

THE  
CANADIAN  
INTERNATIONAL  
TRADE TRIBUNAL



CANADA

# AN INQUIRY INTO TARIFF ANOMALIES

October 1990

REFERENCE NO. MN-90-001

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**AN INQUIRY  
INTO  
TARIFF ANOMALIES**

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## CANADIAN INTERNATIONAL TRADE TRIBUNAL

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The Canadian International Trade Tribunal is an independent quasi-judicial body that reports to Parliament through the Minister of Finance. It was established on December 31, 1988, by the *Canadian International Trade Tribunal Act*. The Tribunal hears appeals from rulings by Revenue Canada, Customs and Excise, on matters such as customs, excise and sales tax decisions. The Tribunal makes findings on whether imported goods, which have been found to be dumped, are causing material injury to the Canadian production of like goods. It also conducts import safeguard inquiries at the request of the Government or domestic producers. Finally, the Tribunal acts, at the request of the Government, as a standing commission of inquiry with powers to conduct research, hold public hearings and report on a broad range of matters relating to the economic, trade or commercial interests of Canada.

For further information, write to the Secretary, 365 Laurier Avenue West, Ottawa, Ontario, K1A 0G7.

## FOREWORD

The Minister of Finance asked the Tribunal to examine the effects on Canadian businesses of certain anomalies in the phase-out schedule of tariffs under the Canada-United States Free Trade Agreement. The Minister also asked for our advice on how to deal with them.

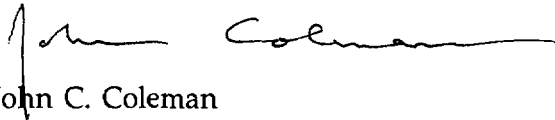
In the course of our inquiry, we had an opportunity to hear from businesses from across the country in a broad range of manufacturing activities. In many cases, we visited plants personally. We learned about the products under inquiry and how they are made. We talked with business people about the anomaly issue and other issues affecting business in Canada. We came away from these visits impressed with the dynamism in the Canadian industry and the strides being made to adjust to a more open North American market.

Our inquiry process focused on canvassing and analyzing the views of the producers in the affected industries. We contacted over 500 producers and asked them to file submissions on the anomaly question. Public portions of the submissions were available to interested persons for inspection and reply. Confidential information and our staff's assessments of the information were available to registered counsel for inspection and reply. This open process, we believe, has enabled us to give solid and fully informed recommendations to the Minister.

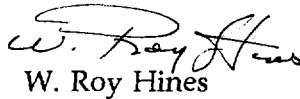
We want to thank the more than 180 firms that responded to our request for submissions. We also want to thank counsel who participated in this inquiry and encouraged us along the way to keep the file as open and transparent as possible. Finally, we would like to thank our staff for their fine work and dedicated efforts.



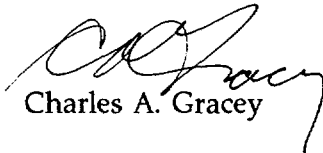
**Presiding Member:** Robert J. Bertrand, Q.C.



**Member:** John C. Coleman



**Member:** W. Roy Hines



**Member:** Charles A. Gracey



**1. Scope**

These recommendations apply to the Canada-United States Free Trade Agreement (FTA) tariffs on parts and materials used in manufacturing air cleaners, disposable diapers, detergents and household cleaners, pressure vessels and furniture.

The recommendations affect 43 products and about \$246 million of trade. This includes \$153 million of transborder trade and \$93 million of domestic trade. In 1993, they are expected to bring about cost savings of \$10.3 million to manufacturers of finished goods, of which \$6.4 million are direct duty savings.

**2. Primary Recommendations**

The tariff anomalies on the following inputs are causing or will cause economic difficulties for producers of finished products. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these input products.

**Air Cleaners**

Nonwoven media of cotton-polyester blends, used directly in the manufacture of air filters, should be accelerated to "free" as soon as possible.

**Disposable Diapers**

Nonwoven materials, polyethylene and polypropylene films and tapes, used directly in the manufacture of disposable diapers, and polyethylene bags, used for packaging disposable diapers, should be accelerated to "free" by January 1, 1993.

**Automatic Dishwasher Detergents**

Sodium tripolyphosphate and disodium carbonate, used directly in the manufacture of automatic dishwasher detergents, should be accelerated to "free" by January 1, 1993.

**Pressure Vessels**

Seamless cold-drawn carbon steel tubes ("U" shape), seamless cold-drawn stainless steel tubes ("U" shape) and seamless cold-drawn ferritic stainless steel tubes, used directly in the manufacture of feedwater heaters, should be accelerated to "free" as soon as possible.

Welded austenitic stainless steel tubes ("U" shape), used directly in the manufacture of feedwater heaters, should be accelerated to "free" by January 1, 1993.

Titanium plate and titanium tubes, used directly in the manufacture of condensers, should be accelerated to "free" as soon as possible.

#### **Furniture**

High-pressure paper decorative laminate, used directly in the manufacture of furniture, should be accelerated to "free" as soon as possible.

### **3. Secondary Recommendations**

#### **(a) Remedying Consequential Effects on Input Producers**

Acceleration of the tariff phase-out schedule on the following products would reduce the cost, to domestic input producers, of addressing the anomalies. The recommendations, except that on phosphoric acid, would also remove consequential anomalies caused by remedying the initial anomalies. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for phosphoric acid and also, on an administratively acceptable basis, for the other products.

#### **Disposable Diapers**

Polyethylene and polypropylene films, used directly in the manufacture of tapes for disposable diapers, should be accelerated to "free" by January 1, 1993.

#### **Automatic Dishwasher Detergents**

Phosphoric acid, non-agricultural grade, should be accelerated to "free" as soon as possible.

Disodium carbonate, used directly in the manufacture of sodium tripolyphosphate for automatic dishwasher detergents, should be accelerated to "free" by January 1, 1993.

#### **Pressure Vessels**

Austenitic stainless steel sheet and strip, used directly in the manufacture of welded austenitic stainless steel tubes ("U" shape) for feedwater heaters, should be accelerated to "free" by January 1, 1993.

