

# GENERAL AGREEMENT ON

RESTRICTED

## TARIFFS AND TRADE

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### REDUCTION IN CERTAIN TEXTILE TARIFF RATES

#### Communication by Canada

The following communication, dated 6 April 1988, has been received from the Permanent Mission of Canada.

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As you may be aware the Canadian Government has recently announced a reduction in certain textile tariff rates. This trade liberalization initiative is reflective of my Government's commitment to the Uruguay Round.

I would be grateful if you could circulate the attached for the information of other Contracting Parties.

## TARIFF RELIEF FOR THE TEXTILE AND APPAREL INDUSTRIES

The Honourable Michael Wilson, Minister of Finance, today announced a three-part program of tariff relief measures designed to strengthen the competitive positions of the Canadian textile and apparel industries in the domestic market. The program includes immediate tariff reductions on specialty fabrics, new duty remission programs and a plan to reduce textile tariffs in the future to levels comparable with those in other industrial countries.

The Minister said the measures respond to longstanding problems experienced by the domestic apparel and textile industries. Over the last two decades, the two industries, like those of other industrialized countries, have suffered from significant import penetration. This has occurred despite tariff rates that, in the textile sector, are generally about twice as high as those of other industrialized countries, including the United States.

In addition, the tariffs on fabric inputs of Canadian manufacturers are generally at or above the level of tariffs on imported finished products. As a result, downstream industries -- such as the apparel industry -- are at a competitive disadvantage in the domestic market against imported finished products.

"The key to the future of the textile and apparel industries is fundamental improvements in their ability to compete," Mr. Wilson said. "The tariff

relief measures are a balanced approach designed to meet the different needs of both industries. They are aimed at bringing down the input costs of textile and apparel firms and encouraging them to restructure their operations in order to become more efficient and competitive. And the ultimate beneficiaries of improved competitiveness in these two industries will be Canadian workers and consumers."

The Minister noted that extensive consultations between the government and the two industries had taken place over the past few months. The measures reflect many ideas put forward by industry representatives on ways to improve their competitive position in Canada.

The three parts of the announced program, outlined below, are described in detail in the attached annexes.

#### Immediate Tariff Reductions on Specialty Fabrics

Mr. Wilson noted that Canadian textile producers have chosen to specialize in market niches that offer competitive opportunities. As a result, they no longer produce the full range of fabrics required by the apparel industry.

Consequently the government is taking steps to reduce or eliminate tariffs on 13 fabrics and yarns not made in Canada. Some of the tariff reductions will apply to imports from all countries and will take effect in September of this year. For other fabrics and yarns, only the duties on U.S. imports will be eliminated, effective January 1, 1989, when the Free Trade Agreement is implemented. Mr. Wilson estimated that the savings from this measure in duty payments by apparel manufacturers would amount to approximately \$14 million annually.

#### Duty Remission Programs

The Minister said that new duty remission programs will be introduced covering:

- denim fabrics imported by textile producers and apparel manufacturers;
- woven greige (unfinished) fabrics imported for purposes of finishing for use in apparel production;
  
- outerwear imported by apparel manufacturers and outerwear fabrics imported by textile producers;
  
- girls' and ladies' blouses and shirts imported by blouse and shirt manufacturers and by ladies co-ordinate manufacturers.

In addition to the new duty remission programs, Mr. Wilson announced that the tailored collar shirt duty remission program introduced in 1986 would be extended, with minor modifications. He also stated that the Customs Drawback Shirting Fabric Regulations and the Shirting Fabric Remission Order, introduced in 1969 and 1970 respectively, would be combined and extended.

"The new duty remission programs together with the existing programs that are being extended will encourage textile and apparel firms to restructure their operations and to round out and complement domestically produced fabric and apparel lines with imported products. The result will be better service and a broader product range to offer customers," the Minister said.

Mr. Wilson noted that if Canadian firms took full advantage of the new programs, the duties remitted under them would amount to about \$33 million annually. Similarly, the existing programs that are being extended would produce about \$16 million in annual duty savings.

