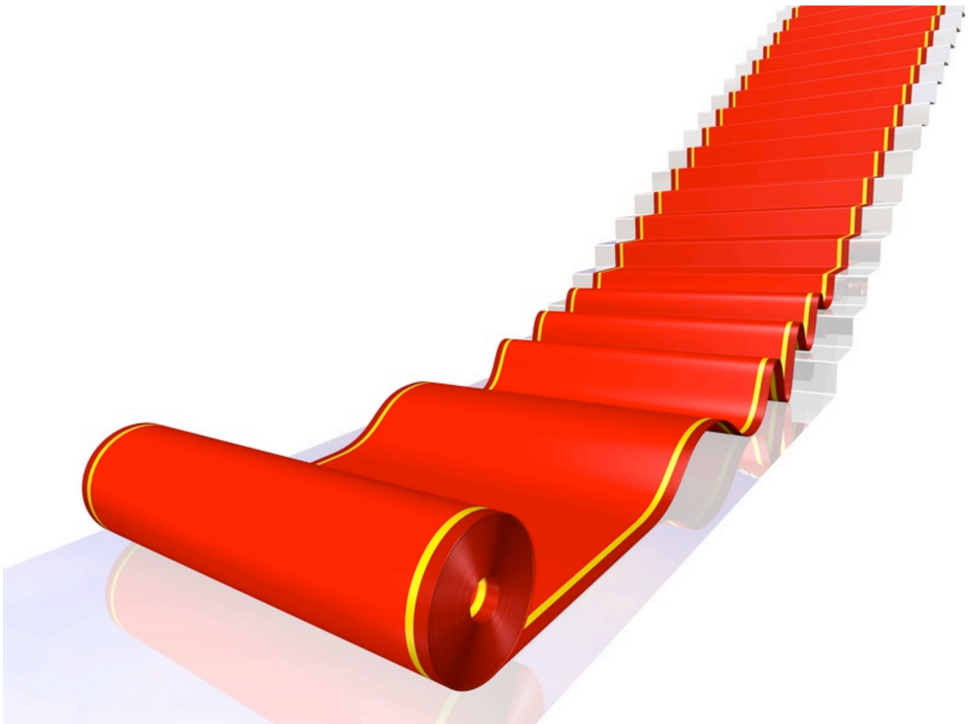
MICHELE TRONCONI

THE TEXSTYLE WORLD
of
EURATEX
CHALLENGES AND OPPORTUNITIES



Considerations following a two years presidency

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Preface

This publication does indeed describe a journey undertaken by its author, Michele Tronconi, over his two years' term of office as President of EURATEX, the European Apparel and Textile Organisation. It summarises, often quite pointedly, varying considerations about what is arguably one of the most difficult and complex tasks in any industry association in the EU today, more particularly in view of the long years under which the industry could be said to have benefited previously from a situation of "managed" trade (as mentioned in the text). The real end of this period actually took place under Michele's presidency, and he was who on many occasions had to explain to company managers that that era was over, and that the defence of its interests had to be undertaken with the same instruments and in the same way as was the case for other industrial sectors. This may also be a lonely task when one individual is called upon to take the heavy responsibility of expressing the wishes of more than 150.000 companies, employing 2.5 million workers, with a turnover in 2007 of 211 billion Euros to the EU institutions and to the Commission President, Vice-President and Commissioners.

The work also offers insights into the author's views about the complexity of the construction of Europe, and the contradictions its "unelected" executive institution may well create with the democratic institutions within the 27 member-states which compose it, together with his forthright opinions as to the need for consumer recognition of the costs associated with ethical, social and environmental production within the EU. These are presented uncompromisingly but completely logically and not without the occasional barb of humour, a measure of the man who wrote them. Michele Tronconi however is unduly modest in respect of his personal achievements in realising common positions on almost every issue which came up during his term of office, and he is also probably not fully aware of the great respect and appreciation in which he is held by the EURATEX staff in Brussels.

EURATEX itself is almost as complex as the European institutions it was set up to address. It is multi-national, just like our member-states, and the textile and apparel industry in those countries is equally diverse in importance, concentration, type of production and mentality. In an industry whose production ranges from the highest quality, best brand name, fashion articles, through interior textiles, such as carpets and drapes, to composites for aircraft wings and sophisticated protective equipment, internal debate to achieve consensus is not always easy, but is essential, just as is the need for the most complete and up-to-date information in all the areas which the organisation covers, from economic affairs and environment, external trade and industrial policy, to statistical analysis, intellectual property rights, and research and development. Here, to translate one of the author's analogies into nautical terms, a firm hand is required on the tiller, linked to an understanding of the need for such an organisation to present what might be termed a complete range of services to the Commission. This is a means of ensuring that as and when major issues arise, whether in terms of chemicals policy, funding of essential research projects or external trade, the body presenting its case can at the very least be assured of a sympathetic hearing. This is undoubtedly what EURATEX as an organisation has sought to do over the years and Michele's presidency has seen a further growth and consolidation of this role, and as a result recognition of EURATEX by the European Commission, the European Parliament and the Council as the single industry voice capable of putting forward well-documented, convincing arguments to them on the issues which arise.

Michele Tronconi's journey as President of EURATEX is now at an end, but his contribution as President remains. In my capacity as

Director-General, It has been my privilege and pleasure to accompany him over his two years' presidency and to be involved in many of the events and discussions which are described here. It is my hope that the reader of this publication will gain from it a real insight into the workings of an important European association, and, above all, will understand the level of commitment required from its President, if it is to function to the best benefit of its member-companies.

William Lakin

Introduction

This is the story of a journey; to put it better, these are reflections arising from it and thoughts as to the challenges ahead. Forcing the analogy I can speak of a certain car, a certain pilot and a certain route. The car is EURATEX, the representative body of the European Textile and Apparel Industry with the EU institutions. The analogy with a transport machine is not completely out of order; to represent somebody means many things, but you may well think of it as a way to transport the interests of the people who care to the ones who can decide about them, in favour or against. In the case of EURATEX, on the one side there are the European companies operating in the textile and apparel business, on the other side there are the many policy makers that inhabit the complex European construction. Merely to know to whom to speak about a certain matter, needs a skill all of its own and a proper "means of transport".

Textile and Apparel Industry in the EU and in Italy.

Milions of €uro

		UE27		Italy	
		2006	**2007**	**2006**	**2007**
Turnover		209.100	211.300	52.836	54.186
	Var. %		*1,1*		*2,6*
Export		35.204	36.476	27.559	28.070
	Var. %		*3,6*		*1,9*
Import		76.917	80.231	17.465	17.912
	Var. %		*4,3*		*2,6*
Trade balance		-41.713	-43.755	10.094	10.158
	Var. %		*4,9*		*0,6*
Companies (no.)		154.323	145.428	59.750	58.004
	Var. %		*-5,8*		*-2,9*
Employment (.000)		2.644,3	2.474,3	516,7	513,0
	Var. %		*-6,4*		*-0,7*

Fonte: SMI su dati ISTAT, Movimprese e SitaRicerca

Obviously this is not as simple as it seems and I'm going to devote some remarks to the significance of representing complex instances in a complex environment such as the EU nowadays in the last part of this paper.

A few words about the pilot. The one who appeared as the driver for two years' time was the undersigned. Driving in a complex environment, as I already said, couldn't be possible without a proper car, and some good co-pilots. For instance, just like in a rally race I was lucky to count on a good navigator, William LAKIN, the Director General. Moreover, I could count at any time upon the precious advice of at least three colleagues: Ottavio FESTA, Jean de JAEGHER and Paolo ZEGNA, without forgetting the strong support by the three vice-presidents: Peter SCHWARTZE, Bulent BASER and Koen BUYSE[1]. Nonetheless the person who has his own hands on the wheel – even if temporarily, as in every democratic body – is the president. I was elected in June 2006 to serve from January 2007 to the end of December 2008. Just before that I served as vice-president to my predecessor, Filiep LIBEERT, for the two-year period 2005-2006. My personal involvement in associations at European level was marked by a previous milestone ten years ago, with the presidency of CRIET. This was a branch organisation, lately merged within EURATEX, representing textile finishers, the field where I am involved as an entrepreneur. But my presence in entrepreneurial associations, both at national and European level, started just after the end of the Uruguay Round and the start of the ATC, the Agreement on Textile and Clothing of the World Trade Organisation. So, here we are with the route, at least with its starting point which was marked out, in many respects, by the end of the Multi-Fibre Arrangement. From then on there is the journey I'm going to talk about here. It is not just a matter of recalling facts, but considering them in the context of the fight between different interests in Europe.

***Picture 1* - From the Left : Me, Filiep Libert, Jean de Jagher and Jean-Baptiste Santens**

A first Interview

I'm writing this at Christmas time, taking the opportunity of some days' holidays to bring order into things done and things to do. Exactly two years ago I was preparing the answers for my first interview as the new President of EURATEX. In those answers there is a picture of where we were and where I thought – and still think – we had to go. The questions were asked by a German journalist, Mme Claudia Carillon, for "Fashion Today" and "Fashion China Magazine", in which the interview was published in the first quarter of 2007. Now, let's imagine I'm answering again and in the same way. Let's set the scene: it's snowing outside; the interviewer and I are seated between a fireplace and a Christmas tree.

Q) What is the aim of EURATEX for the next five years?