**(b) Accelerating Tariff Reductions Where There Is No Production in Canada or Where Producers Do Not Object**

The tariff anomalies on the following inputs are not causing and will not cause economic difficulties for the producers of the finished products. However, for these products, either no domestic producers were identified or no domestic producers objected to accelerating the phase-out schedule of tariffs. The Tribunal brings these cases to the attention of the Minister of Finance. The Minister is encouraged to remove these anomalies, provided the solution does not create excessive administrative costs for the users or the Government.

**Air Cleaners**

Motors, 1/12 hp, used directly in the manufacture of air cleaners, should be accelerated to "free" as soon as possible.

**Furniture**

Closure glides for end of tubing on chairs (brass, nickel, heat-treated), fibre and metal buttons, decorative brass-plated tubes, stainless steel tubing, steel rings and sockets (brass-plated), brass upholstery nails, metal castors (zinc- or brass-plated), decorative brass-plated rods, steel keyplates (zinc-plated), steel catches and brass scuff plates, used directly in the manufacture of furniture, should be accelerated to "free" as soon as possible.

Metal tack strips for upholstery, steel table slides, PVC tape with glue for decorating furniture, plastic decorative moulding, plastic drawer divider holders, plastic grommets, plastic handles, plastic glides, wood turnings and carvings, and zinc pulls and knobs (including brass-plated), used directly in the manufacture of furniture, should be accelerated to "free" by January 1, 1993.

**4. Start of Implementation**

"As soon as possible" should be interpreted in the context of the Minister's request to the Tribunal to report "by October 15, 1990 so that, if necessary, its recommendations can be incorporated into the next round of negotiations with the U.S. on the acceleration of tariff reductions under the FTA," which the Tribunal expects to be implemented some time in 1991.

**5. Pace of Implementation**

For tariffs accelerated to "free" by January 1, 1993, the Tribunal recommends three equal reductions (i.e., as soon as possible in 1991, January 1, 1992, and January 1, 1993) of the existing 1990 FTA tariff rate.

## **6. Bilateral Action**

These recommendations are not contingent on securing bilateral agreement. However, in some cases, export opportunities could mitigate the costs to input producers of remedying the anomaly. This is particularly true for nonwoven materials and tapes used for disposable diapers, and metal tack strips for upholstery, PVC tape with glue for decorating furniture, plastic decorative moulding, plastic drawer divider holders, plastic grommets, plastic handles and plastic glides, used in the manufacture of furniture.

## **7. Detailed Recommendations**

Appendix C contains the Tribunal's detailed tariff recommendations and is the basis for this summary of recommendations.

## **1. Introduction**

The Minister of Finance asked the Tribunal to advise the Government on how to deal with certain anomalies in the phase-out schedule of tariffs under the FTA. Tariff anomalies, as defined for the purpose of this inquiry, occur when the tariffs on finished products are phased out faster than the tariffs on the parts and materials imported to manufacture them.

The inquiry took just over four months to complete. Its scope was broad. It involved finished products in five industries: air cleaners, disposable diapers, detergents and household cleaners, pressure vessels and furniture. Associated input parts and materials involved over 80 products in a range of industries including steel, tubing, hardware, textile, plastic and chemical.

We conducted the inquiry by way of written submissions. We contacted over 500 businesses and invited them to file submissions on the anomaly issue. To assist business, our staff prepared a guide for submissions, setting out the types of information on prices, costs of production, employment and investment needed by the Tribunal to make fair and fully informed recommendations. Over 60 firms were visited as part of the inquiry. From the visits, we gained a first-hand knowledge of the products and industries involved in the inquiry.

We tried to make the process as open, expeditious and inexpensive as possible. Public portions of submissions were available to the general public for review and reply. Confidential portions of submissions, and our staff's analyses of the benefits and costs of remedying the tariff anomalies, were available to registered independent counsel for review and reply. In this way, information in the individual submissions and our staff's work were questioned and tested.

## **2. Industry Issues**

The tariff anomaly issue, for some industries, was a contentious one. Producers of finished products said that the tariff anomalies put them at a competitive disadvantage compared to US imports. How, they asked, could they be expected to compete with duty-free imports when they still had to pay duties on the inputs that they imported from the United States to produce those goods?

Many domestic producers of the associated parts and materials argued that their industries were put on the 10-year tariff phase-out schedule under the FTA because it would take them that long to adjust to free competition with US producers. The steel and soda ash industries, for example, told us that changing the schedule at this point would compromise the adjustment plans that they had in place. Even a limited tariff acceleration on an end-use basis, some argued, would create enforcement difficulties and would encourage many other finished product industries, also in an anomaly position, to request tariff relief.

For other industries, the possibility of tariff acceleration on their products was less of an issue. The tape industry told us that they had already factored the tariff anomaly situation into their pricing decisions for future years. They planned to give compensating price concessions to producers of disposable diapers in order to keep them competitive with US firms. Manufacturers of plastic fittings recognized the difficulties facing the furniture industry. They encouraged the Tribunal to recommend the acceleration of tariff reductions on plastic fittings if it would help the furniture industry.

During the course of this inquiry, almost all firms complained about the difficulties caused by high interest rates, the high value of the Canadian dollar and slower economic growth. In most cases, these factors were of much greater concern than were the tariff anomalies. This was particularly the case for the furniture industry.

Summary statistics on the anomaly cost to the finished product industries are shown in the table opposite.

### **3. Types of Recommendations**

There are two categories of recommendations - primary and secondary. The primary recommendations are based on a finding of economic difficulty and a finding that the benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these input products. These recommendations are independent of the Government's acceptance of the secondary recommendations.

The secondary recommendations are of two types. In some cases, we have recommended accelerated tariff reductions so as to lessen the consequential effects on input producers of remedying the initial anomaly. In other cases, we have recommended accelerated tariff reductions where either the input producers do not object or where there is no production in Canada. We encourage the Minister to consider remedial action in these cases if it can be done simply and at little cost, in terms of time and effort, to the Government and users.

### **4. Findings for Each Industry**

#### **(a) Air Cleaners**

For manufacturers of air cleaners, we do not find that the anomaly is causing or will cause economic difficulty. A large portion of the tariff anomaly cost was recently resolved through tariff accelerations and the Machinery Program. The only remaining request for acceleration was for 1/12 hp electric motors. This product is not made in Canada, and we recommend that the anomaly be removed.

