

THE CHALLENGE OF 2005



**EUROPEAN TEXTILES AND CLOTHING
IN A QUOTA FREE ENVIRONMENT**

**HIGH LEVEL GROUP REPORT AND FIRST
RECOMMENDATIONS**

June 2004

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EXECUTIVE SUMMARY

AN OVERALL STRATEGY

The textiles and clothing industry of the EU is the world's largest textile exporter and ranks second in clothing exports. However, depressed internal demand and rising imports, coupled with an inability to export to many closed external markets make it incumbent upon the authorities in the enlarged European Union to send strong signals to the industry that its concerns remain at the forefront of the EU policy Agenda. These signals, the first of which was the Commission's Communication of October 29th 2003, followed by the establishment of the High Level Group, have led to the formulation of a series of major recommendations, the rationale for which is set out below:

- Complete the Euro-Med free trade area and ensure its competitiveness by
- A breakthrough in clothing technology and
- An action plan in respect of China
- Secure genuine market access to third countries (reduce tariffs, eliminate non-tariff barriers)
- Improve skills, facilitate reconversions and protect intellectual property rights
- Ensure that the internal regulatory framework of the EU remains attractive for investment.

Viewed overall the above elements offer the European textiles and clothing industry a framework for the future within which it has every opportunity to return to growth and prosperity.

The enlargement of the European Union to 25 countries as of May 1st 2004, combined with the Customs Union partnership with Turkey and the completion of the Pan Euro Mediterranean area offers the early prospect of a vast free trade area of more than 650 million consumers, which currently employs more than 7 million workers, across the whole range of textile and clothing manufacture. Such a market provides the essential base to unleash the industry's full potential for cross-border co-operation and networking and the further development of process and product innovation in both the technological and non-technological (creativity and fashion) fields.

It is in this latter context that breakthrough technologies in clothing manufacture and landmark projects in technical textiles have their logical place, and that measures are proposed to enhance and support non-technological innovation, whilst avoiding fragmentation of effort by industry and institutional stakeholders through the establishment of a Technology Platform.

Against this same background, but in a wider context, care has to be taken by the European and national authorities not to negate industry's current and future strengths by initiatives in the regulatory area which could add to the burden placed on enterprises through, for example, the proposed new chemicals policy (REACH) or through a lack of appropriate schemes to ensure access to credit for small and medium-sized companies. Care too must be taken to avoid any disequilibrium between the market position of smaller manufacturers within the EU and the growing purchasing power of a limited number of major retailers and distributors. Industry recognises the fundamental role of the latter in ensuring that its products become available to the final consumer, but this cannot be achieved at any price.

Improved dialogue with distributors, great and small, is one obvious and essential way forward, as is an improved dialogue with other sectors of activity with whom the industry has affinities or from whom it can learn.

KEY FIGURES 2003 – E.U. TEXTILE & CLOTHING INDUSTRY		
E.U. -25	Unit	2003 e
- TURNOVER	Bil.Euro	187,1
- INVESTMENT	Bil.Euro	5,5
- EMPLOYMENT	1000 pers	2456,1
- COMPANIES	number	106397
- VALUE ADDED	Bil.Euro	57,1
- Turnover/Employee	Euro/pers	76171
- Investment/Turnover	%	2,9%
- Employees/Company	pers	23

Source: Euratex on association data and best estimates – June 2004

On the assumption that the above elements can be put into place at an early date, thus ensuring that the industry is much better placed to face the challenges of the future, it is essential too that its workforce should be equipped with the necessary skills to use new developments and instruments to best effect, and that the image projected by industry should be one which will attract the most competent of the younger generation into its ranks, both at shop-floor and at more senior level. In both respects clear and concrete recommendations are made, taking into account the ongoing need for specialisation and interaction across the enlarged European Union. But if the EU is to become more competitive, within the context of a vast internal market and with a highly skilled labour force, in fulfilment of the ambitions of the Lisbon and Barcelona summits, it requires a degree of certainty that its intellectual property rights will themselves be capable of effective protection within the EU through an appropriate unit within the Commission linked to an awareness and information campaign at company, consumer, and judiciary level. It is in that area that the IPR recommendations have a justifiable and crucial role to play, as they do in respect of the TRIPs agreement and its proper implementation on export markets outside the boundaries the EU.

Nonetheless, there is little likelihood of substantial increases in EU exports (already close to 25% of turnover) if the Commission is unable to achieve the fundamental goal of tariff reductions from its WTO partners down to levels comparable to those of Europe, at the same time as non-tariff barriers are eliminated. The report sets out recommendations to achieve these crucial objectives in the multilateral, bilateral and regional context.

On the other side of the coin, it is clear that the removal of all quotas as of December 31st 2004 will give rise to a substantial increase in import volumes which, against the current background of stagnant consumption, will inevitably lead to job losses and factory closures.

The Group has made a number of recommendations in this field to offset the effects of such losses by proposing an increased use of current and future Structural and Regional Funds in the regions most concerned, to facilitate moves out of the sector and re-skilling of employees.

Nonetheless, in those cases where companies and jobs are threatened by predatory pricing of the type practised by China in particular since 2002, where in certain liberalised categories import volumes have quadrupled whilst prices have fallen by up to 75%, the Commission itself must undertake an intensive dialogue with the Chinese authorities, backed up by the possible use of Trade Defence Instruments, including clearly defined safeguards, and based upon timely monitoring of the situation to ensure that there is no repeat of the events of 2002 (self-restraint). In the absence of such an overall approach much of the industry would see little future, and other efforts to enhance its competitiveness will have little purpose.

Moreover, under these circumstances the more vulnerable and least developed exporters to the EU could not benefit from sustainable trade and development on which the High Level Group has also made recommendations.

The High Level Group commends its recommendations to the Commission and to Member states. It requests early action from those bodies to implement the measures which are proposed. At the same time private stakeholders commit themselves to play their full part in ensuring rapid progress towards the achievement of the objectives which have been set. In that context too, the Group believes that it is essential that its work should continue beyond its meeting of June 30th to ensure the necessary follow-up to the present recommendations and to complete its discussions on certain unresolved issues.

INTRODUCTION

In its Communication of December 2002 on industrial policy in an enlarged Europe, the Commission put industrial policy back on the EU policy agenda. Whilst the above Communication emphasised the commitment to a horizontal policy, it did nonetheless accept that the frameworks, institutions and instruments in which business operates are highly sector-specific. The textiles and clothing industry is a very clear illustration of that fact.

The textiles and clothing industry of the European Union produces a bewildering array of articles and components from high fashion apparel to products for space, aeronautics and Formula 1 racing. In the more conventional areas including formal dress and more casual sports wear, the industry also produces carpets, wall coverings and other interior textiles. In addition, it is a major producer of more recent non-conventional “technical textile” products for use in road- and house-building, land reclamation, transport, health and safety, etc. Its goods are present in all walks of life and are almost as essential to Modern Man as food and water. Overall, European industry is a world leader, recognised for its creativity, innovation, technology, and high quality of production.

The textile industry as such produces yarns and fabrics, in undyed, dyed or printed form for use as carpets, interior textiles and technical textiles, or for further processing into knitted or woven garments. It is very largely automated and capital-intensive, whereas the manufacture of cut-and-sewn garments even today remains highly labour-intensive. Both textiles and clothing are however typified by a lengthy processing chain involving raw material preparation, spinning, weaving or knitting, dyeing, printing and/or finishing, through to cutting, and sewing. These operations more often than not occur in a number of different mills which are under different ownership.

The industry is also characterised by regional concentrations in most of the countries of the enlarged EU. In addition, it is made up of more than 95% small and medium-sized enterprises. Although specialisation may in itself be an advantage it may too add to the vulnerability of the latter in the event of predatory pricing from outside the European Union.

In 2003, the enlarged EU textile and clothing industry employed 2.500.000 workers in 107.000 companies, with a total turnover of €190 billion. It had a favourable balance of trade with countries outside the EU in textiles, but a substantial deficit in the much more labour-intensive clothing trade. This factor has progressively forced many EU-15 manufacturers to delocalise part of their production into the new member-states and increasingly into Bulgaria and Romania, and also the countries of the Mediterranean rim, such as Morocco and Tunisia, all of whom form part of the Pan Euro Mediterranean area.

For much of the post-war period, trade in textiles and clothing has been governed by successive international agreements, which allowed the imposition of quantitative limits on lower-priced imports from developing countries, thus offering industry in the more developed countries the opportunity to adjust. The growth rates written into the quantitative limits have over time led to increased imports from the countries concerned, which when linked to productivity increases and stagnant overall demand has resulted in the loss of more than one million European jobs in the ten year period to 2004.

