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TO THE COUNCIL, THE EUROPEAN PARLIAMENT,
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AND THE COMMITTEE OF THE REGIONS**

The future of the textiles and clothing sector in the enlarged European Union

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EXECUTIVE SUMMARY

The European textiles and clothing industry, which accounts for approximately 4 % of total EU manufacturing production and 7 % of manufacturing employment, is currently facing unprecedented challenges.

These are mainly related to developments in its international environment, in particular the elimination of import quotas on the 1st of January 2005 and the challenges and opportunities of a new round of multilateral negotiations; the evolution of competitiveness factors increasingly associated to innovation, research, skills, quality and creation; the preparation for enlargement both in the present Member States and in Acceding Countries; permanent restructuring and modernisation processes.

Furthermore, these developments are occurring during a period of marked slowdown in the economic activity in the EU and some of its more important export markets, adding the difficulties associated with a sluggish demand to an already complex situation.

For the first time after almost four decades, with the elimination of import quotas on 1st January 2005 pursuant to WTO rules, the textile and clothing sector in the EU will be subject to the same trade and import rules as any other industrial sector. It will happen some months after the increase in the textiles and clothing EU workforce by almost a third, bringing it to over 2,5 million people, as a result of enlargement. The movement that started with the final elimination of quotas, which had been negotiated at the end of the Uruguay Round ten years ago, and the process of adaptation to the new circumstances, has coincided with other structural changes in the industry due to the market and general economic situation and technological changes.

If it is the primary responsibility of enterprises to meet these challenges, the role of public authorities is and will remain the establishment of favourable framework conditions in which textiles and clothing, like other sectors, can develop and enjoy the opportunity to compete, domestically and internationally, on the basis of equity.

In addition to its size (yearly turnover of € 200 billion, over 177.000 firms mostly SMEs in EU-15), the sector plays a very significant role in certain regions of the EU - and even more in the new Member States. EU industry has shown in quite a number of segments world leadership and a great deal of innovative capacity, which is a result of a centuries-long tradition, of its quality, creativity and fashion capabilities.

How best to give EU textiles and clothing industry the chances to compete in the new situation is the subject of this communication. Although there may be cases where sector-specific proposals may be justified, the Commission does not call for any subsidies, or for a privileged treatment of the sector, or for the replacement of the import quotas by other forms of protection.

The communication is a sectoral application of the EU's industrial and trade policies, taking into account the particular features of the sector. In view of the challenges that the sector will face in the coming years, the Commission has carried out a review of its policies and instruments, with the objective of identifying measures or lines of action that can improve the competitive position of the sector. Taken together, they aim at providing to industry and those who work in the sector a clear, predictable and coherent framework so that strategies and investments can be more easily planned for the medium term.

Textiles and clothing is also an industry particularly important in developing countries. Quite a number of them (among which some least developed countries and smaller garment exporting countries), and many of the EU's neighbours in the South and East of the Mediterranean, enjoy a preferential access to the EU market (including the absence of quotas) and are highly dependant on textile and clothing exports. They may be particularly vulnerable to changes in the international trade system. As the elimination of quotas, which may be accompanied by further multilateral liberalisation, will erode their preferential treatment, the communication also makes suggestions so that these countries are better equipped to compete in the EU market with the world's major textile and clothing exporting countries.

This ideas and suggestions contained in this communication have been put forward having in mind the complexity of the present situation and the diversity of interests prevailing in the sector. They respond to the objectives of improving the EU textiles and clothing industry competitive conditions and of making globalisation work for the benefit of all. For these reasons, the Commission intends to set up a high-level group for the period 2004-2006 in order to stimulate debate and to consult with interested parties before translating ideas and suggestions into concrete action.

1. INTRODUCTION

In its Communication of December 2002 on industrial policy in an enlarged Europe¹, the Commission put industrial policy back on the EU policy agenda. Its objective was to show how EU industrial policy needed to be adjusted in the light of new circumstances such as globalisation, technological change, growing expectations from society and, last but not least, the imminent enlargement.

The Communication reiterated the Commission's commitment to a horizontal industrial policy. Industrial policy seeks to improve framework conditions for *all* businesses. First of all, the Commission seeks to co-ordinate the impact of different policy and legal measures on industry. Many different policies impact on the business environment and therefore on industrial competitiveness. For this reason, the Commission is currently analysing how other community policies can help improve industrial competitiveness so that synergies between all policies impacting on industrial competitiveness can be exploited. Industrial policy is also seen within the overall EU goal of sustainable development, as set out in the Sustainable Development Strategy. This implies striking a balance between the economic, social and environmental dimensions.

As well as the horizontal aspects, industrial policy needs to take into account the specific characteristics that determine the competitiveness of individual industrial sectors. The frameworks, institutions and instruments in which business operates are highly sector-specific. Policy makers need to consider the complex mechanisms behind the competitiveness of each given sector. Action can then be adapted to the specific needs of a given sector or checked against its particular requirements.

This Communication represents the sectoral application of both industrial and trade policies for the textiles and clothing industry. It is based upon a methodology which has three phases: analysis, discussion and action. The Commission has undertaken a systematic monitoring and an in-depth analysis of the European textiles and clothing sector, with a particular emphasis on the trade policy implications, as these are strategically important for such a globalised sector. This analysis has been complemented by discussion with stakeholders. In addition to on-going contacts with industry and trade union representatives, the Commission organised two conferences in the first half of 2003².

This Communication, situated as it is within the framework of the sectoral application of both industrial and trade policies, outlines the major challenges faced by the textile and clothing industry in the EU, whilst at the same time taking into account the impacts on its partner countries benefiting from preferential access to the European markets, and makes a number of proposals to strengthen its competitiveness. Although the future of the industry depends in the first instance on the companies themselves and on their responsiveness and adaptation to ever evolving circumstances, it is the role of public authorities – at EU level in areas of

¹ Communication of 11.12.2002, COM(2002) 714 final

² Conference “The future of the textiles and clothing industry in an enlarged Europe”, 20 March 2003, further information available on: http://europa.eu.int/comm/enterprise/textile/conf_tc200303_en.htm; and conference “The future of textiles and clothing after 2005”, 5-6 May 2003, further information available on: http://trade-info.cec.eu.int/textiles/conf_index.cfm

EU competence such as external trade, but also at Member State or even at sub-national level – to provide the regulatory and other conditions under which the sector can prosper, while safeguarding the interests of consumers and importers. This Communication is the Commission's contribution, in the form of a framework of policies which will support the industry's continued efforts to define a winning long-term strategy in the global market place. It should result in the adoption of specific measures after discussion with the Member States, in the European Parliament and with the stakeholders concerned.

2. SUMMARY OF THE ECONOMIC ANALYSIS OF THE TEXTILES AND CLOTHING SECTOR

The textile and clothing industry is an important part of the European manufacturing industry with a turnover of € 200 billion produced in roughly 177.000 enterprises, which employ more than 2 million people – a figure set to increase to 2.7 million after enlargement in 2004. The share of textiles and clothing in total manufacturing value added at EU level amounts to roughly 4% and the share in total manufacturing employment to around 7%.

The years 2001 and 2002 were very difficult for the textiles and clothing industry with significant declines in production (-8.7%) and employment (-8.4%). The trade deficit amounted to € 26.2 billion in 2002, the trade in textiles reaching a surplus of € 7.9 billion and the deficit in clothing € 34.1 billion.

As regards the textiles and clothing external trade performance, more than 20% (23% in the case of textiles) of EU production in value is sold on the external market despite limited access to many third markets. However, there remain significant impediments to trade in textiles and clothing, especially in some of the largest and more competitive exporters in the sector, and the European industry could increase production and exports to those parts of the world when the impediments to free trade were lifted. By comparison with manufacturing as a whole, it is worth noting that external markets are of higher importance for the textiles and clothing industry, while at the same time import penetration is also significantly higher in this sector, especially in clothing (41%).

The textile and clothing sector in Europe has been subject to a series of radical transformations over the last years, due to a combination of technological changes, evolution of the different production costs, and the emergence of important international competitors. Such changes are likely to continue in the foreseeable future, and the definitive elimination of the system of import quotas which has been applied for the past four decades on 1st January 2005 will bring in additional competition from outside.

In response to past competitive challenges, the textile and clothing industry in Europe has undertaken a lengthy process of restructuring, modernisation and technological progress. Companies have improved their competitiveness by substantially reducing or ceasing mass production and simple fashion products, and concentrating instead on a wider variety of products with a higher value-added. Moreover, European producers are world leaders in markets for technical/industrial textiles and non-wovens (for example industrial filters, geotextiles, hygiene products, or products for the automotive industry or the medical sector), as well as for high quality garments with a high design content.

Competitiveness has also been retained by sub-contracting, or relocation of production facilities, for labour-intensive activities such as garment make-up to companies in countries with lower labour costs, mainly in the Euro-Mediterranean Zone, including the acceding states and candidate countries. The competitive advantages of the textiles and clothing sector in the EU are now found in a focus on quality and design, innovation and technology, and high value-added products.

At the same time, globalisation and technological progress have led to the need to re-think the textiles and clothing industry's clustering strategy. While still playing an important role for some activities, cooperation at local, district or regional level has increasingly proved inadequate to ensure that the chain of production remains at close geographical proximity to the European market. Therefore, clustering of its very diversified activities is now also based on a wider geographical area, i.e. the Euro-Mediterranean zone.

European products generally have a positive quality mark-up. Equally the EU industry has a leading role in the development of new products, such as technical textiles. These trends towards higher value-added products need to be continued and accelerated, if the textile and clothing sector in Europe is to remain competitive. This can be seen from the economic developments in the last two years, where traditional cotton spinning has come under increasing pressure, in contrast to the production of the latest generation of more technologically complex fibres, such as those with high tenacity.

An in-depth economic and competitiveness analysis of the textiles and clothing industry is distributed together with this Communication, along with an analysis of its external trade flows³. The former analysis concludes that the European textiles and clothing industry remains competitive internationally. A comparison of trade performance with the US and Japan reveals that in both textiles and clothing, the EU has improved its competitive position. However, the industry is under increasing competitive pressure from other major textile and clothing producing countries, such as China, India and Pakistan.

3. KEY CHALLENGES AND ON-GOING POLICY INITIATIVES

Enlargement, significant changes in the international trade environment and developments in areas of EU policy related to specific factors of competitiveness of the European textiles and clothing industry represent major challenges to policy makers and to stakeholders in the sector for the coming years.

The impact of enlargement needs to be adequately monitored in order to address challenges for textiles and clothing regions in the present Member States posed by the increase of sub-contracting activities and relocation of production facilities. At the same time, in the acceding and candidate countries, the pressure for restructuring and modernisation in the textiles and clothing sector is set to increase as a result of increased access by third countries to the EU and acceding countries' markets.