#### Future Tariff Reductions

Mr. Wilson also announced that the government intends to take action to reduce Canada's textile tariffs to levels existing in other industrialized countries.

He noted that the current high textile tariffs in Canada imposed additional costs on all downstream users of textiles, particularly the apparel and furniture industries, and on consumers.

"The next decade will bring a more competitive business environment, both in Canada and the rest of the world," the Minister said. "In order to ensure that Canadian companies which use significant amounts of textiles can compete on an even footing with companies based in other countries, the government proposes to reduce Canada's textile tariffs over the next ten years to levels comparable with those of other industrialized countries."

Mr. Wilson stated that the government intends to make the first round of textile tariff cuts on January 1, 1990. However, he wished to hear the views of all interested parties on the extent and pace of future tariff cuts before proceeding with full implementation of the program.

Accordingly, the government has decided to seek advice from the new Canadian International Trade Tribunal on the levels of future reductions in textile tariffs. The Tribunal is expected to be formed later this year from the amalgamation of the Canadian Import Tribunal, the Tariff Board and the Textile and Clothing Board. It will be asked to recommend how Canada's textile tariffs can best be brought into line with those of other industrialized nations, taking into account Canada's objectives in the current GATT Round of Multilateral Trade Negotiations (MTN) underway in Geneva.

The Minister said, "We want expert opinion on whether duties should be reduced at an even pace on all fabrics where tariffs are high, or whether there are some areas where reductions should occur faster or slower or not at all. We want all interested parties to have an opportunity to give evidence and present their views on these issues to the Tribunal."

The Tribunal will be asked to pay particular attention to the effect of the relatively high Canadian textile tariffs on apparel manufacturers and furniture makers and to the impact of the proposed reductions on the

Canadian textile industry. It will also be asked to look at the relativity that should exist in the tariff at the different levels of the manufacturing chain -- for example, from fibres and yarns, the major source of input into fabric production, to the duties on apparel and other end products. As well, the Tribunal will be asked to hear suggestions and make

recommendations on possibilities for accelerated reductions of textiles and apparel tariffs in the context of the Canada-U.S. Free Trade Agreement.

Mr. Wilson also expressed his interest in having the Tribunal comment on areas where fabric or yarn tariffs could be removed completely without adversely affecting domestic textile production. The Tribunal will be asked to submit its report by June 30, 1989.

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**ANNEX I**

**IMMEDIATE TARIFF REDUCTIONS ON SPECIALTY FABRICS**

**Duty Elimination on Fabrics from all Sources**

Commencing in September 1988, the customs duty will be removed for an indefinite period on a number of broadwoven specialty fabrics not made in Canada. The tariff elimination will cover importations for use by the apparel industry from all foreign suppliers. The specialty fabrics on which the duty will be removed are:

- woven fabric containing 35 per cent or more by weight of silk;
- woven fabric containing 85 per cent or more by weight of linen;
- cotton woven fabric made of combed yarn of counts finer than 100 decitex;
- fabric containing 20 per cent or more by weight of metallized yarns;
- hand-woven tweed fabric.

**Duty Elimination on Fabrics of U.S. Origin, Partial Reduction on Fabrics from Other Sources**

Commencing on January 1, 1989, duties on a number of specialty apparel fabrics from the United States that are not made in Canada will be eliminated. The duty on these fabrics when imported from non-U.S. sources will be reduced by 50 per cent. The specialty fabrics covered by these measures include:

- jacquard woven fabric;
- woven fabric not exceeding 70 grams per square meter not including lining fabric.

**Duty Elimination on Fabrics and Yarns from the U.S. Only**

Commencing on January 1, 1989, the duty on certain fabrics and yarns used by the apparel industry and not made in Canada will be removed on imports from the U.S. This duty removal includes:

- corduroy;
- textured nylon yarn, 56 decitex or finer, for hosiery;
- leno woven fabric containing 50 per cent or more by weight of cotton;
- woven fabric containing 85 per cent or more by weight of camel hair;
- certain fabric of cotton-wool blended yarns for shirts and blouses;
- the U.S. value added on Canadian knitted fabric of nylon and elastomeric yarn exported to the U.S. for printing and returned to Canada for manufacturing swimwear.

