

For information  
12 July 2004

**LEGISLATIVE COUNCIL  
PANEL ON COMMERCE AND INDUSTRY**

**Hong Kong's Post-2004 Textiles Control Arrangement**

**Purpose**

This paper informs Members of the proposed changes to the textiles control system and the consequential legislative amendments to the Import and Export Ordinance (Cap. 60) after end December 2004, when all quantitative restrictions on textiles and clothing (T&C) products will be eliminated by 1 January 2005 under the WTO Agreement on Textiles and Clothing (WTO ATC).

**Background**

2. At present, Hong Kong's T&C exports to Canada, the European Union (EU) and the United States (US) are subject to certain quantitative restrictions. To ensure that Hong Kong fully discharges our obligations under the bilateral textiles agreements, the Trade and Industry Department (TID) has been operating a textiles export control system comprising quota administration and a licensing system.

3. In accordance with the WTO ATC, all quantitative restrictions will be completely eliminated by 1 January 2005. Thereafter, exports of Hong Kong T&C products will enjoy quota-free access to all markets. With the global elimination of quotas, T&C products will be fully integrated into the common framework of multilateral rules and disciplines under the WTO, and the discriminatory treatment between exports from different economies should disappear altogether.

4. However, the terms of Mainland China's accession to the WTO has created complications. Whilst all quotas currently applied to T&C products from Mainland China will be eliminated on 1 January 2005, as with other textiles exporting Members of the WTO, Mainland China will continue to be subject to two special time-limited provisions: the special textiles safeguards which will last until 2008 and the product-specific safeguards which will last until 2013. Under these two safeguard mechanisms, a WTO Member may apply safeguard measures on T&C imports from the Mainland if it is determined that increased imports of such products have caused or threatened market disruption to the WTO Member's domestic industry. So far the US has already imposed safeguard measures (in the form of quotas) on five categories of Chinese T&C products. The EU is also faced with increasing calls from its domestic industry for taking safeguard actions on certain Mainland Chinese T&C imports.

5. The special safeguard measures are only applicable to the Mainland, not Hong Kong. However, due to our geographical proximity and close economic integration with the Mainland, there may be temptation for traders to illegally export T&C products manufactured in the Mainland through Hong Kong as Hong Kong-made products. Hence, whilst in theory there should be no need for control over Hong Kong's T&C exports, it would be in our interest to retain some form of control in the post-2004 era in order to protect Hong Kong's textile trade interest in 2005 and beyond. We must demonstrate to our trading partners that we can differentiate between Hong Kong-made T&C products and Mainland-made ones through a well-established system which can effectively guard against circumvention of safeguard measures on specific Mainland products.

### **Guiding Principles**

6. Against this backdrop, the Government has proposed to modify the existing textiles control system to cater for the post-2004 era. In developing the post-2004 textiles control system, we have adopted the following guiding principles:

- (a) the system should be as simple as possible – there should not be any more control than is absolutely necessary in a quota-free environment;
- (b) the key is to ensure origin compliance of T&C products claiming Hong Kong origin; and
- (c) the system is enforceable and we need to make sure that the control measures will work.

## **Details**

7. The proposed system for post-2004 will involve the following modifications to the existing control system:

- (a) all quota-related operations<sup>1</sup> will cease with effect from 1 January 2005;
- (b) Restrained Textiles Export Licences to Canada, the EU, and the US will be dispensed with;
- (c) the current Production Notification (PN)<sup>2</sup> requirement applicable to all cut-and-sewn garments to Canada, the EU, and the US will be discontinued. Only those types of cut-and-sewn garments identical to the ones being subject to safeguard measures in the Mainland will be subject to the PN requirement;
- (d) licensing requirement for commercial shipments of textiles import and export will be maintained to ensure that Hong Kong products would not be adversely affected by the application of Mainland-specific safeguard measures. Different licensing

---

<sup>1</sup> Quota-related operations include textiles controls registrations, quota allocations, swing and flexibility provisions, free quota schemes, etc.

<sup>2</sup> Under section 6AB(1) of the Import and Export Ordinance (Cap. 60), no person shall commence the production of any such garment unless he/she lodges a Production Notification (PN) with the Director-General of Trade and Industry. Under a quota regime, the PN requirement serves to ensure that the origin-conferring process for the manufacture of cut-and-sewn garments for export to Canada, the EU, and the US has taken place in Hong Kong.

requirements will apply for “sensitive” and “non-sensitive” markets:

- Sensitive markets - All textiles exports to and imports from the Mainland, and exports to those economies which have invoked safeguard measures on the Mainland will have to be covered either by a consignment-specific export or import licence issued by the Director-General of Trade and Industry (DGTI) or an import or export notification completed by the trader registered under the Textiles Trader Registration Scheme (TTRS).
- Non-sensitive markets - Textiles imports and exports other than those set out above will be covered by a comprehensive import or export licence respectively. A comprehensive licence will be valid for a period of 12 months and it will be granted to traders to cover multiple shipments. There will be no quantitative restriction for each consignment.
- All transshipment cargoes of textiles to or from any country or place will continue to be covered by a transshipment notification under the TTRS as in the current arrangement.

