

For discussion
21 December 2010

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Adjustments to the Hong Kong Textiles Control Arrangements

Purpose

This paper informs Members of the proposed adjustments to the Hong Kong textiles control arrangements and the consequential legislative 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).

Existing Textiles Control Arrangements

2. In accordance with the World Trade Organization (WTO) Agreement on Textiles and Clothing, all quotas on textiles products were eliminated globally by 1 January 2005. Exports of Hong Kong textiles products have been enjoying quota-free access to all markets since then. However, under Mainland China's Accession Protocol to the WTO, Mainland China will continue to be subject to two special time-limited provisions. Under the two provisions, WTO members may impose special textiles safeguards and product-specific safeguards on Mainland textiles products up to December 2008 and December 2013 respectively, if it is determined that increased imports of such products have caused or threatened market disruption to the WTO member's domestic industry.

3. Given the geographical proximity and close economic integration between Hong Kong and the Mainland, Hong Kong maintains the necessary textiles control arrangements after the global elimination of textiles quotas to safeguard the legitimate interests of Hong Kong's textiles trade. Different licensing requirements have been applied to "sensitive markets" and "non-sensitive markets" as follows:

- (a) all textiles exports to the United States (US), and textiles imports from and exports to the Mainland (classified as involving

“sensitive markets”), are covered by either consignment-specific import/export licences issued by the Director-General of Trade and Industry (DGTI), or notifications lodged by registered traders under the Textiles Trader Registration Scheme (TTRS). In addition, all cut-and-sewn garments produced in Hong Kong for export to the US are subject to the Production Notification (PN) requirement¹;

- (b) all other textiles imports and exports (classified as involving “non-sensitive markets”) are covered by either consignment-specific import/export licences, or comprehensive import or export licences granted to traders to cover multiple shipments in a year; and
- (c) all textiles transshipment to and from any place are covered by notifications lodged under the TTRS, consignment-specific import/export licences or comprehensive licences.

4. The US and the Mainland have been classified as “sensitive markets” since post-quota times. The classification was made in view of the US safeguard measures against Mainland textiles products² introduced shortly before the global elimination of textiles quotas and the special textiles safeguard measures (in the form of quotas) imposed on Mainland under the US/Mainland Memorandum of Understanding concerning Trade in Textile and Apparel Products which expired on 31 December 2008³.

¹ The PN requirement is to ensure that the principal manufacturing process of cut-and-sewn garments is carried out in Hong Kong. Manufacturers producing cut-and-sewn garments intended for export to the “sensitive markets” (currently, the US) are required to lodge PN on the day of or within 3 working days prior to the commencement of the major assembly work in Hong Kong.

² The US imposed safeguard measures in the form of quotas on five categories of Mainland textiles products in 2004.

³ The European Union (EU) was added to the list of “sensitive markets” on 15 March 2006 subsequent to EU’s introduction of safeguard measures (in the form of quotas) on Mainland textiles products in July 2005 under the EU/Mainland Memorandum of Understanding (MOU). The EU/Mainland MOU expired in December 2007 and was followed by a one-year joint import surveillance system in 2008 to monitor the quantity of Mainland textiles imports into the EU. The EU has not put in place any other trade remedy measures on Mainland textiles imports since then. In view of the gradual liberalization of the EU market, the licensing requirement for Hong Kong’s textiles exports to the EU has been relaxed since 29 June 2009 with the EU reclassified as a “non-sensitive market” again.

Recent Developments

5. Though the special textiles safeguard measures against the Mainland have lapsed, Mainland textiles products remain susceptible to the risk of product-specific safeguard measures, particularly those of the US. In September 2009, the US President decided to impose precedent-setting product-specific safeguard measures (also known as section 421 safeguard in the US), in the form of duty, on imports of certain passenger vehicle and light truck tires from the Mainland. This may encourage other similar petitions from the textiles sector leading to instigation of safeguard measures against Mainland products.

6. Apart from US, there have been no proposals from other markets for initiating product-specific safeguard measures against Mainland textiles products recently. It is also noted that genuine textiles transshipment which do not enter the commerce of Hong Kong are less prone to abuse or circumvention.

Proposed Adjustments

7. Taking into account the global textiles trading environment, the Government plans to introduce the following adjustments to the textiles control arrangements:

- (a) the licensing requirement for textiles import from or export to “non-sensitive markets” be removed; and
- (b) the licensing requirement for all textiles transshipment be removed.

It is envisaged that the adjustments will facilitate the textiles trade in the import/export of textiles while not compromising the effectiveness and credibility of the textiles control arrangements in Hong Kong.

Proposed Legislative Amendments

8. The legal framework for the textiles control arrangements is embodied in the Import and Export Ordinance (CAP. 60) and its subsidiary regulations. The planned adjustments in paragraphs 7(a) and 7(b) necessitate the following 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):

(a) Regulation 6 of CAP. 60A

The Regulation stipulates the circumstances under which import/export of certain textiles can be exempted from licensing requirement. It will be amended to include licensing exemptions for textiles imports and exports involving “non-sensitive markets” and all textiles transshipment;

(b) Fourth Schedule of CAP. 60A

The Schedule sets out the scope⁴ of TTRS. It will be amended to reflect that TTRS will no longer cover textiles transshipment;

(c) Schedule to CAP. 60B

The Schedule sets out the fee items and the corresponding charges. It will be amended to remove the service and the fee for lodgement of TTRS transshipment notifications; and

(d) References/provisions relating to TTRS transshipment notification in CAP. 60A and CAP. 60B

Relevant parts of CAP. 60A set out the obligations of traders and carriers in using TTRS transshipment notification to cover textiles transshipment while regulation 2(2A) of CAP. 60B requires that the fee for a TTRS paper notification, including transshipment notification, shall be paid before the delivery of it to DGTI. Since textiles transshipment will no longer be subject to licensing requirement, the relevant references/provisions in CAP. 60A and regulation 2(2A) of CAP. 60B will be removed.

Consultation with the Textiles Trade

9. The Textiles Advisory Board has been consulted on the proposed adjustments to the textiles control arrangements and supports the proposals.

⁴ At present, the TTRS covers the import and export of textiles from/to the Mainland, the export of textiles to the US, as well as textiles transshipment to/from all places.

Way Forward

10. We plan to introduce legislative amendments in the first half of 2011 for implementing the proposed adjustments. We will continue to monitor developments in the international trading environment and inform Members should there be further necessary adjustments to the textiles control arrangements in the light of new developments.

Trade and Industry Department
Commerce and Economic Development Bureau
December 2010