REGIONAL COTTON AND TEXTILE EXECUTIVE SUMMIT
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General

- This summit is timely. Changes are afoot in the world cotton, textile, and apparel markets requiring all involved in this value chain to reconsider their approaches.

- My objective here is to provide some of the U.S. policy context in which these changes are taking place and some perspectives on the unfolding situation from where I sit in Washington.

Cotton and the WTO

- The well-publicized controversy over the handling of cotton in the Doha Round obscures an important fact: the United States and African countries *agree* that subsidies for cotton and other agricultural products should be cut. Where we differ is how best to achieve those cuts.

- The United States recognizes the importance of cotton for many African countries, especially in West Africa. But Africa also produces many other agricultural products and wants to expand its markets for these products, too.

- So if we want to expand Africa's agricultural trade across all products and address poverty, we must deal with the entire farm sector. It would be contrary to the larger objectives of global agricultural trade reform to select out any one product for handling outside of the overall agriculture negotiations.

- The U.S. is committed to achieving progress in all three pillars of the agriculture negotiations: eliminating export subsidies, substantially reducing trade-distorting domestic support, and substantially improving market access.

- Such a comprehensive approach to cotton is important because it would also address, for example, high tariffs on cotton in certain cotton-consuming countries, thereby improving market access for African cotton exports.

- A satisfactory result for cotton hinges on an ambitious approach to the overall agriculture negotiations.

- WTO discussions on cotton are now proceeding in a special subcommittee on cotton, an arrangement that now exists for no other agricultural product.

Textiles/Apparel and the WTO

- Tariff treatment of textiles and apparel is also one of the issues being discussed in the Doha negotiations. Some Members have suggested the possibility of a sectoral initiative in this area and we are open to discussing the possibility.

- We have also heard concerns from the WTO Africa Group about possible erosion of preferences in this sector as a result of a future Doha agreement.

- Such concerns point to the need for every WTO member, including African countries, to assess their sector- and product-specific interests and factor these into their respective negotiation strategies.

End of Apparel Quotas

- Everyone here is aware that the end of global apparel quotas under the MFA/ATC is having a profound impact on international trade in textiles and apparel.

- We have all read the reports in the press about factories that have closed, including in this region, and rumors of others that are in serious trouble.

- At the same time we have already seen U.S. apparel imports from China rise dramatically in the first quarter of 2005, especially in key product areas in which African producers compete, such as cotton trousers and knit shirts.

- The good news is that apparel imports from AGOA countries in the first two months of 2005 are actually up modestly over the same period in 2004.

- The open question is whether AGOA producers will be able to retain this market share as production shifts.

- A 2004 study by the U.S. International Trade Commission on the potential impact of the removal of quotas on supplying countries found the following:

    - China is expected to become "the supplier of choice" for most U.S. importers because of its ability to make almost any type of textile or apparel product at any quality level at a competitive price.
    - The extent to which China will expand its shipments is tempered by uncertainty over the use by the United Sates and other importing countries of the textile-specific safeguard in China's WTO Accession Protocol (and possibly other trade remedies as well, such as anti-dumping).
    - To reduce risk, U.S. importers also plan to expand sourcing from other low-cost alternatives to China.

    - An important finding for AGOA is that there may be exceptions to these trends, particularly at the firm level, reflecting the importance of relationships between apparel importers and their suppliers and the efficiency, flexibility, and experience of these suppliers, particularly in niche market production.
    - Overall, there is a finding that the market shares of a number of suppliers are expected to decline, including those in sub-Saharan Africa, but also in Asia, the Western Hemisphere and the Middle East.

- Studies like this are important and need to be taken into consideration, but they are not destiny.

- Indeed, a more recent study undertaken by Manchester Trade for USAID and COMESA provides some grounds for optimism. I'll let Steve Lande describe the findings from that study.

- Also, we expect overall U.S. demand in the apparel sector to increase with the end of quotas. So if Africans can retain their market share they even do better in a post-quota environment.

