1. Following discussion in the Council of the present state of world trade in textiles (C/W/202/Rev.1 and C/M/77 and 78) the Working Party was established on 27 June 1972. The task conferred upon it by the Council at that time was to make a factual study regarding the economic, technical and social elements which influence world trade in textiles and textile goods of cotton, wool and man-made fibres (L/3716). This Study (L/3797 and Addenda) was submitted to the Council on 29 December 1972 in accordance with the mandate given to the Working Party.

2. At its meeting of 5 February 1973, the Council took note of the Study and agreed to defer consideration of the matter of trade in textiles to a later meeting (C/M/84).

3. The Council resumed discussion of this matter at its meeting of 30 April 1973 (C/W/220 and C/M/86), and subsequently adopted the following Decision amending the terms of reference of the Working Party (L/3716/Rev.1)¹,

Recognizing the objectives of the Multilateral Trade Negotiations, particularly the objectives of the greater liberalization and expansion of trade,

Recognizing the great importance to many of the contracting parties of trade in textiles and textile goods of cotton, wool and man-made fibres, and the unsatisfactory situation that exists in international trade in these products,

Recognizing the particular importance of the trade in these products, particularly cotton products, for the economic and social development of developing countries, and for their export earnings,

Recognizing that solutions to problems in textile trade should be sought against the background of the principles and objectives of the General Agreement and the expiration of the Arrangement Regarding International Trade in Cotton Textiles on 30 September 1973,

Having received and examined the study of fact prepared by the Working Party pursuant to the Council's decision of 27 June 1972,
Decides that:

I. The Working Party should, on the basis of its factual study (document L/3797), together with such other information as may be relevant for its work, and having the fullest regard to the considerations set out in the preamble above:

1) identify and examine the problems that exist in international trade in textiles and textile goods, and

2) with regard to such examination seek possible alternative multilateral solutions to these problems. The search for multilateral solutions to textile trade problems will be without prior commitment as to the position of any participant.

II. The Working Party shall make a progress report on these matters to the Council not later than 30 June 1973.

4. Since that time the Working Party has held three meetings. The first (2-4 May) was devoted to the task of identification and examination of the problems that exist in international trade in textiles and textile goods in accordance with point (1) of the amended terms of reference. In the course of the discussion many members of the Working Party made general statements, and specific problems were raised and discussed. Some of the statements made have been circulated in TEX/W/13, 14 and 15. Certain elements for possible solutions were also indicated by some members whilst identifying their problems.

5. The main points raised and discussed are summarized in the note on the meeting (TEX/W/16/Rev.1) which is a revision, in light of comments made by delegations, of an earlier draft note by the secretariat (TEX/W/16) and which is attached hereto as Annex I.

6. At its second meeting (4-6 June) the Working Party addressed itself chiefly to Point (2) of the Terms of Reference, i.e., the search for possible alternative solutions to the problems existing in international trade in textiles. In the course of the discussion a large number of members of the Working Party expressed views on certain elements which could be embodied in any possible solutions and put forward suggestions on various aspects of such solutions. Some of the statements made during the meeting have been reproduced in full in TEX/W/17 and TEX/W/19-24.

7. The divergence of views on the nature of the problems which existed in trade in textiles was reflected in the discussion of possible solutions. On the one hand, it was suggested that the proliferation of restrictions was the major problem and the solution lay in the dismantling of these restrictions. On the other hand, it was maintained that an international framework was necessary for the orderly development of trade in textiles to avoid a general deterioration in trading conditions. Nevertheless despite this divergence of views it was generally agreed that principles and objectives of GATT should be upheld.
8. A number of delegations went on to maintain that whilst recognizing the complexity of textile problems, they did not accept that these problems were unique so that a special solution for textile problems seemed unnecessary. The problems in textiles were socio-economic and not truly political in nature. In contrast to these views, the view was expressed that textile problems were indeed unique in the sense that the one industry suffered almost all the problems suffered separately and severally by other industrial sectors.

9. Some delegations were strongly of the view that the textile problem, in view of its nature, warranted a separate solution which would not be within the multilateral trade negotiations, scheduled to start in September. Furthermore in view of the somewhat more favourable trading conditions which prevailed at present in the world the time was ripe to reach agreement on a solution. In contrast, some other delegations felt that the textile problem, being not unique should be dealt with in the multilateral trade negotiations. Many believed that the objectives of the multilateral negotiations should be kept in mind in the formulation of any separate textile solution especially with regard to trade expansion and liberalization and the recognized claims of developing countries to share in these developments.

10. Whilst some held the view that all textiles and textile products of cotton, wool and man-made fibres and blends of these fibres should be included in a textile solution, other delegations were of the opinion that any solution should apply solely to those textiles and textile products where there were specific problems. Some delegations believed that even should a multi-fibre arrangement eventuate as the solution, it would be appropriate for special attention to be afforded cotton textiles within such an arrangement.

11. It was suggested by some delegations that the Long-Term Arrangement on Cotton Textiles had provided a balanced set of principles to regulate trade in cotton textiles and that these principles should be embodied in any new solution. It was stated by one delegation that it would prefer a simple amendment to the Long-Term Arrangement to cover textiles of the three major fibres. These views were strongly opposed by other delegates who maintained that the Long-Term Arrangement must not be made to serve as a precedent for restrictive trade measures. Yet other delegates saw some value in some of the principles of the Long-Term Arrangement and felt that the Arrangement could be used as a signpost for a new solution whilst excluding the mere extension of the Long-Term Arrangement to textiles of other fibres.

12. It was the view of delegations that a solution to the problem in textiles should deal largely with quantitative restrictions of all types but allusion was also made to certain other non-tariff barriers which provided an obstacle to trade and should receive attention. Furthermore the existence of high tariffs, although recognized under GATT rules, could also prove a barrier to trade.
13. In the discussion on the duration of possible solutions no specific time period was mentioned. While some felt, with the experience of the Long-Term Arrangement in mind, that any new arrangement should be for a specific time period, others considered that any such time period would have to be sufficient to allow any problems identified to be solved within the framework of the solutions adopted. Reference was made to the need for an arrangement of a temporary nature pending the outcome of the multilateral trade negotiations.