A) In the Developed Countries, like the EU, there's a peculiar attitude of mind in respect of textile and apparel production. It is seen as a part of our past, still persisting into our present time. Too few think that this is so because of the capacity of the industry to reinvent itself continuously. On the contrary, the mantra is that ours is a sunset industry in Europe (for many decades, now!), to be shifted abroad completely. So, the question sounds to me as if EURATEX would be some sort of WWF for endangered industries, intimately asking what kind of protection we will ask to ensure survival for a little longer. But we don't want to be considered as endangered species. Our aim is not simply to survive, but to prosper. And to be considered as such, as an engine of the European economy. Especially in some member countries, like Italy or Turkey, our industry is still at the heart of the economy. From new products and new processes to *profit, incomes and revenues. So, if I can say in few words what is the principal aim of EURATEX it is simply to obtain for our industry the attention it deserves. Not because of what we were, but because of what we are and will be able to be. (…)*

Q) You mentioned Turkey referring to an enlarged Europe. From the beginning of 2007 two new member countries will be part of the EU, what does it mean for the textile and apparel industry?

A) I think it reinforces the need about which we were pretty clear to the European Commission at the end of 2003, when the communication "The future of the textile and clothing sector in the enlarged European Union" was published. Our industry is still very important for many member countries. It means that everyone has to accept that in Europe the difference of economic specialisation between countries is a normal fact. So public policy should not be based on convergence criteria, implicitly forcing every member to become more similar to each other. As if in every country there could exist an international financial centre like the City of London. On the contrary, different economic specialisation – not to be considered in a static way – would have to be regarded as a precious source of wealth for the EU as a whole.

Q) But the enlarged Europe has still to face global competition. How can you cope with it?

A) I think you mean that import and export flows between member countries is going to be replaced more and more by international trade. For that we have to increase our exports to new markets like the Chinese, the Indian or the Russian ones.

This is also the reason why market access is so important. Trade in textiles and clothing will have to be a two way street. At the same time, it is fundamental to sustain innovation and appropriate skills training at all levels to ensure that we have the manpower and the brainpower to progress. Obviously, in so doing intellectual property and the defence of it everywhere become essential. Nonetheless, we haven't to forget the internal side of global competition. (…) Coming back to your question, in more general terms, I think that in global competition the problem is not mainly what you do, but how you do it. Starting from the idea that there isn't just one way to compete, but that every company implements its own strategy based on its history, resources and so on, the duty of a representative body like EURATEX is to enlarge possibilities for the industry it represents.

Q) What does this mean with reference to China?

A) It means to be open to dialogue and cooperation in a realistic way. China is an opportunity as well as a structural problem because of its large dimension and the speed of its development. We cannot underestimate both aspects, which is the reason why we must be open-minded and creative in our relationship, on both sides, as we are able to do with our products.

Q) I would like to understand better. Let's refer to the Sino-European agreement implementing safeguard quotas, which will reach the end on 31/12/2007. What will happen then?

A) Here, if only in terms of equity, we need to be aware that of those countries which have applied safeguard measures – like *the USA, Brazil and South Africa - we in the EU are alone in facing the bleak prospect of a year 2008 without quantitative limitations. It will be as if at the end of 2003 the EU had decided to abolish the ATC quotas one year earlier than our American and Canadian friends. But to explain better my point of view, I'd like to stress the structural side of the problem. It is not Chinese competition that I fear but the risk of market disruption which could come as a consequence of a surge of imports. If you say: "Hey, there's a party; come to the party!", and all around the other Discos are closed, you risk having many more guests than champagne. Too many guests means too little for the largest part of them. In comparison, the ones to suffer the most will be the European producers. This because, for example, we are not backed by easy loans as many foreign producers still are. So, even if it will be a difficult task, politically, I strongly believe that we'll have to find a consensual solution, like the extension of the agreement or some sort of monitoring.*

Q) Don't you think that every kind of quota system is a protectionist tool?

A) I'd like to stress that what we are trying to do it is to protect the proper functioning of markets, as in the case of every competition policy where the regulators can intervene to avoid monopoly power. The justification in so doing is a structural one, considering demand and supply status so that social welfare – which means both consumer and producer surpluses - won't be diminished, but just the opposite. A trade shock with its consequent market disruption could reduce dramatically the number of internal producers, as well as the income of their employees who will not be able to exercise their role as consumers. In European debates, too often we refer only to the *consumer surplus as the main reference in deciding about economic policy, forgetting the likelihood of many jobless consumers who could water down economic and social development. So coming back to safeguards and to the surge of textile and apparel imports from China, what we needed earlier and still need as long as others use safeguards, is some sort of a sluice system to adjust the mounting Chinese supply to the capacity of the European market. Like in the Panama Canal which makes it possible to pass from the Atlantic to the Pacific, it is not that we want to stop trade, but we need a tool to ensure efficiency on both sides. After 2008 no one will be allowed to use restrictions and the big Chinese supply will be globally allocated. Without forgetting the increase of their domestic market which still today is one of the largest and fast growing in the world. (…)*

Q) How do you see future collaboration with China? Could you imagine to help to upgrade Chinese manufacturing in the future?

A) As I said before, no one in the future will be able to face global business without coping with China. But this is true also for China itself and with the rest of the world. Both considering its gigantic internal market as well as its export targets, China cannot go on losing resources as it does when its companies sell manufacturing products without making profits. And this happens, maybe, because they don't consider all production costs. In so doing, they force competitors out of markets in the short run, but they suffer swift destruction of value in the long run. So I think that very soon also Chinese authorities will be interested in fighting piracy, as companies will be interested to study a better way to calculate costs and to price their goods. On both sides we'll be ready to collaborate in reciprocal interest.

The first interview, like the first public speech, is always critical. This because it is the very moment your colleagues look at you to see if they have chosen the right person to represent them. Criticism can occur because of what you said as well as for what you didn't.

***Picture 2*- With Bill Lakin**

When I was a kid my father was used to tell me: *"Listen a lot but say little"*. Lately I learnt that you can communicate something also with silence. Then, as a young entrepreneur, I learnt that shareholders judge you more severely because of what you didn't do. In the end, you always have to reach the right balance. Theoretically you have to say little – in order to focus the message – but not too little –to avoid misunderstanding – and repeat it as many times as possible – to ensure proper publicity. I don't know if I have learnt the lesson properly; I am still improving. Nonetheless, after my first board meeting as president of EURATEX, in March 2007, I had the impression I passed the exam.

Picture 2 **- With Ottavio Festa, the wise man.**

Some earlier issues

I would have to recall at least two things to put into context the picture derived from the interview just quoted. The first was the new round of WTO negotiations, the so called Doha Development Agenda, which was launched just after the terrible 9/11 terrorist attack, to manage the globalisation process in the right directions, in the hope of a win-win bargain. The ambition of the European Industry to achieve genuine market access for their exports to third markets seemed on many occasions to be sacrificed on the altar of this supposed win-win deal (but in favour of what or whom?). As I had to repeat frequently during my presidency: "*Instead of a bad deal, better no deal at all*". Now, my words may sound a little like a bad omen. As every reader is aware, the Doha Round has practically failed, but we don't have anything to toast as a result.

The second item is the Memorandum of Understanding for trade in textile and apparel goods agreed in mid-2005 between China and the EU, to avoid safeguard action against the surge of imports from the former.

For both issues the year 2001 was key. In the first case, the reason is self evident, in the second one less so. The fact is that on the 11 December of 2001 China made its own entry to the WTO, immediately taking advantage of many previous deals aimed at facilitating global trade. One of the main ones was the already mentioned Agreement on Textile and Clothing, which agreed in 1994 to remove the Multi-Fibre Arrangement and phasing-out its quota system over the next ten years.

Nonetheless, on entering the WTO, China had to sign up to a protocol which included the possibility for special textile and clothing safeguard measures in the event of market disruption caused by its exports. The figures demonstrated that that was indeed the case in Europe. Between the beginning of 2002 and the end of 2004 Chinese exports to the EU in some already liberalized products grew by three or more times, whereas prices plummeted by up to 75%. At the beginning of 2005, when all quotas were eliminated, a monitoring system was implemented on both sides and after two months it was fully evident that the increase in Chinese exports, especially in some categories of products, was exceptional and always going hand in hand with a continuous fall in prices. The EU Trade Commissioner should have published guidelines for possible safeguard action, well in advance of the beginning of 2005. This document was released only on April 6th 2005, after EURATEX had formally requested the Commission to take immediate safeguard action on 12 categories of textile and clothing products on March 9th. Moreover, just after the publication of the guidelines, the Trade Commissioner launched on April 24th an official investigation into two categories of Chinese textile exports to the EU. To quote the official statement: *"The Commission will now conduct a rapid investigation (maximum two months) to determine if market disruption has occurred and whether the EU should impose special safeguard measures. In parallel, it will launch immediate consultations with China in an attempt to find a satisfactory solution."*

The above mentioned *"satisfactory solution"* was then reached by Peter MANDELSON and his Chinese counterpart, Bo Xilai, on June 10th in the form of a MoU which reintroduced temporary and progressive quotas on ten categories of products, from then to the end of 2007. The immediate enforcement of the MoU was at the origin of the so called "bra Wars" in Europe which led to a partial amendment of the original MoU, in September. Nonetheless, the agreement proved to be a successful step, at least in stopping the continuous fall in import prices in Europe. Moreover, the MoU with China was then copied by other big players, like the USA, Brazil and South Africa, but with a longer duration, i.e. till the end of 2008. This would have created the asymmetry in that year to which I refer in my first interview. It would have been also one of the main topics I had to resolve with Trade Commissioner, Peter MANDELSON. I had met him for the first time as EURATEX vice-president on March 22nd 2005 accompanying Filiep Libeert to discuss safeguards against Chinese exports. I already mentioned what happened after this and I cannot say that MANDELSON has been completely insensitive to the needs of our industry - after having been pressured. To be honest, I have to add that the influence exerted by EURATEX alone couldn't have been enough. A critical part was played by some national governments known as "the textile friends" under the leadership of Italy and the personal activity of its trade vice-minister, Adolfo URSO[2]. In turn the activity of some national governments couldn't have happened without the influence exerted locally by the national textile and apparel associations, those same who are members of EURATEX. It was a good example of the double track approach which is so typical in European affairs.

