INTRODUCTION

1. The Technical Sub-Committee met from 11 to 22 December 1961 and from 8 to 14 January 1962.

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

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

4. This report, together with the annexed draft long-term arrangement, is submitted for the consideration of the Cotton Textiles Committee. The members of the Technical Sub-Committee examined the problems concerned from a strictly technical point of view and no government is committed on any points of substance contained in the text of the draft arrangement. It was recognized that no representative could come to any definite conclusion regarding the text of the draft arrangement, or any part thereof, until some of the major issues involved had been settled and until the percentage increases contemplated in paragraph 3 of Article 2 and the other necessary quantitative data were available.
5. The Sub-Committee proceeded in its work on the basis of the conclusions contained in the report of the Cotton Textiles Committee on its meeting in October 1961 (L/1535). In the elaboration of the text of the draft long-term arrangement the Sub-Committee took account of proposals which had been submitted to the Cotton Textiles Committee by the United States (L/1592), Japan (L/1596) and the European Economic Community (Spec(61)321), a draft long-term arrangement submitted to the Sub-Committee by Japan (Spec(61)388) and a statement to the Sub-Committee by the representative of the United Kingdom which was distributed in document Spec(61)383.

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

(a) Preamble

7. The Preamble as contained in the annexed draft long-term arrangement corresponds closely to the Preamble to the Short-term Arrangement (Annex to L/1535); the only significant departure from it is the reference to the Declaration on Promotion of the Trade of Less-Developed Countries (Annex to L/1657) adopted by Ministers during their meeting in November 1961.

(b) Article 1

8. This Article is introductory in character. Firstly, it stresses the need for measures of international co-operation to solve the particular problems that arise in the cotton textiles sector of international trade.

A number of members of the Sub-Committee wished to have in the text of the Article a specific mention of the adjustments to industry that may be required in importing countries to meet the changing pattern of production and trade in cotton textiles. Other members, however, could not accept a specific mention of this kind and two alternative texts therefore remain in the draft arrangement.
9. Secondly the Article contains a recognition that, as in the Short-term Arrangement, nothing in the long-term arrangement would affect the rights and obligations under the GATT of contracting parties which become parties to such an arrangement which, as is indicated in Article 1, represents a special effort of international co-operation aimed at solving the problems involved on a mutually acceptable basis.

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

(c) Article 2

(i) Paragraph 1

11. The question was raised as to whether it was not superfluous to re-affirm in the long-term arrangement obligations under the GATT regarding the relaxation or elimination of import restrictions. The general view of the Sub-Committee, however, was that it was important for exporting countries to have formal acceptance by the importing countries still maintaining restrictions on cotton textiles of a definite programme of relaxation with a view to the prompt elimination of all such restrictions. It was not possible to reach agreement on the inclusion of a target date for the elimination of these import restrictions and two alternative texts are therefore contained in the paragraph. It should be noted that the date of 30 September 1967, proposed by the representative of Japan, would not be modified even if the duration of the long-term arrangement was for three years. This means that the countries concerned would have two additional years after the termination of the arrangement in which to eliminate all the import restrictions concerned.
(ii) Paragraph 2

12. The Sub-Committee agreed that the provisions of this paragraph would not prevent participating countries from making technical changes in the level of quotas for various items as long as this did not affect access to their markets.

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

(iii) Paragraph 3

14. This paragraph provides for practical methods of relaxation of import restrictions on cotton textile products. It was not possible to reach general agreement in the Sub-Committee on a single formula and two alternative texts have therefore been included. One of these provides for minimum increases in quotas over the period of the long-term arrangement, while the other envisages bilateral negotiations for the determination of quotas without any quantitative commitments being set out in the arrangement.

15. The Sub-Committee was not in a position to suggest the actual percentage of increase nor the base year referred to in alternative A; preference was, however, expressed by some representatives for 1962 as the base year. It was expected that the EEC would be in a position to indicate the percentage to be included in Annex A for the Community at the next meeting of the Cotton Textiles Committee.
(iv) **Paragraph 4**

16. The Sub-Committee was of the opinion that the provisions of this paragraph were not a repetition of the obligations under GATT, since all the participating countries might not enjoy full GATT treatment in their trade relations with other participating countries. For that reason the word "equitable" has been used in the text instead of the word "non-discriminatory" which would have a more strictly legal connotation.

(v) **Paragraph 5**

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

(vi) **Paragraph 6**

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

(d) Article 3

20. This Article, which contains the safeguard provisions available to importing countries, represents substantial concessions on the part of exporting countries. The consensus of opinion in the Sub-Committee was that resort to these provisions should be strictly limited to the cases where market disruption as defined by the CONTRACTING PARTIES exists or is threatened. The procedure is based on the provisions of the Short-term Arrangement, but the Sub-Committee came to the conclusion that it was necessary to define more clearly the scope of the consultation contemplated between the importing and the exporting countries concerned, and to lay down certain rules concerning the administration of the measures introduced under Article 3. The Sub-Committee had also to advise ways and means of giving effect to the objective set forth in the Preamble to the draft arrangement of providing growing opportunities for exports of cotton textile products.

