WTO- Anti-Dumping of the European Textile

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HSMUN 2008-World Trade Organization
Opening Statement

Dear delegates,

Welcome to HSMUN 2008 World Trade Organization! My name is Derek Cheng and I am currently a sophomore going to be a junior in the Department of Finance in the National Taiwan University. I’ve participated Model United Nations society since my first year in the university and this will be my 8th Model UN conference. I really enjoy being both delegates and directors. I am also the director of academic in the NTU MUN team. In Model United Nations, I find out that we can discuss international events in different perspectives instead of in a certain countries point of view, which is really fascinating to me.

Taiwan is in a special diplomatic status quo, so the substantial diplomacy is important to Taiwan. Although Taiwan is small, the economic influence to the world is not negligible. Trade and economy is the most effective way for Taiwan to participate in the international society. WTO is the largest international organization Taiwan has participated as a formal member. Thus, we can really involve to international trade issues through this committee. Anti-Dumping is an issue which WTO concerns much. Free trade is the ultimate goal of WTO, but will some process to sell products harm the development of other countries? Is it fair to sell products to foreign countries with a price even lower than sell it in the domestic markets? Because textile is a labour-intensive and easy-entering industry, it became one of the greatest industries to drive the economy and development for the developing countries. Developed countries also impose quotas to help certain developing countries and hider others.

With the growth of China and India, there are more and more dumping situations. Taiwan has much to do with the anti-dumping and textile industry. In 2002, Taiwan opened the market of towel to China, which cause dumping and we also took anti-dumping measures. The case we are going to discuss-The European textile has much similarity with Taiwan. The complexity of the trade dispute and the textile industry make this case fascinating for discussion.

Feel free to contact me anytime prior to the conference; I really look forward to see you in the HSMUN2008-WTO!! haofang923@yahoo.com.tw

Sincerely,
Derek H.F. Cheng
Introduction of WTO

The World Trade Organization (WTO) is an international organization designed to supervise and liberalize international trade. The World Trade Organization deals with the rules of trade between nations at a global or near-global level; it is responsible for negotiating and implementing new trade agreements, and is in charge of policing member countries' adherence to all the WTO agreements, signed by the bulk of the world's trading nations and ratified in their parliaments. The organization is currently the host to new negotiations, under the Doha Development Agenda launched in 2001.

The WTO is governed by a Ministerial Conference, which meets every two years; a General Council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the Ministerial Conference. The WTO's headquarters are in Geneva, Switzerland.

There are currently 152 member states in WTO, with about 141 million USD budget each year.

History of the Committee

Before the WTO

In 1944, the major world powers gathered at Bretton Woods of USA and came up with the first international trade agreement. Accordingly, the participating countries sought to supplement the new organizations with a third branch that would oversee the international trade. Afterwards, 50 nations created a new branch of the United Nations, the International Trade Organization (ITO). In 1945, some countries started talks to reduce tariffs among themselves; by 1947, 23 nations had signed the “General Agreement on Tariff and Trade” (GATT). Unfortunately, the ITO charter ran into hurdles during individual national ratification process. When the United States government failed to obtain Congressional ratification, the ITO movement fell apart. Ever since, limited GATT solely governed international trade until the formation of the WTO in 1995.
The Formation of the WTO

The Uruguay Round started in 1986, and after years of negotiations between countries and trading blocks, most of the 123 governments signed the agreement in Marakesh, Morocco in 1994. The biggest outcome was the official founding of the World Trade Organization on January 1, 1995. It covered almost all trade and was probably the largest negotiation of any kind in history. Since its inception, WTO has consistently revised its trade agreements through various multilateral negotiations.

The Principles of the WTO

1. Trade without discrimination
   (a) Most-Favoured Nation (MFN) : Treat other people equally
   Under the WTO agreements, countries cannot normally discriminate between their trading partners. If a member grants another member a special favour (such as a lower customs duty rate for one of their products) then the same favour will automatically be granted for all other WTO members.
   (b) National Treatment: Treat foreigners and locals equally
   Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents. National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax.

