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Textiles and Clothing uncertainties before and after the quota phase-out

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Introduction: T&C trade uncertainties

Market Access in 2005 will be free of quota restrictions for WTO member countries. However, trade will not be free from 2005. Trade will become more liberal, but it is also likely to become more complex. Overall, there is a danger that other trade policy instruments might be used in importing countries in order to compensate for the "loss" of quota restrictions. To this complexity contribute a range of new free and regional trade agreements, the uncertainty of the use of trade remedies by importing countries as well as new requirements introduced by retailers and customs. This paper will give an overview about possible future market access constraints and other T&C trade uncertainties. These emerging issues, or challenges, affecting trade in T&C will be briefly described and put into perspective.

Uncertainty 1: ATC and post ATC issues affecting trade flows

On 31 December 2004, the Agreement on Textiles and Clothing (ATC) will end, and with it the quota system for international trade in textiles and clothing. As a result, trade in these sectors will undergo a fundamental change. By 2005 the sector will have been fully integrated into the WTO General Agreement on Tariffs and Trade (GATT), and all quotas will have disappeared. On a global level, consumers will benefit as well as those exporters that are in shape to withstand competitive pressure from countries that have been constrained under the quota system. For those countries, however, which were protected by the quota system, life will become more difficult, unless they gear up their competitiveness.

While nobody can give a precise picture of the global textiles and clothing market after 2004, there are some indicators of the potential winners and losers of the quota phase-out. Three important indicators are highlighted below:

a) Use of quotas

Countries which are fully using their quotas in the years preceding 2005 will probably increase their exports after that date. Countries which are not able to fill their present quotas are unlikely to benefit from a market opening. Quota performance monitoring, therefore, is essential. As only Canada, the European Union (EU) and the United States continue to impose quotas — 1,338 between them — this is a feasible task for countries to undertake.

Despite a four step approach as foreseen under the ATC for the phasing out of quotas, the major restraining countries have "backloaded" most of the quota lifting until the fourth stage i.e. 31 December 2004. The US has so far only phased out 103 of its total of 937 quotas applied. The US will thus abolish 834 quotas or 89 per cent of the total quotas in place in 1994 at the end of the ATC only. The EU has so far abolished 91 out of 303 quotas and will thus phase out 70 percent of all applied quotas by 2005. Finally, Canada so far phased out 76 quotas of its initial 368 quotas in place in 1994. Consequently, Canada will abolish 79 per cent of all quotas at the end of the process only.[1]

[1] WTO G/L/683, 30 July 2004, pp 197 – 199.

b) Exploiting liberalized categories

The changes stemming from the liberalization of product categories, which followed the third stage of the ATC in January 2002, give a clue to possible developments. At that time, the United States integrated seven product categories into WTO, thereby abolishing quotas and causing trade flows to change tremendously. In all liberalized quota categories, China greatly increased its exports to the US market, in some cases up to several hundred percent. While other countries increased exports in some categories, only China did so across the board, mainly to the detriment of Central American and Caribbean countries, and of some other small producers, which lost market share.

The situation in Europe and the Mediterranean Rim is similar, where only Bulgaria, and to some extent Romania could withstand the competitive pressure from the large Asian countries.

c) Critical export mass

Developing countries that are not under quota constraints will face intense competition, which they have not experienced before. For developing countries that do not currently have meaningful export quantities, it will become even more difficult to enter or to remain in world markets, and critical mass will become an important issue. Major international buyers are unlikely to source from a country where only a few companies serve the world market. Moreover, major textile and clothing buyers will reduce by half or even more the number of countries they source from. The challenge for countries and companies is to remain an important source for these buyers.

