



## Note from ITCB Secretariat

Dear Readers,

Although Doha Round remains stalled due to lack of agreement in key areas of negotiations, work on certain issues continues. One such issue that has been gaining some traction relates to a joint United States/European Union proposal for a legally binding understanding with respect to certain WTO provisions as they apply to requirements regarding "labelling" of textile and clothing products.

Not only that the US/EU proposal again seeks to single out textiles and clothing, certain aspects of the proposal can potentially have far-reaching consequences for developing countries' trade. It therefore calls for deep reflection. Accordingly, the main article in this issue of "Threads" is devoted to a discussion of this proposal.

As in the previous issues, the regular "Did You Know" column provides a sampling of facts relevant to the appreciation of various dynamics that are at play with trade in textiles and clothing. These are also intended to keep you abreast of important developments.

The next article reports on a recent agreement between the United States and China, whereby China is said to have agreed to terminate certain awards intended to support the development of "China world top brands" and "famous brands" of Chinese products. The United States claimed that these support measures appeared to involve export subsidies prohibited under the WTO rules.

Lastly, as we reported in the July 2009 issue of this newsletter ITCB has established a Private Sector Consultative Committee (PSCC) to advise on matters of interest to members' businesses and to promote regular dialogue among the private sectors. The second meeting of the Committee held on 2-3 November 2009 heard a detailed presentation on the politics of trade policy in the United States. In view of the topical significance of this matter, an abridged version of the presentation is included in this issue of "Threads" for the benefit of wider audience. The complete presentation can be accessed from the ITCB web site [www.itcb.org](http://www.itcb.org).

We hope that this issue of "Threads" will also be found informative and useful. We shall welcome any comments or suggestions from our readers.

## EU/US Textiles Labelling Proposal a Potential Game-Changer

European Communities and the United States<sup>1</sup> continue their push for a textile-specific agreement on labelling in Doha Round negotiations. And the Chairman of NAMA<sup>2</sup> group is reported to have remarked that he considered this proposal "pretty stable".

Those in favour of facilitation of trade should take a deep and careful look.

### But what is the EU/US proposal?

At its core, the two major powers are seeking a legally binding "Understanding" on the interpretation of certain provisions of the WTO Agreement on Technical Barriers to Trade (the TBT Agreement) insofar as they relate to labelling requirements for textiles and clothing (and travel and footwear) products.

In terms of substance, they propose, *firstly*, that if the following information is mandated for textiles and clothing labels it be rebuttably presumed that the requirement is not more trade-restrictive than necessary: (a) the fibres of which the product is made; (b) the country from which the product has originated; and (c) the instructions for care of the product.

Simply put "rebuttably presumed" means that something is assumed to be valid or true until it is contradicted and proved by evidence to the contrary.

*Secondly* if, however, the following information is required, it shall be presumed to be more trade-restrictive than necessary: (a) prohibiting the use of multiple languages on labels, (b) requiring registration, certification or prior approval of the label, (c) prohibiting the indication of additional information, such as brand names, or (d) making it mandatory that the label itself be made of this or that material.



## Did You Know?

On June 30, 2009, the United States determined that Bolivia no longer met the eligibility criteria for duty-free treatment under U.S.'s Andean Trade Preference Act (ATPA) and therefore withdrew the benefit from the country with effect from July 1, 2009.

Under ATPA, United States was providing duty-free treatment to imports from Bolivia, Colombia, Ecuador and Peru since 2002 to help them fight drug production and trafficking.

Bolivia more than made up for the loss on its textile and clothing exports as Brazil announced grant of duty-free treatment to US\$ 21 million worth of imports of these products from Bolivia.

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A free trade agreement between China and six member countries of ASEAN (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) went into effect from January 1, 2010. It calls for elimination of tariffs on 90% of their imports. For the newer ASEAN members (Myanmar, Cambodia, Laos and Vietnam), the elimination takes effect from 2015.

Some countries parties to the China-ASEAN free trade agreement have chosen to delay the elimination of tariffs on certain textile and clothing products until later dates; in certain cases from 2012, in others from 2018.

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If Doha Round negotiations on market access conclude successfully on the basis of the tariff-cutting formula currently on the table, tariffs on textiles and clothing will drop significantly, opening handsome opportunities for trade expansion.

Current E.U. tariff of 12% on most clothing products will go down to 4.8%; 8% on fabric to 4%; 4% on yarns to 2.7%.

Typical U.S. tariff of 20% on heavily traded clothing products will drop to 5.7%; and high tariff of 32% to 6.4%.

Developing country tariffs will also go down markedly; current 35% and 40% dropping to 14.6% and 15.4%.

*Thirdly*, before making or amending technical regulations on labelling, the Member shall publish the proposal and afford opportunity to other Members or interested persons to offer comments. It should also publicly provide responses to those comments.

For a schematic portrayal of the key elements of the proposal, see the table on opposite page.

