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From the President

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Notes for LIUC speech
18th December 2007

I think that it might be useful to provide you with a brief overview of what EURATEX is and what it does: we represent the textile and clothing industries of the EU-27, and we also have members in Turkey, Morocco, Egypt, Croatia, Serbia, and since the beginning of this year, Russia. In the EU alone this means 2.2 million employees in about 146.000 companies, most of which are small and medium-sized. The figures I just quoted are dated 2006 with respect to the EU 25. In addition to clothing, household products such as carpets and table and bed linen, our members produce an enormous variety of technical textiles, used in aircraft wings, Formula 1 racing cars, medical textiles, textiles for road building, land reclamation, the list is endless. Our annual turnover is €202 billion, which means nearly 4% of the total Added Value produced by the European manufacturing industry, and we export 20% of that turnover outside the EU.

Our EURATEX activities reflect this too: of course we are concerned with matters affecting international trade, the Doha Development Agenda, Free Trade Agreements and so on. But we also continue to be deeply involved in issues concerning the environment to try to ensure that credible solutions are adopted in respect of chemicals, waste, banned substances which are at the same time acceptable to the industry we represent. We have specialists in the field of intellectual property and social affairs, where we have very good relations with our trades' union partners, and our research department is involved in a range of development and innovation projects. We have also set up a Technology Platform and produced a Strategic Research Agenda for the industry due to a better involvement in the so called FP 7.

What are our immediate concerns? It is easy to understand that we are anxious to open up third markets to our exports and we have said this consistently since EURATEX was created 11 years ago. What appears to be on the table today in Geneva will not help us very much in this respect – the differing coefficients for developed and developing countries in the so called “Swiss Formula”, linked to the flexibilities which the latter can use, could allow them to exempt large portions of their textiles and clothing tariff lines from any reductions, taking advantage of our



reductions, but giving us little or no improved access. In such a case, better no deal at all.

We also need to achieve the removal of many non-tariff barriers, such as special taxes, difficult labelling and certification requirements. These barriers add substantial additional costs and delays for our exporters and have no justification in today's globalised world, which ought to be a two-way street, not just one way. We also have concerns as regards China and the year 2008, where as you know, the USA and some others have agreements with that country until the end of 2008, whereas our own agreement runs out at the end of 2007.

On this respect, after having convinced the Trade Commissioner Peter Mandelson and the majority of the European Member States, we obtained, recently, a new agreement with Chinese authorities based on a double checking system on their exports to the EU, due to monitor them and to reach a smooth transition out of any quota system.

Now, to give you a better understanding of our point of view on trade issues, I report hereafter the first written interview I released at the very beginning of this year of my presidency of EURATEX.

The questions were posed by a German journalist for "Fashion Today" and "Fashion China Magazine", where the interview was published in the first quarter of 2007.

Q) What is the aim of EURATEX for the next five years?

A) In the so called Developed Countries, like the EU, there's a peculiar attitude of mind in respect of textile and apparel production. It is seen as a part of our past, still persisting in our present time. Too few think that this is so because of the capacity of the industry to reinvent itself continuously. On the contrary, the mantra is that our industry is a sun-set one in Europe (for many decades, now!), to be shifted abroad completely. So, the question sounds to me as if EURATEX would be some sort of WWF for endangered industries, intimately asking what kind of protection we will ask to ensure survival for a little longer. But we don't want to be considered as endangered species. Our aim is not simply to survive, but to prosper. And to be considered as such, as an engine of the European economy. Especially in some member countries, like Italy or Turkey, our industry is still at the heart of the economy. From new products and new processes to profit, incomes and revenues. So, if I can tell in few words what is the principal aim of EURATEX it is simply to obtain for our industry the attention it deserves. Not because of what we were, but because of what we are and will be able to be. To do so we have to be realistic. We have to face many structural problems which reduce our competitiveness. Like the cost of energy to run our companies. To add another example, EURATEX will continue to pursue its longstanding objective of achieving genuine market access to third

countries either multilaterally or bilaterally, through a reduction of their customs duties and the removal of non-tariff barriers. Trade in textile and apparel will have to be a two way road.

Q) You mentioned Turkey so referring to an enlarged Europe. From the beginning of 2007 two new member countries will be part of the EU, what does it mean for textile and apparel industry?

