



**ITC**

Your partner  
in trade  
development

## The Agreement on Textiles and Clothing

### *The Challenge of a Quota-free Market Understanding What Might Happen*

**Presentation by**

**Mr. Matthias KNAPPE**

**Senior Market Development Officer**

**International Trade Centre UNCTAD/WTO**



# With the Phasing-out of the ATC in 2005 the question is not...

---

Whether there will be a change or not!

The question is whether it will be a:

- Sudden collapse
- Or an immense and unstoppable but somewhat predictable change



# Structure

---

**What Might Happen:  
Market Indications and  
New Challenges for Market Entry**



# Regionalisation of Trade

---

Trade develops along regional lines

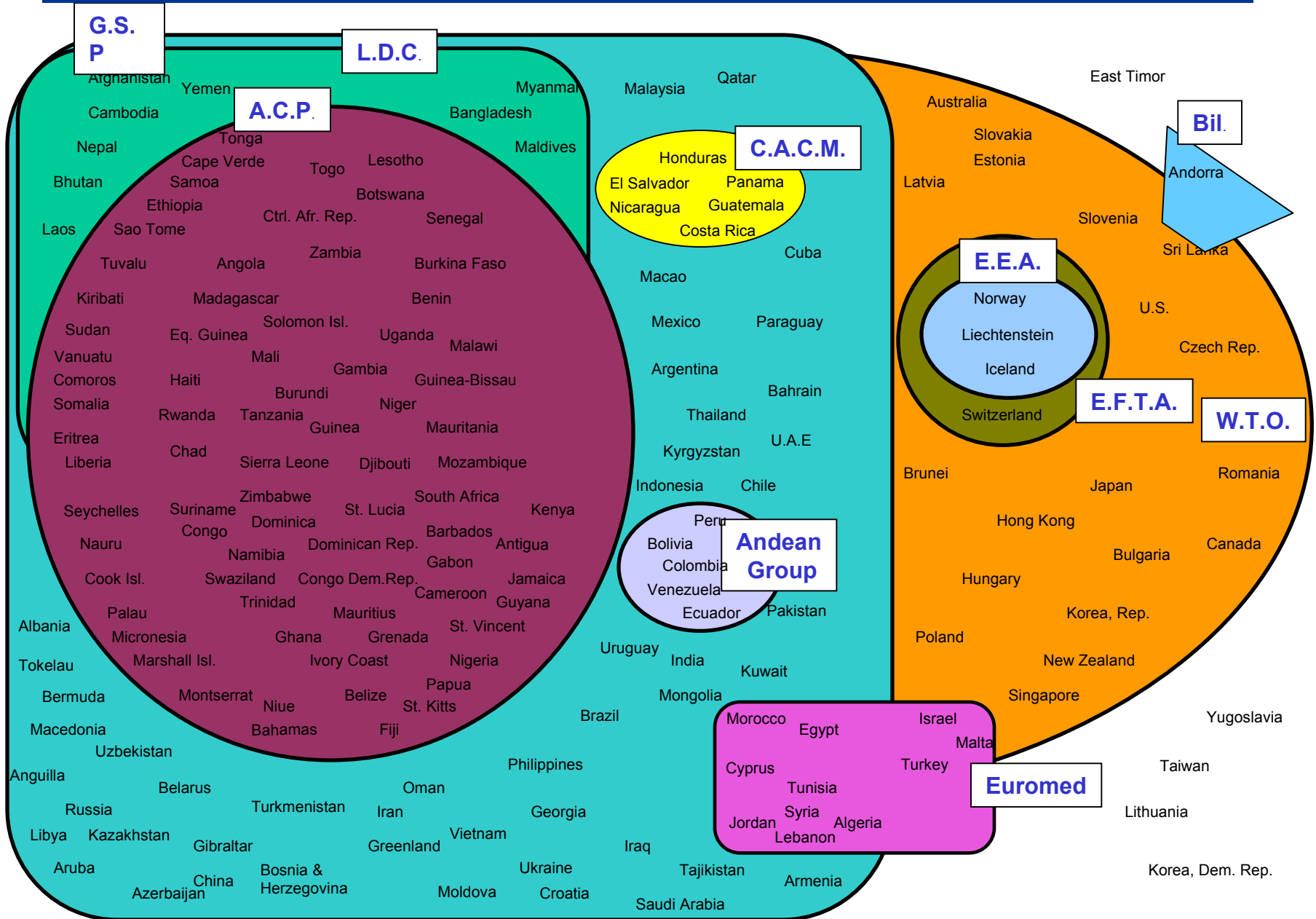
## Export of final garments

- US: NAFTA, Free Trade with SADC, CACM, Andean Countries, etc.
- EU: Turkey, Mexico, Brazil, South Africa, ACP, etc.

## Sourcing of fabrics and ancillaries:

- SADC/AGOA, ASEAN, SAARC, CACM/CBI, Andean region, etc.