In addition, textile and clothing import prices have fallen continuously since 1996 in the US, Europe, Japan and many other markets. In an oversupplied, liberalized market, where quota rents will disappear, this trend is likely to continue, potentially bringing about a deterioration in developing countries' terms of trade. Retailers in these markets expect that prices will drop by 10-20 %, depending on the product and the market.

d) EU enlargement

From 1 May 2004 the EU has extended its membership from 15 from 25 countries. For these new members it meant that they had to adopt the EU trade policy. Thus, the 10 new members have now the same tariff structure, antidumping cases, quota management, etc. as applied within the "old" EU. New members had to establish a quota management system for only 8 months until the quota phase-out in 2005. Other features are as follows:

- Adaptation of EU lower tariffs (except Czech Rep., Slovakia, Hungary) i.e. more competition
- New EU members to apply quotas for 8 months
- ITCB members countries say: «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 (due to old trade links)
- China's quota increase in category 6 (trousers): + 50%;
- China's quota increase in category 4 (knit shirts): + 41%.

After long discussions, the Textile Monitoring Body concluded that these new measures introduced by the EU constituted new restrictions and that the "action could not find justification under the provision of the ATC". [1] However, as possible dispute settlement cases would take longer than 8 months there is hardly anything concerned exporting countries could do.

Overall, trade flows into the EU might be affected and influenced by the above facts, especially as EU quotas are valid for the EU as a whole, independent of the actual importing member country.

e) Quota/export administration

The good news is that with the quota system also the administrative system for quotas will disappear, and thus transaction costs at the enterprise level will be reduced. With regard to the USA, there will be no visa system anymore in 2005. The Committee for the Implementation of Textile Agreements (CITA), an inter-agency group chaired by the US Department of Commerce (DOC), has clarified that starting on January 1st, textile and apparel exports to the US from WTO member countries, if they are currently subject to visa requirements, will no longer require a visa, an Electronic Visa Information System (ELVIS) transmission or a Guaranteed Access Level (GAL) certification. However, all textile and apparel products that are exported to the US in 2004, and currently require a visa, will continue to be subject to these requirements, even if they enter the US next year. Current visa requirements specified in various US trade preference programs, such as the African Growth and Opportunity Act (AGOA) will remain in force. Additionally, textile and apparel goods exported from non-WTO member countries after 31 December 2004, including Vietnam, Russia, Belarus and Ukraine, may continue to be subject to currently applicable requirements. For all those countries, US Customs and Border Protection will also maintain its system of Textile Product Verification Visits to ensure that no transhipment of T&C products happen from companies of these countries. The same will be the case for countries that benefit from special and differential treatment such as under AGOA, CBTPA or ATPDEA. Companies in countries benefiting from these schemes, thus, will have higher transaction costs than companies in WTO member countries that do not benefit from trade preference programmes.

However, CITA has not provided guidance as to what will happen to goods shipped in excess of the 2004 quotas. With regard to this issue, CITA has reserved its right to take whatever action it deems necessary if exports exceed the 2004 limits. Specifically, CITA may deny entry or stage entry for goods in a particular category that were shipped in excess of that category's 2004 quota. Under staged entry, a limited amount of the excess merchandise is allowed entry in intervals, typically every 30 days. In this context, it is important to note that the staged entry process has not been used for some fifteen years.

The bad news is that restraining WTO members have already informed exporting countries that no carry-forward possibilities exist in 2004, i.e. countries cannot borrow quotas from 2005, simply as there will be no quotas anymore. For some exporting countries that could mean a loss of trade possibilities of up to 5% in 2004.

[1] WTO G/L 683 paragraphs 325 – 334, pp. 105-107.

f) No carry-forward quotas in 2004

Quota-restrained developing countries have usually "borrowed" quotas from the coming year to increase exports in the present year. The amount "borrowed" was deducted from allocated quotas in the next year. This flexibility is allowed under the ATC. As there will be no quotas anymore in 2005, restrained countries cannot borrow quotas from 2005. As some countries, however, borrowed quotas from their 2004 allocation in 2003, the 2004 allocation is reduced by the "borrowed" amount. In some cases up to 5-10 per cent. Thus exports in 2004 could actually be smaller than in the previous years. This could have negative effects if enterprises could not obtain quota rights and thus could not satisfy their buyers' volume requirements. This would be particularly damaging as buyers might shift their sourcing decisions just the year before the quota phase-out, if an enterprise/country cannot supply the quantity required.

