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

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

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

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

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

The PARTICIPATING COUNTRIES have agreed as follows:
Article 1

In order to assist in the solution of the problems referred to in the Preamble to this Arrangement, the participating countries are of the opinion that it may be desirable to apply, during the next few years, special practical measures of international co-operation which will assist in any adjustment that may be required by changes in the pattern of world trade in cotton textiles.\(^1\) They recognize, however, that the measures referred to above do not affect their rights and obligations under the General Agreement on Tariffs and Trade (hereinafter referred to as the GATT) and do not lend themselves to a wider application than the one provided for under this Arrangement.

Article 2

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

\(^1\)This sentence was generally acceptable to the Sub-Committee, but certain members wished to have time to reflect on it.
2. Without prejudice to the provisions of paragraphs 2 and 3 of Article 3, no participating country shall introduce new import restrictions, or intensify existing import restrictions, on cotton textiles, insofar as this would be inconsistent with its obligations under the GATT.¹

³. (Alternative A) The countries at present applying import restrictions to products imported from other participating countries undertake to expand access to their markets for products subject to such restrictions, so as to reach by the end of the period of validity of the present Arrangement, for the products remaining subject to restrictions, a level corresponding to the total quotas opened in ², for such products, as increased by the percentage mentioned in Annex A.

Where bilateral arrangements exist, annual increases shall be determined within the framework of bilateral negotiations. It would, however, be desirable that each annual increase should correspond as closely as possible to one fifth/one third of the overall increase.²

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

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

¹The EEC proposed the deletion of this paragraph on the grounds that it is unnecessary. Another member of the Sub-Committee supported the deletion of the paragraph.

²The Sub-Committee did not attempt to determine whether 1961 or 1962 should be the base year, but some members of the Sub-Committee indicated a preference for 1962.
5. Notwithstanding the provisions of paragraph 3 above, if, during the licensing period preceding the entry into force of this Arrangement, a specific basic quota is nil or negligible, the quota for the succeeding licensing period will be established at a reasonable level by the participating importing country concerned in consultation with the participating exporting country or countries concerned, such consultation would normally take place within the framework of the bilateral negotiations referred to in paragraph 3 above.

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

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

**Article 3**

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

**Note** In a draft of Article 2 presented by the EEC, the substance of which is reproduced in alternative A of paragraph 3, paragraphs 2, 4 and 5 do not appear.
2. In critical circumstances, where delay would cause damage difficult to repair, the requesting participating country may, until the end of the period specified in paragraph 3 below, take the necessary temporary measures to limit the imports referred to in paragraph 1 above from the country or countries concerned.  

3. If, within a period of /30/60 days after the request has been received by the participating exporting country or countries, there has been no agreement, either on the request for export restraint or on any alternative solution, the requesting participating country may decline to accept /total or retained/ imports from the participating country or countries referred to in paragraph 1 above of the cotton textile products causing or threatening to cause market disruption, at a level higher than that specified in Annex B.  

4. In order to avoid administrative difficulties in enforcing a given level of restraint on cotton textiles subject to measures taken under this article the participating countries agree that there should be a reasonable degree of flexibility in the administration of these measures. Where restraint is exercised for more than one product the participating countries agree that the agreed level for any one product may be exceeded by /57/10 per cent provided that the total exports subject to restraint do not exceed the aggregate level for all products so restrained on the basis of a common unit of measurement to be determined by the participating countries concerned.

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1 In the view of some of those members of the Technical Sub-Committee supporting alternative B in paragraph 1 of this Article paragraphs 2 and 3 of the Article should be deleted together with the words in square brackets at the end of the penultimate sentence of paragraph 1.
5. (Alternative A) If a participating country determines that a shift in the pattern of imports within any category (as defined in Annex D) is producing undue concentration of imports of any particular item and that such concentration is causing or threatening to cause market disruption, that country may invoke the procedures authorized in case of market disruption by imports of one category.\(^1\) (Alternative B) In cases where it will not be practical to limit the operation of a measure taken under this Article to the product or products causing or threatening to cause disruption, the importing country shall be free to apply the measure to the category to which the product or products belongs (as defined in Annex D); provided that steps shall be taken to avoid adverse effects on the imports of other products in the same category which are not causing or threatening to cause market disruption or are not directly substitutable for the product causing or threatening to cause such disruption.\(^1\) (Alternative C) The participating countries recognize that in some cases it will not be practicable to limit the operation of a measure taken under this Article to the product or products causing or threatening to cause disruption. It is their intention, however, to avoid adverse effects on the imports of other products in the same group which are not causing or threatening to cause market disruption or are not directly substitutable for the product or products causing or threatening to cause such disruption. Consequently, the measures under this Article may be applied to the group of products to which the product or products belongs provided that such group of products shall be defined as narrowly as possible for the operation of the measure by the participating country.\(^2\)

6. (Alternative A) If exports from two or more participating countries are causing or threatening to cause market disruption, the measures envisaged in this Article will be applied in an equitable manner to these exports of all such countries. (Alternative B) If the measures envisaged in this Article are invoked in respect of exports from two or more participating countries, they should be applied in an equitable manner to the exports of such countries.\(^7\)

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\(^1\) If the approach by categories is adopted, this paragraph would be retained.

