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**Latest developments in the WTO affecting trade in
textile and clothing products**

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It is a pleasure for me to be here in Nairobi and to participate in this Regional Cotton and Textiles Executive Summit. In my intervention, I will bring to you the developments of interest to the textiles and clothing sector and the discussions which have taken place in this regard in the WTO recently, in particular with the demise of the Agreement on Textiles and Clothing. I will also provide a brief update of what has taken place in the WTO context regarding cotton. But before doing so, It could be useful to take stock of the present situation in terms of the rules that govern international trade in textiles and clothing.

The full implementation, and, therefore, the end of the ATC marks an important milestone in the development of international trade relations. The expiry of the ten year transition period has put an end to a special and discriminatory regime that has lasted for more than 40 years. Trade in textiles and clothing products has ceased to be subject to a special trade regime and is now governed by the general rules and disciplines embodied in the multilateral trading system. This will certainly contribute to increasing trading opportunities but is also of major systemic importance.

It should be recalled that the ATC was part of the broader package of the outcomes from the Uruguay Round. It represented a very delicate balance together with the other legal results from the Uruguay Round and was considered, in particular by the exporting developing Members, as one of the most important results of the last Round. The timely and full implementation of the ATC stands as one of the positive achievements of the past ten years in the WTO. Completion of implementation strengthened the multilateral trading system from an institutional standpoint.

From a broad economic point of view, the elimination of the trade-distorting quantitative restrictions which were maintained under the ATC will be beneficial for the global economy in terms of increased market access opportunities, efficiency gains and consumer welfare. Developing Members as a whole, in particular, stand to gain since they have significant comparative advantages in the sector.

That being said, the new situation created by the full implementation of the ATC, in particular by the elimination of all ATC restrictions, is a dynamic process that will require adjustment on the part of all WTO Members. One should not forget, in this regard, that the implementation of the ATC could hardly have been achieved without a continuous process of structural adjustment implemented both in the markets of the major importing Members and also by exporting Members. As the Director-General said in addressing the last meeting of the Textiles Monitoring Body, "without prejudice to whether the adjustment implemented so far by individual Members has been fully sufficient or not in terms of preparation for a more competitive environment, a few related comments can be offered. First, with the conclusion of the Uruguay Round and the signature of the Marrakesh Agreement, government authorities as well as producers and traders of each and every Member have been fully aware over the past ten years of the imperative need of implementing the necessary structural

adjustments. Second, structural adjustment is a steady and continuous process in any sector of the economy; it cannot and will not be stopped when confronted with a deadline, such as the date of full integration of trade in textiles and clothing into GATT 1994. The need for further adjustment will continue after the expiration of the ATC and must be made by all Members involved in the trade of textile and clothing products, be they importers or exporters or both, be they big or small".

Concerns have recently been echoed in this regard, including by countries represented at this Summit. Some WTO Members have expressed their worries and made requests in the Council for Trade in Goods, and some have done the same in the context of the Sub-Committee on Least-Developed Countries¹. After some discussion, the Sub-Committee has agreed that the WTO Secretariat, fully respecting the basic principles and rules of the WTO, as well as the rights and obligations of the Members, will prepare a paper that will "look into options for LDCs to improve their competitiveness in the textiles and clothing business, namely coherence programmes of IMF and the World Bank, more flexible rules of origin, technical assistance and capacity building, bilateral cooperation programmes and other means to tackle constraints affecting LDCs' exports." The paper should be ready before the usual WTO summer recess. Although the scope of the paper does not completely answer the original request made by the LDCs, the agreement reached is an important step taken by Members to respond to the concerns of the LDCs in the multilateral trading system.

In the Council for Trade in Goods, *inter alia*, a similar proposal for a Secretariat study on the impact of the termination of the ATC has been made by Mauritius on behalf of some developing countries². The same proposal calls for the CTG to establish a work programme to discuss with a view to finding solutions to the problems identified by such a study as well as those raised by Members in relation to the adjustment-related issues costs concerning the ATC phase-out. Turkey followed suit in October last year and proposed³ that new mechanisms "from a monitoring mechanism that will concentrate on the threat of market distortions to a unique safeguard mechanism that has a self-triggering structure and aiming at smooth functioning of trade in the major export markets and avoiding unfair practices" be developed urgently to ensure a smooth transition to the quota free trading environment.

At the last CTG meeting on 11 March this year Tunisia submitted, in addition, a new proposal with particular regard to those Members whose trade has been taking place in the framework of preferential agreements and whose exports are dependant upon a limited number of products. It proposes, based on Part IV of the GATT, in particular Articles XXXVI and XXXVII, to take into consideration three fundamental aspects. First, find ways to stabilize market prices. Second, establish correlations between the price fluctuations of textile and clothing products and the negative effect on affected Members. Third, WTO Members as well as international financing institutions are called upon to join into a collective action in favour of the developing Members and LDCs concerned with a view to putting in place financing mechanisms specific to the development policies of this sector in these countries.

