

**THE CONSEQUENCES OF EC '92, GATT AND
DEVELOPMENTS IN EASTERN EUROPE FOR EXPORTS
FROM DEVELOPING COUNTRIES TO THE EUROPEAN
MARKET**

PRODUCT REPORT: HOUSEHOLD TEXTILES

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Introduction

Trading conditions on European markets will change rapidly over the next few years, firstly because of the process of realization of the internal market of the European Community. Then there is the final outcome of the GATT Uruguay Round of trade negotiations, which will have implications for EC trade policies. Finally, a major issue in Europe is the rapid development of closer economic co-operation between the EC and the countries of Eastern Europe.

All of these developments will have important consequences for suppliers from outside Europe and particularly for suppliers from developing countries. In some cases competition will increase, and suppliers will have to meet new demands if they wish to succeed on the European market. In other respects Europe will offer new opportunities as well as a more uniform and manageable market.

The aim of this report is to list the effects of these developments for suppliers of household textiles from developing countries to the European market, and to provide practical advice on how producers from developing countries should respond to these developments.

Chapter I outlines the general market situation for household textiles (consumption, imports, demand and retailing). In Chapter II we look closely at the implications of economic union in the EC. Chapter III describes the likely outcomes of the GATT Uruguay Round, and in Chapter IV we evaluate the possible impact of developments in Eastern Europe and the increasingly close co-operation between the EC and the countries of this region. In Chapter V we draw general conclusions and make recommendations for suppliers from developing countries.

CHAPTER I: THE EUROPEAN MARKET FOR HOUSEHOLD TEXTILES

I.1 Consumption and Market Segmentation

Consumption

It has been estimated that world demand for textiles, of which household textiles form a part, will continue to grow from 34 million tons in 1986 to 49 million tons in 2000. The most rapid increase in demand will probably occur in China and Eastern Europe. Demand for textiles in the EC will increase from 5 million tons in 1986 to 6 million tons in 2000 (see Appendix 1). The value of total world trade in textiles amounts to about 180 billion US dollars.

Demand for textile products in developed countries is expected to increase from an annual average of 21 million tons in 1985-1987 to 28 million tons in 2000. That will mean an annual growth of 2.1%, which reflects the slow population growth and the slight increase in consumption per head of population in the developed countries.

In developing countries demand for textiles products will increase from an annual average of 12.8 million tons in 1985-1987 to 21.2 million tons in 2000. This high annual growth rate of 3.4% can be explained by increased population growth and a rapid increase in consumption from the present low levels.

Consumption per head of population in developed countries is expected to increase from 17.2 kilos in 1986 to 20.9 kilos in 2000. In developing countries consumption will probably increase from 3.6 kilograms in 1985 to 4.5 kilograms in the year 2000. Consumers in the EC currently spend about ECU 35 billion a year on home textiles (tapestry, living room textiles and household textiles). The most important markets in Europe are Germany, the UK, France and Italy. Each of these countries has a population of 55-60 million people.

The total demand for household textiles in Western Europe is increasing very slowly in comparison with other textile sectors and durable consumer goods. The market for household textiles is a buyer's market.

Market Segments

Bed linen

A distinction may be made between the following items of bed linen:

- 1) sheets
- 2) fitted sheets
- 3) pillowcases
- 4) duvet covers

As a rule bed linen is purchased ready-made. Little information on counter-sales of fabrics is available. Bed linen is the largest market within the EC market for household textiles. It is relatively constant. Consumption in the four largest EC markets amounted to 150800 tons in 1988, only 4.7% above 1980 levels.

Apparent consumption of bed linen in the EC declined in the first half of the '80s, but in 1987 and 1988 demand for sheets and pillowcases increased sharply. Consumption of sheets increased in 1988 by 6% to 63.7 million units; in 1987 there was an increase of as much as 12.5%. Consumption of pillowcases increased in 1988 by 6.3%, to 60.3 million units. The market share of cotton and cotton-rich sheets increased to 51 million units, whereas for pillowcases sales amounted to 42.3 million units - an increase of 1.3% and 1.5% respectively.

The market for duvet covers and bedspreads has grown rapidly since the beginning of the 1980s.

Bathroom and kitchen linen

Apparent consumption of made-up towels has grown rapidly in the largest EC markets since 1985. Total consumption in 1988 was 93300 tons, 15.2% more than in 1980. Of these, 98.3% were cotton made-up towels.

Table Linen

The items are: tablecloths, table covers, table centres, table runners, place mats, napkins and similar accessories. Napkins are mostly purchased together with a tablecloth. Tablecloths are more fashion-sensitive than are bed linen. Changes in taste, colour, fabric and prints need to be monitored closely.

The market for table linen was very stable during the '80s, with an apparent consumption of about 20000 tons a year in the four largest EC markets. In comparison to the bed linen market, the market for tablecloths is small. Total consumption in West Germany, the UK and Italy amounted to 14.2 million units in 1988, of which cotton and cotton-rich tablecloths made up 71.8%. In the future a small increase in consumption is expected.

West Germany was the largest EC market for textile products in 1989, followed by the UK, France and Italy respectively. The fastest growing market, however, was Spain.

Total imports of household textiles and furnishing articles in the EC amounted to about 892000 tons in 1989 with a value of ECU 2764 million (45% of total consumption of these products - see Appendix 2). Of these imports, 516000 tons, valued at ECU 1532 million, came from within the EC, whereas 376000 tons, valued at ECU 1232 million, came from outside the EC. About 123000 tons of these imports, valued at ECU 492 million, came from developing countries. Around 114000 tons of imports valued at ECU 362 million came from Eastern Europe, which was defined as including China.

The major non-EC exporters to the EC are China, Turkey, Pakistan, India, Yugoslavia, and Brazil. Pakistan heads the list for cotton bed linen and cotton toilet and kitchen linen, and Brazil heads the list for terry toilet and kitchen linen. Countries such as India and Bangladesh generate more than 20% of their export earnings from the export of textiles and clothing.

Important categories for exporters to the West European market are the following:

- Bed linen (woven/printed cotton), especially duvet covers
- Bed linen (woven/not printed cotton), especially duvet covers
- Table linen (woven cotton)
- Bathroom and kitchen linen (towels - woven cotton/terry).

The market for duvet covers is expanding rapidly. Tablecloths can be sold as 'gifts' and the production of bathroom and kitchen linen is gradually being transferred to the Third World, especially South East Asia.

Market Segments

Bed linen

The import of bed linen to the four main European markets expanded continuously during the '80s, from 38100 tons in 1980 to 63800 tons in 1988 - an increase of 67.5%. Imports of cotton and cotton-rich bed linen actually increased by 96.8%, to 56100 tons in 1988.

The developing countries' share of these imports rose from 30.4% in 1980 to 42.2% in 1988, or in volume terms from 11600 tons in 1980 to 27000 tons in 1988.

The import dependency ratio (i.e. imports as a percentage of consumption) in the four largest EC markets grew from 26.5% in 1980 to 42.3% in 1988. In addition, large quantities of fabrics (mostly cotton) are imported to Western Europe for manufacture into end products. About 70% of the consumption of bed linen is made from imported fabrics.

Bathroom and kitchen linen

Since 1985, imports of towels to the four largest EC markets has increased rapidly. During the first half of the '80s it rarely exceeded 38000 tons a year, but by 1988 it had increased to 57800 tons a year - an increase of 13.1% in relation to 1987, when imports had already increased by 18.6%. The import of cotton and cotton-rich towels (nearly all pure cotton) amounted to 56000 tons in 1988 (or 97% of the total).

In particular, imports from developing countries have increased rapidly since 1985 in volume terms. Their market share has increased. Deliveries of made-up towels from developing countries reached 20100 tons in 1988, an increase of 3800 tons over 1987 and more than double 1985 levels. Their market share grew from 25.8% in 1985 to 34.8% in 1988. The import dependency ratio for the four largest countries increased from 47.7% in 1980 to 62% in 1988.

Table Linen

Imports of tablecloths to the four largest EC markets expanded rapidly during the '80s in volume terms, from 7500 tons in 1980 to 11400 tons in 1988 - an increase of 52%. For cotton and cotton-rich tablecloths the increase amounted to 60.8%, i.e. 8200 tons by 1988. This market is much smaller than that for bed linen and towels, but the developing countries' share has increased substantially, from 38.7% in 1980 to 57% in 1988. The volume of imports from developing countries reached record levels of 6500 tons in 1988 in comparison with 2900 tons in 1980.