# Complex Patchwork of International Trade Agreements: European Trade Policy

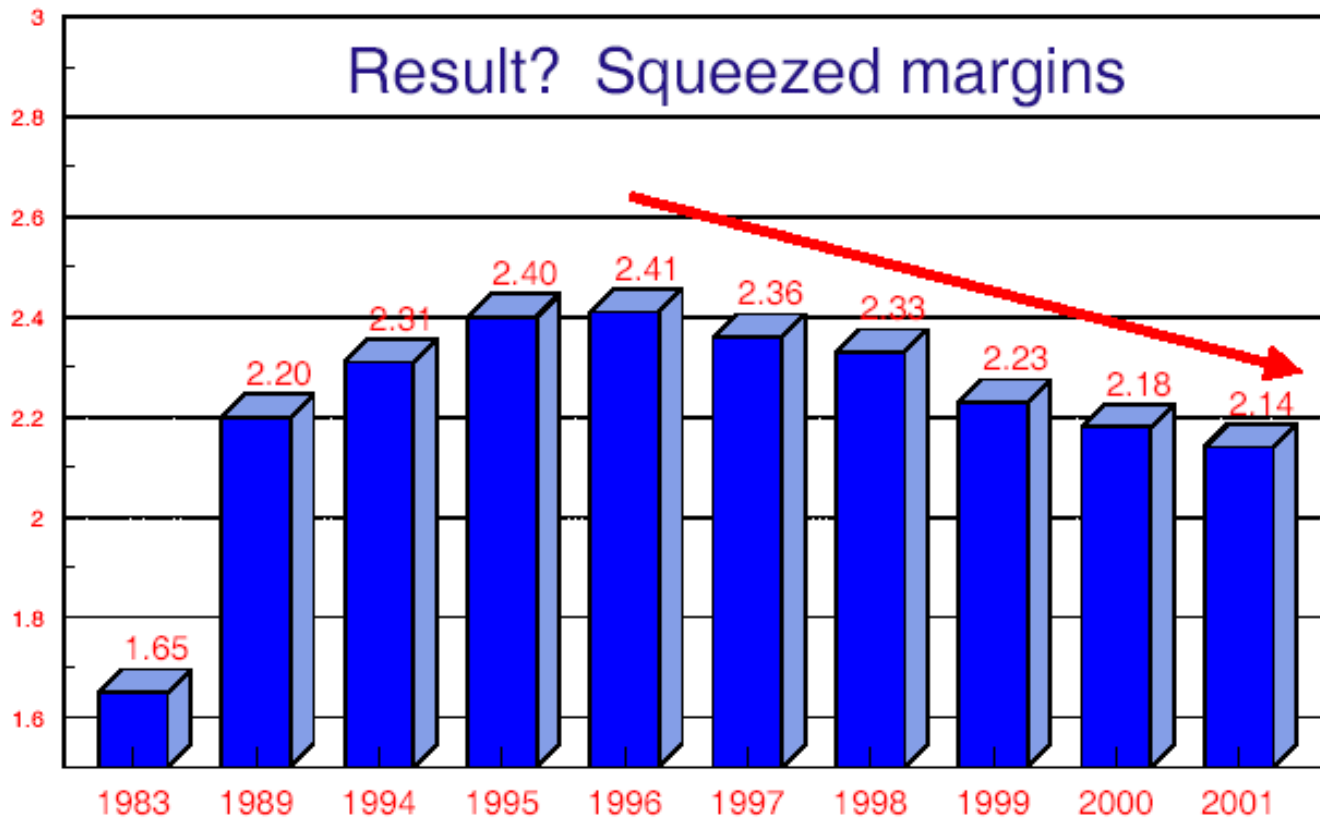




# Prices will Fall Further

## Trends in US textile and clothing import prices, 1983-2001

US\$/sme



NB: sme = square metres equivalent

Source: Textile Outlook International



# Possible New WTO-conform Protective Measures after 2004

---

- Increased use of trade remedies.
  - a) Safeguards (fairly traded imports).
  - b) Antidumping & countervailing duties (unfairly traded imports).
- T&C products as targets for retaliation in dispute settlement cases.
- Increase of administrative burdens (record keeping).



# New Possible Protective Measures until 2004

---

- Attempts to divide the developing world.
- Reciprocal market access demands.
- Tough rules of origin, transshipment and customs enforcement.
- No unilateral concessions.





# Likely Post-2004 US sourcing pattern

---

## The US Congressional Textile Caucus:

- Sourcing is driven by quota constraints (retailers buy from 40-60 countries).
- To be cut by half by end 2005/2006.
- Further drop to 1/3 to 1/4 by 2010.
- LDCs will especially be hard hit.

Source: US Department of Commerce: Report to the Congressional Textile Caucus on the administration's efforts on textile issues; Washington, September 2002



# US Customs-Trade Partnership Against Terrorism: Burden for T&C Exporters

---

- Under the Department of Homeland Security
- Envisaged a supply chain covering manufacturers
- Manufacturer-monitoring to include security compliance
- E.g. verification of job applications
- US customs to visit manufacturers randomly
- Mandatory advanced cargo electronic information
- That could add extra transit time



# Enterprise Record-keeping Requirements Imposed by Importing Country Customs

---

- **Understandable** records, in which steps of production are clear.
- Actual production machinery necessary.
- Payment for materials & payroll.
- Export documentation, incl. shipping records.
- Contracts, incl. with subcontractors.
- Cutting, assembly and out-processing records.
- Certificates of Origin.