January 1st 2005 is a watershed date in this context. As part of the package of agreements reached at the end of the Uruguay Round in 1994, it was decided that by the end of December 2004 all remaining textile and clothing quotas would be phased out. European industry therefore expected that 2005 would see a substantial increase in imports from the developing world and in particular from the Indian subcontinent. This situation was seriously exacerbated by the accession of China to WTO and the resultant spectacular growth in its exports and the steep fall in their unit prices in a number of liberalised categories. As the Commission put it graphically in its “Communication” of October 29th 2003:

“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%, deserve scrutiny as to the conditions under which such performance has been achieved....”

The progressive phasing-out of the quotas by the European Union has not been accompanied by any substantial additional market access for European exporters to most third countries who continue to defend their internal markets by high tariffs, a range of non-tariff barriers or a combination of the two. Against such a background it is difficult for European manufacturers to develop their full potential on the export markets of the planet, in spite of their leading positions as exporters of both textiles and clothing.

It is against the above overall background that the Commission published its “Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions” on October 29th 2003 [COM (2003) 649 final] – *The future of the textile and clothing sector in the enlarged European Union*.

THE COMMISSION COMMUNICATION OF OCTOBER 29th 2003

In this Communication, the Executive Summary of which is appended to the present document (Annexe I), the Commission has analysed the major elements which condition the future well-being of the industry after January 1st 2005. It points out that it is the primary responsibility of enterprises to meet the new challenges, but that the role of public authorities remains that of establishing favourable framework conditions in which textiles and clothing can develop and enjoy the opportunity to compete, domestically and internationally, on the basis of equity. It notes the important regional role played by the industry, more particularly in the new member-states, whilst drawing attention to the leadership and innovative capacity of the industry, built on the traditions of quality, creativity and fashion capability. Its objective is to identify measures or lines of action that can improve the competitive position of the sector.

The Communication also draws attention to the importance of the textile and clothing industry in developing countries, many of whom are particularly dependent upon export revenue from that source, and makes some suggestions as to how those countries too may be better equipped to compete with the major textile and clothing exporting nations. The Communication ends with a statement of intent on the part of the Commission 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.

The Communication was welcomed by Ministers at the meeting of the Competitiveness Council on 27th November 2003, which asked the Commission to report on the conclusions of the Group by July 2004.

The European Parliament too welcomed the Communication in a resolution on January 29th 2004, and called upon the Commission and Council to establish a limited and precise timetable for the scrutiny and rapid implementation of the main points and the financial framework required to carry them out.

THE HIGH LEVEL GROUP

Enterprise Commissioner Erkki Liikanen and Trade Commissioner Pascal Lamy established the High Level Group in February 2004. The Group is made up of 29 members including EU Commissioners, Industry Ministers from four member-states, the European Parliament, the textile regions, industry, trades union, retail, and importer and distributor representatives. Members of the Group were invited to formulate recommendations on initiatives to improve the competitiveness of the European textile and clothing industry. The Group met for the first time on March 5th 2004, with subsequent meetings taking place on May 11th and June 30th. Meetings were co-chaired by Commissioners Lamy and Liikanen. Members of the High Level Group agreed to concentrate their work on a series of major areas of concern covering:

- Competitiveness
- Education, Training and Employment
- Intellectual Property Rights
- Regional Aspects
- Research and Development, Innovation and
- Trade Policy

MEMBERS OF THE HIGH LEVEL GROUP

COMMISSIONERS



Mr. Erkki LIIKANEN
EU Commissioner for Enterprise &
Information society

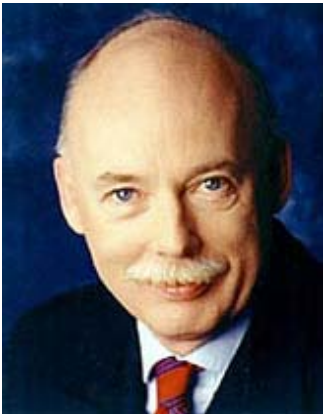


Mr. Pascal LAMY
EU Commissioner for Trade



Mr. Philippe BUSQUIN
EU Commissioner for Research

MEMBER STATES



Mr. Georg Wilhelm
ADAMOWITSCH
State Secretary for Economics and
Labour
(Germany)



Mrs. Maria do Rosario
VENTURA
State Secretary for Industry
(Portugal)



Mr. Antonio
MARZANO
Ministry of Industry
(Italy)



Mr. Patrick
DEVEDJIAN
Ministry of Industry
(France)

EUROPEAN PARLIAMENT



Mrs. Conception FERRER
MEP

INDUSTRY



Mr. Filip LIBEERT
President of Euratex



Mr. Bill LAKIN
Director-General of Euratex



Mr. Joan CANALS
Pulligan
(Spain)



Mr. John ACCAS
Hellenic Fabrics
(Greece)



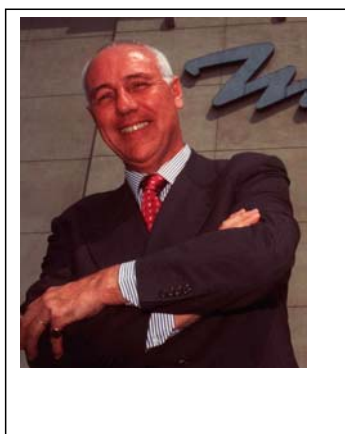
Mr. Rolf ALTDORF
Vice-President of PGI and
EDANA



Mrs. Liz SANKOWSKA
CEO Warmia & Piot
(Poland)



Mr. Mauro FRANZONI
Franzoni Filati S.p.A
(Italy)



Mr. Jean DE JAEGER
Linificio & Canapificio Nazionale
(Italy)



Mr. Franz Peter FALKE
CEO Falke
(Germany)



Mr. Guillaume SARCOZY
President Union des Industries Textiles
(France)

INDUSTRY (Cont'd)



Mr. Philip CARDER
Magee and Co Ltd
(Ireland)



Mr. John CORRIN
CEO Allied Textiles
(U.K.)



Mr. Emiel DIJKSTRA
FESI
EU Sporting Good Industry Association
(Textile & Shoe Committee)

TRADE UNION



Mrs. Valeria FEDELI
President European Textile
Clothing and Leather Trades Union
Federation



Mr. Patrick ITSCHERT
Secretary General European Textile
Clothing and Leather Trades Union
Federation

RETAILERS



Mr. Carlo MASOLETTI
President AEDT

IMPORTERS AND DISTRIBUTION



Mr. Björn PALMQVIST
Global Manufacturing
H&M



Mr. Daniel BERNARD
Chairman and CEO Carrefour



Mrs. Jacqueline PELTIER
President
Foreign Trade Association

ACTE



Mr. Jean-Pierre PERDIEU
President
European Textile Collectivities Association

It was a result of the above meetings that the present report and conclusions have been drawn up for submission to the Commission to enable the latter to report to the Council and to the Parliament as requested by those bodies.

It should also be stressed that at various points during the course of the exercise various national administrations expressed reservations on elements which they viewed as being of an overly sectoral nature or as to their funding. Whilst every attempt therefore has been made throughout the report to respect and reflect the position of individual authorities or stakeholders from the private sector, and to achieve a consensus of the opinions expressed, it must not be assumed that by participating actively in the High Level Group process, any public authority has committed itself to implement the conclusions reached.

The High Level Group wishes to express its particular appreciation to the Chairpersons of the Working Groups established under its auspices in March 2004: Mme Stéphanie Le Berre (Euratex) for Intellectual Property; Mme Silvia Jungbauer (Gesamttextil und Mode- Germany) for Competitiveness; Mr. Patrick Itschert (ETUF:FCL) for Education, Training and Employment; Mr. Rory MacMillan (FESI) and Fernando Perreau de Pinninck (EU Commission, DG Trade) for Trade Policy; Mr. Roger Pumares (ACTE) for Regional Aspects; Mr. Lutz Walter (Euratex) for Research and Development. It wishes also to place on record its thanks to MM. Pedro Ortun and Ian Wilkinson, respectively Director at DG Enterprise and DG Trade, and co-Chairmen of the “Sherpas” Group, to their respective services and those of DG Research for their enthusiastic support and advice over the intensive period of work between March and June 2004 which has enabled the present report to be finalised and presented to the Commission.

The Group views this text as an essential basis for ongoing work in the areas which it has pinpointed to date. It also considers that in a number of other areas where time has not permitted full discussion to take place or conclusions to be reached, stakeholders, Member states and the Commission should pursue their discussions and make the appropriate recommendations as soon as they are able to do so.

