NOTE ON MEETING OF 2-4 MAY 1973

Revision

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.

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1 For the discussion in the Council see C/M/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. 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

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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: (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. Imbalance 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.