\(^2\) If the approach by categories is not adopted, this paragraph would be retained.
7. If participating countries have recourse to the measures envisaged in this Article, they shall, in introducing such measures, do so in such a way as to avoid undue/unnecessary damage to the production and marketing of the exporting country and shall accordingly co-operate with a view to agreeing on suitable procedures.

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

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

Article 4

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

Article 5

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

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

(a) Trans-shipment

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

(b) Substitution of directly competitive textiles

It is not the intention of the participating countries to broaden the scope of this Arrangement beyond cotton textiles but to prevent the circumvention of this Arrangement by the deliberate substitution of cotton wholly or partly by directly competitive fibres. Accordingly, (Alternative A) where products are subject to restraint under Article 3, (Alternative B) where a case of market disruption is established in the field of cotton textiles if the importing participating country concerned has reason to believe that there has been an abnormal increase in imports of products in which this substitution has taken place solely in order to (Alternative A) remove the products from the scope of the definition of cotton textiles in Article 10 (Alternative B) circumvent the provisions of this Arrangement. The importing participating country may request the exporting country concerned to investigate the matter and consult with the importing participating country concerned with a view to reaching agreement upon measures designed to prevent circumvention of this Arrangement. Such request shall be accompanied by a detailed,
factual statement of the reasons and justification for the request. Failing agreement in the consultation within 30/60 days of such request, the importing participating country may decline to accept imports of the products concerned as provided in Article 3 and at the same time any of the participating countries concerned may refer the matter to the Cotton Textiles Committee which shall make such recommendations to the parties concerned as may be appropriate.

(c) Non-participants

The participating countries will seek to ensure that trade in cotton textiles with countries not participating in this Arrangement shall not frustrate the achievement of the objectives of the Arrangement insofar as they benefit participating countries.

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

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

\[\text{1A suitable method of calculating the relevant percentage will be necessary. This might be done in terms of cotton fabrics, or cotton fibre content of the products concerned.}\]

\[\text{2This text is tentative and is to be reconsidered.}\]
Article 8

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

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

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

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

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

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

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

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

(c) The Committee shall review the operation of this Arrangement once a year and report to the CONTRACTING PARTIES.

(d) The Committee shall, before the end of the third year of the Arrangement consider whether, in the light of the results achieved under the Arrangement in the relaxation of import restrictions, the Arrangement should be continued or not. 17

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

Article 10

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

1 It was suggested by some members of the Sub-Committee that this review should be undertaken if the Arrangement is for five years.
Article 11

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

Article 12

1. This Arrangement is open for acceptance, by signature or otherwise, to governments parties to the GATT or having provisionally acceded to that Agreement, provided that if any such government maintains restrictions on the import of cotton textiles from other participating countries, that government shall prior to its accepting this Arrangement, agree with the Cotton Textiles Committee on the percentage by which it will undertake to increase the quotas other than those maintained under Article XII or Article XVIII of the GATT.7

2. Any government which is not party to the GATT or has not acceded provisionally to the GATT may accede to this Arrangement on terms to be agreed between that government and the participating countries.7

Article 13

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

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

Article 14

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

The Sub-Committee has no definite proposals to make with respect to the countries to be included in this list. It was suggested, however, that as a basis of discussion by the Committee the list might include the following countries: Canada, France, Federal Republic of Germany, India, Japan, Pakistan, Spain, United Kingdom and the United States.
Article 15

This Arrangement shall remain in force for three years.

Article 16

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

ANNEX A

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

for ..... ..... %
for ..... ..... %

etc.

Note:

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

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

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

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

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

In case where restraint is exercised for more than one product, the participating importing country will permit the agreed level for any product to be exceeded x per cent in order to adapt such restraint to the changing market situation in the importing country; provided that the total exports subject to restraint do not exceed the aggregate level for all products so restrained.

In exceptional cases where it is not appropriate to apply the level referred to in paragraph 1 above, a lower level may be determined through consultation, in the light of market conditions in the importing participating country and other relevant factors.
ANNEX C

Extract from the CONTRACTING PARTIES' Decision of 19 November 1960

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

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

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

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

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

In some situations other elements are also present and the enumeration above is not, therefore, intended as an exhaustive definition of market disruption."

ANNEX D

Cotton Textile Categories

(See Appendix B to the Short-term Arrangement - page 20 and 21 of L/1535).

1 This Annex is in square brackets.
ANNEX E

Interpretative Notes

1. *Ad. Article 3, paragraph 3*

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

2. *Ad. ANNEX B*

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

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