

GENERAL AGREEMENT
ON TARIFFS AND
TRADE

ACCORD GENERAL SUR
LES TARIFS DOUANIERS
ET LE COMMERCE

CONFIDENTIAL

TEX.SB/210/Add.1
15 April 1977

Textiles Surveillance Body

Organe de surveillance des textiles

ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES

Information received from India

Note by the Chairman

I attach a report received from India in connexion with the TSB's request contained in document COM.TEX/SB/225. For reference see documents TEX.SB/167, 184 and 184/Add.1.

ARRANGEMENT CONCERNANT LE COMMERCE INTERNATIONAL DES TEXTILES

Renseignements communiqués par l'Inde

Note du Président

Les membres de l'OST trouveront ci-joint un rapport reçu de l'Inde, au sujet de la demande de l'OST qui figure dans le document COM.TEX/SB/225. Les documents à consulter portent les cotes TEX.SB/167, 184 et 184/Add.1.



सत्यमेव जयते

15 APR 1977

FOR:	
TRADE POLICY DIV.	
Gen. Div.	
Agri. Div.	
Special Div.	
TRADE DEVT. DIV.	
Sp. Asst. Fr.	
Dev.	No.GEN/PMI/204/18/76
Int. Div.	
Gen. Div.	TSB X
OFFICE OF DG	
Consultant	
Conf. Div.	

PERMANENT MISSION OF INDIA
TO THE UNITED NATIONS OFFICE

9, RUE DU VALAIS
1202 GENEVA
TELEPHONE: 32 08 59

April 10, 1977

The Permanent Mission of India to the GATT in Geneva presents its compliments to the Textiles Surveillance Body (TSB) established under the Arrangement regarding International Trade in Textiles, 1974 and presents the following report in pursuance of the decision of the TSB dated the 20th December, 1976 in the matter concerning certain unilateral quantitative restraints imposed by the Government of Sweden on the import of woven blouses of all fibres (BTN 61.02.505) and bedlinen of cotton (62.02.110) with effect from July 1, 1976. In the decision of 20 December 1976 under reference, the TSB had recommended to both the parties to resume negotiations and had also suggested that Sweden should lift the unilateral restrictions before the opening of the consultations. The TSB had requested the two parties to inform them of the result of these negotiations by 10th March, 1977.

2. In pursuance of the above decision, the Swedish Government expressed its willingness to revoke the unilateral quotas during the period 16th January to 15th February 1977 and instead to apply the quotas during this period worked out according to the average recommended by the TSB. They also suggested the holding of consultations in Delhi during 20th to 25th January, 1977. In addition to the consultation on blouses and bedlinen, they also requested for consultation on exports to Sweden of woven shirts of cotton and men's and boys' wear also. Although it did not appear to be the intention of the TSB that during the pendency of consultations any quotas should be administered by Sweden but that only India should cooperate in ensuring that shipments during this period do not exceed certain limit in the nature of an auto limitation, the Government of India agreed to the interim arrangement suggested by Sweden so that consultations may proceed.

3. One round of consultations was held in New Delhi on January 20 to 24, 1977 but no agreement could be reached. The Swedish side also made available during these consultations data concerning shirts on which they were relying. Government of India agreed to study these. By a Note Verbale dated 14th February, 1977, the Swedish Government pointed out that although no agreement could be reached in the first round and there were substantial differences of principles, it would be willing to resume consultations. In an endeavour to find in a cooperative spirit a mutually acceptable solution to the problems, the Government of India agreed to resume consultations. Since the resumed consultations could be held a little after the time limit prescribed by the TSB, the TSB

was also requested to grant an extension in the time limit for submitting the report. The second round of consultations took place in Geneva on 21st and 22nd March, 1977. The Government of India regret to inform the TSB that no agreement could be reached between the two sides during these consultations.

