1. Article 8(c) of the Long-Term Arrangement requires the Cotton Textiles Committee to review the operation of the Arrangement once a year and report to the CONTRACTING PARTIES.

2. The first review was carried out by the Committee during its meeting from 2-6 December 1963. The report on the review is contained under Item II (pages 7-10) of the attached minutes of the Committee's meeting and a summary of statements made by delegations is contained in Annex I (pages 19-30) to the minutes.
GENERAL AGREEMENT ON
TARIFFS AND TRADE

COTTON TEXTILES COMMITTEE

Report of the Meeting of the Committee Held at the
Palais des Nations from 2-6 December 1963

Chairman: Mr. E. WYNDHAM WHITE

Conclusions adopted

Subjects discussed:

I. Acceptance by Jamaica

II. Review of the operation of the Arrangement

III. Problems concerning the structure and future development of trade in cotton textiles. Suggestions for studies

IV. Reporting and notification procedures under Articles 2, 3 and 4

V. Collection and circulation of statistics

VI. The United Kingdom reservation

VII. Request for accession to the Long-Term Arrangement by the Republic of China

VIII. Other matters
CONCLUSIONS ADOPTED

Review of the Operation of the Arrangement

The Committee took full account of the discussion which had taken place in the Committee, during the course of which a number of points were raised which made it clear that many participating countries and, in particular, less-developed countries had very serious misgivings about the manner in which the Long-Term Arrangement was being interpreted and implemented in a number of cases. The Committee has tried to formulate conclusions on these points with the aim of facilitating the administration of the Arrangement in a manner satisfactory to the exporting as well as the importing countries, having regard to the objectives set out in the Preamble to the Arrangement and, in particular, to the desire of promoting an expansion in the export earnings of less-developed countries.

Market disruption

i. It was agreed that, as an extension of the co-operation between parties to the Arrangement, it would be desirable if there were regular periodic exchanges of view on a bilateral basis between individual importing and individual exporting countries about developments in their trade in cotton textiles, it being understood that, if at the time of any such exchange of view, the importing country felt that a situation might be developing in its market which could lead to the formulation of a request for restraint, it would raise this matter and offer every opportunity to the exporting country for a full discussion of all aspects of the matter. These discussions would be clearly distinct from the consultations referred to in Articles 2 and 3.

ii. It was recognized that the question of the relation between the volume of imports and the volume of domestic production of cotton textiles in the importing country was clearly relevant to establishing whether or not there was a situation of market disruption and that this is implicit in the definition of market disruption as it appears in Annex C of the Arrangement. Accordingly, in any consultation bearing upon the question of market disruption, it would be important for the maximum data on domestic production to be made available by the importing country.
iii. The Committee noted the very serious concern felt by exporting countries that, in cases where restraints were already in operation, importing countries might not have taken all the relevant elements into account before making their requests for restraint on the grounds that a situation of market disruption existed. The importing countries concerned were requested to review all such cases, taking into account in particular the element referred to in (ii) above and, if they came to the conclusion that, in fact, they had not adequately taken account of this element they would consult with the exporting country or countries concerned. For their part, the exporting countries would also look at those cases which affect them. If they had reason to doubt the justification for any particular case they could discuss the matter bilaterally with the importing country concerned and, if necessary, have recourse to the Cotton Textiles Committee in terms of Article 7 of the Arrangement, and ultimately to the CONTRACTING PARTIES under the procedures of Article XXIII of the GATT.

iv. The Committee recognized that the question of price was a key element in establishing whether or not market disruption exists. The price criterion contained in the definition of market disruption in Annex C of the Arrangement is intended to cover the situation where, because their prices are quite clearly out of line with the normal prices prevailing on the market, particular imports are causing, or threatening to cause, market disruption in the importing country. The price differential must, however, in terms of the definition in Annex C, be substantial.

Every attempt to give more precision to the word "substantial" should be made in the course of the periodic exchanges of view between importing and exporting countries when the discussion is likely to be focussed on particular products and particular markets. Further, the Committee agreed that when the price factor was being considered in connexion with market disruption, quality differential is a factor which must also be taken into account.

v. It was recognized that, in determining whether there had been a sharp and substantial increase in imports within the terms of Annex C, it would be appropriate to take due account, inter alia, of the past performance of imports from an exporting country concerned as well as total imports from all sources of the particular category or product over a period of years.

Quotes

In view of the difficulties which arise for certain less-developed countries because of the method of application of the quotas granted to them by some participating countries operating under Article 2, these importing countries have been requested to examine this question urgently in bilateral discussions with the exporting countries concerned with the aim of improving the market opportunities of these countries.
Base period

As regards the fixing of restraint levels as provided for in Annex B it was considered that the past performance of imports from the particular exporting country concerned over a period of years and other relevant factors should be taken into account.

Categories

The Committee invited member governments, in the light of the experience that they themselves had had so far, and of any representations they might have received from other governments party to the Arrangement, to re-examine the question of categories. This question would be included on the Committee's agenda for discussion at an appropriate future date.

Certification

It was recognized that, once the procedure of certification for imports of hand-loom fabrics of the cottage industry was in operation, the importing countries should normally accept certificates without requiring further verification.\(^1\)

Procedures under Article 3\(^2\)

(1) The Committee recognized the importance of avoiding delays both in replying to requests to consult under paragraph 1 of Article 3 and in holding such consultations.

\(^1\) The European Economic Community reserved its position on this paragraph.

\(^2\) The Committee also took special note of two particular points raised by the representative of Pakistan. It had been the experience of the Pakistan Government that the provisions of Annex B, 1(a) might operate to the detriment of exporters when requests were received on the last day of a calendar month. It was agreed that this was the sort of problem which might appropriately be raised in the periodic consultations envisaged by the Committee.

The representative of Pakistan also suggested that, in cases where exporting countries had not agreed to restrain exports under Article 3, importing countries should operate their restrictions on imports of the items in question in such a way as to minimize the adverse effects on exporting countries, bearing in mind their obligations under paragraph 5 of Article 3. He also suggested that it might be appropriate to issue import licences. Importing countries said that they would look into this matter bearing in mind the obligations mentioned by the representative of Pakistan, but pointed out that an import licensing system might in fact have more restrictive effects than the system currently applied.
(ii) In connexion with the statement that, in some cases, exports had not been held at the proposed restraint level during the sixty-day period following the request to consult, it was the Committee's view that moderation on the part of exporting countries and a sympathetic attitude by the importing countries would do much to alleviate the problems that arise.

Trans-shipment

The Committee, recognizing that the provisions of the Long-Term Arrangement could be circumvented by trans-shipment or re-routing, underlined the importance of Article 6(a).

B. Studies

It was agreed that estimates of future trends in consumption, production, productive capacity, etc. should be collected in order to follow structural changes and adjustments and to discuss prospects for a further expansion of international trade in these products. The Committee authorized the secretariat to seek such information as necessary from the countries which are members of the Committee or from any other source.

C. Notification Procedures

The Committee recognized the need for early disclosure of all relevant information concerning arrangements, bilateral or otherwise, under Articles 2, 3 and 4. There was general agreement that notifications so far received under both Articles 2 and 4 raise no procedural problems. It was apparent from the documents before the Committee that there have been differences of procedure and approach as regards notifications under Article 3. It was recognized that the Committee should be informed as soon as possible both about requests for restraint and all details of the arrangements resulting from these requests. The view was held by some members that in certain cases it would be preferable not to notify the Committee of the level of restraint initially requested by the importing country. The Committee pointed out that it should in all cases be informed by a factual statement of the reasons and justification for restraints under Article 3.

D. Statistics

The need for comparable and up-to-date statistical data on cotton textiles was generally recognized. In this connexion it was pointed out that while some statistics were already collected and published by other international agencies, certain important data could not be found in these sources. It was furthermore noted that up-to-date information could only be obtained directly from the participating countries. The Committee endorsed the suggestions made in document COT/W/14 and urged all participating countries to endeavour to submit the necessary statistics.
E. Other Matters

The Committee initiated discussion in connexion with the possibilities of arriving at a more precise definition of cotton textiles than what is included in Article 9 of the Arrangement and in Annex D. It also took up the problem of following the SITC classification for comparative statistical purposes. It was generally recognized that these were important but difficult problems. The participating countries were invited to inform the secretariat of ideas they might have in this connexion and should it be felt that there are possibilities of reaching conclusions beyond those which the Statistical Sub-Committee arrived at (see document L/1717), a meeting of experts might be called.
Subjects Discussed

I. Acceptance by Jamaica

1. The Committee welcomed the acceptance by Jamaica of the Long-Term Arrangement (see COT/2/Add.1). By virtue of this acceptance, Jamaica also became a member of the Cotton Textiles Committee.¹

II. Review of the operation of the Arrangement

2. The Committee had before it notifications of action taken by parties to the Arrangement during the first year of its operation; these are contained in documents COT/1 and COT/3 to 17. Also before the Committee was document COT/W/15 which summarized these notifications and which is reproduced in Annex II.

