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GOING DOWN THE FREE TRADE AGREEMENT ROUTE
The Position of the European Textile and Clothing Industries

Against the background of the “suspended” DDA negotiations, Euratex welcomes the Commission's renewed approach towards free trade agreements with key partners and wishes to make known the views of Europe's textiles and clothing industries as to the more specific objectives to be pursued.

Introduction

On behalf of the EU textile and clothing industry, Euratex remains fully committed to the multilateral process as being the most important route to deliver global and tangible market access to EU exporters. This has been the industry's major trade policy objective since Euratex itself was created more than 10 years ago.

Under present circumstances, however, Euratex welcomes the Commission initiative to give a new impetus to market access through a “new generation” of bilateral agreements as an alternative mean of achieving market access.

Europe has long experience in reaching bilateral agreements and consequences should be drawn from this experience. Euratex warmly welcomes the fact that for the first time for a number of years the Commission approach, backed by the European Parliament and the Member States, focuses on economic-driven FTAs. Euratex then views positively preliminary discussions between trading partners to ensure that there is equal willingness and level of ambition for future FTAs on both sides.

In this context it is crucial for textiles and clothing that the principle of reciprocity and symmetry should govern the negotiations and the result should be visibly and undeniably free trade between the EU and the trading partner concerned. To this must be added the need for early conclusion to negotiations and rapid implementation of agreements reached. This will enable EU textile and clothing exporters themselves to take earlier advantages of access to a number of rapidly growing markets. Indeed, the inclusion in the mandate of time limits to avoid losing too much time in endless negotiations (i.e. Mercosur) would prove helpful.

An Ambitious Tariff Cutting Agenda

Most of the countries/regions selected by the Commission (annex 1) are part of the priority markets defined in the Market Access Action Plan (MAAP) for the textile, clothing, leather and footwear industries agreed in the context of the High Level Group in June 2005. However the textile and clothing industry is very much supportive of possible FTAs with markets that are already of economic importance but do not yet yield their full potential such as Canada, Japan or the USA.

1. Tariffs should be reduced symmetrically within the shortest possible time frame. The textile and clothing industry would indeed support reciprocal zero duties on day one of implementation, subject to agreement on all other issues.
2. There should be no exceptions, and no flexibilities should be permitted (e.g. for sensitive products) in the textile and clothing area. Thus the FTA should cover 100% of tariff lines of Section XI of the Harmonised System (HS chapters 50 to 63 including raw materials).



3. For certain products the industry would like to explore the possibility of early implementation of the agreement before it formally enters into force.
4. The existence of a FTA should not preclude the use where appropriate, by the European authorities, of trade defence instruments under the rules of the WTO allowing the introduction of anti-dumping or countervailing duties.

Systemic removal of NTB's

Euratex also welcomes the recognition by the Commission of the importance of NTBs as growing barriers to the true benefits of FTAs. Euratex has fought for more than 10 years to ensure the abolition of such barriers that hamper EU exporters in their bid to secure the advantages of trade liberalisation.

It is of the utmost importance to set the scene correctly to avoid NTBs (present and future) reducing the attractiveness of FTAs. An innovative approach is needed:

1. Partners should agree to [a] a standstill on the introduction of new or modified NTBs; [b] ban all present and future NTB's as defined in annex 2 and [c] agree not to re-introduce new NTB's during two/three years following the entry into force of the free trade agreement, thus providing enough time to put in place new transparent monitoring systems both for Technical Barrier to Trade (TBT) and Trade Facilitation measures.
2. Euratex proposes that all custom related issues should be treated and monitored in full transparency by a trade facilitation group using an evaluation system inspired by the one existing for TBT issues in the WTO and having the power to impose its decisions.
3. All technical barriers to trade (existing and future) should be subject to a "preventive mechanism" that will serve as an evaluation / proportionality system helping trading partners to define the right balance between the policy legitimacy of technical, environment, health and security measures and the trade restraining effect resulting from them.

In respect of definition, NTBs are recognised as one of the major trade problems that SMEs exporting worldwide are facing. This was again recognised by the Commission with the acceptance of the MAAP in 2005 and of the appended list of NTBs that still remain valid and could be expanded with other lists.