14. Many delegations stressed the need for an effective international surveillance mechanism together with an objective safeguard procedure. Furthermore it was pointed out that the criteria for market disruption in Annex C of the Long-Term Arrangement should be revised to take into account the view of importers and exporters by the addition of numerous elements which were enumerated by several delegations. The view was also expressed however that the criteria of the Long-Term Arrangement alone provided a reasonable guide for the determination of situations of market disruption.

15. The point was made that certain specific problems e.g. questions of quantity, base levels, growth rates, inter-fibre flexibility and categorization were best dealt with in bilateral negotiations. The view was however expressed that these questions could not be left solely to bilateral arrangements but that basic principles governing them should be embodied in the multilateral solution.

16. Other problems requiring solution within multilateral framework were discussed and in particular the interests of new textile exporting countries, handloom products, the imbalance of import and export performances structural adjustment and the time-table for phasing out existing restrictions. In addition emphasis was placed on the particular needs of developing countries to be fully reflected in any solution.

17. The Working Party noted the most salient elements which had clearly emerged from its deliberation. These have been elaborated by the secretariat, as requested by the Working Party, in document TEX/W/25 to facilitate discussion at its third meeting of 25-29 June.

18. At the third meeting (25-29 June) the Working Party continued the discussion under point (2) of its terms of reference, i.e. the search for possible solutions on the basis of the secretariat note (TEX/W/25). The Working Party also received during the discussion written proposals from the delegation of the United States (TEX/W/27). In continuation of the discussion of solutions to the textile problem, the view was expressed that some measure of consensus would be necessary in order to arrive at a useful progress report to be submitted to the GATT Council not later than 30 June.

19. With regard to the basic objective of liberalization of international trade in textiles, some members pointed out that full liberalization might be feasible only over a long period of time. Whilst progressive liberalization appeared to imply less than was intended, a reasonable objective, in their view, would be extensive and progressive liberalization. This view was not, however, fully shared by some others who felt that liberalization was a basic tenet of GATT and,
therefore, the objective should be to progressively achieve full liberalization. The process of liberalization should take full account of the principle of market disruption and the safeguard procedure to ensure controlled expansion of trade in textiles and textile products.

20. Some members felt strongly that the concept of equitable sharing of imports was of vital importance for the successful operation of any multilateral solution and a prerequisite for genuine liberalization. The point was made, however, that the notion of more equitable sharing of trade, though valid, was largely transitional and should lead in due course to full liberalization and free interplay of market forces.

21. The view was expressed that the process of liberalization of trade in textiles should also involve reduction, elimination or downward harmonization of customs duties. While some felt that these aims should either be embodied or referred to in any arrangement in the expectation of their achievement in the forthcoming multilateral trade negotiations, others pointed out that this allusion to tariffs was unnecessary.

22. Members of the Working Party had divergent views as to the products in respect of which a solution was to be found. Some took the position that any multilateral solution should cover all textiles irrespective of their fibre content, others that the coverage should be limited only to those products where problems appeared to exist. While specific reference was made to textiles and textile products of cotton, wool and man-made fibres and blends thereof, the inclusion of man-made fibres themselves was also mentioned. Emphasis was, therefore, placed on the need for product coverage to be clearly set out and defined. The point was made that, though broad in coverage, in practice, the solution would be applied only when specific problems so required.

23. The view was expressed by some members that the phasing out of existing restrictions could not, at present, be tied to an exact time-table. Some, however, were of the view that it was important that the procedure for achieving this objective should be embodied in the solution and that a concrete time period should be fixed therein for this purpose.

24. Some members pointed out that the importance of the textile industry in the economic expansion of the developing countries and their exchange earnings should be adequately recognized in the objectives. These objectives had been stated strongly in the Long-Term Arrangement and should be given sufficient prominence in the new solution. The special interest of these countries in trade in textiles, particularly cotton textiles, was fully recognized and specific provisions for this should be included in any solution. Other members pointed out that such specific provision would nonetheless fall within the general scope of the multilateral solution. Certain suggestions were made concerning duty and quota-free access for cotton yarn and the inclusion of cotton textiles in the Generalized Scheme of Preferences. It was, however, cautioned that such special provisions should not be used to restrict the evolution of the textile industries of developing countries and their future capacity and opportunity to export products of other fibre.
25. There was general recognition that provisions should be made in any solution for the needs of newly-established textile exporters, although this should not be at the expense of old-established exporters. Nevertheless, there were divergent views on how this could best be achieved within the framework of a multilateral agreement.

26. There was general consent to the special position of handloom products and to the principle of liberalizing trade in these items with certain certification procedure. It was the view of some members that liberalization in these items, both fabrics and products thereof, should be complete since they were in no way competitive with machine-made products. This view was not, however, fully shared by others who felt that in certain cases end products of handloom fabrics in particular were directly competitive with similar machine-made articles.

27. Varying views were stated as to the likely duration of any new solution to the textile problem. Whereas experience of the Long-Term Arrangement suggested that caution should be exercised to ensure that what was intended as a temporary arrangement should not become permanent, it was felt by many delegations that the duration of any solution should be sufficient to allow the stated objectives to be achieved. Specific suggestions varied from three years to a minimum of five years. The point was made that even if the initial period was short, this would not preclude extension at the appropriate time if proven necessary. The view was expressed that any solution should be provisional pending the outcome of the multilateral trade negotiations.

28. The view was expressed that the obligations inherent in any code should be more than simply moral obligations. A number of comments were made on possible elements that might be included in any code. The need for a code was queried by some on the grounds it was difficult to envisage how the objectives under a code could be fully honoured by the participating governments.

29. It was the view of several delegations that a strict safeguard procedure should be agreed, and a number of suggestions were made to this effect. It was felt by some delegates that safeguard provisions should be invoked as a last resort if the principles of any code were not adhered to. Such provisions should be used sparingly and administration of restrictive measures would be carried out on the basis of agreed operative procedures to ensure that it would not constitute a further non-tariff barrier. It was the view of some members that restrictive measures imposed under safeguard provisions should be non-discriminatory. However, the point was made that this principle should not be carried so far as to lead to imposition of restrictions on non-disruptive suppliers.