I. COMPETITIVENESS AND INTERNAL REGULATORY AND MARKET ISSUES

In common with many sectors of manufacturing industry, the European textiles and clothing industry faces specific competitive handicaps, as compared with its trading partners in Asia, which go far beyond those which arise from existing differentials in wages and social charges. Among these, some are of an internal regulatory nature, such as the EU's proposed new chemicals policy REACH (Registration, Evaluation, Authorisation of Chemicals), which the textiles and clothing industry fears will further substantially add to its costs, whilst diminishing its capacity for innovation, and not subjecting imported end-products to the same stringent procedures. Although not organically linked to the REACH proposal as such, the 2001 State Aid for Environmental Protection guidelines have also raised a number of questions as to the % thresholds for investment aid to enable small and medium-sized companies to adapt to new EU standards. Here it is understood that a review is planned in the coming months.

In a similar vein, public procurement within the EU often fails to take sufficient consideration of other criteria than price alone in determining which company will win the tender. This works to the visible disadvantage of EU-based companies who are unable to escape the costs of compliance with European environmental and social laws which have been implemented by the same authorities who issue the calls for tender. The issue has to be seen in the light of its importance for the textile and clothing pipeline as a whole, and of its capacity to generate overall benefit to the authorities (and taxpayers) themselves as a result of supplies from reliable EU-legislation compliant companies.

Beyond the strict regulatory areas as such, the Group was concerned to maintain a proper balance between, on the one hand, the growing purchasing power of major textile and clothing retailers or distributors as compared to that of their smaller suppliers (or indeed customers) on the other. This matter had to be considered more as one of potential economic dependency, touching, for example, just as much smaller clothing manufacturers as it did smaller retailers of those products, and the rights of trade associations to take action on behalf of their members, should this be deemed appropriate.

In an industry dominated by smaller and medium-sized companies, large numbers face growing difficulties in obtaining access to the credit they require to survive, and find their banks increasingly reluctant to help them. The group accepted that certain back-up instruments at EU level did in fact exist, but that they were not necessarily tailored to the type of SME in the textiles and clothing area, and were in any case little known and publicised to companies. As a corollary, it was recognised that part of the difficulty lay in the poor image projected by parts of the industry, and that a positive contribution could be made by awareness of this fact, and by image-building exercises.

The Group also considered that the trading environment of the 21st century had changed and that, over and beyond the external trade-related questions reported later, it was no longer enough to expect to be able to maintain existing market shares without responding to consumer requirements in a more focussed way than had been the case until today. This not only required much closer co-operation along the textile and clothing chain but also with related branches, and retail. The purpose of such an exercise should be to make available to the consumer the right product at the right moment.

It was in the light of the above considerations that the High Level Group adopted the following recommendations:

1. Environmental Policy:

REACH – the new chemicals policy.

The industry should participate actively in an objective and independent impact assessment study conducted under the auspices of DG Enterprise.

Crucial elements within such an exercise, but also beyond its direct scope were:

- Further assessment of suitability of purely quantitative criteria, aimed at reducing the scale of chemicals de-selection
- The need for the importer/producer of chemicals to take into account all identified uses. (Scope of REACH proposal wording should be more clearly defined). If a use is not supported by the chemical supplier, this should be based upon risk-assessment, and socio-economic impact.
- The “substances in articles” approach must be further assessed in the textiles and clothing industry context.
- There must be a debate on the impact of REACH on competition between EU-produced goods and those imported from outside Europe. An assessment of the negative impact on innovation in textiles and clothing is needed.
- An evaluation of the impact of REACH in the new member-states is to be encouraged, as is the provision of supportive measures and tools to help the industry and SMEs in particular to implement REACH in its definitive form.

Timing: from July 2004 - EURATEX with DG Enterprise and DG Environment.

2. Public procurement

- The Group requests that public authorities should take into consideration, for reasons of overall economic advantage, criteria other than price alone in their purchasing decisions. Member states are invited to make use of option a) of Article 53 of Directive 2004/18/EG of 31st March 2004.
- Public authorities should at the same time clearly indicate the various criteria and their weighting when they publish the call for tender. This will enhance transparency, and simplify compliance on the part of potential suppliers.

Timing : From September 2004 - Member-states, public authorities in collaboration with industry stakeholders.

3. Competition and retail structures

- A clear picture of the dimensions of the problem and of its potential across the enlarged EU appears essential. In this respect the Group recommends that the public authorities launch a survey to identify any current abuses or unfair practises, together with best

practises which exist between industry suppliers and retailers. Such an exercise would also serve to raise the awareness of the authorities in those cases where some action might be required.

- The above should be complemented by a form of surveillance of those companies who are not (yet) in a market dominant position but whose market strength creates “economic dependency” by an amendment of current EU law.
- Stakeholders should set up a cross-border network of associations and companies affected by potential abuse of market power, and elaborate a European Code of Conduct on competition.
- There should be improved control, transparency and security in reverse auctions to prevent unfair competition (sham auctions).

Timing : From September 2004 – Commission, Stakeholders and Member-states

4. Access to credit

In the light of the circumstances described earlier, the Group considers that

- There should be an assessment by private stakeholders of those instruments which already exist to help provide access to credit for SMEs both at EU and national level, to identify what further action may be needed to meet the special requirements of the textile and clothing industry. This should run in parallel to a similar effort by the Commission and member-states, followed by a wide dissemination of the results obtained.
- Image-building measures should be undertaken to counter any negative profile, e.g. by publishing a brochure containing examples of best practise and success stories.
- SMEs awareness and knowledge needs to be raised by the provision of information and practical hints on rating criteria (a Commission guide is understood to be in preparation), the tailoring of existing guides to textiles and clothing needs, and best practise solutions taken into consideration.

Timing: From September 2004 - Euratex national members, DG Enterprise.

5. Industry marketing policy.

The Group recommends the establishment of a Task Force made up of the whole textile/clothing pipeline at EU level, including fibre producers and retailers, related branches (textile machinery and transport etc.) Its objective would be to develop new approaches towards marketing strategies, enhanced by multi-disciplinary co-operation. This could thus form the nucleus of a future Pan-European industrial co-operation network. An intensification of the already extensive industrial co-operation and subcontracting with countries on the Mediterranean rim is just as much a key to success as diagonal cumulation between all partners. The Group proposes that this Force be chaired by Mr. Franz-Peter Falke. A sub-group of manufacturers and retailers is also recommended.

Timing : Immediate - private stakeholders

II. EDUCATION, TRAINING AND EMPLOYMENT

The end of the quota system will inevitably have a considerable impact in terms of job losses and company closures. Industry leaders and their social partners have braced themselves for this impact. There appears even today however to be a lower level of awareness amongst many public authorities at all levels as to the dimension which such a problem might have, particularly in the light of the industry's concentration in districts or regions which are heavily dependent upon it for employment, and of China accession to WTO.

As a result, the recommendations of the High Level Group where employment, education and training are concerned are predicated upon the need for better trained and more highly skilled employees in the future at all levels in those companies which will continue to develop and prosper. This pre-supposes that the younger generation can be attracted towards a career in one or other sub-sector of the industry in the first instance, and once there provided with ongoing education to remain up to date with the latest development (life-long learning). At the same time serious consideration is given to the most appropriate means to ensure that those who do lose their jobs have the means to achieve early re-insertion into another textile or clothing company, or into a company active in a different sector.

At European level itself and in the framework of the textiles and clothing sectoral social dialogue recommendations are made to improve the comparability of qualifications at schools and higher education establishments.

The Group's recommendations in this area are as follows:

1. Establish national and European training and employment "Observatories"

A number of Member States¹ have established joint structures to bring together social partners and all players involved in textile-clothing to create training momentum at all levels - workers, executives and company managers - to upgrade both qualifications and skills and make it possible to adjust to, and anticipate, the changes the textile and clothing sector is undergoing. Training is aimed primarily at work in the company or the sector, but it could also involve other sectors if the need for reconversion arises in areas where employment is particularly affected.

The High Level Group recommends: implementing such '**observatories**' for employment and training in countries of the European Union which still lack this structure, and setting up a **European** coordination network for these national structures, and their regional offices located in the main textile-clothing employment areas.

At their respective levels the tasks of these observatories could involve:

- **Organising, carrying out and coordinating** training at all levels for blue-collar workers, white-collar workers and executives in the textile and clothing industry, as well as for job

¹ Listed by creation date: IVOC-IREC, Cobot-Cefret (Belgium), 3-way foundation for work training (ES), FORTHAC (France), Skillfast (United Kingdom), Fondimpresa (I) and... (P)

seekers (prioritising reclassification within the sector, or failing that outside the sector) and young workers on sandwich courses.