Coming back to the meeting with MANDELSON, certainly textiles and apparel sounded like an *old thing* for someone like him coming from the birthplace of the industrial revolution. As usual the main difficulty in supporting our business lies in the way we are perceived. At the same time, it is so difficult to make others understand that our industry has moved beyond how it was in earlier times; otherwise it couldn't have flourished in Europe even with the help of quotas.

In that meeting MANDELSON used the same old story, referring to the ATC: *"You have had ten years to adjust"*. What does that mean? Maybe we should have committed suicide well in advance of our death sentence. Or rather we would have off-shored in Asia every kind of production, keeping in Europe only the design capacity. Certainly a typical British way to look at development in the so called Industrial Countries; something which appears crystal clear today with the Pound close to parity with the Euro, to strengthen British exports, if only there were still something *made in England* to export abroad!

Facing the argument in a more serious way, I would like to quote my paper dated September 2005: *"we cannot say that our Textile and Apparel industry did not face increasing global competition through investment and restructuring. As shown (...) the industry has been characterized by a continuous growth in productivity which has entailed a reduction of employment. The signals which came from the markets, in terms of export share and profitability, were encouraging enough all through the nineties. The alarming indicators about future development weren't strong enough to spur a larger and socially expensive downsizing. So, when someone points out that we had ten years to prepare ourselves, after the real end of the MFA, it sounds as a weak argument. As I just said: firstly, because we have never stopped facing global competition and in so doing we obtained good performances. Secondly, because those performances didn't justify more downsizing. Finally, as to the Chinese giant, we didn't have ten years but only three, because China joined the WTO at the very end of 2001."*[3]

I remember that at the end of that first official meeting with Peter MANDELSON, he took his leave asking me to tell my Italian colleagues *"to be gentle with him"*. I didn't know that immediately after he was going to meet an Italian delegation. Nonetheless, I think that his message could well have referred to my friends in the shoe sector who were going to ask for antidumping duties against Chinese exports. I'm aware that their way of expressing themselves may have been a little bit more rude but conclusive. In the end MANDELSON had to agree to levy antidumping duties on Chinese shoes, but I'm inclined to believe that from the arguments he had on that occasion came the project to water down the Trade Defence Instruments in Europe. Fortunately this was an unsuccessful project, but something which drained a lot of energy too on EURATEX's side.

As in many other cases I was going to face, the lobbying in Europe – as well as at national level – is not only devoted to looking for something positive, but also to avoid negative scenarios. Nonetheless, it is always difficult to explain to your colleagues when they ask what EURATEX – or any other industrial association - has done for them. They wait for things to be done and you tell them of thunderstorms which were prevented. When some of these thunderstorms arrive in the end on their head, even if in the form of a few raindrops, there is always someone ready to ask: *"What did our industrial association do to avoid this?"*

***Picture 3* - Between Francesco Marchi and Giulio Balossi**

The results of the HLG

There is another matter I should recall as a background to my presidency of EURATEX; it is the High Level Group for Textile and Clothing, created in February 2004 because of many simultaneous events: EU enlargement; the prospect of the end of the quota system; the influence exerted by EURATEX and the good will of Commissioners LAMY and LIIKANEN, respectively Trade and Industry Commissioners in the Prodi Commission.

I became a member of the HLG for its last meeting in Brussels on September 18th 2006. On that occasion I was introduced to the Vice-president of the EU Commission and Commissioner for Enterprise and Industry, Günter VERGEUGEN. With him I would have the opportunity for further positive meetings during my presidency, as we will see later.

The last meeting of the HLG was devoted to the official release of the final document. Quoting its introduction: *"The High Level Group has had a mandate to formulate recommendations on concrete initiatives that could be undertaken at regional, national and EU level to facilitate the sector's adjustment and improve its competition."* The purpose of the document has been to asses those aspects already implemented or in the process of implementation, then "*to draw attention to areas of unfinished business"* as well as to make additional recommendations for future action by stakeholders. In a few words just the right document to make up my personal agenda as in-coming President of EURATEX, on subjects ranging from IPR and market access to access to credit and R&D funding for SMEs.

There were three items of unfinished business which were underlined on that occasion and that I would like to stress here. The first regarded REACH, the new regulation on chemicals which was going to be finally approved thereafter by the European Parliament as the last step in the co-decision procedure, in spite of strong criticism from European industry.

The problem unsolved – which still remains unsolved in practice (!) - was the issue of *"substances in Articles"* being closely linked to the need for equality of treatment as between EU manufactured goods and those imported from elsewhere.

The history of REACH is emblematic of the many and contradictory souls of the EU.

On every issue at stake the EU divides itself into different *"issue networks of influence"* where both special interests as well as national representatives take part, formally or informally.

Generally speaking there are two problems which appear: one is political (or even constitutional), the second one is of consistency. Starting from the latter, let's ask ourselves how many things the EU wants to be at same time. Take the example of the Lisbon Agenda through which the EU stated in 2000 its determination to become *"the most competitive and dynamic knowledge driven economy by 2010".* Consider its simplification and re-launch in 2005 as a strategy *"for Growth and Jobs".* Then consider all the many items of red tape produced practically every day by too many rules at EU level as well as at national level, also as a consequence of implementing measures. The one thing which is always growing is complexity and cost of compliance. In many economic fields this creates an even larger difference in production costs between Europe and other countries which affects the competitiveness of European companies. Especially if, on that same European consumer market, imported products are not treated in the same way as the ones produced internally. Unfortunately this will be the case of REACH. Maybe we will have a cleaner and safer Europe, but at the risk of less growth and less jobs. The overall outcome is internally inconsistent.

Ideally the EU aspires to rank first in almost everything, and this is no bad thing. The problem, as I said, is that we want everything at the same time without considering consistency between different goals. This is part of the reason why we are hardly achieving anything we want. We should start with a clear priority list. A typical distributional problem, for politics and politicians, lies in the form of priority lists: what to do first and what to do later; where to put more resources and where to reduce them, at least at the moment, etcetera, etcetera. When we elect a national Parliament and a Government - on the basis of a democratic majority - we implicitly agree on certain distributional criteria and on a certain priority list. As is well known, many European Institutions are affected by the so called "*democratic deficit*" and this – among many other aspects - doesn't help to clearly determine a priority list, and this is to the detriment of consistency and, consequently, efficiency.

Going deeper into the political problem there are other considerations to take into account. For example, as citizens of a nation-State, we elect a certain party or a certain candidate in order to see respected part of our priority list. Then we discover that on some major issue, in spite of the consensus reached at national level, that priority list could be completely changed at European level. Isn't this a subversion of democracy which is based on the assumption that citizens should be governed by the ones they choose as a majority?

The EU is a building under construction with many pluses and minuses, always swinging between *"deepening political integration and enlargement",* mainly with regard to economic aspects; between harmonisation and standards innovation; between supranationalism and intergovernmentalism. A British euro-sceptic stressed: *"unity is impossible, but collapse improbable".* What remains to be done is to always be active on a double track, nationally and at European level.

This is especially the case of special interests, and thus with free representative bodies like EURATEX.

Coming back to the unfinished business from the HLG, there were two other items: one related to the analysis and definition of best practices in business relations between different players all along the production chain through to final retailers (especially the big ones). The last but not least piece of unfinished business involved the impact on prices arising from the end of the quota system which has inevitably led to increased import pressure. EURATEX raised the topic after having discovered a strange relationship in statistical data between import pricing and consumer pricing, for textiles, garments and footwear. The former decreased strongly everywhere in Europe, but the latter tended to increase, at least in some member countries of the Union. So, where was the consumer benefit from free trade and who was really benefiting from lower import prices? Referring to both these last two aspects the final document by the HLG stated that *"the Commission services have commissioned a study"* intended to analyse the situation and to recommend ways of overcoming any problem. These have been two studies that I had to press repeatedly for publication in my capacity as EURATEX President.

Of that September 18th 2006 I still remember that because of the strong opposition from the representative of EuroCommerce, the final document of the HLG and its abstract was released without a table prepared by EURATEX with the statistical data about import and consumer pricing for garments, textiles and footwear just mentioned. In other words, an HLG which was set up for the sake of the European textile and clothing industry had to smother one of its main questions to policy makers around Europe merely because of the influence exerted by big retailers, those same who were most probably pocketing the gifts of globalisation.

As I already mentioned, to represent special interests means a continuous confrontation with other special interests. In the EU, policy makers mainly act as judges called upon to decide from time to time which special interest is more consistent with the supposed common good. As in a lawsuit every party has to present his own arguments, documenting them in the best way. The judge is not supposed to be omniscient and needs to know fact and information to compare and decide. He is also supposed to be neutral, but this is always difficult for human beings, even when they have no prejudices of their own. In this respect procedures can help to impose schemes of balance and control. What is called "comitology" is itself a way to "assure" a certain balancing and control. Considering this, for a special interest like the one represented by EURATEX, there is only one main must: to be there, to make its own voice heard and its own case, without ever forgetting that many others will do the same.

To be clear, the confrontation between different special interests shouldn't be seen as a battle for survival, as in the Latin saying: *"mors tua vita mea"*. This for many reasons, as in the typical relation between Labour and Capital: the two are mutually dependent, even if they compete in trying to capture the benefits of their cooperation. The same could be said about many other economic relations: customer and supplier; industry and services, and so on.