# What buyers request from enterprises

---

- Strong buyer's market: concentration on a few countries where they can source best.
- Critical Mass needed.
- Pure CMT business will phase out, buyers will ask for services (approach to customer satisfaction).
- Retail-Supplier Partnership (transparency, joint planning).
- Craftsmanship is taken for granted.
- Lean retailing: transfer of inventory management to supplier
- Sales- and demand-driven strategies replace supply-driven strategies.

# New Restrictions for T&C Exporters

---

## ECO Labelling

---



- Eco labelling schemes remain “voluntary”.
- Choice of buying environmentally-friendly products serves those using it as a marketing tool to distinguish from competitors.
- For others it can reduce market access.
- No international standards.

# Codes of Conduct - Ethical Sourcing

Clean Clothes Campaign



- 
- Social sourcing as a criteria for trade.
  - Increased insistence on social responsibility of manufacturers/suppliers.
  - Corporate CofC/ business values to guarantee certain standards.
    1. No child labour
    2. Working conditions
    3. No forced labour
    4. Compensation
    5. No discrimination
    6. Working hours
    7. Minimum wages
    8. Freedom of associations



## Some NGOs Active on/in Labour Standards

---

- US: [www.behindthelabel.org](http://www.behindthelabel.org)  
[www.wrapapparel.com](http://www.wrapapparel.com)  
[www.cepaa.org](http://www.cepaa.org) (SA 8000)  
[www.fairlabor.org](http://www.fairlabor.org)
- Canada: [www.maquilasolidarity.org](http://www.maquilasolidarity.org)
- EU: [www.cleanclothes.org](http://www.cleanclothes.org)



# Structure

---

**What Might Happen:  
Survey the Performance  
of the Major Players**





## Expected Winners & Losers



- Countries now fully using their quotas will increase their exports.
- Countries not using their quotas: unlikely to benefit.
- DCs not under quota will face intense competition.
- DCs without meaningful export quantities: it will become even more difficult to enter world markets.
- Mass products: high competition.
- More specialised/ wider range: lower impact.
- Overall: Pure economics favour large suppliers to the detriment of SME suppliers.



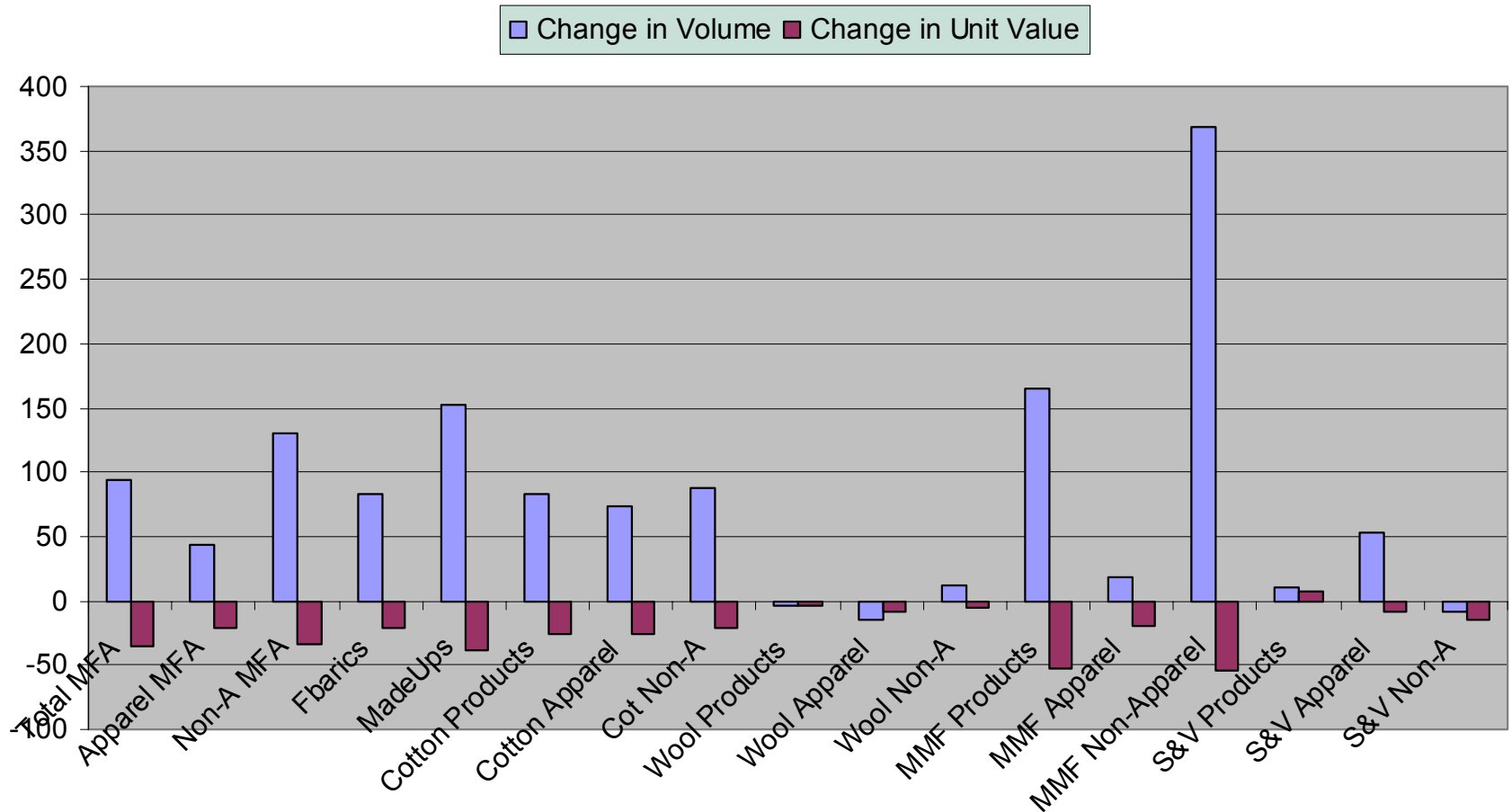
## China: Will the Winner Take it All?

