

China Textile Safeguard: Process Effect

By William C. Sjoberg and Carlos Moore

The US textile industry should extend its trade strategy beyond the China textile safeguard and use all available trade remedies — especially those with little US government discretion.

The National Council of Textile Organizations, Washington, and the National Textile Association, Boston, among others, recently filed a number of textile safeguard petitions on imports of textiles and apparel from China. In filing the petitions, the US textile and fiber industry hopes to contain the growth of imports from China that will result from the soon-to-be-eliminated quotas administered under the World Trade Organization's (WTO's) multilateral Agreement on Textiles and Clothing (ATC).

Should the US government acknowledge China's proven ability to rapidly respond to quota elimination and support a finding of a

threat of market disruption — one of the alternative legal standards required for the imposition of quotas under the textile safeguard — the issue then becomes whether the quotas will be sufficient to protect the US industry's market share or whether the China-specific quotas must be combined with other types of trade remedies to effectively stave off the upcoming surge in textile and apparel imports.

For no less than the last 40 years, US imports of textiles and apparel have been subject to import quotas imposed by a series of quota agreements sanctioned by the General Agreement on Tariffs and Trade and,

more recently, by the WTO. Those agreements have been known, at various times, as the Long-Term Arrangement Regarding International Trade in Cotton Textiles, the Multi-Fiber Arrangement and the ATC. Pursuant to the ATC, all quotas are scheduled to expire Dec. 31, 2004, and, beginning in 2005, textile and apparel markets of WTO-member countries will be open to competition from other WTO members. Thus, to the extent the US textile industry has not yet begun to revise its trade strategy in light of the overall impact of this event, it should now consider as a top priority actions to curb imports using US trade laws.

The ATC required that trade in textiles become quota-free over a 10-year period. In January 2002, the United States removed 13 quotas on cotton, wool and man-made products in compliance with the ATC. Since then, US imports of those products originating in China have flooded the US market, increasing by more than 1,000 percent in four years (See Figure 1).

The rapid increase in imports from China has led the domestic textile industry to file petitions before the ATC quotas actually expire, and to base those petitions on a threat of market disruption.¹ The effectiveness of these textile-specific safeguard petitions depends on when the petition is filed and whether the US government is willing to establish a quota based on threat of market disruption. Because only one of those factors is within the petitioners' control, it is in the petitioners' best interest to seek

**Imports From China 2001-2004
Cotton, Wool And Man-Made Categories
Quota-Free As Of Jan. 1, 2002**

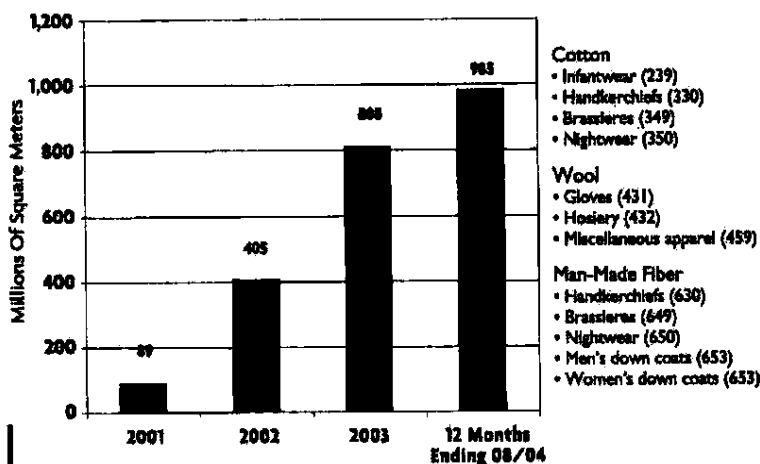
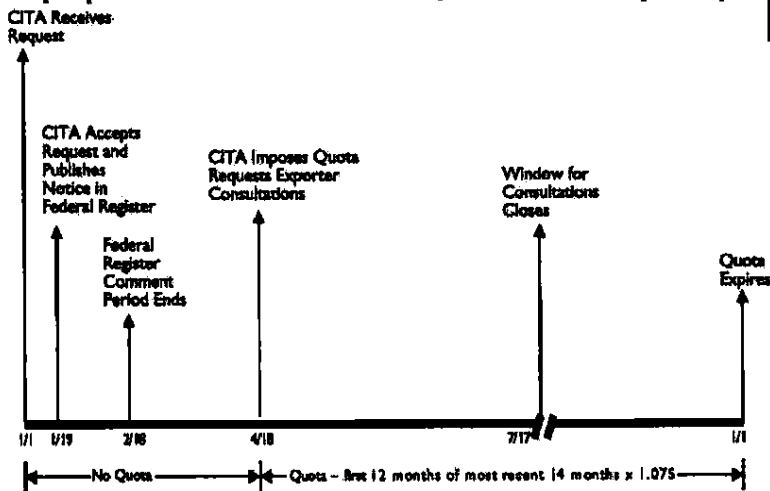