## Textile labelling requirements on the ground

Reliable up to date information on labelling requirements and regulations round the world is hard to come by. Where these requirements do exist, they are far from uniform. Many countries do not impose any compulsory requirement. It is left to the market to self-regulate. Included in this list are both developed and developing economies. Thus Switzerland; Hong Kong, China; Malaysia; Indonesia; Egypt; Pakistan do not mandate labelling of textiles and apparel.

In many developing countries where labelling requirements do exist, enforcement on ground is either non-existent or weak. Some developing countries, however, impose additional requirements, at times designed to plug possibilities of tax leakages.

Among countries that do impose some form of labelling, the requirements vary. In Norway, the indication of country-of-origin, care instructions or size is not required; only fibre composition is mandatory. The same is true with the E.U.

At the other end, the United States requires more comprehensive declaration on permanent labels, namely, (i) country of origin, (ii) fiber content, (iii) an RN (registration) number in lieu of the name of the importer-distributor, retailer, or foreign manufacturer, and (iv) care instructions. Labelling requirements in Japan are even more extensive.

## What is good in the proposal?

There can be little denying that the suggested outlawing of a number of requirements by *ab initio* declaring them more trade-restrictive than necessary could be a plus for trade. Indeed, domestically the United States Administration has been arguing that the proposal is aimed at getting other countries not to use labelling as a disguised trade barrier.

*Secondly*, the proposal does not in itself seek to mandate the labelling requirements; only that if labelling information is mandated by a country, then some requirements should be recognized **not more** trade-restrictive than necessary, and some others should be assumed to be **more** trade-restrictive than necessary.

## What is not so clear from the proposal?

As noted earlier, the U.S. requires an RN or registration number in lieu of the name of the importer-distributor, retailer, or foreign manufacturer.



Some other countries also require the labels to show the manufacturer or distributor.

The proposal as presented does not indicate whether or not such requirements should be presumed to be more trade-restrictive than necessary.

**What should be cause for deep reflection, however?**

*It is not a harmonisation proposal*

Some exporters are heard suggesting as if the proposal were aimed at harmonising the current situation where there are different requirements in different countries. It is argued that the proposal would result in harmonisation and, thereby, reduction in the cost of compliance with diverse requirements.

Key Elements of EU/US Proposal	
Presume the following to be NOT more trade-restrictive than necessary*	Presume the following to be more trade-restrictive than necessary*
1. Declaration of product's fibre-content	1. If use of more than one language is prohibited
2. Declaration of product's care instruction	2. If label is required to be pre-approved, registered or certified
3. Declaration of product's country of origin	3. If it prohibits providing more information than is required by the country 4. If it is required that label be made of one or more materials

\* If required by a country on a label on textile and clothing products

This is however a misreading of the proposal. The proposal as presented contains nothing to that effect. It simply seeks, upfront, that certain requirements shall be deemed to be not more trade-restrictive than necessary while certain others would be deemed to be more trade-restrictive than necessary.

*The need for singling out textiles is questionable*

Labelling issues are common to virtually all sectors of trade across the board, not just textiles, clothing or footwear. Then arises why single out textiles and clothing alone? On its face, the proposal amounts to discriminating, yet again, a sector of such profound export interest to developing countries.

The proposal implicitly recognizes that labelling requirements can constitute restrictions on trade; yet it goes on to suggest that, in textiles and clothing, some of

these restrictions be presumed necessary. A curious logic, indeed!

What is more, there are no mandatory labelling requirements for textiles and clothing in many countries. Even in the EU, currently the only requirement is with respect to fibre content.

It is questionable, then, whether these are at all necessary.

*Little justification to overburden the WTO rulebook*

From a systemic point of view, too, the WTO rulebook is already full. Few can grasp its intricacies. Further piecemeal agreements could lead to fragmenting a system that should be capable of application across sectors.

More importantly, as practical matter, the TBT Agreement already gives WTO Members the right to challenge the labelling rules that may be more trade restrictive than necessary. It also already requires advance notice of changes in rules for all goods. Why legislate further, then?

Crucially, a question that remains unanswered is: Why is it necessary to already establish, only in textiles, that some labelling requirements should be presumed 'not trade-restrictive'?

*Proposal on country of origin issue is particularly tricky*

It has not been demonstrated why the "Made in" requirement should be *ab initio* deemed as not more trade-restrictive than necessary.

Joint proposals by E.U. and the US are rare<sup>3</sup>. The long history of textile protectionism in these countries and the continuing pressures from their domestic industries should be cause for worry especially as, currently, country-of-origin information is required in the U.S., but not in the E.U. And certain sections in the E.U. have been pressing the Commission to follow the U.S. approach.

Interestingly, mandating the indication of country of origin on products produced and marketed within the E.U. has long been viewed as anathema to the concept of a single E.U. market. It is rooted in the belief that at times there can be a bias against products manufactured in particular member states (such as 'Made in the UK' versus 'Made in, say, Greece or Portugal'). To avoid such bias



disadvantaging producers from the concerned member states, it was seen necessary not to mandate the country of origin indication. Thus, before joining the E.U. Sweden used to have a requirement for country of origin on textile and clothing products. On its entry, the Commission obliged Sweden to dispense with it.