Member countries of the Textiles and Clothing Bureau have brought this matter to the attention of the CGT. The Textile Monitoring Body made the following observation in this regard stating that although "the ATC does not contain any explicit disposition concerning the matter, the denial of this flexibility would run counter to the basic concept of progressive liberalisation embodied in the ATC. In fact, it would be absurd if a more restrictive application of the flexibility provisions had been foreseen for the last year of the ATC implementation compared to the preceding years. In addition, what would justify such an approach in economic terms, since all the restrictions will have to be eliminated on 1 January 2005." [1]

However, restraining WTO members could not agree to accept a carry-forward of quotas also in 2004.

Uncertainty 2: Erosion of preferential market access for developing countries.

a) WTO negotiations under the Doha Development Agenda (DDA)

After the successful General Council meeting from 27 – 31 July 2004 in Geneva, the Doha work programme seems to be back on track. The schedule is now to finalise the round by the end of 2005. While T&C are not immediately negotiated under the DDA, the outcome of the Non Agricultural Market Access (NAMA) Negotiations will have implications for T&C trade. The DDA states that particular emphases should be given to reduce high tariff, tariff peaks and tariff escalations. This is exactly the situation, which one presently finds in T&C trade. Thus, depending on the applied formula and subsequent tariff cuts, preferences will be eroded for those countries, which receive presently duty-free market access or market access at reduced duty (such as GSP or under special free and regional trade agreements).

The NAMA negotiations also include a provision to put attention towards a sectorial approach in seven sectors of special interest to developing countries. The seven sectors have not yet been defined, but T&C could be a possible sector to look at.

Finally, the DDA also makes reference towards the elimination of tariffs and non-tariff barriers (NTBs) for environmental goods and services. The problem is that these goods have not been defined and are open to wide interpretation. Within T&C, organic cotton as well as silk products might qualify for these additional benefits.

[1] WTO WT/MIN(01)/17 paragraph 260; also G/C/W/495, paragraph 37.

On the issue of cotton WTO Members agreed to make discussions on cotton an integral part of the agriculture negotiations rather than treating the issue on a separate track. In order to address the issue "ambitiously, expeditiously, and specifically", a special sub-committee will be established as part of the effort to "ensure appropriate prioritisation of the cotton issue independently from other sectoral initiatives". In addition, the Director-General was instructed to consult and work with relevant international organisations, including the International Trade Centre on the development aspects of cotton.

b) Free Trade Agreements (unilateral, bilateral and regional)

In response to the ATC, major buying countries have granted specific concessions that provide selected countries with competitive advantages. This tendency has resulted in regionalisation of trade in textiles and clothing and a complex patchwork of international trade agreements. This makes it very difficult for clothing-exporting small and medium-sized enterprises (SMEs) from developing countries to determine their competitiveness vis-à-vis that of major competitors. As quotas are phased out, there may be more concessions granted than before, rendering trade even more complex. Overall, there are more than 170 regional trade agreements notified to the WTO. The WTO Secretariat estimates that the number could increase to up to 300 by the end of 2005.

For the United States, free trade agreements are a means of increasing economic integration through improved access to the US market, which is seen as important in achieving other political, foreign policy and security objectives. These agreements have become especially important in recent years as top development and trade policy advisors have been pushing for a move away from development aid to new “development through trade” programs. After the Cancun “failure”, many countries, including the US and to a lesser extent the EU, have switched towards establishing bilateral and regional trade agreements. What did not seem to work at the multilateral level was transformed to the bilateral level, leading to a surge in bilateral and regional preferential trade agreements.