³ Commission Staff Working Documents "Economic and competitiveness analysis of the European textile and clothing sector" and "Evolution of trade in textile and clothing trade worldwide – trade figures and structural data", available on: <http://europa.eu.int/comm/enterprise/textile/COM2003.htm>

Finally, bearing in mind the fact that the competitive advantages of the European textiles and clothing industry are largely depending on quality and creation, research and development, innovation and skills, it is important that initiatives and actions are taken which are enhancing and supporting the efforts in favour of the textile and clothing sector.

3.1. Enlargement

3.1.1. The effects of enlargement on textile and clothing companies in the EU-15

EU-based textiles and clothing companies have a long history of cooperation with their counterparts in the acceding states and candidate countries. This was originally based on outward processing transactions (OPT), which took advantage of the lower labour costs outside the EU. A high level of economic integration between the acceding and candidate countries has already been established. Between 75% and 90% of the exports of these countries stay within the present and future EU members, and between 45% and 75% of the acceding and candidate countries' imports come from the future EU. In recent years, there has been a marked trend towards relocation of production facilities from the EU-15 to the acceding and candidate countries. This will continue after enlargement, with implications for textile and clothing employment in the existing Member States.

3.1.2. The effects of enlargement on textile and clothing companies in the new Member States

On average, the textile and clothing sector plays a more important role in the economy of the acceding states and candidate countries than in the EU-15. Enlargement will lead to more investment opportunities as companies relocate production facilities to the new Member States and continue their sub-contracting activities. In the first few years after enlargement, it is possible that flexibility and proximity to the market will help the sector in the new Member States to remain competitive. However, relocation of mass production to third countries (e.g. the Mediterranean rim, Ukraine) is also taking place and needs to be taken into account when examining the future prospects of the sector.

Although the situation varies according to the country, it is likely that textile and clothing companies in some of the future Member States will experience considerable difficulties and additional costs in respecting the Community *acquis* for environmental protection as well as health and safety requirements. Higher costs for compliance with EU environmental legislation have been taken into account within the negotiations with acceding countries (ACs). As a result, transition periods for the implementation of some EU directives have been granted, based on detailed justifications of ACs' requests. In relation to the textile and clothing industry, transition periods have been granted to Poland and Slovenia for some installations for the implementation of Directive 96/61/EC (IPPC)⁴. The rest of the ACs do not expect considerable difficulties in complying with the IPPC Directive within the textile and clothing sector.

⁴ Council Directive 96/61/EC of 24 September 1996, OJ L 257 of 10.10.1996, p. 26-40

The textiles and clothing sector in the new Member States will experience particular competitive pressure after enlargement. Due to their reliance on sub-contracted activities, many companies in the sector lack adequate information and knowledge to compete on the global market, and are handicapped by the fact that they do not cover the whole production segment, including the model design phase.

In particular, the adoption of the EU's trade policy *acquis* at the moment of enlargement will have a substantial impact on companies in the sector, as their markets – previously protected by higher tariffs – risk being invaded by low-price imported products from Asia in direct competition with domestic production. Furthermore, competition in the enlarged internal market will become more intense as a result of the dismantling of quantitative restrictions to imports that takes place on 1st January 2005. In general, the EU is the most important market for the acceding countries for textiles and clothing, and more than half of their exports are in the most sensitive textile and clothing categories under quota. The exports of similar products from some Asian competitors show a high level of utilisation of these quotas⁵.

Finally, a big productivity gap in the sector exists between the EU-15 on the one hand and the acceding and candidate countries on the other. In the textiles and clothing industry, these countries produce the equivalent of 10% of EU-15 value added while employing 60% of EU-15 textiles and clothing employment (data is not available for Turkey). Until now the sector has been able to compensate at least partially for low productivity with relatively low labour costs. These labour cost advantages are likely to be eroded in the medium term, creating the need to monitor the enhancement of competitive advantages associated, as in the EU-15, with quality and creation, research and innovation, and the development of new skills. The textile and clothing sector in the acceding and candidate countries will therefore be faced in the future with substantial structural challenges.

3.2. Trade issues

3.2.1. *The abolition of quantitative restrictions on 1st January 2005 – impact on EU industry and on the poorest countries*

A profound change facing the world-wide textile and clothing industry is the abolition of all remaining quantitative restrictions on January 1st 2005 under the WTO-Agreement on Textile and Clothing (ATC), which previously limited imports of certain textile and clothing products to specific quotas. This will certainly lead to increased competitive pressure in the EU from the main producers, such as in particular China, but probably also from other major producers such as India and Pakistan.

The Commission's services have launched a study to examine in detail the impact of quota elimination in the EU. The study, which will culminate in a final report in January 2004, involves analysis of the exact product types most under threat, the resulting effects on production and employment in the enlarged EU, and the likely

⁵ In 2002, exports in categories 1-9, 12, 13, 15, 16, 20, 26, 29, 31, 78, 83 and 163 accounted for more than 50% of total exports of the ten acceding countries. Around 90% of those exports went to the EU.

impact on specific, textile-dependent regions⁶. It is plausible that the impact will be more acute in certain regions with a very high concentration of textile and clothing production, and may affect adversely both regions in the EU which are already experiencing economic decline as well as less skilled workers and many women working in garment making.

It will also have an impact on some developing countries, especially certain least developed countries (LDCs), which have fragile economies with little diversification of production and exports. The same goes for other countries with preferential agreements with the EU, such as the southern and eastern Mediterranean countries, some ACP countries and other small exporters. Some of these countries are heavily dependent on textile and clothing for their export revenue (the sector can account for as much as 90% of their manufacturing exports) and jobs (up to 60% of manufacturing employment), and in some cases on certain markets – primarily the EU and the US (for some Mediterranean countries 90 % or more of their textile and clothing exports go to the EU).

The tougher competition resulting from quota elimination will increase the pressure on natural and human resources in order to enhance factor productivity and reduce production costs in some third countries which do not apply internationally agreed standards of social rights and of environmental protection. It poses challenges in terms of sustainable development, and on the conditions for fair competition, including respect of basic labour rights.

3.2.2. Market access to third countries

The current WTO rules establish that import quotas are to be eliminated in 2005, but do not provide for symmetric obligations to eliminate other trade barriers and especially to reduce tariffs. Whilst the average EU tariff in textiles and clothing is 9%, there are many other countries – especially in developing countries, including some of the largest and most competitive exporters in the sector – which protect their textile and clothing sector under tariffs of up to over 30%, in addition sometimes to other special taxes/duties and abundant non-tariff barriers.

As a consequence, and if the situation is not corrected, the EU, which has tariffs amongst the lowest in the world, will be a very open market without its firms being able to expand into many countries whose imports barriers remain very high. This situation, which would lead to a stiffening and further concentration of competition on the industrialised countries' sluggish textile and clothing markets, would not be sustainable from a political as well as a fairness point of view, especially as some of the highly protected third countries have (with the exception of the least developed countries) large potential markets for up-market EU production.

At present the EU, the US and Japan account for some 80% of world imports of garments, which indicates the still low importance of exports from north to south, but

⁶ In 2002, the EU had 278 bilateral textiles and clothing quotas. Textile and clothing imports subject to quotas represented in 2002 21,3 % of total textile and clothing imports in value and 16,5 % in volume. Of these quotas, 91 were highly utilised (90 % or more, thus implying a real restrictive effect on imports), accounting for 15,4 % of EU textile and clothing imports in value and 11,9 % in volume. However, these highly utilised quotas concern largely very sensitive products and some of the EU's largest suppliers such as China or India.

also points to low south-south trade. There is thus scope for expansion of EU industry into other markets, some of which are growing fast. While a number of developing countries have in this sector competitive advantages in the mass manufacturing of cheap, middle to low quality products which they will be able to exploit fully from 2005, EU industry has a competitive strength in the production of medium to high quality products, fashion items and technical textiles which it should also be able to use to advantage.

3.2.3. *The impact of the WTO's Doha Development Agenda (DDA)*

The DDA market access negotiations offer first of all an opportunity to obtain greater balance in trade conditions in the sector world-wide, and in particular to ensure that the elimination of import quotas will be accompanied by a real convergence of market access conditions towards low levels of duty. However, the precise modalities for tariff reduction and harmonisation have not yet been determined, as well as the link between a sectoral initiative for harmonisation of duties for textiles and clothing and the general tariff reduction formula applicable across-the-board.

The EU has to combine two potentially opposite objectives: effective world-wide liberalisation through harmonisation of market access conditions in the sector, and the need to take into account the situation of a significant number of countries which enjoy preferential treatment in the EU, such as ACP countries and Euro-Mediterranean countries. Some of these latter countries are highly dependent on their textile and clothing exports to the EU for their economic development. An important part of the preferential access they currently enjoy in the EU will disappear when the protection that they derive from the quota system ceases in 2005. A question to be addressed is the level of the tariff preferences that those countries will enjoy in the future, which will depend on whether, or the extent to which, the EU may have to reduce its custom duties as a consequence of tariff harmonisation that may be agreed in the DDA generally for all countries. This is an issue which may also have some relevance from the point of view of development cooperation.

3.2.4. *Impact of imports from major suppliers*

Some of the major textile and clothing exporting countries are still constrained by quotas which are highly utilised, the elimination of which may lead to a significant increase in their exports. Among the major EU suppliers China stands out, with a textile and clothing industry which enjoys a huge production capacity, combined with a very large labour force and labour costs substantially lower than those of the EU as well as those of most of its other important competitors.

Since joining the WTO in 2001, China has benefited from the progressive elimination of quotas in accordance with the Agreements on Textiles and Clothing. In 2002, imports of product categories liberalised for China under the 3rd stage of the ATC increased by 46% in value and 192% in volume terms, with an average unit price drop of 50%⁷.

⁷ In all those product categories, EU imports from all the world minus China dropped by 13 % in value and 11 % in volume, with a drop in unit prices of 2 %, and this evolution has been more significant in certain product categories. The share of China in those products in value terms has passed from 25 % in 2001 to 38 % during the first half of 2003; in volume, China's share of less than 14 % in 2001 has gone to 37 % in the first half of 2003.

Since almost half of Chinese textile and clothing imports are currently still under quota, and of the 42 Chinese quotas which will be eliminated in 2005 25 are currently very highly utilised (90 % or more), a very substantial rise in the market share of Chinese products may occur after 2005. This would impact not only on EU-25 production, but also on that of smaller (and poorer) 3rd countries, some of which risk being squeezed out of the markets in certain market segments.

In parallel, China is experiencing fast economic development that makes it a potentially very interesting market for EU and third-country textiles and clothing exports, particularly as China opens its markets and implements its WTO obligations in respect among others of retail and distribution liberalisation.

3.3. Competitiveness Issues

3.3.1. Research and Development efforts.

Although the textiles and clothing is traditionally not a technology-generating sector, this situation has evolved over the last years. Enterprises which have invested in research and new processing methods have been successful and been able to stand up against international competition. Hence, the sector should continue to be encouraged to invest in research and development which will lead to new intelligent materials, to new and more efficient processing methods and will allow to bring creative products at competitive prices on the market.

