



Ottawa, Friday, May 11, 1990

Review No.: RR-89-007

IN THE MATTER OF a review under section 76 of the *Special Import Measures Act* of the finding of likelihood of material injury dated February 3, 1984, made by the Anti-dumping Tribunal respecting:

**EXPANDED VINYL COATED KNITTED FABRICS  
RANGING IN WEIGHT FROM 406 TO 1016 GRAMS PER SQUARE METRE  
(12 TO 30 OUNCES PER SQUARE YARD),  
ORIGINATING IN OR EXPORTED FROM  
THE REPUBLIC OF KOREA**

**ORDER**

The Canadian International Trade Tribunal, under the provisions of section 76 of the *Special Import Measures Act*, has conducted a review of the finding of likelihood of material injury dated February 3, 1984, made by the Anti-dumping Tribunal respecting expanded vinyl coated knitted fabrics from the Republic of Korea in Inquiry No. ADT-14-83.

Pursuant to subsection 76(4) of the *Special Import Measures Act*, the Canadian International Trade Tribunal hereby rescinds the above-mentioned finding dated February 3, 1984.

Kathleen E. Macmillan  
Kathleen E. Macmillan  
Presiding Member

Arthur B. Trudeau  
Arthur B. Trudeau  
Member

Michèle C. Blouin  
Michèle C. Blouin  
Member

Robert J. Martin  
Robert J. Martin  
Secretary



Ottawa, Friday, May 11, 1990

Review No.: RR-89-007

**EXPANDED VINYL COATED KNITTED FABRICS  
RANGING IN WEIGHT FROM 406 TO 1016 GRAMS PER SQUARE METRE  
(12 TO 30 OUNCES PER SQUARE YARD),  
ORIGINATING IN OR EXPORTED FROM  
THE REPUBLIC OF KOREA**

*Special Import Measures Act* - Whether to rescind or continue the Anti-dumping Tribunal's finding dated February 3, 1984, relating to the above-mentioned goods.

**DECISION:** The Canadian International Trade Tribunal rescinds the above-mentioned finding dated February 3, 1984. Given the state of the market for vinyl coated knitted fabrics, the healthy financial status of Morbern and the low volume of imports, the Tribunal concludes that the finding relating to the subject goods should be rescinded.

Place of Hearing: Ottawa, Ontario  
Date of Hearing: February 19, 1990  
Date of Order & Reasons: May 11, 1990

Tribunal Members: Kathleen E. Macmillan, Presiding Member  
Arthur B. Trudeau, Member  
Michèle C. Blouin, Member

Director of Research: Marcel Brazeau  
Research Officer: Audrey Chapman  
Statistical Officer: Gilles Richard  
Registration and Distribution Clerk: Molly C. Hay

**Participants:**

for G.P. MacPherson  
Morbern Inc.

Y.S. Lee  
Manager  
Lucky America, Inc.

**Witnesses:**

David Bloomfield  
President  
Morbern Inc.

Jack Greenblatt  
Vice-President  
Sales and Marketing  
Morbern Inc.

Michael Leap  
Vice-President  
Finance  
Morbern Inc.

Leonard J. Cardozo  
Sales Manager - Ontario  
Morbern Inc.

Badrig B. Afeyan  
President  
Afeyan Industries Inc.

Address all communications to:

The Secretary  
Canadian International Trade Tribunal  
20th Floor  
Journal Tower South  
365 Laurier Avenue West  
Ottawa, Ontario  
K1A 0G7



Ottawa, Friday, May 11, 1990

Review No.: RR-89-007

IN THE MATTER OF a review under section 76 of the *Special Import Measures Act* of the finding of likelihood of material injury dated February 3, 1984, made by the Anti-dumping Tribunal respecting:

**EXPANDED VINYL COATED KNITTED FABRICS  
RANGING IN WEIGHT FROM 406 TO 1016 GRAMS PER SQUARE METRE  
(12 TO 30 OUNCES PER SQUARE YARD),  
ORIGINATING IN OR EXPORTED FROM  
THE REPUBLIC OF KOREA**

TRIBUNAL: KATHLEEN E. MACMILLAN, Presiding Member  
ARTHUR B. TRUDEAU, Member  
MICHÈLE C. BLOUIN, Member

**STATEMENT OF REASONS**

**SUMMARY**

This is a review under section 76 of the *Special Import Measures Act* (SIMA) by the Canadian International Trade Tribunal (the Tribunal) of the Anti-dumping Tribunal's (ADT) finding of likelihood of material injury dated February 3, 1984, relating to expanded vinyl coated knitted fabrics. In that finding, the ADT found that the dumping in Canada of expanded vinyl coated knitted fabrics originating in or exported from the Republic of Korea had not caused, was not causing, but was likely to cause material injury to the production in Canada of like goods. In the opinion of the ADT, the past and present injury suffered by Morbern Inc. (Morbern) was not sufficient to warrant a finding of past and present injury. However, with respect to future injury, the ADT considered that the threat of the one importer from the Republic of Korea entering another major area of the market in Canada and introducing other product lines was real and imminent, and therefore concluded that the continued dumping was likely to cause material injury.