## SUMMARY STATISTICS

<u>Finished Product*</u>	<u>1989 Domestic Shipments</u> (\$ million)	<u>1993 Anomaly Cost Compared to Cost of Goods Sold</u> (¢/\$)	<u>Parts and Materials</u>	<u>1993 Contribution to Anomaly Cost</u> (¢/\$)
<b>Disposable Diapers</b>	400	1.9	Nonwovens	0.63
			Films	0.57
			Tapes	0.36
			Poly Bags	0.34
<b>Automatic Dishwasher Detergents</b>	under 75	2.1	STPP	1.80
			Soda Ash	0.30
<b>Pressure Vessels</b>	287	1.5	Pipes/Tubes	0.64
			Flat-Rolled Steels	0.42
			Rods and Bars	0.16
			Articles of Iron/Steel	0.16
			Fittings and Nuts	0.15
<b>Furniture</b>	3,724	0.19	Plastic Hardware	-
			Metal Hardware and Products	-
			Paper Decorative Laminate	-
			Vinyl-Coated Fabric	-
			Stains and Lacquers	-
			Wood Turnings	-

\* The air cleaner industry is not reported in this table because of insufficient information.

Source: Tribunal analysis of submissions.

As for manufacturers of air filters, Farr Inc. is in a unique position of economic difficulty as a result of a tariff anomaly. Farr currently imports a patented air filter media at a 19.8-percent tariff rate from its parent company in the United States. It can, however, import finished filters containing patented nonwoven media duty-free. The removal of this anomaly is a key factor that Farr's management will consider in deciding whether to maintain production in Canada or to become a distribution centre for air filters. In our view, the possible benefits of remedying the anomaly outweigh the possible effects on competitors and their input suppliers. The tariff on nonwoven media made of cotton-polyester blends for use in the production of air filters should be removed.

**(b) Disposable Diapers**

Many firms making disposable diapers reported a weak financial performance on this product in 1989. The tariff anomaly cost contributed to this weak performance. We note, as well, that the anomaly cost is growing each year and will peak in 1993. The anomaly cost, along with other economic factors, may lead some companies to curtail planned investments in their Canadian plants and to import finished diapers from the United States.

Manufacturers of some of the input materials recognized the difficult situation faced by the Canadian disposable diaper industry because of the tariff anomaly. They expressed their commitment of helping to keep the industry competitive with duty-free imports. Although Blarek Inc. opposed any tariff remedy for poly films, and other companies expressed some reservations on other input materials, we are of the view that the potential benefits to the disposable diaper industry outweigh the effects on the input producers. We recommend acceleration of the phase-out schedule for nonwoven materials, poly films, tapes and polyethylene bags for disposable diapers.

In remedying the anomaly for tapes used in the manufacture of disposable diapers, another anomaly is created relating to poly films used in the production of tapes for diapers. We recommend that this anomaly also be removed.

**(c) Detergents and Household Cleaners**

Although the terms of reference encompassed a broad range of products, the only finished product on which a request for acceleration was received was automatic dishwasher detergents. Two input materials, sodium tripolyphosphate (STPP) and disodium carbonate (soda ash), were identified as being of concern, and acceleration of the tariff phase-out on these inputs was requested. The evidence established that the major domestic producer of automatic dishwasher detergents, Chempac Powder, has experienced difficulties. However, the problems stemmed largely from factors other than the anomaly. Moreover, to the extent that the existence of the anomaly might have contributed to the economic difficulties of the producer, the impact was largely offset by concessionary prices extended by the supplier of sodium tripolyphosphate.



We are persuaded, however, that the anomaly will contribute in a meaningful way to Chempac Powder's economic difficulties in the future. There is no assurance that the concessionary prices, which Chempac Powder requires in order to maintain its automatic dishwasher detergent operation in Canada, will continue to be extended.

The benefits of remedial action exceed the costs. The impact on General Chemical Canada Ltd. is a small reduction in net income. The impact on Albright & Wilson Americas can be mitigated as suggested below. Therefore, we recommend that the tariff phase-out schedule on sodium tripolyphosphate and disodium carbonate, for use in automatic dishwasher detergents, be accelerated.

Acceleration of the tariff phase-out schedule on non-agricultural-grade phosphoric acid would reduce the cost to Albright & Wilson of addressing the anomaly, and we recommend that this be done. The Tribunal also recognizes that, in remedying the initial anomaly, a further anomaly would be created in the case of disodium carbonate used to produce sodium tripolyphosphate that is used, in turn, in the production of automatic dishwasher detergents. We also recommend corrective action in this situation.

#### **(d) Pressure Vessels**

For feedwater heaters and condensers, the Tribunal finds that the tariff anomaly could cause economic difficulty to Canada's only producer, Foster Wheeler Limited. In the custom manufacturing of capital goods of this nature, contracts can swing on quite small price differentials. The anomaly cost is one factor that puts Foster Wheeler at a competitive disadvantage with US firms. We recommend tariff acceleration on the inputs of carbon and stainless steel tubes and titanium tubes and plate, as requested by Foster Wheeler.

As Foster Wheeler sources the greater proportion of the requested materials in the United States, the tariff accelerations should have only a limited impact on the Canadian input producer, Associated Tube Industries (ATI). For ATI, the tariff acceleration would affect only the production of welded austenitic stainless steel tubes bent into a "U" shape. The effect on revenues and net income should be manageable. Remedying the anomaly for Foster Wheeler will put ATI in an anomaly position for its purchases of austenitic stainless steel sheet and strip. The Tribunal recommends that this anomaly also be removed.

For pressure vessels (narrowly defined), heat exchangers and double-acting hydraulic cylinders, we find no evidence to suggest that the producers in these industries are experiencing or will experience economic difficulties as a result of the anomalies. Profits were good. Sales, some firms told us, were increasing. The response rate to our request for submissions was low, indicating that this was not a pressing issue. Conversely, the major input suppliers mounted a strong opposition to the accelerations. For these reasons, we recommend no change in the tariff phase-out schedules for input parts for these finished products.

