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Statement on the occasion of the

ITCB Council of Representatives on December 13, 2000 in Geneva

It is a great honour and pleasure for me to be invited today to address the ITCB Council of Representatives. After my predecessor, Dr. Neundörfer, had been your guest several times I am very glad to meet with you today. I appreciate this opportunity the more as ITCB and FTA have had a very fruitful cooperation for so many years now.

In my presentation today I would like to talk about two issues in particular: 1. about recent developments in the international textile trade policy and 2. about the general situation in trade policy and the WTO.

1. Recent developments in the international textile trade policy

Some weeks ago the German Member Association of the FTA held its annual press conference in Berlin. At this occasion it became once more evident that even excellent expert journalists have little knowledge of how world textile trade functions. Obviously, many people are of the opinion that with the end of the World Textile Agreement also all problems in textile trade were solved. All the more astonished reacts the interested public when it learns that world textile trade is now as before strictly controlled and that only in the course of a transitional period of ten years – as from 1 January 1995 – it shall function according to normal rules.

Already in the preliminary stages of all integration phases the FTA participated intensively in the discussions and it submitted proposals of its own. Doll's dresses, small bracelets and similar niche products which were integrated during the first phase of the Agreement on Textiles and Clothing (ATC) as from 1 January 1995 were not included in our proposals. We considered this to be a matter of course as these products were anyway not subject to any restrictions.

Only in the second phase of the ATC, from 1 January 1998 until 31 December 2001 the first timid steps toward a real liberalisation were taken by the EU. Unfortunately, of the necessary 17% of the relevant imports, clothing products only accounted for 1.33%.

This means that the focus of the second liberalisation phase was above all on the psychological effect, i.e. as much as imports of 19 products were no longer subject to

licensing and, thus, unnecessary bureaucratic expenditure. The FTA proposals were paid attention to in so far as products of Cat. 10 (gloves) and 86 (among others pairs of braces) were integrated into the general system of the WTO. However, our proposal to eliminate quotas for one or two categories which are particularly sensitive (e.g. products of Cat. 4 -T-shirts, shirts; 21 -parkas, anoraks; 28 -long trousers; and 78 -various products) was not accepted.

As concerns the 3rd integration phase beginning on 1 January 2002, we maintained in principle the FTA proposal for the second phase and have adjusted it to the present situation. By means of objective criteria we elaborated a list of the products which should be integrated in the 3rd phase based on the following considerations:

1/ If a quota has regularly only a low utilization rate, it does not make any sense to maintain quantitative restrictions which only causes the importer unnecessary administrative expenditure due to licensing. As a consequence all such products should be integrated where the quota utilization does not exceed a certain percentage.

2/ It also does not make sense to maintain quotas for products where the demand is completely or almost completely covered by imports. This indicates that the products in question are no longer being manufactured in the European Union.

3/ Analogously, imported products which only contribute little to the coverage of the market demand in Europe could be integrated. Such a low import penetration rate points out that the imports are not a real danger to Community industry. The same applies to constant or decreasing imports over many years.

In this way we determined 24 products – fabrics as well as clothing products – which from our point of view could be without any difficulty integrated in the 3rd phase into the WTO rules. The following categories were selected as the ones to be given highest priority:

Cat. 4 (T-shirts etc.), 6 (trousers), 8 (woven shirts), 68 (babies garments) and 161 (other woven garments). We would also have liked to include products of Cats. 13 (slips), 21 (parkas, anoraks) and 31 (brassières) into the list of priorities but these products were not in accordance with the - objective – criteria set up by ourselves.

Already more than a year ago we submitted our proposals publicly, also in order to win allies like consumer organisations. Thus, we intensely discussed this matter with the competent EU trade officials. I must admit though that our success was limited.