- Implementing '**media / information pools**' to provide teachers in general education², for example, as well as other players and perhaps even the general public, with user-friendly teaching material to make widely known the value of existing innovative products and production processes.
The media pool should also serve as the basis for improving the **image** of the sector and re-stating the value of textile and clothing to attract young people (joint support at EU level that takes into account specific national aspects).

A pilot project including a number of European partners could be the first step in that direction.

Timing : Autumn / Late 2004 - E-TEN (or E-CONTENT)

- Carry out frequent surveys in a sample group of companies regarding their forecast trends in terms of recruitment and qualitative development of jobs; these surveys would make it possible to improve employment management strategy in regions of textile concentration, but also (thanks to enhanced dialogue with other players in the training area) to ensure a **better match between supply and demand for training**.
- Collect **information on training programs**, current **projects** and **funding** available at regional, national or European level (such as Leonardo) in order to raise awareness / bring together SMEs and facilitate their access (through support and counselling) to such programs and funding sources (to achieve a critical mass).
- Examine how to attract investments as part of integrated regional development initiatives.

DG Employment and Social Affairs, Member States + social partners/existing joint structures;
European social fund, Article 6, restructuring management : Timing : early 2005
1st step: preparing more detailed specifications Timing : (1 year)

2. Developing common qualification standards

In order to achieve some level of **comparability of results** in **training** provided within the European Union (with regard to production and commercial activities), the Group recommends **developing common European qualification standards** for the textile and clothing sector, by analysing and sharing the results of existing training descriptions in terms of knowledge and qualifications acquired. Comparability will foster greater mobility as well as improve the industry's capacity to analyse future employment needs.

Timing : next Leonardo call for tender - DG EAC + social partners and other players in the training sector (selection of a first series of trades)

² In Germany for example, there were 7.5 million students and 610,000 teachers in general education in 2002.

3. Creating a pool of competence

- In the context of the introduction of internationally recognised Bachelor and Masters final degrees by 2010, there is an opportunity to build up a network between colleges / universities to jointly set up a structure for future courses of study. Analysis, listing and comparing existing systems should also make it possible to develop post-university exchanges and perhaps obtain a "**European degree**". This would not – at least in the first instance– affect the training processes on offer by European colleges / universities (but such a degree could be highly attractive to young people looking to launch a career in textiles and clothing). In other words, the idea would be to implement a flexible network between the various European players.

Timing: from July 2004 - DG EAC + social partners and other players in the training sector (universities, colleges, etc.)

4. Sectoral Social Dialogue enhanced at all levels

The European textile and clothing industry was one of the first industrial sectors to set up a high-level sector-based social dialogue at European level. Strengthening the dialogue **at all levels** (company, national and European), particularly in the new Member States, is crucial if one is to anticipate and take account of industrial change in the textile-clothing sector, as well as the economic and social consequences and adjustments this implies.

As part of a stronger sectoral social dialogue, the Group recommends that social partners, at their respective levels:

- Develop **lifelong training** in the textile-clothing sector, for example as a follow-up to the “Framework of Action for the Development of Lifelong Skills and Qualifications” adopted by UNICE, CEEP and the ETUC³; the objective would be to develop continuous training programs in the textile-clothing sector at European level, particularly in the area of ITC applications with a view to furthering employability and increasing the chances for workers to be promoted.
- Bring together on a regular basis, as part of their dialogue, networks of universities, higher education schools and engineering schools with a view to **enhancing cooperation between these players and companies**;
- Examine how to better anticipate restructuring and **job management strategy** at sectoral level, which could lead to solutions in areas such as training to avoid the need for rationalisation and dismissals, or at worst to help workers reclassify.

**DG Employment and Social Affairs /Member States/ Social Partners
2004 / 2005 Sectoral Social Dialogue**

³ 28 February 2002.

5. Implementing reconversion and reclassification units

In view of the increased pace of change, **reclassification and reconversion units** for workers should be implemented wherever necessary; the goal would be to support those who lose their job, encourage reclassification, take advantage of the opportunities offered by the creation of new jobs in areas that rely on textile and clothing, etc. These jointly managed cells would bring together all players involved, including companies, trade unions, as well as the public authorities and public services, based on existing efforts and on best practice as well as specific experience. Every means to increase the efficiency of reclassification cells should be brought together from every Member State (and at European level). Such options might include enhancing joint management, clearly defining the objectives, specific purpose contracts, or other similar schemes to be determined, but under the supervision of Labour Departments in the respective Member States. Lastly, setting up integrated inter-company and multi-sector initiatives would help in areas that rely heavily on textile-clothing and thus prevent social dramas, although development of the sector should remain a priority goal wherever possible.

Timing : from Autumn 2004 - DG Employment + DG Regio + Member States + Social Partners+ stakeholders: Structural Funds

6. European structural funds / Regional policy

It is well known that two-thirds of the areas of employment where textile and clothing social problems are likely to occur currently lie outside areas covered by the ERDF. The group therefore urges a mobilisation of European Structural Funds, and the provision of more **flexible and simpler procedures** for SMEs experiencing difficulties to enable them to access the various Funds available as early as 2004 (as part of the reconversion and redistribution of personnel) to support changes in the sector and in other industries [for structural funds after 2007, see the recommendations on regional aspects]; funds should also be reallocated to the extent possible. Implementing multisectoral and regional training funds could significantly contribute to upgrading educational and training structures (European social funds).

Furthermore, the Group accepts that changes (as well as new production processes) will not create additional jobs; on the other hand, such changes and processes should lead to **higher quality jobs** needing better training. Stakeholders therefore intend to continue their deliberations on the adjustments to be made to the conditions as to levels of employment imposed by Member States on companies that wish to benefit from public funds.

Timing : Immediate – Commission & Member-states

III. INTELLECTUAL PROPERTY RIGHTS (IPRs)

Intellectual property rights are of particular concern to Europe's textile and clothing industry. As is the case in a number of other major European industries, trademarks and patents are the subject of large-scale copying and counterfeiting. But, in addition, textile and clothing designs and models are copied on a similar scale, both within the Union itself, but also by companies beyond the boundaries of the EU. DG Taxud's figures for seizures of counterfeit goods in the year 2002 are a clear illustration of the situation. Although customs seizures overall fell by 10% between 2001 and 2002, the number of textile goods grew by 93%, and now accounts for more than 10% of seizures. At the same time the overall number of court procedures in textiles and clothing grew by 67% between 2002 and 2001, thus representing no less than 58% of all procedures.

T & C counterfeit products seized in 2002 source: DG TAXUD

(Fig. ii)

	2001	2002	%
Total quantity of goods intercepted	94,421,497	84,951,039	- 10 %
Quantity of textile goods intercepted	4,782,672	9,243,074	+ 93 %
Of which:			
Number of sportswear	340,432	378,252	+ 11 %
and :			
other clothing	1,795,834	3,067,583	+ 71%
and :			
Clothing accessories (bags, glasses, belts...)	2,642,406	5,797,238	+ 119%
Total number of procedures	5,056	7,553	+ 49%
Number of procedures for T and C	2,628	4,380	+ 67%

To overcome the challenges facing the textiles and clothing industry one needs to take into consideration three essential aspects of the same overall problem of counterfeiting and piracy. The first is to combat the phenomenon within the boundaries of the enlarged EU; secondly, appropriate steps need to be taken to ensure that imported counterfeit textiles and clothing are intercepted and perpetrators are brought to justice; thirdly exporters of European products to third countries need assurances that their designs and models will enjoy all necessary protection on the markets of those countries as required by Article 25.2 of the WTO TRIPs agreement, which makes specific reference to the protection of textile designs and models : *“Each Member shall ensure that requirements for securing protection for textile designs, in particular in regard to any cost, examination or*

publication, do not unreasonably impair the opportunity to seek and obtain such protection. Members shall be free to meet this obligation through industrial design law or through copyright law”.

In taking account of these problems, the High Level Group recognized that following the approval on April 29th 2004 of the Directive on Enforcement of Intellectual Property Rights (Directive 2004/48/EC) in the enlarged European Union, there was little need for additional legislation at European level. The textile and clothing industry faces specific problems of enforcement in this context: the copying of designs and models in addition to brands and trademarks; the magnitude of foreign competition it faces; the multiplicity of products and their rapid seasonal (or intra-seasonal) replacement. These elements limited to the predominance of small and medium sized companies in the sector fully justify campaigns to promote awareness and to educate those concerned at company, consumer and judiciary level on the economic and associated risks of counterfeiting and piracy but also on the tools now available to combat it. Of these, some are by definition of a multi-sectoral nature, just as much of the legislation involved is multi-sectoral too; others are more in the nature of pilot projects, capable of extension to other industries as and when required. Others cater for the specific sectoral needs of the textile and clothing industry. All are aimed at enhancing the overall competitiveness of the sector by enabling it to benefit even more from its inherent advantages of innovation and creativity.

