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The Importance of Quota Elimination for The Strengthening of the Multilateral Trading System

*Conference on the Future of Textiles and Clothing after 2005
Impact of the Elimination of Textiles and Clothing Quotas on Trade, Industry
and Development World-Wide*

Commissioner Lamy,
Excellencies,
Distinguished speakers,
Ladies and Gentlemen,

I am delighted to join you today. This conference comes at a time of profound change and huge opportunity for international trade in the textiles and clothing sector. At the end of December 2004, the Agreement on Textiles and clothing will be terminated. All textiles and clothing products will be fully integrated into WTO rules, and bilateral quotas removed. Agreement to bring full multilateral disciplines to this sector was one of the major victories of the Uruguay Round. Textiles and Clothing had hitherto been the only sector of international trade in manufactured goods which had fallen outside of multilateral rules, and was instead governed by a series of trade-distorting regimes, culminating in the MultiFibre Arrangement. Developing countries were united in their determination to correct this anomaly. Full application of WTO rules to international trade in textiles and clothing will be a very positive and long-awaited development for the industries and millions of consumers who will benefit from a more open, non-discriminatory and transparent trading environment in this sector.

The end of December 2004 is also the deadline for another parallel and independent process which may have a significant bearing on international trade in textiles and clothing. This is the Doha Development Agenda: a broad round of trade negotiations, launched in September 2001. Both market access and rule-making issues are on the table. As part of these negotiations, we hope to see tariff reductions in the area of textiles and clothing. Changes to existing WTO rules or new WTO disciplines which might be agreed may also have an impact on international trade in this sector. I will come back to this later. But suffice to say at this stage, it is crucial that both of these processes complement each other in building a more open and dynamic world trading regime.

ATC implementation

The implementation of the Agreement on Textiles and Clothing is technically on track. You will recall that the ATC is a ten year transition process which was divided into four distinct phases. It began in 1995 and will end on 31 December 2004. The first three of these phases have been completed. Members carrying over quotas into the ATC — Canada, the European Union and the United States — were required to integrate 51 per cent of their textile and clothing imports into WTO rules by the end of the third stage in December 2001, removing any quotas applied. This target has been met. Concurrent with the integration of products, the Members maintaining the quotas were also required to progressively increase the annual growth rates at the beginning of each stage. This has also been carried out.

Despite pressure from some exporting developing countries to integrate more progressively, the importing countries decided not to follow that track. Accordingly, the fourth and final phase will result in product integration and quota removal of the remaining 49 per cent of imports. The

impact of this phase in terms of real liberalisation will be very significant. Only twenty per cent of the products integrated into WTO rules in the first three phases of the ATC were subject to quotas. This means, of course, that the remaining 80 per cent of quotas must be eliminated by end December 2004, consisting of a total of 239 quotas maintained by Canada, 167 quotas maintained by the European Union and 701 quotas maintained by the United States.

Furthermore, since the elimination of restrictions in the more sensitive products has largely been left until the final phase, the adjustment will be abrupt in these areas. The countries required to make this effort have all expressed their commitment to stick by their WTO obligations. This is important, but also expected. We should not forget that the ATC process is not a negotiation, it is part of the implementation process stemming from the Uruguay Round – a deal that has already been done, and cannot be undone. To soften the impact of reform, restraining countries could consider the possibility of voluntarily and gradually eliminating some of these restrictions between now and the end of 2004.

The post ATC Trading Environment

There is no question that the multilateral trading system will be strengthened by full implementation of the ATC. As I mentioned earlier, it is the only sector of traded manufactured goods which was exempted from WTO disciplines. Indeed, since the end of the Uruguay Round it has been the only sector in the universe of traded goods and services to which a special transitional framework has been applied, as liberalisation is undertaken.

As of 1 January 2005, WTO rules will apply to trade in textiles and clothing as in all other areas of trade. These include the core WTO principles of transparency and non-discrimination. Tariff preferences for developing countries under the Generalised System of Preferences and initiatives for least-developed countries, such as the European Union's "Everything but Arms" initiative and the United States' "Africa Growth and Opportunity Act" will remain. Regional trade agreements will continue to be an important feature of the trading system with their preferential market access features. WTO rules on anti-dumping to prevent unfair trading practices and rules on safeguards to prevent injurious trade flows will also apply. Members will have the right to use the WTO's dispute settlement mechanism to resolve any trade disputes that might arise in this area.

The impact of implementing the ATC will have several dimensions. First, there is the political gain related to the credibility of the multilateral trading system, at a time when it faces considerable pressures. The system will be strengthened by the visible sign of commitment by Members to make good on the WTO commitments that they have undertaken. It will reaffirm the seriousness with which they take the obligations of WTO Membership. Secondly, there are the efficiency gains from eliminating highly distorting quotas that have led to an inefficient global allocation of textile and clothing production. Hopefully this will extend to increased production and trade. Thirdly, there is the loss of quota rents on the part of ATC exporters. Finally, there is the gain to consumers in importing countries.