Again, when in December 2005 the European Commission presented a draft regulation for approval of the Council on “indication of the country of origin of certain products imported from third countries” (including textile and clothing), it proposed that the E.U. may require the *imported products* to be origin-marked, i.e., not for the same products if manufactured within the European Union. This, despite the fact that it would be contrary to the National Treatment principle of Article-III of the GATT, as well as Article 2.1 of the TBT Agreement which provides that “Members shall ensure that in respect of technical regulations, products imported from the territory of any [WTO] Member shall be accorded treatment no less favourable than that accorded to like products of national origin and like products originating in any other country”!

Also, as if to reveal the true intent behind this proposal, the Commission stated that “the introduction of a labelling *requirement* can contribute to make demanding community standards work in favour of the Community industry”.

The proposal ran into severe resistance by some member states as well as by retail and consumer associations, including EuroCommerce, the Foreign Trade Association, etc., and the regulation could not pass. Among other things, these groups argued that the applicable origin rules fail to take into consideration the fact that globalisation has allowed companies to spread their production across countries and therefore it was misleading the consumers to require the “Made in” label to be based on existing origin criteria.

### Labelling requirements can also hide other protectionist intentions

It should also be interesting to know that, some years ago, an Ethical Trading Action Group (ETAG) campaigned the Canadian government to amend its Textile Labelling Act to require disclosure of the addresses of manufacturers on labels of apparel sold in Canada “so as to facilitate the verification of labour standards employed at those manufacturing sites”. The Group felt that such information would enable it to “investigate” manufacturing locations and “publicize” the labour practices used. Fortunately, after a lengthy study, the Canadian Conference Board did not endorse the proposal and concluded that “in the end, a

higher level of development is likely the only and best way to eradicate unfair labour practices, and it is not up to the Canadian apparel industry to single-handedly address the issue”.

Finally, a recent development should also be instructive. From September 2008, the U.S. established requirements to impose country-of-origin labelling for meat. The statute set out four categories of origin of meat: (a) exclusively U.S. origin; (b) exclusively foreign origin; (c) multiple countries; (d) animals imported for immediate slaughter. Canada and Mexico have since charged that this requirement has led to discrimination against their meat producers. Canada is arguing that its “cattle producers have lost over a quarter-of-a-billion dollars in *lower cattle prices and increased costs*”. Both Canada and Mexico have also initiated WTO dispute settlement procedures.

It can easily be seen from these episodes how the country-of-origin requirement on the label can be manipulated to cause bias against and reduction in prices of (certain) developing country products.

In sum, the issue of the “Made in” requirement is something that developing exporting countries would do well to be wary of, lest it becomes a tool in the hands of rights campaigners and activists with similar agendas to disadvantage particular developing countries’ exports.

### Self-regulation by the market should be preferable

In fact, the real test of labelling information that should be required or not, appropriately belongs in the marketplace. If the purpose is to inform the consumers, then it is worth pondering whether it is not best left to self-regulation by the market. The example of many countries shows that the purpose can as well be achieved without necessarily legislating on the issue.

Importers, retailers and other market players’ experience also suggests that what is important from consumers’ point of view is only the indication of (i) size, (ii) material content, and (iii) care instructions. These groups believe that requirements beyond these are in fact liable to be exploited for protectionist ends and as disguised restrictions on trade.

### Closing thoughts

Labelling of products no doubt serves an useful purpose in informing the consumers. Manufacturers, brand name



holders, retailers and other market players employ them as marketing and promotional tools. Thus, it is not uncommon to come across a variety of *voluntary* labels designed to serve particular needs. In fact it is also quite common to see indications of (i) size, (ii) the material content (cotton, wool, MMF, etc.), and (iii) general care instructions for textile and clothing products. The question of these being less or more trade-restrictive does not arise.

*Mandating* certain requirements and then demanding that they be assumed *ab initio* 'not more trade-restrictive than necessary' deserves to be seen with wary eyes lest they become a convenient tool in protectionists' hands or end up in increasing, rather than decreasing, the burden on businesses.

The following questions are particularly worth pondering: why is it necessary to establish, only in textiles and clothing, that some labelling requirements be presumed 'not trade-restrictive'?

If in many countries the "Made-in" requirement on textiles and clothing labels is currently not compulsory (i.e., not necessary), how is it that it should henceforth be presumed to be 'necessary' as well as 'not trade-restrictive'?

How to ensure that the "Made-in" requirement does not create a bias against developing countries' exports of these products and/or does not conspire to depress their prices?

<sup>1</sup> Sri Lanka and Mauritius have also since enlisted as co-sponsors.

<sup>2</sup> NAMA is acronym for non-agricultural market access negotiations in WTO's Doha Round.