2. Freer trade: gradually, through negotiation
   Lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively. Opening markets can be beneficial, but it also requires adjustments. The WTO agreements allow countries to introduce changes gradually, through “progressive liberalization”. Developing countries are usually given a longer period of time to fulfill their obligations.

3. Predictability: through binding and transparency
   With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition — choices and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.
4. Promoting fair competition

The WTO is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately, it is a system of rules dedicated to open, fair and undistorted competition.

5. Encouraging development and economic reform

The WTO system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system’s agreements. And the agreements themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.
Introduction of Anti-Dumping and Textile Industry

Dumping is defined as the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its domestic market or is below its costs of production. Advocates of free markets see "dumping" as beneficial for consumers and believe that protectionism to prevent it would have net negative consequences. Advocates for workers and laborers however, believe that safeguarding businesses against predatory practices, such as dumping, help alleviate some of the harsher consequences of free trade between economies at different stages of development. A standard technical definition of dumping is the act of charging a lower price for a good in a foreign market than one charge for the same good in a domestic market. This is often referred to as selling at less than "fair value."

Textile industry is a fundamental and indispensable industry to the developing countries. In order to maintain the well-functioning and fair international trade, the industry is subject to certain limitations. One of the limitations is standard tariff rate which varies between 0 and 12.5%, depending on the level of preferential access\(^1\) and development status\(^2\) of the country in question. Another one is The Multifiber Agreement (MFA), which imposes quotas on textile and garment exports from developing countries to developed countries, and was intended to allow developed countries to adjust to competitive pressure from developing countries in textiles, whose low cost advantages in labor and production made them highly competitive in exporting textiles. The MFA was highly criticized by developing countries as a cause of lost exports and lost export opportunities. The system also prevented consumers in the developed world from benefiting from the lower costs that come from a more competitive market for clothing and textile.

At the end of the Uruguay Round, it was agreed that the MFA would be phased out over a period of ten years. On 1 January 2005, when the final quotas were removed, textile and clothing exports to Europe from China experienced a very rapid surge accompanied by very sudden drops in unit prices. This surge caused serious damage to many EU producers. Addressing the issue, the EU unilaterally imposed temporary safeguard quotas on Chinese textile imports and negotiated an agreement that would cap imports from China at agreed levels each year until 2008. These annual allowances would be subject to an annual increase of up to 12.5%. This would allow Chinese exports to continue to grow, but at a rate that would help EU producers adjust to new levels of competition.

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1 How the textile import country prefer the export country, such as political influence and diplomatic relationships
2 The development of the textile export country
Statement of the Problem

After the phased-out MFA, well-organized lobbies of textile manufacturers and workers in EU have mounted powerful campaigns to slow down the inroads of Chinese textile products, arguing that such imports amount to unfair competition, driving EU firms out of business, and leading to unemployment for some of Europe's most vulnerable workers. Resort to anti-dumping procedures, therefore, is considered a possible way to curb the “invasion” of Chinese textile products. For example, between 1994 and 2001, the EU initiated 57 anti-dumping cases against developing countries in textile and clothing sector and it shows little sign of the decrease after the phase out of MFA.

On September 17, the EU imposed anti-dumping duties ranging from 14.1 percent to 56.2 percent on certain finished polyester filament fabrics from China. The decision was made after a nine-month investigation into the effect of these goods on the European market and the determination of dumping is based on the fact that the output and market share of European products dropped by 20 percent in the EU market from April 2003 to March 2005. The EU’s official journal listed anti-dumping duties for 45 Chinese textile enterprises, most of which are subject to duties of 14.1 percent or 37.1 percent. One company, Wujiang Canhua Import and Export Co Ltd, will face a tariff of 56.2 percent. The anti-dumping duties are payable for five years.