**(e) Furniture**

The furniture industry is experiencing difficulties for a number of reasons, including high interest rates, the value of the Canadian dollar and increased import competition from the United States. Some 50 to 60 furniture companies have closed, or significantly reduced, production in the last 18 months. A number of companies have relocated in the United States in order to take advantage of lower costs of production and to be closer to prospective US customers. In general, furniture producers do not include the cost of the tariff anomaly among their major concerns. The potential cost reduction arising from a removal of the anomaly on hardware items, finishing materials and fasteners is not considered to be an important issue.

A few companies, nevertheless, expressed interest in accelerating the phase-out period for specific inputs. In one case, that of high-pressure paper decorative laminate, we are of the view that the tariff anomaly is causing economic difficulty and that the benefits of remedial action exceed the costs of the action. We recommend the acceleration of the tariff phase-out schedule on high-pressure paper decorative laminate.

Our analysis confirms the industry's view that the anomaly cost is not a critical factor. However, we have identified over 20 inputs for which there is either no domestic producer or no objection to acceleration. We encourage the Minister to consider remedial measures in these cases, provided the solution does not create excessive administrative costs for the users or for the Government.

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## CHAPTER I

### INTRODUCTION

#### 1. Terms of Reference

The origins of the terms of reference lie in the first round of negotiations between Canada and the United States on accelerated tariff reductions under the FTA. In early 1989, the Canadian and US governments invited interested parties to submit requests for the acceleration of the FTA tariff reductions on specific products. Negotiations resulted in agreement on 400 items that are now subject to earlier tariff reduction than that originally provided in the FTA.

During the course of this exercise, some Canadian firms indicated that the rates of duty on their products were being phased out faster than the tariffs on certain input parts and materials that they import from the United States. These differences were described as tariff phase-out anomalies. Firms asked that these anomalies be removed. However, in some cases, bilateral agreement could not be reached on proceeding with these accelerations because the requisite "broad industry support" was lacking.

Subsequently, the Minister directed the Tribunal to examine tariff anomalies brought to his attention by manufacturers of air cleaners, disposable diapers, detergents and household cleaners, pressure vessels and furniture. The specific terms of reference are:

- to determine if the tariff anomalies are causing, or will cause, economic difficulties for the Canadian producers of the finished goods;
- where the Tribunal determines that the anomalies are causing, or will cause, such difficulties, to assess the economic benefits and costs (to Canadian producers of both the finished products and the associated parts and materials) of possible remedial measures, including bilateral acceleration of the FTA tariff reductions or unilateral reductions in the rates of duty; and
- to make recommendations on the manner in which the Government should proceed in each case.

In his letter of reference, the Minister asked the Tribunal to report to him "by October 15, 1990 so that, if necessary, its recommendations can be incorporated into the next round of the negotiations with the U.S. on the acceleration of tariff reductions under the FTA."

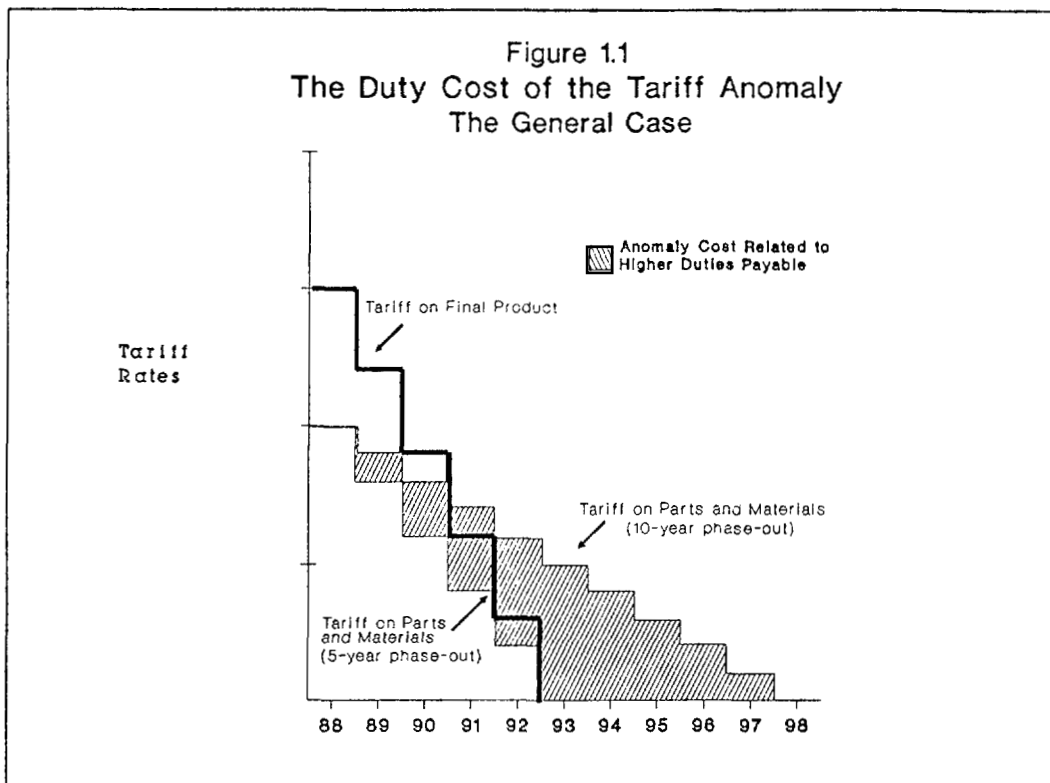
Under section 19 of the *Canadian International Trade Tribunal Act*, the Minister can direct the Tribunal to inquire into tariff-related matters. The full text of the Minister's letters of reference, dated May 22, 1990, and June 1, 1990, is in Appendices A and B of this report.

## 2. Interpretation of the Terms of Reference

### (a) Economic Difficulty

The terms of reference asked us to "determine if the tariff anomalies are causing, or will cause, economic difficulties for the Canadian producers of the finished goods." This test requires that we, first, identify the cost of the anomaly to the producers of finished goods and, then, assess whether that cost is causing, or will cause, economic difficulty.