In this context it is crucial to build upon the excellent notifications made by the EU Commission in April 2006 to the WTO as far as labelling and certification are concerned. Those papers should, as a minimum, be embedded in future FTAs with clear provisions to avoid an escalation (mediation mechanism & annex 3). In addition notification of export restrictions should also be considered of interest for the textile and clothing industry, in particular for accessing raw materials. Moreover it seems logical that the Commission and the trading partners should build upon the existing work carried out within the trade facilitation working party in the WTO to introduce high standards but easier and clearer customs procedures aiming at reducing costs of compliance and time spent at the border for customs clearance.

Ensure that benefits from the FTA will protect high value products.

FTAs will boost bilateral trade but Europe should ensure that the textile and clothing SMEs exporting to those countries will see their rights adequately safeguarded while at the same time their access to final consumers is guaranteed. Euratex supports the Commission approach that "*many key issues, including investment, public procurement, competition, other regulatory issues and IPR enforcement, which remain outside the WTO at this time can be addressed through FTAs.*"

1. For Euratex, intellectual property rights are of paramount importance. Indeed, textiles and clothing industries are completely in line with the Commission approach in enhancing the defence of IPR for the

European exporters and in particular SMEs. It is vital that all partner countries adopt and enforce on day one of the entry into force of the FTA the provisions on textile designs (art. 25.2 of TRIPS agreement)¹

For our industry, that creates a large number of designs, the principle of having the possibility of automatic protection as of the first disclosure of the design to the public is an absolute necessity, so the creation of a common “unregistered design” protection available in the FTA area might be promoted as much as possible. Moreover the implementation of legal protection for industrial designs must aim not only at fighting counterfeiting and “parasitic behaviour”, but also at fostering creation.

An immediate effective protection, adapted to the realities of textile aesthetics creation, must be set up, rather than an arsenal of provisions to defend intellectual property which is destined to fight counterfeiting *a posteriori* and whose cost cannot be borne by SMEs.

2. For the textile and clothing industry it is important to ensure a clear, safe and free investment environment that will help companies invest into additional services to final customers in growing markets (i.e. retailing, distribution channels).
3. Access to government procurement for textile and clothing SMEs in partner countries may represent a further opportunity for EU exporters to sell their high quality products to the benefit of the local public and private customers. Euratex considers that as a minimum, partners should use as a negotiating basis the Government Procurement Agreement legal text to ensure full implementation of open, transparent and non discriminatory procurement principles.
4. At a time when the EU finalises its first new generation FTAs, the REACH legislation will come into force. To avoid “environmental delocalisation” it is crucial that there is agreement to respect the REACH requirements and that the legislation should apply equally to imported products.
5. The issue of illegal state aids is also of concern to part of our industry and Euratex consider that there must also be symmetry between state aids allowable in the European Union and those allowable in a partner country or area; possible wording could be *‘both Parties shall refrain from any measure or practice of an internal fiscal nature establishing discrimination between the products of one Party and like products from the other Party’*.

Last but not least, without wishing to hamper EU willingness to favour “WTO+” approaches, the Commission should not lose sight of the fact that, as past experience shows, the above new topics may become a negotiating problem if not an obstacle to rapid conclusion of FTAs. Thus provisions should be included that will not prevent the rapid implementation of agreed market access issues (tariffs, NTBs, IPR) while at the same time encouraging the conclusion of an agreement with wider coverage.

Draw the lessons from the past

There is little need to stress the importance for FTAs to have coherent rules of origin that should benefit both FTA partners while at the same time not creating a “spaghetti bowl” effect that will impede economic operators from fully benefiting from the FTA. Moreover those rules should not create conflicting requirements with other existing rules and should foster complementarity for the partners while at the same time allow the strengthening of trading links in respect of the rules.