---

- China penetration into US market: Increase of exports by 50 % in 2002
- Is the quota-free Japanese market an example? In 2001 Japan imported 87.7% of its total garment requirements from P. R. China, an increase of 66 % over 10 years.
- Increased US and EU Quota-utilisation
- Increase in volume; decrease in prices



# US Textile and Apparel Imports from China 1/2002-7/2002





## Reasons for China's Performance

---

- As a WTO-member China enjoys MFN, removal of certain quotas and quota phase-out by 2005.
- Low cotton prices in 2001
- Rise in investments (import of T&C machinery up 31% in 2001) = rise in productivity
- Decline of US\$ (RMB linked to US\$)

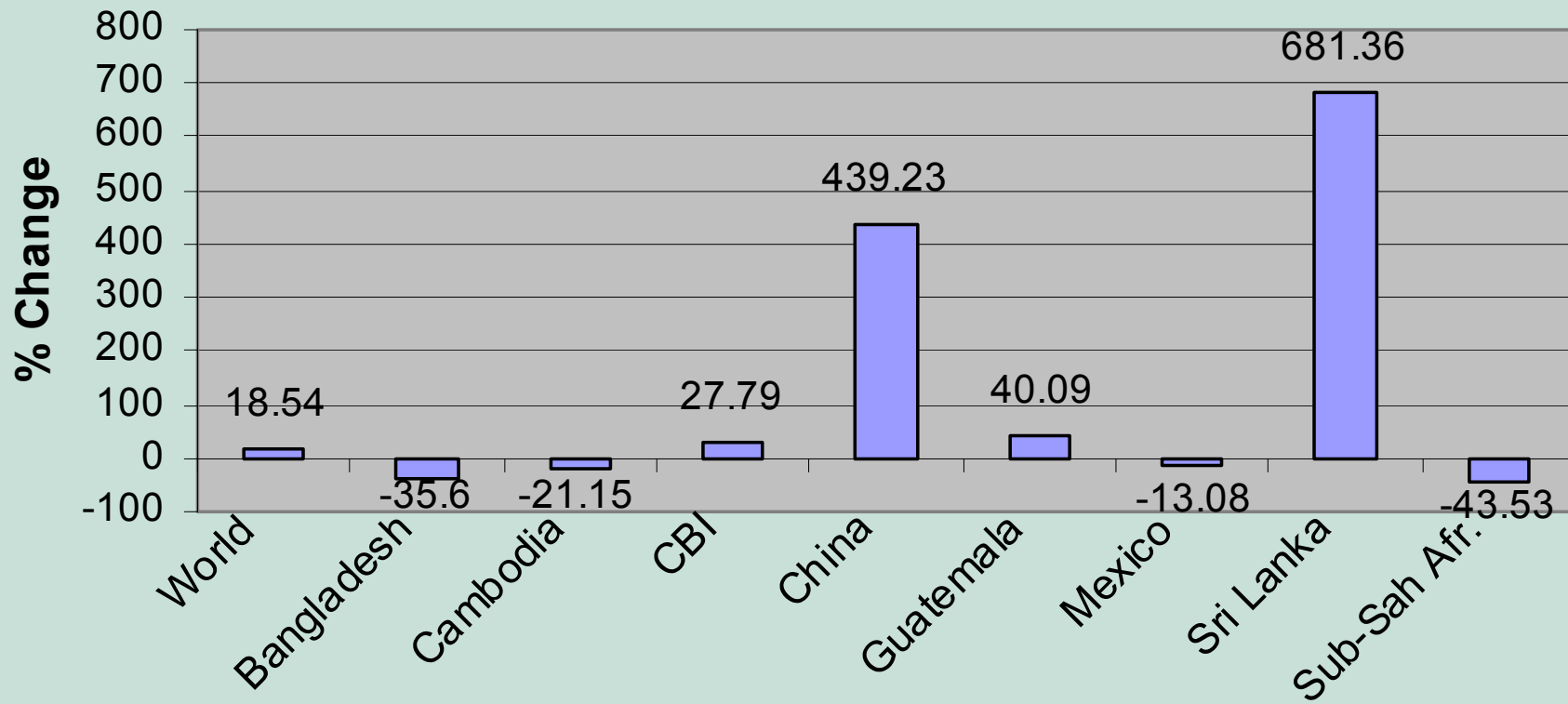
But:

