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EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Textiles and clothing after 2005 –
Recommendations of the High Level Group for textiles and clothing**

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1. INTRODUCTION

On 29 October 2003 the Commission adopted the Communication “The future of the textiles and clothing sector in the enlarged European Union”¹, which represented a sectoral application of the EU’s industrial and trade policies, taking into account the particular features of this sector. In view of the challenges that the sector is facing and will continue to face over the coming years, the Commission carried out a review of its policies and instruments, with the objective of identifying measures or actions which could improve the competitive position of the sector.

On 27 November 2003 the Competitiveness Council welcomed the Communication and stressed the importance of ensuring the effective interaction of policies at EU-level. In its conclusions, it emphasised the strategic importance for the sector of improving competitiveness, notably via research, innovation, training measures and protection of intellectual property rights. It also noted the important role played by better access to markets and the completion of the Euro-Mediterranean Free Trade Area. The Council welcomed the Commission’s intention to set up a High Level Group for the textiles and clothing industry.

The European Parliament in its Resolution of 21 January 2004 called on the Commission to establish a precise timetable and financial framework to enable rapid implementation of the ideas developed in the Communication. Among other points, it called for an adequately resourced EU-level programme for the textile and clothing sector, notably in regions particularly dependent on the sector, covering support for research, innovation, vocational training and SMEs, speeding up both the abolition of non-tariff barriers to trade and the creation of a Pan-Euro-Mediterranean free trade area, as well as close monitoring of Chinese imports into the EU.

To follow up the proposals made in its Communication, the Commission set up a High Level Group (HLG) for textiles and clothing in early 2004, with a mandate to formulate recommendations on an integrated set of concrete initiatives that could be undertaken at regional, national and EU level to facilitate the sector’s adjustment to major challenges, and to suggest actions to improve its competitiveness.

The High Level Group brings together top EU decision-makers in the sector. It comprises Commissioners, Government representatives from four EU Member States with a strong textiles and clothing presence, a Member of the European Parliament, industrialists, retailers and importers, European trade associations, trade unions and representatives of local textile and clothing associations. During the first half of 2004, the High Level Group met three times.

At “sherpas” level, working groups were set up covering the areas of trade issues; intellectual property rights (IPR); research and innovation; education, training and employment; regional issues; and competitiveness. Over twenty meetings were held at this level to elaborate recommendations for actions.

¹ COM(2003) 649 final of 29.10.2003

In view of the very short period of time available for this first exercise of the High Level Group, many – but not all – of the issues raised by the Communication were covered in discussions. Based on the conclusions of the working groups, the HLG presented its first recommendations in the form of a report entitled “The challenge of 2005 – European textiles and clothing in a quota free environment” on 30 June 2004².

The Competitiveness Council of 27 November 2003 also invited the Commission to report back on progress by July 2004. This Communication intends to respond to that request, to present an overview of the follow-up to the Communication of October 2003, and to highlight several concrete proposals for action, which are described in more detail in the attached Commission Staff Working Document on the recommendations of the High Level Group for textiles and clothing³.

2. ECONOMIC SITUATION OF THE EU TEXTILES AND CLOTHING SECTOR

The economic situation of the textiles and clothing sector in the EU continues to be difficult. After substantial falls in production and employment in the past three years, it is estimated that in 2003 production fell by a further 4.4% and employment by 7.1% (EU-25, source: Eurostat). This is due to a complex combination of factors. First, the sector has felt the full impact of the economic slowdown in the EU and in its major export markets. Second, the evolution of the US-dollar and Euro exchange rate has continued to have a negative impact on the price competitiveness of several types of product. And, finally, the development of the Euro-Med Zone and preparations for the new economic realities post 2005 in the wake of quota elimination, has led to further relocation of production within and outside the EU-25.

3. RECOMMENDATIONS OF THE HIGH LEVEL GROUP FOR TEXTILES AND CLOTHING

The High Level Group’s report⁴ confirms that the most appropriate strategic vision for the future of the EU textiles and clothing sector should focus on the current competitive advantages of the European industry. These are associated with continuous progress in the areas of research, innovation and training, together with the progressive building of the Pan-Euro-Mediterranean free trade area, and reaching a level playing field in trade issues, in particular with respect to access to markets and the effective protection of intellectual property rights.

Furthermore, appropriate framework conditions need to be ensured, with a particular focus on SMEs, in order to enable the sector to fully exploit its competitive potential. In this respect, the difficulties of access to credit by SMEs were identified by the High Level Group as one area which needs more detailed examination and attention by public authorities and the stakeholders themselves.

