As requested by the Working Party at its last meeting on 4-6 June 1973, the following paper has been prepared by the secretariat to facilitate the discussions of the Working Party at its forthcoming meeting beginning on 25 June.
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 trade in textiles and textile goods of cotton, wool and man-made fibres is of great importance to the economies of many countries and that trade in these products, especially cotton products, is of particular importance for the economic and social development of developing countries and for their export earnings.

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. This unsatisfactory situation is characterized by a proliferation of restrictions and restraint measures and, if the situation is not satisfactorily dealt with, it may crystallize or even deteriorate further.

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

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

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

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1 Hereinafter referred to as "textile products"
Objectives

7. The basic objective should be to achieve progressive increased full liberalization of international trade in textile products including tariffs 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.

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.

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 textile products should not be intensified and new restrictions should not be introduced in so far as this would be inconsistent with the GATT, except to the extent that they are permitted under the new safeguard procedures and surveillance mechanism (cf. Long-Term Arrangement Article 2:1).

11. Unilateral or bilateral restrictions still maintained inconsistently with the provisions of GATT on imports of textile products should be phased out within a period of two years or justified under the new safeguard procedures and new surveillance mechanism, or modified accordingly (cf. LTA Article 2:1).

12. (See below for sections on: special interests of developing countries; special attention to trade in cotton textiles; new entrants in the field of textile exports; handloom products of the cottage industry.)

Framework

13. It is suggested that the necessary framework for a multilateral solution or solutions might be a formula incorporating a code relating to the conduct of international trade in textiles, covering both importers and exporters; safeguard procedures; and provision for international surveillance.

Code Relating to International Trade in Textiles

14. Such a code, covering importers and exporters and aimed at securing equitable sharing for both groups in international markets for textile products, might cover, inter alia, the following points:

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1Reference is made to provisions of the Long-Term Arrangement when these are relevant.
(a) restraints should not be applied except where market disruption is clearly established and in conformity with objective criteria.

(b) Consultations prior to the imposition of restrictions and avoidance of delays in replying to requests for such consultations.

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

(d) Negotiation under restraint arrangements of ambitious export quotas which exceed the capacity of the country to export.

(e) Artificial pricing policies.

(f) Overshipments. Compensatory downward adjustments in forthcoming quotas in cases of overshipment.

(g) Equitable sharing of imports (burden sharing). Differential growth rates in imports into specific countries with higher rates for those importers with a low import performance, and lower rates for those importers with a high import performance. Negative growth rates in cases of market decline should also be envisaged.

(h) Sparring and selective product and country recourse to restrictive measures.

(i) Flexible administration of restraint measures.

(j) Avoidance of discriminatory measures.

(k) Base levels and growth factors.

(l) The control of circumvention of the code by (i) transhipment (cf. Article 6(a) of Long-Term Arrangement); (ii) rerouting by inclusion of certification procedures on restrained exports; and (iii) action by non-participants (cf. Article 6(c) of Long-Term Arrangement).

Safeguard Procedures

15. 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 textiles industry to be effected.
16. A body would be set up to exercise, as necessary, international surveillance of those safeguard procedures. (See paragraphs 21 to 28.)

17. 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.

18. If a country believes that, in terms of the new definition of market disruption, 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.

19. If an agreement is reached in the bilateral consultation that appropriate action would be the restraint of exports of the product or products concerned by the exporting country, the level of restraint shall be fixed in the amount and manner specified in Annex ...

20. If, on the other hand, the bilateral consultations fail to achieve a mutually acceptable solution within a period of ..... 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. In critical circumstances, where imports during this 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. Either party would be free to refer the matter to that body before the expiry of the period of ..... days, if it is considered that there were justifiable grounds for so doing.

International surveillance

21. International surveillance would be carried out by an impartial body set up for that purpose. It might either be a Panel or a Sub-Committee of the Textiles Committee. Its composition would be limited in number. The membership of the surveillance body would be on a rotating basis, in part dependent on the identity of the countries in dispute before it, and it should be so constituted as to be able to give full consideration to the matters before it.
22. The surveillance body would be provided promptly by the parties concerned with full information of all requests for restraint and of any arrangement resulting from these requests, and any unilateral restraints. This information should give full details and be supported by adequate data to determine that the situation meets the criteria for market disruption and that full regard has been had to the code relating to international trade in textiles. The parties to the arrangement should be prepared to answer any further questions. Following a thorough and prompt consideration the surveillance body would report to the Textiles Committee, for the information of its members, including in such report any observations it thought appropriate. The surveillance body should also be informed of all existing restraint measures or bilateral agreements concerning trade in textile products.

