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SECOND MAJOR REVIEW OF THE IMPLEMENTATION OF THE AGREEMENT ON TEXTILES AND CLOTHING BY THE COUNCIL FOR TRADE IN GOODS

Communication from Uruguay

At the request of the Permanent Mission of Uruguay on behalf of members of the ITCB¹ that are also Members or observers of the WTO, the text of the statement made at the meeting of the Council for Trade in Goods on 27 September 2001, along with a set of tables provided at the meeting of 17 October 2001, are being circulated to Members.

¹ The ITCB members and observers of the WTO are Argentina; Bangladesh; Brazil; China; Colombia; Costa Rica; Egypt; El Salvador; Guatemala; Honduras; Hong Kong, China; India; Indonesia; Republic of Korea; Macau, China; Maldives; Mexico; Pakistan; Paraguay; Peru; Sri Lanka; Thailand, Uruguay and Vietnam.

**Meeting of the Council for Trade in Goods
27 September 2001**

Second Major Review of ATC Implementation

***Statement by Mr. William Ehlers
Acting Chairman ITCB***

I have the honour to speak on behalf of 24 members (in fact we are 25 including the Democratic Peoples' Republic of Korea) of the International Textiles and Clothing Bureau that are also Members or Observers of the WTO, namely, Argentina; Bangladesh; Brazil; China; Colombia; Costa Rica; Egypt; El Salvador; Guatemala; Honduras; Hong Kong, China; India; Indonesia; Republic of Korea; Macao, China; Maldives; Mexico; Pakistan; Paraguay; Peru; Sri Lanka; Thailand, Uruguay and Vietnam.

Let me say at the outset that my initial remarks are designed to offer our thoughts on the importance that we attach to this major review, on the purpose of the review, and on how best to conduct it in a methodical manner. Needless to say that these remarks may be complemented by individual statements by our members.

I cannot over-emphasize that members of the ITCB, indeed developing countries in general, attach the utmost importance to this major review. It derives from the great significance that textile and clothing occupies in our economies, both for exports, and for generation of investment and employment opportunities. It also derives from our commitment to securing the full application of GATT rules and principles to trade in the sector.

In this connection, I also wish to recall that the conclusion of the Agreement on Textiles and clothing was seen as one of the major achievements of the Uruguay Round, owing to its promise to contribute to the gains from the Round. In fact more than one third of the total benefits from the Round were estimated to come from liberalization of quota restrictions. And might I add that the ATC was also hailed due to the immense systemic significance of the phase-out of quota restrictions for the rule-based, non-discriminatory trading system, and for re-establishing developing countries' confidence in its framework.

The ATC is a transitional agreement with a duration of ten years in which the textile and clothing sector is to be fully integrated into the normal rules and disciplines of the GATT. In accordance with Article IV of the WTO Agreement, the Council for Trade in Goods (CTG) is responsible for overseeing the functioning of the Agreement. In addition, the ATC specifically mandated the CTG to conduct three major reviews of its implementation during this period. The second, i.e., the present, review is effectively the most important because it comes at a time when the integration programmes for the final three years of the process have already been notified to the WTO and, unless further steps are taken, these will cover the remaining period of transition. The last of the three reviews will only be conducted shortly before the full and irreversible integration of the sector into the GATT.

Let me stress that the ATC provided for these major reviews for a purpose: i.e., to forestall any problems along the way, and to take corrective steps to ensure that the process of integration is on track. It is therefore critical that the CTG conduct a thorough review of all main aspects of ATC implementation. We have the responsibility of doing so in a serious, comprehensive and open manner. I can assure you that the members of the ITCB approach this review accordingly. I trust you will agree with me if I also say that, due to our pre-occupations with so many meetings in this house, we should ensure that our exercise is not only purposeful but also expeditious.