It is important that further investment efforts in research are taken by the public authorities as well as the industry itself. In this respect, it is worth recalling the Commission's Communication "Investing in research: an action plan for Europe", adopted on 30 April 2003, aiming at increasing investment in European R&D to approach 3% of GDP by 2010. For the actions taken at EU level, see chapter 4 of this Communication.

Although the textile and clothing sector is marked by small and medium sized enterprises and local developments, it is important that research efforts take place in a more integrated way so as to achieve a critical mass and be competitive on the global market. Networking as well as integrated research projects, in which research centers, industry and universities join forces towards the same goal: increase quality and competitiveness. Given that industrial production in the enlarged Europe, with a new trading environment, becomes more and more difficult, the European textile and clothing sector should continue to develop highly specialised products. This is the case, for example, in medical textiles based on biomaterials, interactive and intelligent textiles providing for textile sensors and improving test methods.

In chapter four of this Communication, actions taken at European level to encourage integrated projects and networking are explained with a special attention for small and medium sized enterprises. Integrated projects allow to bring together several disciplines necessary to come up with new products and processing methods: information technology, new materials, skilled personnel, awareness of intellectual property rights.

3.3.2. *Innovation*

Innovation in all areas of textile and clothing activities is essential if the sector is to remain competitive. Within the sector, individual companies expend an enormous amount of effort on innovation and creation activities related to products, quality, production processes and organisation. At the same time, a huge potential in similar activities lies with institutions such as universities and technological institutes. However, there is a large communication gap between the activities of companies and these institutions. Initiatives to bridge this gap could result in substantial multiplier effects in the development and dissemination of innovation among SMEs.

The textiles and clothing industry has also found it hard to bridge the gap between pure research on the one hand and the launch of new technologies, products or processes on the market on the other hand. An action line for innovation is available under the 6th Framework Programme for Research and Development. However, there are only limited funding opportunities at EU level for non-technological innovation.

3.3.3. *Information and communication technologies*

Within the textile and clothing sector, effective information management has become a key to retaining competitiveness, for example to improve supply chain management, exchange information, create virtual networks, handle smaller batches and reduce lead times.

Business-to-business (B2B) e-commerce is currently restricted mainly to large companies in the sector. It is here that some of the greatest advantages of information and communication technologies (ICT) may be seen. For this reason, SMEs need to harness B2B e-commerce to enable them to pool their fragmented activities and search globally for suppliers and markets. In addition, it is essential that interoperable systems are developed and deployed to permit SMEs to take full advantage of these benefits.

Some successful projects have been financed under the “User-friendly information society” (IST) thematic programme of the 5th Framework Programme for Research and Development, notably the cluster around the “E-Tailor” project⁸. However, many user-driven proposals have been difficult to accommodate. As the textiles and clothing sector is a user of ICT, rather than a developer of software, project proposals have often had a lower pure technology research level, although at the same time potentially providing a high economic impact, or providing for new organisational models.

The 6th Framework Programme for Research and Development also offers opportunities for the sector, in particular to SMEs, to benefit from the strategic objectives “Networked businesses and governments”, “Products and services engineering 2010”, and “Micro-nano systems”⁹.

⁸ For project details see: <http://www.atc.gr/e-taylor/>

⁹ These cover respectively: the development of ICTs supporting interoperable networking, process integration and sharing of resources, to enable networked businesses to build faster and more effective partnerships and alliances, to re-engineer and integrate their processes, to develop value-added products and services and to share experiences; the development of new information technologies for the optimisation of value creation processes in manufacturing and extended services; and the integration of micro-nano systems into a wider range of new intelligent products, such as intelligent textiles.

The available data on ICT take-up in the textile and clothing sector is fairly limited¹⁰, but it appears that the situation is similar to that of other manufacturing sectors, where SMEs have been reluctant to invest in ICTs. Activities to inform SMEs of the benefits of ICTs need to be stepped up.

3.3.4. *Vocational training*

In highly specialized products and processing methods, skills become very important. In the past the textile and clothing sector has been hampered in finding a workforce with adequate qualifications by its image as a 'traditional' manufacturing industry, combined with relatively low wage levels. Many enterprises are experiencing difficulties in recruiting staff with specialised skills, such as a traditional textile knowledge-base, and there is a particularly acute need for ICT and e-business skills, which are becoming increasingly indispensable. Young people entering the industry need high-quality training that is relevant to the new profile of the sector. In addition, in view of the technological changes and modernisation of production processes experienced by the sector, better training of the existing workforce is needed, to upgrade their qualifications and skills and to help them to adapt to new working environments. A better match between supply and demand at all levels should also be ensured.

At EU-level, the Leonardo da Vinci II vocational training action programme is the main instrument for the period 2000-2006 for supporting innovative transnational initiatives for promoting the knowledge, aptitudes and skills necessary for successful integration into working life, and is already open to the acceding and candidate countries.

Textile projects funded under Leonardo have permitted the development of useful tools for the sector. However, they have not been sufficient to surmount several of the sector's weaknesses in the area of qualifications and training. In general, programmes and funding at EU and national level often require initiatives of too large a scale for individual SMEs, which are in turn badly informed of the opportunities.

3.3.5. *Employment*

The European textile and clothing sector lost nearly a million jobs between 1990 and 2000, and the challenges on the horizon make further job losses appear highly probable. In Europe, the sector's only sustainable strategy is to concentrate on innovation, research, fashion and design, creation and quality, and the use of new technologies, together with positive industrial relations. In this respect it is important, however, to realize that new processing methods should not lead to less employment but better employment in a more friendly working environment with different working methods. Hence, it is important that education/availability of skills and organisation of the employment market are well co-ordinated.

¹⁰ The recent inclusion of textiles and clothing in the list of industry sectors to be covered in the next phase of the market observatory "e-Business w@tch" will allow for sector and country comparisons of key e-business indicators, with a particular emphasis on the SME dimension. See: <http://www.ebusiness-watch.org/marketwatch/>

3.3.5.1. Equal opportunities

Due to the large proportion of female workers in the sector, which reaches 74% in the clothing sub-sector, the promotion of equal opportunities is all the more important. The European social partners¹¹ for the textiles and clothing sector have been studying the question of employment for women for a number of years. Under the framework of the sectoral social dialogue, and with financial aid from the Commission, they have recently produced a guide for employers, workers' representatives and their respective organisations, setting out innovative good practices in terms of equal opportunities.

3.3.5.2. Managing change

The capacity of enterprises and workers to anticipate, trigger and absorb change is essential for achieving higher levels of economic growth, employment and social cohesion. Social dialogue and social partnership at all levels are essential in anticipating and managing positively change in general and restructuring in particular.

At the Barcelona Social Summit in 2002, at the invitation of the European Council, the European social partners decided to start discussions to explore the potential for social dialogue on restructuring. Following three seminars in autumn 2002 and spring 2003, which focussed on concrete cases of restructuring, the social partners successfully negotiated a joint text entitled "Orientations for reference in managing change and its social consequences".

The text consists of a series of recommendations, affirming the need for a 'climate of confidence' and a 'positive attitude to change' and for avoidance of 'uncertainties and excessive delays' in the procedures for informing and consulting employees. It invites employers to explain and justify the changes and their possible consequences to their employees and/or their representatives, in good time. The importance of partnership between employers, employees and local authorities in dealing with restructuring is emphasised, particularly where this has repercussions across a whole region, as is the need to maintain the employability of employees through continuous development of skills and competencies, and the specific problems of SMEs in the context of restructuring.

The European interprofessional social partners' initiative is a first significant step towards defining and developing the best practices on anticipating and managing restructuring, and they should seek to ensure its visibility and effective implementation at all levels. Social partnerships are a fundamental element of successful restructuring. In the field of information and consultation of employees, the existing Community provisions should be fully applied and developed at all appropriate levels.

3.3.5.3. European Sectoral Social Dialogue

Ensuring the sustainable development of the textile and clothing sector in Europe will require a commitment from all – including policy makers and social partners – to a continuous improvement in managing economic, environmental and social

¹¹ Euratex, and the EUTF:TCL

resources. Social dialogue at European level plays a key role in the management of change in industrial relations, as well as providing a platform for consultation on a wide variety of issues. The European textiles and clothing industry was one of the first sectors to have a social dialogue at the European level and has been a successful example of the European sectoral social dialogue's great potential for development. Initiatives launched by the social partners within this framework include the signing of a joint Code of Conduct and the production of a guide on public procurement for the sector, as well as projects concerning vocational training and preparing enterprises in the acceding and candidate countries for accession.

Both the ILO and the Commission have recognised¹² that although the tripartite interprofessional social dialogue is making progress in the acceding and candidate countries, autonomous sectoral social dialogue in these countries is still almost inexistant and needs to be promoted.

3.3.6. *Environment*

The EU is committed to ensuring a high level of environmental protection. Two of the crucial issues for the textile and clothing industry are the need to reduce both the amount of waste water discharged after many processes such as dyeing and finishing, as well as the chemical load this waste water carries. At the same time, the industry is being challenged to take a life-cycle approach to the environmental impact of the products it manufactures.

The main piece of legislation at EU level affecting the textile and clothing industry is the Integrated Pollution Prevention and Control (IPPC) Directive¹³ of 1996, which aims to achieve integrated prevention and control of pollution arising from a wide range of industrial and agricultural activities, including pre-treatment or dyeing of fibres or textiles¹⁴.

The Commission expects that the implementation of this Directive will speed up the modernisation process and lead to considerably less pollution by the affected installations. It recognises that implementation could have considerable socio-economic impacts and is aware that many small textile processing companies fear an unsustainable increase in costs¹⁵. SMEs make up a significant part of all IPPC installations in Europe¹⁶. Given that the majority of SMEs are “vulnerably compliant” as far as the existing environmental legislation and regulations are concerned¹⁷, Member States may need to give special assistance to operators who lack the resources to cope with the administrative burden of the IPPC Directive, while respecting EU rules on state aid. For its part, the Commission intends to examine the design of the threshold criteria for the textile finishing sector and to review whether the Directive covers the appropriate range of installations. At the

¹² See Commission Communication of 26 June 2002 “The European social dialogue, a force for innovation and change.”, COM(2002) 314 final

¹³ Council Directive 96/61/EC of 24 September 1996, OJ L 257 of 10.10.1996, p. 26-40

¹⁴ For information about the best available techniques (BAT) in the textile finishing sector, see the BAT Reference Document (European Commission, July 2003): <http://eippcb.jrc.es>.

¹⁵ See Commission Communication of 19 June 2003 “On the road to sustainable production. Progress in implementing Council Directive 96/61/EC concerning integrated pollution prevention and control.”

¹⁶ *ibid*

¹⁷ Report “European SMEs and Social Environmental Responsibility” (Observatory of European SMEs, 2002), available: http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

same time, the Commission is also co-funding research projects under the 5th Framework Programme for Research and Development to specifically address the environmental problems of the textile industry¹⁸.

