

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONFIDENTIAL

TEX.SB/W/18

1 August 1974

Textiles Surveillance Body

DRAFT REPORT ON THE SIXTH MEETING HELD ON 25-26 JULY 1974

1. The Textiles Surveillance Body held its sixth meeting on 25-26 July at the Villa Le Bocage.
2. The TSB approved the report on its fifth meeting which was subsequently circulated to the Textiles Committee in document COM.TEX/SB/27.
3. The TSB continued the discussion on how equity in treatment could best be assured between a member of the TSB and a non-member when their countries were both involved in a dispute before it. Following its discussion the TSB adopted the guidelines set out in Annex I to this report regarding its internal procedure on this matter. The point was made that, partly because of ambiguity involved in the translation into French of the second sentence of paragraph 6(d), a doubt had arisen as to its consistency with the preceding sentence. It was confirmed, therefore, that the full participation of the member and spokesman in the deliberations and drafting referred to in the first sentence of this paragraph was not affected.
4. It was agreed that, as a general procedure, the views expressed by the parties involved in a dispute before the TSB should be recorded in an annex to its recommendation on the dispute in question.
5. The TSB proceeded to assess the justification for the maintenance of restrictions on textiles by Mexico on the basis of a memorandum submitted by the Mexican authorities in accordance with the procedure agreed to by the TSB for the case of Mexico which is not a contracting party to the GATT, but is a party to the Textiles Arrangement. A delegation from Mexico presented the case before the TSB, and gave the necessary details and clarification the TSB sought from them in this connexion.
6. In considering this case, the TSB bore in mind the standards that would be applied to developing countries which are contracting parties to the GATT. The TSB came to the conclusion that, on the basis of the information submitted to it by the Mexican authorities, Mexico was not required to terminate, at the present time, existing restrictions on textiles notified by it in accordance with Article 2, paragraph 1. The assessment by the TSB, and the conclusions arrived at, together with the relevant documentation, are set out in Annex II (A to E) of this report.

7. The Mexican authorities expressed their appreciation to the TSB for its expeditious and efficient consideration of the Mexican case.

8. The TSB continued its review of the notifications received from participating countries in accordance with Article 2, paragraph 1, since its last meeting. The TSB had also before it all the details received, or clarifications sought, from certain participating countries with regard to earlier notifications. In the course of the review of these notifications, further questions were put by members, and the secretariat was requested to seek the necessary information from the countries concerned.

9. Mr. Garrido reminded the TSB that his term as a member would come to an end on 31 July, and that Mr. Dinzl would occupy the tripartite seat for the period 1 August to 30 September 1974.

10. It was agreed that the next meeting of the TSB would be held on Thursday and Friday, 19 and 20 September and, if necessary, through Saturday, 21 September 1974.

ANNEX I

EQUITY IN TREATMENT BETWEEN A MEMBER OF THE TSB AND A
NON-MEMBER WHEN THEIR COUNTRIES WERE BOTH INVOLVED IN A DISPUTE BEFORE IT

1. It is the view of the TSB that in any dispute before it, its principal aim is to seek conciliation and to use its good offices for this purpose.
2. All members of the TSB reaffirmed the importance they attach to ensuring equality of treatment to all parties, and to impartiality in reaching conclusions on any dispute referred to the TSB. Attention was also drawn to the need for ensuring that the representative balance of the TSB was not distorted.
3. The TSB addressed itself to the question of participation in its deliberations by parties involved in a dispute before it, particularly when one of the parties concerned has a member on the TSB. The view was generally held that when a country has a member on the TSB its case should be presented by another national of that country.
4. Certain views were expressed in the TSB as to how equity in treatment could best be assured between a member of the TSB and a non-member when their countries were both involved in a dispute before it. Bearing in mind the provisions of Article 11(6), the question was discussed as to whether or not the participation by the TSB member concerned and the representative of the non-member, should continue throughout the discussion up to, and including, the formulation and drafting of the TSB recommendations.
5. Certain arguments were presented against the withdrawal, particularly of the member, when the TSB was drafting its recommendation. It was mentioned, inter alia, that members of the TSB have responsibilities vis-à-vis all participating countries in the Arrangement; they are in a strong position to influence their own authorities, and they must be considered objective.

6. In the light of the above, and following informal consultations with a number of participating countries in the Textiles Arrangement, the TSB has adopted the following guidelines regarding its internal procedures:

- (a) The member of the TSB whose country is party to a dispute before it shall not present the case, but another spokesman from that party should advocate it.
- (b) The spokesmen for both the country having a member on the TSB and the country not having a member thereon, should be invited to present their cases fully. They would be allowed to remain present throughout the TSB's discussion up to, and including, the drafting of the recommendations.
- (c) At some stage in the discussion, the Chairman will have to determine the point at which final deliberation and drafting of the recommendations begin.
- (d) The member and the two spokesmen may participate fully in the deliberations and drafting of recommendations resulting therefrom. It is understood, however, that consensus within the Body on the form and content of such recommendations does not require the assent or concurrence of the concerned member of the Body.