3. A summary of the main trends of the discussion follows below in paragraphs 4-20. A summary of the main individual statements made under this item will be found in Annex I.

4. It was clear from the discussion in the Committee that exporting countries were disappointed and concerned about the way the Long-Term Arrangement has been implemented during the first year of its existence. In fact it was suggested at one stage during the discussion that the desirability of undertaking some revision of the Arrangement should be considered.

5. Particular emphasis was put by the less-developed exporting countries on the need for greater opportunities for their exports of cotton textiles. This, as these countries pointed out, was intended to be a basic objective of the Arrangement and, in this connexion, particular regard should be had to the wording of the Preamble, where it was recognized that 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".

6. This was a clearly expressed objective but in the opinion of several countries the Arrangement had so far had the opposite effect and had, in fact, reduced the export opportunities of less-developed countries. The rate of growth of imports into major markets was not expected to exceed 3 per cent per annum during the period of the Arrangement, whereas the average growth attained

¹The other members of the Committee are listed in document COT/2.
in recent years had been at a much higher rate. While it was true that the
Arrangement was not expected to lead to an increase in the rate of growth of
exports, it had nevertheless been envisaged that it would promote orderly
growth at a reasonable rate. Action taken under the Arrangement had the effect
of jeopardizing the success of the development plans of less-developed countries
and it was suggested that the industrialized countries should take steps to
ensure that an increasing opportunity was given to the exports of less-
developed countries. One exporting country (not a less-developed country),
however, expressed the view that this process would have to be gradual as
it might have considerable effects on the structure of the textile industries
in exporting countries.

7. On the other hand the point was made that the Long-Term Arrangement had
presented a practical solution to a particular problem. The type of
co-operation for which it had provided was undoubtedly preferable to unilateral
action which, had the Arrangement not been negotiated, would probably have
been taken following the massive increase in exports in the preceding period.
Less-developed countries stressed the importance they attached to the fact
that the Long-Term Arrangement should be looked on as a transitional measure
which would permit the adjustments envisaged in Article 1 of the Arrangement
to be put into effect.

8. Countries which had taken action under the Long-Term Arrangement maintained
that such action fully conformed with the spirit and letter of the Arrangement.
In most cases reference was made to the increase in the volume of imports, the
continuing contraction of domestic industry and growing unemployment in the
textile sector.

9. The importing countries concerned referred to difficulties they for their
part had experienced in the administration of the Arrangement. They stressed
the importance of avoiding delays in replying to requests to consult under
paragraph 1 of Article 3 and in holding such consultations. Further, in some
cases, exports had not been held at the proposed restraint level during the
sixty-day period following the request to consult. There were also problems
connected with trans-shipment.

10. The less-developed countries maintained strongly that the Arrangement had
not been operated in the spirit in which it was drawn up. It was very
apparent from the discussion that a main cause of apprehension on the part of
the exporting countries and their insistence on the need for strict conformity
by importing countries with the provisions of the Arrangement is the fact that
the Arrangement places the powers of judgement and decision, for example in
the determination of market disruption, in the hands of importing countries.
11. A crucial element in the concern felt by exporting countries related to the question of market disruption and its determination. This was only to be expected as the imposition of restraints or restrictions under the Arrangement are dependent on this question.

12. "Market disruption" is defined in Annex C of the Arrangement and there was considerable discussion about this definition, and about the exporting countries' contention that the invocation of Article 3 had on occasions been based on situations which exceeded the intention of the definition.

13. As regards the determination of market disruption, it was stressed that the present provisions should be carefully applied and that the exporting country should be fully consulted about the situation at as early a stage as possible. It would be helpful if regular periodic discussions on a bilateral basis distinct from the consultations referred to in Articles 2 and 3 could be held between exporting and importing countries. Some exporting countries expressed the view that the description of market disruption should be understood to contain an implicit reference to a sharp and substantial increase in the level of imports compared to domestic production or supply, that the question of the price differential between domestic and imported products should be examined and that adequate allowances should be made for quality differential. Attention should also be given to the need to obtain the maximum comparable statistical information in cases of alleged disruption. Importing countries said that they were, of course, fully prepared to have the additional discussions suggested.

14. Serious concern was also expressed by exporting countries that, in cases where restraints were already in operation, importing countries might not have taken all the relevant considerations into account before making their requests for restraint, and importing countries were requested to review these cases. It was also suggested that the exporting countries should review such cases and consult with the importing countries. The importing countries maintained that in examining cases of market disruption all the relevant factors had in fact been taken into account.

15. Exporting countries also expressed concern on the operation of the provisions of Annex B relating to the fixing of restraint levels. It was considered that the base periods should not be confined to one year only. The following suggestions were made on the way in which the trend of imports could be taken into account: (i) the first year of the Long-Term Arrangement or the year of the Short-Term Arrangement whichever was greater; (ii) the best performance in past years; (iii) future possibilities as well as a past trend. In this connexion it was also suggested that consideration should be given to the position of countries newly entering export markets. Importing countries pointed out that although a specific formula was set forth in the Long-Term Arrangement in many cases where restraint was requested a level had been indicated above that which would have resulted from a strict interpretation of Annex B. One of the countries which had been exempted from the growth formula had in fact allowed an element of growth in the arrangements which it had concluded in the past year.
16. An important element in the discussion was the stress put on the need for those countries which imposed quantitative restrictions to increase access to their markets so as to relieve the pressure on other markets and increase the less-developed countries' export opportunities. The representatives of certain countries, access to whose markets was relatively unrestricted, emphasized the importance which they attached to the balanced development of world trade in cotton textiles. If severe restrictions were imposed by some countries, this might lead to a rapid increase in imports on their markets which might force them in turn to apply restrictions. This problem presented special difficulties in the case of small countries with open markets.

17. The hope was expressed that in the light of paragraph 19 of the Record of Understandings the figure of 12,000 tons to which the EEC is committed would in practice be substantially exceeded. In this connexion it was pointed out that the imports from the less-developed countries constituted a very small proportion of the Community's domestic production of cotton textiles. The representative of the EEC pointed out that only about 25 per cent of imports into the EEC from the less-developed countries were subject to restrictions, and that, as regards the many items which were unrestricted, these countries could improve their relative position by export promotion and by greater efforts in the markets of countries which have completely or partially liberalized imports from them. It was also stated that not all the quotas open to less-developed countries were filled; the view was expressed by exporting countries that this was due to difficulties in import licensing and procedure. Suggestions were made for helping the less-developed countries to fill the quotas open to them, and it was also suggested that consultations should be held with a view to removing quantitative restrictions where quotas are perennially unused or under-utilized. It was considered that it might be possible to use the consultation provisions already contained in the Long-Term Arrangement or to raise these matters in the new discussions which the Committee had now agreed should be held.

18. It was recognized that it would be appropriate to draw the attention of the CONTRACTING PARTIES to the effect of tariff barriers on trade in cotton textiles in order to ensure that this should be taken fully into account in the arrangements for the forthcoming trade negotiations.

19. The problem of categories was also raised and, inter alia, the view was expressed that excessive categorization was making exporting more difficult. A further suggestion was that the restraint level should be on an overall basis and not according to categories. It was also suggested that the definition of cotton textiles should be established based on existing international classifications.

20. Following their discussion on the administration and implementation of the Arrangement and the suggestions made for improvements in this respect, the Committee adopted certain conclusions. (See pp. 2-6.)
III. Problems concerning the structure and future development of trade in cotton textiles. Suggestions for studies

21. The Committee had before it a preliminary analysis by the secretariat of recent developments in production and trade in cotton textiles (document COT/W/20) based on statistics from published sources (document COT/W/H). It was suggested in document COT/W/12 that in order to carry out its broader responsibilities as to future trade in cotton textiles, the Committee would need to have, inter alia, estimates of future trends in consumption, production, productive capacity, etc. in order to follow structural changes and adjustments and to discuss prospects for a further expansion of international trade in these products. A summary of the general discussion is given in paragraphs 22 to 31 and the discussion on studies is contained in paragraphs 32 to 35.

(a) A summary of the general discussion

22. Representatives of less-developed exporting countries underlined the importance which they attached to a substantial increase in their export earnings from cotton textiles. Such an increase was essential for the successful completion of their development plans. While it was recognized that exports of cotton textiles should expand in an orderly way and that there would be problems of adjustment in the industries of the older established producing countries, the view was expressed by the less-developed countries that this adjustment should be carried out in time so that full freedom of trade could be restored when the present Arrangement expired in 1967. It was because trade in cotton textiles gave rise to special problems that the Long-Term Arrangement had been negotiated. It was an exception to the provisions of the General Agreement and of the Action Programme. Representatives of the less-developed countries further pointed out that the Arrangement should not be regarded as an end in itself or permanent; it provided a breathing space during which necessary adjustments could be made as laid down in Article 1.

23. The representative of the United States stated that his Government had introduced several measures designed to increase the competitiveness of the domestic industry and that the Trade Expansion Act provided adjustment assistance, both to firms and to workers, made necessary as a result of increased imports following tariff concessions granted under trade agreements.