<sup>3</sup> It should not be far to imagine the reasons for Sri Lanka and Mauritius' co-sponsorship: the former seeks continuation of duty-free access under E.U.'s GSP+ scheme; the latter, treatment as lesser-developed country under U.S.'s AGOA to qualify for duty-free status under so-called third country fabric provision.

## China Agrees to Terminate Alleged Subsidy Measures

On December 18, 2009, the United States Administration announced that it had reached an agreement with China by which China confirmed the termination of certain measures intended to support the export of "famous brands" Chinese products.

The United States had asserted that these support measures constituted export subsidies which are prohibited under WTO rules.

In announcing the agreement, the United States claimed that the termination of the subsidies will level the playing field for American workers in a wide range of manufacturing and export sectors, including textiles and apparel. It also noted that it was pleased that the WTO dispute settlement mechanism had worked as intended, enabling the parties to reach an appropriate resolution.

### The background

On December 19, 2008, the United States and Mexico announced that, invoking their rights under WTO's dispute settlement procedures, they had requested consultations regarding alleged export subsidies granted by China under its "China World Top Brand" and "China Famous Export Brand" programmes. Subsequently, on

January 19, 2009 Guatemala also requested consultations with China on the same measures.

### The complaint

The three countries' request targeted mainly two central government programmes allegedly providing subsidies for famous brands, as well as related provincial and local government measures.

*First*, the request targeted benefits provided under the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)'s programme for designating enterprises as a "China World Top Brand," and the provincial and local measures implementing these benefits for enterprises.

*Second*, the request targeted benefits provided under the Chinese Ministry of Commerce (MOFCOM)'s program for designating enterprises as "Famous Export Brands," and provincial and local measures implementing these benefits for enterprises.

Under these measures, provincial or local governments were also said to designate particular enterprises for benefits under the programmes.



It was claimed that the benefits that flow from the above designations include cash grant/rewards for exporting, preferential loans for exporters, research and development funding to develop new products for export, and payments to lower the cost of export credit insurance.

Apart from the above, the request referenced a collection of 32 provincial and local programmes or measures allegedly providing export subsidies to firms regardless of whether a product were a famous brand. The sectors involved included textiles, agricultural products and products with high-technology content.

When announcing the consultation requests, the proponents stated that Chinese brands designated as “Famous Export Brands” or “China World Top Brands” were in “a wide range of sectors,” including *textiles and apparel*, household electrical appliances, other light manufacturing industries, agricultural and food products, metal and chemical products, medicines, and health products.

They claimed that the challenged initiatives appeared to qualify as export subsidies, because they are granted on condition that the recipients meet certain export performance criteria.

Export subsidies on all industrial products are generally prohibited under the WTO Agreement on Subsidies and Countervailing Measures.

## The agreement reached

Under the agreement, China is stated to have confirmed that it has taken steps either to eliminate the measures of concern or to modify them to remove any provisions related to brand designations and financial benefits contingent on exports.

## Was it much ado about nothing?

Article 3.1(a) of the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) prohibits subsidies that are contingent, in law or in fact, upon export performance.

The question therefore is whether these alleged subsidies were “contingent” on export performance. If a “Brands” program was *not* linked to exports, the program would not be prohibited.

*Secondly*, under the SCM Agreement, an export subsidy is prohibited, actionable or countervailable if it is “specific.” In other words, the SCM Agreement only targets government benefits that intervene in the economy selectively. Benefits given to broad sectors of the economy under automatic criteria are not “specific” and therefore are not actionable or countervailable.

In the event, China might well in fact have decided to change the programmes in such a way that they are no longer tied to exports or they no longer remain “specific” to particular industries. If it does so, then the measures in question cease to be subject to countervailing duties.

Leaving aside the legal issues noted here, there is also a practical aspect to the matter. Even if a brands programme were actually proved to involve a prohibited and specific subsidy within the meaning of the Subsidies Agreement and a countervailing duty were ultimately imposed, it would have needed to be only on a few firms/enterprises actually in receipt of the benefit of the particular subsidy not on all Chinese exporters whereas, as those familiar with business in the sector know, there are numerous exporters of textiles and clothing in China.

As such, it would appear that the impact of the issue might in fact not be as pronounced as it may appear at first glance. A final judgment shall however have to wait until details of the mutually agreed solution are notified by the parties to the WTO pursuant to the relevant provision of dispute settlement procedures.

## Closing thought

China’s export success in textiles and clothing especially since the abolition of quota system had been greeted with suspicions of unfair practices. Its agreement to terminate the alleged subsidies or to modify the related measures and bring them into conformity with its WTO obligations should hopefully put those allegations to rest. That would be a significant plus for the sector and contribute to the consolidation of gains made by developing countries after years of striving.

## Rags to riches to rags? Textile trade policy in the U.S. after the quotas<sup>1</sup>

Despite the end of the Agreement on Textile and Clothing (previously the Multifibre Arrangement or MFA) restrictions remain through bound tariffs, and preferences through bilateral agreements. A classic colonial strategy has replaced the MFA.