The import dependency ratio for the main importing countries rose from 38.7% in 1980 to 55.6% in 1988. For cotton and cotton-rich tablecloths it increased from 35.2% to 51.3%. It is expected that this ratio will continue to increase. In volume terms the market for table linen was 20% of that for made-up towels and 13% of that for bed linen.

I.3

Trends and demand factors

Demand for household textiles is largely determined by:

- 1) population size and population growth,
- 2) income-levels,
- 3) taste/cultural habits, and
- 4) climate.

1.3.1

Macroeconomic factors

Population increase is perhaps the most important factor in determining demand for household textiles, although in the world as a whole an increase in consumption of household textiles per head can also be ascertained.

Differences in product by country may depend on social and economic differences, especially in net incomes. Other differences depend on climate. Many differences reflect cultural variations. For bed linen the differences between countries are especially remarkable.

In the EC, Germany has the largest population, the most households, and by far the highest national income. It is therefore the largest market.

New technologies and economic restructuring in the wealthy countries are depriving developing countries of their competitive advantage. Western companies have successfully applied themselves to the production of specialized quality products and are also profiting from the proximity of their markets. Efficiency is becoming ever more important.

An important determining factor as regards competitiveness, especially for importers from developing countries, is the exchange rate. International textile contracts, especially those with the Far East, are mostly in US dollars. For example, in the period 1984-1988, the exchange rate for the UK Pound against the US dollar increased from £1 = \$1 to £1 = \$ 1.75 at the end of 1988. As a consequence of this, the import penetration ratio for textiles in the UK rose from about 33% in 1983 to 44% in 1984 and 47% in 1987. However, it takes 1 to 2 years for there to be a flow-on effect, as textile contracts are mostly agreed upon one or two years before delivery.

In the Netherlands higher living standards and an increase in the number of one and

two-person households has led to an increased demand for quality in household textiles. Because the average household now occupies more living space (3-5 rooms), demand for interior decoration is increasing.

Experts contend that 70% of purchases of household textiles are made on impulse. No one goes to town to buy a few hand-towels. You simply buy one while shopping for something else.

The functions of bed linen are protection of the bed, sleeping pleasure and aesthetic appeal. For bed linen the most important developments in recent years have been the introduction of the fitted sheet, which fits around the whole mattress and which is creaseless during use; the introduction of non-iron cotton and non-iron polyester-cotton sheets; and most important of all, the introduction of the duvet, quilt cover and eiderdown. One only needs to shake the eiderdown, and the bed is made. They are available in beautiful designs and cost little more than a sheet. In Holland, for example, about 85% of households use eiderdowns. These products are also fashion-sensitive.

The functions of tablecloths are protection of the table and decoration/aesthetic appeal. The Netherlands has seen a decline in the use of tablecloths made from textiles and an increase in the use of attractive kitchen products such as tea-towels, terry towels, warmers, place mats etc. The paper napkin is often replaced by a cellulose napkin which offers more colour variations in combination with the tablecloth and/or candles, and does not need to be washed. In recent years Dutch consumption of textile tablecloths has decreased (in favour of tablecloths made from plastic or paper). Consumption of high-quality tablecloths (printed or even crocheted) has increased. In such cases the product is more important than the price.

1.3.2 Sales factors

Important sales factors for household textiles include price, durability, mixture of fabrics, style, design, colours, weight, easy care and product safety.

Price

The following are the price components of household textiles (expressed in percentages of CIF value):

- a) Import tariffs: 10-13% when the import volume exceeds the permitted quota
- b) Charges for insurance, transport, treatment and banking: altogether 8%

- c) Warehouse storage costs: 2%
- d) Wholesaler's margin : 27.5%
- e) Average retailer's margin : 62%
- f) VAT: (Netherlands) 18.5%.

Conclusion: the final consumer price is generally 2.9 times the CIF value.

The standard rates of VAT levied on household textiles vary at present from 14% in Germany to 18.6% in France. However, on June 26 1991 agreement was reached within the EC on future VAT rates. According to this agreement the minimum standard VAT rate will be 15% by January 1993. There will be a minimum 5% level of VAT for basic necessities.

In general the import of household textiles is very price-sensitive. When prices are too high, large retailers prefer to buy in their own country where contracts can be enforced. Within the bed linen market, duvets or quilts are most price-sensitive.

In the Netherlands, the price of household textiles is still an important sales factor. The average consumer price of single sheets is 9.9 ECU and for double sheets 12.9 ECU. A pillowcase costs on average 3.4 ECU. Such items are bought in combination with others (for instance a set of two sheets and two pillowcases costing on average 28.4 ECU. Duvets, quilts or eiderdowns cost on average 20.2 ECU for a single bed and 35.8 ECU for a double bed.

Delivery time

Consumer demand for household textiles is mostly well-known. Retailers therefore want continuity of supplies in terms of just-in-time supply and consistent quality.

Quality

Quality requirements for household textiles are market-related. Because the market for household textiles is a buyer's market high standards must be met, especially for cotton bed linen and towels. The retailer is in a position of power, because there are many suppliers. Retailers demand consistent quality over a period of time.

As far as quality is concerned, the consumer is less concerned with the strength of the material or its absorbent capacity, but with the feel of a towel, for example. People do not necessarily choose a thicker, stronger towel, but prefer one which is softer and thinner.

One of the advantages of proximity of the production of household textiles to their market is that faults can be rapidly corrected. The number and nature of faults in the weave is an important quality factor where household textiles are concerned. When there are so many faults that the product cannot even be sold as a 'second', the product is described as 'damaged'.

The way in which bedrooms are perceived varies from one country to the next. In the UK, for instance, the bedroom is perceived as a kind of living-room. Fashion in bed linen is therefore an important factor. In West Germany, however, the bedroom is a strictly private domain, and quality requirements for bed linen are therefore more important.

Quality requirements and faults also apply to the fabric employed. Retailers do not tolerate faults in the fabric, poor printing, or dyeing.

Another important quality requirement is ease of care. Washing household textiles should not be too troublesome, and this is an important selling-point for cotton sheets and pillowcases in particular.

In general, quality requirements are higher in West Germany than in other countries, especially for products in the higher price ranges.

For bed linen the main quality requirements are weight, yarn count, and type of weave. Several systems of bleaching are acceptable as long as the standard for whiteness is met. There is a preference for lighter sheets and duvet covers. These are cooler, aesthetically more pleasing, take up less room in the washing-machine and dry more easily. This last factor is especially important for duvet covers. Quick-drying is perhaps as important as non-iron characteristics, especially compared with polyester/cotton blends. The heavier the sheet, the more important is the ease of care factor; but a reduction in strength, to facilitate ease of care, should be avoided.

There can be many quality defects where sheets are concerned. There can be weaving faults, or the colour-matching can be wrong. Both are caused by lack of quality control in the manufacturing countries or by the fact that producers have applied the quality standards of their own domestic market. Exports require higher quality standards.

In general, fine, thin and uniform yarns and a fine and close weave ensure high quality bed linen, especially when cotton fibres are used.

In the European market for bed linen there is a tendency to use lighter weights. This was encouraged, amongst other things, by the introduction of stronger blended weaves and the increasing use of duvet covers. In the lower price ranges and in the institutional market (hotels, etc.) weights are heavier than in the middle and high price-ranges. In these latter markets many collections fetch high prices. It is also interesting to note that different countries prefer different weights. Instructions for the weave and final dimensions of towels include warp and weft threads, especially the terry thread; towel weight; selvages and bleaching. The quality specifications are generally the same as for bed linen.

Faults in towels are not tolerated, because just a few faults force sale as 'seconds'. The weight of the towel is also an important quality factor. The heavier the towel, the higher its quality.

Other quality requirements for towels concern the weave, the distance between loops and the height of the loops.

Loops can be made on the front, the back, or on both sides. Towels may not fray, the weave must be compact, and they must be colour-fast.

Brands

Some markets for household textiles are dominated by own-label brands (for example, in the UK: 60%). Variety and department stores then use their own brands.

Fabrics

There have been many complaints about exporters of household textiles from India, Pakistan and Brazil with regard to poor colour-matching and meter by meter regularity. This applied especially to printed cotton designs but also for plain dyed bed linen. It had been caused by inferior dyes from local sources. Importers are therefore sometimes willing to supply dyes from Europe.

In the Netherlands there is a preference for natural fabrics over synthetics in household textiles. Cotton is by far the most commonly used fabric.