The recommendations, their timing and implementation:

- 1. Create a multi-sectoral IPR Unit.** The High Level Group believes that it is essential that an IPR Unit be established within the Commission on a multi-sectoral basis, whose mission would be to ensure the correct implementation of IPR regulations throughout the enlarged EU, to strengthen protection against counterfeiting, and finally to provide regular reports on the state of legislation country by country, including WTO member-countries' compliance with Art. 25.2 of the TRIPs agreement. *In the latter context, a specific study of the implementation by WTO members appears essential.*

Timing : From July 2004 - DG TAXUD with industry stakeholders

- 2. A User-friendly European web-site.** Textile and Clothing companies need easy access to updated information on a wide range of intellectual property issues. (How do I protect my rights? What do I do if I am copied? What is unregistered design?) To achieve this objective the High Level Group proposes the creation of a user-friendly multi-lingual European web-site dedicated to textile and clothing companies (as a pilot project) interlinked with the current IPR Help Desk website to provide clear and essential information on:
 - The means of protecting IPR and its enforcement nationally, at EU and at international level.
 - Existing legislation in the Customs field at national and EU level coupled with appropriate practical information
 - The bodies and authorities at the above levels competent in the IPR field.
 - A database on legal decisions.
 - A FAQ section.

This proposal should be linked to the electronic *availability of an updated International Practical Handbook of IPR for the textiles and clothing industry*. (Drawn up initially in 1998).

**Timing: preparation of texts as from September 2004. Completion January 2005
Commission. IPR Handbook DG Trade + Euratex**

3. Additional Information and Awareness. Recommendation 2 seeks to educate and advise rights holders, with particular reference to small and medium-sized companies. It should go hand in hand with a campaign to raise their awareness as to the problems posed by counterfeiting and piracy and to the fact that practical solutions to those problems do in fact exist. In this respect the High Level Group proposes that :

- A concise “ABC” on the protection of intellectual property rights be drawn up (as has already been the case in the machinery industry)
- Specialized entities or other national organisms be encouraged to co-operate across the enlarged EU in their work to advise companies on IPR problems and be established in those countries where they do not yet exist. (*linked to recommendation 1 above*)
- Direct awareness campaigns to companies through leafleting of fairs, dissemination of slogan based information and web-message information.
- Industry stakeholders will also study how best to raise awareness at *magistracy* and *consumer and retailer* level awareness although in the latter two cases this is by definition an operation which can only effectively take place at national or regional level.

Timing: From Autumn 2004 - National authorities, DG Taxud, DG MARKT, DG Enterprise, Euratex etc...

4. Seminars and networking. Experience has proved that regular meetings between rights holders, small and medium sized companies, police and customs authorities provide invaluable assistance to all parties and facilitate mutual understanding. The High Level Group recommends that seminars of this kind in the presence of EU experts from industry and Commission be organized across the enlarged EU. In particular enforcement requires a higher profile.

Timing : From Autumn 2004 - National authorities, DG Taxud and DG Enterprise, Euratex etc...

IV. REGIONAL ASPECTS

The Communication from the Commission to the Council, to the Parliament ... **and** to the Committee of the Regions dated October 29th 2003 to which reference has already been made several times in the present report provides ample proof of the extent to which the textile and clothing industry is concentrated in many regions or districts and works in clusters across the EU-15, and indeed the now enlarged twenty-five member European Union. In that Communication the Commission noted (point 3.3.11 p.21) that *“the textiles and clothing industry in Europe is characterized 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 disproportionate effect on certain regions – both in the EU-15 and in the (then) future member states.”*

The size of the industry itself in a majority of these areas means that they are heavily dependent upon the industry for employment. Whilst many of the decisions which shape the macro-economic development of the industry are of a horizontal nature (environmental legislation for example) or are textile and clothing industry-wide in their application (the phase-out of quotas agreed within WTO), the implications must by definition also be regional, and fully justify a regional approach to a number of the recommendations and conclusions drawn from earlier parts of the present report. In so doing, it will be clear that care must be taken to avoid any possible distortions of competition, and to take into particular account the needs of employees in the industry.

The recommendations below do not reflect the opinion of the European Commission or of certain member states. Where appropriate, stakeholders will reconvene to provide more detailed explanations and justifications for each of the chapter’s recommendations.

The territorial dimension

Strategic Planning

1. The Group recommends that at regional level the authorities, in close co-operation with local stakeholders seek to establish **Local Strategic Plans** that improve the allocation of public resources. These plans could take as an example the successful experience already achieved in some Regions (such as the Toscana Region or the Portuguese “Dinamo” project). All the actions carried out to fulfil the objectives of these plans would need to be visible and set out clearly their implications in terms of access to European funding, more specifically for SMEs.

Actions to be undertaken by all stakeholders at local and regional level within the earliest practical timeframe

2. Under such circumstances all proposals for funding coming from the regions might be preceded by an agreement among stakeholders in the form of a Local Strategic Plan.

Timing: From Autumn 2004 –National authorities and, where appropriate, the European Commission should envisage the possibility to give special considerations to Projects submitted in the framework of a coordinated Strategic Plan.

European funds

A) Support for re-programming for the present period 2000-2006

All measures envisaged from a regional viewpoint should be compatible with the overall objectives and recommendations of the High Level Group as proposed in other chapters.

3. Member states are therefore requested to seriously envisage re-programming the Structural Funds for the final two years of the period 2000-2006, to cater more positively for the needs of the Textile and Clothing sector in the run-up to and immediate aftermath of the expiry of quotas.. The European Commission should be receptive to any such proposals.

Timing: 2004-2005-2006 with examination to start in July 2004. Action by Regions/National Governments,

4. Textile and clothing stakeholders should be consulted and their views taken into consideration at national/regional level during the process of deciding the programming (or reprogramming) of Structural Funds.

Action to be undertaken by national and regional authorities.

5. When evaluating projects presented for funding by the Structural Fund, the Group recommends that Member states take a positive approach towards proposals put forward by the Textile and Clothing sector.

European Commission (DG REGIO)

B) Priorities in the field of industrial restructuring for the new Structural Fund programme: 2007-2013

6. The Group considers that a **specific regional initiative** for the sector should be set up aimed at allowing companies to better face the difficulties arising from the repercussions of 2005 and to facilitate, if needed, the relocation of their workers to other areas of the labour market. In addition to the initiatives identified in other chapters (Research and Innovation and Education and Training) indicative areas of activity could cover:
 - i. Support of Business Process Re-engineering Action Plans (e.g. support in implementing small scale specific investments in systems and process integration, finishing, design, logistics, as well as indirect aids to industry in new organisational arrangements for their management, tailored to the characteristics of each region.)

- ii. Supporting schemes for SMEs to develop and increase their presence in European and international markets through the development and marketing of new products and updated applications for existing products (e.g. technical assistance and funding for the development and strengthening of brand names, activities to promote the use of new technology, etc.)
- iii. Support activities for Utilisation of Financial Engineering Techniques in order to strengthen companies' financial structure.
- iv. Supporting energy – saving and environmental protection and safety.

Early examination by European Commission (DG Regio) and Member States.

7. The Group welcomed the concept that all member states might hold back a “reserve” of 1% of the total amount of the Structural Funds available, which could be used in the event of emergency (e.g. closure of companies, or structural changes in regions dependent upon the textiles and clothing industry)

European Commission (DG REGIO) and Member-states

C) A specific Community Programme

8. **A community sectoral programme for the textile and clothing sector.** The High Level Group recommends that such a programme should include the appropriate support tools, in particular for the less developed regions that are still heavily dependent on the sector, to support research, innovation, training and small and medium sized enterprises, as well as create brands and promote exports, in particular during international fairs. Such a programme could become the ideal vehicle for the realisation of many of the initiatives recommended by the High Level Group.

Timing: before end 2004 - European Commission (DG Enterprise as leader) with the assistance of member-states, regions and private stakeholders to define the substance of such a programme.

D) Innovative actions of the ESF and the ERDF

9. The Group requests the European Commission to prepare actions based on agreement between the public and private stakeholders in the field of innovative actions of the ESF (art.6) and possibly too in the framework of the ERDF (art.4). Calls for proposals of interest to the textile and clothing sector could address specific issues such as:

1. New service-oriented business models for the T/C companies
2. Re-training of existing staff
3. Support to employ young talents
4. Support to women employed in the sector

ERDF (art.4)
European Commission, DG Region

Timing; next deadline for applications: 26-01-2005 3rd deadline: 25-01-2006 - ESF (art.6) European Commission, DG Employment

E. Awareness campaigns at regional level

10. The Group believes that there would be considerable added value in awareness campaigns (road shows) being conducted around the principal regions, whose objective would be to draw direct attention of managers of smaller companies to the opportunities offered within the EU by R & D and innovation developments, by recent legislation in IPR, and other areas.