30. There was a widespread agreement on the need for international surveillance to control the invocation of market disruption and imposition of restrictions. The view was expressed by some members that the task of surveillance should be entrusted to a standing sub-committee of the Textiles Committee, whilst others felt that it would be more effectively carried out by a panel. Some members felt
that an amalgamation of the two views was feasible with a sub-committee being assisted on an ad hoc basis by experts. The need for equal representation of importing and exporting interests was emphasized. Some members insisted on the need for prior consultation with the surveillance body before implementation of any restrictive measures. Others felt that this could lead to abuse during the period of consultation. The duties of the surveillance body would include those of review, both annual in consideration of all existing restrictions and on request for new problems as they arose. Some delegations felt that the recommendations of the surveillance body should be binding; one delegation, on legal and constitutional grounds, spoke against this while others felt that such recommendation should be of an advisory nature only. The point was also made that the surveillance body would require a permanent secretariat since it could not, itself, sit permanently.

31. It was felt by some members that the counterpart of the imposition of restrictions was an undertaking to make necessary arrangements for structural adjustment in the textile industry in the importing country. This, in their view, had not so far always been the case under the Long-Term Arrangement under which restrictions had existed for a prolonged period in some cases with minimal structural readjustment to accompany them. The point was made that this obligation to readjust should be the subject of surveillance by the appropriate body envisaged. The point was, however, made by some members that structural adjustment was in many cases the responsibility of the private sector and, in certain cases, governmental jurisdiction was limited.

32. It was the view of many delegations that the definition of market disruption contained in Annex C of the Long-Term Arrangement should be modified. Some delegations felt that the present definition did not take sufficient account of the position of exporting countries. A more precise definition with clearly defined and stated parameters was a sine qua non of the successful operation of any solution. Some felt that the redefinition of market disruption might best be carried out on the basis of suggestion 29(i) of document TEX/W/25. The addition of certain new elements was suggested by some delegations, while others considered that the existing definition of market disruption needed only the addition of a relatively few new elements. Other delegations supported suggestion 29(ii) of the same paper, whilst others felt that a combination of both suggestions was most useful. The practicality of too extensive criteria for the establishment of market disruption was questioned due to probable lack of up-to-date evidence. It was pointed out, however, that in view of the fact that the detailed elements in the Anti-Dumping Code had proved practicable, it would appear that a requirement for such details was reasonable. Several members held the view that market disruption should be actual not hypothetical, and only a real injury criterion was acceptable. In contrast, others pointed out that, in their view, there was a great need to retain a definition that includes both actual and threatened injury. A plea was made for restraint to be shown by importing countries in invoking market disruption based on a threatened situation by giving a surveillance period to ensure that such situation was indeed likely to develop into an actual threat of market disruption.

1Now contained, after subsequent additions, in paragraph 24, Alternative I, of Annex II.
2Now contained, after subsequent additions, in paragraph 24, Alternative II, of Annex II.
33. It was the view expressed by some delegations that certain specific problems such as base levels, growth rates, quota administration and categorization could, most usefully, be dealt with through bilateral negotiations. This view was opposed by other delegates who considered that such problems should be embodied, in some cases directly within the multilateral solutions and, in other cases, indirectly through specific guidelines within this solution to govern bilateral negotiations. A purely bilateral approach to these specific problems would result in widely different solutions which would undermine any multilateral approach.

34. On the basis of the paper prepared by the secretariat (TEX/W/25) and in the light of the general discussions summarized above, as well as numerous specific comments and suggestions including document TEX/W/27, that had been made by members of the Working Party at this meeting, a new document (TEX/W/29/Rev.1) was approved by the Working Party and is attached hereto as Annex II.

35. The Working Party observed that its work to date had been conducted in an atmosphere of active co-operation, and that it had covered much ground in its difficult task. Most members of the Working Party, therefore, recommend that the Council, after consideration of this report, take the decisions necessary to enable the Working Party to proceed with this work with the objective of reaching a mutually satisfactory agreement not later than 31 December 1973.
1. The Working Party on Trade in Textiles, after completing its factual study (L/3797 and addenda) in December 1972, reconvened on 2-4 May 1973, under the Chairmanship of the Director-General, to carry out the tasks conferred upon it by the Council pursuant to its decision of 30 April 1973 (L/3716/Rev.1). Apart from members of the Working Party, the meeting was attended by observers from certain contracting parties and intergovernmental organizations (see TEX/W/12). This note, prepared by the secretariat and duly revised in the light of comments received from delegations, sets out the main points raised at the meeting.

2. It was noted that the Working Party, in conducting its work, must keep in mind the date of 30 June by which time a progress report had to be submitted to the Council. This date was also necessary to provide time for the Cotton Textiles Committee, which subsequently would meet some time in July, to consider the future of the Cotton Textiles Arrangement due to expire on 30 September 1973.

3. It was considered that the first task of the Working Party was to address itself to point (1) of its amended terms of reference, i.e. "identify and examine the problems that exist in international trade in textiles and textile goods". Possible solutions could only be sought against a background of the full understanding of the real nature of such problems. The hope was expressed by several that the Working Party would be able largely to complete the identification and examination process at this meeting. If this could be achieved, it would permit governments to consider, in the interval between the present and the next meeting, possible solutions to the different problems raised in the course of the discussion. The view was expressed, however, that should it be necessary, the first two meetings of the Working Party could be devoted to this task of identification and examination of the problems.

---

Footnote: For the discussion in the Council see C/W/86.
4. The usefulness of dividing countries between importers and exporters of textiles was challenged. It was suggested that a better concept would be to divide countries between those restrained or restraining. This concept was also challenged and it was pointed out that such polarization should be avoided, not only because most countries were at times both, but also because it tended to exacerbate problems.¹

Basic elements

5. In the course of the discussion many members of the Working Party made general statements and specific problems were also raised and discussed. It was evident from the discussion that the textile industry was important to the national economies of all members of the Working Party and that two basic elements had given rise to the generally recognized "unsatisfactory situation in trade in textiles".