24. The representative of Canada recalled that his country had qualified for exemption from the growth formula contained in Annex B of the Arrangement. One of the grounds for this exemption was that the Canadian industry had experienced a substantial contraction. Consequently, he thought it unlikely that the Committee would be looking to Canada for a statement that further major adjustments in domestic production of cotton textiles could be envisaged.

25. The representative of the United Kingdom referred to her statement on developments in the trade of the United Kingdom and recalled that her country had also been exempted from the growth formula.
26. The representative of Japan said that Japanese industry was considering a substantial reduction in the number of spindles. This question was also under careful consideration by the Japanese Government but such structural change was inevitably confronted with a number of domestic difficulties. It was rather difficult to foretell what would happen to production if this reduction was carried out. Production of certain items might increase as a result of increased productivity but, on the other hand, there could be an increase in imports from the developing countries as Japan might cease to produce certain types of products. In such circumstances Japan would be obliged to export sophisticated items and it would be necessary for industrialized countries to open up their markets accordingly. In conclusion, he said that the equipment which might be scrapped was not necessarily outmoded and that Japan would not be eager to proceed to a unilateral dismantlement of the industry.

27. The representative of Norway and Sweden pointed out that the process of adaptation had already taken place in their countries and that their industries were considered competitive under normal conditions. Their markets were open. They pointed out that if other countries used the provisions of the Long-Term Arrangement to restrict access, imports might be thrown in great quantities on to the small relatively open markets, thus setting off a chain reaction.

28. It was the feeling of several delegations that it was essential that trade in cotton textiles should show a balanced as well as an orderly growth and that it was desirable that a balance sheet of potential supply and demand should be drawn up. It was also suggested that countries engaged in trade in cotton textiles should co-ordinate their policies.

29. The spokesman of the European Economic Community pointed out that, while it was the ultimate aim of the member States to eliminate restrictions on imports as soon as possible, the specific obligation which had been accepted by the European Economic Community under Article 2 of the Arrangement was to increase imports of goods subject to quota by 88 per cent during the life of the Arrangement.

30. The representative of India said that the exports of the less-developed countries had not expanded. In spite of their natural economic advantages, as defined in the Preamble to the Long-Term Arrangement, in the production of cotton textiles their costs of production had increased. Referring to a recent study prepared by the International Labour Office (extracts of which are reproduced in document COT/W/19/Add.1), he pointed out that the impact of a decline in textile production on employment and unemployment in the cotton industries of the advanced countries would be marginal. Refuting the contention of some that the problems of the textile industry in advanced countries were due mainly to the unfairness of competition from low wage countries, the study pointed out that the less-developed countries must earn foreign exchange to pay for their imports from the industrialized countries.
Another study, prepared by the United Nations also warned that the singling out of under-developed suppliers to bear the major burden of restraint raised serious issues regarding the whole pattern of industrial production and added to the uncertainties which already existed regarding the outlook for foreign exchange earnings of under-developed countries. An investigation into production, consumption and imports of cotton textiles would establish that it was not exports from the less-developed countries which had benefitted from the increased demand in the importing countries. Such an investigation would also establish whether it was necessary to have a set of rules which would facilitate increased imports from the less-developed countries which was the basic objective of the Long-Term Arrangement. The representative of India also referred to the important effect of tariff barriers on trade in cotton textiles and stressed that countries should not include cotton textiles in their lists of exceptions during the forthcoming trade negotiations.

31. The representative of Pakistan pointed out that the Cotton Textiles Arrangement was a temporary measure and there should be no question of its renewal when its term expired in 1967. The less-developed exporting countries had agreed to the Arrangement on the understanding that after this date all restrictions on the export of cotton textiles from their countries would be removed. It was, therefore, incumbent on the industrialized countries to take steps towards timely adjustment of their cotton textile industries through diversion towards more sophisticated lines of production. He cited the proposed reduction of spindles in Japan as a laudable example for other industrialized countries to follow.

(b) Suggestions for studies

32. In order to define more precisely in what direction the Committee's study programme should proceed, the Committee considered document COT/W/12, which suggested the kind of information which would be needed, and document COT/W/13, which gives an appraisal of the present situation of the joint GATT/ILO study on cost comparison in the textile industry.

33. As far as the latter study is concerned, the representative of Japan and Austria stated that considerable difficulties were encountered in compiling some of the information requested. The representative of the European Economic Community pointed out that the data which have already been submitted are now out of date and inadequate in view of the evolution of the cost of production in the textile industry. It was recognized that difficulties encountered so far will also be experienced in the future. The representative of Sweden mentioned that his Government had submitted a great deal of information and his delegation would like to see some use made of it.
34. The Committee endorsed the suggestions made in document COT/W/12 relating to material for studies. Although reference was made to difficulties which some governments may encounter in establishing future trends, the need for participating countries to co-operate fully with the secretariat in supplying the relevant material was generally stressed. The representative of the European Economic Community stated that, as far as additional information to that obtainable from other sources is concerned, the Community would collaborate in this field to the utmost and cited in this connexion the evolution of structures, ratio of utilization of equipment and obstacles to the various shift systems. He felt, however, that the secretariat, before publishing the results of any investigation, should submit them to technical experts for approval. The Austrian delegate referred to paragraph 3 of document COT/W/12 and said that it would be very difficult for his Government to supply details of future plans for the textile industry.

35. It was agreed that the secretariat should use all available sources and take full advantage of the work being undertaken by other organizations; it should mainly concentrate its attention on what is lacking, so as to avoid duplication of effort. It was understood that the secretariat would keep in close contact with the governments of participating countries and try to use general questionnaires sparingly. When the necessary information has been collected, it will, before being distributed, be presented to a group of experts for review. It was also understood that, as the secretariat's resources are limited, priority should not be given to the study on cost comparison but, if possible, some use might be made of the material already collected.

IV. Reporting and notification procedures under Articles 2, 3 and 4

36. The Committee recognized that, taking into account the additional information regarding quotas granted by individual members of the European Economic Community for both 1962 and 1963 which had been communicated to the Committee during the meeting, the notifications so far received in connexion with Article 2 had been adequate from the procedural point of view. As for Article 4 it was agreed that notifications under this Article raised no procedural problems.

37. In reviewing documents COT/6, COT/7 and COT/17, the Committee noted that there had been differences of procedure and approach as regards notifications under Article 3. There was general agreement that the Committee should be fully informed without delay both about requests for restraint as well as all the details concerning arrangements concluded as a result of such requests.

38. The representative of Canada suggested that an importing country should not be expected to inform the Committee, whether at the time of a request for restraint or subsequently, of the restraint level initially requested. To divulge the request level would restrict the flexibility of negotiations, both with regard to the product and country concerned and also with regard to other products and countries.
39. The representative of Japan pointed out that, in conformity with paragraph 1 of Article 3, the Committee should in all cases be informed by a factual statement of the reasons and justifications for the request. In this connexion the representative of the United States suggested that such reasons and justifications should be communicated when an agreement has been reached, in view of the importance of making a submission in a form which avoids error and is known to be factually correct. Some delegations referring to the need for flexibility in the negotiations, endorsed the suggestion made by the United States.

40. It was the view of the representatives of several countries that the notification requirements in paragraph 1 of Article 3 might appropriately be met in two stages. First, at the time a request is made the Committee should be informed of the country and category concerned. Second, at the conclusion of the consultations, whether or not agreement had been reached the Committee should be informed of the reasons and justification for the request. The Committee should also be informed at this time of the details of the agreement reached or, in the absence of an agreement, of the measures taken by either side.

V. Collection and circulation of statistics

41. The Committee took note of document COT/W/14 and of the difficulties encountered by some countries in producing the statistical information requested in document COT/W/8. In this connexion the representatives of the United States and of the European Economic Community suggested that submission of statistics on a quarterly, instead of a monthly, basis would meet the requirements of the Committee for the discharge of its functions.

42. The Committee recognized the need for comparable and up-to-date statistical data on cotton textiles and noted that, although some statistics are collected and published by other international agencies, certain data which were considered by the Statistical Sub-Committee to be indispensable cannot be obtained from these sources. Moreover, those statistics do not cover all the participating countries and do not distinguish cotton clothing from clothing of all fibres. The representative of the European Economic Community had some doubt whether countries could produce comparable statistics on cotton clothing, but added that the European Economic Community was willing to co-operate fully with the secretariat in the fulfilment of the statistical programme.

43. The Committee agreed that the secretariat should proceed with the collection of statistics directly from the participating countries and that participating countries should co-operate fully with the secretariat with a view to enabling the statistical programme to be effectively carried out. The Committee endorsed the suggestions made by the secretariat in document COT/W/14. If possible a standard lay-out should be used by all countries, but all members should be consulted prior to its adoption. It was also agreed that the secretariat should, when necessary, consult with national statisticians concerning the specific problems encountered by the various countries in
furnishing the requested data. If experience shows that a major round of technical consultations are needed, a meeting of the Statistical Sub-Committee may be called.