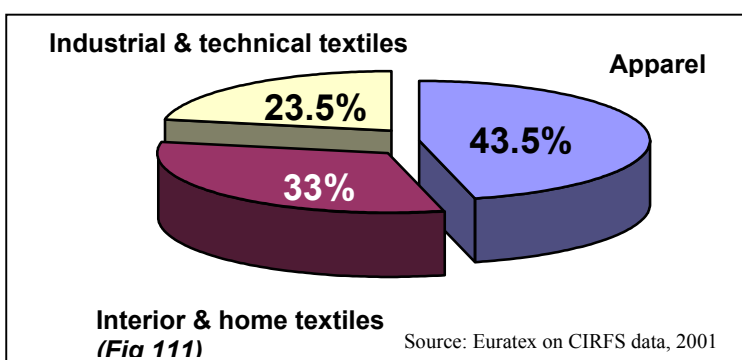
Timing: From Autumn 2004 - National, Regional and local authorities, together with industry representatives.

11. Work amongst private stakeholders will also continue to examine the feasibility of an **export promotion initiative** conceived on a regional basis and specifically dedicated to the needs of smaller companies in the industry. This work will be led by ACTE and the Hellenic Fashion Industry Association.

V. RESEARCH AND DEVELOPMENT, INNOVATION

Unlike certain industries in Europe, the textile and clothing industry is a world leader in technology usage, process and product innovation, including fashion creation and other “non-technological” innovation activities. In this context too, it is fortunate that European textile machinery manufacturers themselves lead the world, that Europe’s fashion industry enjoys world predominance, and that the “technical” textiles sector of production is equally recognized for its pioneering role. In the textiles area, which enjoys an export surplus with the rest of the world rapid productivity gains have maintained a degree of competitiveness, which has been enhanced by innovative products and processes in particular in the growing field of technical textiles, covering end-uses in transportation, road-building, land-reclamation, housing, sporting equipment, protective wear and surgical and medical devices.

The major end-use however still remains apparel. European manufacturers have led the world in terms of fashion and creativity, and in all forms of apparel.



Nonetheless, in comparison to the spinning and weaving of textiles, clothing manufacturer is highly labour-intensive, and steps are urgently needed to overcome this disadvantage as compared to lower wage countries. In both the textiles and clothing sector then the wealth of existing expertise must be harnessed to strengthen the positive elements, and to overcome the deficiencies. In that respect those positive elements should be applied to best effect across the enlarged European Union, to enable existing and future resources within R&D programmes to be concentrated on the most advantageous areas, inspired by best practices in programmes at regional, national and European level with fragmentation giving way to added value across the board.

It is with the above in mind, and in the light of the division as between major end-uses in the industry (fig. iii) that the High Level Group makes the following major recommendations:

1. Technology breakthrough in apparel manufacture

Only limited incremental changes have come about in recent years in clothing manufacture and the sewing machine remains the principal means by which fabric is joined together to make the finished clothing product. The high labour content of this operation, and the correspondingly low capital investment required place much of clothing manufacture within the EU (and the textile spinning and weaving which supplies it) at a severe competitive handicap as compared to third countries. To overcome this handicap, the High Level Group recommends that work begin in order to make an early **breakthrough in clothing technology**.

Not only would such a step-change, if successful, boost European manufacturing activity. It will at the same time offer more stable and more highly-skilled job opportunities in full conformity with the objectives of the Lisbon and Barcelona targets, and further enhance the quality and consistent fault-free nature of European apparel.

2. Fashion creation and new consumer or industrial customer services

In parallel, and to further close the competitiveness gap, the High Level Group believes that it is important to rapidly roll out across the enlarged EU existing concepts and technologies in the fields of mass-customisation, virtual design and prototyping, supply chain cooperation and collaborative product development.

The widespread transfer of already proven technologies will offer the end consumer his or her own choice of styles, fabrics and colours in his or her own measurements with early delivery or the industrial customer a textile product or component meeting all his requirements in the shortest development time. This form of service will enhance the competitiveness of European producers by providing them with the opportunity to satisfy individual demand on a just-in-time basis, with final products manufactured in the Pan Euro Mediterranean area and derived essentially from European fabrics (and yarns).

The High Level Group therefore recommends:

- **In the FP6 IST Programme:** the introduction of a specific action line for applied research and technology take-up actions for virtualisation, supply chain management and e-business applications in the field of design, customisation and innovative customer service of consumer and industrial textile-based products in the IST work programme for 2005.

IST (FP6) Work Programme for 2005

3. Technical textiles for innovative applications

The steady growth of fibres and “technical” textiles with end-uses which are increasingly outside those of customary textile and clothing uses must be seen as a success story and an area in which Europe leads the world. In recognition of this fact and of the growth prospects into the future in the multiplicity of existing and potential applications, the High Level Group believes that it is entirely appropriate to make special provisions for this high-potential sector in thematic area 3 of FP6, similarly to comparable provisions for the chemicals or construction sectors in the past.

The High Level Group therefore recommends:

- **In the FP6 NMP Programme:** the introduction of a specific action line **for applied research in multi-functional fibre and textile-based products and related processes to be included in the NMP work programme for 2005**

Specific Action Line for multifunctional fibres and textiles – FP6 NMP work programme 2005

4. Supporting non-technological innovation

Non-technological innovation, just as much as technological innovation, must be clearly defined, then fostered and encouraged. In a number of cases industry surveys have revealed that companies in the industry spend up to 15% of their annual turnover on *non-technological innovation-related expenditure, which is often of a high-risk nature*. At a period when the ability to create and innovate is recognized by industry and the authorities alike, it would appear illogical that *the investment* of companies in this form of innovation should be treated any differently from parallel investments in

research and development. Notably SMEs' efforts in this domain should be stimulated by various forms of support measures including fiscal incentives or public loans and guarantee mechanisms. The High Level Group considers that the Commission ought now to re-examine its aids framework to allow member-states to do this.

Timing : September 2004 - Commission to examine rules on state aid for non-technological innovation

5. Facilitating industry participation and SME access to public R&D and innovation programmes

The SME- dominated profile of the industry has led representatives of the High Level Group to conduct two "best practice" surveys (i) to identify the most appropriate support instruments, needs and current spending levels on R & D and non technological innovation (ii) to identify their major priorities and concrete actions to resolve issues faced in priority areas.

In addition to the results of those surveys which have been incorporated into the four recommendations above, the High Level Group recommends:

- **In FP6:** the introduction of stricter requirements for the involvement of SMEs in all types of horizontal research projects, to make *more substantial budget provisions for STREP, CA, and SSA* funding instruments and to re-introduce technology transfer and take-up measures **(FP6 : 2005-2006)**
- **In FP7:** the use of transparent *economic parameters to guide priority setting and budgeting* in order to enhance the programme's impact on industrial competitiveness in the enlarged EU, to better **reflect the needs for more applied research** with funding instruments such as STREP and IP-SME, and *to maintain and substantially increase funding for SME schemes such as CRAFT and Collective Research.*
- **In general:** *The improvement of general conditions governing access to funds*, including a preference for flexible open calls for proposals and two-step proposal submission procedures; ensuring a drastic overall reduction of time from proposal to project start, and improved payment systems and the set-up of less complex programme priorities coupled with clearer sector orientation, and more direct stakeholder involvement in priority setting and project selection procedures.

6. Combating fragmented research efforts and building long-term industry visions and innovation structures

In the lead up to and launch of FP7 industry itself, in co-operation with institutes and universities will make improved and more coordinated use of existing structures in order to better define industry wide structures to avoid fragmentation and create overall industry driven long-term visions and technology road maps implemented by coordinated research efforts. In this context industry will enter discussion with Commission, research organizations and related sectors (machinery, logistics, transport) with a view to the creation of an **European Technology Platform for Textiles and Clothing**

Timing : *From July 2004 - Euratex in co-operation with European textile research community other stakeholders and DG Research*

In addition to this structuring activity at EU level, to develop an overview of available manufacturing research programmes at national or regional level to extract and disseminate best practices and where appropriate follow by the set-up of ERA – Net initiatives..