Turning to this review, the evidence filed shows that imports of expanded vinyl coated knitted fabrics from the Republic of Korea declined substantially in 1989. In previous years, these imports never accounted for more than 3 percent of the total market for the subject goods and have always been in the lower priced segment of the market. This low-priced market sector has been decreasing every year since 1986. Morbern's share of this declining low-end market increased markedly in 1988 and again in 1989.

The Republic of Korea has never been a factor in the higher priced segment of the market for the subject goods where imports emanate mostly from the United States.

The domestic producers have increased sales to the United States substantially over the past few years. In the process, Morbern has become more cost-effective and less vulnerable to material injury.

Given the state of the market for vinyl coated knitted fabrics, the healthy financial status of Morbern, the low volume of imports and the nature of the industry, the Tribunal concludes that the finding relating to the subject goods should be rescinded.

## **BACKGROUND**

Pursuant to section 76 of SIMA, the Tribunal initiated a review of the finding of the ADT dated February 3, 1984, respecting expanded vinyl coated knitted fabrics from the Republic of Korea and issued a Notice of Review dated November 8, 1989. This notice was forwarded to all known interested parties and was published in the Canada Gazette of November 18, 1989.

As part of its review, the Tribunal sent detailed questionnaires to the Canadian manufacturers and selected importers of the subject goods. From the replies to the questionnaires and other sources, the Tribunal's research staff prepared public and protected pre-hearing staff reports relating to the review. In addition, the record of this review consists of all relevant documents, including the original finding, the Notice of Review and public and confidential sections of the replies to questionnaires. All public exhibits were made available to interested parties and protected exhibits, to independent counsel only.

Public and *in camera* sessions were held in Ottawa, Ontario, on February 19, 1990.

The producer, Morbern, which was represented by counsel at the hearing, submitted evidence and made argument in support of continuing the finding. Canadian General-Tower Limited (C.G.T.) submitted information, but did not participate in this review.

Lucky-Goldstar International Corp. (Lucky), an exporter from the Republic of Korea, was represented by Mr. Y.S. Lee of Lucky America, Inc. Mr. Lee submitted evidence and made argument in support of the rescission of the finding.

Afeyan Industries Inc. (Afeyan), an importer of the subject goods, was represented by Mr. B.B. Afeyan. Mr. Afeyan submitted evidence and also made argument in support of the rescission of the finding.

## **THE PRODUCT**

The product under consideration in this review was described in the ADT's finding as:

expanded vinyl coated knitted fabrics ranging in weight from 406 to 1016 g per square metre (12 to 30 oz. per square yard), originating in or exported from the Republic of Korea.

Expanded vinyl coated knitted fabrics may be produced by either the calendering process or the casting process. Calendering is a three-step operation requiring a substantial capital investment. In the first stage of this process, a solid vinyl skin is formed by pressing a vinyl compound between rollers. Next, a vinyl foam compound is applied to a knitted fabric by the same process. The foam coated fabric then enters an oven where the foam is expanded. Finally, the vinyl skin and the foamed vinyl coated fabric are laminated to produce an expanded vinyl coated knitted fabric.

The casting process is a one-step operation. Vinyl compounds are continuously cast on casting paper in a skin oven to form a vinyl skin. This is conveyed to a foam oven where vinyl foam compounds are added. The material then converges with a knitted fabric in the expansion oven where the foam is expanded and the major components are laminated together.

There are many uses and applications for expanded vinyl coated knitted fabrics, the most important of which is in office furniture manufacturing. In addition, it has applications in the restaurant trade, automotive seating, domestic furniture, marine seating, luggage, handbags, footwear and a variety of smaller applications.

## **THE DOMESTIC INDUSTRY**

The domestic industry consists of three producers: Morbern, C.G.T. and Entreprises Beckwith-Bemis Inc. (Beckwith-Bemis).