² The full text of the Report of the High Level Group for textiles and clothing is available on: http://europa.eu.int/comm/enterprise/textile/documents/hlg_report_30_06_04.pdf

³ SEC(2004) 1240 of 13.10.2004

⁴ see footnote 2

It is clear from the High Level Group's report that, while on the one hand different actions can usefully be taken by the Commission in order to further improve the framework to foster competitiveness for the textiles and clothing sector, on the other hand, success for the sector will also depend upon initiatives taken by the Member States at national and regional level, and on stakeholder actions.

In all the different levels of action, several concrete initiatives are already underway, meeting some of the High Level Group's recommendations. Others will be addressed in the near future, as proposed in this Communication.

However, a few recommendations envisage a specific strategy to approach the problems of the EU textiles and clothing sector. The Commission considers that these should not be followed. This is particularly the case concerning the call for a sectoral Community programme for textiles and clothing, and the call for a specific sectoral and regional initiative.

3.1. Research and innovation

In the area of research and development, the Commission should react positively to the proposal to consider setting up a European Technology Platform, to draw up and implement a strategic research agenda, whilst stressing the need for clear stakeholder commitment to lead and follow through such an initiative. In addition, stakeholders' project proposals under the 6th Framework Programme for Research and Development have been welcomed in the NMP Programme⁵. These will enable a technology breakthrough for clothing manufacture and development of eco-efficient processes, high added value products and associated markets with growth potential for textile industry. Furthermore, to complement textile-related projects already underway, a specific call is foreseen in 2005 under this NMP Programme to promote applied research in multi-functional fibres and technical textile-based products and related processes. There will also be opportunities for the sector to present proposals to improve supply chain management under the IST strategic objective "ICT for networked businesses". Under the 7th Framework Programme, details of which are still under discussion, the Commission will propose a more bottom-up and problem oriented approach to SMEs, while lightening administrative and regulatory burdens whenever possible and appropriate.

3.2. Education, training and employment

The Commission recognises the importance of social dialogue as a driving force behind successful economic and social reforms and will continue to promote it. The European social dialogue in the textile and clothing sector plays a major role in addressing key challenges of the sector, such as enhancing skills and qualifications, modernising work organisation, promoting equal opportunities and developing active ageing policies. Social dialogue and social partnerships are also a fundamental element of efficient and responsible restructuring. In this context, negotiations between the social partners are the most suitable way forward on questions related to modernisation and management of change.

⁵ Nanosciences, knowledge-based multifunctional materials, and new production processes and devices

As far as education and vocational training is concerned, the Commission can agree with the High Level Group's analysis of a need for a Europe-wide lifelong training strategy for the sector and to ensure a better match between supply and demand for training. At EU-level, the Leonardo da Vinci programme and "Article 6" measures under the ESF provide the framework for funding sectoral projects with European added value and innovative actions in the area of employment and adaptation to industrial change.

3.3. Other competitiveness-related issues

REACH

The textiles and clothing industry is a highly intensive downstream user of the chemicals industry. The impact of the proposed new chemicals policy (REACH) on this sector is being closely examined by the Commission and, in co-operation with the textile and clothing industry, it is launching an impact assessment study on the potential impacts of REACH on the textile industry and its chemical suppliers. The results of this study are expected to be available by mid-2005.

Intellectual property rights

In the area of intellectual property rights (IPR), the Commission acknowledges the importance of improving the protection of rights and their enforcement in third countries, and to raise right holders' awareness of counterfeiting and the risks involved. The High Level Group calls for effective awareness raising activities, education of right-holders and for the provision of appropriate tools to combat counterfeiting and piracy. The Commission will examine the feasibility of creating a user-friendly European website on IPR and will promote the dissemination of information through a series of seminars and networking meetings.

"Made in" labelling

The High Level Group was not in the position to put forward any recommendation on origin marking due to divergent views on this matter. Whilst some of the Group's members indicated that this was a crucial area where the High Level Group should make recommendations for actions, others were of the opposite view as they considered that the status quo in this matter should not be changed. The Commission is ready to study whether initiatives in this respect could, or not, improve the competitive position of the EU industry on its home market.

Access to finance

The textile and clothing sector is dominated by SMEs which face growing difficulties in obtaining credit. At the same time, several of the financial instruments are not necessarily tailored to the type of SME in the textile and clothing sector. According to the Fourth Report on the Implementation of the European Charter for Small Enterprises⁶, access to finance remains an important constraint for enterprise across the whole EU despite some progress in this area. Developments over the past year show that several measures to improve the situation have been taken.