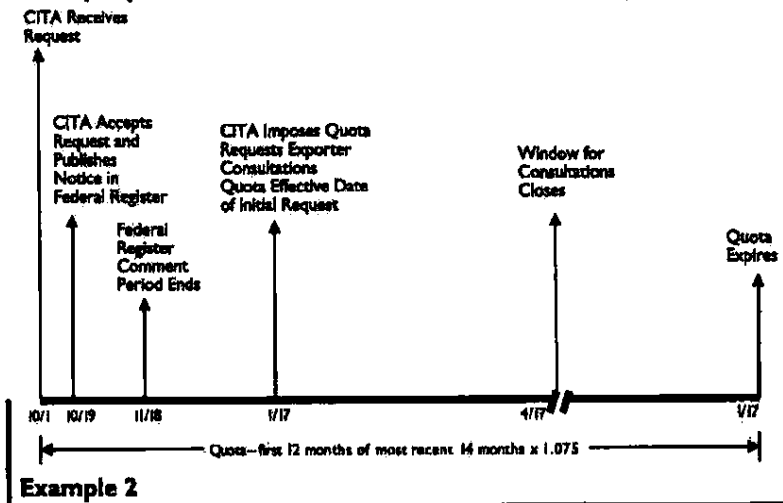
Figure 1

Timelines For China-Specific Textile Safeguard (Request Made In The First Three Quarters, For Example 1/1)



Example 1

(Request Made In The Fourth Quarter, For Example 10/1)



Example 2

strategies that curb disruptive imports for as long as possible, and at the lowest possible import levels.

As demonstrated in Examples 1 and 2, the level and duration of the quota depends on when the Committee for the Implementation of Textile Agreements (CITA) receives a safeguard petition.

If CITA receives a petition at a time other than the fourth calendar quarter of the year, any quotas imposed on China-origin textiles will be in effect only from the date CITA requests consultations with China to the end of the calendar year (See Example 1).² For example, if a petition is filed on January 1, and CITA makes

an affirmative determination of market disruption or threat thereof, the resulting quota will be effective only from mid-April through December 31, or for approximately 258 days, rather than the entire year. After little more than eight months of quota protection, the petitioners will have to refile their petition, and CITA will have to reassess the issue of market disruption or threat thereof.

However, if CITA receives a petition in the fourth calendar quarter of the year, any quotas imposed on China-origin textiles will be effective for one year from the date that CITA requests consultations with China (See Example 2). For example, if a

petition is filed on October 1, and CITA makes an affirmative determination of market disruption or threat thereof, the resulting quota will be effective as early as January 17 of the following year, and will remain in effect for 365 days. Nevertheless, after that one year of protection, the petitioners will still have to refile their petition, and CITA will still have to reassess the issue of market disruption or threat thereof.

In Example 2, unless the petitioner files a petition for a new quota before the end of the quota year, any subsequent quota will apply only for the partial year described in Example 1. Such early filing will likely have to be based on an allegation of a threat of market disruption if the imports in question have been under quota for the previous 12 months.

As set forth in both examples, quotas imposed under the textile and apparel safeguard are calculated by increasing the quantity of imports entering the United States during the first 12 months of the most recent 14 months by 7.5 percent. In a usual case, that increase may not appear to be significant. However, there is no prescribed date by which CITA is required to publish its Federal Register notice to accept the request for an action under the textile and apparel safeguard and to seek public comment. In addition, CITA may extend certain deadlines, for example, the comment period. Thus, importers may accelerate shipments of imports during the interim period in which quotas are not imposed — the period between the end of the quota period and the time in which quotas are reimposed — to establish a greater base to which the 7.5-percent increase is applied. Any delay beyond two months could significantly increase the quota level because the quota formula considers the first 12 months of the most recent 14 months of data.

Example 3 demonstrates three possible scenarios associated with the textile-specific safeguard.³

- The red dashed line sets forth a three-year import history based on shipments by China, completely

unencumbered by quotas, increasing at a rate of 50 percent per annum. Considering the rapid increase in Chinese shipments of products freed from quotas in 2002, a 50-percent increase is a reasonable assumption.

- The blue dotted line sets forth a three-year quota history based on three consecutive determinations of affirmative market disruption. The domestic industry waits and gathers two months of quota-free import data (assumed to increase at a rate of 50 percent per annum) on which to base its allegations of market disruption.⁴ This pattern continues through the end of 2008.
- The green solid line sets forth a three-year quota history based on three consecutive determinations of affirmative threat of market disruption. Proving threat of market disruption year after year, when the data on which the threat will be based are imports under quota, may be increasingly difficult unless the US government decides to implement the safeguard aggressively.