In the top segment of the market for flat sheets most are made of cotton, but the average consumer prefers a 50/50 cotton/polyester blend. Fitted sheets are mostly made of cotton. They are predominantly used as lower sheets. Quality requirements for cotton fabrics for bed linen include strength, weight, fineness and ease of care.

The cotton/polyester blend is popular because it is creaseless and durable.

In West Germany and the UK towels are almost invariably made of terry fabrics. Good fabric and good dye quality are absolute musts for towels on the European market. Cotton is the most commonly used fabric, but in the institutional market blends are also used, because of their washability and durability, which are more important than comfort in this market. The towel weight should be heavier than in countries like India.

Cotton quality, cotton reliability, and colour-range are the key consumer demands in Europe.

Nearly all bath and kitchen towels are made of terry. It is absorbent, strong, durable, and easy to wash. Nearly all the terry is made of cotton.

In the market for tablecloths poly-cotton has achieved a high level of market penetration, because of its ease of washing and care. Cotton is nevertheless making inroads because of its higher aesthetic appeal, and also because spots can be removed easily. Colour-dye quality is therefore important. Plain woven tablecloths may be white, especially in the institutional markets.

In the Netherlands cotton is the most popular fabric for table linen. In 1989 about 60% of imports were cotton products. The other fabrics were generally of high quality, e.g. silk, or were easy care, e.g. polyester. The market share of pure cotton has remained stable for years.

Fashion

Producers and exporters should create an image for their products. This can take the form of a product with a message, a product with an own identity, a discovery for the consumer, something which may give pleasure or comfort, or some new aesthetic appeal. In a fashion-orientated market the design of the print and the colours is important.

The development of designs - a kind of research and development - is capital-intensive. In order to maintain the price of the resulting product at a reasonable level, the product must be sold in large quantities.

It should also be noted that the modern consumer is so individually orientated that it is increasingly difficult to identify specific consumer groups - always assuming that it is still possible to speak in terms of groups.

Fashions in household textiles do not change quickly. Trends last for 3 to 4 years. In the '90s the home will become more important for the European consumer, because he/she will spend more time at home. The consumer will look for comfort, security and warmth. That means a tendency to warm colours and luxury fabrics. Moreover, all kinds of household textiles will be expected to harmonize with each other, as well as with the furniture.

Manufacturers of household textiles have noted a trend towards fashion and design items. The consumer is perhaps more inclined to pay more for a beautiful towel, and is probably also prepared to buy household textiles in a more exclusive shop. For all these reasons the market share of the textile supermarkets has declined in recent years.

In the Netherlands there is a greater demand for room decor which reflects individual lifestyle and taste. That means not only a move away from white bed linen and bath towels, but an enormous variety of colours, designs, and patterns (prints). There are seasonal preferences, and there is a tendency to co-ordinate different fabrics and house decor in general (e.g. co-ordination between bathroom and kitchen linen on the one hand and bed linen on the other hand).

In the EC the same colour trends are discernible, but design trends vary from one country to the next. There is no uniform trend.

In general, the market for household textiles has become fashion-conscious, but the duration of the fashion trends is much longer than for clothing.

Flat sheets are either bleached or plain dyed, but there is an increasing use of all kinds of colours. Fitted sheets are mostly plain. Most of the duvet covers are printed or otherwise decorated, in one or more colours. The importer frequently provides the designs, print instructions and colours. These reflect the differences amongst the various European markets. However, colour combinations which are popular in Asia often do not sell in Europe even if the basic design was bought there. There are different cultural conceptions of colour.

In the UK the bedroom is a kind of showroom, an expression of good taste and social aspirations. Colour, design and shade are of great importance, including in the lower markets segments. A quality such as warmth is of lesser importance.

For retailers in towels, colour ways can be an important requirement. Precise shading and colour tone of the different colours is essential. A particular range of colours and

tones can be successful in one market and not in others. Coloured strips and other simple designs can be woven into the basic fabric. Complex designs are sometimes popular only for bath or beach towels.

The colour and design of the terry fabrics used need to be co-ordinated, as far as sales in the Netherlands are concerned. In fashion terry, themes, colours, variation in design, and decorative effects are co-ordinated so that it is possible to combine almost everything, from face towels to bath towels, guest towels and bathrobes. Checked patterns are very popular for tea towels. For bath towels, guest towels, and flannels one colour is generally used, but stripes are also popular. Pastel colours have not lost their popularity.

Tablecloths are more fashion-sensitive than are bed linen. Changes in taste, colour, fabric and print should be monitored and allowed for.

Jacquard tablecloths with or without embroidered edges are expensive. They are mostly used for special occasions. They may have 3-4 colours. There are also seasonal designs. Flat woven tablecloths with an individual printed design (used for occasions such as Christmas, Easter, etc.) naturally feature special designs. In West Germany this kind of tablecloth now has 25% of the market.

Jacquard tablecloths generally have flower-themes. They are often accompanied by 4-6 napkins. Plain-woven tablecloths with more or less embroidery and with lace items are sold without napkins, but often with place mats.

Sizes

For bed linen the size and depth of mattresses is important. One also has to allow for the fact that the sheets will shrink after washing. The size of sheets also depends on selvedges and weight. Finally, the size of childrens' beds, single beds, double beds and twin beds all differ from one another. The precise sizes are of crucial importance in the case of flat sheets.

Towels can be made in all sizes. Only beach-towels should have a minimum length of 150cm.

Tablecloths are relatively small. In the Netherlands round tablecloths are common, although there is more demand for rectangular ones. It is therefore important to think not just of the size of tablecloths, but also of popular shape preferences, which are ultimately determined by the shape of the table.

Packaging

Sheets are generally packed in plastic envelopes/bags with a window. The packaging should provide the following information: brand label, international cotton symbol and, if possible, barcode and quantity. The label should provide information about size and content, as well as washing instructions. Sheets are often sold in sets of one sheet and 1 or 2 pillowcases, but especially in the lower price categories they can also be sold separately. Quilt covers have replaced blankets on a large scale, so the sets can also contain one quilt cover and two pillowcases, mostly together with a sheet of the same design and colour. The consumer often wants to feel the fabric and to see the whole design.

The sale of duvet covers in sets with pillowcases is a trend throughout the whole of Western Europe, with the exception of the UK, where consumers like to make their own selection.

Towels are sold unwrapped, but sometimes with a label. So packaging is not an important sales factor for towels, which are usually sold on an individual basis, although the consumer can often choose from a whole series in the same colours and designs. A very small proportion of high quality products are sold in beautiful, separate packaging. That is not the case for kitchen linen as fashion here is not an important consideration. The label on the towels should contain washing instructions. Sets of one guest towel and one kitchen towel are growing in popularity.

For tablecloths all kinds of packaging are used. The gift-character of tablecloths etc. may require special presentation. On the label of the tablecloth information should be provided about fabric texture, washing and ironing. Tablecloths are usually sold loose, in matching sets.

I.4 Retailing

The following are the most important retail outlets for household textiles: independent retailers, textile supermarkets, department stores, and mail-order groups.

Independent retailers may be important for exporters from developing countries, as the survival of this group of retailers depends on their buying/service operations. They have therefore formed buying groups and in this way enjoy some of the advantages of multiple chains and department stores. The buying departments of these groups know a great deal about styling, quality control and prices. They often buy aggressively and

in bulk. The members of the buying groups sell in the upper price ranges, and feature quality and style.

The speciality shops target the upper middle classes, who find the quality of household textiles more important than their price. These shops do not themselves develop new trends, but simply take them over, or buy them. They carry stock which features new trends, and are in that sense trendsetters. Their household textiles are of a high quality. One can see and feel the difference between one of their hand towels, for example, and a cheaper one. The name brands are generally bought in the EC. The unknown brand names come from the outside the EC. The imports are organized via buying groups which import directly without the involvement of a middleman. Everything is supplied ready for sale. Quality control occurs on a random basis in the Netherlands. Household textiles are commonly sold in outlets with a general range of textiles. The buying groups/specialist shops currently control about 30-40% of the Dutch market.

The **textile supermarkets** (multiple chains) are at the lower end of the market. They are less interested in fashion or quality and more interested in price. Their sales are therefore price sensitive. They sell mainly imported household textiles.

In **department stores** a client can buy several products in one building. Such stores have centrally organized buying departments.