Moreover, it is Euratex perception that there should be very strict control/monitoring of the respect of customs, IPR, rules of origin and other commitments agreed by both partners to avoid transshipment and counterfeiting. In the context of the need to ensure the respect of commitments, Euratex would advocate the

¹ SECTION 4: INDUSTRIAL DESIGNS Article 25 - Requirements for Protection – par. 2: “Each Member shall ensure that requirements for securing protection for textile designs, in particular in regard to any cost, examination or publication, do not unreasonably impair the opportunity to seek and obtain such protection. Members shall be free to meet this obligation through industrial design law or through copyright law.”

setting-up of a “mediation mechanism”² having the power to implement solutions to rapidly overcome possible commercial problems and thus prevent acrimony.

The textile and clothing industry remains central in the economy to several of a number of potential future partners, the EU industry underlines the importance to avoid the option for partners to block our exports by (repeated) recourse to safeguard provisions.

Finally, Euratex would like to address the issue of the Customs Union with Turkey, as an appropriate solution should be part of the FTA package, to avoid delays in negotiations that Turkey may face if third parties are not willing to negotiate, despite the obligation for our Customs Union partner to have the same trade policy as the EU. One way would be to create an organic link fostering the need for the trading partner to embark simultaneously upon the same type of negotiation with Turkey as with the EU.

Conclusion

EU-25 textiles and clothing main objectives for future FTAs
<p style="text-align: center;">SYMMETRY AND RECIPROCIITY</p> <p><i>Tariffs Barriers</i></p> <ul style="list-style-type: none">• Rapid negotiations & short implementing lead time.• Full product coverage and full reciprocity in timing and scope.• Possible sectoral/sub-sectoral early implementations.• Possible 0% for 0% approach. <p><i>Non-Tariff Barriers</i></p> <ul style="list-style-type: none">• Standstill on NTBs.• Build on existing Commission submissions as far as labelling, certification, export restrictions and trade facilitation are concerned.• Commitment for a mediation mechanism. <p><i>Protect high value content products</i></p> <ul style="list-style-type: none">• Effective intellectual property right safeguarding right-holders and special attention for Textile designs.• Investment as a mean to foster high value service to final consumers.• Clear and effective government procurement and REACH commitments.• Parties shall refrain from any measure or practice of an internal fiscal nature establishing discrimination between the products <p><i>Other issues</i></p> <ul style="list-style-type: none">• Coherent preferential rules of origin.• Ensure the possibility to use AD and AS• Mediation mechanism (trade and IPR) with implementation power.• Effective customs control and effective monitoring of the commitments.• Avoid blocking our exports through safeguard provisions• Customs Union partner direct involvement in the negotiations.

² Mediation mechanism like the proposal from UNICE or the SOLVIT mechanism existing in the EU or the one suggested by the Commission in the context of the WTO/DDA submissions (April 2006).

Evaluation of existing and future potential FTAs - 2005 - based on Commission selection