The ATC explicitly specifies the purpose of the major review. Article 8:12 of the Agreement requires that, in light of its review, **‘the CTG shall take such decisions as it deems appropriate to ensure that the balance of rights and obligations embodied in [the] Agreement is not being impaired’** (emphasis added). Therefore, besides being thorough, it is imperative that the CTG make an assessment of whether there has been any impairment to rights and obligations under the ATC and, in light of this assessment, take appropriate decisions to restore the balance.

Turning to the conduct of the review, the Textiles Monitoring Body has provided a comprehensive report (G/L/459). We appreciate and commend the Body for its thorough and all-inclusive approach. It makes a useful contribution to the review, although we feel that, in order for the review to be efficient, it is important to sift, from extensive details contained in the report, the main elements that are germane to the CTG’s assessment of whether the balance of rights and obligations has or has not been impaired. We believe that such an approach is essential, to avoid losing sight of the purpose of the review.

Moreover, useful as the TMB report is, it should not substitute for the CTG’s own review. In view of its mandate pursuant to Article 8:12 of the ATC, the CTG review needs to be broader in scope and focus, in particular, on making an assessment on whether the balance of rights and obligations embodied in the ATC is being maintained.

We, on our part, have made a submission setting out our own assessment of the implementation process thus far. I trust this submission has been circulated by the WTO Secretariat and Members have had the opportunity to examine it. Our submission makes a systematic presentation, generally following various articles and provisions of the ATC. We hope that you find the structure of our submission useful in contributing to conducting the major review in a systematic manner. As we proceed with the review of different elements of the implementation process, we also propose to make available self-explanatory tables to facilitate CTG’s consideration of certain issues.

Before concluding, allow me to recall that the ATC is well into the seventh year of its implementation. After less than four months, only three years would be left to complete the process. It follows, therefore, that substantial advance should have been made towards the realization of its objectives. Unfortunately, little meaningful progress can be shown to that end. On the contrary, for the reasons detailed in our paper, the balance of rights accruing under the Agreement to developing country Members whose exports have long been restrained by quotas, has been seriously impaired. Therefore somewhat later in the process, we might also submit certain suggestions for adoption by the Council, pursuant to its mandate under Article 8:12 of the Agreement.

In closing, it remains for me to say that it might also be useful to recall the Council’s conclusions and recommendations from its first major review and to see the extent to which these may or may not have been implemented.

In all this I know that we can count on your patience, understanding and fairness: the attributes for which you are so well known in these corridors. I thank you for your attention.

ANNEX

TABLE 1

**IMPLEMENTATION OF ATC
(Pace of quota phase-out)**

	USA	EU	Canada	Norway
Total number of quotas at start of ATC ^a	757	219	295	54
Of which phased-out ^b :				
(i) Stage 1 By integration under Art. 2.6 By early elimination under Art. 2:15	0 0	0 0	6 0	0 46
(ii) Stage 2 By integration under Art. 2.8(a) By early elimination under Art. 2:15	3 10 ^c	14 0	23 0	0 8
(iii) Stage 3 By integration under Art. 2.8(b)	43	38 ^d	25	0
Stages 1 + 2 + 3	56	52	54	54
Quotas to liberalize only on 1/1/2005 ^e	701	164	241	0

a Including specific limits and sub-limits.

b Numbers do not include product categories on which quotas have been eliminated only partially.

c Eliminated only for Romania, not for any other restrained Member.

d does not include another 3 quotas that EU has suspended in respect of one WTO Member.

e. the comparable numbers in the TMB report are 701 for the US, 167 for EU, 239 for Canada.

Observation:

It may be noted from this table that, over the entire 10-year transition, only a few quotas are being phased out. The large bulk still remains in place.

The ATC required the phase-out process to be “progressive”. The table demonstrates that the restraining countries have failed to observe this requirement.