The HLG has been a good example of so called *"comitology"* and any appreciation should be accompanied by the typical question: what would have happened without it? If what then happened was not quite enough, it is a good reason to go on and play again.

%	CONSUMER PRICES	IMPORT PRICES (EXTRA imports)	
	Clothing & Footwear	TEXTILE	CLOTHING
2005/2000	12m2005/ 12m2000	12m2005/ 12m2000	
BE Belgium	3,3%	-10,2%	-18,6%
CZ Czech Rep.	-17,5%	-6,2%	-49,0%
DK Denmark	1,1%	-16,8%	-18,6%
DE Germany	-2,0%	-16,6%	-26,5%
EE Estonia	11,1%	-6,3%	-49,2%
GR Greece	18,7%	-13,4%	0,9%
ES Spain	11,9%	-5,8%	-26,3%
FR France	1,6%	-0,7%	-10,2%
IE Ireland	-16,2%	74,4%	-33,3%
IT Italy	**9,1%**	**-1,9%**	**-19,2%**
CY Cyprus	-10,9%	-31,1%	-95,1%
LV Latvia	6,2%	9,6%	-36,8%
LT Lithuania	-12,5%	-11,2%	162,6%
LU Luxembourg	6,3%	-11,0%	-55,8%
HU Hungary	17,9%	-21,3%	11,8%
MT Malta	-11,4%	-92,8%	-99,7%
NL Netherlands	-2,7%	-29,9%	-37,7%
AT Austria	-1,8%	-5,3%	-18,4%
PL Poland	-10,2%	-17,9%	-35,1%
PT Portugal	2,9%	-9,5%	-18,4%
SI Slovenia	12,0%	-3,6%	-37,3%
SK Slovak Rep.	8,3%	-18,8%	-23,8%
FI Finland	-0,6%	-23,6%	-20,5%
SE Sweden	-0,5%	-22,5%	-20,0%
UK United Kingdom	-25,4%	-19,4%	-25,0%
E.U.-25	**-0,9%**	**-10,8%**	**-24,3%**

Constraints as opportunities

The final approval of REACH occurred on December 18th 2006 *"with the goal of achieving sustainable development".* It is too early to say if this will be the case. What is for sure is that industrial companies in Europe – in almost every sector - have started to face the complexity of compliance, just when recession having its origins in bad American finance is affecting the real economy, globally. For this very reason one of my last acts in charge of EURATEX has been to address a message to the President and the Vice-president of the EU Commission, respectively MM. BARROSO and VERHEUGEN, asking a degree of mitigation to the burdens associated with the REACH schedule.

Too many people, mainly outside of the industry, think idealistically that compliance with new rules such as REACH will force industry to upgrade through innovation, in a rush to the top at global level. There are only two possibilities to make this happen. The first one is to force global competitors to comply with the same rules, to protect the environment and the health of people, at least when supplying the same European market. The other one is to find a way to boost consumer purchases of *"virtuous products"* instead of cheaper ones.

This personal belief was at the basis of my first official meeting with the Vice-president of the EU Commission, Günter VERGEUGEN, also in his capacity as Commissioner for Enterprise and Industry, which took place on April 12th 2007.

Mr VERHEUGEN welcomed me and Bill LAKIN very warmly: he didn't know me very well but he did know the textile and apparel industry because of the HLG. He immediately said that our industry had been exemplary in terms of collaboration during the work of the HLG, proving its utility. We were invited to sit in armchairs around a small round table just in the middle of the big room which was his own office and coffee was served; a very different informality to what I experienced with other Commissioners in the EU, or Ministers in my own country.

We spoke in a very friendly manner on many topics and he gave me the clear impression of what a policy maker should always be: someone who listens and takes part in a mutual problem-solving process. We started speaking about trade relations with China and the strange impact of their exports on consumer prices. Speaking about the Doha Development Agenda he clearly stated his own position on *"cuts for real cuts"* (on duties). A position more than shared by our industry. Regarding REACH I recalled the problems mentioned above and suggested that some form of incentive would have been useful to reinforce good compliance. He appreciated the suggestion and together we tried to think of some examples in terms of better access to credit for good compliers. I have to admit that in spite of the general agreement on the concept nothing has been yet found if not to concentrate on more and more transparency in favour of both the consumer and the internal producer.

Picture 4 - With Mr Verheughen *(in the centre)*
and Loro Piana, visiting Milano Unica, Feb. 2008

At the end of the meeting it was agreed that a major event would be organized in the first quarter of 2008 intended to seek the means to achieve a win-win situation out of globalization and to enhance the image of the textile and clothing industry, in Europe.

That major event took place, as agreed, in Milan, on February 15th 2008, with a striking title: *European Fashion and Innovation in Tandem with EU Values – A Win-Win Formula.* I cannot avoid quoting part of the speech I made on at the occasion, also because it can help better explain my own point of view.

> *"Today the European fashion business is largely based on some form of dynamic legacy. I mean something based on skills and past experience but able, at the same time, constantly to renew itself through innovation in products as well as in processes.*
>
> *It may seem a paradox to link our past to our future. Nonetheless this is our daily life, linking taste for beauty and design which comes from our historical surroundings, with the capacity typical of the industry, but the attention typical of the craftsman. And that's not all. There is a plus, even though it appears, mainly and until now, to be only in the left hand column of the profit and loss account of our companies. It comes from the values we share. The same values we agreed to be at the heart of our legislation in terms of the social rights and safety of workers, the health of consumers as well as the respect of the natural environment in which we live.*
>
> *To comply with those rules means to incorporate those values into our processes and our products. This is the plus, becoming a minus in economic terms if it means only more costs and less revenues. We can indeed produce a win-win formula with values going in tandem with the capacity for fashion, creativity and*

innovation, but only if we will be able to improve our ability to transform those values into consumer drivers. And this in spite of globalisation. In fact we cannot forget that our industry operates in a global market; we offer our products abroad, just as our foreign competitors export their goods to Europe, mainly as suppliers of big retailers. So, on the global market - which means on every local one too - consumers have to compare and choose between many products with different origins, different histories and particularly different forms of standard compliance. This is no bad thing in itself, but can cause a problem in relative terms, when one focuses on differences in production costs, translated into consumer prices, due to a different regulatory environment. (…)

Here I do not seek to subvert the race for efficiency which lies at the heart of free trade. I merely make the point that trade policy should be subservient to overall economic policy and to the attempts we as an industry have to make to find solutions. Surely compliance with standards in respect of the environment, health and safety in the workplace and for consumers should not penalise us but deserves some payback from those on whose behalf we achieve compliance. This means that those related costs we internalize should be like a better insurance policy, all along the product life cycle, from cradle to grave. Our products will then not be seen as more expensive, but as more <u>valuable</u>. With a plus, as I said before. Part of the higher cost serves as a guarantee for everyone involved in the process, and in particular the consumer.

If this is so, the real challenge is to find out how to transform our obligations into competitive assets. We have to work together to better turn our values into consumer drivers. To put it simply: we have to inform the consumer that we have paid our ticket for *a cleaner, healthier world to live in, and couple this with our creativity and innovation. (...) It is my conviction that in the fullness of time those same values will also be applied in other nations and the playing field will become much leveller. In the meantime, I do not think that it is too much to ask that products imported into the EU should themselves be environmentally friendly, and subject to those core labour standards to which the countries of origin themselves have in fact subscribed within ILO. Here I am not advocating ever more stringent internal regulation which tends to impact most heavily upon the small and medium-sized enterprises that EURATEX represents and which make up some 96% of our industry. But I can only fully support the efforts which the Vice-President has made in the last two years to decrease regulation, to free up the EU entrepreneur from an excess of red tape and allow him to devote his time to the true purpose of his activity, adding value, innovating and creating wealth for society as a whole. By the way, we can't expect to improve our competitiveness only by increasing our costs by the day. (...)"*

I must say that in my earlier capacity as a simple Board member of Euratex I have been more provocative. On November 2003 I was invited to represent the Italian Textile industry at a big event held in Brussels by Mr Erkki LIIKANEN, the predecessor of VERHEUGEN as Commissioner for Enterprise and Industry. The title of that event was: *The Environmental Performance of EU Industry*. On that occasion, seated beside the Commissioner and in front of nearly 500 people I said, among other things:

"*Global competition can be compared to a hurdle race. When others keep theirs low, we continue to raise ours. Then, we let the ones with the lowest costs be the market winners. Without forgetting that, often low import prices do not mean low* *consumer prices. Therefore, the losses for European producers are not offset by benefits for consumers. The real problem remains: we do not have effective systems that reward people who compete by upgrading. This, in turn, is not stimulating anybody to innovate basic technologies, that is, to look for new ways of upgrading and of moving faster. (…) I would like to point out that the lack of incentives for innovation and for compliance with social and environmental standards, can have the opposite effect, by forcing production to relocate to pollution havens. In order to rectify this sort of market failure, more visibility must be given to the origin of products".*

Transparency and accountability

Just after my first General Assembly as EURATEX President, held on the 1st of June 2007, the study on the *"Impacts of textile and clothing sectors' liberalisation on prices"* was officially realised on the EU website by the Kiel Institute for the World Economy. My expectation was a little disappointed. The study confirmed what was discovered by EURATEX, by simple analysis of a time series of prices.

