing on suitable procedures.

8. A participating country having recourse to the provisions of this Article shall keep under review the measures taken under this Article. It shall relax the measures as the situation, or threat, of market disruption becomes less acute, and shall eliminate them when the situation, or threat, of disruption ceases to exist. It will report from time to time, and in any case once a year, to the Cotton Textiles Committee on the progress made in the relaxation or elimination of such measures /and, when applicable, on the reasons for any continued maintenance of the measures/. Any participating country maintaining measures under this Article shall afford adequate opportunity for consultation to any participating country or countries affected by such measures.

9. The participating countries agree that measures envisaged in this Article should only be resorted to sparingly, taking full account of the agreed objectives set out in the Preamble to this Arrangement.

Article 4

Nothing in this Arrangement shall prevent the application of mutually acceptable arrangements on other terms not inconsistent with the basic objectives of this Arrangement. The participating countries shall keep the Cotton Textiles Committee fully informed of such arrangements, or the parts thereof, which have a bearing on the operation of this Arrangement.

Article 5

The participating countries shall take steps to ensure, by the exchange of information and other practical means, the effective operation of this Arrangement.
Article 6

The participating countries further agree to avoid circumvention of this Arrangement and, in particular, on the following measures to avoid such circumvention by trans-shipment, substitution of directly competitive textiles and action by non-participants:

(a) Trans-shipment

The participating importing and exporting countries agree to collaborate with a view to preventing circumvention of this Arrangement by trans-shipment or re-routing and to take appropriate administrative action to avoid such circumvention. In cases where a participating country has reason to believe that imports shipped to it from another participating country did not originate in that country, it may request that country to consult with it with a view to assisting in the determination of the real origin of the goods.

(b) Substitution of directly competitive textiles

(Alternative A) It is not the intention of the participating countries to broaden the scope of this Arrangement beyond cotton textiles but to prevent the circumvention of this Arrangement by the deliberate substitution of cotton wholly or partly by directly competitive fibres. Accordingly, where products are subject to restraint under Article 3, if the importing participating country concerned has reason to believe that there has been an abnormal increase in imports of products in which this substitution has taken place solely in order to remove the products from the scope of the definition of cotton textiles in Article 10, the importing participating country may request the exporting country concerned to investigate the matter and consult with the importing participating country concerned with a view to reaching agreement upon measures designed to prevent circumvention of this Arrangement (Alternative B) It is not the intention of the participating countries to broaden the scope of this Arrangement beyond cases where there exists market disruption or threat of disruption in the field of cotton textiles but to prevent the circumvention of this Arrangement by the deliberate substitution of
cotton wholly or partly by directly competitive fibres. Accordingly, where a case of market disruption is established in the field of cotton textiles, if the importing participating country concerned has reason to believe that there has been an abnormal increase in imports of products in which this substitution has taken place solely in order to circumvent the provisions of this Arrangement, the importing participating country may request the exporting country concerned to investigate the matter and consult with the importing participating country concerned with a view to reaching agreement upon measures designed to prevent circumvention of this Arrangement. Such request shall be accompanied by a detailed, factual statement of the reasons and justification for the request. Failing agreement in the consultation within 30 days of such request, the importing participating country may decline to accept imports of the products concerned as provided in Article 3 and at the same time any of the participating countries concerned may refer the matter to the Cotton Textiles Committee which shall make such recommendations to the parties concerned as may be appropriate.