Morbern was the largest domestic producer of the subject goods at the time of the finding and still is the largest domestic producer. It is a Canadian-controlled private corporation, founded in 1965 as an expansion of Service Backing and Coating Corporation Limited. The company operates two divisional plants which include facilities at Cornwall and Montréal. The knitted material used by Morbern is produced at its knitting plant in Montréal, Quebec. The coating operation is completed at the plant in Cornwall, Ontario. The production of expanded vinyl coated knitted fabrics represents virtually all of the firm's output. Morbern's production process has not changed since the original finding. It continues to use the casting process of production.

C.G.T. is a privately owned, Canadian company. It is a leading world producer of vinyl films and coated fabrics. C.G.T. is the second largest Canadian producer of the subject goods which are produced in its Toronto and Cambridge facilities. Its production of expanded vinyl coated knitted fabrics has grown dramatically since the time of the original finding. C.G.T.'s sales of the subject goods are almost exclusively to the automotive sector of the market, and it does not experience any competition from low-priced imports in this market sector. C.G.T. uses both methods of producing the subject goods, the calendering process and the casting process.

The third Canadian producer, Beckwith-Bemis, which was founded in 1946, represents a very small proportion of domestic production of the subject goods. The major portion of Beckwith-Bemis' business, which is not part of the subject goods, is the production of vinyl for the shoe industry.

### **SUMMARY OF THE 1984 FINDING**

On February 3, 1984, the ADT found that the dumping in Canada of expanded vinyl coated knitted fabrics ranging in weight from 406 to 1016 g per square metre (12 to 30 oz. per square yard), originating in or exported from the Republic of Korea had not caused, was not causing, but was likely to cause material injury to the production in Canada of like goods.

In its consideration of material injury, the ADT noted that efficient production of these goods required large volumes and that one plant of optimum size would satisfy the Canadian market. It also noted that a large part of Morbern's output was exported to provide the production volume necessary for maximum efficiency. Nevertheless, Morbern's corporate strength required the maintenance of a strong domestic base. Much of the evidence presented at the hearing was concerned with the threats to the domestic base offered by the dumped imports.

In the opinion of the ADT, the past and present injury suffered by Morbern mainly took the form of price suppression. However, Morbern's pricing was not affected over a large proportion of its sales, because offers for the product originating in the Republic of Korea had been confined to certain areas of the Canadian market, and only in one product range. The loss of market share to dumped imports in 1982 and 1983 contributed in some measure to the domestic producer's reduced profitability during the period. However, on the whole, the ADT concluded that the past and present injury suffered was not sufficient to warrant a finding of past and present material injury.

With respect to the likelihood of material injury, the ADT gave considerable weight to the then recent appointment of a sales agent in the Toronto area by the major importer of the product originating in the Republic of Korea, Afeyan. Many of Morbern's large accounts were in Ontario, and the ADT was persuaded that the recent appointment of a sales agent demonstrated the likelihood that the price suppression already suffered by Morbern would be made worse. Furthermore, competition from the dumped product had begun to affect Morbern's sales of other qualities of vinyl coated fabric. The ADT considered that movement into another major market area and new product lines by Afeyan would represent a significant increase in the degree of injury suffered. The market share changes in the aggregate were not considered to be material by the ADT. However, they were of much greater significance when considered in relation to one product line only, in the lower priced end of the market and in one geographical area. The ADT considered that the threat of such a development was real and imminent. In its opinion, it was Afeyan's price advantage, permitted by the dumping, that enabled it to weather the adverse economic conditions of 1982 more successfully than could Morbern.

For these reasons, the ADT concluded that continued dumping of expanded vinyl coated knitted fabrics from the Republic of Korea was likely to cause material injury to the production in Canada of like goods.

## **INDUSTRY'S POSITION**

Counsel for Morbern recognizes that imports of expanded vinyl coated knitted fabrics from the Republic of Korea are not affecting Morbern's production, sales or prices at this time. Morbern believes that the finding in Inquiry No. ADT-14-83 continues to have its intended effect of preventing material injury caused by imports from the Republic of Korea. Morbern is said to have demonstrated its ability to compete successfully with imports from the Republic of Korea when goods are not priced below normal value and has done well since the finding, and particularly with its exports to the US market.

Morbern's continuing concern in respect of the Republic of Korea is the likelihood that importers would switch to goods from the Republic of Korea if the finding were rescinded. Counsel argued that the ADT finding had halted the growth of imports from the Republic of Korea which were affecting Morbern's market in 1983. Although imports from the Republic of Korea have decreased over the past two years, counsel stated that Morbern was encountering competition on the basis of price from several countries, notably East Germany, Hungary and Taiwan.

