Business for Development

Trade in Textiles and Clothing
Challenges for Central & Eastern Europe, Baltic Sates and CIS

Presentation by
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Structure

The region’s trade in T&C → 7 Challenges → How can ITC assist
Dependence of the EU market (% of total T&C exports)

Source: EU
EU Imports: 1995 to 2003

Source: EU
Close linkages with EU due to OPT business

Source: EC)
Structure

The region’s trade in T&C → 7 Challenges → How can ITC assist
1. Challenge: Removal of the Quota System

• 1 January 2005: Integration of T&C into the normal WTO rules after 30 years of restrictions
• Artificial advantages will disappear and existing trade patterns will “blow up”
• Companies will gain market share based on competitiveness rather than quotas
• But: What after loss of quota-free benefits?
Prices will fall further: More supply and quota rents disappear


US$/sme

Source: Robin Anson, Director Textiles Intelligence; ITMF, Dresden October 2003; www.textilesintelligence.com
China: Unit Value Change in EU after product integration in 2001

- Gloves
- Handkerchiefs
- Nightwear
- Syth. Fil. Fabrics
- Babywear
- Workwear
- Underwear
- Parkas
- Pile Farbrics
- Track Suits

-60 -50 -40 -30 -20 -10 0

%
Post-2004 Sourcing Pattern

Reduced number of countries & shifting of locations

Source: US Department of Commerce: Report to the Congressional Textile Caucus on the administration's efforts on textile issues; Washington, September 2002
Quota Removal: Norway experience

• Quoatas were removed in 1998

<table>
<thead>
<tr>
<th></th>
<th>Value Share</th>
<th>Volume Share</th>
<th>Rank</th>
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<tr>
<td>Latvia</td>
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<td>0.6</td>
<td>24</td>
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</tbody>
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What remains: Duty advantage
EU: 4% Yarns; 8% Fabrics; 12% Clothing
US: 12-17% Cotton Apparel; 25-32% MMF Apparel

DDA aims at reducing high tariffs, tariff peaks and tariff escalation

Source: OTEXA & EC
Erosion of Benefits: EU FTAs & RTAs

• « If not multilateral then bilateral »!
• EU envisaged a Euro-Mediterranean Zone
• Diagonal cumulation: Use fabrics from Egypt, trims from Turkey, assemble in Morocco and export duty-free to EU
• But: all countries need to have FTAs among them in place with identical rules of origin requirements
3. Challenge: EU Enlargement

• Adaptation of EU lower tariffs (except Czech Rep., Slovakia, Hungary) i.e. more competition
• New EU members to apply quotas for 8 months
• DCs: « This violates WTO rules: Article 2.4 ATC & DSP following EU-Turkey customs union
• EU quota increase pro rata for new EU 10: China & HGK quota increase extensive (old trade links)
• category 6 (trousers): +50%;
• category 4 (knit shirts): +41%
4. Challenge: Erosion of OPT Benefits

- Quota system & trade liberalisation with EU has facilitated OPT
- Based on competitive EU fabrics & low labour costs in OPT countries
- OPT to survive where EU fabric is competitive (mainly wool) & where labour costs are low (CIS & Mediterranean)
- Highly dependent on outside skills & decision making
5. Challenge: Use of Trade Remedies

- Safeguards (fairly traded imports).
- Antidumping & countervailing duties (unfairly traded imports).
- T&C products as targets for retaliation in dispute settlement cases.
- New EU members take over EU cases
6. Challenge: New Requirements

- Social sourcing as a criteria for trade.
- Corporate Social Responsibility project of FTA: EU platform for monitoring social standards
- EU: New origin marking and social label initiatives
- ECO Labelling: Remain voluntary but can reduce market access
7. Challenge: China as a WTO Member

- US clothing imports from China: 2002: +60%; 2003: +46%
- Japan: In 2001 85% of all clothing imports from China
- Australia: 69% (clothing) & 21% (textile) imports from China
- EU: 3rd stage liberalisation: Imports from China increased by 46% (value) and 192% (volume)
- However, accession protocol introduces possibility of new quotas against China
- USA: 3 cases under transitional textile safeguards.
Summary: Challenges

1. Loss of Quota-free benefits
2. Erosion of Duty-free benefits
3. EU Enlargement
4. Change of OPT Business
5. Use of trade remedies
6. Changing Buyers Requirements
7. China as a WTO member
8. Cotton Issues in the WTO
Structure

The region’s trade in T&C

7 Challenges

How can ITC assist
ITC’s TA to the Clothing Sector

• Need 1: Sector Strategy Development
  Value Chain Analysis
• Need 2: Know your competitors
  The « FiT »
• Need 3: Sourcing Information and SCM skills
  Supply information and skills building
• Need 4: Understanding changing markets
  Enhanced Garment-Maps
• Need 5: E-Applications in T&C
  A Business Guide
THANK YOU!