EURATEX

POSITION PAPER

EURATEX POSITION PAPER ON TEXTILE & CLOTHING RULES OF ORIGIN IN TTIP

June 2015

The European T&C industry and its exports to the US

According to Euratex latest estimates, 173.000 EU Textile & Clothing companies reached in 2014 a turnover of €165 billion and generated a value added of nearly €44 billion, employing 1.63 million workers. The European industry backbone is composed of a large number of SMEs, though some big brands and bigger size companies also exist. The industry structure in the 28 Member States is diverse, it is providing a complex and patchy picture. The breakdown of European textile and clothing production also reflects a very fragmented pipeline, almost equally divided between textile (51%) and clothing products (49%).

In 2014, extra-EU exports of textile & clothing products reached €43 billion divided into almost equal parts for textiles and clothing. The U.S. is Europe 1st customer, with exports having reached €4.91 billion in 2014, similarly divided in two nearly equal parts between textiles (€2.35 billion) and clothing (€2.56 billion).

US and EU rules of origin

As an introductory remark, Euratex would like to emphasize that the textile & clothing products are part of this one third of industrial goods for which US MFN tariffs are far above 5%, with some peak tariffs (e.g. 11.4% for sewing thread of man-made filaments, 14.7% for woven fabrics of cotton or 28.6% for trousers and 32% for T-shirts). Against this background, rules of origin are a key issue for the EU textile & clothing sector. Simplifying the rules is certainly a good prerequisite but making it adapted enough to the industry patterns will allow EU companies to gain the most benefits from TTIP.

On the one hand, in every Free Trade Agreements the USA has signed with its 20 partners, the rules of origin applied to textiles and apparel products are known as “yarn forward”. This means that -notwithstanding numerous derogations and exceptions introduced in the texts- textiles and apparel products have to be done with pre-materials made in the parties of the Agreement in order to be granted the preferential treatment of 0% duties.

On the other hand, the European T&C industry has undertaken a huge work over the last years to make our European “list rules” -expressed by processing operations- evolve towards more flexibility.

This is in order to keep them aligned with market realities and developments of the European industry. In the so-called "Euratex 2011 Paneuromed proposal", double transformation rules remain the basis, in some cases accompanied with flexibilities. These renewed rules are shaped to suit European T&C companies' capacities and as such would allow gaining the best benefit from TTIP.

This explains why Euratex is asking the EU for retaining list rules based on the double transformation principle in TTIP. If a value added rule could fit to some sectors, this is absolutely not the case for the T&C sector where such calculation would be detrimental to the EU industry.

Value added rule not adapted to the T&C sector

As it was previously stated, the key feature of the T&C value chain is its high fragmentation both with regard to its markets and its production structure. This means *inter alia* that a company could sell a product range constituted of several different products with different characteristics and performances falling under the same harmonised system (HS) or combined nomenclature code (CN). Those products could be an infinite number of mixtures of originating and non-originating material with a wide spectrum of values. The variability of the value of originating/non-originating products (fibres, yarns or fabrics) used in spinning or weaving or making-up means that, under a same CN classification, customs officers will find a wide variety of products having extremely different value added which will impede the definition of a single value added threshold of any significance.

Moreover, in the opinion of Euratex members, recourse to the value added principle is uncontrollable as the added value can be influenced by many factors such as raw materials price, financing, exchange rate manipulations etc.

Finally, the other main issue for us is the effectiveness of the customs control. This is valid whatever the value added calculation method is. We consider it subject to fraud as each accounting component used to calculate the value added can be easily manipulated while this will impose much more difficult and heavy control procedures. The consequence of the above considerations is that the value added principle is not the most transparent method which could be applied in our sector because the value added obtained at each stage of production varies enormously depending on the product. Fixing a single coefficient may even have more adverse effect than the preservation of the current rules. Of course, allowing alternative rules based on change in tariff position or the current processing rules would not solve the problem, on the contrary it could generate harmful discriminatory treatment.

As a conclusion, we would like to recall the massive work Euratex members have been undertaking to adapt the processing rules to the modern patterns of production in our sector. We are confident our views will be taken into account in order not to hamper the development and promising growth of the European T&C sector.