Timing : *From September 2004 - National industry associations in cooperation with national funding programmes, supported by Euratex and the Commission*

VI. TRADE POLICY

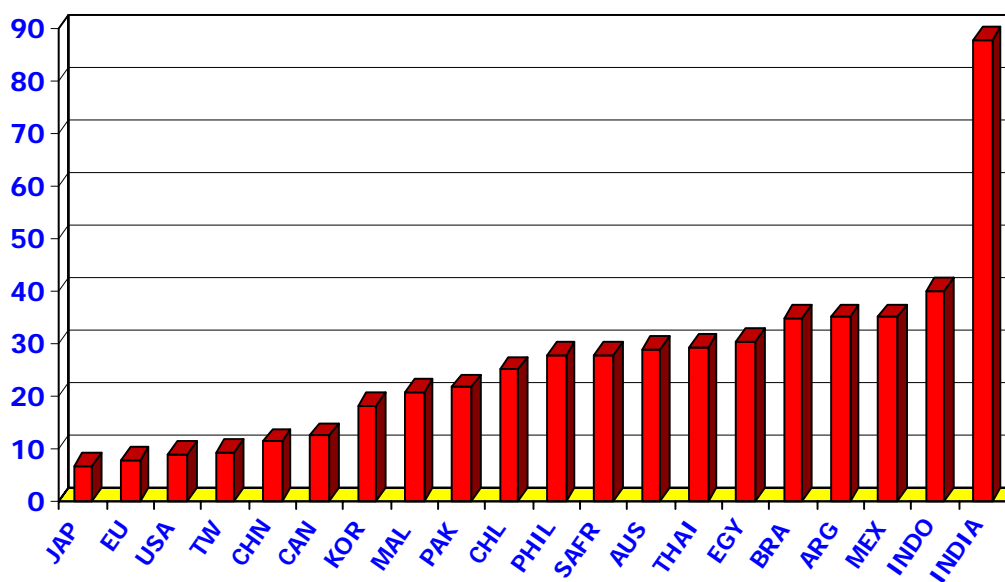
The elimination of textile and clothing import quotas as of December 31st 2004, coupled with negotiations on tariffs and non-tariff barriers in the context of the Doha Development Agenda make external trade issues even more crucial to European and other textile and clothing industries than has hitherto been the case. These concerns have been more recently thrown into even starker relief by the accession of China to WTO and the subsequent and rapid growth in its exports of goods in categories of textiles and clothing liberalised since January 2002.

The discussions of the High Level Group have therefore concentrated more especially on: market access, in both tariff and non-tariff barrier terms; EU defence mechanisms to combat unfair trade practices, including the particular case of China; the completion of the Pan Euro Mediterranean area; the generalised system of preferences (GSP), and origin rules; sustainable development issues which are directly linked to the EU's development policy and of concern to a number of least developed countries who are heavily dependent upon exports of textile and clothing for their foreign earnings.

In its deliberations, the High Level Group was conscious that decisions affecting external trade, whilst not changing Europe's inherent competitiveness, will by definition determine whether the industry is in a position to compete on equal terms with its overseas competitors on European and overseas markets when it has the right products at the right price.

The nature of the export problem faced by EU manufacturers is illustrated by the comparative table of WTO bound tariffs in textiles and clothing on the eve of the Cancun Ministerial Conference. This imbalance is further exacerbated by a wide range of non-tariff barriers (certification, additional taxes, customs valuation, etc.)

Average Textile & Clothing bound duties



source : "WTO unfinished business" – 2001 & Euratex calculation

The recommendations of the High Level Group, many of which are dependent upon multilateral schedules, are the following:

1. Market access – indispensable for export growth

The High Level Group has endorsed the approach on market access proposed in sub-section 4.1.1.1 of the Commission communication of October 2003 (Annexe II).

It also asks for action to be taken on three fronts along the following lines:

- a) In the **multilateral arena**, determined action to achieve the objective of general harmonisation and reciprocity of market access conditions for the textile and clothing sector in the DDA and the elimination of all non-tariff barriers. (In this respect, some participants drew attention to the need to take account of all elements of § 16 of the Doha Declaration.(1.))
- b) In **bilateral agreements** currently under negotiation (i.e. Mercosur and Gulf Cooperation Council) as well as others that could be negotiated, the EU should stick to its position of seeking, for all the textile and clothing products, strict reciprocity for the dismantling of tariffs, and the frontloading of liberalisation for the industry. It recalled Brazil's commitment to both objectives for the Mercosur negotiations under the August 2002 MoU. The Group also supported the inclusion by the EU in such bilateral agreements of a clause concerning either the extension of the benefits of the agreements to Turkey or the negotiation of a similar agreement between the EU's partners concerned and Turkey.
- c) In the **Euro-Mediterranean area**, efforts should be made to accelerate the elimination of tariffs by the EU's Mediterranean partners (cf. also point on Euro-Med).

Timing : by end 2004 - DG Trade

The High Level Group asks for the elaboration of an **action plan for market access** to tackle in particular (but not only) the problem of NTBs, which would, on the basis in particular of the market access study just launched by the Commission, identify priority barriers and objectives, and suggest means to deal with them. Priority countries mentioned include the US, Japan, China, Russia, India, and Egypt and the EU's Mediterranean partners. The elaboration and monitoring of the implementation of such action plan could be carried out by a *task force* which would

1. "We agree to negotiations which shall aim by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without *a priori* exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII *bis* of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations".

include representatives of the relevant Commission services (including those responsible for the TBR) and other interested stakeholders. The Commission should devote the necessary resources to tackle NTBs and to take without delay all necessary steps to redress violation of international agreements by third countries.

Timing : September 2004 - Establishment of Task Force

China – Essential action

2. Growth of European imports from China in 3rd stage and prospects for 2005

- The High Level Group suggests that the Commission pursue a results-oriented dialogue with China on textiles and clothing trade in order to examine what could be done in order to avoid in 2005 a repetition of the exceptional surge of Chinese exports at much reduced prices in the 3rd stage of ATC in 2002-03. Such dialogue should include among other topics sustainable development aspects and in particular the respect of core labour standards. The dialogue would have a double component, government to government and business to business, the second one enjoying the backing of the authorities from both sides. Several members of the group indicated that the EU-China dialogue should explore the possible introduction by China of self-restraints.
- The High Level Group considers that the **use of safeguards** should remain a possible option in order to maintain the pressure necessary so that the dialogue can lead to tangible results. Safeguards should be used as a last resort and/or if and when the objective and legal conditions for their invocation are met.
- The Group emphasized the need for an effective and timely monitoring of import prices and quantities. (*see point a) below*). It welcomed the imminent launch by the Commission of a study on the conditions that have made it possible for China to achieve its extraordinary performance during the 3rd stage of the ATC.
- The group also suggests that ***the Commission publishes procedures or guidelines on the way it intends to handle requests for safeguard measures under the textiles-specific safeguard clause*** contained in China's Protocol of Accession to the WTO, in order to improve transparency, predictability, legal certainty and information of all stakeholders, in particular in the phase prior to the decision to open investigations or to request consultations with China. Such procedures or guidelines could provide for instance for the possibility to lodge requests for safeguards by interested parties, for deadlines for replies to complainants, and for the deadlines for adoption of decisions to open an investigation or to request consultations. They could establish that any decision taken with respect to requests should be motivated and communicated to the complainant. They could also cover indications regarding the information needed for the complaints to be considered as well as a mention of the objective indicators on whose basis the decision to introduce safeguard measures or not will be taken.

The Group also recommends the ***establishment of a monitoring system*** consisting of the following elements:

- a) A mechanism for the regular gathering of data on quantities and average unit prices as quickly as technically feasible, in order to enable a close monitoring of imports from China in the main product categories.

Such information could as appropriate be made publicly available. Any such mechanism should respect the confidentiality of individual data and avoid cumbersome bureaucracy.

- b) Examination of the conditions of production of textiles and clothing in China.
- c) Regular evaluation of the respect by China of its WTO obligations and in particular of its market access conditions including the possibility to set up distribution networks and to sell directly to retailers or distributors, giving as appropriate more visibility to the current Trade Review Mechanism.
- d) Review of progress made under the EU-China textiles trade dialogue.
- e) Establishment of a contact point within the Commission to ensure the channelling of information to and from industry and stakeholders.

The Group considered that it is essential that *adequate resources* are devoted to this task, in particular from the Commission and the Member States.

Timing : Immediate – DG Trade & Member-states
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3. The completion of the Pan-Euro-Mediterranean Zone.

The High Level Group attaches great importance to a speedy completion of the Pan-Euro-Mediterranean zone and in particular to an accelerated implementation of the system for diagonal cumulation of origin. It considers that all necessary steps should be taken so that diagonal cumulation of origin could be in place in the area by the end of 2004. It asks the Commission to give the highest priority to the presentation without further delays of a proposal to Council on the Euromed common protocol of origin, calls on Member States to proceed quickly to its adoption and on all Euro-Mediterranean countries also to implement them quickly. It also asks the Commission to make all necessary efforts to encourage the signature of FTAs among the remaining Mediterranean countries.