4. Many of the basic arguments put forward by the Swedish side were common to their case on blouses (BTN 61.02.505) and bed linen (62.02.110). The cases of the two products were, however, not similar historically and in several other respects. The basic argument put forward by the Swedish side was that while they have taken measures to grant adjustment assistance to the textile industry for re-training workers and effecting other structural adjustments, the import penetration has been increasing, and they have to maintain a certain minimum production capacity for defence and emergency preparedness. It is a part of the general philosophy of neutrality followed by their country that in order to sustain such a policy a certain production of essential goods and skills should be retained in the country - as distinct from the concept of viability of an industry on considerations only of economics of operation and efficiency of factors of production. The Swedish Board of Economic Defence has come to the conclusion that in textile sector a level of penetration has been reached to go beyond which would not be desirable for their economic defence and therefore they have to impose restrictions on imports. Secondly, for certain product lines the import penetration has become very high "The rules in the MFA were not tailored to situations of this kind". Annex 'A' to MFA appears in general to have been designed to meeting the market disruption of a different kind. Since import penetration is high, there is a good and adequate ground for restraint action.

5. As regards blouses (BTN 61.02.505), the Swedish side indicated that the import penetration was more than 90%. The blouse industry was also engaged in production of other ladies' garments and due to high import penetration in many of these product lines there existed a situation of disruption to domestic industry.

6. The Indian side pointed out that the concept of "minimum viable production" on account of considerations of economic defence was extraneous to the MFA. The concept of minimum viable production of textiles, in case of countries having a small market and high level of imports would be relevant in terms of economic viability of the industry but this was one of the several equally valid objectives referred to in Article 1 of the MFA. That Article also refers to economic and social development of developing countries as a principal aim of the Arrangement. It calls simultaneously for policies to be implemented which would encourage businesses which are less competitive internationally to move progressively in the more viable lines of production or the other sectors

of the economy and provide increased access to their markets for textile products from developing countries. If a country claims that its market has been disrupted to such an extent that a minimum viable level of economic production cannot be maintained (without conceding that such a situation existed in the instant case and maintaining that adjustment assistance should be an appropriate solution to such problems) the importing country would have to look at total imports so as to leave room for a minimum economic domestic production whereas Sweden had left the field free for imports from many developed countries. The data provided by the Swedish side showed that some of these countries have over the last few years increased their exports considerably which could as much affect the viability of domestic production. Thirdly, market penetration alone is, and can be, no indicator of market disruption as a country may plan the supply of textiles in such a manner that it may have to rely on imports to a large extent, or its exports may also be high. The Swedish side had provided statistics of production, import, export and supply of blouses for the full years 1972 to 1974 only and for first six months of 1975. The production of blouses had in fact gone up from 875,000 in 1972 to 956,000 in 1974 while her own exports had gone up from 437,000 to 95,000 in these years. During the corresponding period, India's exports declined from the figure of 1.34 million in 1972 and 1.4 million in 1973 to as low as 483,000 in 1974. Even for January-September, 1975 the figure was 484,000. In the face of such a steep decline in exports from India and increased production there could be no question of market disruption (as defined in Annex 'A' to the MFA and India could not be causing it. The imports from EFTA countries had gone up from 536,000 in 1972 to 1.38 million in 1974. It is understood that there is some interlinking between Swedish industry with some EFTA countries.

*As a real risk of
market disruption*

7. Still, in order to find a mutually acceptable solution to the problem, India proceeded to discuss the question of levels of restraints ad-referendum. It would be recalled that there was a bilateral agreement between India and Sweden concluded early in 1974 which provided for restraint on export of blouses. The agreement was concluded before the MFA had been ratified and, therefore, the agreement on quantitative limits was without prejudice to the rights and obligations of the parties under the MFA. Under this agreement as extended from time to time there was a quota of 1.27 million blouses for the period March 1974 to February 1975 but the restraint was lifted with effect from 1st March, 1975 because of the decline in India's exports. This was in recognition of the fact that India was not threatening injury to the Swedish market and the product was kept under surveillance. It was argued by the Indian side that if a product is subject to restraint for a period and, thereafter, the restraint is removed in view of the fall in exports and again if there is a slight tendency for the exports to rise quotas are re-imposed, it should not be less than the earlier quotas. Otherwise, an anomalous situation would develop whereby it would have been in India's interest to insist on continuation of restraints. The second submission made by the Indian side was that "hand-made cottage industry products of handloom" as defined in Article 12.3 of MFA should not be subject to restraint. Neither of the two submissions was acceptable

to the Swedish side, who proposed a quota level of 884,000 pieces which they were willing to raise to 950,000 pieces but inclusive of handloom products. No basis for this figure was provided. The Indian side argued that if handloom products in terms of MFA are kept out they would be willing to find a mutually acceptable level but this was also not agreed to by the Swedish side.