⁶ COM(2004) 64 final of 11. 02. 2004

Experiences from public sector actions aiming to improve small businesses' access to finance have shown that best results are achieved when the public sector works in close co-operation with financial markets and encourages their development. The Commission is engaged in many different initiatives to improve access to finance. The Community financial instruments provide European leverage and support for SME financing. The completion of the Risk Capital Action Plan⁷ is a major achievement, and completing the Financial Services Action Plan⁸ will lead to better availability of both bank lending and equity finance.

3.4. Regional aspects

The High Level Group recommends several actions regarding regional policy. First, it argues for a higher participation of the textiles and clothing sector in the national regional programmes of the Member States and calls on regional authorities to establish with local stakeholders local strategic plans to improve the allocation of public resources. At the same time, the High Level Group calls for a sectoral Community programme for textiles and clothing and a specific regional initiative. Based on previous experience, the Commission does not consider that this is appropriate and does not recommend these sector specific community programmes, which would risk fragmentation of EU industrial and regional policies, with little significant impact on the sector as a whole. Instead, the participation of the textile and clothing sector in multisectoral programmes provides an adequate and more efficient framework for supporting the sector and, at the same time, allows for diversification of production between various sectors and ultimately better serves the economic situation of the region(s) in question.

However, there is a real need to anticipate developments in the textiles and clothing sector over the coming years. While the Euro-Mediterranean Zone provides the conditions necessary to allow the sector to remain an important contributor to European industrial production, policymakers cannot ignore the fact that a permanent process of restructuring and modernisation will continue to lead to falling employment for some years to come. For this reason, appropriate programmes need to be in place, not only to tackle the issue of better training for textiles and clothing workers but also to mitigate the socio-economic impact on those regions where the sector is concentrated. In this context, it is relevant to note that the Commission has recently adopted a proposal⁹ that Member States should reserve an amount of 1% of the Structural Fund annual contribution for the "Convergence" objective and 3% of the "Regional competitiveness and employment" objective contribution to cover unforeseen local or sectoral crises linked to economic and social restructuring, or to the consequences of trade opening. Like other sectors in unforeseen or sectoral crises, the textiles and clothing sector might be covered under this flexibility reserve.

In regions highly dependent upon textile and clothing activities, the challenges raised by present and foreseeable developments need to be approached in an integrated way in order to achieve sustainable solutions. While it is up to public authorities to

⁷ http://europa.eu.int/comm/economy_finance/publications/riskcapital_en.htm

⁸ http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm

⁹ Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, COM(2004) 492 final of 14.07.2004

provide adequate framework conditions within which investment can be attracted, employment can be promoted and competitiveness, training and re-training initiatives can be enhanced, local players and other stakeholders need to come up with appropriate concrete proposals to respond to the needs of specific regions.

3.5. Trade policy issues

From a strategic point of view, the rapid completion of the Pan-Euro-Mediterranean Zone is crucial for the EU textile and clothing sector, as it will enable the sector to maintain the whole chain of production close to the European market, combining advantages involving costs, quality and proximity. The Commission recognises that progress here has been slow, particularly the conclusion of free trade agreements (FTAs) among the countries concerned, and the Commission considers that further efforts in this respect should be made by the relevant parties.

In order to accelerate the implementation of pan-Euro-Mediterranean cumulation, the textile industry representatives in the High Level Group recommend the flexible interpretation of the FTA requirement as a temporary arrangement, provided that the countries concerned adopt identical rules of origin, that proper administrative cooperation is in place and provided that there is a sufficient degree of liberalisation among the countries concerned for textiles and clothing. The Commission will, in accordance with the conclusions of the Fourth Euro-Med Trade Ministerial Conference, examine this proposal of the High Level Group with the other pan-Euro-Mediterranean partners. However the Commission is not in favour of a sectoral approach and considers that, in addition to the conditions set by the High Level Group, an FTA should at least be initialled and provisionally applied.