ANNEX 2

DUTY REMISSION PROGRAMS

New Duty Remission Programs

As a result of extensive consultations with the apparel and textile industries, new duty remission programs are being introduced. These programs are designed to assist the domestic industries to restructure their operations by encouraging them to achieve greater efficiency by concentrating on producing certain lines in Canada while at the same time rounding out their product mix with imports. This strategy will better enable them to offer a broader range of products to the retailer. Under the programs, benefits will increase as the level of domestic production increases, with penalties for reductions in production. The programs, which will take effect January 1, 1989, include:

- Duty remission on denim fabrics. This program will allow denim fabric producers to import denim fabric duty free from the U.S. in an amount up to 20 per cent of their domestic production. As well, denim apparel manufacturers will be allowed to import U.S. denim fabric duty free subject to domestic sourcing requirements. Canada will also accelerate tariff reductions on denim under the Free Trade Agreement so that in year five of the transition period the Canadian denim tariff will be reduced to U.S. levels. (Canada's denim tariff is currently 17.5 per cent on denim made from cotton and 25 per cent on other denim. It will be reduced over the next five years to 3.5 per cent on denim made from cotton and to 3.8 per cent on other denim fabric.)
- Duty remission on fabrics for converters. This program would enable dyers and finishers of greige apparel fabrics to import an amount of fabric, duty free, up to 30 per cent of their Canadian value added. The program is designed to help strengthen a component of the textile industry which offers an important service to the apparel trade.
- Duty remission on outerwear and outerwear fabrics. This program will allow outerwear manufacturers to import, duty free, an amount up to 15 per cent of their domestic production of outerwear made from synthetic and cotton fabrics. The level of benefits will be contingent on the degree of domestic sourcing of fabrics. In addition, manufacturers of synthetic and cotton fabrics for the outerwear sector will be able to import fabrics for outerwear production duty free in an amount up to 30 per cent of a firm's domestic production of such fabrics.
- Duty remission on girls' and ladies' shirts and blouses. Under the program, girls' and ladies' shirt and blouse manufacturers will be able to import an amount up to 20 per cent of their production of blouses duty free to complement domestically made lines. The level of benefits will be contingent on certain conditions regarding sourcing of fabrics in their operations. Benefits will also be extended to ladies co-ordinate manufacturers -- firms which are primarily engaged in the



production of two or more matched co-ordinates (e.g. skirts and jackets) and which import shirts and blouses to offer a complete package to retailers. The program will allow such manufacturers to import shirts and blouses in an amount up to 10 per cent of their production duty free.

#### Extension of Existing Duty Remission Programs

In addition to the new duty remission programs being introduced, the remission program for tailored collar shirts introduced in 1986 and the remission order and drawback regulations on shirting fabrics in existence for nearly 20 years are being extended as of January 1, 1989, with minor modifications to better reflect current market conditions.

- The shirting fabric program will allow weavers and converters of printed shirting fabrics to import printed fabrics, not made in Canada, duty free to complement domestic lines. In addition, shirt manufacturers will be able to import yarn-dyed shirting fabrics on the basis of domestic sourcing of printed fabrics.
- The tailored collar shirt program will remit duties to shirt manufactures on imports of men's and boys' shirts up to a manufacturer's level of domestic production in units, the level of benefits contingent on the degree of domestic sourcing of fabrics.

ANNEX 3

REFERENCE TO THE  
CANADIAN INTERNATIONAL TRADE TRIBUNAL

The Minister of Finance announced today that the government intends to progressively reduce Canada's textile tariffs to the levels of those of other industrialized nations.

Mr. Wilson stated that the new Canadian International Trade Tribunal will be asked to study the economic impact of textile tariffs on both producers and users, and to make recommendations on the levels to which the tariffs should be reduced, bearing in mind Canada's objectives in the Uruguay Round of Multilateral Trade Negotiations currently underway in Geneva. The government intends to make the first round of reductions in textile tariffs on January 1, 1990. The Tribunal, which is expected to be established later this year from the amalgamation of the Canadian Import Tribunal, the Tariff Board and the Textile and Clothing Board, will be asked to advise on the level and pace of reductions.