A tariff anomaly, as defined for the purpose of this inquiry, occurs when tariffs on finished products are phased out faster under the FTA than tariffs on the imported inputs used to manufacture them. When compared to a situation where both finished and input products are on identical phase-out schedules, the tariff anomaly entails an added cost of doing business for the manufacturer of finished products. The added cost has two components: higher duties payable on the imported inputs because of the longer tariff phase-out schedule (see Figure 1.1) and higher prices for domestic inputs because input producers are under less price pressure from US imports.





Price pressure on the finished product caused by the FTA tariff reduction is not a part of the anomaly cost. This price pressure will exist whether or not there is a tariff acceleration on input materials.

We interpreted the causality requirement to be a "contributing" causality. We did not interpret the test to mean that the anomaly was the unique cause of economic difficulty or even necessarily the most important cause - only that it was contributing, or would contribute, in a measurable and significant way to the economic difficulty.

Measurability defined a basic threshold that had to be met before proceeding to assess the significance of the anomaly cost. The measurability, or size threshold, was not an arbitrary standard, but rather one set by the industry itself. If the industry either was unable to measure the cost of the anomaly or told us that the cost of measuring the anomaly was greater than the possible benefit from remedying it, we concluded that the anomaly was not causing and would not cause economic difficulty for the industry.

The significance of the anomaly cost was assessed on a case-by-case basis taking into account the current economic and financial position of the industry in question and its prospects for the future. The test of economic difficulty was met, for example, when we saw that the anomaly cost was causing, or would cause, a significant reduction in net income or sales revenues. As well, the test was met when we saw that the anomaly was contributing, or would contribute, in a meaningful way to investment and employment decisions that may have adverse consequences for business in Canada.

We interpreted the words "for the Canadian producers of the finished goods" in the terms of reference to mean that a substantial portion of a definable finished goods industry must be experiencing, or be likely to experience, economic difficulty for the test to be met. To identify economic difficulty, we needed a reliable measure of the anomaly cost and the economic difficulty that it was posing, or would pose in the future. This necessitated a level of response that accounted for 20-30 percent of industry sales for those industries characterized by many producers and almost a complete response rate (i.e., 100 percent of industry sales) in more concentrated industries.

#### **(b) Assessment of the Benefits and Costs**

Where we determined that the anomalies were causing, or would cause, economic difficulty, the terms of reference asked us to "assess the economic benefits and costs (to Canadian producers of both the finished products and the associated parts and materials) of possible remedial measures, including bilateral acceleration of the FTA tariff reductions or unilateral reductions in rates of duty." The analysis of benefits and costs was not required unless it was found that the anomaly caused economic difficulty.

The benefits to the finished product industries of removing the anomaly were measured in terms of cost savings.<sup>1</sup> These savings included direct duty savings on

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1. For both benefits and costs, we considered only the first order impacts of remedying the anomalies. For consumer products, for example, we did not consider the extent to which a cost saving brought about by remedying the anomaly may be passed on to the retail level and, ultimately, to the consumer; nor did we consider the possible market expanding effects of lower consumer prices.

inputs sourced in the United States. They also included lower prices paid for inputs currently sourced domestically. Domestic input producing firms may match lower import prices or, in the absence of price reductions from domestic firms, makers of finished products may switch sourcing to US firms. Cost savings brought about by removing the anomaly may improve the financial returns for finished product industries or may result in lower prices for finished products, which, in turn, may expand sales for these firms. Investment and employment decisions may be affected.

The costs of possible remedial measures were assessed in terms of the revenue losses of input producing firms. These revenue losses related to price reductions, which were made to meet lower import prices, or to lost sales, if the price reductions could not be afforded. Reduced revenues from operations may reduce financial returns and possibly affect investment and employment decisions. These revenue losses may be offset to some extent by improved export sales to the United States, if the tariff acceleration is on a bilateral basis.

The benefits (cost savings) and costs (reduced revenues) in our analyses were calculated on the basis of unilateral tariff accelerations on an end-use tariff item basis. For example, we evaluated the benefits and costs of unilaterally accelerating, to a 5-year phase-out schedule, the soda ash and phosphates used in the production of automatic dishwasher detergent.

The unilateral tariff acceleration standard was adopted because, in our view, this was the bottom line information required by the Government. Although economically superior, the negotiation of bilateral and reciprocal tariff accelerations with the United States cannot be guaranteed. For this reason, we have made no recommendations that are contingent on securing bilateral agreement. However, we have considered carefully the improved export opportunities that would come about from a bilateral and reciprocal acceleration and concluded, in some cases, that these opportunities would reduce the costs of remedying the anomaly to the input producing firms.

The end-use tariff item basis was adopted because it offered the possibility of a solution that was specific to the problem at hand. Consider, for example, the possible acceleration of the phase-out schedule for soda ash. Soda ash is used both in detergent and glass production, with glass production accounting for, by far, the larger market. Tariff acceleration on the basis of the entire tariff item, disodium carbonate, would have quite different economic impacts on the domestic soda ash industry than would tariff acceleration on a more narrowly defined end-use basis, say, soda ash for use in the production of automatic dishwasher detergent.

Input producers that opposed acceleration on an end-use tariff item basis were, quite naturally, even more strongly opposed to acceleration on the basis of existing tariff items.

The end-use tariff item approach may, however, create enforcement difficulties for Revenue Canada and a significant paper burden for importers. Auditing may be required to ensure that imported parts and materials are, in fact, used for their intended end use. However, in cases where we identified economic difficulty caused by the anomaly, we feel that these administrative issues are small compared to the difficulty caused by doing nothing or by recommending a solution that is broader than the problem at hand.

It is not a general practice in the United States to create end-use tariff items. This may pose difficulties in securing a bilateral basis for the accelerations. However, we observe that, in addressing a similar issue, Canada successfully negotiated, with the United States, the acceleration of tariffs for fabrics used as decorative outer coverings in the manufacture of upholstered furniture.

We also considered the pace of the phase-out schedules in assessing benefits and costs. There are three options:

- a matched phase-out schedule for finished and input products,
- a faster acceleration of the tariff reduction on inputs than on finished products, and
- acceleration of input tariff reductions, but not as fast as the reduction on the finished products.