TABLE 2
INTEGRATION PROGRAMMES ANALYZED

UNITED STATES

1990 ATC Imports			Of which: under specific restriction		
	Million square meters	Share	Million square meters	% of 1990 Total	% of Restrained
Total	17,025	100%	10,239	60.14%	100%
Integration:					
Stage 1	2,760	16.21%	0	0	0
Stage 2	2,899	17.03%	362	2.13%	3.54%
Stage 3	3,083	18.11%	1,636	9.61%	15.98%
Stages 1+2+3	8,742	51.35%	1,998	11.74%	19.52%
Last day	8,283	48.65%	8,241	48.41%	80.49%

EUROPEAN UNION

1995* Imports			Of which: under specific restriction		
	Tons	Share	Tons	% of 1995 total	% of restrained
Total	5,186,525	100.00%	3,026,892	58.36%	100.00%
Integration:					
Stage 1	836,244	16.12%	0	0%	0%
Stage 2	887,262	17.11%	165,545	3.19%	5.47%
Stage 3	1,005,846	19.39%	469,533	9.05%	15.51%
Stages 1 + 2 + 3	2,729,352	52.62%	635,078	12.24%	20.98%
Last day	2,457,173	47.38%	2,391,814	46.12%	79.02%

* The year from which the EU membership expanded to EU-15.

Observation:

This table shows that only 20/21% of trade that was actually under quota restriction has been integrated, a far cry from 51% shown as integrated.

The approach has turned the mechanics of integration (i.e., 16%, 17% and 18%) as if these were the purpose of the Agreement. The objective of integration under the ATC was/is the progressive phase-out of “restrictions” applied under the pre-ATC dispensation.

TABLE 3
THE SPREAD OF INTEGRATION PROGRAMMES
STAGE 1, 2 AND 3 COMBINED

Integration as Percentage of the Volume of 1990 Imports*					
Restraining Member	Yarns	Fabrics	Made-ups	Clothing	Total
USA	19.72	8.06	17.12	6.45	51.35
EU*					
1995	18.82	14.77	9.76	9.27	52.62
1990	19.86	13.07	9.71	8.75	51.39
Canada	17.10	10.54	18.63	6.87	53.14
Norway	12.83	20.53	19.75	11.88	65.00

* EU Data for 1995 is also shown because the EU membership increased to EU-15 from that year.

Observation:

It is apparent from this table that the restraining countries have concentrated their integration programmes in low value-added products, i.e., yarns, fabrics and made-ups.

TABLE 4(a)
1996 QUOTA UTILIZATION*
FOR RESTRAINED PRODUCTS INTEGRATED IN STAGE 2

Category Integrated	Product Description	Exporting Member under QRs	Quota Utilization
US:			
353/4/653/4	Down-filled coats	Korea Rep.	12.23%
465	Floor coverings	Romania	28.34%
632	Hosiery	Korea Rep.	39.28%
EU:			
19	Handkerchiefs	Macao China	0.00%
46	Sheep/Lamb wool	Argentina	7.01%
46	Sheep/Lamb wool	Brazil	13.10%
61	Narrow woven fabrics	Hong Kong China	1.55%
67	Crocheted clothing accessories	Korea Rep.	19.58%
70	Panty hose	Korea Rep.	4.58%
72	Swimwear	Hong Kong China	35.54%
74	Women crocheted suits	Hong Kong China	6.17%
77	Woven ski suits	Hong Kong China	17.29%
77	Woven ski suits	Korea Rep.	2.05%
86	Corsets	Korea Rep.	2.66%
91	Tents	Korea Rep.	31.06%
100	Coated fabrics	Korea Rep.	46.45%
111	Camping goods	Korea Rep.	5.35%

Notes:

- 1) Quota utilization is based on notified quota levels. The year 1996 has been chosen because the second stage integration programmes were notified in that year.

Source:

USA: OTEXA publications, US Commerce Department.
EU: Eurostat.

Observation:

Tables 4A and 4B reveal that the products on which quotas have been abolished were not commercially significant for developing countries. This is evident from low quota utilization rates.