6. On the one hand, there was need by many countries for greater opportunities and access for their textile products to the markets in the industrial countries. Such enlarged exports and access were necessary in order to finance the imports necessary for their economic development and welfare, to provide industrial employment for their expanding labour force, to contribute to the gross national product, and to service their international debts. Their desire for increased exports of these products was especially strong and justified in their view as they considered they possessed comparative advantages in this sector. Moreover, it was pointed out that it would be exceedingly difficult for them to shift their export interests to other manufactures.²

7. On the other hand, some countries reported that in certain branches or sectors of their textile industry there had been, and was now, considerable unemployment of both labour and capital in the face of rising imports and relatively static demand. Moreover, this critical problem was aggravated because production was often concentrated in certain regions, the labour force involved was not only large but was often a relatively disadvantaged one in terms of age, transfer, transferable skills, etc., and often the size of the production unit was small. This state of affairs could be expected to continue, it was pointed out, because the textile industry was a highly volatile one both cyclically,

¹In this note the expressions "exporting country" and "importing country" are employed, respectively, to indicate a country which is a net exporter to or a net importer from another country of a certain textile product; the latter country would, in such specific case, be called "importing country" or "exporting country", respectively. In the case of the European Economic Community, the above-mentioned expressions apply to the Community, on the basis of the sum of the trade of its nine members with a non-member country.

²Several of these points, as well as others noted elsewhere, were elaborated in a statement by the delegate of Brazil and circulated in document TEX/W/13.
seasonally and sectorally, with possibilities of very large and very quick shifts in trade flows. As a result, they faced more or less continuous problems of disruption and adjustment.\(^1\) In commenting on this problem some pointed out that much of the structural change, which seemed to be the problem, was necessary because of technical, product, and consumer taste changes and not primarily because of lower import costs.

8. In the discussion of these basic problems some countries questioned not only the modes of implementation of past and present restrictive policies but, more fundamentally, questioned the very need for such policies at all. Others emphasized, however, that the unsatisfactory state of trade in textiles suggested that the alternative to some multilateral approach or arrangement in textile-trade was not trade that would be totally free but rather one with a proliferation of bilateral or unilaterally imposed restrictive measures. Some countries took the view that because of the special problems that arose in the textile sector, trade in textiles should be considered as a special case. This view, however, was challenged by certain other countries, on the ground that there was not sufficient objective evidence that the textile sector was of an exceptional character. Thus, the textile industry should be accorded normal treatment. Some were of the opinion that special and separate rules for the textile sector could unfavourably affect trade of other sectors with which it had economic and technological links and, furthermore, would constitute a dangerous precedent for other products.

9. The point was made that not all countries now applying restraints to imports had invoked market disruption as the reason for application of these restraints. Certain countries expressed the view that those countries applying restraints in this way had not identified problems in the sense of the terms of reference of the Working Party.

10. Delegates continued by identifying specific problems which may be, for convenience sake, classified as follows.

**Market disruption**

11. An important problem as seen by a number of countries concerned the definition of market disruption and its determination. The point was made that the definition now commonly used was imprecise and unbalanced, and it was emphasized that account must also be taken of the disruptive effects the introduction of restrictions had on the export side. The concept of market disruption should also encompass all relevant elements relating to production, exports, imports and employment and must not be confined to a consideration of just one or two of them. As regards the determination of market disruption, the view was expressed that serious problems inevitably arose when this was left to

---

\(^1\)Several of these points, as well as others noted elsewhere, were elaborated in a statement by the delegate of Canada and circulated in document TEX/W/15.
unilateral determination by governments without any multilateral surveillance. The provisions concerning injury to domestic producers, or threat thereof, in the Arrangement Regarding International Trade in Cotton Textiles, for example, were open to loose interpretation and had often been used unilaterally and arbitrarily without sufficient evidence; this was also true, it was stated, of independent agencies set up in certain countries to determine cases of injury.

Restrictive trade measures and their implementation

12. Attention was drawn by several spokesmen to the specific and serious problems which arose from the widespread application of restrictive trade measures in respect of international trade in textiles. The view was expressed that such measures were at the root of the main problems that exist in this sector.

13. Among various problems identified in connexion with the implementation of the existing restrictions, were the following:\(^1\) (a) the definition of what constitutes injury or threat thereof was often very loose; (b) import restrictions or export restraints were often discriminatory and applied against certain countries whereas imports from other sources which could be equally disruptive were free of restrictions; (c) the levels of restraints and the growth factors were often excessively stringent; in some cases certain categories were denied any increase over a long period of time; (d) restrictions were sometimes applied on all items of textiles rather than on individual disruptive products; restrictions applied under the Cotton Textiles Arrangement initially on cotton textile items, had been extended in some cases to include non-cotton items; (e) restrictions were often perpetuated regardless of changes in market conditions which rendered such restrictions no longer necessary; (f) some bilateral arrangements had a mechanism to automatically invoke restraints should the growth rate of imports reach a fixed level, irrespective of the actual conditions prevailing in the domestic textile market.

14. Mention was also made of difficulties encountered by certain countries because of the methods of application of the quotas by some importing countries. These included problems on the determination of the size and the basis of these quotas, as well as the import licensing procedures. The classification of textiles constituted an important problem because in practice it had allowed restraints on several non-textile items. There were also problems of categorizing products in such a detailed way that even quite minor shifts in market demand inevitably resulted in the wastage of already limited access rights. It was, therefore, suggested that any restraint limits found to be necessary should be classified and categorized to reflect the same broad group of products as those actually manufactured by the industries being protected.

15. Countries which had taken restraint action maintained that such action was necessary to alleviate disruptive effects on their domestic markets. Reference was made to the increase in the volume of imports, closure of mills, contraction of the domestic industry and growing unemployment, while others responded by

\(^1\) Several of these, as well as other issues noted elsewhere, were elaborated in a statement by the delegate of Japan and circulated as document TEX/W/14.
referring to increasing profits, high degree of utilizations of spindles, etc. In commenting on certain of the problems cited in paragraph 13, the view was expressed by those applying restrictions that discriminatory restrictive measures were, in certain cases, warranted to avoid concentration of trade on particular items from a given country. The introduction of a global quota system would be better for importers and easier to administer, but in practice would be inequitable for some exporting countries. There should be therefore, they stated, a distinction in treatment for those countries which caused disruption and those which did not.

16. Another problem cited was that in comparison with other industrial products, very high tariffs were imposed on textile products, particularly on man-made fibre products in certain countries. While these tariffs were not inconsistent with GATT rules, they represented an additional barrier to trade, were in effect double protection, and constituted another problem that should be dealt with. In this connexion it was pointed out that with the enlargement of the EEC, the preferences enjoyed by some countries in the United Kingdom market would be eroded. This situation emphasized the need for extending GSP to textiles.