- T&C and product specific safeguards under China accession protocol



# Effect of Liberalisation of US Category 350 on Major Exporters

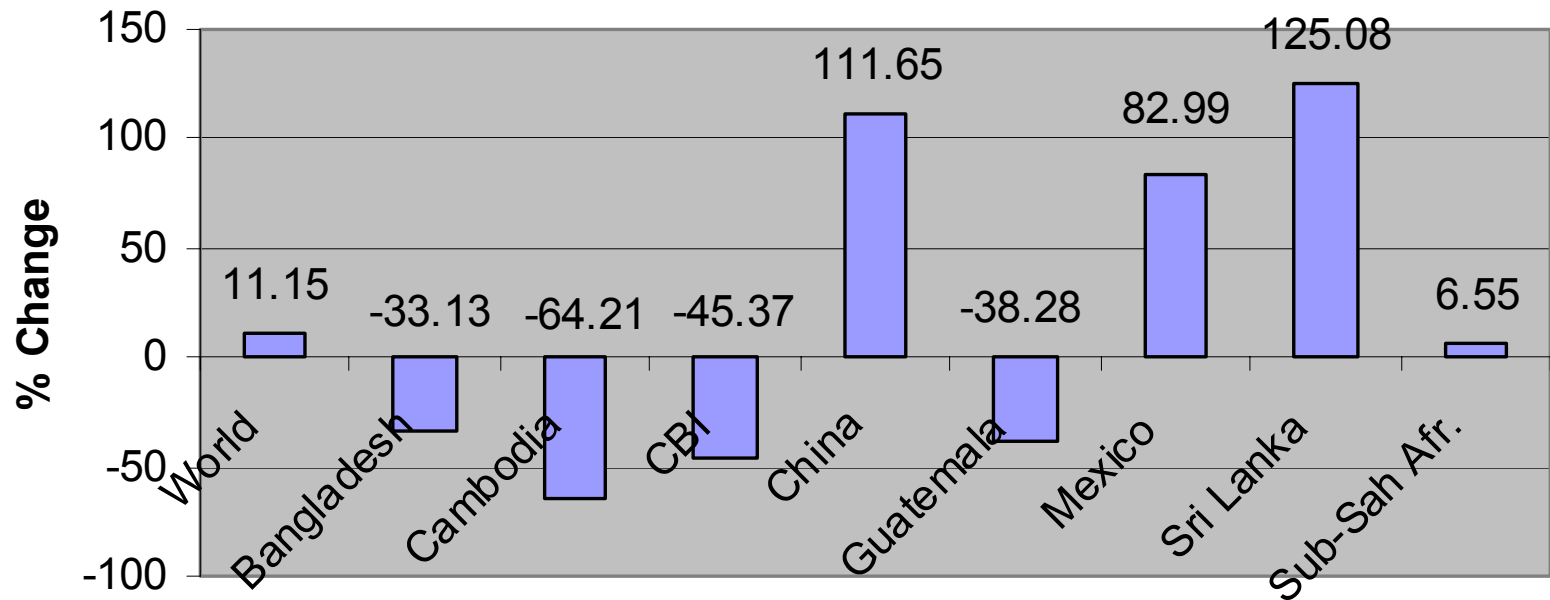
Category 350: Cotton Dressing Gowns, Robes, etc.  
7/2001-7/2002 YTD Comparison