- As I see it, the medium- to long-term impact of the end of quotas on African countries will be affected by a number of variables, which can be grouped into two categories: external variables that African governments and producers have no or limited control over – such as decisions on pending and future safeguard petitions in the United States and EU – and variables that those here have greater control over – such as policy decisions and business measures to improve the competitiveness of African producers.

- A few words on the safeguard petitions in the U.S. To date the U.S. government has self-initiated reviews on three categories of Chinese apparel imports. Decisions on these petitions are expected within the next several weeks. U.S. industry has separately filed petitions requesting safeguards on several other product areas.

- If the safeguard measures are approved, there could be significant, near-term, but temporary restraints on Chinese imports in the subject product areas.

- However, even if the safeguard measures are approved or there are other developments affecting Chinese imports, that is no guarantee that these measures will positively impact African producers, who face competition from many other countries, too.

Meeting the Challenge

- My point is that there is little African producers can do to influence these external variables. But there are other variables that are in your power to control or influence. These, I would suggest, are what you should be focusing on, if you aren't already.

- First, make the most of AGOA, which continues to give producers in eligible countries a significant tariff advantage over most other producers. However, to date, most AGOA exports from the region occur in just one rules-of-origin category – the use of third country fabric – and in a limited range of products.

- Development of an integrated regional raw material, yarn, and fabric production base will make AGOA producers more competitive in the long-run, especially given the September 2007 expiration of the third country fabric provision.

- AGOA provides incentives for use of regional fabric, including a vastly undersubscribed program cap for apparel incorporating regional fabric.

- Most studies say that greater vertical integration and cross-border production-sharing would also help to keep more value-added production -- and jobs -- in the region.

- My colleagues from the East and Central Africa Trade Hub can expand on how regional producers can make the most of AGOA trade benefits, including through diversification of product base and adoption of new marketing strategies.

- Of course, AGOA does not place any quantitative limits at all on apparel made of U.S. fabric. While I recognize that cost factors limit the application of this provision, it is something that African producers should examine more closely, especially as the expiration of the third country fabric provision approaches.

- Also, while I know that most of you here are in the cotton/textile/apparel sector, please keep in mind that AGOA provides duty-free benefits for thousands of products beyond apparel – virtually everything that Africans produce.

- Second, the governments and private sectors in AGOA countries should put their heads together to find ways to remove existing impediments to export and to decrease the costs of production. What needs to be done will vary from country to country but could include transport regulations, utility policies, customs clearance and improved trade facilitation, access to bank credit, and liberalization of telecommunications and financial services.

- Governments could also examine whether there are tariff and/or tax barriers in place that are inhibiting the export sector.

- Such reforms and market-friendly policies are also very much a part of the underlying purpose and premise of AGOA.

- I believe that Mr. Lande has many more specific recommendations along these lines based on the conclusions of his study.

- The United States stands ready to assist AGOA countries and producers as you tackle these challenges. The trade hub, the RATES program, the AGOA Linkages program under COMESA, and many other programs are in place to help you improve your marketing and your competitiveness.

- We also look forward to continuing the dialogue with you on this and other trade and investment topics at the upcoming AGOA Forum in Dakar in July. As at previous Forums, there will be parallel programs for government, the private sector, and civil society in Dakar.

Conclusion

- In closing, let me say that while I recognize the enormous challenges ahead of you as you seek to weather these changes, I am convinced that the African textile and apparel sector can survive and even thrive in these new circumstances.

- Look how far you have come already. Would you have believed five years ago, prior to the enactment of AGOA, that Africa would double its share of the U.S. imported apparel market? That 15 sub-Saharan African countries would be exporting apparel to the United States? That there would be the start of a serious effort in Africa – like that reflected at this summit – toward vertical integration of the cotton-to-apparel value chain? That Kenya, whose apparel industry faltered in the 90s, would rebound and once again become a player in the regional apparel trade?

- It is your entrepreneurial spirit, your resilience, and your commitment to success that has made this happen, along with a timely boost from AGOA. And I am convinced that you can continue to succeed.