The Commission proposal for the 3rd phase is rather disappointing for the European importers and I am sure as well for the ITCB members. It is true, that the proposal comprises 58 textile categories as well as four further textile products that are not subject to the category scheme, but the absolutely impressive figure of 58 categories must not hide the fact that products and clothing products subject to quotas only account for a comparatively low percentage. The products in question are products of Cats. 18 (underwear), 21 (anoraks, jackets etc.), 24 (nightshirts and pyjamas), 27 (women's skirts) and 68 (babies garments). From our point of view only the integration of products of Cat. 21 is a real progressive step which was not

automatically to be expected. From our high priority list another 3 categories (27,68, 161) are proposed to be integrated.

On November 9, the Commission proposal was adopted by the EU Council of Ministers. At the same time, the Council of Ministers gave the mandate for bilateral negotiations to the Commission. Within the scope of these bilateral negotiations a better access shall be achieved for European textile and clothing products to important third markets. We are not against bilateral negotiations, however, in our view the EU comes very late with this step which we had suggested already for the 2nd phase. Now all those textile manufacturing countries being addressed by the EU with respect to bilateral textile negotiations should take advantage of the situation being nearly at the end of the ATC and ask from the European Union substantial liberalisations.

Nevertheless, I fear that the postponement of the integration of important textile products until the end of the transitional period will already have diverse negative consequences:

1/ The reduced prices of the products due to their better availability as well as the removal of the administrative expenditure hoped for by the European importers in the 3rd phase will not occur. Both has an effect on the price level which finally also affects the European consumer.

2/ On the other side, the textile exporting developing (ITCB) countries continue to suffer from the restrictions as they cannot fully utilise their available production capacities and thus they are unable to realise the export profits needed for the development of their country.

3/ Those textile exporting developing countries with which no quotas were agreed will all of a sudden feel the effects of the liberalisation of world textile trade in the year 2005. If they have not yet or do not already now effect the necessary adaptation and rationalisation processes of their industry there is a danger that they will not be up to the competition of those supplier countries which are still now subject to quotas. Also this cannot be desirable.

4/ Analogously this conclusion applies to the European textile and clothing industry. Due to the continuation of the restrictions at least parts of this industry will not effect the necessary adjustments until in the year 2005 there will be a rude awakening. This does not promote the necessary continuous structural change.

Until the end of 2004 we will not be able to change this situation dramatically. All the more we already now urge to the European Commission to abolish all kinds of trade barriers for textile and clothing imports as from the year 2005. We are also against considerations to replace the quotas by a double-check system without any quantitative limitations in individual cases. We think that such considerations are absolutely out of place. The administrative expenditure connected therewith has an effect on the costs and finally through the back door it leads again to trade restrictions which may also affect the quantities. We have to prevent this by all means.

We have also to avoid that the European textile and clothing producers get the idea to defend their territory by an unjustified use of the anti-dumping instrument. In so far,

we also urge the Commission to accept that interests of the economy as a whole have to be paid more attention than so far when imposing anti-dumping duties.

For the 3rd phase and after I think that we all together need to be vigilant with respect to the future of world textile trade.

2. Trade Policy and WTO

I would now like to make a few remarks on my second issue: the general trade policy situation and the WTO.

After the disaster of the 3rd WTO Ministerial Conference in Seattle I think for all of us was the big question how the WTO process could be continued at all. How could a better understanding be achieved between industrialized and the developing countries and between the industrialized countries themselves? Was the concept of a comprehensive negotiation round as pursued by the EU correct? Would the USA be capable of acting on trade policy for the foreseeable future? How could the new Director General, Mike Moore, contribute to a new beginning in trade policy activities?

After the lethargy during the first six months of 2000, some movement seems to have come back in the trade policy discussions. However, I am convinced that there will only be sustainable new initiatives when an administration capable of acting is again in office in the USA. The initiatives in the WTO to take the interests of the developing countries more into account and to have more discussions with the developing countries on subjects of common interest have to be seen as positive first signs. On the other hand the demands as brought forward by EU Trade Commissioner Lamy to have an as fast as possible new WTO Round are in my view rather of a propagandistic nature and are probably intended to maintain a certain momentum.