VI. The United Kingdom reservation

44. The representative of Pakistan recalled that a reservation had been attached by the Government of the United Kingdom to its acceptance of the Long-Term Arrangement, under which the United Kingdom accepted no obligation to increase access to its market under the provisions of paragraphs 1 and 3 of Article 2 and paragraphs 2 and 3 of Annex B of the Arrangement. The Government of Pakistan had objected to this reservation but, after discussion in the Cotton Textiles Committee (a summary of which is contained in document COT/M/1, pages 2 and 3) it had been accepted as a protocol to the Arrangement while Pakistan's objection was noted. The Government of Pakistan understood that the net effect of its objection was that while the reservation of the United Kingdom applied as between the United Kingdom and all other participating countries, it did not apply to Pakistan, and that, as far as trade between Pakistan and the United Kingdom was concerned, the United Kingdom could not claim exemption from paragraphs 1 and 3 of Article 2 and paragraphs 2 and 3 of Annex B. It was also the understanding of the Government of Pakistan that the reservation did not exempt the United Kingdom Government from any of its obligations under the General Agreement with respect to trade with Pakistan. The representative of Pakistan also recalled that under the Action Programme agreed by the Ministers of all industrialized countries except the European Economic Community, quantitative restrictions on imports from less-developed countries which are inconsistent with the provisions of the GATT shall be eliminated within a period of one year, or where special problems exist, by 31 December 1965. The Action Programme had been accepted by the United Kingdom Government subject to certain qualifications set out in paragraphs 3 and 4 of the Ministers' Conclusions (MIN(65)7). The Long-Term Cotton Textiles Arrangement was covered by these qualifications, but since the Arrangement did not operate between the United Kingdom and Pakistan, the Government of the United Kingdom could not claim protection under it in respect of its obligations to Pakistan arising from the Action Programme. It was the understanding of the Pakistan Government that the United Kingdom Government by virtue of its acceptance of the Action Programme and of its obligations under the GATT, was bound to eliminate restrictions on imports of cotton textiles from Pakistan within one year or, if it is agreed between the two countries that special difficulties exist, by 31 December 1965.

45. The Chairman indicated that the effect of the non-acceptance by Pakistan of the reservation entered by the United Kingdom was that the Long-Term Arrangement did not apply as between the United Kingdom and Pakistan in respect of trade in cotton textiles. On the second point raised by the representative of Pakistan it was clear that the reservation attached by the United Kingdom to the Long-Term Arrangement could in no way affect the obligations of the United Kingdom under the General Agreement or the rights of other countries vis-à-vis the United Kingdom under that Agreement. Referring to the last point raised by the representative of Pakistan, the Chairman said that the Action Programme was an activity of the CONTRACTING PARTIES pursuant to the General Agreement under
Article XXV. The reservation attached to the Long-Term Arrangement could not, therefore, be invoked by the United Kingdom in order to deny any obligations which it had assumed as a contracting party to the General Agreement, including any obligations assumed by the United Kingdom under the Action Programme. As to the interpretation of the Action Programme and an examination of the rights and obligations deriving therefrom, it would, however, be inappropriate for this Committee to take cognizance of the matter, which should be pursued in the appropriate body established by the CONTRACTING PARTIES, that is, either in the Action Committee, the Council of Representatives, or at a meeting of the CONTRACTING PARTIES themselves.

46. The representative of the United Kingdom said that the ruling given by the Chairman was precisely the interpretation which the United Kingdom had placed on the situation.

VII. Request for accession to the Long-Term Arrangement by the Republic of China

47. The Chairman said that a communication had been received from the Government of China expressing its desire to accede to the Long-Term Arrangement under Article 11. Paragraph 2 of that Article provided for the accession of a Government not party to the General Agreement on terms to be agreed between that Government and the participating countries. This request presented certain problems because the Government of China was not recognized by some parties to the Arrangement and acceptance of that Government's request would not necessarily, therefore, have the effect of bringing the Arrangement into force as between those parties and the Republic of China. Accordingly, he proposed that as part of the terms referred to in paragraph 2 of Article 11, that it be agreed and understood that the Arrangement would not be in force between the Republic of China and those countries which so notify the Executive Secretary in writing.

48. It was agreed that if no objection to this proposal had been lodged with the Executive Secretary by 15 January 1964, the Executive Secretary would consider an acceptance by the Republic of China as effective on the terms proposed above. Participating countries which do not wish that the Arrangement shall enter into force between themselves and the Republic of China should notify the Executive Secretary by the same date.

49. The representative of the United Kingdom said that the United Kingdom was prepared to acquiesce in this procedure, but that as Her Majesty's Government recognized only the Government of the Chinese Peoples' Republic as entitled to speak on behalf of China they would in due course inform the Executive Secretary in writing that they would not regard the Long-Term Cotton Textiles Arrangement as coming into force between the United Kingdom and the authorities in Formosa.
50. The representative of the United Arab Republic said that his Government also recognized that the Government of the Chinese Peoples' Republic was the only government which represented China and reserved his position on this subject up to 15 January 1964.

51. The representative of Pakistan said that his Government did not recognize the Government of the Republic of China and he did not have any instructions, but he would communicate the views of his Government in writing by 15 January 1964.

VIII. Other matters

(a) Definition of cotton textiles

52. The representative of Japan stated that his country had encountered difficulties when an importing country, using the expression "other textile manufactured products ..." in Article 9 as key words, treated as cotton textiles products which could not justifiably be so regarded. He proposed therefore that a small group of experts to tackle this problem should be set up.

53. The representative of the United States pointed out that Article 9 and Annex E lay down a double criterion of weight and value; he felt that the criterion is clear but that problems might arise in its application. Thus, the practical solution in this connexion would be to initiate bilateral discussions with the exporting countries. The representative of the United Kingdom felt that the Arrangement should apply to cotton textile products as such and not to other items where cotton is only incidental.

54. The view was held by some members that difficulties which the interpretation of Article 9 and Annex E give rise to in practice could not have been foreseen. It was recalled that the definitions included in Article 9 and Annex D were the result of thorough discussion by the Statistical Sub-Committee, as shown in document L/1717. It was felt that more thought had to be given to the Japanese proposal.

(b) Statistical classification

55. The point raised by the Indian delegate and set out in document COT/W/19, in which he proposed that a satisfactory solution to the problem of categorization would be to follow the SITC classification for comparative statistical purposes, was also discussed by the Committee. The representatives of the United States and the United Kingdom felt the SITC to be too broad and not an ideal classification for defining categories.

56. The Committee recognized that these two points ((a) and (b) above) pose important, but difficult, problems and it was suggested that advice might be sought from the agencies responsible for the SITC and the Brussels Tariff Nomenclature, namely the Statistical Commission of the United Nations and the Customs Co-operation Council. The participating countries were also invited to inform the secretariat of any suggestions they might have on the subject. Should it be felt that there are possibilities of reaching conclusions beyond those reached by the Statistical Sub-Committee (see document L/1717) a meeting of experts might be called.
ANNEX I

Review of the Operation of the Long-Term Arrangement

Summary of Main Statements

1. The representative of Japan said in a statement reproduced in full in document COT/W/17 that the Long-Term Arrangement had provided a practical solution of a transitional character. It called upon exporting countries to maintain orderly exports providing that importing countries afforded increased opportunities for imports. In doing so the importing countries should adhere strictly to the definition of market disruption and resort to the measures envisaged in the Arrangement sparingly. Since the coming into force of the Arrangement the Government of Japan had concluded bilateral agreements with a number of countries. These agreements would be honoured in good faith but it would be too much to say that the Government of Japan was fully satisfied with the agreements which should be operated in a manner consistent with the spirit of the Arrangement. After referring to several specific difficulties encountered in the operation of these bilateral agreements, the representative of Japan stated that the United States had gone beyond the definition of market disruption contained in the Arrangement and he took the opportunity to urge in particular that, in invoking Article 3, countries should abide strictly by the relevant provisions of the Long-Term Arrangement and the Record of Understandings and should forthwith provide the Committee with necessary information as provided for in this Article.

2. The representative of Japan drew the attention of the Committee to the fact that difficulties had been encountered in discussions with the United States on the definition of cotton textiles, and suggested that the Committee should tackle this problem in the sense of Article 9 of the Arrangement and might well base itself on established international classification such as the Brussels Nomenclature or the Standard International Trade Classification. In conclusion, he pointed out that if existing categories were further divided into sub-categories with specific import quotas assigned to individual sub-categories, it would make exporting more difficult and would impede the efforts of exporters to diversify their export items.

3. At a later meeting, referring to the suggestion which had been made that importing countries should allow less-developed exporting countries a more than proportionate share of any increase in imports, the representative of Japan said that this process would have to be a gradual one and reminded the Committee that Japan had restrained its exports for several years before the Geneva Arrangements had been negotiated.