Annex 1

Area	populaton (million inhabitants)	GDP per capital	TC trade Balance Million Euro	Trade <u>all</u> products		Trade in <u>TC</u> products		TC export performances			
				EU Exports to,	EU Imports from	EU Exports to	EU Imports from	EU TC Exports millions €	TC Export € inhabitant	TC potential compared with total EU exports all products	
				Share of TC Exports in total exports to country/region	Share of TC imports in total imports from country/region	Share of the country/Region in total TC Exports	Share of the country/Region in total TC Imports				
Future Development-type FTAs		877,9		-182,0		2,7%	1,6%	981,0	1,12 €		
EPAs excl. S.A.	End 2007	717,0	424 €	-171 €	2,5%	2,5%	2,1%	1,2%	771 €	1,08 €	Below - -
ANDEAN	Launch 2006	121,2	2.087 €	-29 €	1,9%	1,6%	0,39%	0,24%	143 €	1,18 €	Below - - -
CAFTA	Launch 2006	39,7	78 €	18 €	1,7%	1,2%	0,19%	0,07%	67 €	1,69 €	Below - - -
Future Economic-type FTAs		1.869,2		-6.961,0		4,4%	15,4%	4.969,0	2,66 €		
ASEAN	Preliminary	544,4	1.171 €	-4.234 €	1,5%	7,0%	1,9%	6,7%	690 €	1,27 €	Below - - -
INDIA	Launch 2007	1.086,5	574 €	-5.021 €	1,1%	27,8%	0,65%	7,2%	234 €	0,22 €	Below - - - -
S. KOREA	Launch 2006	48,3	13.200 €	-439 €	2,3%	3,3%	1,8%	1,5%	659 €	13,64 €	Below -
RUSSIA	?	142,7	4.316 €	2.291 €	4,4%	0,20%	6,8%	0,26%	2.479 €	17,37 €	Above +
UKRAINE	?	47,3	1.388 €	442 €	7,0%	6,1%	2,5%	0,6%	907 €	19,18 €	Above ++
Ongoing Negotiations		260,1		873		4,1%	0,9%	1.496	5,75 €		
GCC	End 2006?	34	11.240 €	990 €	2,4%	0,6%	3,4%	0,33%	1.233 €	36,26 €	Below - -
MERCOSUR	?	226	2.759 €	-117 €	1,3%	1,2%	0,72%	0,52%	263 €	1,16 €	Below - - -
Existing FTAs		419,9		-10.707		18,7%	23,9%	6.789	16,17 €		
CHILE	Done	16,2	5.659 €	68 €	2,0%	0,1%	0,21%	0,01%	77 €	4,75 €	Below - - -
MEXICO	Done	105,3	5.866 €	402 €	3,0%	1,1%	1,4%	0,13%	497 €	4,72 €	Below - -
S. AFRICA	Done	46,9	4.099 €	-38 €	1,1%	1,4%	0,56%	0,33%	204 €	4,35 €	Below - - - -
MEDIT. incl.TR.	by 2010 x MED	251,5	2.298 €	-11.139 €	5,9%	19,5%	16,6%	23,5%	6.011 €	23,90 €	Above +++
Other of which:	BG	7,7	2.781 €	-251 €	14,5%	24,3%	2,9%	1,8%	1.036 €	134,55 €	Above ++++
	RO	21,7	3.649 €	-1.197 €	12,9%	26,2%	7,8%	5,5%	2.817 €	129,82 €	Above +++
	EFTA	12,3	41.036 €	3.225 €	4,0%	1,2%	13,2%	2,2%	4.808 €	390,89 €	Above +

Source: Euratex on IMF, DG Trade & Eurostat

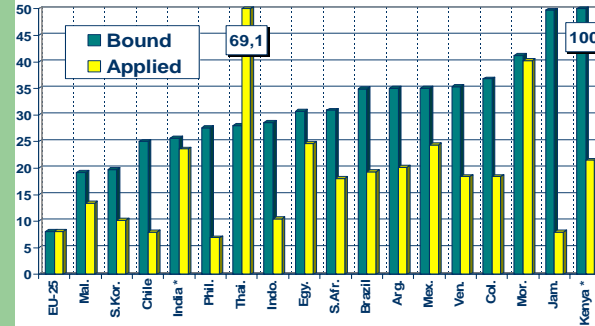
Andean : Bolivia, Colombia, Ecuador, Peru

Cafta: Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua, Panama

ASEAN : Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

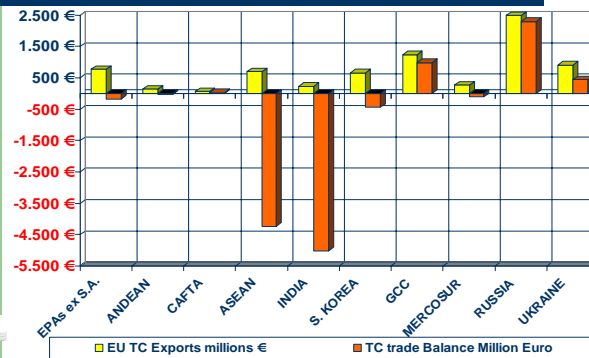
Mecosur: Argentina, Brazil, Paraguay, Uruguay and from 1.1.2007 Venezuela