Counsel argued that there might be problems with available import statistics in that goods might be transshipped through the United States or that importers might be "classification shopping" for the lowest tariff rate. Furthermore, the market data made available showed a broader range of goods than that in which Morbern faced competition from low-priced imports.

Counsel suggested that the significant drop in imports from the Republic of Korea in 1989 might be linked to the revised normal values that resulted from a review that was conducted by Revenue Canada in late 1988. It was noted that Revenue Canada's previous review was done in 1986 and that the long interval between reviews might have resulted in significant increases in normal values, thereby negatively impacting the volume of imports into Canada of expanded vinyl coated knitted fabrics from the Republic of Korea in 1989.

Counsel referred to the evidence presented regarding the degree of backward integration at Lucky, as well as the nature of the products and the markets this integration covers. Counsel for Morbern argued that, in coming years, pressure would increase on producers to maximize the output of the subject goods and the goods of which they are made, thereby increasing the incentive to dump the subject goods in Canada. In addition, Morbern argued that the Korean prices were so close to its own prices and the incentive to resume dumping so strong that, in the absence of this finding, the dumping would resume and, with it, the injury which the finding was designed to prevent.

Finally, counsel argued that there were strong reasons why the finding should be continued, not the least of which is the fact that Morbern is currently pursuing a complaint with Revenue Canada involving price-suppressing imports from several countries other than the Republic of Korea.

## **IMPORTERS'/EXPORTERS' POSITION**

Afeyan, the major importer of vinyl from the Republic of Korea at the time of the finding, argued that the finding had had no impact on the company's performance because Afeyan's import prices from the Republic of Korea had always been higher than the normal values determined by Revenue Canada.

Afeyan noted that its performance had been affected by the fact that the overall market for expanded vinyl coated knitted fabrics was shrinking because of substitution by other materials. Afeyan stated that its imports, sales and inventories of the subject goods were dropping year after year. If the Tribunal were to look at its largest volume of imports in any given year since the finding, it would find that it represents but a small portion of the total market. Afeyan contended that the reason Morbern's sales were down was because the market for the low-end product was shrinking and that other products were being substituted for the vinyl in question. For example, Mr. Afeyan noted that he had introduced a new method of manufacturing chairs which uses unsupported vinyl instead of vinyl coated knitted fabrics.

Mr. Lee of Lucky, the exporter, argued that it had not dumped the subject goods in Canada since the finding, and that it had no intention of dumping the subject goods in the future. Mr. Lee noted that the volume of vinyl coated knitted fabrics that his company exports to Canada was very small in relation to its total exports and, therefore, the Canadian market is not of major concern to Lucky at this time.

## **CONSIDERATION OF THE EVIDENCE**

Total production of expanded vinyl coated knitted fabrics in Canada has increased every year since the finding was issued. This increase is attributable solely to increases in exports to the United States by Morbern and C.G.T. Morbern's production of the subject goods grew from 1983 to 1987 and then decreased in 1988 and again in 1989.

Morbern's domestic sales of the subject goods have fallen since 1985. However, export sales had strong increases in 1986 and 1987. Profitability was fairly steady from 1983 to 1988, but dropped significantly in 1989.

Total apparent imports of the subject goods from all countries increased from about 1.3 million square metres in 1983 to almost 2.7 million square metres in 1988. Imports from the Republic of Korea fluctuated over the years covered by this review. Imports of the subject goods from the Republic of Korea accounted for 28 percent of total imports in 1983. From 1984 to 1988, they fluctuated between 183,000 and 328,000 square metres. In 1989, they accounted for approximately 4 percent of total imports. All imports from the Republic of Korea are in competition for the lower priced end of the market.

The United States has traditionally been by far the most important foreign source of supply of the subject goods. Imports from the United States represented 91 percent of imports for the first 10 months of 1989. However, a major proportion of these imports is destined for the automotive industry and other higher priced vinyl markets in which competition from low-priced imports is not felt.

Imports from other sources, mostly low-priced, tend to fluctuate rather widely from year to year.

The Canadian market of the subject goods, in volume terms, has fluctuated somewhat over the years. The market share held by domestic producers has declined by more than 10 percentage points from 1984 to 1989. Imports from the Republic of Korea have accounted for between one and three percentage points since 1984. In 1989, they stood at less than half of one percentage point. These have always been confined to the lower priced end of the market. During the same period, imports from the United States have accounted for between 8 and 30 percent of the market and are heavily concentrated in the higher-priced end of the market.

