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**TRADE IN TEXTILES AND CLOTHING: DEVELOPING MEMBERS'
CONCERN ABOUT POTENTIAL REDUCTION IN
MARKET (QUOTA) ACCESS IN 2004**

Communication from Bangladesh; Brazil; Costa Rica; Egypt; Guatemala;
Hong Kong, China; India; Indonesia; Macao, China; Maldives; Pakistan;
People's Republic of China; Sri Lanka; Thailand and Vietnam

The following communication, dated 11 July 2003, has been received from the above-mentioned delegations.

1. This short paper is submitted to request the General Council to recommend that developed Members applying quota restrictions under the Agreement on Textiles and Clothing take steps to ensure that developing Members' quota access in 2004 is not reduced.

The context

2. International trade in textiles and clothing has virtually been excluded from the normal rules and disciplines of the GATT/WTO for some four decades, with major industrialized countries applying quota restrictions on imports mainly from developing countries and economies. To correct this anomaly, the Agreement on Textiles and Clothing (ATC) was negotiated in the Uruguay Round. Its purpose was to bring about the reintegration of the sector into the same mainstream of multilateral rules as for any other industrial sector, *by a progressive phase-out of quota restrictions over a transitional period of ten years (1 January 1995 through 31 December 2004)*.

3. Unfortunately, in implementing the ATC, instead of dismantling the quotas progressively the developed restraining Members have left the bulk of quotas to be eliminated only at the end of the transitional period. Thus, even after 8½ years of implementation, the following numbers of quotas still remain in place: 851 out of 932 in the United States, 222 out of 303 in the EU, and 292 out of 368 in Canada.

4. The ATC also required that until the respective quota restrictions are phased out, quota access in those products shall be progressively increased. To do so, the Agreement provided that the quota levels be increased by increasing the quota growth rates.

5. Despite increases in quota growth rates, however, a number of quotas continue to be fully utilized. Consequently, quota administrators and exporters have been obliged, year by year, to tap into the advance use of some entitlements from the following year under the "carry forward" provision of the Agreement.

6. That quota access continues to remain tight is reinforced by the fact that despite a general slowdown in economic activity in the restraining markets during recent years, and a deceleration in imports, developing exporting Members have had to avail of the "carry forward" in many an instance.

The significance of quota carry forward

7. Carry forward refers to borrowing an amount of quota access from next year's entitlement for use in this year.

8. The advance use of quota access through carry forward was incorporated in the ATC from a long-standing practice under its predecessor arrangement, the MFA, in order to provide for substantial flexibility for the conduct of trade in accordance with market conditions in the importing country.

9. The percentages for advance utilization (carry forward) of quotas were laid down for each quota product in respective bilateral agreements between the importing and exporting countries concerned. In general, the carry forward rates in US bilateral agreements for a majority of products and exporting countries were 6% - 7%. For major exporting Members, however, they were lower, at 1% - 3%. In EU bilateral agreements, the general rate was 5%, but for major exporting Members 1% - 2.75%. In Canada, the general rates were 5% - 6%.

The problem

10. Unfortunately, it is learnt that the restraining importing Members contend that as all quotas will be eliminated at the end of 2004 there will be no carry forward available from 2005. This would effectively imply a significant reduction in access possibilities for developing exporting countries and economies concerned, They can ill-afford to sustain such losses in market access and in related business opportunities. Besides, it runs counter to the liberalizing purpose of the ATC, indeed of the WTO itself.

11. Any reduction in quota access would also exacerbate the situation created by the manner in which the restraining Members have implemented the ATC, back-loading the bulk of quota restrictions to be dismantled only at the end of the transitional period rather than progressively. It would add to the adjustment shock when all quotas are finally terminated from 1 January 2005.

12. Moreover the denial of carry forward, and consequential constraint on supplies, would generate upward pressure on prices in 2004. With the termination of quotas from 2005, the sudden fall in these prices would, in turn, likely encourage protection-seeking interests in the restraining Members to cry dumping and add to the problems brought about by the postponement of any effective liberalization to the very end of the transitional period.

The way forward

13. It is therefore in the interest of both developed and developing Members, as well as the efficiency of the multilateral trading system, that positive steps are taken to avoid any reduction in market access in the context of carry forward in 2004. It is important to inspire confidence among developing countries that the developed world cares and that the multilateral trading system can deliver tangible results for them.

14. Apart from the fact that reduction in market access is contrary to the objective of trade liberalization which is the bedrock of the WTO system, it is also inconsistent with an essential provision of the ATC. Article 1.5 of the ATC provides that: "In order to facilitate the integration of the textiles and clothing sector into GATT 1994, Members **should allow for continuous** autonomous industrial adjustment and increased competition in their markets" (emphasis added).

15. The Ministers in Doha also stated as follows:

“... we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access ... [has an] important role[.] to play”.¹

And they expressed their determination to take concrete action to address issues and concerns raised by many developing-country Members and to find appropriate solutions to them.²

16. In light of the above, it is requested that the General Council consider the matter and recommend that developed Members take steps to ensure that there is no diminution of quota access for developing Members on account of quota carry forward in 2004.

¹ WTO Ministerial Declaration, WT/MIN(01)/DEC/1 paragraph 2.

² Ibid, paragraph 12, and preambular paragraph 3 of Decision on Implementation-Related Issues and Concerns in WT/MIN(01)/17.