(c) Non-participants

The participating countries agree that, if it proves necessary to resort to the measures envisaged in Article 3 above, the participating importing country or countries concerned shall take steps to ensure that the participating country's exports against which such measures are taken shall not be restrained more severely than the exports of any country not participating in this Arrangement which are causing, or threatening to cause, market disruption. The participating importing country or countries concerned will give sympathetic consideration to any representations from participating exporting countries to the effect that this principle is not being adhered to or that the operation of this Arrangement is frustrated by trade with countries not party to this Arrangement.
Article 7

In any year of the Arrangement a participating country shall not be required to grant increased access of cotton textiles to its domestic market under paragraphs 1 and 3 of Article 2, or to raise the level referred to in paragraphs 1 and 3 of Article 3 if, in the preceding year, the access achieved by cotton textiles retained in its domestic market exceeds ... percent of its total domestic market for cotton textiles and if any import restrictions maintained by such country are regarded by the Cotton Textiles Committee as not being unduly discriminatory. Such a country shall nevertheless take due account of the intentions of these Articles in the policy adopted towards imports of cotton textiles. The Cotton Textiles Committee shall make recommendations to the participating countries when other major participating countries have accorded like access to imports of cotton textiles.

1 The Danish representative proposed the insertion at this point in the text of the following words: "or to observe the provisions of paragraph 2 of Article 2".

2 A suitable method of calculating the relevant percentage will be necessary. This might be done in terms of cotton fabrics, or cotton fibre content of the products concerned.

3 This text is tentative and is to be reconsidered.
Article 8

(Alternative A) 1. In view of the safeguards provided for in this Arrangement the participating countries shall, as far as possible, refrain from taking measures which may have the effect of nullifying the objectives of this Arrangement.

2. If a participating country finds that its interests are being seriously affected by such measure by another participating country, that country may request the country applying such measure to consult with a view to remedying the situation.

3. If the participating country so requested fails to take appropriate remedial action within a reasonable length of time, the requesting participating country may refer the matter to the Cotton Textiles Committee which shall examine such matter and make such recommendations to the participating countries as it considers appropriate within 30 days after the matter is referred to it.

4. If a participating country fails to comply with such recommendation within 30 days after it has been made, that participating country shall cease to be entitled to resort to the provisions of Article 3, or to maintain import restrictions with respect to the cotton textiles affected until such time as such recommendation is complied with.

(Alternative B) 1. In view of the safeguards provided for in this Arrangement, the participating countries shall, as far as possible, refrain from taking measures which may have the effect of nullifying the objectives of this Arrangement. If a participating country should find it necessary to introduce measures affecting trade in cotton textiles other than those permitted under this Arrangement and which are not inconsistent with the GATT any other participating country which considers that its exports of cotton textiles may be adversely affected, may call for consultation and the participating country applying such measures will consider taking appropriate action to mitigate any adverse effects which might result therefrom.
Article 9

The Cotton Textiles Committee, as established by the CONTRACTING PARTIES at their nineteenth session, shall be composed of representatives of the countries party to this Arrangement and shall fulfil the responsibilities provided for it in this Arrangement.

(a) The Committee shall meet from time to time to discharge its functions. It will undertake studies on trade in cotton textiles as the participating countries may decide. It will collect the statistical and other information necessary for the discharge of its functions and will be empowered to request the participating countries to furnish such information.

(b) Any case of divergence of view between the participating countries as to the interpretation or application of this Arrangement may be referred to the Committee for examination.

(c) The Committee shall review the operation of this Arrangement once a year and report to the CONTRACTING PARTIES. At the review to be held during the third year of the Arrangement, the Committee shall consider the results achieved in the relaxation of import restrictions.

(d) The Committee shall meet not later than one year before the expiry of this Arrangement, in order to consider whether the Arrangement should be extended, modified or discontinued.

Article 10

For purposes of this Arrangement the expression "cotton textiles" includes yarns, piece-goods, made-up articles, garments, and other textile manufactured products, in which cotton represents more than 50 per cent (by weight) of the fibre content (Ref. to SITC .........), with the exception of hand-loom fabrics of the cottage industry.

1The second sentence of (c) would be deleted if the duration of this Arrangement is for three years.
Article 11

For the purposes of this Arrangement, the term "disruption" refers to situations of the kind described in the Decision of the CONTRACTING PARTIES of 19 November 1960, the relevant extract from which is reproduced in Annex C.