ANNEX II - A

ASSESSMENT BY THE TSB OF THE JUSTIFICATION FOR THE
MAINTENANCE OF RESTRICTIONS BY MEXICO

1. The TSB proceeded to assess the justification for the maintenance of restrictions on textiles by Mexico on the basis of the following documents included in the Annexes to this report.
 - (a) A memorandum submitted by Mexico (Annex II - B), as well as statistical information attached thereto, in accordance with the procedure agreed to by the TSB (attached as Annex II - E);
 - (b) A statement by the head of the delegation of Mexico on 25 July before the TSB (Annex II - C);
 - (c) The ensuing discussion which took place on 25 July between the delegation of Mexico and the TSB, in the course of which certain questions were raised, and in response complementary information and clarifications were given by the Mexican delegation. These are summarized in Annex II - D.
2. The memorandum under (a) describes the situation in the textile sector, the operation of the import licensing system, the justification for the application of the system to the textile sector, and its non-discriminatory character and selective incidence. The memorandum also refers to the impracticability of using alternative measures which would be consistent with the spirit of the General Agreement. Data on production of, and trade in, the main groups of textiles during the last three or four years, as well as other general economic indicators, have also been supplied.
3. The TSB studied the documentary evidence submitted by the Mexican authorities, and took note of the declaration and of the further information given orally by the Mexican delegation. The case was considered with due regard to the standards that would be applied to developing countries which are contracting parties to the GATT.

4. In conducting the examination, the TSB took into account the stage of development of the Mexican economy and the contribution of the textile sector to the GNP, and the general level of production and employment in Mexico. It recognized that Mexico's trade and development needs would have to be borne in mind in any assessment of the justification for the restrictions maintained by it on imports of textiles.

5. The TSB reiterated that the foregoing related only to trade in textiles and would not constitute any interpretation of the General Agreement, nor prejudice in any way the procedure to be followed were Mexico one day to become a contracting party to the GATT.

6. The TSB appreciated the co-operation of the Mexican authorities in submitting the necessary information, and the way in which they have presented the case before it.

CONCLUSIONS

- A. - The TSB noted that the Mexican control system of imports was kept under constant review with the objective that the controls would not remain indefinitely in force. The TSB noted, however, that a significant number of textile items were restricted in various ways, and expressed the hope that Mexico would soon find it possible to fully implement its objective of trade liberalization, having regard to the fact that the basic objectives stated in the Textiles Arrangement shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products.
- B. - The TSB came to the conclusion that Mexico was not required to terminate, at the present time, existing restrictions on textiles notified by it in accordance with Article 2, paragraph 1.
- C. - The TSB recommended that the Government of Mexico report before the end of 1975 on the evolution of the textiles industry, and on its relationship to the restrictions then in effect.

ANNEX II - B

Memorandum Submitted by Mexico on the Mexican Policy of
Import Controls on Textiles and Clothing

See document TEX.SB/W/15. This will be reproduced in full in the final version of this report to be circulated to the Textiles Committee.

ANNEX II - C

Statement by the Representative of Mexico at the Meeting
of the TSB on 25 July 1974

See document TEX.SB/W/16. This will be reproduced in full in the final version of this report to be circulated to the Textiles Committee.

ANNEX II - D

Complementary Information and Clarifications Given by the Mexican
Delegation in Response to Certain Questions Raised by the TSB at
its Meeting on 25 July 1974

Main characteristics of the system

The Mexican delegation stated that the prior licensing system was a dynamic instrument of the Mexican industrial development policy, and was in no way tantamount to a prohibition of imports. A supporting evidence to this was to be found in the large volume of imports entering Mexico as shown by the table in the statistical annex of the memorandum submitted. The system was not intended to enable domestic producers to reach self-sufficiency, but rather to complement national production. The system should be regarded as the means chosen by the Government to direct imports towards those sectors of the country where they were necessary to cope with development needs. It was a matter of developing the industry on the basis of healthy competition, and seeking ultimately to direct it towards external markets.

Selective incidence of the system

The Mexican delegation pointed out that the intention behind the prior import licensing system was that the national industry should be rendered more efficient considering the fact that the import licences were granted when the national producers could not supply the domestic market at adequate prices with high-quality goods and reasonable delivery dates. The main objective was to assist those industries which were viable.

Duration of the application of the system

The Mexican delegation stated that there was a tendency on the part of the Government not to apply such import licences for an indefinite period on the same products. The actual needs of economic development, and the situation of the industry concerned, were instrumental in determining the period for which the licensing requirements would remain in force.

Non-discriminatory character of the system

The Mexican delegation pointed out that, according to the law establishing the system, the prior import licences were not discriminatory in respect of the countries of origin from which the goods were imported, nor in respect of the goods themselves.

Textile products subject to the system

The Mexican delegation informed the TSB that, at the present time, some 90 per cent of imported textile products, including raw materials, semi-finished and finished articles, were subject to the prior import licensing system.

Free zones¹

The Mexican delegation explained that the free zones were situated in remote cities along the United States' borders, and in the southern part of Mexico. On account of the long distance that separated these zones from the centres of the industry, it was difficult for the Mexican products to be competitive in these areas. This was evidenced by the high level of imports into these free zones as compared with other parts of Mexico. Imports into these zones enjoyed the benefit of an exceptional fiscal system, whereby such imports were exempted from customs duties. However, the prior import licensing system applied equally to the free zones.

¹These free zones are distinct from the areas located along the frontier of 2,000 kilometres between Mexico and the United States.

ANNEX II - E

Procedure Agreed to by the TSB¹ on the Case of Mexico not being
a Contracting Party to the GATT, but being a Party
to the Textiles Arrangement

¹The TSB agreed to this procedure at its meeting on 11-12 July 1974
(see COM.TEX/SB/27), following its discussions at previous meetings.

See TEX.SB/W/12, Annex. This will be reproduced in full in the final
version of this report to be circulated to the Textiles Committee.