4. The representative of the United Kingdom speaking also on behalf of Hong Kong stressed that the exporting countries had expected that the Long-Term Arrangement would allow an orderly expansion of trade in cotton textiles and that the possibility of requesting restraint would be a safeguard only resorted to in exceptional circumstances. However, no less than 97 per cent of Hong Kong's
exports to one market were subject to restraint and a tendency existed towards
the generalization and extension of restrictions, partly as a result of the
equity provisions but also of demands by domestic industry for protection.
There was a real danger that the Arrangement would be operated simply as a
charter of restriction.

5. The representative of the United States, in a statement which is reproduced
in full in document COT/W/18, reviewed trends in United States trade and
production and actions by his Government under the Long-Term Arrangement. The
first year's operations of the Arrangement for the United States, he believed,
have furthered its objectives.

6. Imports into the United States had risen substantially, particularly from
the developing countries, all of which had shared in the increase in either
the Long-Term or the Short-Term Arrangement years. With a 58 per cent increase
since the base year of the Short-Term Arrangement, the developing countries now
accounted for two thirds of total imports into the United States. The total
increase from all countries during this period was 310 million square yards.
Although imports from industrialized countries declined in the Long-Term
Arrangement year, imports from developing countries increased 13 per cent
or 84 million square yards. Total imports in seventeen categories increased
33 per cent or 100 million square yards. Meanwhile, exports declined, making
the United States recently a net importer of cotton textiles. Mill consumption
of raw cotton declined by 6 per cent during the twelve months ending July 1963
and the consumption of cotton textiles tended to decline during the first year
of the Long-Term Arrangement. During the first nine months of 1963 the number
of unemployed in the textile industry was strikingly higher than the high overall
national unemployment rate of 5.7 per cent.

7. Domestic consumption of cotton textiles continued to stagnate, resulting
in declining mill activity, a higher ratio of imports, and substantial unemploy­
ment in both the textile industry and generally in the United States. It was
also recalled that domestic mills continued to operate under the two-price
system, paying more than the world price for raw cotton.

8. In administering the Arrangement, the United States has abided by its
spirit and letter. Only five participating countries were now restraining
exports to the United States under Article 3, four of them in an average of
only three categories. The Article had been applied on an equitable basis to
all countries whether or not participants in the Arrangement. The Arrangement
represented the only non-tariff limitation on imports into the open competitive
United States' market. Restraint levels were often fixed at levels higher
than the formula of Annex B, and no supplying country had been refused access
to the United States' market even if the formula provided a zero level. However
because of the equity provisions in the Arrangement and the efforts of importers
to find alternative sources of supply, one request for restraint sometimes
engendered others. The restraints have been reviewed and in some categories
dropped.
9. Bilateral agreements under Article 4 have replaced liberalized Article 3 restraints with six participants and one non-participant. Other agreements were under discussion. They also provided exporting countries with assurances for future trade, greater flexibility, and growth.

10. Some exporting countries had not given sufficient regard to their obligations under the Arrangement to avoid undue concentration of exports in a period of time or a specific category, to respond promptly or to avoid maximizing exports during the consultation period, and to develop without delay the certification procedure for handloom fabrics of the cottage industry.

11. The representative of the United States concluded by emphasizing the collective responsibility of all the industrialized countries in expanding access for the products of the developing countries.

12. Commenting on the reference to the alleged lack of co-operation of certain exporting countries the representative of Pakistan said that importing countries introducing measures envisaged in Article 3 should seek to avoid damage to the production and marketing of the exporting country as stipulated in paragraph 5 of this Article.

13. The representative of the United States pointed out that due account had been given to this particular problem and the effective date of restraint in the case of Pakistan was postponed six weeks.

14. The spokesman for the European Economic Community recalled the principles set out in the preamble of the Long-Term Arrangement, notably the need to provide the less-developed countries with larger opportunities to increase their exchange earnings from the sale of cotton textiles, avoiding at the same time a disruption of the markets of the importing countries. The Community provided increased access to its market by the enlargement of quotas and the elimination of quantitative restrictions on certain products. During the five years of the Arrangement the Community was to increase import possibilities on its market for products subject to quota from 6,383 tons for the year 1962 to 12,000 tons for the last year of the application of the Arrangement. In 1963 overall quotas had been raised by 18.5 per cent or one fifth of the total increase contracted for. In addition, during the first year of the Arrangement several cotton textile items had been liberalized by certain member States, in particular cotton yarns, woven pile fabrics and knitted underwear.

15. The member States of the Community had also conformed to the spirit of the Arrangement in that recourse had only been had to the safeguard provisions of Article 3 in exceptional cases. Despite an increase in imports of the Community of 50 per cent in the first half of 1963 compared with the first half of 1962 of cotton textiles from the eight principal exporting countries only one member country had invoked Article 3 and then only on three specific commodities.

16. In 1962, imports of cotton textiles had accounted for about 6 per cent of total consumption in the EEC, 40 per cent of imports coming from the eight "low cost" countries. While it was difficult to be precise in 1962 items subject
to quota represented about 10 per cent of total Community imports. About 27 per cent of imports from the eight "low cost" countries were subject to quota. During the first half of 1965 imports from these same eight countries showed an increase of 49.5 per cent over the same period in the previous year, 24 per cent of the imports from these countries being subject to quota. It could therefore be seen, that products subject to quota imported from the less-developed countries accounted for a relatively small proportion of deliveries by those countries, that a large number of items were not subject to restriction in the market of the Community, and that the developing countries themselves could improve their relative position by export promotion and market research.

17. Some members of the Committee pointed out that although the Community had agreed to increase imports of items subject to quota by 88 per cent during the life of the Long-Term Arrangement, the base figure on which increases in EEC quotas were calculated was very low. The member States of the EEC were urged to consider the possibility of increasing access for products at present subject to quotas above the minimum levels envisaged in Annex A to the Arrangement, which were extremely modest in absolute terms in relation to the size of the EEC market and in comparison with import levels in certain other highly industrialized countries.

18. The representative of the United Kingdom noted that in the information supplied by the European Economic Community in connexion with Article 2 of the Arrangement, the figures given for quotas opened in 1962 and 1963 for imports of cotton textiles from Japan, India, Pakistan and Hong Kong were aggregate figures for all member States of the Community taken together.

19. In response to requests, the Chairman supplied information on the size of quotas opened by individual members of the EEC in 1962 and 1963 for imports from these countries; these are set out in the attached table. In response to a request from several members of the Committee, the representative of the Community agreed to submit details of bilateral agreements or the relevant parts thereof which have a bearing on the operation of the Arrangement.

20. Some exporting countries indicated that difficulties had been caused by the establishment of quotas for textiles as a whole and that it was not easy to separate quotas for cotton textiles from others. In reply to a question raised by the representative of Pakistan, the representative of the Federal Republic of Germany stated that in the case of his country no quotas for non-cotton textile items were included in the figures given to the Committee. It was also suggested that some quotas remained unused as the cost of the establishment of new export channels could not be supported at the level of trade which would be allowed by the quota, especially where small quotas were sub-divided into a large number of unrealistic categories. Exporting countries requested the members of the Community to examine the possibility of removing these sub-divisions. In reply to a question from the representative of Pakistan, the representative of France said that the overall quota opened for Pakistan was sub-divided into only two main categories, and that moreover if the exporting country encountered difficulties, it was permissible for the quota allocated to one category to be entirely transferred to the other. France, therefore, administered the quota in an extremely liberal manner.
21. It was pointed out that in the information before the Committee on quotas granted by the EEC, figures were only available for imports from Japan, India, Pakistan and Hong Kong. In reply to questions, the spokesman of the EEC said that other participating countries could request the opening of negotiations with a view to the opening of quotas if they wished. If opened, these quotas would be additional to those already granted.

22. The representative of Pakistan in a statement which is reproduced in full in document COT/W/21 said that a thorough review of the Arrangement was necessary at this stage and that participating countries should not wait two more years for the major review. After referring to specific difficulties which Pakistan had experienced with relation to exports to the United Kingdom, the United States and member countries of the European Economic Community, he said that his country had quotas open to it for cloth which amounted to less than 3 per cent of its current restricted exports and about 1.5 per cent of its total exports of textiles including yarn. This was all that Pakistan had got in the shape of increased opportunities but, on the other hand, it was restricted by the United Kingdom and the United States in respect of over 50 per cent of its exports. It was estimated that Pakistan had lost exports amounting to about 100 million square yards as a result of restrictions and this had serious implications for her Second Five-Year Plan. Thus the Arrangement, which was ostensibly designed to give greater opportunity to the exports of the developing countries, had in fact considerably reduced the pre-existing opportunities. It had been estimated that during the years of the Arrangement the exports of cotton textiles from the developing countries would rise by only about 3 per cent. The growth rate attained in recent years without the help of the Arrangement had been about 20 per cent.

