

For discussion
on 18 February 2014

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Review of the Hong Kong Textiles Control System

PURPOSE

This paper seeks members' views on the Administration's proposal to further relax the Hong Kong Textiles Control System ("TCS").

BACKGROUND

2. Since the global elimination of textiles quotas in 2005, it has been the objective of the Administration to progressively liberalize the TCS while maintaining the necessary control to ensure access of Hong Kong's textiles exports to our major markets. We relaxed the TCS in 2009 and in 2011, in tune with evolving changes to global textiles-related trade rules. The TCS currently comprises the following measures –

- (a) **Licensing and Notification Requirements** – textiles exports to the United States ("US"), and imports from or exports to the Mainland require either a consignment-specific textiles licence or a notification lodged by the trader concerned who is registered under the Textiles Trader Registration Scheme ("TTRS"); and
- (b) **Production Notification ("PN") Requirement** – manufacturers producing cut-and-sewn garments in Hong Kong for export to the US are required to lodge PN.

3. The TTRS is a voluntary arrangement for trade facilitation whereby textiles traders registered under the scheme may lodge notifications to cover their textiles imports/exports in lieu of import/export licences.

4. The PN requirement is to ensure that the principal manufacturing process of cut-and-sewn garments is carried out in Hong Kong. Manufacturers are required to lodge PN on the day of or within three working days prior to the commencement of the major assembly work in Hong Kong, to enable the authorities to inspect the production premises as necessary.

CASE FOR FUTHER RELAXATION

Diminishing Need for Control

5. The current TCS measures are maintained to cater for possible risks that World Trade Organization (“WTO”) members, particularly the US, may apply product-specific safeguard measures on Mainland textiles exports, and the resulting need to guard against possible transshipment of Mainland exports through Hong Kong to circumvent such measures. Under China’s Accession Protocol to the WTO, WTO members were allowed to apply such safeguard measures on Mainland exports, including textiles, if it was determined that increased imports of such products had caused or threatened to cause market disruption or serious injury to the WTO member’s domestic industry. The right of WTO members to apply such safeguard measures expired on 10 December 2013.

6. As WTO members’ right to apply product-specific safeguard measures against Mainland products has expired, any trade remedy measures that WTO members may apply on Mainland’s textiles exports are now subject to the same WTO rules as applicable to other goods and other WTO members. There is no longer a need to impose licensing control on Hong Kong’s textiles imports and exports as well as the associated production notification requirement for cut-and-sewn garments.

Need for Contingency

7. Nonetheless, the threat of protectionism against textiles trade cannot be completely ruled out amid persistent global economic uncertainties. Some countries have been pursuing various means to protect their domestic industry against Mainland textiles exports. For example, in October 2012 Mexico requested consultation with the Mainland under the WTO dispute settlement mechanism on various measures maintained by the Mainland to support its production and export of textiles products. Import and export of textiles remain a

controversial issue in international trade negotiations¹.

8. Textiles trade constitutes a notable portion of our total trade, and the textiles industry is a key manufacturing industry in Hong Kong. To safeguard our economic interest, there is a need for Hong Kong to be well prepared to respond to protectionist developments in textiles trading, by retaining an ability to promptly reinstate the TCS as circumstances require, so that we can provide immediate facilitation to the trade.

PROPOSAL

9. Taking into account the developments in the trading environment as set out in paragraphs 5 to 8 above, the Administration proposes to further relax the TCS as follows -

- (a) to cease the licensing and notification requirements for all textiles imports and exports;
- (b) to cease the PN requirement for all cut-and-sewn garments;
- (c) to ‘mothball’ the framework provisions for the TCS currently embedded in the Import and Export Ordinance (and its subsidiary legislation); and
- (d) to continue the voluntary TTRS for an initial period of three years, and streamline its operation.

10. To effect the relaxation in paragraph 9(a) and (b) above, we propose to remove ‘textiles’ as a class of ‘prohibited articles’, and also remove ‘textiles, processes and places’ from the relevant schedules to the Import and Export (General) Regulations (Cap. 60A), as well as amend the fees payable for textiles-related services in the schedule to the Import and Export (Fees) Regulations (Cap. 60B).

11. We propose to ‘mothball’ the framework provisions for the TCS embedded in the Import and Export Ordinance, instead of repealing them,

¹ For example, ‘apparel rules of origin’ is a key issue being negotiated under the Trans-Pacific Partnership (“TPP”) Agreement among 12 Asia Pacific countries. The outcome may have implications on trade in textiles inputs produced by non-TPP parties (e.g. China) for buyers in TPP parties (e.g. the US).

so that the Administration may reinstate the TCS relatively quickly should circumstances require, through straightforward amendments to subsidiary legislation, obviating the need to re-enact relevant provisions in the Ordinance.

12. At present, most textiles traders (around 13,400 as at end 2013) have voluntarily registered under the TTRS to utilize the licensing exemption provided for under the scheme to lodge import/export notifications for individual textiles shipments in lieu of import/export licences. Indeed, over 99% of textiles shipments through Hong Kong are covered by notifications rather than licences. We consider it prudent, at least in the initial stage, to maintain the registration system, and encourage textiles traders to remain registered. Should licensing control be reinstated, this will reduce the considerable lead time to process a large number of registration applications from traders rushing in at almost the same time to make use of the licensing exemption under the TTRS.

13. We will closely monitor the global textiles trading environment post-liberalization. We will review the TTRS and consider if it should continue after about three years, taking into account developments in the international and local textiles trading scenes. Given this short period, we do not propose to change the requirements² for traders to register under the TTRS, but will streamline the registration and renewal procedures.

14. With streamlined procedures, we expect the TTRS annual registration fee may be reduced from the current level of \$349 to \$61.

CONSULTATION WITH THE TEXTILES TRADE

15. The Textiles Advisory Board has been consulted and supports the proposal.

² At present, Hong Kong traders engaged in textiles exports to the US, and textiles imports from and exports to the Mainland, are eligible to apply for registration under the TTRS. Registration is valid for one year and may be renewed.

WAY FORWARD

16. Subject to Member's views, we plan to introduce legislative amendments in the first half of 2014 with a view to implementing the proposed relaxation before end 2014.

Trade and Industry Department
Commerce and Economic Development Bureau
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