

WTO norms related to trade in textile and apparel

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Background

- Uzbekistan is currently negotiating accession to the WTO
- This policy briefing gives a short overview of WTO norms and their application specifically to trade in textile and apparel:
 - General notes
 - Quantitative restrictions
 - Export duties
 - Export subsidies
 - Import duties
 - Trade remedies
 - Product safety

General notes

Cotton

- Related to agriculture and handled by the Committee on Agriculture
- Dec 2015: Nairobi Ministerial Decision on Cotton aimed to foster competition and reduce trade-distorting measures

Textile and Apparel

- 1995 – 2004: the WTO Agreement on Textiles and Clothing (ATC) aimed to phase out restrictions applied under Multifiber Arrangement (MFA). The MFA governed the global trade in textile during 1974-1994 by imposing quotas on exports of textile products
- Since 1 Jan 2005: general regime regarding textile and apparel
- **Therefore, no special treatment of the sector nowadays - subject to 'standard' WTO Agreements**

Quantitative restrictions

- Art. XI prohibits quantitative restrictions, including bans, on imports or exports among the WTO members
- Specific circumstances:
 - Art. XI.2: temporarily critical shortages, application of standards, import restrictions on agricultural or fisheries products
 - Art. XII: balance of payments
 - Art. XX: general exceptions incl. public moral, protection of health, trade in gold and silver, IPR protection, conservation of natural resources, domestic industry supply (but not for export-related production)
 - Art. XXI: national security
- **The imposition of long-term quantitative export restrictions on e.g. cotton or yarn does not generally comply with the WTO norms**

Export duties

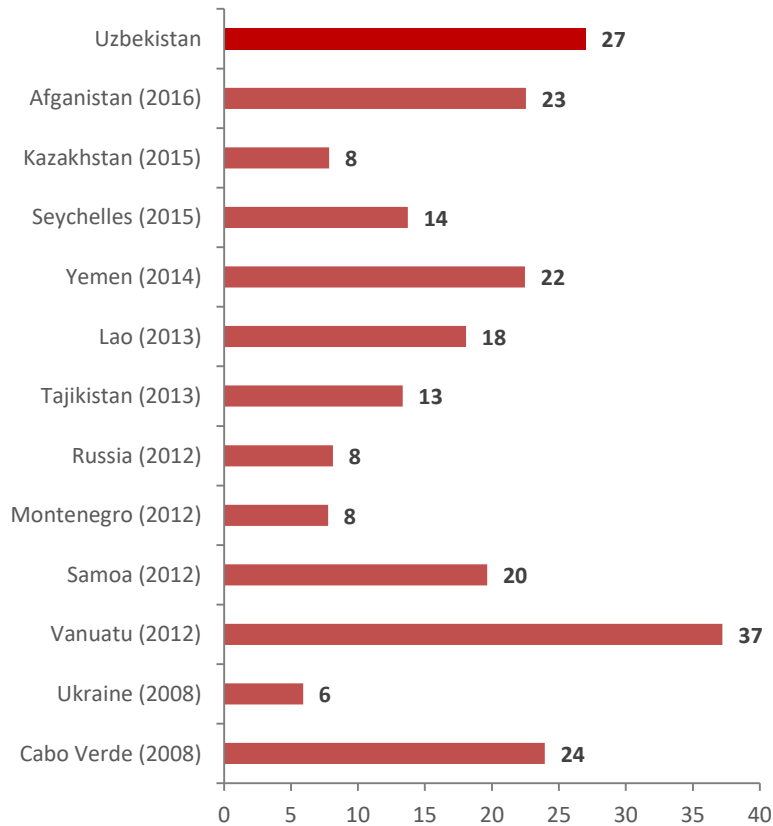
- Export duties are not prohibited under the WTO norms
 - The recent trend during the membership talks is to request an acceding country to eliminate or at least reduce export taxes
 - Therefore, the (non-)application of export duties could become a legally binding commitment of the country if taken during the talks
 - If the county does not take any commitment regarding export duty for a specific product, this product could be considered as 'unbound' and the country could introduce export duties after the accession
- **If Uzbekistan wants to apply export duties in the future, the country should carefully manage its accession talks regarding this subject**

Export subsidies

- Regulated by Agreement on Subsidies and Countervailing Measures
- There are two types of subsidies:
 - **Prohibited subsidies:** subsidies that specifically designed to distort trade, e.g. by requiring use of local inputs and setting export targets
 - **Actionable subsidies:** subsidies that are not explicitly prohibited but that could cause the “action”, i.e. the complain of another WTO member on the distortion of the competition. However, it is difficult to prove the trade-distorting effect of the subsidy and the damage. Therefore, many subsidies remained unchallenged
- **Uzbekistan is likely to be requested to make an explicit commitment regarding the non-application of export subsidies**