An analysis of Morbern's sales in the high-priced and low-priced market segments shows that Morbern's sales volume has decreased on its high-priced vinyl sales. It also reveals that the apparent market for the low-end market has plummeted by more than 30 percent over the last five years. However, Morbern's share of this low-end market sector has grown dramatically in 1989.

Average unit selling prices for Canadian producers increased marginally over the period covered by this review. The average selling prices of imports from the Republic of Korea tended to be lower than the Canadian producers' selling prices.

Overall, Morbern's profit picture is a healthy one. This is mainly attributable to the success Morbern has had in exporting increasing volumes of the subject goods to the United States.

## **REASONS FOR THE DECISION**

The Tribunal's task in this review was to determine whether the industry was vulnerable to material injury caused by the potential resumption of dumping from the Republic of Korea, and to assess the propensity of the exporter in that country to dump in Canada in the future.

### **Vulnerability**

The evidence shows that, since 1983, imports from the Republic of Korea have not increased their market penetration, notwithstanding the fact that they have been largely undumped and priced below those of Morbern. During this period, Morbern's total domestic sales of the subject goods have continued to decline, but not in the low end of the market where the competition is with the Republic of Korea and other low-priced imports. Overall, Morbern's total sales have increased owing to strong growth in sales to the US market.

The evidence also indicates that the lion's share of imports of the subject goods originates in the United States and that these are mostly of a higher quality, grade and price than the goods from the Republic of Korea. The majority of the imports from the United States are destined for the automotive and other higher priced markets, areas occupied almost entirely by Morbern and C.G.T., the other major Canadian producer.

There is no evidence that imports from the Republic of Korea have ever been sold in this market.

Market data obtained demonstrate clearly that demand for low-priced expanded vinyl coated knitted fabrics is on a steep downward trend. This seems to stem primarily from substitution of other materials by users such as furniture and luggage manufacturers. Despite this market decline, the record shows that Morbern has not been affected by imports from the Republic of Korea in its ability to increase market share in the low-priced end of the market nor in its ability to maintain and increase prices.

Morbern is a profitable company. Over the past several years, its export performance has contributed significantly to growth in production and resulted in lower costs per unit of output.

All in all, the Tribunal is persuaded by the evidence, as it relates to production, market share, prices and profits, that Morbern is not in a vulnerable position vis-à-vis imports from the Republic of Korea. Indeed, these imports have lost ground in the marketplace, notwithstanding their low prices.

### **Propensity to Dump**

In regard to propensity to dump, the evidence presented regarding capacity and vertical integration at Lucky, by far the major exporter from the Republic of Korea, leads the Tribunal to believe that the nature of the integration will render the company more efficient and cost-effective, not more susceptible to dump the subject goods in the Canadian market. There would appear to be little incentive to dump, as the import prices from the Republic of Korea are already lower than Morbern's prices. Moreover, the market for these goods is small and declining.

Furthermore, the Tribunal saw no evidence of imports from the Republic of Korea moving into the higher priced segment of the market, despite allegations to this effect.

In argument, counsel for Morbern made a number of comments regarding problems with data on imports and the possibility of transshipment through the United States and "classification shopping" by importers to obtain better rates of duty. The Tribunal is of the view that transshipment is unlikely to apply to goods from the Republic of Korea since the GPT status would be lost if such goods entered from the United States. Moreover, the Tribunal was unable to find any evidence of possible misclassification that would have the effect of altering the market data on the record.

Counsel for Morbern has put forth the argument that imports from the Republic of Korea may have decreased in 1989 because of new normal values established by Revenue Canada which may have been substantial enough to discourage imports. The Tribunal is satisfied that this was not the case. The revisions to normal values made in late 1988 were marginal.

## CONCLUSION

The original finding was made on the basis of likelihood of material injury. The market penetration anticipated at the time did not materialize in spite of the low prices. The low-priced segment of the market is declining and there is no evidence that imports from the Republic of Korea have or will penetrate the high-priced end of the market. The domestic industry is not vulnerable vis-à-vis imports from the Republic of Korea nor is there, in the view of the Tribunal, a propensity to dump by exporters in the Republic of Korea.

For the foregoing reasons, the Tribunal is of the view that the finding of the ADT dated February 3, 1984, concerning expanded vinyl coated knitted fabrics originating in or exported from the Republic of Korea should be rescinded forthwith.

Kathleen E. Macmillan  
Kathleen E. Macmillan  
Presiding Member

Arthur B. Trudeau  
Arthur B. Trudeau  
Member

Michèle C. Blouin  
Michèle C. Blouin  
Member