17. It was also pointed out that on top of the multiplicity of the restrictions and high tariffs that exist in the textile sector, there were various other impediments and non-tariff barriers to trade which should be removed. Mention was made, inter alia, of labelling, marking, price control commissions and pollution and quality standards.

Imbalance in both export and import performances

18. The problem of imbalance in country shares of both the export and import markets was also identified. Whereas some countries were exporters of a full range of textile and clothing goods of all fibres, others still based their export trade on traditional cotton textiles. In particular, so far as textile exports from developing countries were concerned, a few countries held a disproportionate share of total textile exports, particularly non-cotton. It was noted that some developing countries, because of capital and foreign exchange shortages, etc., had been unable to share in the movement with man-made fibres and knitting, leaving them at a disadvantage in world markets and in comparison with other developing countries.

19. The problem of access to world markets for new entrants in the field of exports was noted by many members, both net importers and net exporters. It was the consensus that the rights of these countries to expand their exports should be safeguarded.
20. Inbalance in the offtake by importing countries of low-cost exports was cited as a major problem by a number of members. Some countries had done much to absorb these exports, whilst others had done less, and, therefore, there was a need for equitable sharing of imports among developed countries. The problem of accommodating the legitimate export aspirations of new exporting countries was cited as acute in those countries with an already high import rate of low-cost textiles. On the other hand, some countries pointed to the small participation of developing countries as a whole in the absolute increase in total exports over the period 1960-70 and added that at present exports by those countries accounted for only a limited percentage of total exports.

Need for restraint in export policies

21. Reference was made to the problem of unrestrained and overly ambitious export policies. It was stated by some members that the plans of exporters based on very rapid and sometimes unrealistic export growth in specific markets exceeded the absorption capacity of importing countries. Instances were quoted of excessive quota demands and the build-up of large-scale exports over a very limited period of time. Another problem requiring a solution was that of "artificial" pricing policies, resulting from severe competition between some exporting countries regarding certain textile products.

Comparative advantage in international trade

22. In commenting on certain of the problems identified by some of the net importing countries, others pointed out that an adverse balance in textile trade was not necessarily an undesirable thing. It was possible to have a trade surplus in one sector offset by a deficit in another sector. This was often the result of differentials of comparative advantage between sectors and it was both permissible and encouraged under the GATT rules. In this respect, some countries possessing the necessary raw materials and low labour costs were making increasing inroads in the international trade of textiles. This comparative advantage should be accepted and not frustrated by stemming the flows of trade.

23. The existence of a large hand-loom textile sector in some countries, alongside an established industrial sector, was seen as a problem deserving special attention.

Specific points of relevance for the discussion of possible solutions to the problems in textile trade

24. In the course of the discussion, certain points were made by some members for consideration by the Working Party in the search for possible multilateral solutions. These are summarized very briefly in the following paragraphs.

25. Reference was made to the presence of strong restrictionist bodies of opinion within individual countries. In order to succeed in the multilateral trade negotiations scheduled to start in September, the problem of assuaging these elements was important. Discussing seriously the pressing problems in
textiles and seeking solutions to them within the necessary time frame would help allay concern which otherwise could strengthen protectionist sentiment.

26. The point was made that certain problems identified were of a specific nature and could, therefore, be solved through bilateral consultations, while other problems of a general nature required multilateral solutions.

27. Many considered that any solution should encompass an important element of liberalization of markets which would take into account the interests of both importing and exporting countries. Several stressed the importance of having the fullest regard to the considerations set out in the preambular paragraphs of the amended terms of reference, especially those referring to the objectives of the Multilateral Trade Negotiations and the importance of trade in textiles for the economic and social development of developing countries. This process, especially so far as certain countries were concerned, could only proceed within a multilateral framework. Furthermore, if the unsatisfactory situation in the textile and clothing trade was allowed to continue, it would be to the detriment of trade in this sector and the principle of free trade in general. Any solution to be evolved should, therefore, aim at solving the existing problems and not crystalizing the situation.

28. Mention was made of certain elements by different delegations which could be embodied in any solution. These included: code of behaviour for both importers and exporters; safeguard clause; a supervisory procedure which would include, inter alia, periodic reviews to ascertain the need or otherwise of any specific restrictions imposed; continued multilateral surveillance of the operation of any agreement reached; provisions for the eventual phasing out of quantitative restrictions and reduction of tariffs. Some of these elements commended more support than others.

29. Reference was made to the diversity of sources of supply, of stages of processing and of end-uses. This had to be taken into account in the formulation of solutions. The view was expressed, and shared by several countries, that particular attention should be given to the problems of cotton textiles and that cotton products should be treated separately from other textiles.

30. Some members expressed concern lest the existing arrangement for cotton textiles be seen as a precedent for any solution to the broader problem of trade in all textiles. These members believed that the implementation of this arrangement had been unsatisfactory in a number of ways. Apprehension was also expressed lest any arrangement which might be evolved for the textile sector would be extended to other sectors.

31. Some members emphasized that undue haste might result in a solution which might subsequently be found to be unsatisfactory. In essence the content was more important than the timing of such a solution. Other members cited the urgency of the situation, instancing the likely worsening in the situation in textile trade and the uncertainty of the future after the expiry of the Cotton Textiles Arrangement on 30 September. It was pointed out that it could not be assumed that the extension of the Cotton Textiles Arrangement would be automatic.
Annex II

ILLUSTRATIVE LIST OF ELEMENTS TO BE CONSIDERED IN THE SEARCH FOR POSSIBLE SOLUTIONS TO THE PROBLEMS THAT ARISE IN INTERNATIONAL TRADE IN TEXTILES

Introduction

1. It is recognized that production of and trade in textiles is of great importance to the economies of many countries and that trade in these products is of particular importance for the economic and social development of developing countries and for their export earnings. The special importance for many developing countries of trade in cotton textiles, subject to the considerations set out in paragraph 5 below, is further recognized.