The following is the reference that will be made to the Tribunal.

Preamble

Fabrics and yarns constitute a significant portion of the overall cost of manufacturing finished apparel products. Traditionally, the tariffs on these input materials, and in particular on fabrics, have generally been maintained at high levels to provide protection to the domestic textile industry, an industry that has, for many years, been facing stiff import competition. The effects of this policy, however, have increased costs for the apparel industry; for many other downstream sectors such as upholstered furniture manufacturers, which are themselves faced with strong import competition; and for consumers.

The measures which domestic textile producers have taken to achieve greater economies of scale by rationalizing product lines have caused the apparel industry to resort increasingly to using off-shore fabrics to obtain the variety and style of inputs needed to maintain their markets in Canada. Canada's textile tariffs are almost twice as high as the textile tariffs of all other major industrialized countries, including our major trading partner, the United States.

Normally, the tariffs on inputs for Canadian manufacturers are lower than those on the finished product, thus providing a reasonable level of effective protection at each stage of the manufacturing process. This relativity does not exist in the textile and apparel sectors where the tariffs on the finished product, apparel, are about the same as the tariff on many of the fabric inputs. Similarly, in the furniture sector the tariffs on fabric inputs are often as much as 10 percentage points higher than those on upholstered furniture. The tariff structure in this area has placed the downstream industries at a competitive disadvantage in the Canadian market against imports of the finished products.

These factors argue the need to lower the tariffs on textiles to a level more in line with those in other major industrialized countries. Such action should take into account major changes which will be occurring in Canada's trading arrangements, specifically the implementation of the Canada-U.S. Free Trade Agreement and the Multilateral Trade Negotiations now in progress.

Tariff reductions would have to be implemented in a manner that takes into account the importance of the domestic textile industry to the Canadian economy. They should be consistent with the textile industry's ongoing efforts, through heavy investment and rationalization of production, to enhance the viability of its operations and to adjust to the international trading environment. They should also take into account the significant role the industry plays in the economic well-being of many small communities in Canada

The Tribunal will be asked to hear the views of all interested parties before determining the manner in which the tariff reductions could best be implemented.

#### Terms of Reference

The government would like advice from the Canadian International Trade Tribunal on a plan to lower Canada's textile tariffs to levels comparable with those of other industrialized countries, particularly the United States, in annual stages over a ten-year period beginning January 1, 1990. In considering this plan, the Tribunal should indicate whether there are some areas where tariff reductions should occur faster or slower or not at all. Accordingly, the Tribunal is directed to:

- assess the economic impact of bringing Canada's textile tariffs down to levels comparable with those of our major industrialized trading partners, paying particular attention to the textile tariffs affecting the apparel and furniture industries, and recommend the level and pace of tariff reductions that will maximize the economic gains to Canada without causing undue hardship to domestic suppliers of textile products;
- make specific recommendations on the ultimate level to which textile tariffs should be reduced over the next ten years, bearing in mind Canada's objectives in the Uruguay Round of Multilateral Trade Negotiations (MTN) currently underway;
- make recommendations on what should be the pace of the tariff reductions and, specifically, whether the tariffs on some fabrics and yarns could be reduced at an accelerated pace without causing injury to textile producers;
- make recommendations on the scope for accelerated bilateral reductions of textile tariffs under the Free Trade Agreement with the United States;

- assess and make recommendations on the level of relativity that should exist in the tariff protection at the various levels of the manufacturing chain (i.e., from fibres and yarns through fabric to finished product);
- report to the government by June 30, 1989.

## FACT SHEET: THE CANADIAN TEXTILE INDUSTRY

### Description of Sector

The Canadian textile industry's 1,070 establishments employ 63,800 people, 43 per cent of whom are women. The industry is concentrated in Quebec and Ontario, which account respectively for 52 and 41 per cent of total sector employment. Most of the remaining jobs are in the Atlantic provinces, Nova Scotia in particular.

