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China Textile Safeguard

China's textile and apparel exports to the United States have been controlled under bilateral textile agreements since 1980. When China acceded to the WTO at the end of 2001, however, a number of generally less sensitive textile and apparel products were removed from China's quotas under WTO rules. All quotas on textiles and apparel from China and all other WTO member countries will terminate on January 1, 2005.

A special textile safeguard for China was specifically negotiated into our textile bilateral agreement with China, and subsequently folded into China's WTO Accession Agreement. Under this safeguard provision, the United States retains the right to impose quotas to address surges in imports of textile and apparel products from China that are, due to market disruption, threatening to impede the orderly development of trade in these products. The China textile safeguard will remain in effect until December 31, 2008.

The importance of the China safeguard to the industry must be viewed within the context of current industry conditions. In particular, since 1994, the textile and apparel industries have lost over 800,000 jobs and over 300,000 jobs since 2000. In addition, production, capacity utilization, profits, prices, and other industry indicators have also fallen in recent years. The industry is greatly concerned that extraordinary increases in imports from China of products removed from quota will greatly exacerbate a situation that is already critical.

The validity of industry's concern was borne out in 2002 when, as a result of the removal of quotas on an array of textile products under the WTO, China's total exports of textile products to the U.S. jumped by 125 percent over 2001. In contrast, U.S. imports from other supplying countries grew by less than 9 percent. Nearly all of China's growth was in products removed from quota at the end of 2001, which skyrocketed by an average of 260 percent. The surge continued in 2003, with overall textile imports up 69 percent in the first eleven months of the year.

In May 2003, the *Federal Register* published procedures that the Committee for the Implementation of Textile Agreements (CITA) will follow in considering requests from the public for safeguard actions on textile and apparel imports from China.

The procedures provide transparency in implementation of the China textile safeguard and

furnish clear guidelines for firms, trade associations and workers who believe imports from China are disrupting their markets.

Under the procedures, public requesters must provide to CITA specific information in support of a claim that the Chinese origin textile or apparel product is, due to market disruption, impeding or threatening to impede the orderly development of trade in such products. The information required includes changes in imports, production and market share and any additional pertinent data.

If CITA determines that the request provides the information necessary for it to be considered, the Committee will seek public comments on the request. CITA must make a determination within 60 calendar days of the close of the 30 calendar day comment period as to whether the Committee will request consultations with China.

If the Committee decides to request consultations, it simultaneously identifies quantitative limits on imports into the United States of Chinese origin textile and apparel products subject to the request for consultations.

In August 2003, CITA accepted requests from four textile industry associations (AYSA, ATMI, AMTAC and NTA) to consider safeguard action on three product categories: knit fabric (Category 222), brassieres and other body supporting garments (Category 349/649) and robes and dressing gowns (Category 350/650).

Following the public comment period and careful consideration of the merits of the cases, CITA decided on November 17 that market disruption or threat thereof existed for imports of all three textile products from China that were subject to industry requests.

On December 24, the United States requested consultations with the Chinese government regarding imports of the three product categories. The U.S. also established a twelve-month limit on imports of these three product categories. In accordance with the terms of the safeguard, the limits were set at 7.5 percent above the amount entered during the first 12 months on the most recent 14 months preceding the request for consultations.

Among the key points considered by CITA in treatment of the three requests:

- U.S. imports of knit fabric from China increased over 20,000 percent from 2000 to year ending (YE) August 2003. U.S. production fell by 27 percent from 2000 to 2002 while the share of the market held by U.S. producers fell by 9.6 percentage during this period.

- U.S. imports of bras and other body supporting garments from China increased 276 percent from 2000 to YE August 2003. U.S. production (including outward processing) fell 2 percent from 2000 to YE June 2003 while the share of the market held by U.S. producers fell by 9 percentage points during this period.

- U.S. imports of dressing gowns and robes from China increased 1,271 percent from 2000 to YE August 2003. U.S. production (including outward processing) fell by 39 percent

from 2000 to YE June 2003 while the share of the market held by U.S. producers fell by 17.9 percentage points during this period.