The global recession may explain why there have been few trade remedy actions against textiles and clothing since the MFA's expiration, but as to the United States there are other reasons to be found in domestic politics and the trade laws. Notwithstanding a growing use of protectionist measures around the world, such as antidumping cases, there have been few against textiles and apparel.

### Understanding the United States

There is little support for trade remedy actions against textiles and clothing in the key precincts of American politics.

The President negotiates trade agreements, but Congress must approve them. The congressional ability to change agreements entered into by the President has led many countries to decline to negotiate with the United States. Congress attempted to cure this problem by legislating "fast track" authority in 1974, but it has expired and there is no pending presidential request to restore it.

Since the politicization of fast track authority in 1994, when Congress first let it lapse, Presidents have had to bargain for it with Congress. When George W. Bush became President in 2001, there was no fast track authority. According the negotiation of trade agreements a high priority, he bargained for "fast track" authority with the ranking Democratic member of the Senate Finance Committee that controls international trade. It is said that he bargained away free trade in Canadian softwood lumber for authority to negotiate new trade agreements.

The President always has had authority, based on the Constitution, to negotiate trade agreements, and President Clinton concluded several bilateral agreements without fast track authority. What President Bush gained was the authority to sign an agreement with the

assurance that Congress would vote it up or down, but not change it.

When Congress passes implementing legislation, it does not change a word of the international agreement, but it does impose interpretations of the agreement that can change significantly the agreement's meaning. The executive branch supplies a "Statement of Administrative Action" intended to explain the legislation. It is not unusual to find these explanations less than entirely consistent with the understandings foreign governments may have of the agreement being implemented. Congress then cannot amend the implementing legislation subject to trade negotiation authority, but the legislation often strays from the agreement's plain language. It is because implementing legislation may not faithfully implement a trade agreement that U.S. law can be found incompatible with WTO obligations.

Antidumping and countervailing duty cases are handled by the bureaucracy. Safeguards, drastic actions that may involve quotas on products being traded freely and fairly, cannot be imposed without a decision of the President himself. President Bush imposed safeguards and quotas on steel products near the beginning of his presidency, and imposed quotas on softwood lumber from Canada (outside WTO rules) near the end. In between, he entered bilateral free trade agreements that Congress refused to ratify or implement. The rhetoric of free trade was not matched by actions, and where the President pursued free trade, Congress often blocked the results.

Congress is run by partisan leadership teams, and by committees. Two committees, one in each house, control international trade, the Finance Committee in the Senate, and the Ways & Means Committee in the House of Representatives. They are the tax-writing committees.

Congressmen and Senators seek to serve on committees potentially most useful for their constituents because they are elected primarily not by party, as in parliamentary systems, but by local constituents. The Congressmen and Senators most interested in tax-writing tend to come from the states with the most land, the most natural resources, and the fewest people. They want taxes to be derived from individual income, not the value of land. Of

<sup>1</sup> Contributed to "Threads" by Elliot J. Feldman, of Baker & Hostetler LLP, Washington D.C., the article is an abridged version of a presentation made by the author at the meeting of ITCB's Private Sector Consultative Committee. Opinions expressed are those of the author and do not purport to reflect the opinions or views of the ITCB or its members.

the twenty-three members of the Senate Finance Committee in the current Congress, sixteen are from farm states such as Montana (home of the Chairman), Iowa (home of the Ranking member), North Dakota and Arkansas, West Virginia, Wyoming and Kansas. The rural domination is then apparent in the Trade Subcommittee, with eight of eleven Senators from agricultural states such as Idaho and Maine, Oregon and Kansas. There are similar patterns in the House of Representatives.

## Textiles and clothing and Congress

Most textile manufacture is in California, New York, New Jersey, Pennsylvania, Texas, Illinois, Massachusetts, and Ohio. Textile mills, however, are concentrated principally in three states - North Carolina, South Carolina, and Georgia.

California accounts for about twenty-five percent of all apparel manufacturing in the United States. Only New York and North Carolina, Pennsylvania and Texas are comparably significant.

Not a single member of the Senate Finance Committee is from California, North Carolina, South Carolina, or Georgia. Nor are domestic textile and apparel interests spending much money to gain influence in Congress. The National Council of Textile Organizations is spending about \$60,000 annually, a trivial amount in the world of Washington lobbying and politics. By contrast, the American Apparel & Footwear Association, which generally supports free trade in textiles and clothing, is spending around \$1 million.

The textile and fabrics manufacturers have not been major donors to political campaigns. Outside presidential candidates, they have contributed mostly to Senators and Congressmen from North and South Carolina and Georgia, thus for spokesmen and champions, but not necessarily for the most influential and well-positioned politicians.

By contrast, apparel and accessory stores account for much more generous contributions that have been more strategic, often to congressional leadership and important committee members.