Total sector shipments amount to \$5.8 billion annually. Of this amount \$660 million worth, or roughly 11 per cent, is exported. Imports represent about a third of the domestic market by value.

Since the early 1970s, the textile industry has maintained its domestic market share at a more or less constant level (70 per cent by value), with imports coming mostly from other developed countries, the U.S. in particular. However, since the early 1980s, low-cost countries have been increasingly displacing developed countries and now account for one-quarter of the total import share.

The industry has three broad subsectors: primary textiles (fibres, yarns and fabrics); carpets; and miscellaneous textile products (canvas and household goods, rope and twine, hygiene products, etc.). Primary textiles account for 65 per cent of all sector shipments and almost 85 per cent of all exports. The other two subsectors are largely domestic-market oriented, with exports not exceeding 10 per cent of domestic production.

The primary textiles and carpet subsectors have both focused on adopting state-of-the-art technology to keep pace with the U.S. In primary textiles, a significant rationalization of both firms and product lines has occurred in the last two decades, resulting in a reduced range of domestically woven fabrics gaining the economies of scale necessary to be internationally competitive. The technologies used by the miscellaneous textiles subsector, however, are more labour-intensive and, as a result, have led to a more fragmented production capacity and less productive operations in comparison to the other two subsectors.

### Trends and Prospects

Without access to a larger market, the textile industry's prospects for growth will be limited. Its most important market -- apparel textiles, which account for about 40 per cent of all fabric production -- will be experiencing pressure from increased imports of clothing from low-wage countries. In addition, there will be increasing direct competition from low-wage sources in a widening range of primary textiles. The industry has invested heavily in the most modern technologies available to reduce production costs. A new trend that is gaining momentum in the industry is the adoption of the so-called "just-in-time" concept, whereby the organization of production and marketing is being restructured to respond more quickly to fashion changes and to better service the needs of the

smaller clothing firms which constitute the majority of companies in the industry. As a reflection of this emerging trend, recent developments in equipment and machinery increasingly focus as much on versatility and product quality as they do on speed and reliability.

These initiatives will not be sufficient, however, to enable the industry to recapture markets already lost to import competition.

#### Existing Trade Barriers

Canada has relatively higher tariff barriers compared to those of the U.S. Currently, the tariffs for the industry average 18.2 per cent in Canada and 10.4 per cent in the U.S. Wool fabrics are a notable exception to this pattern with the U.S. ad valorem equivalent tariffs on some specific fabrics running as high as 46 per cent compared to 25 per cent in Canada.

Under the Multi-Fibre Arrangement (MFA), most developed countries, including Canada and the U.S., have negotiated import restraint agreements covering textiles and apparel with many low-wage countries.

#### Applicable Elements of the Canada-U.S. Free Trade Agreement

The critical elements of the Agreement for the textile sector are the phase-out of tariffs over a 10-year period and the special rules of origin for textiles and apparel designed to prevent "backdoor" importation of cheap textile products from low-cost countries.

In general, the new rules of origin mean that fabrics and textile made-up articles (e.g., bedsheets, tablecloths, curtains, blankets, towels, etc.) made from third-country yarns will not qualify for duty-free entry under the Agreement. However, Canada negotiated a special exemption from this rule in the form of a tariff rate quota which will allow the Canadian textile industry, in any calendar year for the first four years of the Agreement, to export at the preferential tariff rate up to 30 million square-yard-equivalents of non-wool fabrics and textile articles containing third-country yarns.

Provisions in the Agreement allow for the relaxation of the special rules of origin for textiles in case of inadequate availability of certain textile raw materials in either country and for the review of the tariff rate quota level within two years of implementation of the Agreement.

## **FACT SHEET: THE CANADIAN APPAREL INDUSTRY**

### **Description of Sector**

The apparel sector consists of manufacturers of apparel for consumers and industrial and institutional applications.

Predominantly Canadian-owned (99 per cent), the industry employs approximately 113,000 people in about 2,500 establishments located primarily in large urban centres concentrated in Quebec (around 60 per cent of employment), Ontario (30 per cent), and Manitoba (6 per cent). Approximately 75 per cent of industry jobs are filled by women. In addition, women represent the majority of the estimated 30,000 "home workers" in the sector.