23. The representative of Pakistan said that his Government was prepared to concede that a situation might arise in which the cotton textile industries in industrialized countries might be seriously disrupted through unrestricted imports and that a request for reasonable restraint was justified in such circumstances. Pakistan had co-operated with the United Kingdom in voluntarily agreeing to restrain exports and the quota granted had been fair and adequate up to 1961. But it was not adequate in 1962 and far from adequate in 1963. Since the United Kingdom refused to allow a reasonable increase in the quota Pakistan could not agree to a renewal of the voluntary agreement, and the restrictions were being maintained unilaterally. It was appreciated however, that the United Kingdom imported a large proportion of its supply of cotton textiles from developing countries, which was not the case with the United States or the EEC. It could not, therefore, be conceded that in the case of the United States or the EEC it would, generally speaking, be appropriate to apply restrictions on grounds of market disruption. Imports into these markets accounted for a relatively small percentage of domestic production or supply. The definition of market disruption, as contained in the Arrangement at present, would only be acceptable if it was clearly understood that it referred implicitly to the relation between the volume of imports and the volume of domestic production and supply. For instance, market disruption could be said to occur only when imports had reached a level of about 20 to 25 per cent of domestic supply. He also maintained that small differences in prices should not be taken as evidence of market disruption because without normal price differences international trade would come to a standstill.
24. At later meetings the representative of Pakistan also pointed out that under the existing terms of the Arrangement, it was not open for any country imposing restrictions to interpret market disruption in its own way and that the proportion of imports to domestic production or supply was relevant and already implicit in the existing definition of market disruption, contained in Annex C. He emphasized that a country which sought to impose restrictions under Article 3 had also to see that the industry in the exporting country was not disrupted.

25. The representative of India recalled in a statement reproduced in full in document COT/W/19 that his country had ratified the Arrangement without any reservation. India believed that multinational co-operation could lead to an orderly progression in world trade and that this co-operation would be directed towards yielding under-developed nations a greater share in world prosperity. He emphasized that it would be necessary to adopt measures to suit individual cases and underlined the importance which his country placed on the preambular provisions of the Arrangement.

26. It should now be possible to review the operation of the Arrangement bearing in mind its main objective i.e. the orderly regulation and growth of trade in cotton textiles. He said that the Arrangement had not, so far, resulted in the opening up of markets which were still under restriction and had not allowed for the less-developed countries a due share in world consumption of cotton textiles. India would seek a liberal, just and equitable interpretation of the provisions of the Arrangement. A narrow and legalistic interpretation of market disruption has, in practice, resulted in a restricted statistical exercise without regard to other factors. It should influence the decision to apply restraint on a particular category of cotton textile that exports from less-developed countries were roughly about 2 per cent of world textile production and exports from India to the industrially advanced countries represented only a minute fraction of the total production of the domestic textile industry in these countries. It was, therefore, incomprehensible that there could be any significant effect on production in these countries even if imports from India increased substantially and there should be no question of applying any restraint on exports from India under any category. Reference had been made to the price of imported fabrics. When this was done, adequate allowance should be made for the superior quality of the textiles produced in the developed countries. In order to avoid recourse to seeking an amendment of this Article, the exporting country should be fully consulted in the determination of market disruption having regard to the basic objectives of the Arrangement.

27. In paragraph 7 of Article 3, it was stated that importing participating countries may report the groups or categories to be used for statistical purposes to the Cotton Textiles Committee. He suggested that the SITC classification should be used.
28. Where action was contemplated for reasons of market disruption under Article 3, restraint levels should be on an overall basis and not according to categories as the latter approach would be inconsistent with the spirit of the Long-Term Arrangement and would deny a much needed flexibility for the less-developed countries.

29. He also stated India's case that the base period for determining the restraint level should not be confined to one year only and that the flow of imports should be judged with due regard to the best performance of individual suppliers during the immediately preceding five years.

30. The growth formula should be so designed as to afford increasing opportunities for imports from less-developed countries whose need to earn foreign exchange was specifically underlined in the Arrangement.

31. The representative of India also suggested that the wording of Article 9 should be so interpreted as to make the exception applicable to all handloom products whether in the form of fabrics, made-up articles or other manufactured items. It was also necessary that importing countries should accept readily consignments of textile goods covered by government certificate such as "handloom fabrics" as final and conclusive proof. Such acceptance should not be subject to any further verification. In conclusion he urged that cotton textiles should not be included in exceptions lists during the forthcoming trade negotiations and said that in addition to providing assured outlets for cotton textiles, it might become necessary to give less-developed countries preferential tariff and trade treatment. His country had experienced difficulties in the past year and a constructive, imaginative and developmental approach could alone give India and countries similarly placed the special and growing opportunities, particularly in the matter of earning more foreign exchange which the authors of the Arrangement had intended.

32. The representative of Sweden stated that, according to his country's interpretation, the definition of market disruption did not refer to the quantity or rate of expansion of imports as such, but to the effect of the rate of expansion of imports on profitability and employment in the domestic industry. He also suggested that if quotas existed which were perennially unused, there would appear to be no reason why these could not be abolished. He proposed that: (i) all participating countries should report to the secretariat details of quotas or parts of quotas not utilized; (ii) participating countries should also report any quotas which contained non-cotton goods. If there was any doubt on this, special consultations could be held and perhaps the matter could be the subject of arbitration; (iii) consultations should be held with a view to liberalization if quotas are perennially unused.

33. The representative of the United Kingdom recalled that, although home market consumption had remained relatively static, imports had risen steeply. Imports of woven cotton piece-goods had, for instance, risen from 99 million square yards ten years ago to 558 million square yards in 1962; in the first half of 1963 there was a further leap forward and an annual rate of 648 million
square yards was reached. The ratio of imports to domestic consumption had increased from 30 per cent in 1959 to 42.6 per cent in the first half of 1963. The large majority of these imports came from the developing countries. The United Kingdom had to consider a network of obligations when examining the reasonable claims of home producers, the "big three" Commonwealth exporters and other supplying countries, some of whom had entered the export market fairly recently. This had meant requests for restraint; details of which are set out in document COT/15. Numbers employed in the domestic industry, which was largely concentrated in a particular area of the country, had fallen by 60 per cent since 1951, and production of yarn and cloth had been halved during the same period. It was therefore to be hoped that there would be an expansion of imports into markets comparable to that of the United Kingdom, which might effectively help to take some of the growing pressures off the United Kingdom market.

34. The representative of Pakistan said that his Government had not accepted limitations on its exports to the United Kingdom. Quotas on the export of cotton cloth to the United Kingdom up to 1961 had been satisfactory and had, in fact, not been filled but the quota had been filled in 1962 and no increase had been allowed in 1963 or for 1964. It seemed that no increase was contemplated for 1965. Restrictions had also been arbitrarily imposed on cotton yarn. This restrictive policy had extremely serious implications for Pakistan's economic development and the success of her development plan. The Pakistan Government did not wish to make a formal complaint and was fully aware that a very large proportion of the United Kingdom's imports came from developing countries but this proportion was diminishing. It would be proper for other countries to increase the proportion of their imports coming from developing countries rather than for the United Kingdom to reduce this proportion.

35. It was pointed out by the representative of the United Kingdom that a decision to restrict yarn imports had been taken only after thorough discussion. The United Kingdom sympathized with the anxiety of countries like Pakistan to maximize their export earnings. But a decision had to be made in the context of the network of obligations to which reference had already been made and of the equitable claims of other sources of supply. The quota on cotton yarn had in fact been fixed at a figure more than double that which might have resulted from a rigid application of the formula in the Long-Term Arrangement. The same network of obligations had prevented the United Kingdom from meeting Pakistan's request for a larger quota for cotton piece-goods and it had been necessary to ask Pakistan to exercise restraint after a sharp (and substantial) rise in imports from Pakistan had taken place at a time when continued restraint was already being applied by India and Hong Kong. In this connexion the representative of Pakistan pointed out that in the case of yarn highest performance quotas had been given to India and Hong Kong but the lowest performance quota in the case of Pakistan; and that it was easier for India and Hong Kong to accept voluntary restraint because their quotas for cloth were adequate, amounting to four or five times that offered to Pakistan.
36. The representative of Canada said that on the whole the Arrangement had worked fairly well for his country. His Government had used it sparingly, confining requests to cases and categories where disruption had occurred or was imminent. In the first year of the Arrangement restraints had been requested of three participating countries for a total of three products: yarn from Portugal and Israel, and two apparel products from Hong Kong. In each of these cases the exporting countries were already applying restraints on exports of the product in question to other markets. Despite Canada's exemption from the growth provisions of Annex B, Japan and Hong Kong had during the year been allowed increases of the order of 3 per cent in the levels for the particular products they were restraining. Canada's cotton textile imports from the "low cost" countries had continued to increase in total. There were, however, two problems which were being faced by Canada concerning the Arrangement: (1) there had been unwarranted delays in some cases in responding to Canada's requests for restraint; (2) there was a danger of Canada becoming a residual market as a result of the severely restricted access to other markets. He hoped that these two difficulties could be solved in order that Canada could continue to use the Arrangement as it had so far.