The textile industry faces environmental challenges that are similar to those of other industries, and the technologies to address these are often very similar. However, each sector has its own research community, with very little communication and collaboration between them. The Commission is therefore supporting an initiative¹⁹ under the 5th Framework Programme for Research and Development to improve the exchange of information between research communities for the textile, leather tanning and pulp and paper sectors, in order to enable them to respond in a more efficient way to the environmental needs of these sectors.

At the same time, the Commission's strategy to stimulate greener products, as outlined in its Communication on Integrated Product Policy²⁰ (IPP), is pertinent to the textiles and clothing sector, covering such issues as sourcing decisions, duration of use, or supply chain management. From a textiles and clothing point of view, the various tools which already exist – including environmental management systems, labelling schemes, and improving the availability of information to all stakeholders – need to become more product-focused and user-friendly for the sector. In addition, further efforts by industry players and national authorities are needed to harness the potential of such tools to create competitive advantage for the sector at the same time as improving environmental performance.

3.3.7. Chemicals

A further challenge on the horizon for the textile and clothing sector is posed by the EU's new chemicals policy. The texts for a future draft Regulation on REACH²¹, which follows the 2001 White Paper on the strategy for a future chemicals policy²², prepared by Directorates General Enterprise and Environment, stipulate that certain chemical substances used or placed on the market in the EU above certain volumes will in future be subject to a registration and – where necessary – evaluation and authorisation/restriction procedure.

Whilst the REACH package aims to establish an overall balance between the three pillars of sustainable development (economic, social, environmental), it may have implications for some manufacturers/importers in certain sectors. There is the possibility of price increases for some chemical substances and preparations. Some withdrawal of low-value preparations is also foreseeable.

Industry has responded to the public consultation by pointing out that it is an important downstream user of an extremely wide variety of chemical preparations. For example, a typical recipe for dyeing fabric contains 5 preparations, each made up

¹⁸ For example, under the 5th Framework Programme for Research and Development, the key action on Sustainable Management and Quality of Water is supporting the project TOWEF0 which is evaluating the effects of the implementation of IPPC on the sustainable waste management in textile installations.

¹⁹ For more information, see: <http://www.patantex.net>

²⁰ Commission Communication of 18 June 2003 on "Integrated Product Policy: Building on environmental life-cycle thinking", COM(2003) 302 final

²¹ See: <http://europa.eu.int/comm/enterprise/chemicals/chempol/whitepaper/reach.htm>

²² COM(2001) 88 final, adopted 27.2.2001

of ten chemical substances, and a textile finisher uses hundreds of recipes each year. The Commission has taken account of the views expressed by the textiles industry in finalising its REACH proposal. The significant reduction in testing requirements for low tonnage and the substantial reduction in the administrative burden have largely reduced any potential adverse effects such as the withdrawal of substances used by the textile industry.

3.3.8. *Consumer affairs and public health*

There is a rising awareness among some consumers of the potential health impact of the products that they eat or come into contact with, and this is an area of particular concern to consumer associations throughout Europe. From the point of view of the textiles industry, this concerns primarily clothing, household textiles and, to a lesser extent, carpets. Garment manufacturers are increasingly responding by examining the chemicals contained in clothing, and which may potentially be released during washing and wear, especially when this involves prolonged contact with the skin. As with regulations pertaining to environmental protection, this issue should not be seen as a threat to the sector, but rather as an opportunity for EU producers to advertise the high level of consumer protection offered by their products.

Advertising for textile products should not be misleading in the sense of Directive 84/450/EEC as amended by Directive 97/55/EC, and textile labelling should provide clear, accurate and understandable information in a language easily understood by the consumer.

3.3.9. *Corporate social responsibility (CSR)*

There is an increasing awareness both among the business community and among consumers that enterprises can contribute – at least partially – to sustainable development by integrating environmental and social concerns into both their business operations and their interaction with stakeholders. It is also acknowledged that this kind of responsible behaviour can support sustainable business success and can therefore contribute to competitiveness.

In its Communication on Corporate Social Responsibility²³, the Commission supports the promotion of CSR as an important voluntary contribution of businesses to sustainable development

In this context, the Commission has launched a multi-stakeholder forum to which business associations, trade unions and NGOs active in the textile and clothing sector have contributed. The Commission's strategy also includes as one of its priorities fostering CSR among SMEs, which is highly relevant if the concept is to find further acceptance in the sector.

In the textile sector, the CSR approach is promoted mainly by and for large multinational enterprises involved in the clothing trade. Today and in the future, the most significant pressure on SMEs to adopt CSR practices and to report on their performance is likely to come from their large business customers. In view of the complex and highly internationalised textile and clothing supply chain, the CSR

²³ Corporate Social Responsibility: A business contribution to sustainable development, COM(2002)347 final, adopted 2.7.2002

issue is likely to become increasingly important in the sector. At European level the social partners of the textile and clothing sector adopted a CSR charter in 1997.

However, lack of awareness seems to be a significant obstacle to the take up of CSR approaches among SMEs of the sector. Employers' organisations and trade associations have an important role to play in raising awareness about CSR through the provision of information, user-friendly tools and the dissemination of good practices. The Commission itself is organising an awareness raising campaign on CSR particularly targeted at SMEs, which will run throughout the EU, acceding and candidate countries during 2004.

In addition, bearing in mind the specific constraints SMEs have to face in terms of resources, it is critical for them to be in a position to assess the likely gains to be derived from their involvement in CSR practices and to measure the extent to which such gains will allow them to cover the monitoring, reporting and promotion costs associated with CSR activities. This is particularly true in the context of the textile and clothing sector, in view of the complex and internationalised supply chain.

3.3.10. Intellectual property rights

The advantages enjoyed by the European textiles and clothing sector due to its ability to innovate and create new products are under threat from counterfeit products. Despite Community protection of both trademarks and designs, brands, designs and models are systematically copied to the detriment of their owners²⁴. Many SMEs in particular have difficulties in fighting this threat, as they often lack the resources to engage the services of IPR experts or to embark on complex court cases.

The Commission has recently tabled two proposals that will make a substantial contribution towards reinforcing the protection of intellectual property rights (IPR). The proposed Directive on the enforcement of IPR²⁵ aims to harmonise national provisions in this area. A parallel Regulation²⁶, which was adopted in July 2003, concerns customs actions against merchandise which infringes intellectual property rights. Although these are two essential instruments to tackle counterfeiting within the Community and at its external border, they cannot address this problem at one of its major sources, i.e. in the third countries typically manufacturing the goods. This is why additional measures will be necessary to improve the protection and enforcement of IPRs in certain third countries where it is deficient. At the same time, it is important to ensure the diffusion of information to textile and clothing SMEs concerning their rights and possible means of recourse in this area. Finally, effective enforcement by the Member States' national authorities will be vital.

²⁴ For example, 4.7 million items of clothing and clothing accessories were seized by customs at the external borders of the EU in 2001, and half of all EU customs procedures for 2001 (i.e. 2628 procedures) concerned textile and clothing products. See:

http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/statistics/statistics_en_2001.pdf

²⁵ Proposal for a Directive of the European Parliament and of the Council on measures and procedures to ensure the enforcement of intellectual property rights of 30 January 2003, COM(2003) 46 final

²⁶ Council Regulation (EC) 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, OJ L 196 of 2 August 2003

3.3.11. Regional aspects

The textiles and clothing industry in Europe is characterised by geographic concentration of SMEs in a number of regions which are highly dependent upon the sector for employment and socio-economic cohesion. These are often regions where other employment opportunities are limited. In addition, women account for a large proportion of the workforce, especially in the garment sub-sector. For these reasons, any downturn in the economic situation of the sector and the resulting job-losses can have a disproportionately negative effect on certain regions – both in the EU-15 and in the future Member States.

This situation requires the capacity to anticipate industrial change, and to attract new investment to diversified economic activities. Moreover, most workers losing their jobs in textiles and clothing will be unable to find new employment in the sector. Those opportunities that will continue to exist in future are likely to be at a higher educational level. For these reasons, regional training programmes are needed to focus on updating skills and re-training for redeployment.

Financing under the Structural Funds is administered by means of horizontal multiannual regional development programmes, proposed by the regions and approved by the Commission.

3.3.12. Competition policy, state aid and Internal Market issues

In a sector such as textiles and clothing, which is experiencing a continuous adjustment process, in particular in the form of closing down and/or modernisation of installations, the provision of state aid can be particularly disruptive. In this context, compliance with the rules in place for granting state aids to the sector is of great importance. Furthermore, taking into account the fact that the investment levels required by many textile activities and most types of clothing production are significantly lower than those of other sectors, the textiles and clothing sector would appear to be a suitable candidate in the foreseeable future for any tightening of the state aid rules.

There are, however, a number of areas where state aid may be looked at more favourably as it can have an overall positive impact in the EU. In order to clarify the state aid policy in these areas, the Commission has adopted a number of guidelines and frameworks, including areas of high importance for the textile and clothing industry such as research and development, employment and training, SMEs, protection of the environment and rescue and restructuring of firms in difficulty.

Any future initiative at national and Community level in this area need to be fully consistent with competition rules and will aim at improving market performance by fostering integration and the efficient allocation of resources within and across sectors and regions of the Internal Market without introducing any distortion of competition.

4. PROPOSALS TO STRENGTHEN THE SUSTAINABLE COMPETITIVENESS OF THE TEXTILES AND CLOTHING SECTOR IN THE EU

Strengthening the sustainable competitiveness of the textiles and clothing sector in the enlarged European Union is associated with the re-enforcement of the factors

linked to the present and anticipated competitive advantages of the EU textiles and clothing industry.

While companies are responsible for establishing adequate strategies and adapting to a changing competitive environment, Member States and European Union authorities need to ensure a coherent policy mix and the adequate availability of instruments which – by promoting improvements in the areas of research and innovation, quality and creation and training – would enhance the competitive capabilities of the EU textiles and clothing industry.

Since July 2003, the new European Employment Strategy is in force, providing guidelines for the Member States' employment policies. By adopting these guidelines, Member States have undertaken *inter alia* to strengthen the development of human capital and lifelong learning, to improve adaptability in the labour market, to foster entrepreneurship and job creation, and to address regional employment disparities. Many of these ambitions are particularly relevant for the textile and clothing sector, a principal aim being the smooth transition of the economy to new conditions. Improving governance and strengthening partnerships by closely involving parliamentary bodies, social partners and other relevant actors is highlighted as an overall objective, and attention is drawn to the need for an effective delivery system through the operational services, including public employment services.

At the same time, ever increasing access to the European Union market, which will move a step forward on 1st January 2005 with the full dismantling of quantitative restrictions, needs to be matched by equivalent access by EU textiles and clothing exports to world markets. The investments made to cope with the rapidly changing combination of competitiveness factors in the EU, implying an almost permanent process of restructuring and modernisation, require a level playing field at the international level in order to provide an economic rationale for the often painful restructuring and modernisation processes.

With the increased liberalisation of access to the EU market, it is also important to grant to LDCs and small producers preferential margins that may help prevent them from being crowded out of the market.

