Glossary

fact sheet

2 A series on trade and labour rights in the garment industry.

- **MULTI-FIBRE ARRANGEMENT (MFA)**

The Multi-Fibre Arrangement (MFA) was a system of quotas adopted in 1974 to protect the apparel and textile industries of North America and Europe from increasing competition from lower-cost producers, especially in Asia. The MFA did not apply to trade between rich industrialized countries.

The quota system that evolved under the MFA changed the geography of the industry as garment companies went "chasing quota," setting up production in countries with no previous export apparel industry, as in Bangladesh, for example.

- **QUOTAS**

Quotas are limits imposed by a country on the amount of a particular product that can be imported from another country. In apparel, quotas were set by category: for example, the amount of "men's woven and knit wear" (trousers, cotton shirts, shirts from other material) that could be exported from South Korea to the United States. The exporting country (South Korea in our example) then allocated licenses to firms and factories to export a certain proportion of each quota. Firms had to pay quota fees to their government on exports to the US and EU.

Without quota fees inflating the price of each garment, costs will decrease for retailers and brands that import apparel. What remains unclear, however, is where these savings will be channeled and who will reap the benefits.

Maquila Solidarity Network
606 Shaw St.
Toronto, Ontario
Canada M6G 3L6

tel: 416-532-8584
fax: 416-532-7688
www.maquilasolidarity.org
info@maquilasolidarity.org

AGREEMENT ON TEXTILES AND CLOTHING (ATC)

The Agreement on Textiles and Clothing (ATC) was signed in 1994, establishing a ten-year plan to phase out quotas, concluding December 31, 2004.

WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) was established in 1995 to regulate trade. It is a multilateral institution with 148 members. Since the role of the WTO is generally to reduce trade barriers between countries, quotas in apparel were an exception to WTO rules, adding pressure for their elimination. Non-member countries, like Vietnam, can still be subject to quotas even after the end of the MFA/ATC.

TARIFFS

Tariffs are taxes on imports of commodities into a country or region. They are implemented for two clear economic purposes. First, they provide revenue to governments. For the global North, money from tariffs is only an average of 3% of total government revenue, whereas for the global South it is about 25-30%. Second, tariffs make imports more expensive, helping to protect domestic industries.

Apparel and textile tariffs average 12% for the European Union (EU) and 15% for the US. Tariffs are reduced world-wide through World Trade Organization agreements. Tariffs are reduced regionally through free trade agreements.

FREE TRADE AGREEMENTS (FTAs)

Free trade agreements (FTAs) require that signatory countries open their markets to each other according to an agreed schedule. Traditionally, in order to open markets countries have agreed to lower or eliminate tariffs and other restrictions on foreign-made goods. In the last decade, the number of issues and sectors that have been included in the negotiation of FTAs has grown substantially. FTAs today include provisions to "open" public services to foreign private investment, to enforce competition and intellectual property rights based on US and EU laws, and to remove national restrictions on government procurement. FTAs are therefore not just about trade; they are also about the "rights" of foreign investors and limitations on the national sovereignty of countries.

UNILATERAL (OR "ONE-WAY") PREFERENCES

Unilateral preferences are granted by wealthier nations to countries in the global South. Usually, they include market access for particular products by lowering or eliminating tariffs and/or quotas. The most widespread form of these preferences is called the General System of Preferences (GSP) through which the US and the EU reduce tariffs on certain imported goods.

The US GSP was adopted in the 1960s, purportedly as a way to help the global South industrialize. However, these unilateral trade policies usually include conditions, such as the use of components from the country offering preferences.

In the case of apparel production in Central America, the Caribbean Basin Trade Partnership Act (CBTPA) eliminated tariffs on apparel produced in the region using US materials. The preferences granted by the EU tend to be incentive-based, rather than punitive. For example, in 2001 the EU amended their Generalized Scheme of Preferences (GSP) to add the "Everything But Arms Regulation." It extends duty-free access to imports of all products originating in Least Developed Countries (LDCs - see below) without any quantitative restrictions, except for arms and ammunition. The adoption of FTAs generally replaces unilateral preferences.

RULES OF ORIGIN

Rules of origin determine where the various components of a product are made. These rules are important because they determine whether or not a company will have to pay tariffs when a product is imported within a region with a free trade agreement or into a country that extends unilateral preferences. For example, in most cases, in order for clothes to enter duty-free (i.e., no tariffs) to the US under CAFTA, they must be made from yarn produced in the US, Central America or the Dominican Republic. These rules are very complicated and often include many exceptions. The "cumulation" provision in CAFTA, for example, allows all signatories (including the Dominican Republic) to import a capped amount of inputs from Mexico and Canada.

In general, rules of origin provisions have been used to protect regional textile production in North America and minimize the use of Asian textiles. Currently, the US allows for the incorporation of fabrics from outside the preferred region in clothes produced by least developed countries up to a certain amount.

LEAST DEVELOPED COUNTRIES

Least Developed Countries (LDCs), as defined by the United Nations (UN), are countries that meet a set of UN criteria concerning gross national income per capita; nutrition, health, school enrollment and literacy; and economic vulnerability. Fifty countries are currently designated "least developed countries."

In some trade agreements and unilateral trade bills, least developed countries are given trade preferences. For instance, the US government's African Growth and Opportunity Act (AGOA) includes a least developed country provision, permitting the use of "third country" fabric in apparel imported into U.S. from sub-Saharan African countries with average incomes of less than US$1,500. This means that poor African countries like Lesotho can use yarn and fabric from another country besides the US or countries in sub-Saharan Africa in apparel for export to the US and still enjoy preferential access to the US market. This provision was to expire in October 2004, but has been extended for another three years.

Although Nicaragua is not designated as a LDC, the Central America Free Trade Agreement (CAFTA) includes a provision allowing that country to import up to 100 million square meter equivalent (SME) of fabric from third countries (other than the US, Central America or the Dominican Republic) to be assembled in Nicaragua and exported duty-free to the US.

SAFEGUARDS

Safeguards allow nations to impose restraints on certain goods when a surge of imports threatens to damage domestic producers. Safeguards are most often used by industrialized countries to restrict importation of goods from developing countries. To put safeguards in place, a nation must demonstrate that the market share of imports would rise substantially in the absence of some kind of domestic protection.

THE CHINA CASE

The agreement which permitted China to join the WTO includes two strong safeguards that may be invoked in response to import surges of Chinese textiles and apparel to North America or Europe. The first safeguard applies only to these sectors. It restricts the increase in imports for one year and can be renewed after increasing the restricted level of trade by 7.5 %. The textile and apparel safeguard will be available until December 31, 2008 and China will not have a right to retaliate.

The second is an anti-dumping safeguard that can be applied against any surge in imports from China, not just apparel and textiles. It requires more proof of market disruption to apply this general safeguard. Nevertheless, its protection can be maintained for three years with the possibility of a two-year extension. This general safeguard is available until 2017.