A) I think it reinforces the need about which were pretty clear to the European Commission at the end of 2003, when the communication “The future of the textile and clothing sector in the enlarged European Union” was published. Our industry is still very important for many member countries. It means that everyone has to accept that in Europe the difference of economic specialisation between countries is a normal fact. So public policy should not be based on convergence criteria, implicitly forcing every member to become more similar to each other. As if in every country could exist an international financial centre like the City of London. On the contrary, different economic specialisation – not to be considered in a static way – would have to be regarded as a precious origin of wealth for the EU as a whole.

Q) But the enlarged Europe has still to face the global competition. How can you cope with it?

A) I think you mean that import and export flow between member countries is going to be replaced more and more by international trade. For that we have to increase our exports to new markets like the Chinese, the Indian or the Russian one. This is also the reason why market access, as I stated earlier, is so important. At the same time, it is fundamental to sustain innovation and appropriate skills training at all levels to ensure that we have the manpower and the brainpower to progress. Obviously, in so doing intellectual property and the defence of it everywhere become essential. Nonetheless, we haven't to forget the internal side of the global competition. EURATEX analysed the trend in import pricing and consumer pricing, for garments, and discovered that the former decreased strongly, in the last five years, but the latter tended to increase, at least in some European countries, like Italy. So, where is the consumer benefit and who is actually benefiting from lower import prices? Personally, I believe that more transparency along the pipeline down to the consumer could be a solution favourable also to the European producers. As a matter of fact, we are not doing enough to highlight the efforts that our industry is making each day to respect the environment, the health of consumers and the dignity of workers. The achievement of the life-cycle thinking philosophy that lies at the basis of many regulations, is not visible to consumers nor is it a purchase driver, as it should become. Furthermore, the growing number of these regulations – as in the case of the REACH – could generate only higher production costs, to the advantage of imported products. Coming back to your question, in more general terms, I think that in global competition the problem is not mainly what you do, but how you do it. Starting from the idea that there isn't just one way to compete, but that every company implements its own strategy based on its history, resources and so on, the

duty of a representative body like EURATEX it is to enlarge possibilities for the industry it represents.

Q) What does this mean with reference to China?

A) It means to be open to dialogue and cooperation in a realistic way. China is an opportunity as well as a structural problem because of its large dimension and the speed of its development. We cannot underestimate both aspects which is the reason why we must be open minded and creative in our relationship, on both sides, as we are able to do so with our products.

Q) I'd like to understand it better. Let's refer to the end of the Sino-European agreement for safeguard quotas, which will reach the end on 31/12/2007. What will happen then?

A) Here, if only in terms of equity, we need to be aware that of those countries which have applied safeguard measures – like the USA, Brasil and South Africa - we in the EU are alone in facing the bleak prospect of a year 2008 without quantitative limitations. It will be as if at end 2003 the EU had decided to abolish the ATC quotas one year earlier than our American and Canadian friends. But to explain better my point of view, I'd like to stress the structural side of the problem. It is not the Chinese competition that I fear but the risk of market disruption which could come as a consequence of a surge of imports. If you say: "Hey there's a party; come to the party!", and all around the other Discos are closed, you risk to have many more guests than champagne. Too many guests means too little for the largest part of them. In the comparison, the ones to suffer the most will be the European producers. This because, for example, we are not backed by easy loans as many foreign producer still are. So, even if it will be a difficult task, politically, I strongly believe that we'll have to find a consensual solution, like the extension of the agreement or some sort of monitoring.

Q) Don't you think that every kind of quota system is a protectionist tool?

A) I'd like to stress that what we are trying to do it is to protect the proper functioning of markets, as in the case of every competition policy where the regulators can intervene to avoid monopoly power. The justification in so doing is a structural one, considering demand and supply status so that social welfare – which means both consumer and producer surpluses - won't be diminished, but just the opposite. A trade shock with its consequent market disruption could reduce dramatically the number of internal producers, as well as the income of their employees who will be not able to exercise their role as consumers. In European debates, too often we refer only to the consumer surplus as the main reference in deciding about economic policy, forgetting the likelihood of many jobless consumers who could water down economic and social development. So coming back to safeguards and to the surge of textile and apparel imports from China, what we needed earlier and still need as long as others use safeguards, is some sort of a sluice system to adjust the mounting Chinese offer to the capacity of the European market.