There has been some difficulty in determining the exact quantitative gains of the elimination of bilateral quotas – as the estimates of studies range from gains of 6.5 billion US dollars per annum to 324 billion US dollars per annum. However, the message is clear – in that all studies foresee very significant increases in global welfare as a result of the conclusion of the ATC.

At the same time, however, there has been a great deal of discussion about the impact of quota removal on individual countries. I notice that this is one of the key themes in this conference. And in this opening session, in particular, we will be addressing the issue of who will gain from the elimination of quotas and whether the benefits will be spread equally.

I think we should be cautious about how we approach this debate in order not to undermine the

principle of comparative advantage. If the proposition is that liberalisation, in textiles and clothing, should not be undertaken if it results in an unequal distribution of benefits, we would need to consider what would be the impact of applying this approach to other sectors in which for example Europe, or indeed any other region or country, may be competitive. If we conclude that textiles and clothing liberalisation may result in unequal benefits and hence may require special treatment, would this imply movement back to the sector specific regime in textiles that we have been striving for so long to move away from? What about other sectors?

Having said this, it also seems to me that we need to show understanding for the situation of any countries that have been able to participate in the rather distorted markets we have had up to now, but that may experience difficulty in a more open market. Practical ways need to be identified and financed to aid any process of adjustment. But the solution is not to invent new distortions.

Let me now turn to the opportunity presented by the Doha Development Agenda to strengthen WTO rules and create a fairer and more open playing field in textiles and clothing trade. Unlike the ATC, the Doha Development Agenda is the subject of negotiation.

The Doha Development Agenda

Market access

Negotiations on market access in manufactured goods are part of the Doha Development Agenda. The Doha mandate specifies that "no sector" will be a priori excluded from the negotiations. Liberalisation of textiles and clothing is therefore on the table. The mandate also clearly directs Members to reduce or eliminate tariff peaks, high tariffs and tariff escalation and "modalities" for cutting tariffs should be agreed by 31 May 2003. If the modalities agreed do address tariff peaks and escalation, then this will likely have a bearing on further market opening of textiles and clothing, as it is in areas of labour intensive manufacturing, such as textiles and clothing as well as agriculture, where these features tend to be concentrated.

Approximately 43 submissions have been made in the Negotiating Group for negotiations on tariffs and non-tariff barriers. They suggest modalities that would have the effect of tariff reductions ranging from as little as possible to their staged elimination by 2015, most of them through the application of formulae. Five countries have specific references to textiles and clothing in their proposals, namely the United States, Japan, the European communities, India and Singapore. There have also been proposals for sectoral initiatives, including for textiles and clothing. I should remind you also that the Doha Declaration says that negotiations on tariffs shall take fully into account the special needs of developing and least developed participants, including through less than full reciprocity in reduction commitments.

Rules

The DDA negotiations on strengthening of WTO rules may also have an impact on trade in textiles and clothing as in other goods. One area for negotiation is anti-dumping. This instrument permits the levying of special duties if products are exported at less than their so called "normal value", where such dumped exports cause injury to the industry in the importing country. Many WTO Members have become concerned at the increased use of anti-dumping worldwide. There is one point I need to make clear in the present context. This is that anti-dumping duties are to counter injurious dumping, not to provide a general safeguard against increased imports or a substitute for quotas.

Another area of the rules negotiations concerns clarification and improvement of disciplines and procedures relating to regional trade agreements (RTAs). There can be little doubt that the combination of quotas, high tariffs and so-called "preferential rules of origin" under RTAs has

had some distortive effects on trade in textiles and clothing. While the quotas and tariffs are already being addressed in other ways as I have outlined, it remains at this stage to be seen whether the negotiations on WTO rules relating to RTAs will have an impact on the textiles and clothing sector.

In conclusion, it is clear that trade in textiles and clothing will take place in the next few years in a changing policy environment. Change is always a challenge and some will be adversely affected by it. But the newly emerging environment should be one which will, in general, offer new opportunities and expanding trade to industries in both developing and developed countries and allow the more efficient allocation of resources. Furthermore consumers worldwide stand to benefit from the more liberal trading environment.

It would be naïve to think that the protectionist tendencies which have blighted the trade for so long will disappear overnight. Clearly they will not. But things are now at last moving in the right direction. Policy-makers worldwide must ensure that this direction is steadily maintained and not be diverted by any short term difficulties in adjustment which may emerge.

We must build on the achievements of the Agreement on Textiles and Clothing to drive forward reform in this sector - using the opportunity of the Doha Development Agenda negotiations to create a truly dynamic environment for international trade in textiles and clothing for the benefit of all.

Thank you.