37. The representative of Austria informed the Committee that in 1962 the quotas fixed totalled 343 tons and that, by an application of the figure for Austria in Annex A, the quotas to be established during the first year of the Arrangement would amount to 408 tons. Actually the quotas fixed for that year aggregated about 421 tons of retained imports. During the same period Austrian domestic production had decreased as had employment in the industry. During the first year of the Arrangement imports of cotton yarn from all sources increased by 19 per cent and cotton fabrics by 8 per cent as compared with the twelve months period preceding the Short-Term Arrangement. Imports have risen to represent 15 per cent of consumption of yarns and 32½ per cent of consumption of fabrics. Austria had expanded access to its markets for cotton textiles from the developing countries and Japan and would continue to do so to an increasing extent in the coming years within the framework of the Long-Term Arrangement. Consultations with Israel on the basic quota are still in progress.

38. Commenting on this, the representative of Israel reserved his position pending the outcome of these consultations.

39. The representative of Spain said that his country had received requests from the United States to restrict exports of several categories of cotton textiles. His Government had found that Article 3 authorized the United States Government to request this limitation and the United States had interpreted the provisions of Annex B in a generous way. Since then Spain had signed a bilateral agreement with the United States. The consequence of this had been a considerable restriction of Spanish exports to the United States. This was not compatible with the aim of the Long-Term Arrangement which was to secure an orderly expansion of trade. He recalled that exports of gingham from Spain to the United States had fallen to exceptionally low levels in 1961 and 1962 due to exceptional circumstances. Although, as he had said, the United States interpreted the twelve months rule generously, the restraint level which had been applied to exports of these items was very much lower than Spain could supply under normal circumstances.
He suggested that the various proposals which had been made on this question should be examined and that the rule might be complemented by a reference to past levels of trade. The restraint level should not be lower than exports in either the first year of the Long-Term Arrangement or the year of the Short-Term Arrangement, whichever was greater.

40. The representative of Jamaica stated that his Government felt that the Long-Term Arrangement was not working as it had been intended, partly as a result of the interpretation placed on it. He underlined the difficulties which were being experienced by relatively new exporters of cotton textiles. Jamaican exports to the United States had increased by 50 per cent between the period of the Short-Term Arrangement and the first year of the Long-Term Arrangement. This presented a misleading picture as during the Short-Term Arrangement few factories in Jamaica had reached an economic level of production. In October 1962, when this economic level was being reached, the United States had requested restraint on three categories and restraint was imposed based on a period in the past. Employment had been reduced by 40 per cent, the effect being concentrated on certain rural areas. The United States had suggested that Jamaica diversify production. Diversification was undertaken but in March 1963 followed a request to restrain exports of two further categories. The base period formula had prevented increases in exports of new items. He expressed the hope that increased access would be available in other markets but concluded by pointing out that the operation of the Long-Term Arrangement might have serious effects on the industry in his country and on its export earnings.

41. The representative of the United States expressed his Government's concern for the problems which had been outlined by the representative of Jamaica. He pointed out, however, that the bilateral agreement which had been signed with Jamaica provided for a level of trade which was substantially higher than Jamaica had achieved before and also provided a not inconsiderable growth factor.

42. The representative of Hong Kong pressed for the rapid liberalization and elimination of quota restrictions maintained under Article 2. Referring to the question of market disruption, he said that difficulties could be largely removed by the adoption of a meticulous but at the same time liberal interpretation of existing provisions. This was all the more necessary because the Arrangement placed all the powers of decision in the hands of the importing countries. Finally, he referred to the growth formula built into Annex B of the Arrangement and said that out of more than forty cases of restraint under Article 3 of which he had had experience, in no case had there been conceded a growth element of 5 per cent in the second year of the Arrangement. In every single case the importing territory had claimed "exceptional circumstances of extreme difficulty". It was difficult to see how every case could properly be treated as an "exception". This underlined the need for a more liberal interpretation of this provision.
43. The representative of Australia, referring to document COT/16, page 2, reminded the Committee that his Government had no licensing controls on cotton textiles or on cotton made-up articles. He added that no changes in this situation are contemplated for the second year of the Arrangement. His Government had taken no action under Articles 3 and 4 of the Arrangement. Imports accounted for more than 60 per cent of total domestic consumption. He concluded by underlining the diversion possibilities mentioned by the Canadian delegate and expressed the hope that limitations on access to other markets would not throw a strain on small open markets such as existed in his country.

44. The representative of Norway said that when imports of cotton textiles were liberalized some eight years ago, the Norwegian cotton industry supplied about 80 per cent of the home market. After a period of readaptation in which some mills had been closed down and the remaining modernized and partly relocated, resulting in a substantial increase in productivity, the industry was considered competitive under normal market conditions. It now supplies about 40 per cent of the home market. All imports from less-developed countries are free. Quotas had been established on imports from Japan for the first year of the Arrangement and details were given in document COT/16, page 7. An agreement had also been reached with Hong Kong on two cotton textile items. The text of this is reproduced in document COT/13. It was pointed out that the Norwegian market was small and that diversion of trade might be of real concern to the Norwegian Government if the larger markets were not opened to imports.

45. The representative of Portugal stated that exporting countries signatory to this Arrangement have never envisaged that the disruption clause would be applied to the benefit of the importing countries and thus the exporting countries would be at their mercy waiting optimistically for a generous attitude. The exporting countries agreed to the Arrangement because they felt that it should be designed to facilitate economic expansion and promote the development of less-developed countries by providing larger opportunities for increasing their export earnings. He said that the preamble to the Arrangement laid down fundamental basis for those objectives.

46. The representative of Portugal also pointed out that importing countries having recourse to measures envisaged in paragraphs 1, 2 and 3 of Article 3 should also consider the relevant provisions in paragraphs 5, 6 and 7 of this Article as well as Article 7 and emphasized that for the satisfactory working of the Arrangement a balance of interests must exist.
### Quotas Granted to Exporting Countries by the Member States of the European Economic Community in 1962 and 1963

<table>
<thead>
<tr>
<th></th>
<th>FRANCE</th>
<th>ITALY</th>
<th>F.R. GERMANY</th>
<th>BENELUX</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>1,350 t.</td>
<td>300t.</td>
<td>1,637 t.</td>
<td>850 t.</td>
<td>4,137 tons</td>
</tr>
<tr>
<td>1963</td>
<td>1,525</td>
<td>580</td>
<td>1,803</td>
<td>930</td>
<td>4,838 tons</td>
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<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>1,200 t.</td>
<td>3/</td>
<td>625 t.</td>
<td>3/</td>
<td>1,825 tons</td>
</tr>
<tr>
<td>1963</td>
<td>1,355</td>
<td>3/</td>
<td>756</td>
<td>3/</td>
<td>2,111 tons</td>
</tr>
<tr>
<td><strong>Pakistan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>225 t.</td>
<td>3/</td>
<td>97 t.</td>
<td>3/</td>
<td>322 tons</td>
</tr>
<tr>
<td>1963</td>
<td>250</td>
<td>3/</td>
<td>116</td>
<td>3/</td>
<td>366 tons</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>225 t.</td>
<td>3/</td>
<td>3/</td>
<td>3/</td>
<td>225 tons</td>
</tr>
<tr>
<td>1963</td>
<td>250</td>
<td>3/</td>
<td>3/</td>
<td>3/</td>
<td>250 tons</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6,509 1/4 tons</td>
</tr>
<tr>
<td>1963</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7,565 tons</td>
</tr>
</tbody>
</table>

1/ Definitive quota fixed after 1 October 1962.

2/ Negotiations in progress.

3/ Liberalized.

4/ This figure is larger than that of 6,383 tons mentioned on page 21, too. Take account of quota increases granted in 1962 after signature of the Arrangement.
ANNEX II

Review of the Operation of the Long-Term Arrangement

Note by the Secretariat

1. This note has been drawn up by the secretariat to assist the Committee in its first annual review of the operation of the Long-Term Arrangement under Article 8(c) of that Arrangement. It deals with participation and with action taken or contemplated under the Arrangement as notified by participating countries. Reference should be made on specific points to documents quoted which, in most cases, contain more complete information.

Participation

2. The Arrangement entered into force on 1 October 1962 for Belgium, Canada, Denmark, France, the Federal Republic of Germany, India, Israel, Italy, Japan, Luxemburg, the Kingdom of the Netherlands, Norway, Pakistan, Portugal, Spain, Sweden, the United Arab Republic, the United Kingdom (in respect of the United Kingdom of Great Britain and Northern Ireland and Hong Kong) and the United States. Australia accepted the Arrangement on 21 November 1962 and Austria on 24 October 1962. Mexico acceded on 11 December 1962 and Colombia on 30 January 1963. Details are given in COT/2 and L/1811 and addenda.

Action taken or contemplated under the Arrangement

3. The following paragraphs summarize the provisions of Articles 2, 3 and 4 of the Arrangement, including the notification procedures contained in these Articles, and give references to documents describing action taken or contemplated under each of these Articles as notified by participating countries. In addition, paragraphs 10 and 11 refer to documents giving information on certain action taken or contemplated by the Governments of Canada and the United States. In these cases no indication has been given of the Article of the Arrangement under which action has been taken.