Our recommendations, however, reflect one of two phase-out schedules. For subject input products made in Canada, we have, in all cases, recommended a slightly lagged matching of the phase-out schedules. The recommendations are for an acceleration to "free" by January 1, 1993, through three equal annual reductions (i.e., as soon as possible in 1991, January 1, 1992, and January 1, 1993) of the existing 1990 tariff rate. Compared to a phase-out schedule that reduces tariffs, as if they had been on a 5-year phase-out all along, the recommended approach leaves a small wedge of anomaly cost up to January 1, 1993. It does, however, mean a less abrupt shift to lower tariffs for the input producing firms. For subject input products not made in Canada, we have recommended a phase-out of the tariff as soon as possible.

"As soon as possible" should be interpreted in the context of the Minister's request to the Tribunal to report "by October 15, 1990 so that, if necessary, its recommendations can be incorporated into the next round of negotiations with the U.S. on the acceleration of tariff reductions under the FTA," which the Tribunal expects to be implemented some time in 1991.

In the course of the inquiry, some input producing firms told us that a cost of removing the anomaly may be the creation of another. For example, if tapes for use in making disposable diapers were accelerated to a 5-year phase-out schedule, then tapes would be in an anomaly position compared to films (10-year phase-out schedule) used to manufacture the tapes. In assessing benefits and costs, we have measured the impact of remedying consequential anomalies when they were brought to our attention.

We did not consider Most-Favoured-Nation (MFN) tariff reductions as an appropriate way to address economic difficulty arising from the tariff anomalies. MFN tariff reductions affect rates of duty applicable to many countries. However, it is the pace of certain reductions in the FTA tariff schedule that is causing individual anomalies. In our view, the solution should be found within the FTA context and not in the MFN context.

Because the terms of reference asked us to assess the economic benefits and costs specifically to Canadian producers of both finished products and associated parts and materials, the benefits to consumers of removing the tariff anomaly are considered to be outside the scope of this inquiry.

### **(c) Product Definition**

The final issue in the interpretation of the terms of reference relates to product definition. The product lists appended to the letters of reference identify both a plain English term and a Harmonized Commodity Description and Coding System (HS) tariff number. The HS tariff number defines a group of products that is generally greater than the plain English term identified. We are of the view that the plain English term and the HS tariff code must be interpreted together to give meaning to the product.

Heading No. 84.01, for example, defines a range of products used in the nuclear power industry. Against this heading, in the terms of reference, are the words "pressure vessels." We interpreted the combination of the tariff heading and the plain English term to mean pressure vessels used in the nuclear power industry. As another example, tariff item No. 8302.42.00 defines base metal mountings and fittings, other than hinges and castors, suitable for furniture products. The tariff item is listed several times. We interpreted the presentation to mean that only those products of tariff item No. 8302.42.00 defined by a plain English term were subject parts in this inquiry.

### **3. Types of Recommendations**

There are two categories of recommendations - primary and secondary. The primary recommendations are based on a finding of economic difficulty and a finding that the benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these input products. These recommendations are independent of the Government's acceptance of the secondary recommendations.

The secondary recommendations are of two types. In some cases, we have recommended accelerated tariff reductions so as to lessen the consequential effects on input producers of remedying the initial anomaly. In other cases, we have recommended accelerated tariff reductions where either the input producers do not object or where there is no production in Canada. We encourage the Minister to consider remedial action in these cases if it can be done simply and at little cost, in terms of time and effort, to the Government and users.

### **4. Organization of the Inquiry**

The inquiry took just over four months to complete. Its scope was broad and it involved finished products for both capital goods and consumer markets. Associated input parts and materials involved over 80 products in a range of industries including steel, tubing, hardware, textile, plastic and chemical.

In organizing the inquiry, we decided on a process that focused on canvassing and analyzing the views of the affected parties. Because of the scope of the inquiry and the limited time available, we sought to achieve a balance in the inquiry process between openness and transparency, on the one hand, and expeditiousness, on the other.

The inquiry was held by way of written submissions. The Secretary sent letters to 400 interested and affected parties on May 31, 1990, and invited them to submit their views on the tariff anomaly question. After further consultation with the industries, an additional 100 firms were contacted in order to improve our survey coverage. To assist firms, a guide for submissions was prepared identifying the types of information on prices, costs of production, employment and investment that the Tribunal required to arrive at fair and fully informed recommendations. Firms were encouraged to be as complete as possible in providing information to the Tribunal, consistent with their assessment of the possible benefits of the inquiry to them.

A notice of the inquiry was published in Part I of the June 2, 1990, edition of the Canada Gazette. A supplementary notice, adding to the original list of tariff items under review, was published in the edition of June 16, 1990. The Tribunal received over 180 submissions and responses to short-form questionnaires in the course of this inquiry.

A public hearing was not held. As a result, the evidence was neither tested through the direct questioning of witnesses by Tribunal members nor tested through cross-examination by counsel.

The testing of the evidence was carried out in other ways. First, the guides for submissions allowed us to collect information from two perspectives. Producers of finished goods were asked, for example, to report on their purchases of subject materials. Input producers were asked to report their sales of the subject materials. This method of questioning provided a way of validating much of our data.

Second, plant visits offered an opportunity for members and staff to ask questions about the evidence and the position of the parties. Staff and members visited over 60 firms during the inquiry. The firm visits also enabled us to gain a first-hand knowledge of the products and processes under review.

Third, we operated an open-file process. Public portions of the submissions were available for review by the public in the offices of the Tribunal. Through this process, the public was able to know which firms were making representations to the Tribunal and the nature of the representations. The public was invited to reply to, or otherwise comment on, the public record.

Confidential portions of submissions, staff summaries of submissions and staff briefing notes to members (including the analyses of the costs and benefits of remedying the anomalies) were made available only to registered independent counsel for review and reply. The process gave an opportunity for the facts in the submissions and the staff work to be questioned and tested. This right of review and reply by counsel was, in fact, exercised. These replies form part of the record and were taken into account in making our recommendations.

## **5. Organization of the Report**

From this point, the report is divided into five chapters. There is one chapter on each of the finished products referred to the Tribunal by the Minister:

- air cleaners,
- disposable diapers,
- detergents and household cleaners,
- pressure vessels, and
- furniture.