TABLE 4(b)
(will take out the portion for Canada)

1999 QUOTA UTILIZATION*
FOR RESTRAINED PRODUCTS TO BE INTEGRATED IN STAGE 3

Category integrated	Product Description	Exporting Member under Quota	Quota Utilization*
US:			
222	Special fabrics	Singapore	0.00%
350	Robes, dressing gowns	Brazil	34.45%
350	Robes, dressing gowns	Haiti	20.20%
350	Robes, dressing gowns	Hong Kong China	105.06%
350	Robes, dressing gowns	Korea Rep.	111.12%
350	Robes, dressing gowns	Philippines	56.87%
350	Robes, dressing gowns	Romania	0.71%
350	Robes, dressing gowns	Turkey	103.91%
350/650	Robes, dressing gowns	Indonesia	54.11%
350/650	Robes, dressing gowns	Malaysia	23.87%
350/650	Robes, dressing gowns	Sri Lanka	84.01%
350/850	Robes, dressing gowns	Macao China	88.89%
359H	Headwear	Korea Rep.	17.23
369D	Dishtowels	Brazil	67.39%
369D	Dishtowels	India	100.15%
369D	Dishtowels	Sri Lanka	1.57%
369D	Dishtowels	Thailand	80.25%
369F	Cotton dishtowel	Pakistan	103.84%
431	Gloves	Philippines	27.85%
607	Staple fibre yarn	Brazil	0.27%
607	Staple fibre yarn	Korea Rep.	3.04%
607	Staple fibre yarn	Thailand	80.24%
649	Brassieres	Hong Kong China	92.55%
649	Brassieres	Philippines	21.95%
650	Robes, dressing gowns	Hong Kong China	46.03%
650	Robes, dressing gowns	Korea Rep.	61.24%
650	Robes, dressing gowns	Philippines	72.14%
669P	Polyethylene bags	Brazil	7.18%
669P	Polyethylene bags	Korea Rep.	4.14%
669P	Polyethylene bags	Thailand	72.50%
834	Other MB coats	Hong Kong China	18.35%
835	WG coats	Hong Kong China	33.91%
835	WG coats	Korea Rep.	39.56%
835	WG coats (Sub limit)	Malaysia	0.09%
836	Dresses	Hong Kong China	85.8%
840	Non-woven shirts	Hong Kong China	83.22%
840	Non-woven shirts	Sri Lanka	45.72%
842	Skirts	Hong Kong China	11.27%
847	Trousers	Bangladesh	28.76%
847	Trousers	Hong Kong China	30.51%
847	Trousers	Indonesia	39.19%

847	Trousers	Philippines	3.27%
847	Trousers	U. A. Emirates	22.42%
EU:			
10	Knit gloves	Hong Kong China	26.74%
10	Knit gloves	Korea Rep.	28.89%
10	Knit gloves	Philippines	15.88%
10	Knit gloves	Thailand	50.71%
18	Woven pyjamas/bathrobes	Hong Kong China	11.37%
18	Woven pyjamas/bathrobes	Korea Rep.	8.15%
18	Woven pyjamas/bathrobes	Macao China	30.55%
18	Woven pyjamas/bathrobes	Pakistan	31.59%
21	Parkas, anoraks	Hong Kong China	119.88%
21	Parkas, anoraks	Indonesia	91.20%
21	Parkas, anoraks	Korea Rep.	53.42%
21	Parkas, anoraks	Macao China	132.43%
21	Parkas, anoraks	Philippines	18.19%
21	Parkas, anoraks	Sri Lanka	21.98%
21	Parkas, anoraks	Thailand	34.84%
24	Knit pyjamas/bathrobes	Hong Kong China	15.98%
24	Knit pyjamas/bathrobes	India	86.01%
24	Knit pyjamas/bathrobes	Korea Rep.	3.22%
24	Knit pyjamas/bathrobes	Macao China	102.26%
24	Knit pyjamas/bathrobes	Thailand	29.46%
27	Skirts	Hong Kong China	21.97%
27	Skirts	India	41.87%
27	Skirts	Korea Rep.	37.42%
27	Skirts	Macao China	27.69%
32	Woven pile fabric	Hong Kong China	4.54%
32	Woven pile fabric	Korea Rep.	23.56%
33	Synthetic filament yarn fabric	Indonesia	2.10%
33	Synthetic filament yarn fabric	Korea Rep.	17.20%
36	Continuous artificial fibre fabric	Korea Rep.	61.14%
37	artificial staple fibre fabric	Korea Rep.	33.74%
68	Baby garments	Hong Kong China	48.10%
68	Baby garments	Korea Rep.	50.71%
73	Knit track suits	Hong Kong China	66.38%
73	Knit track suits	Korea Rep.	36.77%
73	Knit track suits	Macao China	27.43%
73	Knit track suits	Philippines	13.62%
73	Knit track suits	Thailand	50.00%