Import duties

MFN duties on textile and apparel by WTO members acceded in 2008-2018



Source: WITS, WTO, authors' estimates

Import duties on textile and clothing:

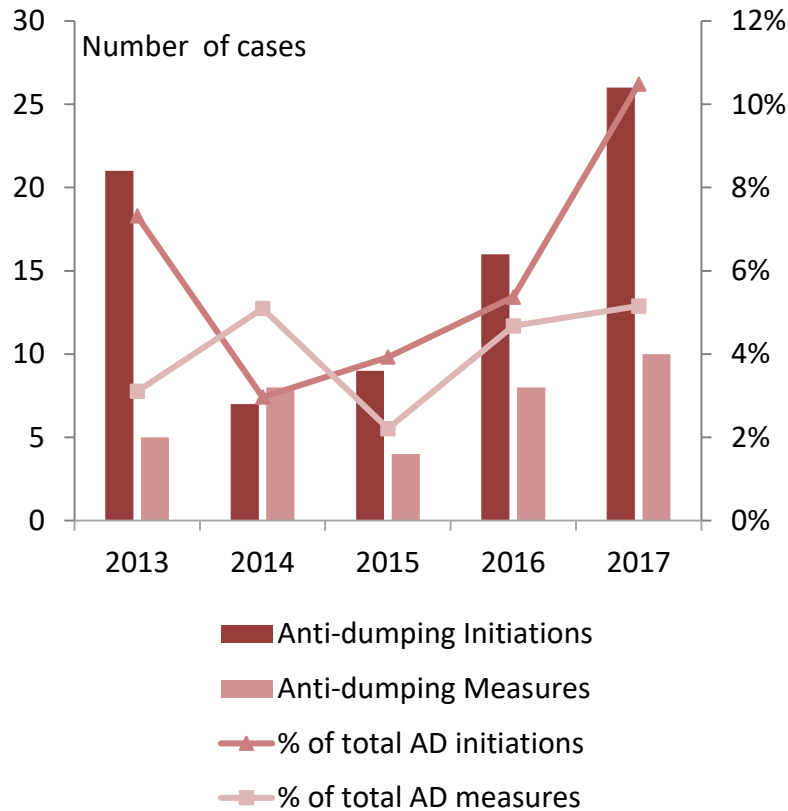
- UZ average MFN applied duty: 27%
- Average MFN bound import duty of countries acceded in 2008-2018: ca. 17%:
 - CIS (KAZ, TJK, RU, UA): ca. 9%
- **WTO members are likely to request UZ to bound its duties below the current level, although it is negotiable**

Other expected features of WTO import duties schedule:

- All import duties are bound
- Most of duties are ad-valorem
- Tariff rate quotas could be potentially applied to a limited extent

Trade remedies

Anti-dumping initiations and measures on textile and apparel, 2012-2017



Source: WTO, authors' estimates

Anti-dumping initiations on textile:

- 2017: 26 cases
- Share in total AD initiations: 10%
- Growth 2017/2016: +63%

Anti-dumping measures on textile:

- 2017: 10 cases
- Share in total AD initiations: 5%
- Growth 2017/2016: +25%

- **Anti-dumping measures on textile are actively used by WTO members**
- **UZ needs to develop the institutional capacity to use the instrument both to protect domestic market and exporters' interests**

Product safety

- Product safety issues are governed by **two key agreements**:
 - Technical Barriers to Trade (TBT) – industrial products
 - Sanitary and Phyto-Sanitary Measures (SPS) – agriculture and food products
- **Key requirements**:
 - Mandatory technical regulations for essential safety requirements, voluntary standards for all other requirements
 - Predominant use of international standards, scientific evidence if stricter requirements are imposed
 - Switch to risk-based system of safety management
- **Overhaul of the existing system of standards might be required to align it with the WTO TBT/SPS Agreements**

Conclusions

WTO accession of Uzbekistan could have important implications for its textile and apparel domestic production and exports

Exports:

- No long-term quantitative restrictions on exports of e.g. cotton or yarn
- No use of explicit export subsidies
- Use of export duties depends on the commitments taken by the country
- Need to develop institutional capacity to defend exporters' interests in the case of anti-dumping investigations

Domestic production:

- Increased competition due to likely reduced import duties
- Reforms in the sphere of product safety regulations

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