Department stores are mostly trend followers, and do not themselves introduce new trends. They orientate themselves to a broad cross-section of society with a reasonable income, and good taste. In brief, to a trend-following middle range. The more expensive department stores can, however, be trend setters. They orientate themselves to the upper stratum of the middle class and to the segments just beneath it. They accordingly stock both more and less expensive labels. Department stores generally buy their products ready for sale (complete with label and packaging). The labels are in some cases supplied to the producer. In any event they want to see sample labels. Incoming consignments are checked on a random basis. They sell name brands or their house labels. In a country such as the Netherlands department stores control about 33% of the household textiles market. The more expensive department stores purchase EC products direct from the producer, whereas buying from non-EC countries is done via importers. They sell name brands or their house labels. Hand towels etc. that are purchased and sold in enormous quantities come from the Far East. The rather more exclusive designs do not come from the Far East, amongst other things because of possible supply problems. More expensive shops also buy their products ready for sale.

For **mail order** companies quality, fitting and labelling are important. Style is a less

important factor for this retail sector. Consumers who buy from mail-order companies rate quality highly, and are prepared to pay for quality and convenience.

Towels in particular are sometimes sold through rather unusual retail channels such as petrol stations. They are then sold at very low prices, as a kind of promotional gift. Petrol stations can sometimes take over up to 30% of the market for hand towels, for example, through special promotions. Gift shops can occasionally score similar successes.

In conclusion

In most European countries the independent retailers and the textile supermarkets are the most important retail outlets, closely followed by the department stores. Together they generally have a market share of about 75% of total retail sales of household textiles. Mail order houses have a share between 5 and 10%.

I.5 Implications for importers from developing countries

1. Because of slow population growth and a marginal increase in per capita consumption, demand for household textiles will not increase rapidly. In the most important EC markets the increase in the consumption of household textiles has lagged behind the increase in total consumption, and this will continue into the '90s; so the share of household textiles in total consumption is decreasing.
2. The total and per capita consumption of bed linen is the largest market for household textiles within the EC. In the second half of the '80s there was an increase in demand for bed linen. There was also a shift from sheets and blankets to duvet covers and to higher quality bed linen.
The consumption of bathroom and kitchen linen in the EC increased rapidly in the second half of the '80s. In the immediate future a slight increase in consumer demand can be expected.
The market for table linen is the smallest market for household textiles in the EC. It was very stable during the '80s. In the future a slight increase in consumption is expected.
3. The largest importing countries in the EC for household textiles are Germany, the UK, France, Italy and the Netherlands respectively. The main non-EC exporters to the EC are China, Turkey, Pakistan, India, Yugoslavia and Brazil.

4. Imports of bed linen to the EC expanded continuously during the second half of the '80s. About 43% of these imports come from developing countries, mainly Pakistan, Turkey, India and China. The import dependency ratio for the main EC markets increased by 16% between 1980 and 1988.

Imports of bathroom and kitchen linen rose rapidly in the second half of the '80s, especially those exported from developing countries, whose market share increased from 25.8% in 1985 to 34.8% in 1988. The import dependency ratio for the main EC markets rose from 47.7% in 1980 to 62% in 1988. The main developing countries supplying towels are Pakistan, Turkey, China, Brazil and India.

Imports of table linen expanded rapidly in the '80s. The developing countries' share of these imports increased by 16% between 1980 and 1988. The import dependency ratio for the main EC markets increased by 15% in the same period. The main exporting countries to the EC are China, Brazil, India, Pakistan and Turkey.

5. The following are the most important macro-economic factors determining demand for household textiles:

- population size and population growth,
- climate,
- income levels,
- taste/cultural factors/habits.

For imports the exchange rate is also important as far as competition with EC products is concerned.

6. Particularly at the lower end of the market, price is still an important demand factor. On average the final consumer price of household textiles is 2.9 times the CIF value. Purchase prices can be strongly influenced by exchange rate fluctuations, especially those involving the US dollar.
7. At the product level the following demand factors are important:

Delivery time

Because of long fashion trends the quick supply of household textiles is not so important; however, deadlines must be met. In the case of some products the delivery period is so long that it can be unclear whether a particular delivery is on time or not. Deliveries do not have to be made in different consignments, as this can lead to considerable fluctuations in supply. In the case of most department

stores late delivery leads to price reductions. It is not uncommon for a year to elapse between the consignment of an order and its arrival. This is a long time, and means that from that moment nothing can go wrong, as everything will take even longer if any modifications have to be made. Lengthy time lapses between the placing of an order and its delivery are especially disadvantageous for trendy articles, rather than for mass-produced ones. It takes about six months for a side order to be delivered. It is therefore important to monitor closely the availability of stocks, e.g. with bar-coding.

Quality

Product quality must be consistent. Faults should be rapidly corrected. Flaws in the weave can be a disaster for household textiles. Quality requirements can vary from one country to the next. Quality requirements are also applied to the fabric used: poor printing or dyeing are not accepted. Especially for bed linen (duvet covers) one important quality requirement is also ease of care (washing, ironing, drying). Special care must be taken in the finishing of the product, its correct weight, and washability. It must also be colour-fast. In addition, a compact weave together with softness are very important, especially in the case of hand towels. Quality control should be carried out by the producer.

Brands

Variety and department stores sometimes use their own brand labels, which are then attached by the producers.

Fabrics

Colour matching (dyeing) and regularity of the weave are important in this respect. In recent years there has been a preference in Western Europe for natural fabrics instead of a mix of natural fibres and synthetics.

Fashion

Fashion in household textiles does not change quickly. Trends last 3 to 4 years. Comfort, security and warmth will be important factors, which means a tendency towards warm colours and luxury fabrics. Moreover, household textiles be coordinated with each other, as well as with the furniture. Trends in colours are mostly the same in all EC countries, but trends in design may vary. Household textiles featuring the same design may be marketed as a single set (bath towel + hand towel + flannel). The same is also true of kitchen textiles. In the commercial sector in particular, colour and design co-ordination is of considerable importance (uncoordinated designs and colours are definitely not in demand). This provides the

consumer with a wide range of choice as far as combinations are concerned, and everyone can find something they like. In most shops one finds collections together with hand towels, flannels, etc, in the same colours. The products must be colour co-ordinated. Ideas for new designs can be developed with the assistance of specialized magazines; at trade fairs; and through consumer research. In the branches of department stores there are often sections featuring a wide range of items. The latest trends can be discovered at trade fairs, but it is better to be informed of such trends in advance. It is important to remember that household textiles are no longer purchased for their utility alone. Decor and variety play an increasingly important role, with the status and lifestyle of the consumer being of central importance. The latter is especially true of duvet covers and table linen, but also for other household textiles.

Sizes

The sizes of bed linen should be in accordance with the size and depth of the mattress.

Packaging

Packaging varies from one article to the next (towels are mostly not packaged at all). However, a label on the article is absolutely necessary. It should provide information about size, fabric, and washing instructions, and if possible bar-code and quantities.

8. In the EC the independent retailers (mostly organized in buying groups) and the cheapest textile supermarkets are the most important retail outlets for household textiles, followed by the department stores. For the more expensive, traditional household textiles there are possibilities in the small retail outlets, provided that the following criteria are met:
 - 1) orientation to a broad middle class spectrum
 - 2) accessibility
 - 3) willingness to take a risk

In the case of mail orders the fashion dimension is very important.

9. To enhance the marketability of products it should be noted that more is involved than just the modernization of production on the part of the Third World producer. Factors such as sensitivity to the market, fashion-conscious design, and flexibility in production are at least as important. Any dependance on the import of raw materials should also be kept to a minimum. According to some experts craft products (handwoven household textiles) can assert themselves in the long run only

in the area of tablecloths, and that only from a purely commercial point of view.

10. A wide range of colours, designs, sizes and weights is very important for household textiles. The use of environmentally-friendly materials such as pure cotton is becoming increasingly important.
11. The real possibilities offered by the institutional market (the state sector, hospitals, the hospitality trade, railways, etc) should not be overlooked. In this market the main considerations are quality and practical applicability, rather than fashion.

CHAPTER II: CONSEQUENCES OF THE REALIZATION OF THE EC INTERNAL MARKET

Introduction

The European Community (EC) is the denomination of what used to be called the European Economic Community. The term EC also applies to the European Common Market. The EC has twelve members, namely, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom.