(i) Paragraph 1

21. There was general agreement concerning the procedure for consultation, although the definition of the scope of such consultation led to lengthy discussion in the Sub-Committee. Some importing countries stressed the need for a definite reference to restraint of exports at a specified level, whereas exporting countries maintained that the scope of the consultation should be more flexible and should enable the countries concerned to discuss freely the practical methods for removing or avoiding disruption, either by restraining imports at the appropriate level, which may or may not be the level proposed
by the importing country, or by other means which may be more appropriate and which would take into account the particular circumstances of the case and, in particular, the trend of the trade in the cotton textile products under discussion.

(ii) **Paragraph 2**

22. The emergency clause is based on the wording of the Short-term Arrangement but is drafted in such a way as to make it clear that the measures introduced in critical circumstances would be of a temporary nature and would not extend beyond the duration of the consultation itself. In other words, these temporary measures should not be considered as a substitute for the measures which may have to be taken later under paragraph 3 of Article 3. Some members of the Sub-Committee considered that both paragraphs 2 and 3 of the Article were unnecessary and that there should only be provision for consultation between the countries concerned. Other members of the Sub-Committee considered that paragraphs 2 and 3 were an indispensable part of the arrangement.
(iii) Paragraph 3

23. It was not possible to reach agreement concerning the time limit provided for in this paragraph; the representatives of importing countries considered that thirty days was the maximum which they could accept to meet the requirements of a situation which might involve a serious risk of damage to their domestic industry, whereas the representatives of exporting countries considered that a period of sixty days was necessary to enable the countries concerned to complete their consultation; they pointed out that if the situation were critical the risk of damage could be forestalled by resorting to the provisions of paragraph 2.

(iv) Paragraph 4

(v) Paragraph 5

(vi) Paragraph 6

24. Paragraph 6 attempts to deal with the problem of a possible unfair application of measures of restraint to the exports of two or more countries whose exports are responsible for market disruption. The difference between the two alternative texts is that, in the first case, the importing country would be obliged to apply the measures to all the countries whose exports are responsible for market disruption whereas, in the second alternative, the importing country would not necessarily be obliged to resort to Article 3 in all cases if it considered that there were good reasons for refraining from applying the measure to a particular exporting country. On the other hand both proposals provide that, if resort is made to the provisions of Article 3 with respect to two or more exporting countries, the measures should be applied in an equitable manner. In this connexion it was
recognized that the concept of equity meant that the measures would have to be applied to the exporting countries in as fair a manner as possible, taking into account all the relevant circumstances and, in particular, the relative degree of market disruption caused by the exports of the various countries concerned.

(vii) Paragraph 7

25. This paragraph reflects the conclusion reached by the Cotton Textiles Committee at its meeting in October 1961 (L/1659, page 14) that "it was desirable not only to avoid disruption in the domestic markets of importing countries, but also to avoid disruption in the production and marketing of exporting countries".

(viii) Paragraph 8

26. In regard to this paragraph it was agreed that the importing countries should keep under constant review the measures applied under this Article so as to ensure that they were not maintained for longer than was necessary.

(ix) Paragraph 9

27. This paragraph contains a declaration of intent which is based on the understanding reached in connexion with the Short-term Arrangement.

(e) Article 4

28. In this Article the Sub-Committee has deleted the reference to bilateral arrangements which was contained in the Short-term Arrangement, as some arrangements may involve more than two countries. It was agreed that the arrangements envisaged in this Article would not include ad hoc arrangements, which may be reached in the course of the consultation provided for under paragraph 1 of Article 3, but would take the form of bilateral or multi-lateral arrangements concluded or sponsored by participating governments. The Sub-Committee did not suggest the communication of the actual texts of the arrangements as this might create administrative difficulties, but
it considered that this form of communication might be the most practical way of meeting the requirement of this Article in most cases.

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

(f) Article 5

30. The Sub-Committee attached some importance to this Article in the hope that such practical co-operation might enable the participating countries effectively to prevent the threat of market disruption and thus avoid the need to resort to the measures of restraint contemplated in Article 3.

(g) Article 6

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

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

A paragraph on substitution is still to be inserted.

33. As regards the provision concerning non-participants, the Sub-Committee agreed that, if an importing country resorted to the measures envisaged in Article 3, the exports of the participating countries concerned should not be treated more severely than those of any non-participating country provided, of course, that the exports of such country were also responsible for market disruption. A number of members of the Sub-Committee considered that it was not necessary to provide anything more in the arrangement, although they would be prepared to accept the insertion of a procedure for consultation to cover other possible cases of frustration. Other members of the Committee felt, however, that provision should be made for a wider clause concerning non-participants as contained in the first paragraph of the proposed text.

(h) Article 7

34. The representatives of exporting countries considered that some safeguard should be introduced in the long-term arrangement to protect export interests against the possible nullifying effects of measures which might not be inconsistent with the GATT obligation of an importing country. These representatives suggested that, if such a measure were taken, the matter be referred to the Cotton Textiles Committee and that the importing country should be debarred from exercising its rights under Article 3 or from maintaining other import restrictions if the Cotton Textiles Committee so decided. Other representatives were unable to accept this proposal which they considered to be self-defeating, and suggested a procedure for consultation which is set forth in Alternative B.
(i) Article 8

35. This Article, which was proposed by the United Kingdom, covers the case of a country which already provides access to its market which exceeds a certain percentage of its total market for cotton textiles.

(j) Article 9

36. This Article sets out the functions of the Cotton Textiles Committee.

(k) Article 13

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

(m) Article 14

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

Note

There are no comments on Articles 10, 11, 15 and 16 as these are considered to be self-explanatory.