Through complex econometric analysis, it affirmed that drops in real consumer prices due to drops in import and producer prices *"has varied widely across the EU"*. "*The greatest decrease in consumer prices is apparent in Ireland and Great Britain, where clothing prices have fallen by about 50 percent. At the other extreme, consumer prices in Italy and Spain have remained largely unchanged during this period. Meanwhile, in Greece, clothing prices actually went up to the overall price level".* Accordingly to the conclusions drown by the Kiel Institute *"the pattern of change across the EU Member States in consumer prices is closely linked to the degree of openness and the degree of competition in the retail sector.(...)The entire episode illustrates the importance of national institutional issues (like service sector competition) when translating trade liberalization into European consumer gains.(…) This means that the benefits of trade liberalization in goods (and even the benefits of the EU's single market in goods) are linked to ongoing efforts to integrate and reform EU service sectors".*

In a few words, here we are again: when there is a problem in Europe it depends on certain nation-States, or the other way round: when we suffer some problem locally it is due to decisions taken elsewhere. Who is really accountable for what happens in the EU? Who can really be effective in solving problems, instead of explaining that the fault is that of others?

Before entering into the merits of the problem I take the opportunity to comment on the many economic experts used as consultants by the EU institutions. They are chosen through public tender, from time to time, with some of them more frequently chosen, passing from task to task, from "pre-competitive analyses" to "impact assessments". In many cases they know their models better than the reality they speak of. Even though I greatly respect research in social sciences as well as in every other more robust discipline I have some reason to be a little upset with experts working as oracles for EU Institutions. Sometime they are simply used to legitimise decisions already made. In other cases they nourish self-fulfilling prophecies or they oversimplify reality, leaving one to come to terms with complexity. As is said jokingly, the mistake of a doctor can kill you, but the mistake of an economist can simply ruin you.

Generally speaking, economic consultants are useful in many respects, also to avoid policy being the prisoner of special interests. Nonetheless there is always the risk that policy makers could remain captured by *"old ideas"* and intellectual bias, according to which, for example, textiles and apparel is a *sun-set* industry in Europe or can be nothing but protectionist. J.M. Keynes was well aware of the risk of intellectual bias. In the last page of his "General Theory" he wrote: *"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. (…) Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. (…) Sooner or later, it is ideas, not vested interests, which are dangerous for good or evil."*

Coming back to the study by the Kiel Institute, overall, it ended up by confirming what we stressed at the very beginning, but it failed to clearly demonstrate the reasons why this was happening, nor what we could do to avoid it. I had the impression that liberalisation was just too good for them to leave room for real anomalies, if not as temporary phenomena caused by less than enough liberalisation. In fact, they convinced themselves that such temporary phenomena simply depended on a different degree of development of the retailing system, in some backward countries.

It was inevitable to ask for a further appraisal, that we are still waiting for. In asking for this, I wrote to a DG Trade official as follows: *"If indeed there is one conclusion to be drawn from the study itself and from the view that we have taken since first analyzing our own data, it is that retail structure as such only accounts for part of the gap between import and consumer prices. One other important element which cannot be left aside is the behaviour of retail and distribution within the context of the national environment which surrounds it. Even today, and however cautious the study's conclusions may be, they cannot avoid the fact that the outcome where the EU as a whole is concerned is that importers and distributors are pocketing a substantial share of the price reductions they have obtained from their suppliers. Moreover, I would add my personal firm belief that one of the possible reasons of the big gap between import and consumer prices, in some EU Countries, lies in a lack of transparency".*

So, once again, lack of transparency could be seen as one of the reason standing in the way of full benefits for consumers as well as for producers. It is a topic which deserves attention at public level, especially in looking for tools to improve transparency to give the consumer the right to choose. More or less it is the same line of reasoning I followed above, with respect to the possible transformation of constraints into opportunities. If the consumer could recognize the values incorporated into products due to compliance with higher standards, he might well appreciate them and distinguish them from others.

Transparency would aim to give more information to consumers and also to mitigate the effect of asymmetries and market domination. Production companies, as in the case of textile and apparel industry, compete globally, but buy labour and energy locally, whereas services companies compete mainly locally, but buy globally. Bargaining power is less for producers and more for people in the services, as well as in retailing.

This kind of reasoning was at the very basis of the study on business relations along the textile and apparel chain through to retailing. It was publicly released in October 2007 by a multidisciplinary team of consultants, led by Bocconi University. The study appeared as a picture of a reality in motion and multi-segmented. It was complementary with the one carried out by the Kiel Institute in many respects and stressed that "*in order to successfully tackle unfair practices, improved awareness needs to be coupled with further actions aimed at raising the "costs" of acting unfairly"*. The main conclusion was that "*to restore the balance of the manufacturer-retailer relationship in the clothing and textile sector a multiform action might be conceived based on the improvement or introduction of instruments ("law or soft law" based) aimed at facilitating the identification of what constitutes unfair practice, on the one side, as well as on the adoption, in addition to traditional legislative remedies, of innovative methods to encourage fairness in the manufacturer-retailer relationships, on the other side".* So, even if the conclusion practically returns the package to the sender with a "to do list" and "only if it so wishes", the study by Bocconi appeared a little more unconventional in comparison to the one by the Kiel Institute. The idealisation of liberalisation was less apparent and cheap retailing prices were not considered necessarily as a good thing if obtained unfairly and to the detriment of producers.

Both studies highlighted Great Britain as the country where low import prices have been fully transferred to the consumer, supposedly due to the role played by big retailers. Nonetheless precisely from that country critics are challenging their dominance. An English researcher, Andrew Simms, writing about this stated that *"where prices at the point of sale are genuinely low, this has been made possible only by passing costs on to someone or something else"*[4].

To settle the relevance of this line of reasoning we must consider the cultural atmosphere still pervasive in the EU about the maximisation of consumer benefit as the main criterion for policy making. As I mentioned in my first interview, this is a simplistic view of social welfare, which can hold back economic development instead of supporting it. The economic theory of social welfare says that it must be obtained as the sum of the consumer surplus and the producer one, not the first to the detriment of the latter. In other words, to be sustainable it cannot be a zero-sum play. Who could go on consuming if not producing and so earning the money to spend? Unfortunately, this simplistic approach to social welfare has been combined with the extremism of trade and services policy to the detriment of industry. A biased combination which also took place in the USA to support the boom in that same bad finance which is affecting the real economy globally nowadays. Counting on the deflationary effect of imports from India and China, the Federal Reserve has taken the interest rate (and the Dollar exchange rate) very low over more than a decade. The Americans have consumed more and more through debt. That same debt has then been sold to China, creating a vicious circle. On one hand, Americans inflated services, reducing their presence in the real economy; on the other hand, China grew private savings and remained dependent on exports, pressuring the global market due to overcapacity, and to the detriment of its internal consumption. It's easy to agree on this picture, now that the bubble has burst, but we shouldn't forget that too many in the EU shared the same cultural bias as I mentioned. The same bias which took it for granted that any cheap price could only be good, independently of the way it was obtained, because it benefited consumers. If the consumers were the main beneficiaries, services and trade were their benefactors, the supposed prophets of a never ending new era.

Maybe this line of reasoning also convinced some EU policy makers that the continuous appreciation of the €uro against the Dollar and the Yuan was a minor problem. In fact a strong currency helps to develop trade, but in one way only. The same very way that, in the short run, benefits European traders but impoverishes European exporters.

I cannot count how many opportunities I took to underline the problem of €uro appreciation with Commissioners, Directors of DGs and Members of Parliament, even though I was well aware that monetary policy was not in their hands. I still believe that the relationship between the ECB and all the other EU Institutions has proved to be wrong and to the detriment of economic growth in the €uro-area. In mid 2007 a journalist ended an interview by asking me: *"The Euro is still strong and on the rise. What is the future of the Eurozone?"* For a moment I thought he was overvaluing my own role, not being a central banker but an industrialist. Nonetheless I took the occasion to stress my point of view: *"When you accept to live on products made abroad and you only make a living on trade, you lose the terms of trade. What do you have to export? We are not like Saudi Arabia with a lot of oil. We have to count on intellectual creativity and on our skills to transform ideas into products. You can't think of a big area like the European Union based only on services. Industry and even agriculture are needed to develop services. The Euro is a big issue; it is strong because others want to be weak. It is a strategic embrace between the USA and China that makes the Euro so strong. (…) We cannot improve our exports because our products become too expensive. If you buy and you do not sell, I say again, you lose the terms of trade. A strong Euro is a sign of a weak Europe."*

Obviously, the reference to weakness was in terms of lack of real political unity capable of making the EU respected in the international arena. In the end, even if the EU has delivered many positive things in general terms, in the industry we had to run our own companies with many handicaps because of it: an overregulated environment which increased the complexity and costs of compliance by the day; an overvalued currency and the mounting pressure of imports at ever lower prices.

We had to reduce investments and to decrease employment, even though not dramatically; only a few countries in the Euro-area, like Italy, went on to export more than to import, but certainly with less impetus than with a more balanced currency. We suffered most of all because of a mismatch between public policies. If this were not the case now we could count on much better conditions to come to terms with recession.

All in all, who is accountable for what happened and what is happening now? Rhetorically speaking, why should European citizens have to suffer for policy mistakes – even those made in good faith – without any possibility, at least, to get rid of the wrong policy makers?

China again

China has been a very sensitive topic during my presidency because it has been considered a threat just as much as an opportunity. The problem is that it was both threat and opportunity at the same time for the very few; for the big majority China was either an opportunity or (for the most part) a threat.