At the moment, the EC is implementing the unification of the twelve members into an economic and political union. It is envisaged that this union will lead to a stronger EC. One of the most essential plans will be the removal of trade barriers within the EC. This will allow a free flow of trade to save time and costs in transportation. The economic union, as well as the political union, will allow the member countries to adjust their economic and social systems, reducing differences between the members. Harmonizing laws and regulations, creating uniform standards and quality requirements, simplifying administrative procedures and erecting social and monetary structures will clarify the EC.

The objectives of such a harmonization are to facilitate trade between the EC members, stimulate economic activities through enlarged economies of scale, raise competition and economic growth and allow a free flow of capital, goods, services and individuals. The deadline for the realization of the internal market is 31 December 1992.

The EC currently protects its domestic market in two main ways: quantitative restrictions and tariffs.

II.1 Quantitative restrictions

From 1989 to 1991 Pakistan had the highest EC quota for bed linen - a total of 14000 tons annually, with increases of 6.5% per year up to 1991. India was allocated 10000 tons, with increases of 5% a year. For towels and table linen Brazil received the highest quota of 12000 tons with increases of 4% per year for towels and 6% for tablecloths

in 1990 and 1991.

In quota terms Germany is the largest market, followed by the UK. Turkey and the Eastern European countries have separate agreements with the EC which are re-negotiated annually.

Countries not subject to quantitative restrictions by the EC are mostly subject to administrative controls. To avoid allegations of 'market disruption' they may receive a quota. For most African countries belonging to the ACP Group there are no quantitative restrictions, nor do they exist for most Latin American countries (with the exception of Brazil).

It is widely held that current EC policy on the textile and clothing sector is too complex. There has also been criticism of the way in which the MFA quotas have been shared amongst the member states. It is expected that the unification of Germany will lead to even higher quotas.

II.2 Tariffs

As far as tariffs are concerned the member states of the EC apply the 'Common Customs Tariff'. For towels the most usual tariff is 10%, for bed linen and tablecloths 13%. Tariffs are levied on a CIF basis. The 'usual tariffs' are applied for members of GATT and for countries with agreements with the EC in which the most favoured nation clause is included.

There are also tariff preferences under preferential or association agreements and under the System of General Preferences (see also Appendices 4 and 5).

According to Article 115 of the EC Treaty, member states are allowed to adopt protective measures when they believe that trade within the EC in a specific product is causing 'damage' to a national industry (this resembles Article XIX of GATT). For household textiles this is not so relevant, because in most EC countries there is hardly any industry for these products.

The impact of EC '92 will be marginal for EC producers of textiles, because of the advanced stage of international integration already achieved. This statement can be reinforced by the following observations:

- plant and technical economies of scale have already been exploited to a large extent.
- commercial economies of scale have still to be exploited; their effects will be a further homogeneity of tastes and prices within the EC with scant relevance to the level of prices.
- the proportion of disposable income devoted to household textiles is not going to increase, so the income effects of the internal market on consumption are rather low.

The reduction of production prices for European producers due to the direct and indirect effects of EC '92 should range between 0.5 and 1.5%. How much of this reduction will be passed on to consumers will depend on the commercial structure that prevails after 1992. The UK and Germany might experience the largest price reductions, but in all countries the effect on consumption will be insignificant.

EC Guidelines on product safety and contractual ethics are currently on the drawing board. These will set out to overturn the section on consumer protection, which provided a guarantee that representatives of consumer organizations could react swiftly to guidelines on, for example, foodstuffs, admissibility of medicines, and labelling.

What will dramatically reshape the household textile sector in the EC, especially in the Southern EC countries, in the years to come is not internal market integration, but fiercer competition from non-EC countries. In this regard the trend of the '60s will continue. Most household textiles are too basic for the highly-developed automated production of textile factories in Europe, which prefer more complex, more expensive and fashionable textile products. Prices, profits, and employment will be determined at the point where competition from non-EC countries on the one hand and import protection on the other reach a compromise. The impact of the internal market is as nothing compared to the shock produced by imports from low-wage countries.

CHAPTER III: OUTCOMES OF THE GATT AND MFA NEGOTIATIONS

Introduction

The GATT system was established in 1947 by 24 Western countries and now has a membership of 105 countries. GATT's aim is to liberalize world trade, a process involving the abolition of import barriers such as tariffs and quotas. In the course of successive rounds of international trade negotiations following World War Two, the tariffs for raw materials and industrial products were lowered and occasionally abolished. At the same time, however, non-tariff trade barriers introduced to protect sensitive products grew rapidly in the 1970s and 1980s. Quotas especially, such as the Multi Fibre Agreement, and the use of technical standards are popular means with which to hinder imports. The recent round of trade negotiations, the so-called Uruguay Round, has as its specific aim the removal of many of these non-tariff barriers, but has been prolonged various times as the result of conflicts between GATT members.

About 65% of world trade in textile production falls under the MFA. Specific products are subject to quantitative restrictions (quotas) by means of bilateral agreements. The MFA works on the basis of quotas per product. Possibilities for growth (e.g. 5% per annum) are built into these quotas.

In the exporting nations this gives established companies which export in large quantities a definite advantage, as they have the contacts, and are familiar with the complex quota regulations. Once a company has a quota, it is normally automatically renewed. They are often assisted in this by importers, for example, large clothing chain stores from the West, whom they know well. At present 44 countries are linked to the MFA.

On the basis of the most recent MFA, from 1986, the US concluded much tougher bilateral agreements than previously. The EC was more flexible, and abolished 25% of the quota, which in any case had not always been completely used up. Moreover it provided a dispensation for six exporting countries from Latin America, as well as Bangladesh, and relaxed its monitoring of production capacity outside the EC.

The MFA quota for the EC was divided by the European Commission amongst the EC member states. Italy, France, and Belgium were assigned low EC quotas, and should

therefore expect an increase in competition from non-EC countries when the MFA is abolished. The UK and Germany come in for little protection from the MFA. The EC states are permitted to exercise some discretion in the allocation of quotas.

The MFA is valid for all textile products, and therefore also for household textile products. Moreover, household textiles are not regarded as belonging to the category of 'most sensitive items'. In practice most countries, with the exception of Pakistan and Turkey, do not completely use up their quota for household textiles. The reasons for this are as follows:

- 1) Producer countries such as Brazil and China have also to supply their own enormous and growing markets.
- 2) The market for household textiles is highly fragmented in comparison to that for cotton yarns and fabrics.
- 3) Traditional designs and colours from countries such as Brazil and India are frequently unsuited to the West European market (Turkey has an advantage in this regard).

The various types of household textiles are subdivided into the following MFA categories:

Group 1 (most sensitive products): woven fabrics

Group 2 (sensitive products): hand towels and bedding

Group 3 (least sensitive products): tablecloths

The most recent MFA was not generally any more restrictive than the previous one although it did incorporate stipulations about imitation products. That involved the imitation of brand names, design, and models.

The implementation of the MFA has in the meanwhile become so complex that it requires an enormous bureaucracy of its own. In the EC alone there are more than 3000 quotas and a large number of products is constantly being monitored.

The existence of the MFA has not prevented an increase in imports of textiles and clothing from the low-wage countries to the West. This came about, amongst other reasons, because the bilateral agreements covered only the timing and spread of the growth of imports. Thus occasional increases in the import of specific articles was permitted and because of this the import of textile products to the EC continued to grow by 10 to 20% per year.

III.1

The GATT Uruguay Round

The larger textile exporting countries want the MFA to be rapidly integrated into GATT, whereas the smaller exporting countries would prefer a longer transition period of about ten years. These smaller countries are afraid of a significant increase in imports from countries such as China and India which are able to produce very large quantities at a very low cost. On the world market they would be even more formidable opponents, as the MFA in a sense provided the smaller exporting countries with protection, by offering the possibility of preferential and guaranteed access to Western markets.

The liberalization of world trade should encourage the European countries to focus even more on the production of highly-priced products and speciality markets. In addition the abolition of the quota system will not necessarily benefit the Western consumer, as the small price reductions arising out of this will not necessarily be passed on to the consumer, but will in general be taken advantage of to increase profit margins in the trade.

Western entrepreneurs in the clothing and textile industry and their branch organizations are now gradually abandoning their opposition to the dismantling of the MFA. They are prepared for it to be covered by GATT but only under clearly defined circumstances. For example, they demand a rather long transition period and a stricter guarantee clause as well as insisting that other GATT regulations on trade in textiles and clothing be toughened up.

They also consider that developing countries exporting large quantities of textiles and clothing must sign the GATT Code on Subsidies. They want selective application of the GATT safeguard clause against particular products or particular countries (Article XIX, which is incidentally in conflict with GATT's most favoured nations principle). In the case of an assumed market disruption they want to be able to rapidly apply Article XIX, albeit for a limited period.