Finally, in the framework of integrated regional development instruments, it would be important to anticipate industrial change, when it exceeds the adaptation capabilities of a region. Different sectors in the enlarged EU industry, and among them textiles and clothing, regularly go through processes of restructuring and modernisation which impact on employment, on the enterprises themselves and on the socio-economic situation of the regions. It is important to attract investment to these regions, to train people to enable them to find a job in different economic activities, and to re-train employees within the same sectors in order to respond to demands for ever higher skills.

4.1. Actions at EU level

4.1.1. Trade policy

The EU has in this sector a number of objectives that are not easy to combine: promotion of its own industry in the context of greater international competition,

development concerns, making a success of the DDA, balance between multilateral liberalisation and preferential treatment, and promotion of sustainable development and trade conditions. Available trade policy instruments have been re-examined with a view to providing a response to the challenges of quota liberalisation and increasing globalisation of trade, and in order to devise for EU industry and other concerned parties a clear, predictable and coherent framework in which to plan their business strategies, investment and training. It could be composed of the following elements:

4.1.1.1. Improving market access conditions in third countries – The Doha Development Agenda

In the face of global competition, in particular for low-price goods, it will be critical for the European textile and clothing sector to enjoy real access to the markets of third countries for its products. For this reason, the EU has been seeking in the DDA negotiations to obtain conditions of access to third country markets that are both fair and comparable across the world. The EU considers that the quota elimination in 2005 should be accompanied with better, comparable, market access to the textile and clothing markets of the other countries. Otherwise, the resulting imbalance in market access would be very difficult to accept, especially if some of the largest and more competitive textile and clothing exporters in the world still maintained significant barriers to access to their markets. It is a point of concern that the signals given by some of the largest textiles and clothing exporting countries regarding their readiness to stop protecting their industry in the DDA have not been so far positive; this raises the question whether firms in those countries might use their protected access to their domestic market to engage in more aggressive international expansion.

The current EU proposal in the negotiations on market access calls on all WTO members – with the exception only of the least developed countries – to cut their customs duties to the lowest possible common level and to eliminate non-tariff barriers. This should enable EU industry to compete in other countries under conditions that are similar to those the EU offers to third countries. All countries would have to contribute, including of course those which have very competitive textile and clothing exports. The EU will not make further reductions in its already fairly low customs duties if they are not matched by equivalent access to external markets. To take proper account of development concerns – affecting both non-preferential and preferential countries – which have been expressed by developing countries and the impact on EU industry, the application of new, lower levels should be phased in, with transition periods to allow time to adjust.

The persistence of non-tariff barriers to trade (NTBs) – which the EU seeks to eliminate but which are also of concern to other countries – represents a serious problem for European industry. In the textiles and clothing sector they concern mainly additional taxes/duties or other import charges, minimum import prices or customs valuation practices not based on the price paid for the imported good, onerous or *de facto* discriminatory labelling or marking requirements, import authorisation schemes, burdensome certification procedures, etc. Dealing with them requires surmounting a number of difficulties. In some cases it may happen that such barriers are clearly contrary to existing WTO rules, and these could be handled via the WTO dispute settlement mechanism if evidence can be provided. However, there are many cases where the compatibility with WTO obligations is not clear, and in

addition conclusive evidence for some is difficult to obtain – for instance when NTBs concern administrative practices.

The DDA negotiations provide the opportunity to carry out a comprehensive review of all alleged NTBs, possibly through procedures such as cross-notification and negotiations based on requests and offers, aimed at reaching an agreement to eliminate or not to apply any such measures. Such negotiations could take place on a bilateral basis, but the objective would be the multilateralisation of the commitments that would result. In its recent bilateral textiles agreements, the EU has included comprehensive lists of types of NTBs, which could be used as a standard for the commitments not to apply NTBs and for their examination. Such a one by one examination of NTBs will be a time-consuming task, for which additional input from the industry in preparing lists of documented NTBs in priority countries will be necessary.

4.1.1.2. Achieving the Euro-Mediterranean Zone

As part of the Barcelona Process, a free trade zone is being created, which will embrace the EU and the Mediterranean countries. One of the main priorities for the textile and clothing sector in setting up such a zone is the extension of the Pan-European system of diagonal cumulation of origin²⁷, which already covers the EU, the EFTA countries, the CEECs and Turkey, to the Mediterranean countries. In its final stage, this cumulation zone is expected to include the Balkan countries as well.

Within such a free trade area, it will be possible for economic operators to use intermediate products from the entire area without hindrance. This will enable the competitive advantages of different regions to be exploited more intensively, and will also allow the textile and clothing sector to maintain the whole chain of production close to the European market, combining the advantages of reasonable costs, quality and proximity. The zone will also mitigate to a certain extent the negative effects of the abolition of import quotas in 2005, and for this reason its speedy implementation is essential.

After the agreement on the Protocol of Origin reached among Euro-Mediterranean Trade Ministers in Palermo on 7 July 2003, the most important remaining step to achieve such cumulation of origin is the conclusion of free trade agreements (FTA) among the concerned countries²⁸. The Commission considers that further efforts in this respect should be made by the countries concerned. In order for diagonal cumulation to work, all partners must have identical rules of origin as well as an agreed system of administrative cooperation, which are defined in detail in the origin protocol of the FTA. Since textiles and clothing play a crucial role in the economies of the southern and eastern Mediterranean countries, there is a particular urgency to

²⁷ Diagonal cumulation in the Euro-Mediterranean context refers to the cumulation possibilities when several countries are party to an agreement or linked by several similar agreements and where the use of materials originating in any of the countries concerned is permitted. An example is a fabric originating in the Community, used in the making up of a shirt in Poland; this shirt can be exported towards Switzerland enjoying the benefit of the preferential treatment, as in any other countries benefiting from the pan-European cumulation system.

²⁸ To give an example, Morocco will be able to import a fabric from Egypt, transform it into a garment and export it to the EU free of duty. However, in order for it to benefit from diagonal cumulation, Morocco and Egypt must have concluded a FTA between themselves, otherwise such a garment would be subject to customs duty in the EU.

complete the zone by 2005, and ways to accelerate the effective introduction of cumulation of origin within the area should be considered. The Commission will further examine, if there are demands within the region or from industry, alternative means to the requirement of free trade agreements among these countries. The conclusion of such free trade agreements however remains the Community's priority and final objective to achieve the Euro-Mediterranean free trade zone. Where proposed, alternative means would have to provide results that are equivalent to free trade agreements regarding both the enhanced Euro-Med economic integration expected from the Pan-Euro-Med cumulation system, and the determination, proof and control of the origin of the products benefiting from cumulation. They would have to offer a fully WTO-compatible framework and enforceable rules and methods of administrative cooperation for this purpose.

In more general terms, in the creation of the zone especial effort should be put in the enforcement of core labour and environment standards, involvement of social partners and promotion of sectoral social dialogue.

4.1.1.3. Vulnerability of certain textile and clothing producing countries

Some developing countries, especially a number of LDCs, smaller suppliers and Euro-Mediterranean countries will suddenly be subject from 2005 to stiffer competition from countries which until then were restrained by quotas. From 2005, their only preferential treatment will reside in the differentiation in customs duties that the EU will apply. Those, depending on the outcome of the DDA, may be further reduced towards harmonised levels still not determined. At the same time, these countries are faced with a situation where, partly because of current rules of origin, a substantial part of their garment exports to the EU does not qualify to benefit from any tariff reduction – whilst their largest developing country competitors can benefit from tariff reductions because their products qualify for such treatment thanks to a greater integration of their textile and clothing sector. This could be addressed, although only partially, in three ways:

- a) ***Customs duties.*** The EU is interested in promoting common duty levels which are as low as possible, i.e. the lowest that all WTO Members are ready to agree on and to apply. If such 'common ranges' of duty levels agreed in the DDA were below the current EU duties, this would imply that LDCs and Euro-Mediterranean countries would have their preferential margins further reduced, and this would be all the more the case, the lower the level at which the agreed duties were fixed. To deal with this potential problem, convergence towards a 'common range' of duty levels could be achieved after a transitional period that would give those countries some years to adjust.
- b) ***Concentration of EU unilateral preferences.*** At present EU unilateral preferences – the Generalised System of Preferences (GSP) – are generally given in textiles and clothing to all developing countries in the form of a 20 % cut in tariffs, and to LDCs in the form of duty free treatment. When certain objective criteria are met, showing that a country is already very competitive in one sector, that country may be 'graduated' and lose the preference for that sector. In view of the impact of quota elimination especially on LDCs and small textile and clothing suppliers, the importance of limiting the preferences to those countries which are more vulnerable needs to be taken into account in establishing a new GSP regime to apply after 2006, while respecting the principle of non-discrimination.

- c) ***Improving the use of preferences – cumulation of origin.*** At present many preferential countries do not make full use of preferences granted by the EU, and in particular GSP preferences and those granted to ACP countries. One of the reasons is that EU preferential rules of origin require a sufficient transformation in the beneficiary country so that the product can be considered as of preferential origin²⁹: the objective of such a rule is to avoid those countries become mere platforms for minimal processing of goods coming from non-beneficiary countries, thus frustrating the purpose of the preferences – to benefit the eligible countries and not others. Since many of those countries - especially the least developed countries and small garment exporters - do not have a competitive domestic textiles industry, they have typically to import fabrics from other countries which are then converted into garments but, as a general rule, the result is that the final product is no longer considered as being of preferential origin and comes into the EU with full duty. The question posed here is how rules of origin (including cumulation of origin) could be adjusted in a way that may improve the competitive position of those more vulnerable countries by actually contributing to their development through a better use of the preferences granted by the EU, without either opening the floodgates of the EU to imports whose main value added originates in non-preferential countries, or without in fact preventing the possible development of a domestic textiles industry which would not resist the competition of the largest textiles exporting countries.

A substantial change in the rules of origin – such as scrapping the current double transformation rule – would have the effect that the main beneficiaries of the change might be those which are currently non-preferential countries, whilst too little value added would be generated in the country of production. This would frustrate the objective stated in point (b) above to concentrate the preferences on those countries that most need it. When considering measures based on giving preferential countries wider choice for sourcing intermediate products, one option would be to facilitate cumulation of origin within groups of preferential countries having a sufficient coherence in geographical and economic terms. Another option would be to allow cumulation among neighbouring preferential regions, provided there is sufficient complementarity in their textile and clothing production. To be acceptable, such an option should however not weaken the economic integration within the regions concerned and must include a fully WTO-compatible framework and enforceable rules and methods of administrative cooperation for the determination, proof and control of the origin of the products benefiting from cumulation.

When considering such measures, in addition to the impact that they may have on EU textiles and clothing industry, it will be necessary to take into account their effects on the development of the whole chain of the textile and clothing industry in these countries.

²⁹ For e.g. for a garment manufactured in such countries to be considered originating in those countries it is generally required that a ‘double transformation’ takes place there, which implies that they use competitive fabric either domestically produced (which many often do not have) or imported from countries with which cumulation of origin is permitted.