The above textiles licensing arrangement will be reviewed in late 2005, taking into account factors such as changes in the global trading environment after quota elimination, the extent of safeguard measures invoked by WTO members on China, and the local manufacturing scene.

- (e) at present, licensing exemption is given to exports of accompanied personal textiles shipments. In a quota-free environment, licensing requirement for personal shipments will be further relaxed so that (i) unaccompanied textiles articles for personal use of the sender or as bona fide gifts to another individual, or (ii) bona fide textiles gifts to an individual in an accompanied baggage, would be exempted from the textiles licensing requirements.

8. Moreover, the Special Licensing Scheme for Piece-Knitted Garments, which is quota related, will be discontinued after 2004. In view of the liberalisation of quotas after 2004 and having regard to the trade's overall interest, we propose to amend Hong Kong's origin rule for piece-knitted garments as "either *knitting of panels*; or *linking/stitching of knit-to-shape panels into garment*". Such an origin rule is also in line with the origin rule used in CEPA.

### **Fees and Charges**

9. With the elimination of quotas, quota-related textiles application fees and service fees will no longer be applicable after 2004. Pending a review on the overall textiles licensing arrangement in late 2005 (see paragraph 7(d)), other textiles-related fees (including the lodgment of Production Notification and licence fees) will remain unchanged. For the comprehensive licence to be introduced, we are examining whether a separate fee will need to be charged having regard to the estimated cost for implementing the comprehensive licensing system.

### **Proposed Legislative Amendments**

10. The legal framework for the textiles export control system is embodied in the Import and Export Ordinance (Cap.60) and its subsidiary regulations. In the light of the modifications to the system as set out in paragraphs 7 and 9 above, corresponding amendments to the Import and Export (General) Regulations (Cap. 60 sub. leg. A) and the Import and Export (Fees) Regulations (Cap. 60 sub. leg. B) will be necessary, as follows:

- ***Fourth Schedule of Cap. 60A***

With the modifications to the licensing requirements in paragraph 7(d), the scope of the TTRS<sup>3</sup> in the Fourth

---

<sup>3</sup> At present, the TTRS covers the imports, re-exports, transshipment of textiles, export of Hong Kong origin textiles to non-restrained markets, and exports of certain Hong Kong origin textiles samples to the US.

Schedule of Cap. 60A will be redefined to cover only the sensitive markets, i.e. all textiles exports to and imports from the Mainland, and exports to those economies which have invoked safeguard measures against the Mainland. The notification requirement for textiles transshipment cargoes will also be retained under the TTRS.

- ***Fifth Schedule of Cap. 60A***

The Fifth Schedule of Cap. 60A sets out the “specified textiles”<sup>4</sup> and the “specified countries”<sup>5</sup> to which the PN requirement applies. To reflect the change in scope of the PN requirement after 2004, the Fifth Schedule will be amended so that the list of market-specific cut-and-sewn garments that are subject to PN requirement can be added or deleted as and when new specific safeguard measures on the Mainland are imposed or rescinded respectively.

- ***Regulation 6(1)(c)(ii) of Cap. 60A***

To give effect to the licensing exemptions set out in para. 7(e) above, the regulation will be amended to extend licensing exemptions for exports of unaccompanied textiles personal effects and gifts and for exports of accompanied textiles bona fide gifts.

- ***Schedule to Regulation 2 of Cap. 60B***

Given that quota-related textiles applications and services will cease with effect from 1 January 2005, they will be deleted from the Fees Schedule. The application for issue of a comprehensive import and export licence will be added to the Schedule.

11. To implement the revised rule for piece-knitted garments as stated in paragraph 8 above, the Commissioner of Customs and Excise will make an order under Section 2(2)(b)(ii) of the Trade Description Ordinance (Cap 362).

---

<sup>4</sup> The “specified textiles” in the Fifth Schedule is “cut-and-sewn garments”.

<sup>5</sup> The “specified countries” in the Fifth Schedule is “Canada, the EU, and the US”.

12. We recommend that the proposed legislative amendments should take effect from 1 January 2005 to tie in with the elimination of quotas.

## **Conclusion**

13. With the elimination of the global quotas, the control on the import and export of textiles from 2005 onwards should be dispensed with altogether as with the other commodities in the merchandise trading regime, if not for the existence of safeguard measures on specific Mainland T&C products and the possible circumvention thereof. Against such background, retaining a credible system of control in the quota-free regime after 2004 will serve the wider interest of the Hong Kong textiles trade. The control system after 2004 will be more business friendly and trade facilitating, and its purpose is to ensure origin compliance of T&C goods claiming Hong Kong origin and to protect the legitimate trade interest of Hong Kong.

14. It is uncertain when the major importing economies (such as the US and the EU) will formally announce how they would treat global T&C imports in the post-2004 era, and whether they will implement more trade defence measures against imports from Mainland China that would necessitate a high degree of surveillance of textiles imports from the region, including those from Hong Kong. However, with 1 January 2005 fast approaching, we need to draw up the post-2004 control framework, effect amendments to existing legislation and announce the modified system to the trade as soon as possible. We will closely monitor developments in the importing economies and inform Members should there be further necessary changes to the proposed system in the light of new developments in the importing economies.

Commerce, Industry and Technology Bureau  
July 2004