This proposal, like the others, has been received with, I should say, a wide range of opinions. Such Members as Brazil, China, Hong Kong, China, India and Pakistan are strongly opposed to these proposals, they even oppose at this point continuing discussing the issue in the CTG, as they consider that it has been taken as far as it could. The new Chairman of the Council has the difficult task of trying to bring together this large spectrum of viewpoints.

Another important element to consider in this regard is the extent to which WTO Members will possibly make recourse to the provisions contained in paragraph 242 of the Working Party Report on the Accession of China to the WTO. Under these provisions, any Member can request

¹ See document WT/COMTD/LDC/W/36, submitted by Tanzania on behalf of LDCs.

² Bangladesh, Dominican Republic, Fiji, Jamaica, Madagascar, Mauritius, Mongolia, Nepal, Sri Lanka and Uganda are co-sponsors of a communication to the CTG (G/C/W/496/Rev.1).

³ G/C/W/497

consultations with China if it believes that imports of Chinese origin of textiles and apparel products hitherto covered by the ATC are, due to market disruption, threatening to impede the orderly development of trade in these products. As soon as such a request for consultation is made, Chinese exports of the products subject to the request are in effect under quota, since China has agreed in advance that, in such circumstances, it will limit its exports of the products in question for a duration of up to 12 months, at a level specified in paragraph 242.

These provisions have already been used. The United States limited imports of certain products from China during the lifetime of the ATC already, and are in the process of deciding whether or not to request consultations with China on three products. Turkey has requested consultations with China in December last year with respect to 42 product categories, on which a quantitative limit is now in place. The European Communities on their part have not had recourse to these provisions so far. However, with mounting pressure from its industry and in view of a sharp increase in imports of certain products from China in the first few months of 2005, it has introduced guidelines for monitoring such imports and possibly introducing safeguards on Chinese exports to the European Union.

The extent to which the provisions of paragraph 242 will be used by WTO Members is obviously not known, but its mere existence has already created uncertainty for operators and influenced their sourcing decisions. Certainly, the evolution of the international trade patterns in this sector, and the resulting necessary adjustment, will largely be affected by the extent to which these provisions will be used.

As part of the ongoing Doha Development Round, what should be decided in the not-so-distant future (that is, before the summer break and, more importantly at the Hong Kong Ministerial Conference), if WTO Members are to complete the DDA negotiations in 2006, will also affect trade in the sector. In particular, the Non-Agricultural Market Access negotiations are directly relevant also to textiles and clothing, more particularly so in view of the fact that the sector is still affected by higher than average tariffs and by tariff peaks and tariff escalation. From a global point of view, one has to be encouraged by the discussions that have taken place since the framework decision has been adopted at the end of July last year. Members seem to accept working on the basis of a non-linear formula, and possibly even a Swiss or Swiss-type formula. Last week, Argentina, Brazil and India have made a joint proposal for a Swiss type formula that would use as a coefficient Members' average bound tariffs. It is too soon to draw conclusions regarding the direction the discussions will take but it is clear that flexibilities are an important component of the modalities. For example it is recognized in the July package that LDCs would be exempted from the formula cuts and the sectoral approach.

Furthermore, developing countries with less than 35% of binding coverage would be exempted from formula cuts. The countries currently covered by the exception are the following: Cameroon, Congo, Côte d'Ivoire, Cuba, Ghana, Kenya, Macao China, Mauritius, Nigeria, Sri Lanka, Suriname and Zimbabwe. So with these flexibilities a large number of African countries would be exempt from formula cuts.

In addition, developing countries subject to a formula cut, can avail themselves of certain flexibilities that have been outlined in paragraph 8 of the NAMA framework.

Concerning preferences, your main export markets, the United States in particular, still maintain some relatively high tariffs, and for those of you which enjoy a preferential treatment, be it under AGOA or under the EU EBA or GSP provisions, the margin of preference will be reduced as MFN tariffs will be cut as a result of the negotiations. Of course, please note that the many free trade agreements have already resulted in the erosion of such preferences and will continue to do so, as it is an ongoing process. In any case coming back to the NAMA framework, paragraph 16 "recognizes the challenges that may be faced by non-reciprocal preference beneficiary Members and those Members that are at present highly dependent on tariff revenue as a result of these negotiations on non-agricultural products, and so the Negotiating Group is instructed to take into consideration, in the

course of its work, the particular needs that may arise for the Members concerned." The discussions on the question of erosion of preferences is an interesting one as the challenge will be to reconcile the divergent views among developing countries with offensive and defensive interests in the same products and in the same export markets.