Notes:

- 1) Quota utilization is based on notified quota levels. The year 1999 has been chosen because the third stage integration programmes were notified in that year.

Source:

USA: OTEXA publications, US Commerce Department.
 EU: Eurostat.

TABLE 5
INCREASE IN QUOTAS BY APPLICATION OF ENHANCED GROWTH FACTORS
(STAGES 1 AND 2 COMBINED)

WTO Member	Average pre-ATC growth rates	Total access increase	Annual access increase 1995 – 2001
EU	3.44%	4.49%	0.73%
Canada	5.26%	7.53%	1.22%
USA	4.61%	6.36%	1.03%

Observation:

It may be noted that the additional yearly access provided under the growth-on-growth provisions of the Agreement has been extremely small.

And in any case, the increase in quotas cannot be a substitute for the elimination of quotas.

TABLE 6
**QUOTA GROWTH RATES
FOR SMALL SUPPLIERS**

Pre-ATC rate 6% (Assumed)

Growth rates applied by US and Canada:

<u>Rate for (years)</u>	<u>As applied by US and Canada</u>	<u>As should have been</u>
1995, 1996, 1997: (Stage 1)	$6\% \times 1.25 = 7.50\%$;	$6\% \times 1.16 \times 1.25 = 8.70\%$
1998 through 2001: (Stage 2)	$7.50\% \times 1.27 = 9.53\%$;	$8.70\% \times 1.27 = 11.05\%$
2002, 2003, 2004: (Stage 3)		
Should be:	$9.53\% \times 1.27 = 12.10\%$;	$11.05\% \times 1.27 = 14.03\%$

Difference in % per year:

For stage 1:	$8.70\% \text{ minus } 7.50\% = 1.20\%$
For stage 2:	$11.05\% \text{ minus } 9.53\% = 1.52\%$
For stage 3:	$14.03\% \text{ minus } 12.10\% = 1.93\%$

Observation:

It may be noted that the methodology employed by Canada and US consistently denied access possibilities to small suppliers by significant percentages. In case of least developed countries, these percentages are yet more pronounced because they have not been extended even the small suppliers' treatment.

TABLE 7
QUOTAS CONTINUE TO BITE*

Import market	Year	Total number of quotas**	Number of quotas in which imports exceeded quota ceilings***
USA	1999	674	159
	2000	674	167
EU	1998	183	41
	1999	183	32

* Data are in respect of WTO Members only.

** The total number of quotas are different from those in table 1 because this table includes only self-standing limits and sub-limits. limits on part categories of products, for which separate utilization data are not available, could not be included.

*** Quota ceilings are those calculated by application of growth rates (including growth-on-growth) to the respective base levels notified at the start of the implementation period.