The US has preferential agreements (or rather unilateral preferences) with a range of Sub-Saharan African countries under the Africa Growth and Opportunity Act, the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Caribbean Basin Trade Partnership Act (CBTPA, formerly CBI), North American Free Trade Agreement (NAFTA), and it has bilateral free trade agreements with Australia, Chile, Israel, Jordan, Morocco, and Singapore. Other countries such as Sri Lanka, the Philippines Thailand and almost all Asian LDCs are keen on seeking free trade agreements with the United States as well.

The EU has a number of preferential trade agreements. These provide for specific goods from the country(ies) concerned to be imported and entered into the EU to free circulation at reduced or zero customs duties subject to strict rules of origin requirements. Under all the EU’s preference schemes, the use of EU materials is permitted, subject to certain conditions. This is known either as bilateral or diagonal cumulation or donor country content. The main condition is that textile materials must satisfy the rule of origin in their own right, i.e. if EU fabric is used in a GSP country, the fabric must satisfy the GSP rule for that fabric (see below for origin rules for fabric).

Cumulation of origin is also permitted within certain regional groupings and there are subtle differences to the rules, depending on the regime. Cumulation permits the use of materials from one member of a regional group in the further manufacture in another member of the same regional group. [1] The main groups are as follows:

Pan-European cumulation area;
Maghreb countries;
ACP and OCT countries;
GSP – Association of South East Asian Nations (ASEAN);
GSP – South Asian Agreement on Regional Cooperation (SAARC);
GSP – Central American Common Market (CACM);
GSP – Andean group of countries.

c) Change in the Generalised System of Preferences (GSP)

GSP facilities are provided unilaterally by importing countries to a selected range of beneficiary countries, covering selected products and sectors. While the US GSP scheme does not provide any additional duty reductions for T&C imports, the EU provides duty reductions of up to 20% for eligible countries. However, the EU also uses a product and country graduation system whereby counties that exceed certain levels of development will loose gradually GSP benefits for certain products. In addition, the EU is presently revising its current GSP system, to introduce a new one as from January 2006. The EU Commission proposes to reform the present GSP system as follows:

- It will target GSP benefits to countries most in need: e.g. least developed countries (LDCs).
- It will simplify the GSP system to reduce the arrangements to only three: a general arrangement; the "Everything but Arms" initiative giving duty-free and quota free access to the world's 50 poorest countries; and a new "GSP+" initiative giving tariff preferences to countries with special development needs.
- It will increase transparency, the idea being to focus graduation (withdrawal of GSP) on the most competitive products from those beneficiaries that are highly competitive on the EU market and no longer need the GSP to boost their exports to the EU. The idea behind graduation is not punitive but rather an indication that the GSP has successfully performed its function.

d) Rules of origin requirements

Due to its discriminatory nature, a preferential agreement must distinguish “non-member originating” from “member originating” products in order for a product to be granted preferential access. The growth of international trade in goods that are not manufactured in a single country has made the issue of the rules for determining the “origin” of goods one of the most important and complex areas of preferential market access negotiations. The way in which rules of origin are defined and applied within modern preferential agreements plays an important role in determining the degree of benefit received by developing countries. While offering definite trade advantages for targeted countries, preferential trade agreements often offer much more restricted benefits than one would lead to believe, as rules of origin play a paramount role in narrowing the scope of an agreement’s benefits.

[1] Special thanks to Emma Ormond, PricewaterhouseCoopers for a contribution on the EU rules of origin to the ITC fabric and sourcing textbook to be published in 2004.

The textile and apparel industry is one in which rules of origin have a particularly significant impact. Textile and apparel products undergo a sequence of processes and may be traded at any point along that sequence. A finished apparel item may be the end result of a process that began with production of the raw fibre and continued through spinning of the yarn, weaving the fabric, dyeing and finishing the fabric, cutting the fabric into pieces, sewing or otherwise assembling the pieces, adding accessories, and labelling and packaging the end product. Products in any of these states may be shipped to another country for further processing.