The EU's investigation claimed that Europe's demand for polyester filament fabrics remained stable for the whole period at around 732 million running meters, while China's exports of the product to the EU grew from 135 million running meters in 2000 to 288 million running meters during the investigation period. Accordingly, the means of antidumping was justified.
The anti-dumping duty of 56.2 percent effectively puts an end to Wujiang's exports to Europe, which illustrates a great danger to the Chinese textile enterprises. The profits of Chinese textile enterprises are already very low, partly due to the appreciation of the Renminbi, and the increasing costs of energy, raw materials and labor. If the anti-dumping duties cannot be lifted, it will surely force lots of Chinese textile companies out of EU’s market. The EU’s dumping charges resulted in protests from Chinese producers. These firms submitted an application to the Chinese Ministry of Commerce to challenge the ruling with the World Trade Organization.
Discussion of the Problem

Chinese producers have urged the government to take an EU anti-dumping ruling to the World Trade Organization—WTO Dispute Settlement Body. Chinese companies are angry with the ruling as they believe the EU Commission took a cartel price to calculate the normal value. In other words, they accuse EU’s companies of fixing the price in order to file the case for dumping. The EU Commission failed to offer a direct reply to Chinese companies’ concerns. In addition, they asserted that EU practiced protectionism through anti-dumping measures, which would deteriorate the relationship between China and EU.

Addressing the issue, EU had two different opinions, which can be divided into two groups—Northerners and Southerners. Countries in the Northerners camp, including Denmark, Finland, Germany, the Netherlands and Sweden, would prefer free trade within the EU market. The Southerners, including France, Greece, Italy, Portugal and Spain, rejected the free market argument. The reason for the divergence was simple: the northerners have fewer workers employed in the textile and clothing manufacturing industry than the rest of the EU but they have strong fashion and retailer industries. In contrast, the southerners have more people employed in the textile and clothing manufacturing industry than the rest of the EU. As northerners’ camp advocates for free trade and criticizes the protectionism through anti-dumping, southerners’ countries contend that anti-dumping is an imperative measure to maintain the textile market of EU.

The dispute between EU and China needs to be solved. In fact, the two have already begun consultations and reached an agreement where the EU’s special import quotas from China would expire at the end of 2007. The EU could still reintroduce quotas if trade flow in these product groups is disrupted by a surge in Chinese imports. In addition, Chinese producers would control their exports to EU’s market, assuring a certain percentage of growth rate to prevent the “invasion to the market”. This mechanism seems to be working well in order to solve the criticism about anti-dumping while keeping the market some flexibility of adjustment for the competition. However, recently, as Renminbi has continued to deteriorate against the euro, which increased its trade surplus with the EU. This situation has received the attention of EU politicians, who are now calling for a major effort to boost Renminbi exchange rate. The EU has threatened to initiate antidumping measures against Chinese imports if it continues to lose value against the euro.
Past WTO Actions

The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping—it disciplines anti-dumping actions, and it is often called the “Anti-Dumping Agreement”, which is a guideline for the domestic antidumping law within each signatory member states. In this European textile case, we will specifically focus on the past antidumping actions taken in the European Union. Generally speaking, the procedures of antidumping can be divided into 5 parts—initiation of antidumping complaints, investigation conducted by EU Commission, preliminary antidumping actions, evidence gatherings and final antidumping actions.

Any community industry representative with at least 25% production in the industry can present antidumping complaint to EU Commission as long as it deems the third country exported price is at “dumped” price and the exported goods from the country are causing material injury to the domestic industry. If a complaint is deemed admissible, an investigation will be initiated within 45 days after the complaint is lodged with the Commission and the country under investigation ought to present detailed information and evidence to prove their innocence. The Council would make preliminary decision on the determination of dumping according to the principles of WTO Anti-Dumping Agreement. At the moment, the applicant country can take antidumping measures such as antidumping duties or quota restrictions in order to prevent the dumping goods from invading the domestic market.