My personal point of view has always been based on China's sheer size. In economic theory dimension counts for a lot to explain trade flows, like in the gravitational model, but also to explain dominance. Unfortunately too many economists were biased by the pluses of liberalization to look at the risks of Chinese development for other economies. I have never been upset with China because of its fight to stand out but rather with the many who tried to conceal problems instead of facing them. Certainly considering the ATC phase out, China has been *the winner who takes all* to the detriment of all the other industrial countries or developing ones. It means that the benefits of liberalisation were going one way only and this was easily foreseeable. So that in the EU one preferred to delay any signal of this. For example, during the HLG a study was requested about China's textile and clothing industry to assess the possible impact of the final elimination of quotas on the EU industry. The document was written by consultants in Beijing at the end of 2004 and delivered in January 2005 to DG Trade, which – who knows why (!?)– decided to publish it just one year later.

In a personal letter to Peter MANDELSON dated February 2006, I made the remarks which follow. Unfortunately many arguments demonstrated this to be true, also in terms of its harmful effect for EU industry.

"The report written by consultants in Beijing at the end of 2004 justifies the fears of my business colleagues, because it reveals that the market – intended as being able to regulate itself and to promote efficiency – is not functioning properly in China. For this reason, it is said that China is not a market economy in the proper sense of the term.

If the market mechanisms were to function properly, excess production capacity would lead less efficient companies – that is, those that continue to operate with big losses – to close down. Yet this is not happening, for the reasons that are well underlined by the study.

First, many companies continue to receive subsidies from local government, primarily to safeguard employment.

Second, companies operating at a loss can nonetheless obtain funding from a completely inefficient credit system that operates on the basis of distorted competition criteria. For example, the size of the company and its market share are considered sufficient to guarantee solvency; this leads companies to increase their production even when the economic justification does not exist. Last, companies operating at a loss do not close down because there is no appropriate Bankruptcy Law as yet.

In addition to the fact that a great many companies operating at a loss do not close down, all companies maintain artificially low costs. This means not only labour costs or all the negative externalities widely allowed. It also means electricity and water, where the prices paid by companies do not reflect the real shortage of the resource.

In brief, the study states the following: the pressure of prices produced by exports from China will be enormous due to an excess production capacity that has no self-regulating *mechanism. This means that non-Chinese production will bear the full burden of adjustment. As a result the textile and clothing industry in the rest of the world, including Europe, will be significantly downsized to absorb the surplus from China. In so doing, others will have to pay for the adjustment costs of China's development process.*

This study also sheds a special light on the lack of clarity in the agreement reached on NAMA by the WTO in Hong Kong, last December. In fact, it makes the attitude of countries like India, Brazil and Argentina easier to understand, which are still reluctant to reduce their duties and non-tariff barriers in a multilateral context for textile and clothing products. In this respect, you will already be fully aware of the ambitions of the EU textile and clothing industry to secure genuine market access to a large number of closed markets. The purpose of those countries is not primarily to block European exports, but to avoid being inundated by Chinese products at a very low cost. However, by doing this, European industry, and primarily Italian industry, run the risk of being irretrievably damaged on all fronts. On the one hand, there is the pressure of an enormous increase of imports from China; on the other, exports in the medium-high market bracket towards the main emerging markets cannot be developed."

Reporting things which happened two or three years ago, it is noteworthy to see how little has changed. In the light of the current recession one can well grasp how many industries have been bartered away for the sake of the same perverse circuit between USA and China, including the European service sector which tried to take its own piece of the cake.

When I met with Trade Commissioner, Peter MANDELSON, in my capacity as EURATEX President, relations with China were the main topic; the DDA was the second, strongly linked with the former. As is obvious, on both issues MANDELSON had his own personal and political view. Accordingly he seemed less than clear, as when he delayed the publication of the safeguards guidelines, or the study above mentioned. Or when he launched a green paper to water down Trade Defence Instruments, such as antidumping. In so doing he behaved in a way which would be more acceptable at national level where accountability is clearly determined by democratic elections. Nonetheless I have to say that he was frank with me, not promising a big deal but delivering something in the end. I believe that this happened for three main reasons. The first because I tried to be less confrontational and more cooperative, starting with proposals instead of complaints. All in all the MoU signed in 2005 was a practical solution largely due to MANDELSON himself. Second because China demonstrated that it could prove more difficult than expected to deal with by the same Commissioner in other dossiers. The third and main reason has been that I always operated on a double track, asking national governments what I was asking at European level.

The solution obtained with respect to China in 2008 was a success for EURATEX. A new agreement was reached by the Trade Commissioner and his Chinese counterpart, Bo Xilai, for a *smooth transition* using a double monitoring system for eight of the ten categories under quota until the end of 2007. After two months in 2008 we reached peaks well above what could be considered as a smooth transition, but attention was going to be concentrated more particularly on the chaos in the global economy. China itself was going to emerge as a victim in the very same sectors which created problems to industry elsewhere. The reduction of the VAT rebate in the second part of 2007 by Chinese authorities, also to support a smooth transition, had to be reversed in mid 2008 to try to strengthen export flows.

Coming back to the agreement on the double monitoring system, I was astonished by the criticism which came from an American commentator, a certain Greg RUSHFORD, in the *Wall Street Journal Asia,* accusing EURATEX of inventing a new protectionist tool against China. In response I decided to ask to the journal to publish the reply by myself and Bill LAKIN. Here it is:

> "*Dear Editor, when Adam Smith presented his idea of an invisible hand operating between different self-interests to gain superior advantage, he was considering the simple fact that one always reaches a better equilibrium only if the different self interests concerned are able to influence each other. This is what happens in a free market. Maintaining such a free market means allowing free play between these different interests. When it comes however to the free market of ideas – and also to ideologies – full information about different positions and situations becomes even more crucial. In this context I would like to give readers the opportunity to double check the trade relations situation in textiles and apparel between the EU and China in 2008, in reference to the opinion of Mr Greg Rushford. He recently claimed that 2008 will see a new form of protectionism. But does everyone know why? Is everyone aware that a double checking system will be implemented next year between the EU and China to seek to ensure a "smooth transition" after the end of a previous bilateral quota arrangement? Mr. Rushford, who is an American, strangely forgets in his article, which appeared on 18th of October, that one of the main issues Europeans face next year is diversion of trade which will push Chinese exports to the EU, instead of to the USA*

which will still be protected by a bilateral deal lasting until the end of 2008. This fact alone surely places the whole issue in its true and wider context. Mr Rushford claims that efficiency is at risk, because European consumers will pay higher prices. This is a worn-out argument which is totally unproven in the EU where consumer prices for textile and apparel hardly moved in the period 2000/2005 whereas import prices fell by more than 25%. Does the EU consumer, also often a worker in threatened sectors, not have a right to retain his job or is he too to be sacrificed on the altar of economic correctness? And should China be encouraged to continue the multiple subsidies of its production base, in the absence of proper accounting systems and at export prices often no higher than the raw material from which the final product is produced? We all ought then to be consistent with ourselves and with our more vulnerable trading partners. We support duty free access for the least developed and will continue to do so. EU producers of textiles and apparel today export close to 60 billion US$ of product per annum, close to 20% of their turnover. They have more to win than to lose from open markets. They therefore seek improved access to world markets including that of the USA but would nonetheless like to see the insertion of the word fair in the liberal dictionary. Indeed if Mr. Rushford wishes to attack protectionism in textiles and apparel, perhaps he should begin with a campaign to reduce tariff peaks in the USA."

From my point of view, as I repeatedly mentioned above, there are some economic errors in appraising the role of China in the global economy which stems from escalation: *too much, too soon, too cheap.* This, without detracting from its own merits, especially for its large population. This is not the place to deepen the analysis, but I think it is important to state clearly that it is only through dialogue and better coordination that we can look for win-win solutions. Just for that I went to Beijing last March to meet with Chinese representatives of the textile and apparel industry, as well as the Japanese and Americans, in what is now considered as a yearly Quad meeting. I was astonished at the frankness of the Chinese in depicting their critical situation in the sector. Two thirds of Chinese companies were lacking profits, running in the red or at best at break even. Overproduction was more and more evident as well as the difficulty to turn revenues from exports to internal consumption. Moreover, the authorities were taking the opportunity of the Olympic Games to push industries to cleaner and healthier development. Unfortunately this was happening just when the global recession was starting to bite everywhere.

Picture 5 - The participants at the Quad meeting, in Beijing last March 2008

From that meeting in Beijing just some months before the Olympic Games I received a very strong impression. All around I saw young people with enthusiasm on their faces; they seemed aware of being where the future was going to be built.

Is globalisation reversible?

2008 has been a very strange and uncharacteristic year, as everyone knows. In the first half of the year commodity prices skyrocketed, pushing up production costs and inflation. European countries witnessed the return of stagflation, as in the seventies: upward prices but no real growth. Then in September, one year after the burst of the *subprime* bubble, the American financial system collapsed creating a knock-on effect globally, and a general downturn in the economy. There are some similarities with the crash of 1929. The fear, now, is that recession could become depression. Poor prospects lead to lower and lower consumption and investment; this causes lay-offs and down-sizing in both industry and services, with a snowball effect. Nonetheless, Christmas time and discount selling are demonstrating that, in some countries, people prefer to spend money when prices are affordable, instead of saving. Maybe the resilience of the economic system has not totally evaporated.

What is sure is that no one can really be certain of the direction of economic development, both regionally and globally. This means that the role of economic actors cannot be determined *a priori*. It means that there are threats as well as opportunities for everyone.

