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The Agreement on Textiles and Clothing

The ATC Implementation so far

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From the MFA to the ATC towards a full integration of T&C into the GATT rules

- ATC is evolving from a system of arranged trade to one that is market-based
- A market characterised by artificial comparative advantages will be realigned
- The new situation will more accurately reflect countries' comparative advantages

The Agreement of Textiles and Clothing

- Broad product coverage: Lists products using the Harmonised Commodity & Coding System (HS)
- Covers animal, vegetable and most man-made fibres, silk and products with textile components
- Starting point are total 1990 imports (volume) for all products listed
- Integration process of 4 steps is compulsory for all members
- Members are free to choose products/categories for integration at each stage

Members fall into 3 Groups

- Countries maintaining quotas must undertake full integration process, i.e. Canada, EU, USA
- Those who retained the right to use transitional safeguard procedures: full integration needed
- Those who decided not to use the right of transitional safeguards

Integration process: Removal of quotas

In 4 stages based on volume of imports in 1990:

- 01.01.1995: 16%
- 01.01.1998: +17% = 33%
- 01.01.2002: +18% = 51%
- 01.01.2005: +49% = 100%

Integration Process: Accelerated annual increase of quotas

Quotas are subject to an increased annual growth rate (basis MFA growth rate 1994):

- 01.01.1995: 16% acceleration factor
- 01.01.1998: 25% acceleration factor
- 01.01.2002: 27% acceleration factor

Special provisions for small suppliers and LDCs “to the extend possible”. However, different interpretations by members

Special Safeguard measures under ATC

- The right to take protective measures in emergency situations i.e. “if a product is imported … in such increased quantities as to cause serious damage or threat of damage to the domestic industry”
- For products not under quota and not yet integrated
- Application on a “member-by-member” basis
- Use: 34 cases in 1997; 10 cases in 1998; 18 cases in 1999 and none in 2000; 1 in 2001

Administering and Enforcing ATC

- The Textile Monitoring Body (TMB) oversees the implementation of the ATC
- TMB consist of a chairmen and ten members (divided equally between developed and developing countries)
- Decision making by consensus
- Members of the TMB act as individuals

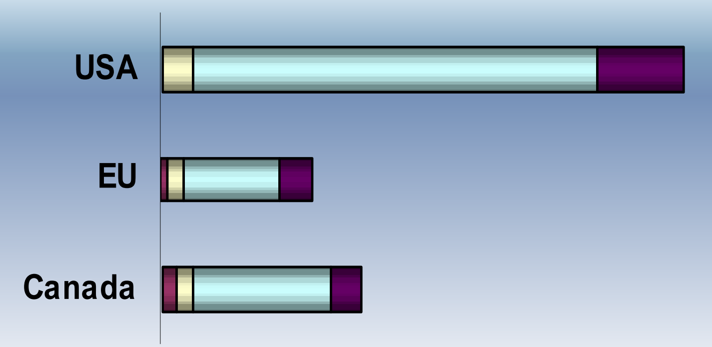
Business implications after stage 3

So far there has not been a meaningful liberalisation of major markets

- TMB: "Stage 3 will not bring about major qualitative changes overall"
- All major importing countries fully implemented their obligations (followed stipulated rules)
- However, many countries claim that this is not according to the spirit of market liberalisation
- A big bang is expected on 1.1.2005 as only then the most sensitive products will be integrated.

Integration Process on 1 January 2002

- Canada will have integrated: 53.21 % (of 1990 import volume); EU: 51.39%; US: 51.35
- Share of clothing integrated after stage 3 is below 7% for Canada, 6 % for EU and 6.5 % for USA
- However, only 20% of imports under quota restrictions have been liberalised



	Canada	EU	USA
China+Taiwan	53	55	150
Remaining	239	167	701
Stage 3	27	27	54
Stage 2	23	14	3
Stage 1	6	0	0

Stage 1 Stage 2 Stage 3 Remaining China+Taiwan

Figure: Eliminated and remaining restrictions

Major changes after 31. 12. 2004

- Removal of quotas will “unfreeze” existing trade pattern
- There will be no longer a free ticket to Western markets (for those who have quotas)
- Companies will gain market share based on competitiveness
- New suppliers will diversify into markets from which they were excluded, but
- Tariff differences remain: no free trade in T&C
- Risk of new restrictions

⇒Management of competitive advantage becomes important