Predictably, the Chinese government has strongly objected to the CITA decision and requested a reversal of the decision, claiming that the safeguards will damage bilateral economic and trade relations and hurt U.S. interests. Consultations were held with China on the safeguards from January 12-13 in Beijing. We are working to schedule follow up consultations in Washington.

While we have made clear to China that we will vigorously pursue our trade rights, we are looking for ways to pursue mutually beneficial cooperation in the textile area. To that end, we have been engaged in an ongoing dialog with the Chinese about textiles in general. We are exploring various ideas, including a business forum to promote U.S. exports of textiles to China and investment opportunities in both countries.

Cotton Textile Products Industry in China

Following are some facts to help put the importance of China's textile industry, and specifically its cotton textile products sector, in perspective:

According to a recent article in Textile Asia, cotton mills process over 60 percent of the fiber for the textile and garment sectors in China. Cotton textile and clothing exports in 2002 totaled $21.6 billion or 35 percent of China's total exports of textiles and clothing.

Output of cotton yarn in 2002 totaled 8.5 million tons and output of cotton fabrics totaled 32.2 billion meters, making China the world's biggest producers of cotton goods.

Cotton mills and cotton textile plants employed an estimated 2.25 million workers, with over 100 million cotton farmers. In 2002 the equipment of cotton mills included 49 million spindles, 740,000 looms.

Since 2001, over 90 percent of yarn spinning plants have been set up by the private sector. Of the 4,240 major cotton textile plants and cotton mills, 642 are state run, the proportion of state run cotton textile plants fell from 71 percent in 1997 to 15 percent in 2003.

Notwithstanding its rapid progress, the cotton textile sector reportedly has not yet fully met the challenge of providing high value added goods. Obstacles include:

- Supply and distribution of cotton materials is inefficient and badly coordinated;
- The output of cotton and its price vary capriciously;
- Cotton trading markets are not properly operated and mutual trust is not yet established among suppliers, dealers and consumers;
- The quality of local cotton is uneven, owing especially to the long-term problem of foreign matter mixed in the cotton

Many cotton mills and cotton textile product plants are unable to upgrade by installing modern equipment for lack of funds, so that most cotton textile plants continue to produce traditional low-tech, low-priced products. China is working on various reforms in the cotton textile sector aimed at reaching a goal of 60 percent of the production technology in the cotton mills reaching world advanced standards.

In the first three quarters of 2003, cotton yarn output was up 17.5 percent to 6.88 million tons and output of cotton fabrics was 17.98 billion meters, up 9 percent. Exports of cotton textile goods and garments totaled $20 billion, up 24 percent.

Other Issues

The Commerce Department is working in a number of other areas to advance the interests of the U.S. textile and apparel industries:

- We recently concluded negotiations on the **Central America Free Trade Agreement**. The textile provisions are a critical component of this agreement.

- Negotiations are ongoing regarding textile provisions in **free trade agreement negotiations** with Morocco, Australia and South African Customs Union (SACU). Future FTA negotiations are planned with Bahrain, Thailand, Panama, and Andean countries (Colombia, Peru Ecuador and Bolivia).

- We continue to work toward conclusion of a **Free Trade Agreement of the Americas** by January 2005.

- Efforts are underway to revive **the Doha Round of WTO Negotiations.** The U.S. has previously proposed a sectoral initiative for textile and apparel tariffs, such as harmonization or elimination of tariffs and elimination of non-tariff barriers.

- We are working with specialists from the Patent and Trademark Office, the Copyright Office, and U.S. Customs to address **intellectual property related concerns** such as textile design piracy.

- Commerce has launched a **standards** initiative to create a more level playing field and ensure that standards do not become non-tariff barriers.

- We have worked with the Oak Ridge National Laboratory on a **textile marker system** to help enforce rule of origin requirements in import preference programs. Congress recently appropriated $1 million in funding for this project and $270,000 for a complementary project at the USDA Cotton Quality Research Station at Clemson University.

- Our bilateral agreement with **Vietnam** allows us to reduce any quota for which we find evidence that illegal transhipments fraudulently increased the base trade figures used in

negotiating quotas. U.S. Customs has investigated such claims and CITA is reviewing these findings.

- OTEXA administers an aggressive **export expansion program** for the textile and apparel industries, which is planned and implemented in close collaboration with individual companies and industry groups.