Last July, when the price of crude oil reached nearly $150 a barrel, globalisation appeared completely reversible. Two economists of CIBC World Market Inc. wrote: *"Higher energy prices are impacting transport costs at an unprecedented rate. So much so, that moving goods, not the cost of tariffs, is the largest barrier to global trade today. (...) Not only does this suggest a major slowdown in the growth of world trade, but also a fundamental realignment in trade patterns."*[5]

We started, then, to reconsider competitive advantages of countries and firms. If oil had stayed expensive, this would have affected more and more the advantage of the so-called *task trade,* linked to *offshoring*[6]. Proximity was becoming strategic once more.

At the end of the year the scenario has changed again, but has not returned to the initial one. The fragility of globalisation based on a one way street, based on certain countries focused on services and others focused on export-led growth, remains increasingly evident.

In the fog of the present time, some considerations become even more remarkable. Sustainable growth and whatever it might mean in terms of saving natural resources - respect for the environment and the health of people - will remain the main topic. In this respect the over-standardized industry, in Europe, could be seen as being in *pole position*, but only on two conditions. The first is if we stop adding new burdens in the short run. The second and more important is to improve transparency and transform compliance with standards into consumer drivers.

A further two elements must be added. The first is that the speed of reaction to market demands will remain one of our strengths, as already demonstrated by the *fast fashion* specialist retail chains. The other element is technological, linked to innovation and the term *mass-customisation* which rewards skills, versatility and reductions in plant tooling costs. In this regard it is interesting to ask the question: what will happen to our industry when it has become completely capital intensive?

In any case, the combined effect of the above mentioned elements is already giving room for the reinterpretation of production processes to make them sustainable, to facilitate *quick-response* and to always remain first rate in terms of quality, taste and performance.

This is not a return to the past but a forward projection of our history and our traditions. It is the development of a *dynamic legacy*[7] capable of continuously regenerating itself, thanks to technological, organisational and product innovation. It is a rationale in which we can play a leading role if we are able to maintain a sufficiently dynamic domestic market and a medium-term approach that provides credit for investment.

Hence, technological innovation remains an essential topic for our industry. To regain visibility within the EU Framework Programs, or other funding, has been one of the main successes of EURATEX during the presidency of my predecessors. This started publicly with the launch of the European Technology Platform at the end of 2004.

Because of the Technology Platform and its meetings I had the opportunity to meet with many more colleagues than those usually involved with EURATEX, as Board members. I still remember a dinner in Brussels with speakers at a round table of the Technology Platform. I was seated next to the CEO of a leading company in the field of technical textiles, Royal Ten Cate. Loek de VRIES told me about the company when he took charge of it; when it was still involved with more traditional products and the economic performance was rather weak. The mood around him was depressed because people weren't able to see a way out. Unconventionally, he thought that it could also be the other way round: it was because the mood of the people around him was depressed, that one couldn't see a way out, thus restraining any possible innovation. So he decided to invite managers to tell jokes during meetings, to laugh and change the mood. And something changed for the better. Nowadays, Ten Cate has developed into a multinational with locations in more than 15 countries and over 3.500 employees.

I know that a joke cannot solve problems, but a bad mood can prevent us seeing possibilities and solutions. It is something to be aware of today.

Picture 6 - With panelists of the Technology Platform in June 2007

The importance of a flag

The EU started its own history in the fifties finding in *functionalism* the principle to mediate between the Europe of the citizen and that of nation-states, between supranationalism and intergovernmentalism. As was stated by the Schumann Declaration in Paris on the 9th of May 1950: *"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."* In other words, the EU started as multidimensional building on specific topics, based on different Treaties, institutive of different kinds of sectoral integration. The EU became their synthesis in 1993 after France and Denmark ratified the Maastricht Treaty, but any further integration was subject to opt-outs. Practically we had an EU *a la carte*, like a dinner where everyone can say no to a certain course. Another image which remained was the *variable geometry,* initially used to indicate different types of Communities. An even stronger definition used after Maastricht was the *two-speed Europe* with respect to different levels of deepening of political integration. A definition so strong that soon after too many decided to live as if it didn't really apply.

Nonetheless, one of the problems was – and still is - that the impact of EU-wide decisions can vary from country to country. As in the case of the Stability Pact which clearly refers to fiscal policy in every member country but which inevitably leaves countries, inside or outside the single currency, with different degrees of freedom. And what about the impact of trade decisions? Generally speaking it is a bit different when you can count on your own currency to rebalance the terms of trade. In saying this, I'm not suggesting a retreat from the Single Currency. What I'd like to suggest is that decision-making should be more sensitive to countries which deepened integration as a whole.

Maybe we should have enlarged after a clear definition of the final plan, also through a constitution, rather than asking others to join to share the same *under construction* plan. The greater the number the more difficult any decision. The larger the number the more frustrating it is to see some members make use of a *veto*. Against this background, there have been some steps forwards, but also some steps backwards and what's more, all this has only been possible because we have allowed room for double standards, thus treating certain situations differently.

In the end, the EU remains characterized by many paradoxes and ambiguities that we continue to accept. Like when you pretend to elect those to rule a country but agree to be ruled by non-elected Commissioners. It is clear, for instance, that legislative power is up to co-decision between Council and Parliament, but what about the Commission's agenda setting power? *"Is it an administrative or executive organ of government? It is commonly and correctly remarked that the EU would not admit itself to membership, because it lacks the conventional features of representative democracy required of applicant countries."*[8]

If the risks of Chinese escalation are because of its being: *too much, too soon, too cheap*, we might well say that in the case of the EU it is: *too large, too complex, too costly.* Nonetheless pluses and minuses continue to go hand in hand as far as the EU is concerned. The rule setting of EU institutions appears on occasion as a form of auto-legitimisation; in too many cases it is simply excessive and far exceeds any mandate of harmonization, but in many other cases it results from a valuable process of problem-solving between a number of parties who have a common problem. In other words, the EU is valuable in coping with complexity even if it creates new complexity in the process. It is useful to solve problems, but can create new problems. So it is something to handle with care – which also means with proper competence.

Regarding this complexity, one of its main risks is the mismatch between policies, as already mentioned. It is not something which is down only to the EU, but also to member-states. In any case, in seeking to face this sort of environment with proper competence, what is the role of a body representing an industrial sector, such as EURATEX?

First of all it has to exist; second to make its own voice heard; third, to do so in every area which can affect the competitiveness of the industry. This, also to check consistency of rule setting and highlight any mismatching. It is a complex task since complexity is its main target.

On many occasions, I had to explain the value of EURATEX as a flag which is proof of something still living (and producing). If there is no flag the industry will not exist any more, at least where policy makers are concerned. Regarding its practical value, this can only be assessed by asking what might have happened if there had been no attempt to exert influence. Results are always questionable, but better something than nothing. As I have written elsewhere: *"The logic of representation in a large political arena, in modern democracies, comes from the concept of* No taxation without representation *in English history. In the age of globalisation with all its complexity, both governmental and non-governmental, not to be there, not to be represented with ones specific and special interests, could mean footing the whole bill."*[9] In the end, someone has always to pay the bill, but no one will give you any discount if you don't ask for it.

Another objection I had frequently to react to was why not use only national associations to address those interests at European level too. The answer is that if you want to be effective you always have to proceed on a dual track, accepting to address EU Institutions in a European way, thus through a European body. This means, to organize interests through a common body in Brussels is the first step to find European solutions to European problems.

To reach real effectiveness, a representative federation like EURATEX must appear as a single voice - at least a majority one - otherwise its legitimacy could be questioned. Worse than that, overlapping voices could give excuses to politicians and bureaucrats to delay decisions or not consider special interests as a whole. They could say: *"Go home and make up your minds; find an agreement, then come back and we'll see what to do."* This was also the reason for putting together textile and clothing in a common house, at European level (as well as in some member countries). If there is any difference of interests along the chain – as is the case, sometimes – it is of no use to go outside and cry out loud for a referee, or to browbeat others. EU policy makers are used to act as judges but only between different parties, not between those who could be seen as the same: the same sector, the same party, or the same country.

Not to be *plural* externally doesn't preclude being plural inside, on the contrary. To highlight differences in an internal debate is the only way to address common problems, enriching the problem-solving process with mutual amendment and discovery of new possibilities. Any final decision taken on common ground will strengthen coordination and unity, not uniformity. Obviously it is not always as simple as this: equilibrium is frequently on the verge of breaking, like a tight-rope walker, but this is life in a complex environment. Moreover, it seems the only peaceful way to cope with it.

To cope with EU institutions, trying to exert influence on policy making is like playing a game. Once you become a player you accept that the game goes on. For any player, especially for the more important ones, as in the case of nation-states, the continuity of the game can provide compensation as between different dossiers. At the same time, as in every repeated game, continuity forces every player to honesty. Together with long standing relations, it strengthens legitimacy and authority. Consequently reputation is the main asset of a representative body. In nearly 12 years of activity, EURATEX has gained its own reputation and won future prospects for the industry which it stands for.

Now that we have obtained a passport for the future, at least in some policy fields, the mission for EURATEX is to enlarge its possibilities. From market access to funding of innovation; from compliance to new standards at minimum cost, to their transformation into consumer drivers, at least on the internal market.

Enlarging possibilities is the task of the representative body but to take advantage of them is the responsibility of companies. The stronger the one, the stronger the others.

Picture 7 - With Mr Dinaz undersigning the MOU between Brazil and the EU for T&A Industry

Conclusions

I started to write this paper at Christmas and I'm concluding it at Epiphany. I'm no longer the President of EURATEX. So, these considerations involve no responsibility other than my own. Nonetheless my personal adventure of representation will go on. In mid 2008 I had to take the place of my friend Paolo ZEGNA, as Chair of SMI, the Italian Textile and Clothing industry Federation, when he resigned to become vice-president of Confindustria. Last December I was then formally appointed to that position, which makes me, among other things, the main *shareholder* of EURATEX.