## Trade implications

In 1975, the first year of the MFA, approximately 85 percent of clothing sold in the United States was manufactured in the United States. Ten years later, the

percentage had fallen to 70 percent, and another decade later it was approximately 50 percent. Then came a free trade agreement with Canada, effective January 1, 1989, with NAFTA adding Mexico to the Canadian agreement five years later. Much apparel manufacturing moved to Mexico, and clothing sales to the United States increased exponentially through the remainder of the decade. Mexican exports of clothing to the United States peaked in 2000 and have fallen steadily since.

By 2009, American manufacturers' share of clothing worn by Americans had fallen to 5 percent. Of the three largest American companies identifying themselves as being in the clothing industry, Warnaco, (Calvin Klein, Speedo, Chaps) imports all the products it sells in North America and Europe; VF Corporation (North Face, Lee, Nautica, Wrangler, etc.), emphasizes its sourcing through a hub in Hong Kong and its recent development of low-cost manufacturing in Nicaragua; Levi Strauss, appears to manufacture nothing in the United States, outsourcing to forty-five countries.

Trade remedy petitions, according to WTO rules, must be filed by representatives of a competing industry manufacturing a "like product" in order to have standing. The United States is importing clothing for which typically there is no like product made in the United States. Consequently, in most instances there is no standing for petitioners. The National Council of Textile Organizations ("NCTO") which is trying to protect the capital intensive textile industry, that is preserved by preferential trade deals which offshore the labor intensive assembly of clothing, urged upon the federal government mechanisms to monitor imports and triggers for the Department of Commerce to self-initiate investigations, in order to spare the domestic textile industry both the expense of petitioning and the need to demonstrate standing. Neither the Bush nor the Obama Administrations, however, agreed; the monitoring of Vietnamese shipments has concluded and was not extended. No monitoring was instituted, despite the NCTO's appeal, for China. No trade action came from the monitoring of Vietnamese shipments.

The collapse in the needle and garment industries trades encouraged the captains of American industry to get around once-powerful trade unions. Their strategy, beginning in Mexico and applied now throughout the Caribbean region (including, especially, Central America and the Dominican Republic) and the Andes in South America, reaches even into Africa and, most recently, Jordan.



Capital-intensive textile producers sell their products into regions subject to special agreements. The countries subject to those agreements receive textiles and raw materials from the United States duty-free and return them in the form of finished goods to the United States, which imports them duty-free provided they contain only raw materials from the United States. Were the manufacturers of the clothing to buy the raw materials from anyone other than the United States, the clothing would not be admitted into the United States duty-free. The United States thus employs cheap labor offshore, preserving the capital intensive industry. The whole scheme, known as a “maquiladora” arrangement, echoes operations along the U.S.-Mexican border that permit the employment of Mexican labor under Mexican rules in U.S. companies.

The United States imports nearly twenty times as much clothing, in dollar value, than it exports. Although textiles are also in a trade deficit, the ratio is not as dramatic, with imports exceeding exports by about two and one-half times. However, these imports are mostly in fabrics that may be destined for a variety of commercial uses, not only clothing, and do not require a robust needle-trade. They may be subject to machine cut and sew processes, making sheets and

towels. Moreover, most of the exports go to Canada, Mexico, and the Caribbean Basin, under the protection of free trade agreements and the WTO waiver.

In the last decade there has been an acceleration of U.S. ownership in apparel factories in the Caribbean and Central American countries. The relationships are almost classically colonial: companies from the developed country manufacture through the far less expensive labor of developing countries, keeping capital investment at home. The developing countries find the arrangements irresistible because they create jobs; non-beneficiary developing countries cannot resist because they would be depriving their developing country brethren of those jobs.

There are limits on what competing countries can do now. They can seek their own bilateral agreements with the United States, but the President has no trade negotiation authority and it would be very difficult. They might focus on reconsideration of these privileged relationships by targeting tariff reductions in the Doha Round, but the Round already is paralyzed by agricultural issues. In the dramatic decline in textile and apparel trade there is a decline in trade between the United States and its favored partners. The partners may want to consider more seriously other markets.

## Canada's T&C Imports Follow US/E.U. Pattern, Down

In the previous issues of this newsletter, we presented brief analysis of the impact of current recessionary conditions on imports of textiles and clothing in the major markets of the United States and the European Union. The situation in Canada is pretty much the same, with imports in January-November 2009 down by 12.2% compared to the same period in 2008. In the same eleven months, United States' sector imports dropped by 13.9%.

Data on Canadian imports of textiles and clothing in selected periods is provided in the Appendix Table (see page 11). For want of space the table only includes columns intended to show the highlights. Those interested in reviewing the year by year progression of Canada's imports may visit the ITCB web site.

### Few main suppliers hold their own

As in the case of the United States and European Union markets, of the major suppliers Bangladesh has outclassed all others logging an impressive growth of 17.1% in 2009. Due to this phenomenal increase in an otherwise declining market, it added a 1.6% percent to its

share of the Canadian market (increasing from 4.9% in 2008 to 6.5% in 2009).