2. It is also recognized that a very unsatisfactory situation continues to exist in world trade in textile products and that this situation can have unfortunate repercussions on trade relations and adversely affect prospects for international co-operation in the trade field generally.
3. A number of problems have been identified during the work of the Textiles Working Party (see Annex I). These include, on the one hand, importing countries' problems caused by sudden and excessive growth of imports causing or threatening disruption to domestic markets with detrimental effects on industry and labour in those countries, and on the other, such problems may be particularly serious for countries having already reached a high import level and a correspondingly low level of domestic production. These problems may have detrimental effects on industry and labour in the countries concerned. There is the danger of proliferation of restrictions and restraint measures which do not take account of the producing and exporting interests of the exporting countries, particularly the less-developed countries. This unsatisfactory situation is characterized by a proliferation of restrictions and restraint measures. Also in some importing countries, situations have arisen which in the view of these countries, cause or threaten to cause disruption of the market. It is recognized that if this situation is not satisfactorily dealt with, it may crystallize or deteriorate even further, to the detriment of the trade and the interests of both importing and exporting countries.

4. There is need, therefore, for co-operative and constructive action in the field of trade policies aimed at finding acceptable multilateral solutions to the difficulties that arise.

5. It should be borne in mind that production and world trade in textile products are of a volatile and continually evolving nature and that any multilateral arrangement should have due regard to this fact. In the search for a multilateral arrangement, the fullest account has to be taken of the serious economic and social problems that exist in the field of textile products in both importing and exporting countries, and especially in the developing countries.

6. Any multilateral arrangement found should be limited to textile products and not be regarded as a precedent which could subsequently be applied to other products.

Objectives

7. The basic objective should be to achieve extensive and progressive liberalization of international trade in textile products, including tariffs, within a programme or a period to be agreed upon while, at the same time, ensuring the orderly development and more equitable sharing of this trade and the avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.

1 The expressions "exporting country" and "importing country" are employed, respectively, to indicate a country which is a net exporter to or a net importer from another country of a certain textile product; the latter country would, in such specific case, be called "importing country" or "exporting country", respectively. In the case of the European Economic Community, the above-mentioned expressions apply to the Community, on the basis of the sum of the trade of its nine members with a non-member country.
7.bis It is recognized that the solution of problems in textile trade should be designed to facilitate economic expansion and promote the development of developing 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. In this connexion, their special interests, particularly in trade in cotton textiles, and handloom products of the cottage industry, and the position of new entrants in the field of exports, warrant special attention in the process of liberalization of world trade in textiles.

8. In carrying out this objective, full regard should be paid to the principles and objectives of the General Agreement and [of the forthcoming multilateral trade negotiations,] [in particular to the desirability of achieving, as soon as possible and in the perspective of the forthcoming multilateral trade negotiations, a downward harmonization of tariffs in the participating countries,] [Textile tariffs are a proper subject for consideration in the multilateral trade negotiations and should be considered in light of the multilateral textile solution,]

9. A continuing objective of all countries should be to seek to eliminate the causes of the chronic problems in trade in textile products.

10. Existing restrictions on textiles should not be intensified [but phased out] and new restrictions should not be introduced except [where market disruption can be clearly established] [to the extent that they are permitted under the new multilateral arrangement] [solutions] [Even then they will be subject to constant review].

11. [Unilateral or bilateral] restrictions on trade in textile products unless explicitly justified under the provisions of GATT should be phased out [within a period of two years] or justified under the new [safeguard procedures and new surveillance mechanism] [multilateral arrangement] [or modified accordingly (cf. Long-Term Arrangement, Article 2:1)].

11.bis [Where] restrictions [are agreed to be] justified under the new safeguard procedure and the new surveillance mechanism, they [should be implemented in a flexible manner and in particular should be so devised that their form does not constitute additional non-tariff barriers to the trade concerned.

---

"restrictions", both in this and in the ensuing paragraphs generally, is meant those prohibitions or restrictions other than duties, taxes, or other charges, imposed upon the importation or exportation of textiles, including self restraints, whether made effective through quotas, import licences, export licences or other measures.

Reference is made to provisions of the Long-Term Arrangement when these are relevant.
Framework and principles

12. It is suggested that the necessary framework for the solution of problems in textile trade would be a multilateral arrangement applicable to trade in all textiles and textile products (including man-made fibres and blends thereof) and containing the following elements:

(a) Restrictions should not be applied except where market disruption or the threat thereof is clearly established in conformity with clearly articulated objective criteria.

(b) Bilateral consultations should be held prior to the imposition of restrictions and delays in carrying out such consultations, when requested, should be avoided.

(c) Undue concentration of exports on certain markets or on specific lines of production should be avoided.

(d) Artificial pricing policies should be avoided.

(e) Where overshipments have not been prevented, compensatory downward adjustments may be made.

(f) There should be equitable sharing of imports and exports (burden sharing). Differential growth rates in imports into specific countries with higher rates for those importers and exporters with a low import penetration, and lower rates for those importers and exporters with a high import penetration. Negative growth rates in cases of market decline should also be envisaged.

(g) Flexible administration of restraint measures should be applied as a general practice and minimum provisions for key aspects should be prescribed.

(h) Sparing and selective recourse to restrictive measures should be had with regard to products and countries and discriminatory measures should be avoided.

(i) Minimum base levels not lower than those currently in force and minimum growth factors should be provided according to definite criteria, taking into account the interest of exporting countries. The criteria should be different for cotton textiles as compared with other textiles.

(j) The control of circumvention of the code by (i) trans-shipment (cf. Article 6(a) of the Long-Term Arrangement); (ii) re-routing (by inclusion of documentation procedures on restrained exports); and (iii) action with respect to trade of non-participants (cf. Article 6(c) of Long-Term Arrangement).
(k) The arrangement shall remain in force for a period of [five years] /three years /six years/ with its operation being subject to [periodic] /annual/ review by the Textiles Committee.

(l) It should be recognized that, in the process of liberalization of world trade in textile products, the need for developing countries to further economic expansion through development of their textile industries, and to secure substantial increase in their exchange earnings from export of textile products, should receive special attention and support. Such special attention, however, has to take account of any consequential, legitimate problems of industrial, economic and social readjustment in industrialized countries.

(m) The special interests of developing countries should be fully considered in the workings of the multilateral surveillance procedures.