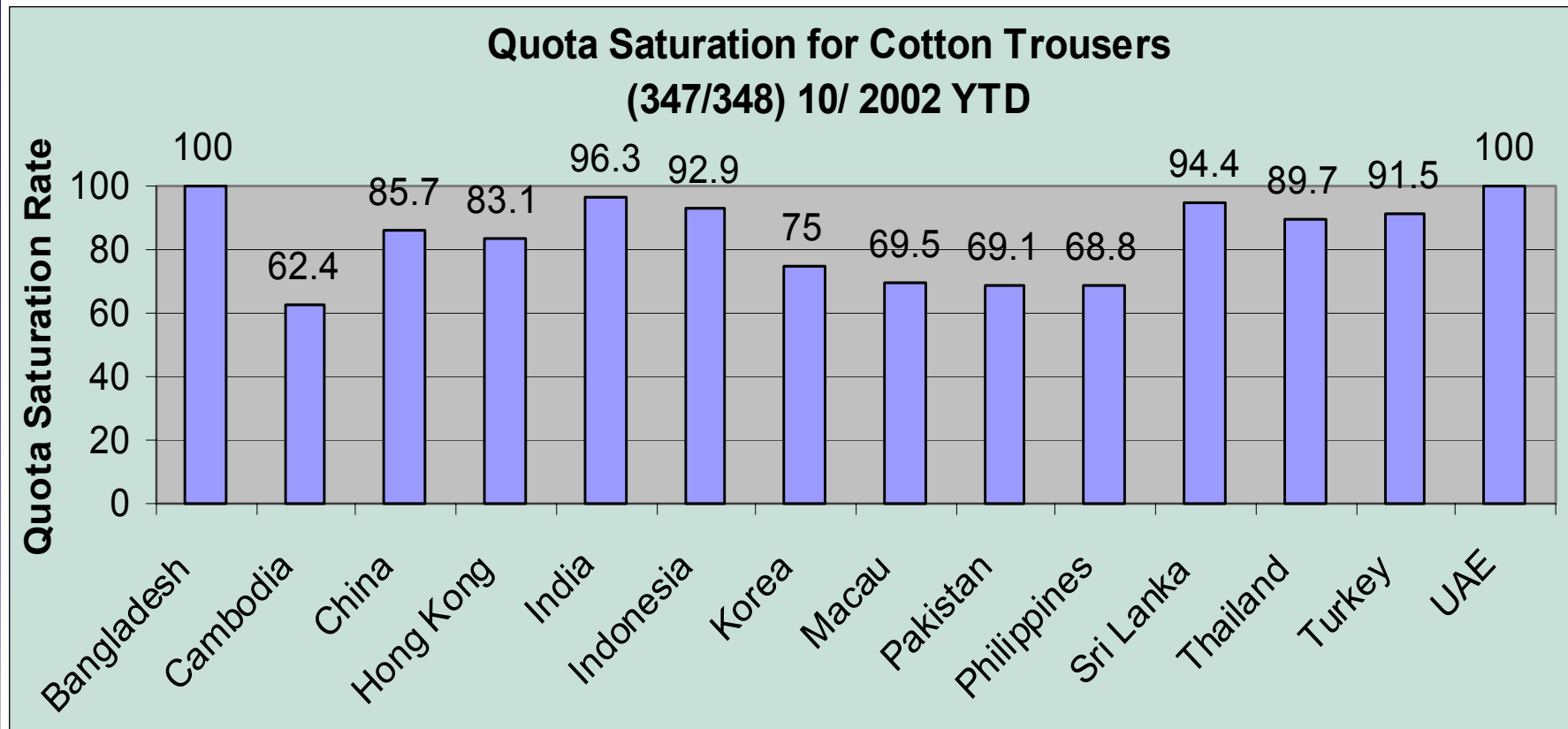
# Effect of Liberalisation of US Category 847 on Major Exporters

**Category 847: Trousers, Shorts