Like in the Panama canal which make it possible to pass from the Atlantic to the Pacific, it is not that we want to stop trade, but we need a tool to ensure efficiency on both sides. After 2008 none will be allowed to use restrictions and the big Chinese supply will be globally allocated. Without forgetting the increase of their domestic market which still nowadays it is one of the largest and fast growing in the world. In the 11th Five-Year guideline period (2006-2010) by the National Development and Reform Commission (NDRC) it is stated that domestic textile and apparel sales are targeted to increase by 12.7% annually. That means that pressure to export abroad will diminish in some respects, as well as will increase the attractiveness for us to be present there with our products.

Q) How do you see the future collaboration with China? Could you imagine to help to upgrade the Chinese manufacturing in the future?

A) As I said before, no one in the future will be able to face global business without coping with China. But this is true also for China itself and with the rest of the world. Both considering its gigantic internal market as well as its export targets, China cannot go on losing resources as it does when its companies sell manufacturing products without making profits. And this happens, maybe, because they don't consider all production costs. In so doing they force competitors out of markets in the short run, but they suffer a swift destruction of value in the long run. So I think that very soon also Chinese authorities will be interested in fighting piracy, as companies will be interested to study a better way to calculate costs and to price their goods. On both sides we'll be ready to collaborate in reciprocal interest.

Q) Last question; how do you see EURATEX role in Brussels?

A) For many respects our industry can be considered as the front-runner of the European team in the global play. How we'll solve problems finding new ways to upgrade and to help development will be of general interest for the European economy as a whole. For this very reason I think that EURATEX is just as important for Brussels, as the European Institutions are important for the future of our industry.

Well, before leaving to everyone the possibility to ask a question I'd like to read a response I sent a month ago to the Wall Street Journal Asia where a certain Greg Rushford accused us to have invented a new protectionist tool forcing China to implement the so called double checking system.

Dear Editor,

When Adam Smith presented his idea of an invisible hand operating between different self interests to gain superior advantage, he was considering the simple fact that one always reaches a better equilibrium only if the different self interests concerned are able to influence each other. This is what happens in a free market. Maintaining such a free market means allowing free play between these different interests. When it

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*comes however to the free market of ideas – and also to ideologies – full information about different positions and situations becomes even more crucial. In this context I would like to give readers the opportunity to **double check** the trade relations situation in textiles and apparel between the EU and China in 2008, in reference to the opinion of Mr Greg Rushford. He recently claimed that 2008 will see a new form of protectionism. But does everyone know why? Is everyone aware that a double checking system will be implemented next year between the EU and China to seek to ensure a “smooth transition” after the end of a previous bilateral quota arrangement? Mr. Rushford, who is an American, strangely forgets in his article, which appeared on **18th of October**, that one of the main issues Europeans face next year is diversion of trade which will push Chinese exports to the EU, instead of to the USA which will still be **protected** by a bilateral deal lasting until the end of 2008. This fact alone surely places the whole issue in its true and wider context*

Mr Rushford claims that efficiency is at risk, because European consumers will pay higher prices. This is a worn-out argument which is totally unproven in the EU where consumer prices for textile and apparel hardly moved in the period 2000/2005 whereas import prices fell by more than 25%. Does the EU consumer, also a often worker in threatened sectors, not have a right to retain his job or is he too to be sacrificed on the altar of economic correctness? And should China be encouraged to continue the multiple subsidies of its production base, in the absence of proper accounting systems and at export prices often no higher than the raw material from which the final product is produced?

*We all ought then to be consistent with ourselves and with our more vulnerable trading partners. We support duty free access for the least developed and will continue to do so. EU producers of textiles and apparel today export close to 60 billion US\$ of product per annum, close to 20% of their turnover. They have more to win than to lose from open markets. They therefore seek improved access to world markets including that of the USA but would nonetheless like to see the insertion of the world **fair** in the liberal dictionary. Indeed if Mr. Rushford wishes to attack protectionism in textiles and apparel, perhaps he should begin with a campaign to reduce tariff peaks in the USA.*

(...)

Thank you for your attention.

Michele Tronconi
President