4.1.1.4. Addressing sustainability issues

Increased competition and trade liberalisation should contribute to the overall objective of sustainable development in all its dimensions (economic, social, and environmental). This poses challenges, such as how to avoid a race to gain or defend market shares resulting in a deterioration of the working conditions – already fragile – of some of the poorer people in the poorer countries: such non-respect of basic labour rights or a worsening of environmental standards should not be considered as part of the comparative advantages of any country. But reconciling trade liberalisation with the principles of sustainable development also offers opportunities for enhanced sales and/or better margins for products manufactured in the EU or elsewhere under sustainable conditions, as measures could be taken to enhance their visibility and attractiveness to consumers and, in respect of imported products, to grant them preferential market access conditions.

The promotion of sustainable development should be done, as far as possible, through specialised international institutions where they exist (such as the ILO or UNEP) through enhanced cooperation between the EU and these institutions, and using incitative means and compliance with international standards. The current EU GSP regime already contains special incentive arrangements for the protection of labour rights, providing with additional advantages to qualifying countries; it also provides for the possibility to withdraw GSP benefits to countries which engage - among other practices - in serious and systematic violation of the freedom of association, the right of collective bargaining or the use of child labour.

However a lot remains to be done as the organisation of the employment and labour relations in some cases is not yet in compliance with ILO core labour standards and with the ILO objectives of decent work promotion. Therefore the implementation of these international standards and objectives will require genuine efforts by the countries concerned. The EU could support these efforts.

The business community should also contribute to sustainable development by CSR initiatives such as the promotion of the ILO and OCDE principles and guidelines on multinational enterprises covering also the entire supply chain.

Labelling schemes could also be considered so that consumers who wish can opt for products which have been produced in a sustainable way. For consumers to use such labels, they should be relevant, credible and reliable. In addition, they should be market driven, non-discriminatory, proportionate and transparent; they could be used as a first step to grant such products, in conformity with WTO rules, better conditions of market access under the future GSP regime. They could be based on internationally agreed standards where available³⁰. They should include appropriate certification mechanisms combined with sufficient and cost-efficient control. Existing certification organisations and bodies could be entrusted with such tasks

³⁰ For instance, basic labour rights are defined in the ILO Declaration on Fundamental Principles and Rights at Work, June 1998, as:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labour;
- (c) the effective abolition of child labour; and
- (d) the elimination of discrimination in respect of employment and occupation.

after verification of their capacity, and under some form of control of public authorities insofar as there is a public recognition of their certification.

Labelling may help create niche markets, not only for EU but also third country producers, including developing country manufacturers who may lose market share following the elimination of import quotas in 2005. Consideration should be given to the provision of technical assistance to facilitate compliance with the labelling schemes described above. Some labelling schemes relating to the production methods of textiles and clothing already exist and any action at the EU level would clearly need to take these fully into account.

Moreover, the Commission is engaged in a cooperation with the Sustainable Trade and Innovation Centre (STIC), which was launched as a type II-initiative at the Johannesburg Summit on Sustainable Development. STIC could play a useful role in promoting sustainable production, notably in developing countries, by fostering technology transfer and providing technical assistance through the creation of networks of stakeholders, partnerships or “twinning arrangements” between European and developing country companies. STIC could also play a role in promoting trade in environmentally-friendly products from developing countries. The textile sector has been identified as an area where globalised trade justifies such action at international level to reconcile industrial development and environmental protection.

4.1.1.5. Protecting intellectual property rights

As innovation, branding, fashion and design are some of the strong points of the EU's textile and clothing industry, it will be important to step up efforts for the improvement of IPR protection and enforcement in third countries, including the monitoring of compliance with the WTO TRIPs Agreement, to render fight against trade in counterfeited goods more efficient.

The Commission services have recently taken the initiative to prepare a survey on enforcement issues in the area of intellectual property rights, with the objective of assessing, in a detailed manner, the current situation in third countries and consequently identifying the most problematic IP areas and countries. The survey provided a diagnostic tool to act more efficiently by developing a clear strategy to tackle the growing problems caused by violations of IPR and by the deficient enforcement of such rights in third countries. As a preview in the context of the textiles and clothing sector, and foreshadowing the Commission's intention to enhance its activities in the area of enforcement in a more comprehensive manner covering other key sectors too, it is submitted to work on, inter alia, the following actions as a matter of priority:

- Use of IPR mechanisms contained in multilateral (incl. the TRIPs Agreement) and bilateral agreements: launching of an initiative in the TRIPs Council; refer the issue to bilateral association / cooperation Councils emphasising the growing dimension of the problem; strengthening the enforcement clauses in bilateral agreements.
- Make active use of both incentive and sanction mechanisms: refer to existing mechanisms like the Trade Barrier Regulation (TBR) and the WTO dispute settlement mechanism, as appropriate, and develop new instruments as necessary.

- Awareness raising: raise the awareness of Community right-holders doing business in “problematic” countries about the risks incurred. Stress that protection is only available after appropriate steps for the registration of the rights (mainly trademarks, designs and models) have been carried out; most IPRs can only be enforced after they have been appropriately protected (i.e. registered) in the country where the infringement takes place. It is also important to raise the awareness of the public in general about the negative impact and the dangers of counterfeiting (loss of foreign investment and technology transfer, link with organised crime, etc.).
- Political dialogue: Stress at highest political level vis-à-vis our trading partners that an effective protection of IP, at least at the level set in TRIPs, is essential.
- Technical cooperation: ensure that enforcement is a key component of existing and new technical cooperation programmes in the field of IPR covering the most problematic countries and co-ordinate activities with other key providers of technical assistance to the maximum extent possible.
- Creation of public-private partnerships: Companies and associations which are very active in the fight against counterfeiting constitute an invaluable source of information, but also a privileged partner for any initiatives in the area of awareness raising. Appropriate mechanisms of partnership or, at least, of exchange of information (creation of contact points, periodical meetings, etc.) should be envisaged.

4.1.1.6. Increased international competition and available remedies

The elimination of quotas and the resulting increased competition is likely to lead to adjustments in the relative position among EU and foreign suppliers, and one of its natural effects may be further reduction of prices. Where such increased competition is in conformity with WTO standards of fair trade practices, no public intervention will normally be called for. But if the pressures of adjustment to quota abolition lead to unfair trade practices in the sector, such as dumping or subsidisation or exceptionally high import increases, then – as in the past – the industry will have access to the full range of EU trade defence instruments, which are consistent with WTO rules, and which the Commission intends to apply when the relevant conditions are met. In certain cases, notably that of China, the terms of WTO accession include further specific and transitional instruments to deal with problems of increased competition and market disruption. While not having specifically requested such provisions in the past, the EU cannot ignore their existence if any relevant cases arise.

The case of China is a particular focus of EU debate. The surge in Chinese exports in categories liberalised in the 3rd stage of ATC integration, together with China’s impressive manufacturing and export potential, is leading to concerns among the industry both in the EU and in other countries which supply textile and clothing to the EU. The sharp unit price drops and the expansion of market share, which in some individual categories has multiplied several times over with average unit price

reductions of up to 75 % ³¹, deserve scrutiny as to the conditions under which such performance has been achieved, and create concerns that a similar situation might take place in 2005 in the rest of the products.

These concerns cannot be ignored, although any possible response from the EU would need to be situated within the context of the more general framework of trade relations between the EU and China, which the EU is interested to develop in a harmonious way. Thus, priority should be given to dialogue and discussion in dealing with any potential problems that may arise in trade, and aiming at ensuring that China continues to open its fast growing markets to EU and developing-country products so that it becomes a real opportunity for their exports.

China being a potential important market for the EU in textiles and clothing, there should be a close monitoring of China's compliance with its WTO obligations. Problems of WTO compliance can be raised both bilaterally in the context of the regular meetings between the Commission services and the Chinese authorities, and in the multilateral context through the Transitional Review Mechanism set up in the WTO ³². To this end, it is essential that the relevant information is transmitted as quickly as possible by the industry to the Commission services in charge of monitoring China's WTO implementation. To this effect, the Commission will continuously monitor the situation, with the involvement of industry and exporters, focusing on barriers to market access and other trade practices in China in the textiles and clothing sector, their compatibility with China's WTO obligations, and any openings for fresh initiatives to support the efforts of EU industry in this area.

On the basis of these preparations, the Commission will engage in a sustained policy dialogue with the Chinese authorities, focusing both on the extraordinary performance of Chinese textile and clothing exports in some product categories since 2002 and on the EU's interest in better sales on the growing Chinese market.

4.1.2. Research and development actions

The 6th Framework programme for Research and Development³³ adopted at the end of 2002, consists of several funding possibilities of importance to textile and clothing sector. In the first place, there is the thematic priority 3 on nanotechnologies and nanosciences, knowledge-based multifunctional materials, and new production processes and devices (NMP). All these activities are relevant to improve the competitiveness of the European textile and clothing sector. There is also priority area 2 on information society and technologies which is relevant for the textiles sector and priority area 6 relating to sustainable development. These priorities should allow the sector to focus research areas to modernise, for example:

- the introduction of ICTs into the whole textile and clothing chain from production to distribution;

³¹ For instance, in category 161 (other garments) Chinese exports in 2002 as compared to 2001 grew in volume by 360 % with a unit price reduction of 75 %, and for category 21 (anoraks, parkas) exports in volume grew by 291 % and average unit prices dropped by 48 %.

³² A mechanism foreseen within the WTO in the context of China's accession, in order to review annually China's implementation of her WTO obligations. The TRM takes place every year in the first 8 years of China's WTO membership and on the 10th year of membership.

³³ See: <http://fp6.cordis.lu/fp6/home.cfm>

- the development of new materials (including technical textiles) to address in particular the challenges of fighting counterfeit, creating more environmentally friendly products and developing intelligent materials;
- the development of new production processes including mass customisation and a technological breakthrough for the clothing sector;
- and finally the development of clean technologies to contribute towards sustainable development and to build confidence in the sector which is one of the major consumers of large quantities of water and chemical preparations.

Increased actions to co-ordinate and create synergies between these priorities should be promoted, as well as initiatives to sensitise players at national and local level to research results, to enable their rapid dissemination. This is why the 6th Framework Programme is designed to support research efforts under the form of Integrated Projects or Networks of Excellence. It is important to note that under thematic priority 3, for example, there are in addition possibilities of Integrated Projects with a special emphasis on SMEs, to stimulate the transition of less RTD-intensive sectors towards higher value activities. At the same time, longer-term research will be facilitated by specific targeted research projects (STREPs).

In the more horizontal actions covered by the 6th Framework Programme, actions to help SMEs in traditional or new areas to boost their technological capacities and develop their ability to operate at European or even international scale, can help the textile and clothing industry in networking with other industrial partners. Hence, the activities under the co-operative and collective research schemes, dedicated to SMEs, should continue to open up a variety of opportunities for the textile and clothing sector. The special programme for Human Resources and mobility should help the the training needs of the sector, in conjunction with other Community programmes.