Article 12

1. This Arrangement is open for acceptance, by signature or otherwise, to governments parties to the GATT or having provisionally acceded to that Agreement, provided that if any such government maintains restrictions on the import of cotton textiles from other participating countries, that government shall, prior to its accepting this Arrangement, agree with the Cotton Textiles Committee on the percentage by which it will undertake to increase the quotas other than those maintained under Article XII or Article XVIII of the GATT.

2. Any government which is not party to the GATT or has not acceded provisionally to the GATT may accede to this Arrangement on terms to be agreed between that government and the participating countries.

Article 13

1. This Arrangement shall enter into force on 1 October 1962, provided that it has been accepted on behalf of the Governments of the following countries: ...

2. If this Arrangement has not entered into force by 1 October 1962 in accordance with the provisions of paragraph 1 above, the countries which have accepted the Arrangement shall meet as soon as practicable after that date to determine whether they desire to bring the Arrangement into force on terms other than those set forth in paragraph 1 above.

---

1 The words in these square brackets would only be inserted if Alternative A of paragraph 3 of Article 2 were adopted and would be eliminated if Alternative B were retained.

2 The Sub-Committee has no definite proposals to make with respect to the countries to be included in this list. It was suggested, however, that as a basis of discussion by the Committee the list might include the following countries: Canada, France, Federal Republic of Germany, India, Japan, Pakistan, Portugal, Spain, United Kingdom and the United States.
Article 14

Any participating country may withdraw from this Arrangement upon the expiration of sixty days from the day on which written notice of such withdrawal is received by the Executive Secretary of GATT.

Article 15

This Arrangement shall remain in force for three/five years.

Article 16

The Annexes to this Arrangement constitute an integral part of this Arrangement.

ANNEX A

For purposes of Article 2 the percentages referred to in paragraph 3 shall be:

for Country A x%
for Country B x%

etc.

Note:

The member States of the European Economic Community reserve the right to compute the global percentage increase, as well as the annual percentage increase, in terms of the sum of the individual quotas of the member States in lieu of separate percentages applying to the quotas of individual member States.
ANNEX B

(Alternative A) There shall be established for the year beginning 1 October 1962 for each category a minimum import schedule by exporting country for each of the categories in the Arrangement not limited by restrictions subject to Article 2. Such a schedule shall be computed in each year of the Arrangement whether or not a category is subject to restraint under Article 3.

In the case of categories in which domestic consumption increases during calendar year 1961 over 1960 the minimum import schedule for each exporting country shall be equal to the level of imports in the twelve months ending 30 June 1961 plus x per cent of the increase in domestic consumption of each category in calendar year 1961 over calendar year 1960, divided among the participating countries in proportion to imports in the twelve months ending 30 June 1961. In establishing the import schedules for categories in each of the succeeding years of the Arrangement which follow years of increasing consumption, the import schedule of each preceding year shall become the new base year.

In the case of categories in which domestic consumption decreases during calendar year 1961 from 1960, the minimum import schedule for the twelve months beginning 1 October 1962 shall be equal to the level of imports in the twelve months ending 30 June 1961 multiplied by the ratio of consumption in calendar year 1961 to consumption in calendar year 1960. In establishing the import schedules for categories in each of the succeeding years of the Arrangement which follow years of decreasing consumption, the import schedule of each preceding year shall be similarly adjusted.
If, in a given year, imports of a category of cotton textiles are causing or threatening to cause market disruption and imports of that category were nil or negligible during the twelve months ending 30 June 1961, the minimum import schedule for the category in that year shall be established at a reasonable level by the participating importing country concerned in consultation with the participating exporting country or countries concerned. Succeeding import schedules for the category shall be adjusted in the manner set forth in this Annex for other import schedules.

