

was the desire to find a solution to the problem of clothing imports from Hong Kong, a problem which could not be resolved on a bilateral basis.

At the Washington meeting it was agreed to call an International Textile Conference, comprising the principal cotton textile exporters and importers, under the auspices of the GATT. This Conference took place in Geneva during the week of July 17 to 21 and resulted in a draft Agreement which provides for a short-term international arrangement and for the establishment of a cotton textile committee to work out a long-term solution. A copy of the draft Agreement is attached to this Memorandum.†

While the draft Agreement does not contain precise provisions for entry into force it is envisaged that the Agreement will become operative if certain key countries accept its terms. The United States will be pressing the principal exporting countries to accept the Agreement before October 1st, and if difficulties arise they will not hesitate to call a further Conference in Geneva during September. Hong Kong and Japan entered a number of reservations to specific points in the draft Agreement and it is by no means certain that they will accept the Agreement in its present form.

In essence the short-term arrangement permits importing countries to request exporting countries to impose "voluntary" export restraints and, in the event that such a request is not met, to apply import restraints specifically directed against the offending country. The use of import restraints directed at one country, i.e. "discriminatory" restraints, is not permitted under the GATT rules. The importing country would be the judge of whether requests for restraints are warranted, but participating countries are under a general injunction to resort to these special arrangements sparingly and only to avoid disruption of domestic industries.

In order to protect the exporting countries against unreasonable requests the short-term arrangement provides that participating countries may not request the imposition of export restraints on any category or item of cotton textiles at a level lower than the level of exports which prevailed in the twelve month period ended June 30, 1961. It is considered that this provision would not prevent us from requesting Hong Kong to apply export restraints adequate to meet the specific textile problems in our trade with Hong Kong. As regards our arrangements with Japan, there is an understanding at the official level that the "minimum level" provision shall not apply to cotton textile products on which Japan is maintaining export restraints to Canada where that minimum level would be higher than the actual quote negotiated for 1961. There is also an understanding that the matter of permissible transfers between quotas should continue to be settled by consultation between Canada and Japan rather than by reference to the draft Agreement. At the close of the Geneva meeting a letter was sent to the Head of the Japanese Delegation seeking confirmation of this understanding and a reply from Tokyo is expected shortly. (Copy of letter attached)

The draft Agreement recognizes that Canada cannot guarantee to meet the minimum import requirement should it be necessary for Canada to apply fixed values for duty purposes under the arrangements. At Canada's request a provision was inserted which extends the Agreement to cover textile fibres directly competitive with cotton in the event that the arrangements are being frustrated by substitution. The draft Agreement also provides that countries now applying import restrictions on cotton textile imports shall as from January 1, 1962, significantly increase access to their markets. This provision is directed mainly at the countries of Western Europe.

It is considered that the Agreement as presently drafted would strengthen the effectiveness of Canada's bilateral arrangements with Japan, and would enable Canada to deal with problems arising out of textile imports from Hong Kong and other low-range areas at least for the initial period of one year. It could also relieve some of the pressure on the Canadian market