Under the 6th Framework Programme, there is also the possibility to create an ERA-NET, which is an instrument to step up the cooperation and coordination of research activities carried out at national or regional level in the Member States and Associated Countries through networking of research activities conducted at national or regional level and the mutual opening of national and research programmes, which will be part of the networking activities. Such an initiative could help the textile and clothing sector in concentrating its research efforts on well identified technological needs³⁴.

A technological platform for the sector could also be considered, to foster marketplaces for cooperation among stakeholders, work out a long-term strategic plan for RTD for the sector, and ensure synergy among public authorities, users, regulators, industry, consumers, and poles of excellence.

4.1.3. *Innovation policy*

In the framework of existing programmes, the possibility of creating a specific reference to non-technological innovation, for example in the area of creativity and

³⁴ More detailed information can be found by consulting the Background Document 'Provisions for implementing the ERA-NET scheme' which can be downloaded at the following website: http://europa.eu.int/comm/research/fp6/coordination/era-net_en.html

fashion, could be examined. Initiatives to raise the awareness of innovative activities within the sector could also be promoted. The Commission could examine the feasibility of extending modalities similar to the ones available in the IST area to allow SMEs to develop marketable prototypes and establish business cases for a wider range of products and processes.

4.1.4. Education and training policy

Actions are needed to support enterprises in those industrial sectors, such as textiles and clothing, which require new skills and training programmes. The Commission is exploring ways of improving stakeholders' awareness of the opportunities for sector-specific projects already available under the Leonardo da Vinci II programme. The Commission also aims to improve SMEs' access to existing funding opportunities, and will consider the feasibility of further simplifying application procedures. The diffusion of information to SMEs will be promoted, and the feasibility of an information leaflet for the sector will be examined. An assessment of the textile and clothing sector's participation in the Leonardo da Vinci II programme will be necessary in order to take any difficulties into account in the process of the revision of the Leonardo da Vinci approach for the period beyond 2006. The Commission will also encourage players to establish a Europe-wide approach to training for textiles and clothing, to identify best practices in this area, and to co-ordinate future action so as to avoid duplication.

4.1.5. Regional and cohesion policy

Industrial change across the whole of the enlarged Europe needs to be anticipated, to create new employment opportunities in the regions dependent upon the sectors in question, and to establish re-training and redeployment programmes for those no longer able to find employment in textiles and clothing. These objectives, already considered in regional programmes of the Structural Funds, could be achieved by means of integrated multisectoral regional programmes and initiatives for regions particularly dependent upon certain sectors undergoing industrial transformation. It would be important to consider these aspects within the framework of the discussions on the future of the Structural Funds both after enlargement, and from 2007 when the Funds will be reviewed under the new Financial Perspectives 2007-2013.

Specific actions at regional level should be encouraged, and these could include the strengthening of existing clusters and regional networks of enterprises by encouraging the creation of virtual (on-line) networks and communication platforms. The use of information and communication technologies (ICTs), especially by SMEs, could be supported. Particular attention will be paid to the opportunities already offered by Objective 3 of the Structural Funds as well as the European Social Fund for modernising and adapting national education, employment and training programmes in order to (re-)train those affected by industrial change, in co-ordination with the social partners.

In addition, the Commission is examining, in the context of the new financial perspectives (2007), possible ways in which the structural funds could respond in a targeted manner to significant shocks on the socio-economic situation of a given region. The objective would be to facilitate the re-adaptation of workers to the labour market and provide mainly technical assistance to companies in the process of restructuring as a consequence of a severe sectoral shock caused by the

implementation of an international agreement. One question to address is whether appropriate action to facilitate transition to the new economic situation resulting from 2005 could be envisaged, insofar as it fits within the current framework of structural funds and with requests for fund intervention made by Member States.

4.1.6. Industrial Cooperation

The Commission has recently launched an industrial policy dialogue with China, within which a working group on textiles was set up. The main objective is to increase the awareness and understanding of legislation related to textiles products safety. The extension of this dialogue to key issues on industrial competitiveness of the textiles and clothing sector will be considered.

The Commission services will also examine the feasibility of promoting industrial cooperation initiatives between enterprises in the EU and in other major textiles and clothing producing countries in order to contribute to the development of smooth and sustainable relations in the textiles sector. These could consider both industrial competitiveness and social issues of importance for the textile and clothing sector.

4.1.7. Other measures - consumer issues

An important part of EU production corresponds to the higher quality and fashion segments of textiles and clothing, where EU industry is the world leader and has therefore a comparative advantage. Due to its long tradition, diversity of products and constant innovation, European textiles and garments are often associated in the minds of the public with excellence and high-class design.

A "*Made in Europe*" label could help increase the confidence of consumers, that when they are purchasing a garment they are paying a price that corresponds to the highest standards of production and style expected from European manufacturing.

As is the case in some major EU partners such as the US, Japan or China, the EU could consider, as part of its policy aim at providing better and more information to consumers, the introduction of a labelling of origin for textiles and clothing products marketed in the EU. This would need to be done in WTO consistent and non-discriminatory way, in conformity with the principles of the internal market, and in a non-burdensome and cost effective way. The Commission intends to examine these issues further.

4.2. Actions at Member State level

It could be appropriate to examine how value-added for the textile and clothing sector could result from better co-ordination of activities at Member State and EU level. This is particularly the case in the areas of innovation, research and education/training, where the sector lacks an overview both of what is already being undertaken at regional, national and EU-level, and of the opportunities available for the sector.

A more systematic information of the Commission services of specific initiatives for the textiles and clothing sector would facilitate the dissemination of best practices and would help stakeholders and public administrations to explore the possibility of establishing or developing networks in areas of interest for the industry, and to avoid duplication.

New training courses, appropriate for the changing needs of the textile and clothing sector and promoting life-long learning for existing workers, could be developed. These would aim to bridge the gap between the potentially high levels of redundancies on the one hand and shortages of skilled staff on the other. Centres of excellence for the textiles and clothing sector could be set up in areas where the sector has a strong presence to combine high-quality training with employment opportunities. It would be important to ensure that these initiatives occur within a framework of cooperation with other Member States and with EU-level programmes, to co-ordinate actions and avoid duplication.

In the area of research, national or regional research bodies could take advantage of the ERA-NET³⁵ scheme under the 6th Framework Programme to set up cooperation and co-ordination networks of research activities for the textiles and clothing sector.

In the small sub-sectors, the creation of one European centre of excellence per sub-sector could create important synergies and critical mass.

With respect to the protection of intellectual property rights (IPR), EU-wide provisions are progressively being put in place. In the Member States' legislation important differences currently exist concerning IPR enforcement. These differences have played to the advantage of counterfeiters and pirates. In order to ensure the achievement of the objectives intended at EU level, a quick adoption of the proposed Directive on 'measures and procedures to ensure the enforcement of intellectual property rights'³⁶ and a rapid and effective enforcement of the legal provisions are crucial. The proposed Directive is based on best practices in the Member States. It will also send a political sign that is expected to encourage national courts to apply sanctions and remedies more vigorously.

Few Member States have developed mutual guarantee schemes for SMEs, micro loan systems and measures to finance start-ups. In recent years, financial problems have become more acute for small and medium enterprises, partly as a result of the deteriorating economic situation, but also to shake-ups in the banking sector. Although progress has been made to improve the availability of finance and credit for SMEs, there appears to be a need to increase efforts in this area as SMEs complain of the difficulties in presenting the loan guarantees required and some banks have withdrawn from low-margin SME lending.

Increased attention could be paid at Member State level to regions particularly dependent upon the textile and clothing sector. This could include specific regional initiatives to limit the socio-economic fall-out from industrial transformation.

Export promotion schemes of Member States could also pay more attention to the needs of textile SMEs, particularly in small sub-sectors such as embroidery, or for furnishing fabrics. These could be targeted at important third country markets such as China and India. Joint action between several Member States on this issue could be considered.

³⁵ For more information, see: <http://www.cordis.lu/coordination/home.html>

³⁶ See footnote 23

4.3. Actions at stakeholder level

The modernisation of EU textile and clothing enterprises has been achieved by focusing on high value-added products and services. This should be continued and accelerated. Further focus on clustering, innovation, technology, quality, flexibility, and a variety of product types is necessary. The technological content of production, especially for the garment sector, should continue to be developed and improved. Efforts to participate in national and European programmes for research and innovation should be increased.

At the same time, it is doubtful whether sustainable development can be achieved by the sector with its current fragmented structure. SMEs in particular should be encouraged to join or set up networks, to invest in cooperation activities and joint ventures, or even to undergo mergers, in order to attain a critical mass.

Corporate social responsibility best practices, at EU-level and globally, should continue to be developed. Social labelling is one of the tools within the framework of CSR which textile and clothing enterprises could consider more closely³⁷, perhaps within the framework of the sectoral social dialogue. More SMEs in the sector should be involved, in close cooperation with large companies through the supply chains. Promotion activities need to be launched to increase consumer awareness of the qualitative aspects of their purchasing decisions and hence to create stronger demand for socially and environmentally friendly products.

In order to improve the protection of IPR for the textile and clothing sector, initiatives could be taken to raise the awareness of the importance of IPR for the textiles and clothing sector. In addition, the creation of a European on-line database of IPR-related information could constitute a particularly useful tool for textile and clothing SMEs.

Firms need to explore all financing schemes available within the Member States and at EU level, including those offered by the European Investment Bank. The changes in the finance world also require more flexibility from SMEs. SMEs need to become more open and transparent when providing information to banks and financial institutions. In some forms of financing, capital suppliers may want to participate in the company's decision making process. These major changes in entrepreneurial behaviour need to be integrated into the companies' strategies.

The development of increased partnerships, clusters and networks, within the different stakeholders in the sector could also play to the advantage of the competitiveness of the textiles and clothing sector. In particular, retailers and distributors play for already a long time an increased role in the relations within the textiles and clothing chain and with the consumers. Partnerships in this area could be explored.

³⁷ See the summary record of the proceedings of the Round Table on labelling issues for the textiles and clothing sector, 30-31 May 2002, available in English on:
http://europa.eu.int/comm/enterprise/textile/documents/labelling_minutes_en.pdf

5. OPERATIONAL CONCLUSIONS

The textiles and clothing industry in the EU has already experienced a long history of challenges resulting in restructuring and modernisation. In its response to these challenges, the sector has developed its competitive advantages by improving creation and quality, research, innovation and labour force skills, technological content and value added, and also by developing a dynamic clustering behaviour.

In the context of the sectoral implementation of the horizontal industrial policy guidelines, the challenge for an SME-based sector lies in how to take into account its characteristics and how to improve its participation in the existing instruments available at the European, national and regional levels.

The EU's trade policy should play an important role by offering to the EU textiles and clothing industry an appropriate framework of rules under which it can develop. In a highly globalised sector such as textiles and clothing, a level playing field is essential in international trade. An adequate response to the deep changes that have occurred in the European textiles and clothing industry and the increased openness of the EU market can only be ensured by an equivalent access to world markets by EU textiles and clothing exports, and by taking appropriate action to ensure that international competition in the sector takes place under fair conditions and that it is respectful of sustainable development criteria. Action to secure early completion of the Euro-Mediterranean area should improve the competitive position of the EU textiles and clothing industry.

