

ITCB

New US – China Textile Agreement

On November 8, 2005, the United States and China signed a memorandum of understanding to limit Chinese textiles and clothing exports to the United States over the period 2006 – 2008. The following is aimed at providing the salient features of the agreement.

Background

2. China's WTO Accession Protocol provides that, until 31 December 2008, any WTO Member may request consultations with China if the Member 'believed that imports of Chinese origin of textile and apparel products were, due to market disruption, threatening to impede the orderly development of trade in these products', the purpose of the request being "easing or avoiding such market disruption".

3. After a Member requests consultations, together with a detailed factual statement of reasons and justification, the parties are required to hold consultations within 30 days of the request, and to make every effort to reach agreement on a mutually satisfactory solution within 90 days of the request.

4. On receipt of the request, China has to restrict its shipments in the product concerned to 107.5% of imports recorded in a recent period, which the Accession Protocol defines as first 12 months of the most recent 14 months preceding the month in which the consultation request is made. Thus, for example, if a consultation request was made in May 2005, imports recorded in the 12-month period of March 2004 to February 2005 constitute the reference period.

5. No action taken under this provision of China's Accession Protocol could remain in effect beyond one year, without reapplication, unless otherwise agreed between the Member concerned and China.

6. Pursuant to these provisions of China's WTO Accession Protocol, first, towards the end of 2003, the US established restrictions on three product categories that had been integrated into the GATT pursuant to the ATC from January 2002. These categories were: (i) category 222 - knit fabric, (ii) combined categories 349/649 - cotton and man-made fibres brassieres, and (iii) combined categories category 350/650 - cotton and man-made fibres dressing

gowns and robes. These restrictions, imposed in December 2003, were for 12-month period up to 23 December 2004.

7. Later, on 29 October 2004, the US applied another restriction on combined categories 332/432/632-part – cotton, wool and man-made fibre socks, for the period 29 October 2004 to 28 October 2005.

8. Following the imposition of these restrictions, the US industry filed petitions with the US Administration for imposition of restrictions on a number of further products alleging that “an anticipated increase in imports of these products from China after the abolition of quotas under the ATC threatened to disrupt the US market for these products”. These requests covered the following product categories:

Categories 447 wool trousers; 620 synthetic filament fabric; 301 combed cotton yarn; 338/339 cotton knit shirts and blouses; 340/640 men's and boys' shirts not knit; 352/652 cotton and MMF underwear; 638/639 MMF knit shirts and blouses; 647/648 MMF trousers; and 347/348 cotton trousers.

9. These threat-based requests touched off a battle between industry associations demanding safeguard restrictions on one side and the US importers and retailers on the other. On a petition filed by the US Association of Importers of Textiles and Apparel (USA-ITA), challenging the validity of CITA's consideration of cases on the basis of “threat” of market disruption, the US Court of International Trade issued an injunction prohibiting the Administration (CITA) from considering these requests until it had ruled on issues raised in the petition.

10. But it so happened that, in the meantime, data on imports in the post-ATC period showed a spurt in shipments of textile and clothing products from China both to the EU and the US. Following intensive lobbying by EU industry interests, China and the EU signed an agreement providing for the re-imposition of quotas for a period of three years, 2005 – 2007 on ten product categories. The EU agreed to exercise restraint with respect to placing these ten categories under restriction in 2008. It also agreed to a similar restraint on putting any further product categories under quota limits (see our document IC/W/291).

11. Apparently, the EU-China agreement provided added encouragement to the US Administration to also pressure China for a comprehensive agreement instead of continuing with the imposition of unilateral restrictions year after year on specific products on demand by industry interests. This resulted in the conclusion of the new US-China Memorandum of Understanding. During the period that the consultations were ongoing between the two governments, the US industry lobbies kept piling pressure on the Administration by filing requests

for the invocation of further safeguard actions/restrictions on import of various products from China. It appears un-necessary to list all these requests.

New US-China agreement (main features)

12. The salient features of the new agreement are:

- (i) In the year 2004, the last year of MFA/ATC quota regime, China's exports to the US were restricted by specific quotas on 82 textile and clothing products. The new agreement re-imposes quotas on 34 product categories. However, some of these 34 categories are only partially covered for restrictions under the new agreement. The categories thus partly covered are shown in the attached table by symbol "pt" after the relevant category numbers in column-1.
- (ii) The above notwithstanding, the major import products, i.e., shirts, trousers and underwear, are covered by the new restrictions.
- (iii) Aside from the 34 product categories, the US has agreed not to apply any restrictions on ATC products that had been integrated into the normal GATT rules before the start of the third stage of integration, i.e., before 1 January 2002.