The FTA had supported the concept of a comprehensive round as claimed by the EU prior to Seattle. Also now we consider this concept to be the best way to go. But it is not enough to have a good concept but this concept must be politicalley workable and has to have sufficient support for it to make it work. With a view to the number of subjects which were placed on the agenda by the EU at that time there must above all more flexibility. Moreover, we strongly maintain that the interests of the developing countries have to be considered as concerns the implementation agreements of the Uruguay Round as well as the new subjects.

This, among others, means:

- a generous integration of products from the textile and clothing sector in the 3rd phase of the ATC. However, in this context the EU proposal rather disillusioned us – I just mentioned it.
- more generous growth rates for the remaining quotas for certain categories from countries that export textile and clothing products; progress has to be made here in any case within the framework of possible bilateral negotiations.

- a revision of the anti-dumping regulations more favourable for the developing countries.
- a more serious examination if and in how far more concessions can be made to certain developing countries in the agricultural sector.
- A more flexible handling of the demands of the developing countries in connection with the TRIPS and TRIMS Agreements. Especially, in individual cases, the developing countries should be allowed extensions of time.
- the industrialized countries must do more for the developing countries in order to enable them to represent their interests rigorously in the WTO. To this effect, the developing countries should be generously granted technical aid in order to be able to effect increases in staff, judicial capacities and experts so that they can safeguard their rights as equal WTO Members.

Confidence building must be a key issue for the preparation of the next WTO ministerial!

I still would like to comment on some items of the comprehensive negotiation list of the EU:

Dismantling of tariffs: We are of the opinion that the EU should return to its original idea to negotiate a time schedule for the complete dismantling of tariffs to zero in the industrial sector. Any other proposal can only be a second best solution.

Built-in Agenda: After the negotiations for the agricultural sector and the services sector have been taken up in spring, progress should at least be made during the negotiations of the services sector as there should be some common interest between industrialised and developing countries. Alone for political reasons it will be more difficult to reach results on the agricultural sector. Also for this reason we consider a new negotiation round to be useful.

Market access: In spite of the existing preferential schemes the industrial countries should allow further access to their markets for products from the least developed countries. The following must be the aim: to admit an as wide as possible range of products, to allow as high as possible preferential margins, to set up rules of origin that can be observed by the prevailing processing structures in the developing countries allowing as generous as possible cumulation possibilities between developing countries. The initiative 'everything but arms' aims in the right direction. We hope that it will not be downgraded any more.

New subjects: With a view to the new subjects, such as investment and competition we are in principle of the opinion that they have to remain on the agenda of a WTO negotiation round. But a more flexible attitude should be taken up with a view to the negotiations themselves. With a view to the long-term importance of these subjects, the preliminary work for the further discussions should first of all be driven on in the existing working groups and afterwards a long-term and open negotiation process should be contemplated.

Social standards: Right from the beginning we advocated not to introduce the subject 'social standards' into the WTO but to continue to deal with it in the ILO. It remains to be seen if the EU proposal, namely to set up a joint independent forum besides WTO and ILO for this subject, is a workable proposal.

Environment: As concerns this subject we also always advocated that environmental standards must not serve as gateway for a new protectionism vis-à-vis the developing countries. Nevertheless, we believe that it is necessary that the WTO deals with this subject as there are quite a number of multilateral environmental agreements that provide for restrictive measures on the trade policy sector; we think that in this case it is necessary to create together with the WTO more transparency and clarity with regard to the application of these restrictive rules.

To conclude: we think there should be a new comprehensive round of negotiations in the WTO. But it has to be clear what "comprehensive" means and there has to be a broad consensus about it. Of course, also sectoral initiatives must not be excluded when there is enough support for it. A new round of negotiations has – above all – to be prepared carefully. And the developing countries can play and should play a key role in this.

Thank you very much for your attention!