Non-preferential rules of origin are subject to negotiations under the Agreement on Rules of Origin (ARO). Although no progress has been made in the negotiations during the last nine years it is a matter of concern to many developing countries. This is highlighted in a dispute settlement case between India and the United States. At the beginning of the ATC, the US changed its rules of origin to enlarge the coverage of certain cotton made-up products. Under these new rules products are defined made of cotton even if they contain only as little as 16 per cent of cotton by weight. This redefinition, India claimed, changed the classification of cotton products and enlarged the scope of restrictions as many products were reclassified into categories in which a number of exporting developing countries had high rates of quota utilisation. While a WTO dispute settlement case ruled in favour of the US, 20 developing WTO member countries are of the view that "the change in classification of cotton goods enlarged the scope and incidence of restrictions on these products under the ATC to the disadvantage of the exporting (WTO) Members concerned. [1]

Preferential rules of origin

The United States as well as the European Union and others have established a number of preferential trade agreements to increase its political and economic clout over certain regions. While textiles were often included in these agreements, domestic textile lobbies often persuaded lawmakers to limit the scope of benefits in order to protect American or European producers. In addition, as these regimes were established during the era of quota-controlled access for textiles, it was crucial that the rules of origin be strict enough to prevent transhipment through a beneficiary country by a third-country (American textile groups are usually most concerned with the threat of China using transhipment to dump cheap imports on the US market). To this end, the *yarn-forward* and *substantial transformation* principles were developed.

For the future export performance of Least Developing Country clothing exports to the major markets, non-reciprocal preferential market access conditions, including easy to fulfill rules of origin requirements, are important elements to assist these countries in maintaining their clothing exports. Highly flexible rules of origin as foreseen under the Canadian preferential scheme for LDCs or the 'third country fabric sourcing provision" under AGOA are good examples. [2]

[1] See WTO G/C/W 495, 29 September 2004, pp 4-5.
[2] UNCTAD, Assuring Development Gains form the International Trading system and Trade Negotiations: Implications of ATC Termination on 31 December 004, September 2004. p 17

Uncertainty 3: Use of trade remedies under the WTO

a) Antidumping cases

There is likely to be a rise in antidumping and countervailing duty cases, which will pose a real threat to successful developing country exporters. As there is a risk of a sudden downward pressure on export prices following the removal of quotas, due to the fact that quota prices (rents) will disappear, many developing countries fear that major importing countries could use this to invoke anti-dumping cases. 15 developing countries, therefore, made a proposal to the Council of Trade in Goods (CTG) of the WTO for a moratorium to use the anti-dumping trade remedy instrument for 2 years following the quota removal. Their proposal for a specific short term disposition is based on the argument that it was needed "to allow time for trade to find its normal cause, especially as allegations about dumping in the immediate aftermath of the abolition of quotas could not be reasonably evaluated unless there was sufficient opportunity for business to adjust to normal pricing."[1] This proposal, however, did not find a consensus in the CTG.

The use of antidumping measures could sharply reduce the benefits of liberalization, as they are non-transparent and unpredictable. Just the announcement of possible antidumping investigations can make buyers hesitant to place future export orders because of uncertainty over whether antidumping duties will be imposed in the future, an effect known as 'trade chilling'.

While developing countries and academics are expressing this fear, US and EU industry lobbyists are calling for their explicit use as, they feel, many products are simply dumped on the market. The consequences for developing countries, however, will depend on the status of the countries and industries. While such trade remedies are likely to be targeted at large countries with integrated T&C industries such a China, India, Pakistan, Indonesia, etc., smaller countries could benefit from some protection against these countries, should trade remedies be used. However, as anti-dumping investigations are extremely expensive for industries that seek protection in their domestic markets, importers associations in the major importing countries have already indicated the view that investigations are likely to cover a group of countries in order to cut costs and widen "benefits".