The point has also been made regarding liberalization and access to markets amongst developing countries, as many see opportunities in the development of South-South trade. This could be another avenue to consider as a way to adjust to the new situation created by the elimination of all ATC quotas.

The key challenge of course in the NAMA negotiations will be to try to achieve the right balance between the level of ambition and necessary flexibilities, and this is a challenge that will have to be faced in the near future.

Now, even if this Session today is devoted to the impact of the end of ATC quotas, I have been asked to give you an update on the "cotton issue", as this is of interest to many of you. You will recall that in July 2003 Benin, Burkina Faso, Chad and Mali had made a proposal for a sectoral initiative in favour of cotton. This initiative called for the establishment at the Cancún Ministerial Conference of a mechanism to phase out support for cotton production, with a view to its total elimination in three years, as well as for transitional measures in the form of financial compensation for cotton producing LDCs. The aim of these compensation measures was to offset the loss of revenue incurred by these four countries, until support for cotton production would have been completely phased out. That proposition was not alien to the fact that no substantive decision emerged from the Cancún Ministerial Conference. After Cancún, it became apparent that one way to better assist the proponent countries was to focus at the same time on two components: the trade aspects (which would be taken under the broader agriculture negotiations, something that the proponents did not accept at that point), and the development assistance aspects. Eventually, the proponents accepted that approach, and the Framework Decision has settled that the trade-related aspects of this issue "will be addressed ambitiously, expeditiously, and specifically, within the agriculture negotiations." Furthermore, it has been decided that a Subcommittee on Cotton would be established and "meet periodically and report to the Special Session of the Committee on Agriculture to review progress. Work shall encompass all trade-distorting policies affecting the sector in all three pillars of market access, domestic support, and export competition, as specified in the Doha text and this Framework text."

Things have evolved since the Framework Decision on the two aspects of the cotton issue. First, as regards the trade aspect, the Cotton Sub-Committee has been established and has had two meetings. It has now agreed on a work program, which calls for the sub-Committee to "work in depth on all trade-distorting policies affecting the sector in all three pillars of market access, domestic support and export competition." The next Sub-Committee meeting is scheduled for tomorrow 28 April. On the development side, *inter alia*, the Development Assistance Committee of the OECD organized a briefing on 28 January 2005, implementing one of the agreed outcomes of the Cotonou Workshop which took place last year. The briefing was designed to accelerate implementation of the development aspect of the cotton-related decisions in the Framework Decision. Second, the European Union has forwarded to the WTO Secretariat an update on the implementation of the EU-Africa Cotton Partnership, illustrating the concrete progress and giving impetus to the development assistance aspect. Third, the United States has also forwarded to the WTO Secretariat an update on the implementation of the development assistance aspect pursuant to the July Package, indicating that significant resources are available for eligible countries in the Millennium Challenge account to address development obstacles, if eligible countries identify cotton as a priority and propose well defined cotton projects in accordance with that priority. Fourth, the African Development Bank is preparing a "Multinational Programme for the Improvement of the Competitiveness of the Cotton Sub-Sector in Central and West Africa", with the support of the FAO. Also, the Director-General of the WTO is providing periodic reports on relevant developments on the cotton issue to the WTO General Council, in accordance with paragraph 1(b) of the Framework decision.

You also know that Brazil raised in the Dispute Settlement Body the issue of subsidies provided by the United States to its producers of Upland Cotton. In late March 2005 the Appellate Body has confirmed many of the conclusions reached by the Panel set up for considering this issue. In particular the Appellate Body has found that certain US payments to its farmers cannot be considered as "Green Box" (trade neutral) support but are "Amber Box" support, i.e. that the United States would need to reorganize its domestic support regime if it wants it to be WTO compliant. I understand that last week the United States' Administration has announced its intent of complying with the Panel and Appellate Body findings.

Textiles and clothing will clearly remain a subject for debate in the WTO, at least in the foreseeable future. However, one can be confident that when dust will have settled and some time passed, it will be clear that, in this sector as well as in any other sector of trade, the benefits of liberalization will in the end outweigh the inevitable adjustment problems. I would in this regard echo the Director-General of the WTO in saying that the concerns expressed by some exporting Members, which many of you share, can probably be best responded to by institutions that can make appropriate means available with a view to reducing the burden of the adjustment costs for those affected. In this regard, the Technical Assistance programme of the WTO is taking this into consideration by associating the World Bank, the IMF and the ITC to its national activities in so far as they relate to textiles and clothing.