To summarize, assuming that US imports of textiles from China will increase at a rate of 50 percent per annum when unencumbered by quotas, the impact of the safeguard on the US textile industry will vary widely under the three above-referenced scenarios.

	01/2005	01/2006	01/2007	01/2008
—————	1.00	1.075	1.156	1.242
.....	1.00	1.240	1.340	1.590
-----	1.00	1.500	2.250	3.375

Figure 2 sets forth the relative levels of imports achieved under each scenario.

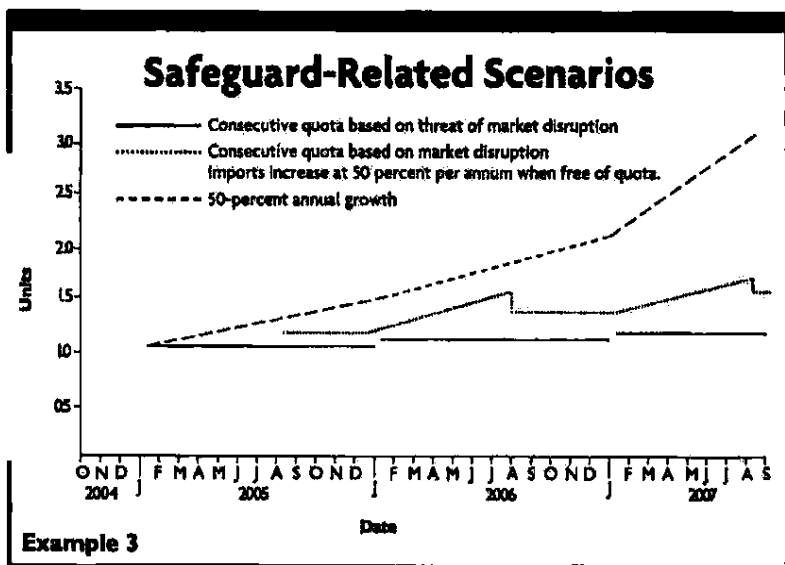
Without doubt, the safeguard provision slows the flood of Chinese shipments significantly — if CITA moves aggressively. The difference in import growth between a quota based on threat of market disruption and a quota based on actual market disruption also is significant: 24-percent growth versus 59-percent growth, respectively. Thus, the extent to which the textile-specific safeguard can be an effective, strategic tool will depend upon when the safeguard petition is filed, the reaction time of CITA, and the ability of the Chinese textile and apparel industries to flood the US market during periods when quotas are not in effect.⁵

Other factors to consider in evaluating a company's or industry segment's trade strategy are: whether China historically met its quotas for the particular product (indicating a potential for a future surge once quotas are removed); whether a short-term solution — quotas extending for most or possibly only part of the four-year life of the China

textile-specific safeguard — is the answer to maintaining market share; and whether Chinese imports pose the only substantial threat to a company or industry, or whether other major exporting countries — Pakistan, India, and/or Vietnam — pose a similar threat.

To the extent US companies or industry segments are competing with exports from such countries, effective protection can be achieved only by combining a China textile safeguard with additional trade remedies. For example, a countervailing duty petition targeting India's heavily subsidized textile industry or an antidumping petition targeting Pakistan's well-known strategy of pricing its fabric to ensure the resulting apparel that is produced in the Caribbean will be competitive with apparel produced entering the United States under the Caribbean Basin Trade Partnership Act may be needed to be effective in slowing disruptive imports.

Remember, the US government has been, at times, reticent to support the US textile industry aggressively. For example, the United States has allowed the textile and apparel quotas to be eliminated despite the recent efforts by many developing countries to implement new WTO procedures to ease the transition once quotas are eliminated. It also has failed to initiate a Section 301 petition advocating US government action to obtain a revaluation of China's currency. Consequently, the US textile industry should extend its trade strategy beyond the China textile safeguard and use all available trade remedies, especially those with little US government discretion, against those countries that threaten to dominate and disrupt textile and apparel trade in a quota-free world. **TW**



ENDNOTES

1. The remainder of this analysis assumes that the Committee for the Implementation of Textile Agreements ("CITA") grants the petitioners' request to impose quotas. As of November 1, 2004, CITA has granted four of six such requests.
2. Example 1 assumes that CITA simultaneously accepts petitioners' request and publishes its *Federal Register* notice for comments on the same date. There is no set deadline by which CITA must publish its notice.
3. Example 3 assumes the basis on which the quotas are calculated is 1 unit.
4. Note that there is a six-week lag in the U.S. Government's release of import data associated with textiles, which means that January and February data will be available approximately April 15.
5. Note that nothing prohibits the U.S. industry from filing an antidumping duty petition targeting imports of PRC-origin textiles and apparel in lieu of, or combined with, a PRC textile-specific safeguard petition.

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