Each chapter includes an identification of the finished and input products under consideration and a report on the survey coverage. The evidence of the finished product industry is then summarized, followed by the evidence of the input producing firms. Finally, each chapter concludes with an assessment of the evidence and our conclusions and recommendations.

We have sought to prepare a document for public viewing that respects the confidentiality provisions of the *Canadian International Trade Tribunal Act*. Thus, specific information for individual firms, and industries with a small number of producers, is withheld. However, consistent with the requirement that respondents provide a public summary of their submissions, we have reported the positions of individual firms on the anomaly question and their reasons cast in general terms. Similarly, our assessments are cast in a general way.

The Minister's letters of reference are reproduced in Appendices A and B. The detailed tariff recommendations are in Appendix C. Appendices D, E and F contain the lists of submissions, counsel and plant visits, respectively. Appendix G identifies the Tribunal staff who worked on this inquiry.

## CHAPTER II

### AIR CLEANERS

#### 1. Introduction

As a result of the FTA, the tariffs on finished air cleaners (tariff item No. 8421.39.90) became duty-free on January 1, 1989, whereas the tariffs on parts and materials imported from the United States, for use in the manufacture of air cleaners, are decreasing over 5 and 10 years.

#### (a) Product Definition

Manufacturers in the air cleaner industry produce a wide variety of products including electronic air cleaners, dust extractors and smoke filters, industrial gas cleaning equipment and gas separation equipment. However, our inquiry was limited to those air cleaners, electronic air cleaners and dust extractors and smoke filters, that use the input materials listed in the terms of reference. Filters using fibreglass media or paper media, for example, are not subject to this inquiry.

The finished product and the parts and materials under consideration in this inquiry are listed in Table 2.1.

#### (b) Survey Coverage

In order to assess the impact of possible reductions in tariffs on the air cleaner industry and the associated parts industries, the research staff sent out requests for information to 36 manufacturers of various types of air cleaners and air filters and to 22 firms involved in the production of the above-mentioned parts and materials. These manufacturers were targeted on the basis of contacts made with over 150 firms to identify interested parties. Responses were received from 22 companies involved in the production of various types of air cleaners and filters, whereas 14 manufacturers of parts and materials provided some information.

Based on our canvassing of the industry, it became evident that most companies were not interested in this inquiry. Many did not manufacture the finished air cleaners, air filters or input materials listed in the terms of reference. Others that did manufacture finished air cleaners told us that they did not use the subject input parts or that the input parts accounted for such a small portion of their total production costs that they did not wish to pursue the matter. Others exported almost all of their production of air cleaners and obtained duty drawbacks, and others had already decided to discontinue manufacturing air cleaners and were moving into other more profitable areas.

Table 2.1

TARIFF RATES FOR SUBJECT PRODUCTS

<u>Product</u>	<u>Pre-FTA Rate (%)</u>	<u>1989 (%)</u>	<u>1990 (%)</u>
<b>Finished Product:</b>			
Air Cleaners	9.2	FREE	FREE
<b>Input Parts &amp; Materials:</b>			
Nonwoven media	24.8	22.3	19.8
Aluminum tubes and pipes	8.1	6.4	4.8
Air cleaner parts	9.2	7.3	5.5
1/12 hp (electric) motors	9.2-12.5	9.2-10.0	5.5-7.5
High-voltage power supplies	9.2	8.2	7.3
Rectifiers	17.5	14.0	10.5
Ceramic capacitors	10.2	8.1	6.1
Parts for switches	10.1	9.0	8.0
Indicator lights	12.6	11.3	10.0

Note: Tariffs on nonwoven media, high-voltage power supplies, parts for switches and indicator lights are scheduled to be phased out over 10 years.  
 Tariffs on the other parts and materials are scheduled to be phased out over 5 years.

Source: *Customs Tariff.*

2. **Electronic Air Cleaners**

(a) **Product Definition**

The electronic air cleaners included in this study are residential, portable desktop, commercial and industrial types. In the case of electronic air cleaners that are electrostatic in nature, the dust clings to a series of wires charged with static electricity.



(b) **Survey Coverage**

Five producers of electronic air cleaners were identified. These firms represent a comprehensive coverage of the domestic industry.

Electro Air Canada Limited/Five Seasons Comfort Limited is the only firm, among electronic air cleaner manufacturers in Canada, that indicated economic difficulty as a result of the tariff anomalies. Some other manufacturers, however, discontinued domestic production in favor of importing air cleaners.

(c) **Summary of Submissions**

**Electro Air Canada Limited/Five Seasons Comfort Limited** (Electro Air) of Mississauga, Ontario, is a subsidiary of Electro Air Limited, Pennsylvania, USA. In Electro Air's original submission to the Department of Finance, the firm identified a number of input parts that were in an anomaly situation. A copy of this submission was provided to the Tribunal by Electro Air. Subsequently, the input parts at issue were reduced to only one, 1/12 hp electric motors. With regard to the acceleration of the tariff reduction schedule for 1/12 hp electric motors, the company stated that it cannot find any firm in Canada that will produce a limited production run of variable 3-speed 1/12 hp motors.

A total of three manufacturers of electric motors filed submissions with the Tribunal. **General Electric Canada** remarked that it asked the Department of Finance and the Interdepartmental Committee on FTA Acceleration that duties be removed on all AC fractional horsepower motors, regardless of type. **Moteurs Leroy-Somer Canada Ltée** stated that it does not manufacture the subject motors, and **Franklin Electric of Canada Ltd.** stated that it is phasing out production of 1/12 hp motors as of October 1990.

For 1/12 hp motors, Customs Duty Accelerated Reduction Order No. 1, SOR/90-301, dated May 24, 1990, was passed allowing the acceleration of customs duty rate reductions from 1998 to 1993 on 1/12 hp electric motors under tariff item Nos. 8501.20.11 and 8501.20.19. This order was effective April 1, 1990.

The other input parts identified by Electro Air are no longer at issue because of the accelerated tariff elimination for resistors and air cleaner parts, the addition of parts for switches and aluminum tubes and pipes to the Machinery Program, and Electro Air's product redesign to eliminate the use of other imported parts.