Picture 8 - With Emma Marcegaglia and Paolo Zegna at SMI Assembly, December 2008.

Now my first responsibility will be to Italian companies; in some respects it will be a more demanding task, especially on the internal side. In fact, to be president of a European federation means to find agreement with a few colleagues who share awareness about common problems and how to deal with them; to be president of a national body means to find agreement with many colleagues who claim, but not necessarily share, awareness of the way to exert influence together. In any case, it will be a new chapter but part of the same book.

Among many others, the main lesson I learnt from my experience in EURATEX is the importance of the dual track as a *modus operandi,* on every issue which takes a European breath. Being in charge of the Italian federation I will go directly to Italian policy makers, whereas on behalf of EURATEX one addresses their counterparts in Europe.

I still remember the words of my friends who urged me to accept the position as president of EURATEX. Among them, Ottavio FESTA, Jean De JAEGHER, Giulio BALOSSI and the same Paolo ZEGNA. They all told me without a break: *"You will see what an experience it will be! You will learn things that it won't be possible to learn otherwise. You will meet many colleagues that will share part of their expertise for the common good and your horizons will widen."* They were absolutely right! I take the opportunity to thank them and all my colleagues on the Board, my predecessors, my vice-presidents and the fabulous staff team, beginning with the General Director, Bill LAKIN and his successor, Francesco MARCHI.

Picture 9 - The Board member of Euratex,
in Paris October 2008

Considering the very difficult moments we are living through we shouldn't stop urging the EU to stop creating red tape and building bureaucracies, but return to first principles and focus on economic competitiveness. Only sustainable growth can leave room for solidarity, internally and externally.

This doesn't mean that the EU and the many people involved over half a century have not delivered something precious. Since the Treaty of Rome we have benefited from a prolonged period of peace and growth, governed by the rule of law and not by the law of the jungle. The historic picture of Francois MITTERAND hand in hand with Helmut KOHL still has a deep meaning for me and my generation of baby-boomers. We grow up still hearing stories of war told by fathers and grandfathers. In the meantime we started learning to think of ourselves as a big (and complex) Community. For new generations, as for my 12-

year old son, everything is totally different. For him and his peers the world is simply larger and information moves quicker. Nonetheless the responsibility is up to us, now, to deliver for them a world at peace and still capable of sustainable growth. Certainly the EU remains an instrument to do this.

As I said at the end of a conference: *"We share values much more than economic specialisation. This shouldn't be seen as a step back from deeper integration but, on the contrary, as a part of our richness. It is something with which we have to be consistent, helping every region as well as every company to grow and prosper on its own dynamic legacy. This doesn't mean a country cannot upgrade its own economic specialisation, for example enlarging it to new activities. But there are no economic recipes universally valid for all. It was an error already many years ago to consider our industry as a sun-set one in Europe even if in fact it modified constantly its dimensions and shape. Moreover, globalisation is demonstrating, also in many other sectors that maturity affects "how you do things", more than "what you do" in general terms. This means that innovation is the key word to stay in business, not the reason to exit. Obviously, this is so if you really have good taste, good products and good values to offer to the consumers. But only if they can realise and appreciate that we paid the ticket for them too."*

Both EURATEX and SMI still have much to do, and now it is time to go back to work.

Busto Arsizio, Italy,

6th January 2009

Michele TRONCONI

Notes

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[1]. Obviously, I'm grateful to all my colleagues who served as Euratex Board members (in alphabetical order) :

BALOSSI Giulio	Representing SMI (Italy)
BASER Bulent	Vice-President /Repr. ITKIB/TTEA (Turkey)
BUYSE Koen	Vice-President Treasurer / Representing CRIET
CETIN Rusen	Representing TCEA
CORRIN John	Representing Textile Forum (GB)
DE JAEGHER Jean	Honorary President
EREN Onder	Representing TCMA (Turkey)
FALKE Franz-Peter	Representing GTMI (Germany)
FESTA BIANCHET Ottavio	Representing SMI (Italy)
GARCIA-PLANAS Joan	Representing Interlaine
GRIBOMONT Jean-François	Representing Eurocoton
HANET Pierre	Representing the Smaller Branches
ILLE Izzet	Representing ITKIB
JACOBSEN Jorge	Representing the Nordic Countries
JACOMET Dominique	Representing U.I.T. (France)
KOUMLIS Nikos	Representing the Smaller countries
LIBEERT Filiep	Honorary President
MAES Luc	Representing EDANA
MISEREY Claude	Representing UFIH (France)
OLIVEIRA José Alexandre	Representing Portugal
PFNEISL Peter	Representing the other East European Countries
PRAT Pere	Representing CIE (Spain
SCHWARTZE Peter	Vice-President/Representing GTMI (Germany)
SERRA Adriá	Representing CIE (Spain)
SEYNAEVE Thomas	Representing the Benelux
WAWRZYNIAK Tadeusz	Representing Poland
ZEGNA Paolo	Representing SMI (Italy)

During last General Assembly, held in June 2008, Peter PFNEISEL has been appointed as my successor, starting from January 2009 to December 2010. My Italian colleague, Pino PREZIOSO, entered the Board and was appointed as new Vice-President, together with Bulent BASER and Koen BUYSE (confirmed).
I take the opportunity to thanks the fabulous staff team in Euratex.

[2]. After him, MMe Emma BONINO – a former EU Commisioner - took charge as Italian Trade Minister. I have had a very good relationship with both of them, sharing a proactive view on the European arena.

[3]. Tronconi Michele, "Textile and Apparel : an historical and glo-cal perspective. The Italian case from an economic agent's point of view" – Liuc Papers n. 176 – September 2005.

[4]. Simms Andrew, Tescopoly. Constable, London, 2007.

[5]. Rubin Jeff and Tal Benjamin, "Will Soaring Transport Costs Reverse Globalization?", CBC StrategEcon – May 27, 2008.

[6]. On this regard see : 1) Grossman Gene M. and Rossi-Hansberg Esteban, "The rise of offshoring . it's not wine for cloth anymore", Princeton University, August 2006; 2) Boldwin Richard, "Globalisation : the great unbundling(s)", eu2006.fi, September 2006.

[7]. Berger Suzane, How we compete, Dobleday, 2005.

[8]. Cohen Joshua and Sabel Charles F., "*Sovereignity and solidarity : EU and US" in Governing Work and Welfare in a New Econony: European and American Experiments*, Jonathan Zeitlin and David Trubek, Oxford University Press, Oxford, 2003.

[9]. Tronconi Michele, Quale strategia per l'industria tessile. ATI-Pronotex, Como, 2003.

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EURATEX

THE EUROPEAN APPAREL AND TEXTILE ORGANISATION

AS THE VOICE OF THE EUROPEAN TEXTILE AND CLOTHING INDUSTRY, EURATEX'S MAIN OBJECTIVE IS TO CREATE AN ENVIRONMENT WITH IN THE EUROPEAN UNION WHICH IS CONDUCIVE TO THE MANUFACTURE OF TEXTILE AND CLOTHING PRODUCTS. ITS HEADQUARTERS IN BRUSSELS ARE WITHIN TOUCHING DISTANCE OF THE MAJOR DECISION-MAKING BODIES OF THE EU, AT COMMISSION, PARLIAMENT AND COUNCIL LEVEL. IN THIS CONTEXT, THE MAJOR AREAS OF CONCERN TO EURATEX OVER RECENT YEARS HAVE BEEN: TO ENSURE THE SMOOTHEST POSSIBLE TRANSITION INTO THE QUOTA-FREE ERA, TO PROMOTE A FURTHER EXPANSION OF THE EU EXPORTS OF TEXTILES AND CLOTHING, TO PROMOTE LEGISLATION AND ITS APPLICATION IN THE FIELD OF INTELLECTUAL PROPERTY, TO SUPPORT MEASURES WHICH ENHANCE ENVIRONMENTAL PROTECTION BUT WHICH ARE AT THE SAME TIME ACCEPTABLE TO THE INDUSTRY, TO PROMOTE AND PARTICIPATE IN RESEARCH, DEVELOPMENT, INNOVATION AND OTHER EDUCATIONAL OR SOCIAL PROJECTS WHICH BRING VALUE ADDED TO THE INDUSTRY AT EUROPEAN LEVEL, TO ENGAGE IN A CONSTRUCTIVE SOCIAL DIALOGUE AT EU LEVEL WITH OUR SOCIAL PARTNERS, AND TO DISSEMINATE ECONOMIC AND STATISTICAL DATA TO THE MEMBERSHIP.

EURATEX'S ORGANISATION, LOCATED IN BRUSSELS, IS STAFFED TO ADDRESS THE ABOVE OBJECTIVES, TO PROVIDE A NUMBER OF ASSOCIATED SERVICES AND TO SUPPLY ITS MEMBERS WITH THE INFORMATION AND DATA NECESSARY FOR THEM TO FURTHER THEIR INDUSTRY’S AIMS AT NATIONAL LEVEL AND BRANCH LEVEL.

SMI – Sistema Moda Italia

Italian Textile and Fashion Federation

SMI represents the companies of the entire industry and is the official interlocutor in relations with Italian and international institutions and organizations. As the national federation for the category, it is composed of both companies and associations and is well established throughout Italy.

SMI is a member of Confindustria, and it is the largest founding member of Euratex, the European Association of Textile and Clothing Manufacturers. The Federation therefore helps the industry solve problems regarding production, technical and legal aspects, and economic and commercial issues. Deeply committed to the development and growth of every area of the textile and fashion industry, SMI also deals with market aspects, promotional activities, and internationalization processes.

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