(n) Recognizing the present position of the majority of developing countries as basically producers and exporters of cotton textiles and clothing, special attention should be given to trade in this sector within the general framework of an overall arrangement. Improved access for exports of the cotton textiles of such countries should be secured through the avoidance of unilateral restrictions except when those are essential in the case of market disruption. Where such restrictions are applied, liberal provision should be made for the size of quotas and for the growth elements.[There should be no restrictions on cotton yarn and that it should be allowed duty-free and quota-free entry. It has also been suggested that [cotton textile products] /all textiles irrespective of their fibre content] should be included in the General Scheme of Preferences without ceilings.]

(o) It is recognized that there is need for special treatment for those developing countries which are new entrants in the field of textile exports.

(p) In recognition of their special position, the yardstick of past performance should not be rigidly applied in the establishment of quotas for those countries. However, it would be desirable /essential/ that the implementation of improved access to import markets for these countries should not be to the detriment of the existing suppliers, and particularly developing suppliers.

(q) The following suggestions have been made to ensure a reasonable share of export markets for newly-established developing exporters.

(i) [The larger suppliers might be given a rather lower percentage growth rate though higher in absolute terms whilst small suppliers would receive a higher percentage growth rate although this would supposedly be lower in absolute terms.]
(ii) Establishment of a formula whereby, if an existing quota level is not fully utilized, a part of the unused quota might be transferred to those who are fully utilizing their quota and a part might be given to smaller suppliers.

(iii) A reasonable proportion of the market should be set aside for new entrants and they should be exempted from any restrictions applied to others.

(r) In view of the fact that handloom products have a crucial importance in the social and economic well-being of certain developing countries and that in some cases they do not directly compete with the established lines of production in the major importing countries, such products should be liberalized, subject to a satisfactory system of certification and control. It is suggested that, once the procedure of certification for imports of handloom products of the cottage industry is in operation, in principle the importing countries should accept the certification of exporting governments as proof of "handloom products" and would not subject them to further verification. However, in cases of doubt, bilateral consultations would be held with the aim of removing all obstacles. As a final resort the matter could be submitted to the surveillance body.

(s) Consistent with their domestic laws and policies, countries should be encouraged to help their industries and workers adjust to developing trends in textile trade. Adjustment assistance should be an essential element in any solutions envisaged. Within the framework of any such solutions it is considered necessary to facilitate adjustments in international trade and production which modern technology, the efficient development of productive resources, the international division of labour, comparative cost advantage and industrial relocation render increasingly necessary. In view of the safeguard procedures that would be provided, developed countries should be prepared to take positive and far-reaching adjustment assistance measures with the dual aim of assisting the industry to move progressively into viable lines of production or into other sectors of the economy and of providing increased access to their markets for textiles products, particularly from the less-developed countries.

(t) Imports from a certain country of textile products manufactured in that country from materials produced in the importing country shall not be subject to any limitation or restrictions.

Safeguard procedures

13. It is considered that the application of safeguard procedures subject to recognized conditions and criteria may sometimes be necessary in the field of trade in textile products, but that such procedures should essentially be looked upon as a means of affording the necessary time for the appropriate adjustments in the textile industry to be effected. Be considered in response to infringements of the Arrangement and as a means of facilitating therefore the appropriate adjustments in the textile industry.
14. A body would be set up to exercise as necessary, international surveillance of those safeguard procedures. (See paragraphs 19 to 23.)

15. When a difficulty arises between countries in the field of textile products, an attempt should be made, as is normal, to resolve the difficulty through bilateral consultations.

16. If a country believes that, in terms of definition of market disruption in the arrangement, its market is being disrupted, or is threatened with disruption, by imports of a certain textile product or products, it should seek consultations with the exporting country concerned with a view to the appropriate action being taken to resolve the difficulty that has arisen. Such consultations will aim to determine whether there is a situation of market disruption and, if both countries believe such a situation exists, to look for an appropriate action to be taken. In looking for such appropriate action, both countries will keep in view the need to avoid that the interests of the exporting country will not suffer more than the interests of the importing country would suffer if no action were taken. In the case where the exporter is a developing country, the relative importance of the textile industry and exports to its economic and social well-being must be given full consideration.

17. **Alternative I**

If an agreement is reached in the bilateral consultation that appropriate action would be the restriction of exports of the product or products concerned by the exporting country, the terms of the restriction shall be fixed in accordance with the agreement of the parties thereto and the provisions of the multilateral arrangement. The duration of the restraint measures should be determined with the intention of realizing the objectives set out in paragraph 13.

**Alternative II**

If an agreement is reached in the bilateral consultation that appropriate action would be the restriction of exports of the product or products concerned by the exporting country, the level of restriction shall be fixed in the amount and manner specified in Annex ... (cf. Long-Term Arrangement, Annex B)

18. **Alternative I**

If, on the other hand, the bilateral consultations fail to achieve a mutually acceptable solution within a period of sixty days from the date on which the exporting country received the request to enter into bilateral consultations, the importing country may take the restraint action in accordance with the provisions of the arrangement, (as per Annex B of the Long-Term Arrangement) while at the same time presenting supporting information on such action to the surveillance body. In critical circumstances, where imports during this sixty-day period would cause damage difficult to repair, the importing country may take the appropriate temporary measure and the matter shall, at the same time, be brought to the body set up for international surveillance. Such measures should conform to the terms and conditions set forth in the Arrangement for the implementation of restrictions.
Alternative II

If, on the other hand, the bilateral consultations fail to achieve a mutually acceptable solution within a period of sixty days from the date on which the exporting country received the request to enter into bilateral consultations, the matter shall be brought to the body set up for international surveillance. Either party would be free to refer the matter to that body before the expiry of the period of sixty days, if it is considered that there were justifiable grounds for so doing.

International surveillance

19. International surveillance would be carried out by [an independent Panel] /a broadly representative Sub-Committee of the Textiles Committee/ set up for that purpose. Its composition would be limited in number. The membership of the surveillance body would be [on a rotating basis] in part dependent upon the identity of the countries in dispute before it, and should be so constituted as to be able to give full consideration to the matters before it. [The surveillance body may be assisted by technical experts in examining the matter].