Textiles and clothing remains a strong European manufacturing industry. However, restructuring and modernisation have had and are still having a high impact on employment across different EU regions. It is important to anticipate the industrial change that accompanies these processes. Attracting investment to a wider range of economic activities, and training and re-training the labour force appear to be areas to be explored in the framework of integrated regional development initiatives.

The Commission will continue preserving free competition within and across economic sectors as well as the functioning of the Internal Market rules in the textile and clothing sector as this will be an important contribution to improve competitiveness for the textile and other economic activities in the enlarged European Union.

Social dialogue is a driving force behind successful economic and social reforms. The Lisbon strategy emphasises its role in addressing key challenges facing Europe, such as enhancing skills and qualifications, modernising work organisation, promoting equal opportunities and diversity and developing active ageing policies. Negotiations between the social partners are a suitable way forward on questions related to modernisation and management of change.

The debate on the future of the textiles and clothing industry in the enlarged European Union must not remain confined to the Commission. All the EU institutions, but also the Member States, acceding states and candidate countries, should pick up the challenge in their turn. Improving EU policy, to ensure that it stimulates and sustains the competitiveness of industrial sectors such as textiles and

clothing, is a concern for us all. In this respect, the Commission invites all interested parties to provide comments on the issues raised by this Communication³⁸.

The newly established Competitiveness Council will have a key role to play in pushing forward the process started with this Communication. It can help to ensure coherence between policies at EU and at Member State level and improve their interaction. It is well placed to review the competitiveness situation of individual industry sectors.

The Commission intends to set up a high-level sectoral group for the period 2004- 2006, to stimulate debate on possible initiatives to facilitate the textile and clothing sector's adjustment to the major challenges ahead and to enable its sustainable development. This high level group will meet twice a year to take stock of the economic situation of the textiles and clothing sector, and to make recommendations to EU and national policy makers on the key competitiveness and trade issues affecting the sector.

At the same time, the Commission will continue to monitor the situation of the textiles and clothing sector over the coming months, to draw further conclusions. In particular, a more detailed analysis of the impact of the dismantling of quotas on 1st January 2005 will be made available in early 2004. The Commission will report on the implementation of the actions suggested above by spring 2005, and by the end of 2006, and may propose further initiatives.

³⁸ Comments should be sent to the Commission preferably via e-mail to "entr-textile-COM2003@cec.eu.int", following the procedure set out on the following web-page:
<http://europa.eu.int/comm/enterprise/textile/COM2003.htm>

Annex
Examples of concrete actions at EU-level for the textiles and clothing sector

1. ENLARGEMENT

In order to prepare companies in the acceding and candidate countries for the new regulatory environment after enlargement, the Commission supported a socio-economic forum organised by the sectoral social partners. This event for textile and clothing enterprises, trade associations and trade union representatives was held in 2002 in Poland. A further forum is planned for early 2004 in Bulgaria.

Under the PHARE programme, the Commission is currently funding the PERFECT-LINK project³⁹ for the textiles, clothing and leather sectors in the acceding and candidate countries in Central and Eastern Europe. The objective is to improve the capacities and skills of business representative organisations in retrieving and disseminating to their members relevant information on the European *acquis*. This will improve the state of preparation of local companies and will enable them to operate and compete more successfully after accession.

The Commission is currently funding a project on environmental awareness-raising for the business sector, aimed at providing support in understanding EU environmental legislation to SMEs in acceding and candidate countries. The outcome – a training package – will serve as a guide to EU environmental legislation for SMEs in these countries, focusing on directives with specific relevance for industry and the private sector in general.

2. RESEARCH AND INNOVATION

The application of technologies from other sectors to textiles and clothing in order to develop high value-added products may be seen in the results of the European Space Agency's technology transfer programme. This has enabled for example the development of clothing to monitor babies' sleep to help prevent sudden infant death syndrome (SIDS), suits to protect the skin of children suffering from the rare genetic disorder xeroderma pigmentosa, super-insulating jackets for use in arctic conditions, and undergarments incorporating integrated conditioning systems which are already in use by a successful Formula 1 racing team. In addition, a recently launched project under the same programme aims to apply the existing technology of membrane bioreactors in order to develop compact and cost-effective high efficiency waste water treatment systems for textile finishing SMEs⁴⁰.

The e-TEN programme (formerly TEN-Telecom)⁴¹ funds projects for making available e-services across the EU. It focuses particularly on the critical validation and launch phases of a service which might not otherwise be set up because of difficulties at the initial investment and launch stages. The textiles and clothing sector has already benefited from funding for two projects, one to set up a business

³⁹ For project details see: <http://www.perfectlink.org/perfect.htm>

⁴⁰ For project details see: <http://www.t4tech.com/space2tex/>

⁴¹ There are also opportunities for funding environmental innovation under the LIFE programme. For further details, see: <http://europa.eu.int/comm/environment/life/life/environment.htm>

information service for textile SMEs⁴² and the other to establish a virtual fair service and an on-line exchange for linen⁴³. There are also opportunities for funding environmental innovation under the LIFE programme⁴⁴.

3. INFORMATION SOCIETY

In the clothing sub-sector, the potential opportunities for ‘mass customisation’ of garments appear to be promising. Customised clothing responds to the consumer’s desire for a more individual look with an improved fit, but at lower cost than a made-to-measure item, while at the same time enabling producers to benefit from their expertise and technological know-how and to create added value. In addition, it has positive knock-on effects for both textiles and clothing producers in Europe, by generating demand for weaving and garment make-up activities in close proximity to the consumer. Some companies have already developed a variety of business strategies for producing and marketing customised clothing. The recent research projects E-Tailor⁴⁵, FashionMe⁴⁶, eT-Cluster⁴⁷ and FashionOnLine⁴⁸ – co-funded by the Commission under the IST priority of the 5th Framework Programme for Research and Development – have focused on moving forward the necessary technologies to make these activities more effective and profitable.

The recently concluded TEX-MAP project⁴⁹ has worked to establish a research roadmap for the European textile and fashion industry. The project’s objective has been to develop a strategic roadmap leading to the transformation of the textile-clothing-distribution (TCD) chain into a cross-sectoral, dynamic, innovative, flexibly integrated and customer-orientated business network by the year 2010. The research priorities identified will allow the sector to focus and co-ordinate future research efforts in this area and thus represent a highly useful tool.

4. VOCATIONAL TRAINING

Under the second phase of the Leonardo da Vinci programme, the textile and clothing sector has so far benefited from funding for three sector-specific projects⁵⁰. The UP-SKILLS project focused on the training needs of managers in textile and clothing SMEs, in particular management skills such as market analysis, strategic planning and human resources management. A further project, ADVOTTEX, has set up an interface between the textile and clothing industry and the relevant universities and training institutes (some of which were already organised into the AUTEX network⁵¹) to establish an inventory of the information and communication technology (ICT) training needs and opportunities of the sector. It is hoped that this will enable the sector to ensure a better match between the specific ICT training

⁴² SOLEIL project, for further details see: <http://www.ten-telecom.org/en/project.asp?LNK=SOLEIL>

⁴³ TES4TEX project, for further details see: <http://www.ten-telecom.org/en/project.asp?LNK=TES4TEX>

⁴⁴ For further details, see: <http://europa.eu.int/comm/environment/life/life/environment.htm>

⁴⁵ For project details see: <http://www.atc.gr/e-tailor/>

⁴⁶ For project details see: <http://www.fashion-me.com/>

⁴⁷ For project details see: <http://www.atc.gr/eT-Cluster/index.htm>

⁴⁸ For project details see: <http://www.atc.gr/Fol/>

⁴⁹ For full details see: <http://www.atc.gr/Tex-Map/>

⁵⁰ For full details see: <http://leonardo.cec.eu.int/pdb/>

⁵¹ Association of Universities for Textiles. For further details see: <http://textiles.rug.ac.be/autex/menu.htm>

needs of companies and the vocational courses on offer. A third project aims to develop a standard interactive template for innovative training in textiles, focusing on the requalification of the existing workforce.

5. ENVIRONMENT

One of the IPP tools for increasing consumer awareness of the ecological credentials of a product is environmental labelling. At EU-level, the European Eco-label⁵² is a voluntary scheme to identify products which achieve environmental excellence within a wide variety of product groups. Whilst textiles currently form the product group with the highest number of eco-labelled products (46), this represents only a very small proportion of the vast range of textile products on the market. Many textile and clothing manufacturers currently hold the view that the Eco-label does not enjoy enough recognition and acceptance by consumers to justify the additional costs involved in registration and compliance⁵³. Thus more concerted efforts at national and EU-level are necessary to increase consumer recognition of the label and thereby increase its attractiveness for distributors and manufacturers.

In addition, the fragmented textile production chain means that the environmental burden often falls on upstream producers, for example fabric manufacturers, whereas the benefits are more often reaped by the end producers, for example the garment manufacturer, or distributors. A system based on environmental product declarations by upstream producers could be helpful to provide information along the textiles and clothing production chain.

6. CHEMICALS

The Commission's website already allows access to a number of impact assessments on the REACH proposals⁵⁴. In addition, the Commission – together with stakeholders – is carrying out a study on the impact of the new chemicals policy on the textiles and clothing sector. The study aims to establish the direct registration and testing costs for the main substances used by the sector, the economic impact of these costs on substances producers and on the downstream users, and the longer-term effects of the implementation of REACH on innovation in chemical processes and product engineering in the textile industry. A stakeholder workshop on this subject was held on 22 September 2003. It is hoped that the results of this study will enable the sector to better anticipate the potential challenges that may result from the introduction of REACH.

⁵² For further information, see: <http://europa.eu.int/comm/environment/ecolabel/index.htm>

⁵³ See the summary record of the proceedings of the Round Table on labelling issues for the textiles and clothing sector, 30-31 May 2002, available in English on:
http://europa.eu.int/comm/enterprise/textile/documents/labelling_minutes_en.pdf

⁵⁴ <http://europa.eu.int/comm/enterprise/chemicals/chempol/bia/index.htm>

7. CONSUMER AFFAIRS AND PUBLIC HEALTH

The Commission is currently undertaking a research project, entitled 'EIS-chemrisks', to examine consumer exposure to chemicals from a number of product groups, including textiles. The aim of the project is to collate and develop the available data on the release of chemicals from articles. It will also work towards developing Europe-wide standards for test methods and for assessing human exposure to chemicals. This will enable policy makers to base any future decisions on the risk of specific chemicals in consumer articles on sound scientific data. At the same time, manufacturers will be able to access a large body of information on the human health implications of the chemical substances released from the articles they produce. This will be of particular importance to the textiles and clothing sector, as the data currently available in this area is rather limited, and will help manufacturers to comply with the likely requirements of REACH.