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3 Anti-Dumping Agreement focuses only on the reaction to dumping contrasts with the approach of the Subsidies and Countervailing Measures Agreement
4 “Dumped price” means when the price is lower in the exporting country than in the domestic market.
5 Material injury refers to deterioration in the industry such as loss of market share, drop in prices, and etc.
However, the preliminary decision needs to be reevaluated again after the council gathers substantial evidences from the alleged-dumping country. If the Council still deems it as dumping, the final decision will be made and the preliminary antidumping measures will remain. After the confirmation of dumping, the alleged country can resort to the WTO Dispute Settlement Body to overthrow the decision made by the EU Commission. Nevertheless, for most of the time, Dispute Settlement Body fails to change the decision.

In 2003, EU initiated 481 anti-dumping investigations, only second to America’s 559. However, the success rate 64.2% was the highest, with 309 cases of imposed anti-dumping measures. Some critics said that antidumping measures were abused and taken as an excuse for protectionism. Therefore, they advocate the reformation of Anti-Dumping Agreement as the proliferation of antidumping cases keeps mounting. Chinese companies are often under investigation and claim that the preliminary decision often forces them out of the business since the increasing cost from the anti-dumping measures and the most unfair thing is that they don’t even have a chance of waiting for the final decision.

**Proposed Solutions**

1. **Amend a more fair and effective investigation process:** Most of the investigation process is initiated by the whole EU and its committees to investigate the Chinese textile company, which was not capable to raise enough evidence and resources to help themselves.

2. **Demand a fair definition of dumping counting:** The current counting bases of dumping, also called “the third countries,” are usually not suit to the export country. A much more precise and fair comparison is needed.

3. **Develop more substitute measures to anti-dumping tariff:** In addition to add anti-dumping taxes, there are more effective ways to deal with the textile case.
Questions a Resolution Must Answer

A comprehensive resolution should encompass the following questions.

- First, it should reach consensus to the dispute between the proponents and opponents of anti-dumping measures. Does it stick to the WTO 5 principles? Is it in accordance with the WTO ultimate goal of free trade?
- Second, if the European textile has been regarded as a dumping case, is there more effective way to balance the dumping situation?
- Is anti-dumping in this case protectionism in disguise or a necessity? Is it accord with the comparative advantage?\(^6\)
- How can we balance the textile industry development in developed and developing countries and consumers’ right that they can buy the lower price textile?
- Should the Anti-dumping Agreement or measures need reformation? If so, how?
- Last, the resolution is supposed to address the alternative to anti-dumping. Is there any better way to protect the domestic industry and still in accordance with free trade?

Bloc Positions

- EU northerners’ countries, in favor of free trade, include Denmark, Finland, Great Britain, Germany, the Netherlands and Sweden.
- EU southerners’ countries, in favor of the anti-dumping measures for China textile imports, encompass France, Greece, Italy, Portugal and Spain.
- Chinese Government, which tries to reach a consensus with EU, is going after for a win-win solution and spirit on the issue.
- Chinese producers are protesting the anti-dumping measures and unfair treatment from EU and urging the Chinese government to appeal the dumping ruling to WTO Dispute Settlement Body.
- USA: The largest anti-dumping investigation countries.
- Latin America countries: Export a lot of goods to USA with low price
- India and south east countries: Major textile export countries
- East European countries: Export lower-price textile products to western EU member states with zero tariffs(within EU)
- All the delegations present: China, Denmark, Finland, United Kingdom, Germany, the Netherlands, Sweden, France, Greece, Italy, Portugal, Spain, Chinese Taipei, India, Brazil, Argentina, Mexico, United States of America, Malaysia, Indonesia, Czech Republic, Poland, Turkey, Australia, Canada

\(^6\) The principle of international trade. Suppose country A is good at producing product a, and B country is good at manufacturing product b, then both countries will be better off if country A produce a and country B produce b then trade with each other.