Silk/Veg.  
7/2001-7/2002 YTD Comparison**



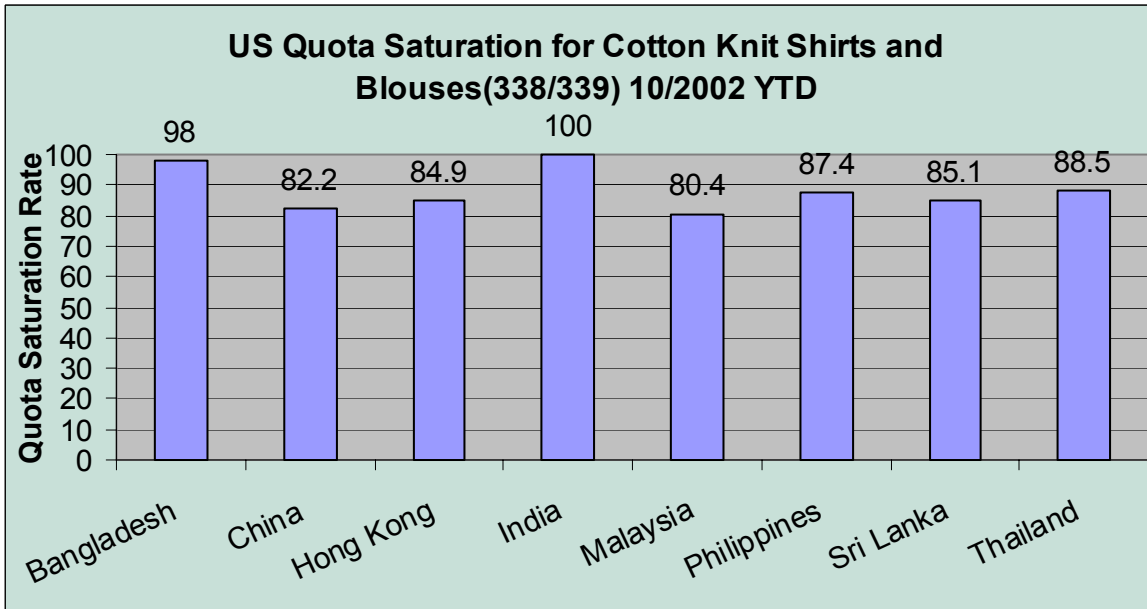
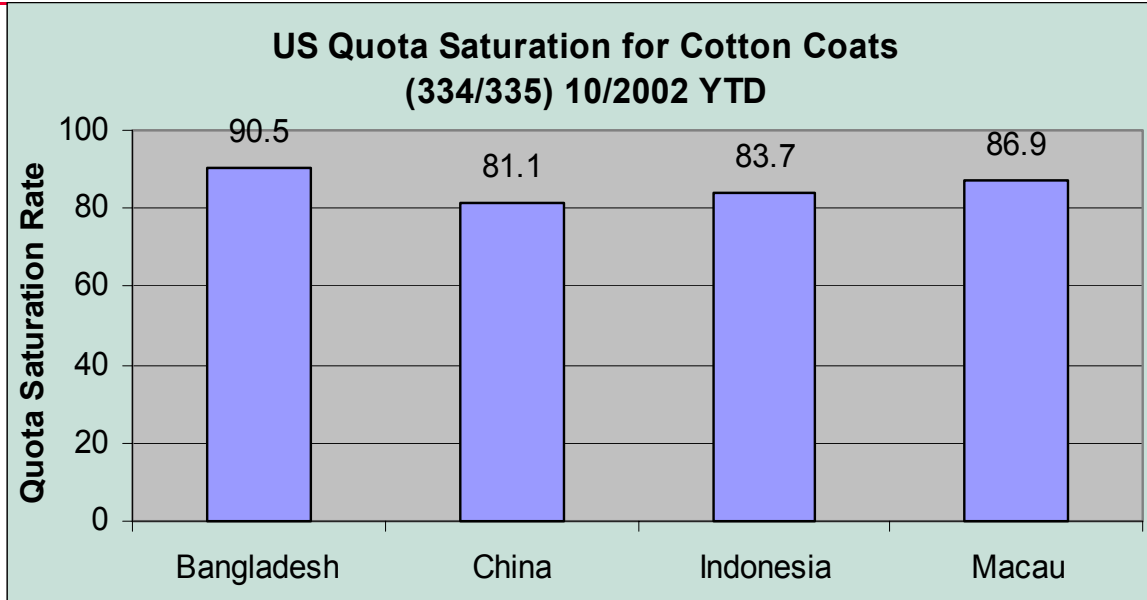