8. As regards bed-linen, apart from the argument relating to minimum viable production and market disruption based on the fact of market penetration alone, the discussion in the consultations ranged mostly over the question of quota level and growth rate because a bilateral quota arrangement was in operation till February 1976, (extended till June 1976). Specific attention of the TSB is drawn to the fact that according to the data supplied by the Swedish side, the production of bed-linen of cotton in 1972 was 1291 tonnes which went up to 1474 tonnes in 1974 and 1637 in 1975. Under what concept is an industry considered to be injured in the face of rising production? If the employment has declined the explanation may lie in increased productivity per unit of labour. As for blouses, the imports during this period had also gone up from EFTA countries from 347 to 609 tonnes. In the bilateral restraint arrangement between Sweden and India, during the period 1st March 1975 and 29th February 1976, the agreed quota level was 650 tonnes. This was treated by the Swedish Govt. as being composed of a basic level of 551.2 tonnes and an 'ad-hoc quota' of 98.8 tonnes. The Swedish side initially offered an increase of 10 tonnes in the quota which gave a growth rate of 1.8%. It is against equity that while some developed countries are not being restrained at all and their exports are increasing, some developing countries should be asked to accept virtually no growth rate. The Indian side also maintained that it was catering to a different lower price range market. On Indian side pointing out that while India had accepted a restraint level and had gained at her cost by reaching or even exceeding India's export level, the Swedish side stated that they had restrained one country after another, year by year, so that now most of the (developing country) suppliers who in their opinion had a high penetration, were restrained.

/tonnes

9. In an effort to find a pragmatic solution to the problem, the Indian side was willing to discuss an overall quota for the period 1st July, 1976 to 31st December 1977 since considerable damage to her export interest had already been caused in six to nine months period of unilateral restraint particularly due to the manner of operation of quota. After prolonged discussions, the two sides worked out a level of exports for the 18 months period (1st July 1976 to 31st December 1977) that could be accepted by the two sides, even though it did not provide for the minimum growth rates to which India was entitled. The Indian side, however, insisted that the quotas must not be divided into the so-called regular and ad-hoc quota and the quota administration should remain at the export end because of their extremely unhappy experience with the administration of quota at the import end when many of the parties not importing bed linen from India received

quotas which remained unutilised. They even offered that at least the quotas which had not yet been allocated should be agreed to be administered by the Indian side but none of these proposals were acceptable to the Swedish side and therefore no agreement could be reached.

10. There was only a brief exchange of views with regard to shirts in the first round of consultations because the basic issues were the same as those in case of blouses. Apart from other considerations, India, which had exported 1.4 million shirts in 1972 and 1.82 million shirts in 1973, had exported only 304,000 in 1975 and in such a situation could not be considered by any reasoning to be causing market disruption should it be assumed that a situation of disruption exists which also was not proved.

11. The Permanent Mission of India in Geneva has, therefore, to report the matter to the TSB and once again requests for its considered intervention in the matter with a view to securing an equitable decision. The TSB is requested to consider the matter, if necessary, after hearing both the parties and decide suitably. The Government of India would request the TSB to use its good offices to get the unilateral restraints on both the items lifted by the Swedish Government and to restore the restraint-free conditions of trade in the products in reference between India and Sweden.

The Permanent Mission of India avails of this opportunity to renew to the TSB its assurances of highest consideration.

N.C. Hemrajani
(N.C. HEMRAJANI)
THIRD SECRETARY

Ambassador P. Wurth,
Chairman,
Textiles Surveillance Body,
GENEVA.