23. The consideration of any differences of view referred to it in terms of paragraph 20 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 clarifications that it may decide to seek from them.

24. In its consideration, the surveillance body would also take the fullest account of any agreed code of conduct 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.

25. 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.

26. If the surveillance body, in considering the differences of view referred to it, found the request for restraint and the measures proposed not unreasonable, the country or countries whose exports would become subject to restraint would agree not to seek compensation or take retaliatory measures for a period of ... years.

27. If, on the other hand, the surveillance body found the request for restraint 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 they would be withdrawn or satisfactorily revised.
28. The surveillance body should review annually, in the light of the provisions of the new multilateral solution or solutions agreed upon, and in the light of its recommendations, all existing restrictions both unilateral and bilateral. It will also review at any time any particular restriction or restrictions at the request of any party or parties concerned. Following such a thorough review the surveillance body would report to the Textiles Committee.

Market disruption

29. The definition of market disruption as set out in Annex C of the Long-Term Arrangement (extract from the CONTRACTING PARTIES' Decision of 19 November 1960) needs to be redefined to take account of the interests of both importers and exporters. Certain suggestions put forward in this connexion are enumerated in (i) and (ii) below.

(i) This suggestion would include the following elements:

(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;

(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;

(i) the indexes of productivity in the textile sector of the country claiming to suffer market disruption,
(ii) This suggestion would include parts of the definition in Annex C of the Long-Term Arrangement but would introduce new criteria for damage.

(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 to domestic producers or threat thereof.

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."

Adjustment assistance

30. Adjustment assistance should be an essential element in any solutions envisaged.

31. It is considered that multilateral co-operation is 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.

32. 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 and of providing increased access to their markets for textile products, particularly from the less-developed countries.
Special interests of the developing countries

33. It should be recognized that, in the process of liberalization of world trade in textile products, the need for developing countries to further their economic expansion through development of their textile industries, and 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.

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

Special attention to trade in cotton textiles

35. 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 solution.

36. Improved access for exports of cotton textiles should be secured through the avoidance of restraints except when these are essential in the case of market disruption. Where restraints are applied, liberal provision should be made for the size of quotas and for the growth elements. There should be larger reductions in duty. The suggestion has been made that there should be no restrictions and duty-free entry for cotton yarns. It has also been suggested that cotton textile products should be included in the Generalized Scheme of Preferences.

Special assistance for new entrants into textile exporting

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

38. In recognition of their special position, the yardstick of past performance should not be applied in the establishment of quotas for those countries. However, it would be desirable that the implementation of improved access to import markets for these countries should not be to the detriment of the existing less-developed suppliers.

39. The following suggestions have been made to ensure a reasonable share of export markets for newly established, less-developed exporters.
(a) 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.

(b) 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.

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

**Handloom products of the cottage industry**

40. In view of the fact that handloom products have a crucial importance in the economies of certain developing countries and do not directly compete with the established lines of production in the major importing countries, all such products should be fully liberalized, including duty-free entry.

41. However, a satisfactory system of certification and control would be essential.

42. 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.

**Duration of Multilateral Solution**

43. The multilateral solution shall remain in force for years, subject to annual reviews of its operation by the Textiles Committee, which would be composed of countries participating in the multilateral solution finally arrived at.
Other Questions

44. There are a number of specific problems identified which, it is suggested, could be resolved through bilateral negotiations. Such problems could include, among others, inter-fibre flexibility, categories, classification, coverage of products subject to possible restraints, reference periods, growth rates, quotas, administration of agreements and amendment of existing bilateral agreements to be consistent with any new multilateral solutions.

45. It is understood, however, that such bilateral negotiations would take place within the framework of the principles of any multilateral solutions including the surveillance procedure embodied therein.