(Alternative B) The level below which imports (or exports) of cotton textile products causing or threatening to cause market disruption may not be restrained under the provisions of Article 3 shall be the level of actual imports of such products during the twelve-month period preceding the date on which the request for consultation is made, increased by x per cent. Should the restraining measures remain in force for further periods, the level for each subsequent twelve-month period shall not be lower than the level specified for the preceding twelve-month period, increased by y per cent. In exceptional cases, where it is not appropriate to apply the level referred to above, a lower level may be determined through consultation in the light of market conditions in the importing participating country and other relevant factors.

(Alternative C) The level below which imports (or exports) of cotton textile products causing or threatening to cause market disruption may not be restrained under the provisions of Article 3 shall be the average level of actual total or retained imports of such products in the three calendar years preceding the date on which the request for consultation is made, increased by x per cent. Should the restraining measures remain in force for further periods, the level for each subsequent year shall be that of the preceding year, adjusted so as to take account of the trend on the domestic market since the application of the measures.
ANNEX C

Extract from the CONTRACTING PARTIES' Decision of 19 November 1960

"These situations [market disruption] generally contain the following elements in combination:

(i) a sharp and substantial increase or potential increase of imports of particular products from particular sources;

(ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country;

(iii) there is serious damage to domestic producers or threat thereof;

(iv) the price differentials referred to in paragraph (ii) above do not arise from governmental intervention in the fixing or formation of prices or from dumping practices.

In some situations other elements are also present and the enumeration above is not, therefore, intended as an exhaustive definition of market disruption."
<table>
<thead>
<tr>
<th>List of Categories</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cotton yarn, carded, singles, not ornamented, etc.</td>
<td>lb.</td>
</tr>
<tr>
<td>2. Cotton yarn, plied, carded, not ornamented, etc.</td>
<td>&quot;</td>
</tr>
<tr>
<td>3. Cotton yarn, singles, combed, not ornamented, etc.</td>
<td>&quot;</td>
</tr>
<tr>
<td>4. Cotton yarn, plied, combed, not ornamented, etc.</td>
<td>&quot;</td>
</tr>
<tr>
<td>5. Ginghams, carded yarn</td>
<td>Sq. yds</td>
</tr>
<tr>
<td>6. Ginghams, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>7. Velveteens</td>
<td>&quot;</td>
</tr>
<tr>
<td>8. Corduroy</td>
<td>&quot;</td>
</tr>
<tr>
<td>9. Sheeting, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>10. Sheeting, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>11. Lawns, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>12. Lawns, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>13. Voiles, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>14. Voiles, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>15. Poplin and broadcloth, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>16. Poplin and broadcloth, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>17. Typewriter ribbon cloth</td>
<td>&quot;</td>
</tr>
<tr>
<td>18. Print cloth type shirting, 80 x 80 type, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>19. Print cloth type shirting, other than 80 x 80 type, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>20. Shirting, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>21. Shirting, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>22. Twill and sateen, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>23. Twill and sateen, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>24. Yarn-dyed fabrics, except ginghams, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>25. Yarn-dyed fabrics, except ginghams, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>26. Fabrics, n.e.s., carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>27. Fabrics, n.e.s., combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>28. Pillowcases, plain, carded yarn</td>
<td>Numbers</td>
</tr>
<tr>
<td>29. Pillowcases, plain, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>30. Dish towels</td>
<td>Dozen</td>
</tr>
<tr>
<td>31. Towels, other than dish towels</td>
<td>lb.</td>
</tr>
<tr>
<td>32. Handkerchiefs</td>
<td>Numbers</td>
</tr>
<tr>
<td>33. Table damasks and manufactures of</td>
<td>&quot;</td>
</tr>
<tr>
<td>34. Sheets, carded yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>35. Sheets, combed yarn</td>
<td>&quot;</td>
</tr>
<tr>
<td>36. Bedspreads</td>
<td>&quot;</td>
</tr>
<tr>
<td>37. Braided and woven elastics</td>
<td>lb.</td>
</tr>
<tr>
<td>38. Fishing nets</td>
<td>&quot;</td>
</tr>
</tbody>
</table>