# US Quota Saturation October 2002



Source: [www.emergingtextiles.com](http://www.emergingtextiles.com)

04 April 2003



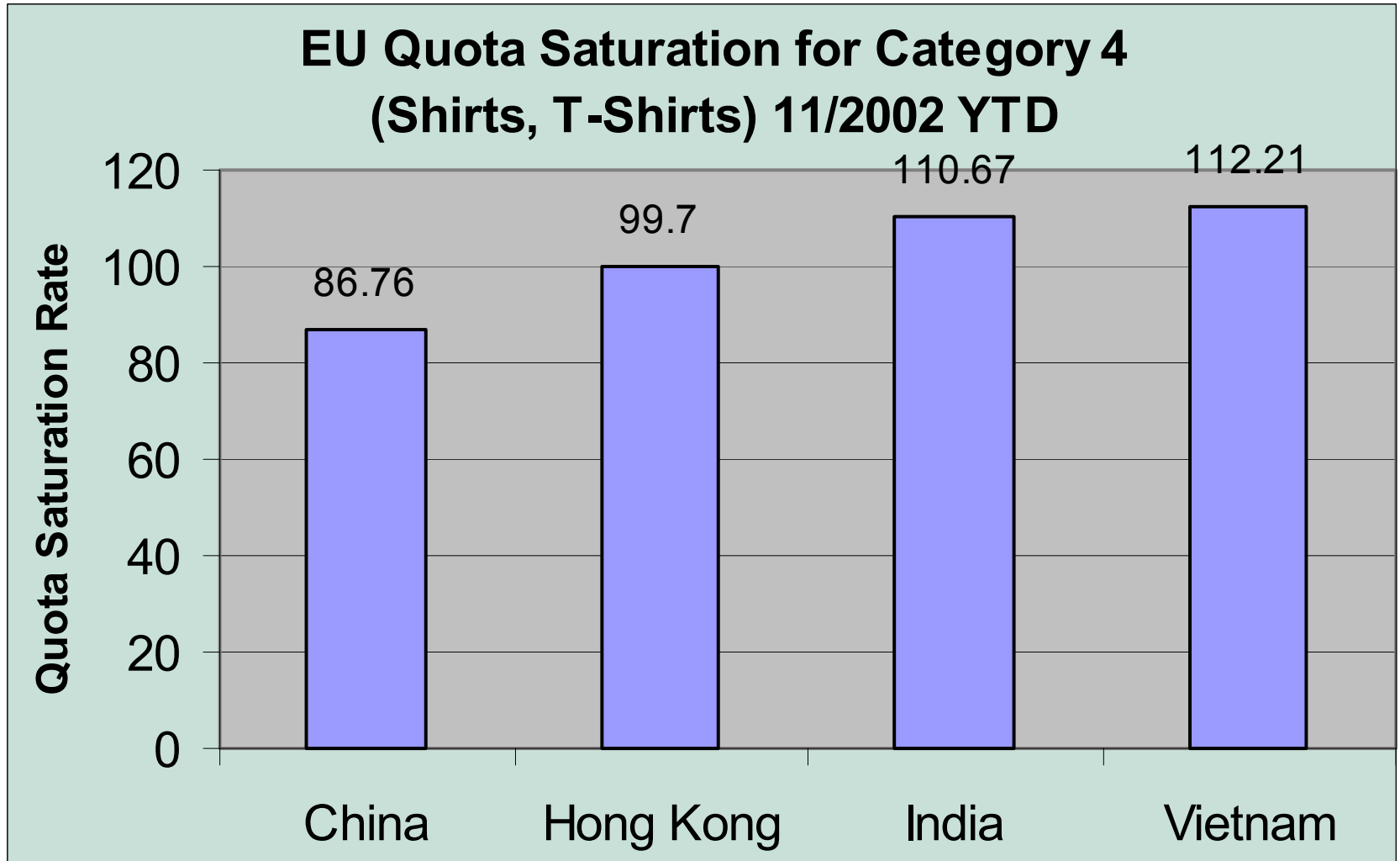
04 April 2003

Source: [www.emergingtextiles.com](http://www.emergingtextiles.com)



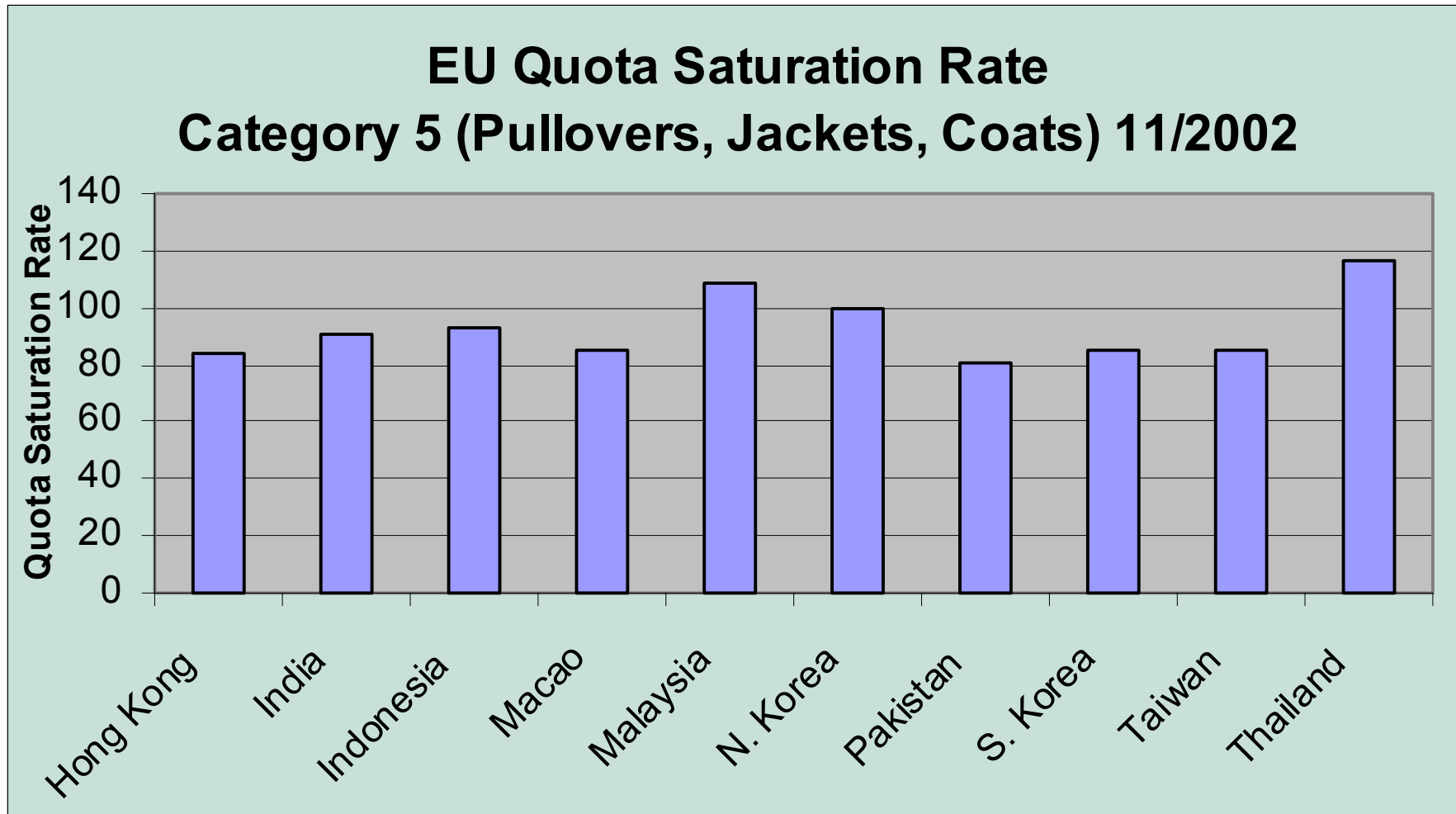


# EU Quota Utilisation Rates





# EU Quota Utilisation Rates





# Structure

---

**Next PP Presentation:**  
**How To Prepare**