20. [The parties] /the importing countries/ concerned would promptly provide the surveillance body with full information on all requests for restriction and on any arrangement resulting from these requests, and any unilateral restrictions. This information should give full details, including data [supporting a determination] /to determine/ that the situation meets the criteria for market disruption and that full regard has been given to the principles and procedures of the textiles arrangement. The parties involved should be prepared to answer any further questions. Following a thorough [and prompt] consideration, the surveillance body would prepare [a factual report] /and recommendations/ to the Textiles Committee for the information of its members /a report, including any observation or recommendation it thought appropriate to be submitted to the GATT Council for its consideration/.

20bis. The surveillance body should be informed of all existing restrictions, measures of like effect or bilateral agreements concerning trade in textile products /within six months of the coming into effect of the arrangement/; those not presented to the body would be deemed in violation of the arrangement.

21. [The procedure for dealing with existing quantitative restrictions in paragraph 11 above to include export restraints should be as follows:

(a) The participating countries that maintain unilateral import restrictions should within one year from the date of coming into force of the arrangement: either (i) eliminate; or (ii) submit to the surveillance body for examination, or negotiate bilaterally in accordance with the provisions of the Arrangement.
(b) The participating countries that maintain agreed restrictions on imports or exports should, within one year from the date of coming into force of the arrangement, enter into consultation to render them consonant with the Arrangement. Either party may seek recommendations from the surveillance body with respect to such consultation.

(c) Upon receiving requests in accordance with paragraphs (a) and (b) above, the surveillance body shall make recommendations, taking into consideration the presentations from both parties concerned and taking full account of the criteria used in the safeguard.

21bis. The consideration of any differences of view referred to it in terms of paragraph 18 above would be carried out by the surveillance body on the basis of the information supplied by the parties concerned, supplemented by any necessary further details and clarification that it may decide to seek from them.

22. Any participant may notify the surveillance body of any unilateral measures taken by another participant which it considers to be detrimental to its interests. Any participating country may request the surveillance body to review at any time any particular restriction which it considers is being applied in a manner inconsistent with the arrangement.

22bis. In its consideration, the surveillance body would also take the fullest account of any arrangement and in particular of the criteria for market disruption as redefined, and of such other questions as proposals for growth of imports, digressivity of restrictions and adjustment assistance provided for the domestic textiles industry etc., etc. The surveillance body would be empowered to make recommendations to the parties concerned. It would be desirable for the parties to agree in advance of the examination of the matter by the surveillance body that they would agree to consider as binding any such recommendations.

22ter. If the surveillance body, in considering the differences of view referred to it, found the request for restriction and the measures proposed not unreasonable, the country or countries whose exports would become subject to restriction would agree not to seek compensation or take retaliatory measures for a period of ... years. If, on the other hand, the surveillance body found the request for restrictions and the measures proposed unreasonable, either they would be withdrawn or satisfactorily revised, or the exporting country or countries concerned would be free to seek compensation or take retaliatory measures if they would be withdrawn or satisfactorily revised.

---

1. The acceptance of the text of this paragraph depends on the final text of paragraph 18.
23. The surveillance body should review all existing restrictions both unilateral and bilateral. These reviews would be carried out annually except in the case of restrictions notified in accordance with paragraph 22 which would be carried out with minimum practical delay. The surveillance body would consider the information supplied by the parties concerned, supplemented by any necessary further details and clarification that it may decide to seek, and in the light of the provisions of the new multilateral arrangement, paying particular attention to the needs of the exporting countries. It would report promptly to the Textiles Committee/GATT Council/.

Market disruption

24. Alternative I:

The following new elements would be added to those contained in the decision of the CONTRACTING PARTIES of 19 November 1960:

(a) a comparison between the imports and production of the country claiming to suffer market disruption;

(b) a comparison between the exports of the country accused of provoking market disruption and the production of the country claiming market disruption;

(c) the balance of trade in textiles of the country claiming to suffer market disruption;

(c)bis. the balance of payment of the country against which market disruption is invoked;

(c)ter. a comparison between the exports of the country accused of market disruption and the consumption of the country claiming market disruption;

(d) the trend of production in the textile sector of the country invoking market disruption;

(e) the trend of employment in the textile sector of the country claiming to suffer market disruption;

(f) the trend of investment in the textile sector of the country claiming to suffer market disruption;

(g) the profitability of the textile sector of the country claiming to suffer market disruption;

(h) the sales of textile machinery by the country claiming to suffer market disruption to the country it accuses of provoking market disruption. This should cover a period of five to ten years, for instance.
(h)bis. the problems of debt servicing of the country against which market disruption has been invoked.

(i) the indexes of productivity in the textile sector of the country claiming to suffer market disruption.

(j) the importance of the textile sector and export earnings from textiles for the economy and the trade of the developing exporting country.

(k) balance of textile trade of the exporting country with the importing country.

(l) overall balance of trade of the exporting country with the importing country.

Alternative II:

Parts of the definition in Annex C of the Long-Term Arrangement would be retained but new criteria for damage would be introduced:

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

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

(c) there is serious damage or actual threat thereof to domestic producers of products serving the same market demand.

The criteria for damage could be based on Article 3(b) of the Anti-Dumping Code which reads as follows:

"The valuation of injury - that is the evaluation of the effects of the dumped imports on the industry in question - shall be based on examination of all factors having a bearing on the state of the industry in question, such as: development and prospects with regard to turnover, market share, profits, prices (including the extent to which the delivered, duty-paid price is lower or higher than the comparable price for the like product prevailing in the course of normal commercial transactions in the importing country), export performance, employment, volume of dumped and other imports, utilization of capacity of domestic industry, and productivity; and restrictive trade practices. No one or several of these factors can necessarily give decisive guidance."
25. There are a number of specific problems identified which, it is suggested, could be resolved through bilateral negotiations/should be embodied, in some cases directly within the multilateral arrangement and, in other cases, indirectly through specific guidelines within the arrangement to govern bilateral negotiations. Such problems could include, among others, /inter-fibre flexibility, categories, classification, coverage of products subject to possible restrictions, reference periods, growth rates, quotas, administration of agreements and amendment of existing bilateral agreements to be consistent with any new multilateral solutions/. The possibility of concluding mutually acceptable bilateral agreements not inconsistent with the basic objectives and provisions of the Arrangement should be provided for. However, the products covered by these agreements should be limited and excessive proliferation of bilateralism should be avoided.

26. The parties recognize that the measures referred to above will not affect their rights and obligations under the GATT.