With respect to all other products, the US has agreed to exercise restraint in the application of any further restrictions.

- (iv) The new restrictions on 34 product categories have been established for each of the three years, 2006, 2007 and 2008.

It may be noted in this regard that China-EU agreement, on the other hand, provided for the imposition of the new restrictions only up to 2007, with the EU agreeing to exercise restraint in applying any restrictions in 2008.

- (v) The new quota levels for 2006 and the quota growth rates for 2007 and 2008 are shown in the attached table. For facility of comparison, the quotas for relevant products in 2004, i.e., the year immediately preceding the expiry of all quotas under the ATC, are also indicated.
- (vi) Aside from the quota levels, it may be noted that, compared to the growth rates under the new agreement for 2007 and 2008 shown in the attached table, the growth rates for China's quotas under the ATC for the respective products ranged from a low of 0.26% to the maximum of 3.86%.

China US Bilateral Textile Agreement: quota limits 2006 - 2008

Category	Product Description	Unit	2004 Quota	2004 or 2005 Unilateral Restraints ⁶	Agreed limit 2006	Growth Rate for 2007	Growth Rate for 2008
1	2	3	4	5	6	7	8
200/301	sewing thread/combed cotton yarn	kilogram	3'374'340 ¹	2'417'962 ⁷	7'529'582	15.00%	17.00%
222	knit fabric	kilogram	group limit ²	9'664'477	15'966'487	15.00%	17.00%
229	special purpose fabric	kilogram	group limit ²		33'162'019	16.00%	17.00%
332/432/632 pt	hosiery, including baby socks - T	dozen pair	group limit ²	42'433'990	64'386'841	14.87%	15.00%
332/432/632S	sublimit - hosiery, baby socks - B	dozen pair	group limit ²		61'146'461	15.00%	15.00%
338/339 pt	cotton knit shirts	dozen	2'403'363 ³	7'699'560	20'822'111	12.50%	15.00%
340/640	MB woven shirts, cotton and MMF	dozen	2'256'733	3'688'543	6'743'644	12.50%	15.00%
345/645/646	sweaters, cotton and MMF	dozen	965'382		8'179'211	12.50%	16.00%
347/348	cotton trousers	dozen	2'374'254	7'104'632	19'666'049	12.50%	15.00%
349/649	brassiers	dozen	1'016'010 ⁴	21'589'056	22'785'906	12.50%	15.00%
352/652	underwear	dozen	5'025'473	8'286'796	18'948'937	12.50%	15.00%
359S/659S	swimwear	kilogram	722'298 ⁵		4'590'626	12.50%	16.00%
363	towels	number	23'593'436		103'316'873	12.50%	16.00%
666 pt	window blinds/shades	kilogram	546'069		964'014	12.50%	17.00%
443	wool suits MB	number	132'818		1'346'082	12.50%	16.00%
447	wool trousers MB	dozen	72'717		215'004	12.50%	16.00%
619	polyester filament fabric	square meter	group limit ²		55'308'506	12.50%	16.00%
620	other synthetic filament fabric	square meter	group limit ²	36'583'997	80'197'248	12.50%	15.00%
622	glass fibre fabric	square meter	group limit ²		32'265'013	15.00%	17.00%
638/639 pt	knit shirts MMF	dozen	2'583'505 ³	4'740'638	8'060'063	12.50%	15.00%
647/648 pt	trousers MMF	dozen	2'855'238 ³	4'434'463	7'960'355	12.50%	15.00%
847	trousers, silk, other vegetable fibres	dozen	1'284'980 ⁴		17'647'255	12.50%	16.00%

1. 2004 limit was for categories 200, 300 and 301.

2. These categories were under group limits, each group covering a range of textile and clothing categories including these.

3. The new quotas on these products for 2006 onwards are for reduced product coverage of the relevant categories, i.e., that some lines are excluded.

4. These categories were integrated pursuant to the ATC with effect from 1 Jan. 2002. Therefore, quota limits indicated in column 4 are those as for 2001.

5. The 2004 quota covered only category 659S.

6. The limits indicated in this column are the restraint levels unilaterally imposed by the US when it invoked the safeguard provision of China Accession Protocol.

7. This unilateral restraint invoked pursuant to China Accession Protocol was only against category 301, combed cotton yarn.