Overall, anti-dumping cases are more likely in capital-intensive products, where injurious dumping could more easily be found and proved. This would be in the product areas of fibres, yarns, specialised fabrics, made-ups as well as technical textiles. Moreover, the textile industry is more concentrated than the clothing industry. The latter is characterized by its small unit size and its scattered nature. That makes anti-dumping cases more difficult to initiate.

b) Use of the China-specific safeguards

Since its WTO membership started in December 2001, P. R. China has very successfully penetrated its major T&C markets, to an extent that many countries fear that P. R. China will "take over" all major markets. The only hope many small supplying countries feel they have is that new quotas are being introduced against China, which is temporarily possible under the China's WTO accession protocol. However, this can only be done by the importing country if there is a risk of market disruption in the importing country. Importing countries will not do it to protect other developing country exporters from China's competition.

[1] WTO G/C/W/495 pp 6-7 as well as WTOG/C/W502

In principle, importing countries have the possibility to utilise two safeguard mechanisms specifically against China, as stipulated under its WTO accession protocol. These are:

a) T&C specific safeguards valid until December 2008, and
b) Product specific safeguards, which can be utilised for all kinds of products, including T&C, valid until 10 December 2013.

In brief, the two possible safeguard possibilities contain the following:

T&C Specific safeguards:

- Until 31/12/2008 for ATC products only;
- Invoked by any member by asking for bilateral consultations if market disruption (threatens to impede the orderly development of T&C trade);
- Request for consultations implies immediate limitation of exports at a pre-determined level: (7.5% (6%) above the amount imported during the last 12 month);
- Does not necessarily require China's agreement;
- No WTO notification; no multilateral surveillance;
- Duration: max. 12 months;
- Not to remain in effect beyond one year without reapplication, unless agreed.

T&C specific safeguards have so far only been invoked by the US for 3 categories, namely category 222 (knitted fabrics), category 350/650 cotton and man-made fibre (mmf) dressing gowns and bathrobes, and category 349/649 (cotton and mmf brassieres). The US industry, however, is expected to file many more petitions on the basis of a market threat, even though quotas may not have been phased out yet. The European industry requested the EU to invoke safeguards on category 35 (synthetic woven fabric), the request is pending.

The "Transitional Product-Specific Safeguard Mechanism

- Available until 10 December 2013 for all products, incl. all T&C;
- When imports threaten or cause market disruption;
- Measure taken after consultations, except in critical circumstances when provisional measures are justified to protect the domestic industry from immediate damage;
- Safeguard measures can be a quota, but can take other forms, including withdrawal of concession;
- Must be notified to the Committee on Safeguards;
- Duration: "only for such period of time as may be necessary to prevent or remedy the market disruption";
- After 2 or 3 years (relative or absolute increase in imports), China has the right to suspend application of substantially equivalent concessions or obligations.

The product specific safeguard has so far only been used once against Chinese T&C exports. It was introduced by Peru on the basis of critical circumstances, which needed immediate measures, i.e. without further consultations. However, after consultations with China, Peru removed its product specific safeguards and reverted to § 19 of GATT i.e. general safeguard rules. Additional duties on imports to Peru are thus due to any WTO member country and not only China.

c) Safeguards under § 19 GATT 1994

Safeguards against imports are permitted under WTO rules against imports of any product, including textiles and clothing (in the US it is referred to US Section 201). It can be used if it can be proven that increasing imports are a substantial cause of serious injury to the domestic industry. Import relief can take the form of import quotas or tariffs for up to eight years to permit the domestic industry to become more competitive. As it can only be used against increasing imports it will probably not be used before 2005.