In this last respect, the group considers that if it does not appear likely that the beneficiary countries in the South and East of the Mediterranean may conclude FTAs among themselves by the end of 2004, such a requirement for FTAs among those countries as a condition to enable diagonal cumulation of origin should be interpreted flexibly so that it does not stand in the way of increased trade possibilities within the area. Such a *flexible interpretation of the FTA requirement* would enable the diagonal cumulation of origin to take place in the absence of fully-fledged FTAs among the countries concerned, provided that:

- a) Those countries adopt identical rules of origin (the Euro Med protocol of origin)

b) Proper customs and administrative cooperation is in place among the countries concerned in order to ensure a strict control of the rapid implementation of the Euro Med protocol of origin; and

c) There are arrangements in place providing legally for a sufficient degree of liberalisation among the countries concerned, covering in the textile and clothing sector at least the intermediate products necessary so that cumulation of origin can take place.

Such arrangement should be temporary and be valid for a fixed period of time, in order to advance the introduction of diagonal cumulation of origin as early as possible for textiles and clothing so that the sector can better face the challenge of 2005.

The Group also calls for means to be found to obtain effective market access for EU products to the markets of the Euro-Med countries with which the EU has concluded FTAs, and in particular an acceleration of the dismantling of tariffs applied to imports from the EU by those countries. It also calls for assurances that the EU will not obtain a less favourable treatment for access to the Moroccan market than US industry under the recent US-Morocco FTA.

It also endorses the Commission request that, “in the creation of the zone, special effort should be put in the enforcement of core labour and environment standards, involvement of social partners and promotion of sectoral social dialogue”.

Timing : by end 2004 - DG Trade, DG Taxud – Member-states
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4. Review of EU preferential rules of origin and future Generalised System of Preferences (GSP).

The HLG considers that there is a close link between on the one hand the shape of the EU's future GSP, and the preferential rules of origin on the other. The Group considers that the priority in this area should be to target trade preferences to improve the relative position of the poorest and most vulnerable developing countries vis-à-vis the most competitive countries which include the current largest GSP beneficiaries such as China and India. It agrees with the basic principle that, as a consequence of the review of the GSP and of the preferential rules of origin, developing countries as a whole should not be worse off as a result of changes in both instruments. But it also considers that it would be inappropriate to submit EU industry to competitive pressures in addition to those they will already face with the elimination of quotas, or to dilute the impact of the preferences as a consequence of lack of targeting on the countries most in need.

Instead, it considers *the benefits deriving from the continued GSP/rules of origin system should be rebalanced to the advantage of those countries which are in the weakest position* to face the international competition that will result from the elimination of quotas. It could therefore support the line suggested in sub-section 4.1.1.3 paragraph b) and c) of the Commission Communication of 29 October 2003 (annexe III).

In particular, the Group calls for a *combination of a limitation of GSP benefits to the weakest and most vulnerable countries* with a facilitation of the relative competitive position of those countries through allowing them a *wider geographical choice for sourcing*

intermediate products without losing their preferences. It considers that such balance could be achieved by combining two elements:

- a) Whilst taking into account general development concerns and other trade indicators, GSP preferences should be limited to LDCs and smaller suppliers, since some of the largest exporters (e.g. China, India, Pakistan, Indonesia, Taiwan) are already very competitive in the textiles and clothing sector and do not need such preferences. A means to achieve such concentration could be the exclusion from such preferences of countries (other than LDCs) whose textiles or clothing exports to the EU represent 2% or more of total EU textiles or clothing imports (2).
- b) The use of preferences by preferential countries should be facilitated but, in doing so, there is a need to ensure that there is sufficient value added in the preferential country of manufacture of the product in order to avoid that in reality much of the value added of the preferential exports comes from non-preferential countries. Also the impact on both EU industry and on the textile and clothing production chain of the countries concerned should be taken into account. ***A facilitation of exports of the most vulnerable developing countries and especially the LDCs carried out through changes in the rules of origin*** should be obtained through the following possible means:
 - (i) an expansion of the areas from which such countries can use intermediate and semi-finished products without losing the preferential origin to cover EU preferential countries, such as, for instance, the Euro Med area;
 - (ii) a relaxation of certain conditions for cumulation of origin within regions such as the value added requirement; and/or
 - (iii) a temporary and limited derogation from the double transformation rule for LDCs in accordance with current provisions of the Community Customs Code.

In providing such facilities, the Group agreed on the great importance of adequate control and enforcement to ensure the respect of the EU's rules of origin, and pointed to the usefulness of helping building capacity among the authorities from third countries.(3)

(2) As regards the 2% threshold, one participant (FESI) considered that a volume threshold of 2% should not apply strictly in order to take account of more general development concerns: another (AEDT) was of the view that their key criterion for the selection of beneficiary countries should be the general economic development of the countries concerned, and asked for the establishment of precise indicators of development.

(3) On these issues, a majority of participants considered that the GSP system could be simplified and be made more transparent. The representative of one organisation (Eurocoton) indicated that they could accept the facilities indicated under (ii) and (iii) above provided that the amount of goods benefiting from them is subject to fixed limits which are degressive over time. Other participants asked for a simplification and, as far as possible, a harmonisation of the EU rules of origin and requested that a process of open consultation is opened regarding the features of the future EU's GSP. AEDT is not in a position to support the recommendations here as it considers that further discussion is still needed, that its position is not sufficiently reflected, and divergent opinions of substance could not be bridged.

5. Sustainable Development issues:

The High Level Group supports the continuation of the Commission work with interested associations and NGOs in order to have a better picture of the existing schemes and to see in which way the EU could help in raising awareness on the issue and to promote higher sustainable development standards. Such work does not contemplate the creation of any new labeling scheme, but instead the bringing of more transparency and visibility into the current situation.

The Group also signaled its general support and agreement for the Commission to continue in the direction of including social clauses in bi-lateral trade negotiations and deals in the future.

6. Possible improvement of trade defence instruments and of the Trade Barriers Regulation.

The Group highlighted the importance of the subject. A majority of its members welcomed the recent amendment of the anti-dumping basic regulations agreed by the Council. It asked for adequate resources to be devoted by the Commission to the preparation of cases for the opening of markets in third countries, including under the *Trade Barriers Regulation*.

The Group took note of the particular problems faced by SMEs which participate in *anti-dumping and anti-subsidies* investigations as well as of the provisions of Art. 6.13 of the WTO-AD-Agreement (4). Therefore, it welcomed the ongoing work of the Commission with a view to standardise information requirements. The results of this ongoing work will also benefit SMEs because the information requirements in such standardised questionnaires will be streamlined while ensuring the maintenance of the necessary high standards in investigations. In this context, the Group also welcomed that part of this work (i.e. standard questionnaires destined for producers in the Community) had already nearly been concluded.

As regards possible use of *safeguards* (5), the Group agreed on the following recommendations:

- the EU should not renounce their application as a last resort in order to maintain pressure in particular in the case of China so that the Chinese take steps to avoid too steep surges in exports especially from 2005 (cf. point 2 above)
- recourse to the various types of EU safeguard provisions (erga omnes, TPSSM or product-specific for China, and textiles-specific for China) should be considered if and when the legal conditions are met

(4) “The authorities shall take due account of any difficulties experienced by interested parties, in particular small companies, in supplying information requested, and shall provide any assistance practicable”

(5) The representative of one association (the FTA) considered that the in the use of any safeguard measures account should be taken also of general considerations, including the interests of the users, the consumers and trade.

- the way the complaints or requests for safeguards by industry are handled prior to initiation should be clarified at the appropriate institutional level, including a consideration of the opportunity to set up procedures and timeframe for examination and conclusion.

7. Labelling/Origin Marking (6)

In view of the wide divergencies of view on the matter, the High Level Group is not at this stage in a position to make recommendations. Whilst some of its members indicated that this is a crucial area where the High Level Group should make recommendations that would result in an improvement of the competitive position of EU industry on its home market, others were of the opposite view as they consider that the status quo in the matter should not be changed.

(6). As regards labelling issues including origin marking, the Commission representative advised that a concertation among the interested parties should take place within a short time frame (e.g. three months) in order to reach a common position and make recommendations and indicated that, in the absence of a common position among interested parties, the Commission would have to take its responsibilities and make the necessary proposals to the Council.

ANNEXE 1: (*Communication from the Commission to the Council, the European Parliament, the European Economic and social Committee and the Committee of the regions.*)

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.

ANNEXE 2

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

ANNEXE 3

III EXTERNAL TRADE – item 4

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:

- 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 origin⁴: 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-

⁴ 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.

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.