The only others making handsome gains are Vietnam (up 9.2%), Egypt (up 12.9%) and El Salvador (up 4.3%). Cambodia also did well on this market, staying in the plus column although it could not hold its own on in its larger market, the U.S., where it experienced decline of a whopping 22.4%.

Except for the few noted here, most other exporters suffered declines in 2009, some very steep. Thus, imports from China dipped 10.1%; USA 19.1%; India 9.9%; Italy 31%; Republic of Korea 23.4%; Hong Kong, China 50.9%. A glance down column 5 of the table says it all.

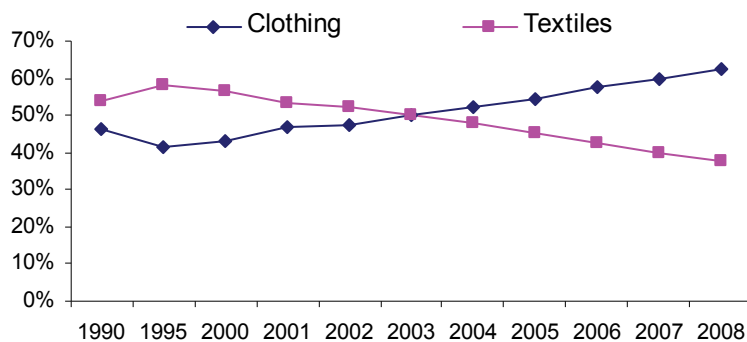
### Notable longer-term features of Canadian market

In assessing the Canadian market, it should be noted that compared to the United States or European Union, Canada's sector imports are much smaller: about \$ 12 billion versus \$ 116 billion of the European Union and \$ 100 billion of the United States.

*Second*, although it has continued to evolve over time, the share of clothing in Canada's T&C imports is still much lower than other major countries. Thus the mix of clothing in Canada's sector imports in 2008 stood at 63%. Comparable shares in other developed countries were: United States' 76%; Japan 77%; European Union 75%; Norway 72%; Switzerland 71%.

This 63% mix of clothing also became possible only through a gradual evolution, depicted in Chart-1 below and signifies how labour-intensive developing country exports still have the potential of adding to their share of the Canadian market.

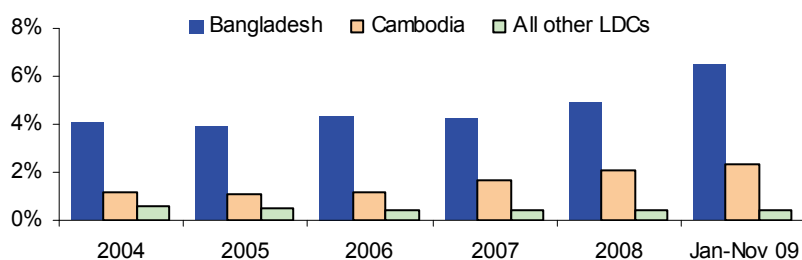
**Chart 1: Mix of Textiles and Clothing in Canada's T&C Imports**  
(Percent of total T&C imports)



*Third*, among the top 30 suppliers to Canada, there still are 9 developed countries; against only 2 each in the United States and the European Union.

*Fourth*, four years from the abolition of quota restrictions at the end of 2004, Canadian T&C imports advanced by a yearly average of 7.4%, against 5% of the European Union and 2.5% of the United States.

**Chart 2: Share of LDCs in Canada's Textiles and Clothing Imports**



*Fifth*, among the main suppliers, only a handful logged better than average yearly increase during 2004-2008: China 23.9%; Bangladesh 12.3%; Cambodia 24.3%; Vietnam 42.7%; Indonesia 10.4%; Egypt 15%.

*Sixth*, the share of Canada's free trade area partners and preferential suppliers in its imports was 34% (versus 37% in the European Union and 21% in the United States).

*Finally*, least-developed countries' share of Canadian imports in 2009 was a significant 9.3%. However 96% of this (or 8.9%) was accounted for by only Bangladesh (6.5%) and Cambodia (2.4%) (See Chart 2 above).

threads

**Newsletter from ITCB**

Published by International Textiles and Clothing Bureau (ITCB)

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ITCB's mission is to promote collaboration among developing countries and positive actions aimed at increasing their exports of textiles and clothing. In pursuit of this objective, it serves as a common platform to articulate their concerns and aspirations for improved access to markets and full regard for the principles and rules of the multilateral trading system.

This newsletter aims to provide reliable news, views and analysis for informed decision-making by businesses, policy makers and other stakeholders.

The opinions expressed and arguments employed in Threads do not necessarily reflect the views of the ITCB or of its members.