As the purpose is to ease the impact on domestic producers of the transitional period when quota restrictions are relaxed, there is a possibility that traditional safeguards be used in the future.[1] This, however, would be a rather "flexible" argument, as the entire 10-year quota phase-out period under the ATC was supposed to be a transition period so that domestic producers could adjust to the new trading system. As, however, the quota phase-out is heavily "backloaded", there are likely to be adjustment costs also in industries of importing countries.

d) Anti-Subsidy (Countervailing Duty) Actions

Anti-subsidy actions can be "used" if foreign government-subsidised exporters are either injuring or threaten to injure domestic industry. The remedy is to impose offsetting anti-subsidy or "countervailing" import duties on accused imports. In order to use "countervailing" duties it must be proven that subsidies are specific to an industry or be export-oriented.

US T&C producers claim the China subsidises its T&C industry. Nevertheless, this instrument can presently not be used by the US as US trade law does not allow anti-subsidy actions against non-market economies. For the time being the US regards China as a non-market economy.[2]

Uncertainty 4: Introduction of new rules/ New buyer requirements

a) Government/Customs level

Customs procedures and enforcement structures to prevent unlawful transhipment under preferential trade agreements.

Under preferential market access agreements, e.g. under AGOA, it is the role of the US Customs and Border Protection (CBP) to ensure that no transhipment of third country apparel takes place. In order to ensure this, CBP closely cooperates with the costums official in the beneficiary country. In addition CBP verifies at the enterprise level whether declared productions have actually taken place.

To do so CBP examines the record-keeping capacity of factories in beneficiary countries. When CBP finds that a factory's record-keeping is not adequate, the likely consequence is a denial of AGOA treatment. CBP does not require specific forms of record-keeping, however, it does require that sufficient production records be provided to establish the country of origin and that the records be understandable. Understandable records are those in which the steps of production are clear, and which permit tracing of specific goods to specific records. The records must reflect the quantity of the shipment. The records must reflect the actual

[1] P. Koenig, Miller and Chevalier Chartered,: Textiles and Apparel: Business Strategies in the "post import quota" world., Washington D.C. 2004, pp. 4-6.
[2] P. Koenig, Miller and Chevalier Chartered: Textiles and Apparel: Business Strategies in the "post import quota" world., Washington D.C. 2004, p. 8.

production machinery necessary and document that they are available in the factory. If the factory subcontracts work, documentation should be available to identify the subcontractor and the specific work done by that subcontractor.

In a nutshell, this increases the transaction costs of those enterprises that benefit from preferential treatment such as under AGOA. It also applies to other trade preference schemes of the US.

US Customs Trade Partnership Against Terrorism can also have a negative effect on competitiveness for those developing country manufacturers, who are located in countries that have difficulties to comply with new security measures. This will be the case in many LDCs.

C-TPAT is a partnership between government and business to implement anti-terrorist, security measures for cargo entering the United States. C-TPAT requires additional security throughout the entire supply chain. Some companies have been taking advantage of this requirement to re-implement their entire supply chain to gain additional efficiencies (like reducing theft). C-TPAT requires that certain data be electronically transmitted. The rules for electronic transmission of data are complex and vary based on the mode of transit (cargo vessel, air cargo, truck cargo, or rail cargo). In addition, importers have to ensure that manufacturers are "clean", i.e. manufacturer monitoring will be a part of security compliance.

Buyers will discriminate against those enterprises that do not have approved security, as they want to be ensured that their goods will be cleared through customs on a timely basis. Manufacturers that comply with C-TPAT requirements and ship from a CSI-designated port are likely to receive preferential (faster) treatment upon arrival in the US. Hence, although US Customs is not mandating compliance, the buyers, who want assurances that their goods will enter the US with minimal delays, will likely drive the enforcement.