FTAs Average applied & bound tariff duties in TC

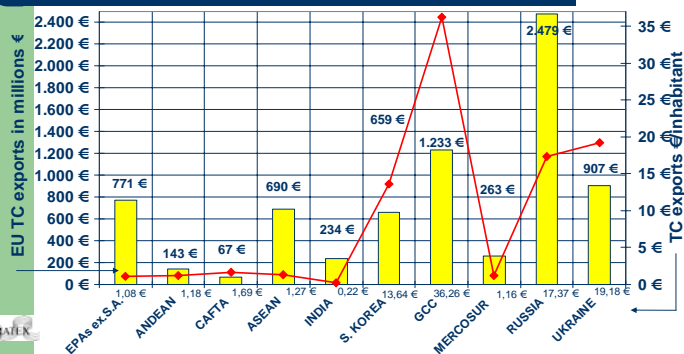


* India, Kenya: average of bound tariffs, under estimating the real tariff level – Russia & Ukraine: no coherent data

TC Exports & Trade balance 2005 (millions €)



FTAs 2005 Export importance & TC potential



**Free Trade Agreements – Textile and clothing industry
Declaration on the ban of non-tariff barriers and acceptance of
not re-introducing new ones**

Draft list - language need to be adapted to the reality of each FTAs.

In the context of the Free Trade Agreement between and the EU-25, the Parties recorded their understanding that non-tariff barriers related to all forms of hindrance to trade in the sector, include but are not limited to matters such as:

- Any additional duties on the import or sale of products of origin from one trading partner member in excess of the custom duties set out in the Agreement, or any other taxes of equivalent effect, which are higher than any such duties or taxes imposed on the production or sale of equivalent domestic goods.
- Technical regulations or standards, or conformity assessment or certification rules, procedures or practices going beyond the purposes for which they are required.
- Any formal or informal minimum import price requirement, or other customs valuation rules, procedures or practices giving rise to barriers to trade provided that transshipment problems are solved.
- Rules, procedures or practices for pre-shipment inspection that are discriminatory, non-transparent, excessively lengthy or the imposition of customs controls for the clearance of goods to shipments that have been subject of pre-shipment inspection.
- Excessively burdensome, costly or arbitrary rules, procedures or practices concerning the certification of the origin of products or requiring direct shipment of goods from the country of origin to the country of destination provided that traceability is part of the Trade Facilitation measures.
- Any non-automatic or discretionary licensing requirements, or any automatic licensing rules, procedures or practices imposing disproportionate burdens or having restrictive effects on imports.
- Requirements or practices concerning marking, labelling, the description or composition of the product or the description of the manufacturing of products which, either in their formulation or in their application, are in any form discriminatory as compared with domestic products.
- Unduly long customs clearance delays or excessively burdensome, excessive or costly customs procedures, including inspection requirements, which have an unnecessary restrictive effect on imports.
- Subsidies causing injury to the FTA partners industries and not covered by existing WTO rules.

Free Trade Agreements – Textile and clothing industry

Non Tariff Barriers: a valuation and proportionality test

A two-track system will have to be put in place combining the valuation/proportionality test and the generalisation of the role of the Consumer Protection Agencies:

- i) The TBT agreement should provide a sufficient “information timing” (preferably 90 days instead of the present 60 days) and a rapid decision mechanism (no more than 2 months) to check through the valuation / proportionality test if the measure involved is not of such nature as to block trade.
 - a) Trading partners will have no more than two/three years to check, in all transparency, the conformity of already WTO notified measures to the TBT agreement and provide scope for revising them if the valuation /proportionality test fails.
 - b) For new TBT measures, FTA partners should provide well in advance when notifying to the WTO a new measure the results of the valuation /proportionality test. To reinforce the role of international agreed standards (i.e. ISO,...), WTO members should agree that they represent the maximum acceptable level.
- ii) To ensure consistency and reduce the abuse of custom-related control, FTA partners should be encouraged to create Consumer Protection Agencies (CPA) in charge of *ex-post* controls (contrary to present *ex ante* – border control) as far as concerns conformity with existing technical, health, environmental and security measures.
 - a) For new TBT measures using internationally recognised standards, partners should agree that the limits set in those standards are the maximum level required to comply with such standards.
 - b) To ensure proper respect of decisions or recommendations, the partners should set up a mediation mechanism that will have strong implementation power.