The entrepreneurs want all tariffs in excess of 20% (for household textiles tariffs vary from 10% to 13%) to be reduced and also want all tariffs to be fixed. Non-tariff barriers such as bans on certain imports, restrictions on volume, arbitrary recognition of import licences, and limitations on the procurement of foreign currencies must be abolished. The procedures for the regulation of conflicts in GATT must be improved upon. The

GATT Code on Dumping must be extended to second generation dumping (for example to fabrics made of dumped yarn). In cases of dumping the import prices must be compared with market prices in the EC. Finally, a Code on Imitation Products must be developed that covers brand names, designs, and models.

State corporations in developing countries must stop providing export subsidies for their exports. Developing countries must also open up their markets to imports from abroad.

According to European trade organizations 80000 companies produce textiles and clothing. They have a total turnover of ECU 160 billion and employ 3.2 million people. According to these organizations, the textile and clothing industries in the EC are exposed to unfair competition. According to them, they are dealing with competitors who protect their own markets, who circumvent GATT regulations, and copy European designs without being penalized. Therefore, according to them, the integration of textile trade into GATT must be made dependent on the opening up of foreign markets and the elimination of unfair trading practices. The concluding document of the negotiating group on textiles and clothing (in the Uruguay Round) presented in December 1990 was, according to them, too vague as far as these points were concerned.

They therefore propose the following:

- 1) The opening up of markets, especially by means of the harmonization of import duties on textile products.
- 2) The development of effective instruments with which to get to grips with dumping.
- 3) Transparency and elimination of subsidies on raw materials, exports, and investments.
- 4) Legal protection of copyright and an end to piracy in the area of labels, designs, and models.

The companies in the Southern states of the EC (Portugal, Greece, Spain, and to a lesser extent France and Italy) are against the abolition of the MFA because their clothing and textile industry cannot modernize in time and will not be in a position to compete with cheap imports from developing countries. Moreover, the national economies of these countries depend more heavily on the clothing and textile industry than do the other EC countries.

For example, 25% of Portugal's industrial production is in the textile and clothing branches. About one in three jobs is in the labour-intensive textile branch. In Spain about 350000 people work in these branches, and in Italy about 700000.

They fear that unregulated imports of, for example, cheap jeans from NICs will be the death-knell for textile production in Southern Europe. By comparison, the Netherlands have only 325 textile and clothing companies with 33000 jobs and a turnover of about ECU 2.5 million. These companies have specialized in luxury, decorative textile products and in textiles for technical and industrial applications. These products are not in competition with those from developing countries. But in order to keep things this way the Dutch clothing and textiles industry is demanding effective regulations against dumping and for the protection of copyright.

Most European trade unions are also opposed to the abolition of the MFA. They argue that cheap imports can be the product of human exploitation (low wages, long hours of work, child labour, arbitrary dismissal procedures, and the denial of trade union rights).

The textiles and clothing industry in the Northern EC countries is no longer afraid of imports from the developing countries, as the imports have such a low level of expertise and technology that they are considered unsuitable for a sophisticated market.

But what do the EC negotiators (European Commission and national governments) think of the abolition of the MFA? They could also go along with its abolition, provided that existing EC regulations are toughened up:

- 1) There must be a greater degree of reciprocity in trade in textiles and clothing between the EC and NICs (in the form of the mutual exchange of concessions)
- 2) The GATT safeguard clause must be supplemented by safeguards against fraudulent imports, dumping (including secondary dumping) and prohibited subsidies
- 3) Regulations must be introduced concerning copyright and the protection of brand names

The EC also wants to introduce legislation to prevent piracy in brand names. That would cover imitation brands and models.

During a transitional period of at least ten years the quota for the least developed countries would be abolished, as well as any quotas which have not been completely used up. Within the EC the power of member states to allocate quotas unilaterally would be abolished and would thus (in the event of the continuation of the MFA) be replaced by a single EC quota.

In July 1990 the EC made the following supplementary proposals:

- a) All import duties on clothing and textiles must be reduced to a maximum of 20% (in the case of developed countries and NICs) and to a maximum of 35% in the case of developing countries, with the exception of the least developed countries;
- b) Non tariff barriers must be abolished, and market protection on the grounds of balance of payments problems may be permitted only in exceptional situations and after a searching check.

In December 1990 the Chairperson of the negotiating group on clothing and textiles within the Uruguay Round produced a final report which revealed that proposals to the negotiating group concerning the duration of the transitional period for the abolition of the MFA had varied considerably, from 6.5 years in the case of the developing countries to 15 years in the case of a few developed countries. The idea was for each country to allow a certain percentage of its exports to comply with GATT regulations, with that amount to increase with each successive year. For example, in the case of a transitional period lasting ten years, 10% per year. An importing country should then, where necessary, be able to invoke safeguard procedures. In such cases it would have to prove 'serious damage' to its producers arising out of imports, and the damage could not be attributed, for example, to technological superiority or a change in consumer preferences. Moreover, the guarantee regulations had to be temporary, and imports from the least developed countries and from small exporting countries should be allowed a degree of latitude even in such cases. Regulations concerning dumping, subsidies and copyright were to be strictly complied with.

Finally, some member states of GATT want to see a link between workers' rights and trade agreements. It would accordingly be prohibited for corporations and countries to disregard the health and safety of their workers, to suppress trade unions, and to use child labour. Other countries want environmental problems caused by production processes in the clothing and textiles industry reduced, amongst other things by means of GATT regulations.

Finally, consumers' organizations have also taken an interest in the MFA. At the 13th World Congress of IOCU on 8-12 July 1991 in Hongkong they demanded the abolition of the MFA. This was because consumers in the developed countries have to pay more for their textile products than would be the case without the MFA and also because it limits their choice of products.

The IOCU made the following demands:

- 1) The phasing out of the MFA, with a fixed, non-negotiable agreement on when world trade would fall under the jurisdiction of GATT
- 2) The details for the period of abolition (the base rate for calculations, the extent to which export growth would be permitted, and guarantees for the transitional period) were to be absorbed into a GATT agreement on abolition, and could under no circumstances become the subject of bilateral negotiations
- 3) The immediate abolition of restrictions on certain products as soon as the agreement takes effect. As many products as possible were to be incorporated into this 'immediate abolition list'. In any event all restrictions on the import of children's clothing (of considerable importance for poor families) had to be included on the list.

According to the IOCU report entitled 'The MFA and Developing Countries', which includes a case study of Bangladesh, the MFA is damaging to consumers in developed countries, amongst other things by limiting their range of choice, and by driving up consumer prices. According to an American study the MFA costs American consumers 40 billion dollars per year, or 500 dollars per household. An British study came up with damage estimated at 980 million pounds per year, or about 5% of retail sales.

The IOCU takes the view that the EC's demand for the selective application of safeguards in practice boils down to a continuation of the MFA in another guise. On the other hand quota restrictions produce technological inefficiency and market distortions in developing countries. They indirectly benefit capital-intensive and large-scale monopoly production. The quota also condemns some producers in developing countries to their small domestic market. Last but not least, the way in which quotas are allocated in developing countries generates rampant corruption and nepotism.

III.2 Implications for developing countries

1. About 65% of world trade in textile products is regulated by the MFA. In practice most developing countries, with the exception of Pakistan and Turkey, do not completely use up their quotas for household textiles. Neither do household textiles fall under the MFA definition of 'most sensitive products'. For these reasons the abolition of the MFA will have limited impact on the export of household textiles from developing countries to the developed world. What would replace the MFA

is still an open question.

2. As far as 'substitutes' for the MFA are concerned, it is most probable that Western countries will seek more refuge in anti-dumping and safeguard procedures than previously. They will also want to extend the jurisdiction of these procedures.
3. Anti-dumping investigations can last for months, which can be greatly to the detriment of more or less fashion-sensitive products. Moreover, in the case of dumping a comparison is made between domestic and export prices for textiles. But some textile products are produced for export only. Finally, anti-dumping cases can cost an awful lot of money.
4. The safeguard clause in GATT (Article XIX) is perceived by the EC and by others as inadequate. The EC wants to be able to apply it selectively, by product, or by country. However, up to now exporting countries have been protected against this by GATT's most favoured nation principle. The EC therefore wants to depart from this.
5. Finally, in the event of the abolition of the MFA, more stringent regulations would be introduced concerning the use of subsidies and state acquisitions. Moreover, new regulations would be developed to prevent the imitation of brand names, models, etc. (although the enforcement of this is a different story altogether). The central question is therefore: will the abolition of the MFA improve the position of countries exporting household textiles, especially countries with small-scale exporters?