1 This Annex is in square brackets.
<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>40. Hose and half hose</td>
<td>Doz. prs.</td>
</tr>
<tr>
<td>41. Men's and boys' all white T. shirts, knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>42. Other T. shirts</td>
<td>Doz.</td>
</tr>
<tr>
<td>43. Knitshirts, other than T. shirts and sweatshirts</td>
<td>(including infants) Doz.</td>
</tr>
<tr>
<td>44. Sweaters and cardigans</td>
<td>Doz.</td>
</tr>
<tr>
<td>45. Men's and boys' shirts, dress, not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>46. Men's and boys' shirts, sport, not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>47. Men's and boys' shirts, work, not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>48. Raincoats, 3/4 length or over</td>
<td>Doz.</td>
</tr>
<tr>
<td>49. All other coats</td>
<td>Doz.</td>
</tr>
<tr>
<td>50. Men's and boys' trousers, slacks and shorts (outer), not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>51. Women's, misses' and children's trousers, slacks and shorts (outer), not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>52. Blouses, and blouses combined with skirts, trousers, or shorts</td>
<td>Doz.</td>
</tr>
<tr>
<td>53. Women's, misses', children's and infants' dresses</td>
<td>(including nurses' and other uniform dresses), not Doz.</td>
</tr>
<tr>
<td>54. Playsuits, sunsuits, washsuits, creepers, rompers, etc.</td>
<td>(except blouse and shorts; blouse and trouser; or Doz.</td>
</tr>
<tr>
<td>55. Dressing gowns, including bathrobes and beachrobes, lounging gowns, dusters and housecoats, not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>56. Men's and boys' undershirts, (not T. shirts)</td>
<td>Doz.</td>
</tr>
<tr>
<td>57. Men's and boys' briefs and undershorts</td>
<td>Doz.</td>
</tr>
<tr>
<td>58. Drawers, shorts and briefs (except men's and boys' briefs), knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>59. All other underwear, not knit or crocheted</td>
<td>Doz.</td>
</tr>
<tr>
<td>60. Nightwear and pyjamas</td>
<td>Doz.</td>
</tr>
<tr>
<td>61. Brassieres and other body supporting garments</td>
<td>Units or lbs.</td>
</tr>
<tr>
<td>62. Other knitted or crocheted clothing</td>
<td>Units or lbs.</td>
</tr>
<tr>
<td>63. Other clothing, not knit or crocheted</td>
<td>Units or lbs.</td>
</tr>
<tr>
<td>64. All other cotton textile items</td>
<td>Units or lbs.</td>
</tr>
</tbody>
</table>

To whatever extent this List of Categories may present questions in the light of established listing practices of any participating country, such questions shall be resolved by consultation between the countries concerned or by the process of joint consultation referred to in Paragraph G of the Short-term Arrangement.
ANNEX E

Interpretative Notes

1. Ad. Article 3, paragraph 3

In Canada, there is no legislation whereby imports may be limited in a precise quantitative manner as envisaged in this paragraph. The provision available for limiting imports in order to avoid injury or a threat of injury to a domestic industry is contained in Section 40A(7)(c) of the Customs Act which authorizes the application of special values for duty purposes. These special values cannot be used to achieve a precise level of imports. Accordingly, the participating countries recognize that, should Canada find it necessary to take action to limit imports pursuant to this arrangement, it would not be in a position to ensure that imports would not fall below the minimum level as defined in this paragraph.

2. Ad. ANNEX B

The participating countries, being aware of the particular position of developing countries of the type referred to in Article XVIII:4(b) and the interpretative note (2) to paragraph 4 of Article XXVIII of the GATT, recognize that the (base year) (minimum import schedule) referred to in Annex B will not be appropriate in relation to new or developing industries in those countries.1

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1 The Sub-Committee did not consider this as it did not reach any conclusion on Annex B.