b) Codes of Conduct

There is widespread concern about child labour in the marketplace. Western non-governmental organizations, the media and labour unions advocate for 'sweatshop-free' sourcing of clothing, by creating awareness among the major consuming groups. They are putting pressure on international buyers to source 'ethically correct'. Major buyers and retail groups have reacted to these pressures by introducing corporate codes of conduct. Such ethical sourcing standards are applied to all their developing country manufacturers, and even subcontractors. Large international buyers apply these rules strictly, as they cannot afford negative publicity. For clothing exporters this means increased costs as standards need to be increased in most cases. These costs are likely to increase as from 2005 as increased public pressure (from NGOs, labour unions and the media) will lead retailers to enforce these standards more forcefully.

c) Eco-Labelling Requirements

Textile and garment manufacturers from developing countries are increasingly confronted with the need to adapt to eco-labelling requirements. Eco-labelling schemes currently serve primarily as a marketing tool, and products with eco-labels tend to target niche markets. However, there is concern that access to developed markets will be significantly reduced due to consumer boycotts of non-labelled goods and aggressive advertising by protectionist domestic industries. Overall, more transparency is needed to ensure that eco-labels do not become a new market access barrier.

ECO labeling requirements are more widespread in Europe than in the US. While it will likely remain voluntary, the EU Commission indicated that it would increase its public awareness campaigns on the importance of the labels for the ultimate consumer of clothing. Thus, pressure could increase for those enterprises that do not do not follow any eco-labeling scheme.

d) Environmental Standards

Environmental standards will likely be more and more enforced including the introduction of new standards, which could have a negative effect on the market access possibilities for developing countries and economies in transition. One example for a possible trade-restrictive TBT/SPS non-tariff barrier is a new system the EU is considering to introduce and implement. This new system is called REACH (Registration, Evaluation and Authorization of Chemicals). If adopted, it would make the textiles and clothing companies that want to sell their products in the EU, subject to a procedure of registration, evaluation, authorization and restriction for a large number of chemical substances. A report of the US department of Commerce estimates that around 30,000 chemical substances could be subject to REACH. As technical requirements and testing procedures would be complex and costly, REACH could widely affect market access of developing country producers. [1]

Conclusions

Despite the fact that quantitative restrictions will disappear in 2005 for WTO member countries, there is a risk that trade in T&C will become more difficult and cumbersome in future. While it will be an unprecedented achievement to incorporate the T&C sector into the normal GATT 1994 rules and regulations, ensuring long term global benefits, short term adjustment costs could be severe in some vulnerable countries heavily specialized in producing clothing. This paper, however, did not elaborate on the adjustment costs of the phasing-out of the quota system under the ATC. It has rather highlighted the trade perspective of 2005 and beyond and the challenges with which developing country manufacturers are confronted. In fact, it could well be that trade will become more complex or even complicated after 2005. At least, quotas gave some transparency to trade flows. This transparency and predictability will disappear and will be replaced by an insecure environment, at least just after the quota phase-out. While competitiveness of industries and enterprises should determine trade flows as from 2005, trade policy is likely to challenge this in the short and medium term. Whether or not trade remedies will be used against T&C imports from developing countries, and if yes to what extent, will be an important element of future trade in T&C. In addition, the insecure environment on what trade remedies are used against which country under which specific schemes (new quotas, additional duties, etc.) adds to insecurity in the market place. Moreover, changing trade preference schemes, which largely influenced T&C trade flows from the beginning of the ATC, will continue to play an important role. The question is which country receives what kind of preferential treatment under what kind of rules of origin requirements and whether these benefits are enough to convince importers to buy from these countries. Enterprises in developing countries also need to adapt to new requirements imposed by importing "governments" and buyers. Ability to do so is less developed in LDCs and small vulnerable economies than in larger developing countries with integrated textiles and clothing industries. All this causes some confusion and uncertainty in the market at the level of importers as well as exporters. In a way that uncertainty could smooth the expected shock to some extent, as no market player will risk concentrating imports or exports too much on one or two countries only.

[1] UNCTAD, Assuring Development Gains form the International Trading system and Trade Negotiations: Implications of ATC Termination on 31 December 004, September 2004. p 15.