Notification of action under Article 2

4. Article 2 paragraph 1 of the Arrangement provides that "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 as soon as possible". Paragraph 3 of this Article and Annex A contain detailed provisions designed to expand access for cotton textiles subject to import restrictions while paragraph 7 lays down that "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".
5. Notifications under Article 2, paragraph 7, have so far been received from the Governments of Australia, Austria, Norway, Sweden and from the Commission of the European Economic Community on action taken to expand access for cotton textiles. These are reproduced in COT/16. The Australian Government has informed the secretariat that all import licensing controls on cotton textiles and cotton made-up articles were removed on 18 October 1962 and that Australia was not contemplating any changes for the second year of the Long-Term Arrangement. Austria has supplied details of quotas foreseen during each of the five years of the Arrangement on imports from Japan, India, Pakistan, Hong Kong, the United Arab Republic and Mexico. Norway and Sweden have supplied notifications of import restrictions and quotas on certain imports of cotton textiles from Japan. The Commission of the European Economic Community has provided a list of items liberalized by member States of the Community since the entry into force of the Long-Term Arrangement and information on the size of quotas opened in 1962 and 1963 by the member States taken together for imports of cotton textiles subject to restriction from Japan, India, Pakistan and Hong Kong.

Notification of action under Article 3

6. Article 3, paragraph 1, provides that "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, in the judgment of the importing country, 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". Paragraph 6 lays down that "participating countries having recourse to the provisions of Article 3 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 paragraph 7 that "participating importing countries may report the groups or categories to be used for statistical purposes to the Cotton Textiles Committee".

7. The Federal Republic of Germany has transmitted the texts of three notes verbales addressed to the United Kingdom requesting restraint on exports of shirts, cotton nightwear for men, women and children and cotton towels from Hong Kong. These texts have been circulated to the Committee in COT/6, pages 2 to 12. COT/14 sets out the views of the Hong Kong Government on the request
made to it to restrict the export of cotton towels. In COT/6 page 13, the Committee was also notified of requests for restraint addressed by the Canadian Government to Israel, Portugal, Hong Kong and the Republic of China (Taiwan)* pursuant to Article 3 of the Long-Term Arrangement and of the conclusion of two agreements whereby Israel and Portugal are to restrain exports of cotton yarns to Canada during the calendar year 1963. COT/17 gives details of an arrangement between Canada and Hong Kong in which Hong Kong undertook to exercise restraint on exports of certain clothing items during the year ended 30 September 1963.

Notification of action under Article 4

8. Article 4 provides that "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 parts thereof, which have a bearing on the operation of this Arrangement."

9. The Government of Canada has transmitted details of a bilateral arrangement pursuant to Article 4 of the Long-Term Arrangement, between Canada and Japan in which Japan agreed on restraint levels on eleven items for the calendar year 1963. Details are given in COT/4. The Government of Norway has transmitted the text of a memorandum of agreement between the Government of Hong Kong and that of Norway in which Hong Kong agrees to restrain exports of cotton shirts and nightwear during each of the five years covered by the Long-Term Arrangement. This has been circulated as COT/13. The United Kingdom delegation has provided the secretariat with a note of arrangements relating to exports of cotton textiles to the United Kingdom in accordance with Article 4. These arrangements apply to exports of certain cotton textiles from Hong Kong, India, Pakistan, the Irish Republic*, Japan, Malaya*, Portugal, Yugoslavia* and Spain. The United Kingdom limits imports of cotton textiles from the USSR*, Poland*, Hungary*, Roumania*, Bulgaria*, East Germany*, Czechoslovakia*, the People's Republic of China* and Formosa*. This has been circulated as COT/15. The Government of the United States has transmitted to the secretariat details of four bilateral arrangements in accordance with Article 4. Details of the arrangements concluded between the United States and the Republic of China (Taiwan)* and Jamaica are given in COT/8 and COT/5 respectively. These arrangements provide that these countries shall control their exports of all cotton textiles to the United States for the twelve-month period beginning 1 October 1963. COT/3 contains information on two bilateral arrangements between the United States and Spain. In the first of these, Spain agreed to restrain exports to the United States of eight categories of cotton textiles between 1 October 1962 and 30 September 1963. In the second of these Spain is to control the export of all cotton textiles to the United States until the expiration of the Long-Term Arrangement. Details of a further bilateral arrangement concluded between the United States and Japan are contained in COT/11. Under this arrangement the Japanese Government will maintain for a period of three years beginning 1 January 1963 an annual aggregate limit for exports of cotton textiles to the United States. Letters 5 and 6 in this document and COT/12 also reproduce the text of correspondence between the Governments of the United States and Japan on items not considered cotton textiles by the Japanese Government.

*Not a party to the Long-Term Arrangement.
Other action of which the Committee has been informed

10. The Government of Canada has transmitted details of a bilateral arrangement consistent with the basic objectives of the Long-Term Arrangement between Canada and the Republic of China (Taiwan) in which the Republic of China agreed to restraint levels on five items. Details are given in COT/9.

11. In a general paper, distributed as COT/1, the United States has supplied information on forty-nine categories of cotton textiles restrained under the Arrangement. The United States has also submitted press releases containing information on action taken which has been summarized in COT/7. No indication has been given of the article of the Arrangement under which this action has been taken. The information contained in COT/7 and related documents is summarized here on a country-by-country basis:

(a) Colombia: COT/7, page 2/3, indicates that Colombia will restrain exports to the United States of three categories of products, effective for a period of twelve months starting 1 October 1962.

(b) Republic of China (Taiwan)*: COT/7, page 4, indicates restraint on twelve product groups, effective for a period of twelve months starting 1 October 1962. COT/7, page 5, indicates restraint on nine additional product groups, effective for a period of twelve months starting 1 December 1962. In the same document, page 7, it was also indicated that, on 1 October 1963 consultations were in progress on a further five categories.

(c) Greece*: COT/7, page 5, shows restraint on one category for the twelve-month period starting 30 October 1962, on another for the twelve-month period starting 4 February 1963 and for two further categories for the twelve month period starting 27 March 1963.

(d) Hong Kong: COT/7, page 2/3, indicates restraint on thirty categories for the twelve-month period starting 1 October 1962. Additional details on this Arrangement are given in a notification from the delegation of the United Kingdom circulated as COT/10. COT/7, page 6, shows nine categories on which consultations were in progress on 1 October 1963 while COT/10 reproduces on pages 6 to 11 a communication dated 25 July 1963 setting out the Hong Kong Government's views on the United States' requests on four of these categories.

(e) India: COT/7, page 5, shows restraint on four categories for the fifteen months starting 17 January 1963.

(f) Israel: COT/7, pages 2/3, indicates restraint on three categories for the twelve months starting 1 October 1963.

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(g) **Jamaica**: COT/7, pages 2/3, indicates restraint on three categories for the twelve-month period starting 1 November 1962.

(h) **Korea**: COT/7, page 5, indicates restraint on five categories for the twelve months starting 1 January 1963 and page 6 on two further categories for the twelve months starting 26 June 1963. On the same page, six additional categories are shown as the subject of consultation as of 1 October 1963.

(i) **Mexico**: COT/7, page 2/3, shows restraint on one category for the twelve months starting 1 October 1962, while page 6 shows an additional category on which restraint is to be exercised during the twelve months starting 1 May 1963 and one category as the subject of consultations as of 1 October 1963.

(j) **Pakistan**: COT/7, page 5, indicates that one category is to be restrained for the twelve months starting 1 March 1963.

(k) **Philippines**: COT/7, page 5, shows that two categories are to be restrained for the twelve months starting 25 October 1962, page 6 shows one category is to be restrained for the twelve months starting 23 January 1963 and four categories as the subject of consultations as of 1 October 1963.

(l) **Poland**: COT/7, page 5, shows four categories restrained for the twelve months starting 4 December 1962, while page 6 shows two categories restrained for the twelve months starting 15 July 1963 and one category the subject of consultations as of 1 October 1963.

(m) **Portugal**: COT/7, page 4, indicates fifteen categories as the object of restraint for a twelve-month period starting either from 1 October or 1 December 1962, and page 6, shows eight categories the subject of consultations as of 1 October 1963.

(n) **Spain**: COT/7, page 5, lists two categories as the object of restraint for the twelve months starting 18 October 1962.

(o) **Trinidad and Tobago**: COT/7, page 6, indicates that two categories were the object of consultations as of 1 October 1963.

(p) **United Arab Republic**: COT/7, page 4, lists four categories that were to be restrained for the twelve months starting 1 October 1962 and page 6 shows that two additional categories are the object of restraint for the twelve months starting 1 July 1963.

(q) **Yugoslavia**: COT/7, page 5, indicates five categories as the object of restraint for the twelve-month period starting 3 January 1963.

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*Not a party to the Long-Term Arrangement.*