The High Level Group's recommendations also stress the need to improve access to markets. This is a long standing goal of EU trade policy with respect to textiles and clothing. The Commission will continue to promote its offensive approach, with regard to textiles and clothing products within the Doha Development Agenda negotiations, seeking to obtain conditions of access to third country markets that are both fair and comparable across the world for major textile and clothing producers. The Commission will continue to call on WTO members – with the exception of the least developed countries – to cut their customs duties to the lowest possible common level and to eliminate non-tariff barriers. Since tariff preferences are being eroded, alternative responses to the concerns of developing countries heavily dependent on textile and clothing exports, such as development co-operation measures on the supply side, could be also developed. In the context of negotiations which take place on a bilateral basis, the Commission will continue to insist on a level playing field with the countries/regions concerned. On 7 July 2004 the Commission adopted the Communication “Developing countries, international trade and sustainable development: the function of the Community's generalised system of preferences (GSP) for the ten-year period from 2006 to 2015”¹⁰. Among other actions, it proposes focusing GSP benefits on the countries in most need, such as LDCs and the most vulnerable developing countries.

¹⁰ COM(2004) 461 final of 07.07.2004

The textile and clothing sector is also seriously concerned about Chinese imports into the EU. The High Level Group calls for a monitoring system on Chinese imports to be established, which would regularly gather data on quantities and average unit prices of main product categories, examine the conditions of production of textiles and clothing in China, and regularly evaluate China's respect of its WTO obligations, in particular its market access conditions. The Commission recognises such concerns and considers monitoring of imports through customs declarations as another efficient option which could be used to provide import data after the end of the quota system. The Commission Services are examining the different options available in this area. The Commission has also taken the initiative of establishing a result-oriented dialogue with the relevant Chinese authorities, also involving industry and other stakeholder representatives.

Finally, with respect to trade defence instruments, the Commission Services plan to make available before the end of 2004 guidelines containing procedures and criteria that the Commission intends to follow, in conformity with the relevant Regulations adopted by the Council, for the application of safeguard clauses, in particular for the textiles-specific safeguard clause established in China's Protocol of Accession to the WTO. Furthermore, practical measures to facilitate the use of the Trade Barriers Regulation and trade defence instruments by sectors where SMEs predominate will be adopted before the end of 2004.

4. CONCLUSIONS

The High Level Group for textiles and clothing has successfully completed the first part of its work, reaching within a very tight deadline a consensus on recommendations in a significant number of areas of strategic importance for the future of the textiles and clothing industry in the enlarged European Union. The actions foreseen by the Commission as a follow-up to these recommendations are described in more detail in the attached Commission Staff Working Document¹¹.

It is evident that undertaking the substantial structural changes necessary requires in the first place the efforts and commitment of stakeholders, including social partners, and then of public authorities at European, national and regional levels. At European level, this Communication shows that it is possible to take specific sectoral needs into account within the implementation of EU horizontal policy guidelines. In all the areas covered by the recommendations of the High Level Group, on-going actions already address the foreseen objectives, and other actions with the same aims are planned. In other cases the feasibility of the proposed initiatives is under consideration.

It is important to note that the actions proposed by the High Level Group and taken up by the Commission fall within the strategy described in the Communication on "The future of the textiles and clothing sector in the enlarged European Union"¹². The Commission remains convinced that sustainable solutions for the structural challenges faced by the textiles and clothing sector have to be met through the

¹¹ SEC(2004) 1240 of 13.10.2004

¹² See footnote 1.

reinforcement of the European industry's competitive advantages and the appropriate framework conditions.

The actions foreseen in the areas of research, education and training, and trade policy meet the competitiveness challenges faced by the EU textiles and clothing sector. However, the actions in the areas of research, education, training and employment in particular, need to be complemented by adequate support at national and regional levels to further the same competitiveness factors. In this respect, several initiatives in some Member States offer the best practices of sectoral implementation of horizontal policy guidelines, as they focus their strategies on the appropriate sectoral competitiveness factors while providing support via the horizontal instruments in place.

Within the short time available, the High Level Group was able to cover a substantial part of the issues relevant for the competitiveness of the European textiles and clothing sector. Some issues, however, would benefit from a further debate, notably, on non-technological innovation, access to finance and industrial cooperation within the EU and with non-EU partners. In some of these areas, the Commission will nevertheless propose additional initiatives. For example, the Commission will examine the possibility of closer industrial co-operation with Mediterranean partners and of associating them with initiatives aimed at improving skills, promoting innovation and protection of intellectual property rights, in view of realising the full potential of the pan-Euro-Mediterranean market and to boost the competitiveness of the textile and clothing industry in the Euro-Mediterranean zone.

In addition, the impact of the elimination of quotas in the sector after January 2005 will require a closer observation. For these reasons the Commission recommends that the High Level Group continue the exercise at "sherpas" and working group levels over the coming months, and during 2005, with the High Level Group itself being convened before the end of 2005.