TABLE 8

US SAFEGUARD ACTIONS UNDER THE ATC

Product/Country	Exports affected by action US \$ Million	TMB finding/outcome
Underwear Category 352/652	622.2	
Costa Rica		A Dispute Panel and Appellate Body found that the measure violated US obligations.
Honduras		Although bilateral restraint agreed, the measure was on the same basis as was found to be inconsistent with US obligations in Costa Rica case.
Colombia		- do -
Dominican Republic		- do -
El Salvador		- do -
Turkey		- do -
Thailand		US informed TMB of decision to rescind, as product was already under group limit.
Shirts and Blouses Category 440	3.2	
India		A Dispute Panel and Appellate Body found that the measure violated US obligations.
Hong Kong		TMB found measure unjustified, as product was already under group limit.
Coats Category 435	11.6	
India		TMB found no damage to US industry but could not reach consensus on whether actual threat of damage existed. US decided to rescind the measure.
Honduras		- do -
Suit-type coats Category 434	6.1	
Brazil		US withdrew the call on its own.
India		TMB found the measure unjustified.
Nightwear Category 351/651	55.6	
Honduras		TMB found the measure unjustified.
Costa Rica		US withdrew the measure on its own.
El Salvador		- do -
Jamaica		- do -

Luggage	243.6	
Category 670-L		
Thailand		US withdrew the call on its own.
Philippines		- do -
Sri Lanka		- do -
Staple yarn	3.3	
Category 603		
Thailand		- do -
Skirts	23.6	
Category 342/642		
Guatemala		TMB found the restraint agreement justified, however only in overall terms.
Suits	4.9	
Category 444		
Colombia		- do -
Philippines		US withdrew the call on its own.
Skirts	17.2	
Category 342/642		
El Salvador		TMB found measure to be justified.
Combed cotton yarn	9.0	
Category 301-Part		
Pakistan		US withdrew the call on its own.
Staple yarn	6.1	
Category 603		
Thailand		TMB declared the agreed restraint as justified. (However in the following case – category 301 Pakistan -- in which the measure was taken on the same general grounds as in this case, a dispute panel and the Appellate Body found the measure unjustified.)
Combed cotton yarn	14.3	
Category 301		
Pakistan		A Dispute Panel and Appellate Body found that the measure violated US obligations.
Total calls	28	
Exports affected	\$ 1020.7 Million	

Note: Amounts shown for categories 301-part and 607-L, correspond to the entire category

Source: US Department of Commerce, Major Shippers Report

Observation:

This table demonstrates that, of the total of 28 safeguards, only three were found to be justified; that too by stretching the interpretation of ATC provisions. In other words, virtually none of the actions was valid. Even so, the actions adversely affected \$1020.7 million worth of exports from the countries concerned.

TABLE 9
CHANGES IN SHARES IN EU IMPORTS
COUNTRIES SUBJECT TO ANTI-DUMPING ACTIONS

Product	Before action	Following action	After termination	
<u>Synthetic fabrics</u>	<u>1993</u>	<u>1995</u>	<u>1997</u>	
Value	50.24%	52.89%	56.53%	Investigation terminated in 1996; India, Indonesia, Pakistan Thailand
Volume	66.64%	63.57%	70.44%	
<u>Cotton fabrics</u>	<u>1993</u>	<u>1998</u>	<u>2000</u>	
Value	55.83%	38.58%	42.36%	Duties withdrawn in 1998; China, Egypt, India, Indonesia, Pakistan, Turkey
Volume	59.04%	37.60%	40.44%	
<u>Bed linen</u>	<u>1993</u>	<u>1994</u>	<u>2000</u>	
Value	49.00%	47.56%	41.31%	Definitive duties continue; Egypt, India, Pakistan, Thailand
Volume	51.84%	50.90%	44.65%	
<u>Sacks and bags</u>	<u>1994</u>	<u>1997</u>	<u>2000</u>	
Value	52.86%	21.14%	28.82%	Definitive duties continue; India, Indonesia, Thailand
Volume	57.76%	22.93%	36.89%	

Data source: Eurostat, Intra and Extra-EU trade.

Observations:

- This table demonstrates how access accruing to affected countries under the ATC had been impaired by anti-dumping actions.
- It is also pertinent that WTO Appellate Body found the action on bed linen in the Indian case to be inconsistent with EU obligations.
- Moreover, the Appellate Body faulted important aspects of the methodology employed by the EU in dumping determinations, raising serious questions about the validity of EU actions in general.