Industry shipments are valued at \$5.7 billion annually, of which \$0.4 billion are exported. Imports amount to about \$2.1 billion a year.

In recent years, with assistance from the former Canadian Industrial Renewal Board, the industry has made concerted efforts to improve its competitiveness by applying new technologies, such as computer-aided design and manufacture, to various stages of production. To date, these efforts have not been sufficient, by themselves, to offset the wage cost advantage favouring exporters in low-wage countries.

Low-cost imports have continued to increase at rates in excess of the growth in the Canadian market. These imports pose a continuing threat to the viability of the Canadian clothing industry. However, in subsectors such as fur apparel and designer fashion, Canada is able to compete successfully on quality, style and price on a worldwide basis.

For many years, apparel manufacturers have not been able to rely exclusively on Canadian-made fabrics. The variety of fabric styles and patterns required to meet the increasing demand for fashion apparel is not available domestically in a sufficiently broad range because textile manufacturers have had to rationalize their operations. As a consequence, apparel manufacturers import about 60 per cent by volume of their woven fabric requirements and the customs duties payable on these imports (which average 21.5 per cent and in 1987 amounted to approximately \$200 million) are an additional cost to the industry.

### **Trends and Prospects**

The combination of modest growth in Canadian demand for apparel and continued pressure from low-wage countries will leave very little scope for expansion of the Canadian apparel industry. In the face of this competition, domestic clothing manufacturers have adopted different adjustment strategies: investment in state-of-the-art technologies to improve productivity and shorten production cycles; direct importing to complement domestic production and offer an attractive package to the retailer; market positioning in niches that are insulated from direct

low-cost competition; improved servicing of client needs; and co-operative advertising. These initiatives have reduced the competitive advantage of clothing producers in low-wage countries by putting the emphasis on other aspects of the competitive equation. Nevertheless, the small Canadian market can only support limited production in those segments which are better insulated from low-cost import competition. Anticipated technological breakthroughs in the clothing manufacturing process will take years before they make a real difference on cost structures.

### Existing Trade Barriers

Canada, like other industrial countries, maintains high tariffs on clothing (an average 25 per cent versus 9 per cent for all manufacturing). The average U.S. rate of duty on clothing is 22.5 per cent. Canada's export efforts in the U.S. have been hampered by major non-tariff barriers such as country-of-origin regulations, public procurement practices, flammability standards and labelling requirements.

To promote orderly growth in international trade and to protect the clothing industry, Canada has signed the International Multi-Fibre Arrangement (MFA) under the General Agreement on Tariffs and Trade (GATT) and has negotiated bilateral import restraint arrangements under this agreement with 25 low-cost countries.

### Applicable Elements of the Canada-U.S. Free Trade Agreement

Tariff elimination under the Canada-U.S. Free Trade Agreement is scheduled to be phased in over a period of 10 years for both the Canadian and U.S. apparel and textile industries.

As a general rule, apparel made from third-country fabrics is not eligible for duty-free treatment under the Agreement. However, the Agreement does contain a provision whereby, in any calendar year, Canadian apparel exports to the U.S. made from third-country non-woollen fabric up to 50 million square-yard-equivalents plus up to 6 million square-yard-equivalents for garments made of woollen fabrics will qualify for the Agreement's preferential tariff treatment. The Canadian duty-free limits (or tariff rate quotas) on similar apparel imported from the U.S. are 10.5 million and 1.1 million square-yard-equivalents, respectively.

As well, Canadian apparel manufacturers whose exports are subject to the most favoured nation (MFN) rate because they do not meet the Agreement's rules of origin will continue to benefit from duty drawback provisions -- under which duties on imported fabric are refunded on export -- for an indefinite period under the Agreement. For other industrial sectors, duty drawback will be eliminated within five years of the date of implementation of the Agreement for bilateral trade with the U.S.

Under another provision, both countries have agreed to move toward harmonizing their regulations in such areas as flammability and labelling.