



# International Trade Centre

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## Report on The Conference on the Future of Textiles and Clothing after 2005, Brussels, 5-6 May 2003

The European Commission for Trade invited altogether 800 persons from over 70 nations (trade policy makers, industrialists, exporters, retailers, importers, academics) to discuss the future of textiles and clothing trade once quotas will have been removed in 2005.

High level officials from almost all important players in T&C trade attended the conference. In the different panels, the conference was addressed by Mr. Superchai Panitchpakdi, DG, WTO, Mr. Rubens Ricupero, SG, UNCTAD, Mr. Pascal Lamy, Commissioner for Trade, European Union, trade ministers from Bangladesh, Brazil, Cambodia, Indonesia, Mauritius, Mexico, Pakistan, Sri Lanka, Tunisia, Turkey, Vanuatu, and Vietnam, high level bureaucrats from the United States, India and Japan as well as a range of CEO from major European retailers and textiles and garment manufacturing companies, trade unions and academics.

Due to the high level of the meeting, detailed initiatives and actions could not be elaborated. However, the deliberations made it very clear that from 2005, trade in T&C will change completely. US and EU government officials confirmed their commitment to the end of the quotas system on 31.12.2004, but also highlighted the concern that less competitive countries need assistance once the quotas are gone. It was a general consensus that larger countries with an integrated textile industry, including cotton-growing facilities, will likely to be the main beneficiaries of the removal of quotas. All participants regarded China as the major beneficiary, followed by India and Pakistan, who are also expected to gain considerably. With regard to almost all other countries, the future is rather uncertain. While countries in the proximity of the two largest world markets, the US and EU, which attract almost 2/3 of total world garment imports, might remain important T&C exporters for products that depend on quick response, other countries, and especially LDCs, might have to undergo a painful restructuring process.

African countries were hardly mentioned during the conference, which promoted the trade minister from Mauritius to intervene and to remind the audience of the importance of the sector for Africa. African countries, and especially LDCs, need to see some solidarity from importing as well as exporting countries.

Relating to this issue, Mr. P. Lamy proposed to consider granting special GSP facilities to LDCs and to reconsider the existing schemes, to make market access more practical. However, it was made very clear that additional preferential access will be given on a multilateral or regional basis only. No bilateral special treatment will be provided. Especially, with regard to Rules of Origin requirements, the EU favours regional accumulation in order to

foster regional integration. Likewise, American officials responded to the request from Bangladesh for special treatment that it is very unlikely that US Congress will consider positively any bilateral request. As markets in advanced developing countries are likely to grow much faster than the traditional markets in Europe and North America, specific South-South trade preference schemes might be considered. However, this idea was not further explored during the conference.

Academics highlighted the fact that the quota phase-out also offers possibilities and chances. While China might heavily move into T&C production, the country will have to reallocate resources from other sectors, such as e.g. automotive components or other light industries. Developing countries that cannot compete with China in T&C trade could fill the vacuum left in other sectors. However, this is a rather theoretic approach. As pointed out by Mr. R. Ricupero, it will be very challenging for many developing countries to translate these opportunities into actual trade, simply as the countries face supply side constraints. The competitiveness of many countries needs to be improved.

At times the conference was quite political with several attempts by the US and EU T&C lobby groups to sideline China. With a view towards the Doha Development Agenda (DDA) one could have had the feeling that lobbyists were trying to divide the developing world by playing with the fear that China will take it all. China defended itself, but was handicapped by the fact that no Beijing officials were present.

The T&C quota phase-out needs to be seen in light of the DDA. As the DDA is scheduled to be finalised at the same time as quotas disappear (although it seems quite unlikely that the DDA will be finalised by then), the deliberations under the DDA will have impacts on trade in T&C. In that respect, the possible threat of quota replacements by an increased use of anti-dumping and countervailing measures, and stringent rules of origin requirements were discussed. While developing countries and academics expressed this fear, US and EU industry lobbyists were calling for their explicit use as, they feel, many products are simply dumped on the market.

Although reciprocity is not necessarily a WTO concept, the EU and US representatives made it clear during the conference that they will pursue this concept during the DDA. US officials reiterated that for them it is a statutory obligation since reciprocity in T&C tariff negotiations was made mandatory through a resolution by US Congress.

Moreover, western representatives said that they would prefer a sectoral approach under the DDA. They would, for the time being, however, respect the fact that the DDA does not allow such an approach.

Some of the major European retail stores, such as Carrefour, C&A, M&S, Coin Spa, Falke as well as US-based Levis Strauss, were presenting their views on the changing sourcing scenario in the market. In general, increase of exports is expected from Asia, especially from China, India and to a lesser extent Pakistan. Bangladesh might also be able to roughly maintain its position, while other Asian countries will likely see a reduction in their T&C exports. EuroMed countries will remain important suppliers to Europe. These countries need to invest in speedy delivery, exploiting their geographical advantages. One retailer mentioned that women's wear might be sourced increasingly in EuroMed, while men's-wear could be sourced specifically in Asia. However, retailers also stressed the fact that they will continue to balance sourcing decisions, as different products have different requirements.

Key sourcing decisions are influenced by the final customer and his/her behaviour. Final customer requirements plus the requirements of the retailer will determine the final

requirements for the T&C exporting company in a developing country. Suppliers are judged not individually but on how they could fit into the overall supply chain strategy of the retailer. In that respect, a fruitful long-term relationship with the buyer is regarded as important. However, major sourcing factors for all companies remain to be price (i.e. order price plus macro costs of sourcing in a particular country), quality, services provided by the buyer, quick response and the general country risk, including logistical and legal requirements. Quality is seen as a process that takes time to be built. It is the outcome of a long process and grown relationship between the exporter and the buyer. Exporters are requested to take over more and more services for the buyer. Key words are flexibility and responsiveness, e.g. with regard to more and smaller production lots, the use of e-applications, etc.

Ethical trade needs to be seen in the context of sourcing requirements of major retailers and buyers. Ethical trade, or the assurance that T&C products are sourced from companies in developing countries child labour-free and in full respect of basic labour rights, are seen as an integral part of the product, like price or quality. This is simply because the final customer expects it from the retailer. This contributes to the positive (or negative) image of the retail company. One cornerstone of a western retail-companies' reputation has become the how and where to source from. But for retailers it is not easy to ensure "ethical correct" sourcing. They can check and monitor those companies they directly buy from. However, most of the retailers only source about half of their T&C requirements directly. The rest is sourced via agents and often the retailer has no clear idea which company in what country has actually produced the final product. Retailers are currently addressing this challenge. Another aspect, which was not extensively discussed, was the fact that each retailer and buying company has its own codes of conduct and no international standard exists. This makes it difficult for many developing country producers, as they have to fulfil requirements individually, despite the fact that codes of conduct are similar and, in principle, follow the respective ILO conventions.

Government officials, western country industry lobbyists, union leaders all emphasised the fact that "ethical trade requirements" need to be strengthened and more rigorously pursued after the quota phase-out.

In the concluding session, WTO Deputy Director General KAA Rana pointed out that due to the expected major changes, especially affecting low-income countries, special considerations should be given to LDCs and small suppliers. This could be in the form of special preferences and special capacity building efforts. He concluded by stating that a balance of market opening and solidarity with LDCs is needed.

Mr. Pascal Lamy summarized that remaining problems have to be dealt with in bilateral and multilateral negotiations. However, trade preferences for the poorest countries might be needed as well as a possible special south-south trade component. Sustainable development in all countries needs to be assured. The question is how?

The above note is just an extract of the deliberations during the two-day conference, during which the undersigned actively participated.

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