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## Appendix Table

Canada Textiles and Clothing Imports  
Top-30 and other selected suppliers

Exporter	US\$ million		Annual change 2004-08	US\$ million January - November 2009	Share 2009	Change Jan-Nov 2009/08
	2004	2008				
<b>World</b>	8'946.6	11'914.3	7.4%	9'768.8	100.0%	-12.2%
<b>Of which, top 30:</b>						
China	2'018.8	4'761.7	23.9%	3'984.5	40.8%	-10.1%
United States	2'837.7	2'714.7	-1.1%	2'072.8	21.2%	-19.1%
Bangladesh	365.4	581.2	12.3%	633.8	6.5%	17.1%
India	466.4	491.2	1.3%	415.9	4.3%	-9.9%
Mexico	383.5	389.8	0.4%	288.9	3.0%	-20.2%
Italy	273.1	279.4	0.6%	181.5	1.9%	-31.0%
Cambodia	104.9	250.0	24.3%	231.3	2.4%	1.1%
Vietnam	58.7	243.3	42.7%	243.1	2.5%	9.2%
Indonesia	122.3	181.5	10.4%	165.8	1.7%	-1.5%
Turkey	131.9	162.2	5.3%	111.7	1.1%	-26.2%
Pakistan	147.1	158.3	1.8%	141.2	1.4%	-3.0%
Korea Republic	230.9	129.9	-13.4%	90.5	0.9%	-23.4%
Chinese Taipei	156.9	112.4	-8.0%	83.4	0.9%	-20.6%
Thailand	110.7	99.9	-2.5%	86.6	0.9%	-5.3%
Germany	90.7	87.3	-1.0%	59.5	0.6%	-27.7%
Netherlands	71.4	79.8	2.8%	68.9	0.7%	-6.4%
Honduras	53.2	63.0	4.3%	58.7	0.6%	-0.6%
Portugal	44.6	60.0	7.7%	47.9	0.5%	-17.3%
Sri Lanka	51.9	59.2	3.3%	51.0	0.5%	-6.2%
France	63.5	59.0	-1.8%	39.7	0.4%	-30.6%
Philippines	80.2	58.9	-7.4%	43.9	0.4%	-18.9%
United Kingdom	65.2	57.0	-3.3%	46.1	0.5%	-14.8%
Hong Kong, China	231.4	56.1	-29.8%	26.5	0.3%	-50.9%
Japan	55.6	53.0	-1.2%	40.6	0.4%	-17.3%
Belgium	30.9	40.9	7.3%	28.8	0.3%	-22.9%
Malaysia	43.6	38.0	-3.3%	28.0	0.3%	-21.3%
Israel	31.2	37.8	4.9%	31.3	0.3%	-12.1%
Romania	18.6	33.9	16.3%	21.9	0.2%	-32.5%
Egypt	18.4	32.2	15.0%	33.1	0.3%	12.9%
El Salvador	21.9	27.9	6.2%	27.2	0.3%	4.3%
<b>Top 30 above</b>	<b>8'380.4</b>	<b>11'399.7</b>	<b>8.0%</b>	<b>9'384.4</b>	<b>96.1%</b>	<b>-11.8%</b>
<b>Selected others:</b>						
Bulgaria	26.0	27.5	1.4%	17.7	0.2%	-32.4%
Peru	17.8	27.3	11.3%	28.6	0.3%	10.6%
Spain	26.9	22.6	-4.4%	18.4	0.2%	-13.5%
Macao, China	45.0	22.3	-16.1%	7.9	0.1%	-62.0%
Switzerland	15.9	21.6	7.9%	15.1	0.2%	-25.9%
Morocco	6.8	19.7	30.3%	15.0	0.2%	-19.2%
Guatemala	25.1	19.6	-6.0%	19.1	0.2%	5.9%
Brazil	37.5	17.5	-17.3%	10.8	0.1%	-37.2%
Dominican Republic	18.7	16.9	-2.5%	14.4	0.1%	-8.5%
Tunisia	7.8	16.3	20.4%	16.9	0.2%	9.0%
Nicaragua	2.4	15.0	57.6%	12.8	0.1%	-10.9%
Haiti	13.6	12.3	-2.5%	12.9	0.1%	9.6%
Colombia	15.1	11.5	-6.5%	9.9	0.1%	-9.1%
Uruguay	4.9	3.4	-9.3%	2.1	0.0%	-35.1%
Argentina	3.6	2.1	-12.4%	0.7	0.0%	-46.3%
<b>Free trade area partners</b>	<b>3'319.1</b>	<b>3'225.2</b>	<b>-0.7%</b>	<b>2'465.8</b>	<b>25.2%</b>	<b>-18.8%</b>
<b>Least developed countries</b>	<b>519.6</b>	<b>877.3</b>	<b>14.0%</b>	<b>907.8</b>	<b>9.3%</b>	<b>11.6%</b>

**Product coverage:** HS Section XI excl. agricultural raw materials like cotton, wool, silk, etc.

**Source:** ITCB compilation from UN Comtrade and Statistics Canada. Due to rounding percentage figures may not fully tally.