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Negotiating Group on Market Access

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MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS

A View To Harmonize Textile, Apparel And Footwear Labelling Requirements

Communication from the United States

Addendum

The following communication, dated 1 December 2005 is being circulated at the request of the Delegation of the United States.

Overview

1. Multiple WTO Members have notified barriers to Non-Agricultural Market Access (NAMA) negotiating group related to the labelling of textiles, apparel and footwear products. All WTO Members have the right to use labelling as a measure to provide needed information and/or to ensure the health and safety of its consumers. WTO rules exist in the TBT and SPS Agreements that protect against possible protectionist abuse of such labelling measures; these issues are not the subject of this paper. However, legitimate labelling requirements do impose additional costs on trade - costs that ultimately get passed on to consumers. Other barriers to trade exist in the form of differing legitimate labelling requirements in different markets. The market segmentation created by these differing national or regional labelling requirements adds further costs to the production and distribution process. NAMA negotiations may present an opportunity to consider approaches to labelling in a way that could benefit textile exporters and consumers by reducing these costs. The United States suggests that interested WTO Members begin informal discussions to identify common barriers of interest related to textiles, apparel and footwear labelling, as well as possible solutions.

Issue

2. WTO Members including Egypt, India, Korea, Mexico and the United States have identified barriers related to the labelling of textiles, apparel and footwear as part of the NAMA NTB notification process. Most Members have at least some requirements for the labelling of textile, apparel and footwear products put up for sale in their local markets. For the most part, these requirements cover care instructions, fibre content, country of origin, manufacturer/distributor information and size information. Other requirements may include placement of labels and physical attributes such as font size and language. Certain aspects of labelling are mandatory in some Member countries, while others are voluntary.

3. There are aspects of textile, apparel and footwear labelling requirements and guidelines that are quite similar among Member countries, and there is some regional harmonization. The European Union has harmonized fibre content requirements for its members. MERCOSUR Members have harmonized fibre content and care instructions. The United States, Canada and Mexico are working toward agreement on common NAFTA care instruction symbols and efforts are continuing in the International Organization for Standardization (ISO) to develop an international care labelling standard.

4. The extent to which Members have different labelling requirements increases processing time and costs for manufacturers that supply multiple markets. There are also certain labelling requirements that are overly burdensome and costly, and thus have the potential to distort trade. Exploring options for identifying more uniform and/or less burdensome approaches to labelling of textiles, clothing and footwear that provide the same information could reduce transactions costs, thereby facilitating trade and benefiting consumers. While efforts to pursue harmonization of labelling requirements are conducted within international standard-setting bodies, rather than the WTO, there may be opportunities for pursuing agreements to adopt less burdensome labelling methods in the NAMA context.

5. One example of a burdensome requirement applied by a significant number of Members is that the label must include importer information. The costs of compliance with such requirements may be small if this information is known in advance and if the shipment destination and/or importer does not change during the delivery process. However, the costs can rise if shipments are required to arrive at the port of entry with labels that must include information that may be unknown at the time of manufacture or that can change. Once in port, costs can rise again if the importer is not given a reasonable opportunity to adjust the label to comply with local requirements. A further complication arises when such labels are required to be permanent, adding to the costs if the importer information changes.

Economic/Financial Impact of the Barrier

(a) Costs to the Industry

6. In the current global industry, it is typical for one company to manufacture textile, apparel and footwear products for many different markets. In many cases, the only differences in the products are the labels, which must meet the requirements of the final consumer market. Because a permanent label is typically required, manufacturers must determine the ultimate destination of their products before or during the construction process. Given the fast-paced and particular nature of the retail fashion world, predetermination of sales trends and timing is difficult, if not almost impossible, to predict with accuracy.

7. Manufacturers typically measure the cost of multiple and diverse labelling requirements several ways. When measured on a per article basis, the marginal cost of the actual label is relatively insignificant, perhaps as little as $0.02 to $0.05 cents per article, depending on the kind of label and the amount of the production run. However, when labelling changes are required with little advance notice or forced to occur at the border (for example if a customs authority forces a relabelling), then the cost can be very significant. Moreover, when measured over the many stock keeping units (*e.g.*, sizes, styles, and colours) and many diverse country requirements, the costs rise further still.

8. Typical costs associated with labelling (whether done at the factory or at a different point in the supply chain) include the following:

- the direct cost of adding labels after manufacturing (additional sewing time);
- the costs of maintaining additional production lines (production planning, capacity allocation, cutting scheduling, sewing line allocation, components control procedures, duplicate quality assurance procedures, special procedures at finishing and packing areas);
- the cost of rehandling goods to change labels (additional handling and storage);
- the cost of maintaining label inventory for each country (compliance costs);
- the increased cost of labels due to low quantities of each label (*i.e.*, having to purchase more than the amount of labels actually required to meet minimums from the label supplier);

- costs related to administrative issues (including possible penalties equalling one to three times the value of the shipment) and held shipments due to incorrect labelling;
- chargebacks from retail or wholesale customers due to shipping goods with incorrect labels; and
- the cost for delaying shipment of goods to customers, and the possibility of the retail customer cancelling orders.

9. Industry experts estimate that diverse labelling schemes can add approximately one dollar per article, an amount far higher than the actual cost of the label itself. When those changes are required after the article leaves the factory – for labels changed in warehouse consolidation facilities, for example – the costs can be several times higher, especially if customs or other government fines are assessed.

(b) Costs to Society

10. Additional labelling costs are usually passed directly on to the ultimate customer. When subjected to various mark-ups, this cost can multiply several times over the course of the supply chain. Thus, diverse labelling requirements, while designed to provide consumers with specialized information, usually impose additional costs on those individuals.

11. Governments also bear additional costs as they confront diverse labelling schemes. Regulators are required to acquaint themselves with conflicting and often changing requirements. In some cases, companies report instances where inspectors in one port enforce one set of labelling requirements while inspectors in another port enforce another. Such confusion increases the chance for non-compliance, while reduced transparency increases opportunities for corruption. In both cases, the costs associated with the article increase, which translates into additional costs for the customer.

Conclusion

12. We see two principal ways to avoid the increases in time and costs associated with diverse labelling schemes. In the long term, one can work toward the harmonization of textile, apparel and footwear labels. Conceptually, harmonization represents a "gold standard" in mitigating costs arising from differences in labelling standards, but is often difficult and time-consuming to achieve. WTO Members have stressed the importance of ensuring transparency, openness, impartiality and consensus, effectiveness and relevance, coherence, and addressing the concerns of developing countries when engaging in international standards setting.

13. The second way – the way in which WTO Members in the NAMA negotiating group can have a direct impact – is to examine administrative or other practices that are used to implement labelling programs in the textiles, clothing and footwear industries. What are the efficient methods that can be employed to ensure provision of desired information without unduly imposing costs or delays on trade? For example, Members could look at the procedures that are invoked when the destination of textile, apparel and footwear shipments is changed at the last minute and/or when mislabelled goods arrive at the customs port. There may be other administrative aspects of labelling for which fully-acceptable yet less costly or less time-consuming approaches can be identified. Such approaches could offer clear benefits to traders and consumers in many WTO Member countries. Accordingly, we invite interested Members to join the United States in a discussion on common barriers of interest related to textiles, apparel and footwear labelling as part of NTB negotiations.