CHAPTER IV: IMPACTS OF THE DEVELOPMENTS IN EASTERN EUROPE

Since 1989 the countries of Eastern Europe have been trying to transform their centrally-planned economies into free market economies, an enormous effort beset with problems. Since the beginning of the political and economic reforms in Eastern Europe the EC has gradually modified its co-operative policies towards these countries, which raises the question as to whether the changing economic relations between Western and Eastern Europe will have important implications for exports to Europe from the developing countries.

There is no simple answer to this question; new developments are still emerging in Eastern Europe and it remains difficult to evaluate the economic strength of these countries following the transformation of their economies.

In the '90s, per capita production of textiles in Eastern Europe will increase slightly. Eastern European countries will want to export more to the EC. At present these exports are restricted by a variety of agreements. Besides, Eastern European countries do not have much more to offer than textiles and clothing, so they are very dependent on the export of these products. It is therefore expected that a considerable increase in trade in textiles and clothing from Eastern Europe (including former Eastern Germany) will take place in the future. However, it remains true that Eastern European countries are not major producers of household textiles.

Historically, EC trade with Eastern Europe was regulated because Eastern European governments allowed the export of textile products at fixed dumping prices and because textiles were used in barter trade as a unit of exchange.

In accordance with current agreements on co-operation and trade the EC can impose quantitative limits and apply a double checking system to imports, carried out by the organization in the exporting country issuing the export licence and by the organization in the importing country issuing the import licence. The quotas for the various categories of textile products are set annually. When this happens it is possible for part of the quota to be brought forward into the next year's allocation. Re-importing after sub-contracted finishing was free from quantitative import restrictions only until 1991. Anti-dumping regulations have also been incorporated into these agreements.

In May 1990 the European Commission announced increases in the textiles and clothing quotas for Poland and Czechoslovakia, increases of 23% and 13% for 1990 and 1991 respectively. Hungary, Poland and Bulgaria were also granted general EC preferences for 1991. Poland and Hungary were allocated quotas amounting to 0.3% of total imports of 'very sensitive products' to the EC, and 0.5% of imports from other MFA categories. Yugoslavia had already been granted preferential treatment for textile products.

Current negotiations on new agreements with the Eastern European countries are running into difficulties. In September 1991 negotiations on possible association agreements between the EC on the one hand and Poland, Hungary, and Czechoslovakia on the other collapsed. Countries such as Portugal, Italy, and Spain did not want to allow any more imports of textile products unless there was a major redistribution of EC monies. The abolition of import quota for textiles from Eastern Europe was viewed by these countries, as well as by France, as the creation of a overly liberal precedent for the GATT negotiations. There will consequently be no movement here until the GATT negotiations have produced a result. Incidentally, the September 1990 discussions also foundered on the question of the import of agricultural products from Eastern Europe, but these problems were resolved in October 1991. Negotiations on association agreements between the EC and Eastern Europe have therefore made a step forward.

The European Committee wants to offer Eastern Europe more trade concessions rather than money. With the money saved in this way, it wants to support weak sectors within the EC, such as the textile sector in Portugal.

IV.1 Implications for developing countries

In Eastern Europe, household textiles are not produced in quantity and none are exported. In the short term this situation is unlikely to change significantly. Added to this is the breakdown of negotiations between the EC and the Eastern European countries on association agreements, with the result that the import of cheap household textiles from Eastern Europe is temporarily not even on the agenda. This has changed since October 1991, but the Asian countries, especially Pakistan, India, and China, together with Brazil and Turkey, are likely to remain the major importers of household textiles to (amongst others) the EC.

CHAPTER V: CONCLUSIONS AND IMPLICATIONS FOR DEVELOPING COUNTRIES

The following tendencies can be expected during the '90s:

- An increasing number of households and a rising per capita consumption of household textiles will be more or less compensated for by slower population growth. Demand for household textiles in Western Europe will therefore increase slightly.
- The market segments which will show some growth are duvet covers and towels.
- Imports of household textiles to the EC will increase, especially from developing countries. The exporters of household textiles within the group of developing countries are not the Newly Industrialised Countries. The main exporters come from South Asia (especially Pakistan and India), China, Turkey and Brazil.
- The most important demand factors for household textiles are price (bulk products) and quality (of products and fabrics). Fashion considerations such as decor, lifestyle and luxury are increasing in importance, even in household textiles.
- Textile supermarkets (cheap products) will not enlarge their market share, whereas department stores (all qualities) will. The role of the independent retailers will remain important, especially if they continue to organize buying cooperatives or are part of a franchise operation.
- The integration of the internal EC market will not have much influence on international trade in household textiles.
- The eventual abolition of the Multi Fibre Agreement will lead to the disappearance of quotas. However, this does not necessarily mean a complete abolition of import restrictions. Although during the Uruguay Round a proposal was tabled to reduce tariffs on industrial products by 33.3%, it is also likely that the use of safeguard and anti-dumping procedures against textile products will increase.

- It is not clear at present what developments in Eastern Europe will mean for international trade in household textiles. It is not currently an important export category for the countries of Eastern Europe, which were recently unable to use up their quotas. When they do eventually become important producers of household textiles, it will be in the higher quality segments of the market.

APPENDIX 1: CONSUMPTION BY COUNTRY

West Germany

Here per capita income is the highest in Europe, and consumption in household textiles is therefore also the highest. However during the '80s there was little expansion, because of low population growth. From 1976 to 1985 the annual growth rate for the consumption of furniture and household equipment was 1.3%; for the period 1986-1991 it is expected to be 3% and during the period 1992-2000 it is predicted to increase by 2.8%.

From 1980 to 1985 the consumption of bed linen in West Germany actually fell from 48700 to 41300 tons per year. After this there was a recovery, to 46600 tons per year in 1988. Per capita consumption increased from 721 grammes in 1980 to 747 grammes in 1988, which reveals that the decrease in total consumption of bed linen is mostly caused by a decrease in population growth. There was a tendency to prefer higher quality products. In West Germany bed sizes are 20% bigger than in the UK, for example, which means higher consumption in terms of volume.

Most Germans use cotton duvet covers. The market for this product was stable in the '80s. From 1985 to 1988 about 12.5 million units a year were sold.

West Germany is the second largest EC market for towels. In the case of towels similar developments as for bed linen can be observed. From 1980 to 1985 consumption declined from 26800 to 20200 tons. After 1985 there was a recovery, to 25500 tons in 1988. However, per capita consumption also declined in this case, from 435 grammes in 1980 to 417 grammes in 1988.

In 1988 the apparent consumption of tablecloths in West Germany was 7400 tons, whereas it had been 8200 and 8000 tons in 1980 and 1985 respectively. Per capita consumption declined from 135 grammes in 1980 to 121 grammes in 1988. The market share of cotton and cotton-rich tablecloths was only 63.5%, amongst other reasons because some tablecloths are made of flax.

United Kingdom

In the UK consumption of household equipment and furniture increased by 2.6% a year between 1976 and 1985; between 1986 and 1991 the increase will be 2.3% and between 1992 and 2000 it is predicted at 2.7% a year. On average this growth in consumption will be more or less in line with the growth in total consumption.

The UK market for bed linen was more or less stable from 1980 to 1988, although per capita consumption declined slightly. Within the group of the four main markets in the EC the UK market has the lowest consumption of bed linen.

In the UK there were no duvet covers at all fifteen years ago. But since then there has been continuous growth in sales. In 1988 11.2 million units of duvet covers (+5.7% in comparison to 1987) were sold, an increase of 120% compared with 1980. Of this, 42% was cotton or cotton-rich, whereas in 1980 this had only amounted to 13.7%.

In weight terms the UK is the largest market for towels within the EC, because many heavier towels are sold there. Consumption of towels increased from 24200 tons in 1980 to 31600 tons in 1988. Per capita consumption rose from 429 grammes in 1980 to 553 grammes in 1988.

The UK has the lowest level of apparent consumption of tablecloths, only 1500 tons in 1988 (less than 25% of West German consumption). However, it had doubled in comparison with consumption in 1980, and per capita consumption rose from 17 grammes in 1980 to 26 grammes in 1988.

France

In 1988 average annual per capita spending on textiles in France was 538 ECU, of which 12% was spent on household textiles. Consumer expenditure on household textiles (household linen, blankets and woven fabrics) amounted to ECU 3 billion in 1988. However, consumer expenditure on household equipment and furniture has been increasing very slowly in France. From 1976 to 1985 there was a zero increase; between 1986 and 1991 the increase is expected to be 1.1% and between 1992 and 2000 it will amount to 1%. Those figures are far below the growth of total consumption, which is estimated at 2% a year.

Consumption of bed linen in France increased from 30100 tons in 1980 to 34900 tons in 1988. Per capita consumption rose from 560 grammes to 627 grammes in the same period. France is the third largest market for bed linen in the EC.

Consumption of towels in France increased from 16600 tons in 1980 to 20300 tons in 1988. Per capita consumption rose from 308 grammes to 365 grammes.

The apparent consumption of tablecloths in France decreased from 4200 tons in 1980 to 3800 tons in 1988; per capita consumption fell from 78 grammes to 67 grammes.

Italy

Annual growth in consumption of household equipment and furniture in Italy was 0.8% between 1976 and 1985. For the period 1986-1991 it is expected to be 2.1% a year, and from 1992 to 2000 it may amount to 1.8% a year. This rate of growth is less than growth in total consumption over the same period.

Consumption of bed linen increased from 34800 tons in 1980 to 38400 tons in 1988; per capita consumption rose from 617 grammes in 1980 to 669 grammes in 1988.

Consumption of towels increased from 13400 tons in 1980 to 15900 tons in 1988; per capita consumption rose from 238 grammes in 1980 to 277 grammes in 1988.

Consumption of table linen increased from 6100 tons in 1980 to 7800 tons in 1988; per capita consumption increased from 108 grammes in 1980 to 136 grammes in 1988.

The Netherlands

It is expected that apparent consumption of bed linen in the Netherlands will rise from 10600 tons in 1988 to 11600 tons in 1992.

The expected apparent consumption of towels for 1992 is 8300 tons, about 200 tons less than in 1988.

A slow increase is expected in the apparent consumption of table linen, from 1000 tons in 1988 to about 1300 tons in 1992.

APPENDIX 2: IMPORTS BY COUNTRY

Germany

Net imports of household textiles and industrial textile products to Germany increased from 20500 tons in 1980 to 30500 tons in 1988. That is about half of total imports of these textile products to Western Europe.

Imports of bed linen amounted to 28100 tons in 1988, a rise of 80.1% compared with 1980. This is mostly cotton bed linen. 43.3% of those imports, or 12220 tons, came from developing countries, and 75% was from Pakistan, Turkey and India. Imports of cotton bed linen from developing countries mostly involved printed items. The import dependency ratio rose from 32.1% in 1980 to 60% in 1988. For cotton fabrics (from which bed linen is made in Germany itself) the import dependency ratio is more than 50%.

Germany was the second largest importer of towels in the EC, but for developing countries it was the most important importer.

In 1988 total towel imports amounted to 17400 tons, of which 75% were terry towels. Imports from developing countries amounted to 7600 tons. Brazil is the most important supplier here, followed by Pakistan, Turkey and China. The import dependency ratio is the same as in the UK.

Germany is the largest EC market for tablecloths and imported 4700 tons in 1988, of which 60% were cotton or cotton-rich. 83% of the imports - 47% of which were knitted or crotcheted - came from developing countries. Turkey is the most important supplier, with about 2000 tons. The remaining imports from developing countries came from China, Brazil and India.

United Kingdom

Net imports of household textiles and industrial textile products to the UK increased from 14200 tons in 1980 to 20000 tons in 1988.

Imports of bed linen to the UK amounted to 14300 tons in 1988, of which 6900 tons came from developing countries (mainly Pakistan and India). Imports of cotton bed linen involved mainly unprinted items. The import dependency ratio was 46.3% in 1988; for cotton fabrics it was 90%.

The UK is the largest EC market for imported towels. In 1988 imports amounted to 20300 tons, 60% higher than 1980 levels. Nearly all imported towels are made of pure cotton, mostly terry towelling. 6300 tons came from developing countries, and two-thirds of this was made from terry fabrics. The most important importers from the developing world are Pakistan, China, Turkey and India. The import dependency ratio is more than 60%, and for terry towels actually amounts to about 80%.

The UK is a very small market for imported table linen (1000 tons a year in the '80s). The import dependency ratio is more than 80%. China and Pakistan are the most important developing countries exporting to the UK.

France

Net imports of household textiles and industrial textile products to France increased from 9700 tons in 1980 to 18500 tons in 1988.

Total imports of bed linen to France increased from 6900 tons in 1980 to 14400 tons in 1988. About 35% of these imports came from developing countries, mainly Thailand, Pakistan, India and Turkey. The import dependency ratio for bed linen rose from 23% in 1980 to 41.3% in 1988.

Total imports of bathroom and kitchen linen to France increased from 9300 tons in 1980 to 13700 tons in 1988. About 24% of these imports came from developing countries, mainly Pakistan. The import dependency ratio for towels in France rose from 56% in 1980 to 67.5% in 1988 (the imports mostly came from other EC countries).

Total imports of table linen increased from 2100 tons in 1980 to 3000 tons in 1988. About 27% of these imports came from developing countries, mainly China. The import dependency ratio rose from 50.1% in 1980 to 80.8% in 1988 (the imports mostly came from other EC countries).

Italy

Net imports of household textiles and industrial textile products to Italy increased from 1400 tons in 1980 to 5000 tons in 1988. This low figure can be explained by the fact that Italy is an important textile exporting country.

Total imports of bed linen to Italy increased from 3900 tons in 1980 to 7000 tons in 1988. About 39% of these imports came from developing countries, mainly Turkey,

China and Pakistan. The import dependency ratio for bed linen rose from 11.2% in 1980 to 18.1% in 1988.

Total imports of bathroom and kitchen linen to Italy increased from 3800 tons in 1980 to 6400 tons in 1988. About 45% of these imports came from developing countries, mainly from Brazil, China and Pakistan. The import dependency ratio rose from 28.7% in 1980 to 40.4% in 1988.

Total imports of table linen increased from 1300 tons in 1980 to 2400 tons in 1988. About 50% of these imports came from developing countries, mainly from China, Turkey and India. The import dependency ratio for table linen rose from 21.5% in 1980 to 31.3% in 1988.

The Netherlands

70% of Dutch consumption of textile products is imported. From 1987 to 1989 imports of bed linen decreased, imports of table and kitchen linen increased, and imports of bath linen remained stable.

However, not all household textiles imported to the Netherlands are also consumed there. Some are finished in the Netherlands and subsequently re-exported. The value of these re-exports is estimated at 60% of all textile imports to the Netherlands. About 50% of Dutch production of textiles and textile products takes place outside the Netherlands.

As for bed linen, the most important (by weight) imports into the Netherlands in 1989 were woven, printed cotton bed linen and woven, unprinted cotton bed linen. The average price per kilo for all these items was 7.3 ECU. By far the most important countries exporting to Holland are:

- 1) other EC countries (average price per kilo: 9 ECU);
- 2) Pakistan (average price: 5.6 ECU);
- 3) Turkey (average price: 7.3 ECU).

Imports of bed linen are expected to rise from 8554 tons in 1988 to about 9000 tons in 1992.

Nearly all imports of towels are cotton-made. The average price per kilo of these imports is 8.2 ECU. About 70% of towel imports are from other EC countries. The most important exporters to Holland from the developing world are Brazil, China and Pakistan. The average price per kilo for the EC imports is 9 ECU. Towels from Brazil

fetch 8.6 ECU whereas those from China and Pakistan average 3.9 ECU and 6.9 ECU respectively.

It is expected that imports of made-up towels to Holland will rise from 8205 tons in 1988 to about 8500 tons in 1992. Re-exports are also included in the import figures. The import figures are therefore higher than those for apparent consumption.

About 55% of the tablecloths imported into the Netherlands are made from cotton, while about 35% are made from synthetics and other materials. The average kilo price for cotton tablecloths cotton is 14 ECU while those made of synthetics, etc, fetch 12.5 ECU.

The largest exporters to the Netherlands are the other EC countries, who account for 82% of Dutch imports at an average price of 15.5 ECU per kilo. They are far ahead of Eastern Europe, Brazil, and India, with average prices of 8.2 ECU, 8.6 ECU and 10.3 ECU respectively.

APPENDIX 3: REFERENCES

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