In his letter of June 1, 1990, to the Tribunal, the Minister asked that resistors be deleted from the list of products under review. The Governor in Council approved Customs Duty Accelerated Reduction Order No. 1, SOR/90-301, dated May 24, 1990. This order provided for the accelerated elimination of the phase-out of tariffs on resistors, tariff item No. 8533.29.00, to "free" effective April 1, 1990.

As for parts for switches, Order in Council No. 1990-319 dated February 22, 1990, allowed parts for switches to be imported duty-free under the Machinery Program effective February 22, 1990.

As for air cleaner parts, Customs Duty Acceleration Order No. 1, SOR/90-379, dated June 25, 1990, was passed allowing for the removal of customs duties on air cleaner parts, under tariff item No. 8421.99.30, for finished air cleaners, under tariff item No. 8421.39.90. This order was effective April 1, 1990.

For aluminum tubes and pipes, Electro Air received a letter dated June 27, 1990, from the Minister of State, the Honourable John McDermid, stating that the *Customs Tariff* would be amended to restore the eligibility of aluminum tubing, used in the manufacture of electronic air cleaners under the Machinery Program, retroactive to January 1, 1989.

**Honeywell Limited** (Honeywell) of North York, Ontario, has been in business in Canada for 60 years and employed 3,700 persons in 1989. Honeywell markets one residential and three commercial electronic air cleaners. However, only one commercial model is manufactured in Canada. Honeywell submitted that early removal of the tariffs on parts and materials for electronic air cleaners would reduce the cost of its commercial air cleaners, but it would have a minimal effect on the company because most of the domestic production is shipped to the United States, and Honeywell draws back the duties paid on these exports.

**ABB/Flakt Canada Ltd.** (Flakt) of Ottawa, Ontario, is an engineering company and is a subsidiary of Asea Brown Boveri of Zurich, Switzerland. Flakt's major products in Canada include electrostatic precipitators, industrial air pollution control equipment, pulp and paper dryers, gypsum dryers and waste water treatment systems. Flakt's production of air cleaner products contains insignificant amounts of US-sourced inputs. However, the company argued that, in the future, it may need to source from the United States in order to remain competitive with the duty-free imports of the finished goods coming into Canada. In Flakt's submission, it was specifically requested that the air cleaner parts with value-added fabricated steel, structural steel and plate work components, classified under tariff item No. 8421.99.30, be accelerated to duty-free.

Flakt's concern with the tariff anomaly on air cleaner parts was addressed by Customs Duty Acceleration Order No. 1, SOR/90-379. See the discussion of this order in the section under Electro Air.

**Bionaire Inc.** (Bionaire) of Lachine, Quebec, manufactures small portable and desktop air cleaners. Bionaire reported that it had no interest in the inquiry due to the insignificant impact on the firm.

**Emmerson/White Rogers** of Toronto, Ontario, did not file a written submission but informed us that it discontinued the production of electrostatic air cleaners, although it is completing a few existing contracts. The firm now intends to import finished air cleaners for distribution.

#### (d) **Assessment and Conclusion**

The Tribunal is of the view that no further action is required on eight of the nine parts and materials for electronic air cleaners identified in the terms of reference. For most of the products that were alleged to be causing economic difficulty, the

Government, through a combination of measures including the Machinery Program and tariff accelerations, or the firms themselves, through product redesign, have already taken the necessary steps to remove the negative effects of the anomalies.

The one input part where the tariff anomaly is still an issue, and where some concern was expressed, was for 1/12 hp electric motors. The tariff anomaly on this product is not causing economic difficulty for Canadian manufacturers of air cleaners. However, there is no production of these motors in Canada. Therefore, we recommend that the tariff on 1/12 hp electric motors, used in the production of air cleaners, be accelerated to "free" as soon as possible.

### **3. Air Filters**

#### **(a) Product Definition**

The air filters covered by this inquiry include dust extractors and smoke filters. For these filters, the air is purified by the passing of air through specific nonwoven media. The nonwoven media are the only input materials, identified in the terms of reference, at issue for air filters. The 10-digit statistical code that defines the product is specific and refers to nonwoven media that are manufactured by a process other than spunbonding (for example, wet-laid, air-laid or thermal bonding processes) and are made of fibres such as cotton, rayon, polyethylene or blends thereof. Therefore, filters using media made of polyester, polypropylene, nylon, other polyamides, fibreglass, paper or wire mesh are not subject to this inquiry.

#### **(b) Survey Coverage**

There are many air filter manufacturers that use nonwoven filter media classified under the broader tariff item No. 5603.00.90. Of these manufacturers, 23 were contacted. The only manufacturer identified using nonwoven media classified under statistical code No. 5603.00.90.99 was Farr Inc. Therefore, the submission filed by Farr Inc. gives comprehensive coverage of the industry manufacturing filters made with nonwoven media classified under statistical code No. 5603.00.90.99. Four firms were identified as being producers of air filters in direct competition with the air filters using the specific nonwoven media identified in the terms of reference.

The other companies contacted that produce filters were not interested in providing a submission to this inquiry for the following reasons.

- They did not use the subject nonwoven materials for their media. The nonwovens that they used were classified under other tariff items and were not subject materials. Other firms used fibreglass or paper media, which, as previously noted, were not subject materials.
- Other companies did not produce air filters. They produced gas or chemical filtration filters and systems, automotive filters, wet scrubbers, sewage and mining purification systems, and seed cleaning equipment.

- Some companies imported a complete filter duty-free. This complete filter would be inserted into their air cleaning systems.

(c) **Summary of Submissions**

Only one firm, **Farr Inc.** (Farr) of Laval, Quebec, filed a submission indicating competitive problems under the tariff anomaly situation with specific interest in the 10-digit statistical code No. 5603.00.90.99. Farr is a subsidiary of Farr Company in the United States. The plant in Laval is close to 130,000 sq. ft. and, in 1990, the company employed 130 persons.

The difficulty resulting from the tariff anomaly appeared to be unique to Farr due to its affiliation with its US parent company.

Farr markets an industrial application pre-filter. This is a pleated media filter supported by a wire mesh and enclosed in an outer frame. This product represents an important part of the firm's production activity. In order to maintain uniform specifications and standards of quality, Farr must import particular nonwoven cotton media from its US parent company. The difficulty arising from the FTA is that Farr must pay duty on the nonwoven media used in the production of its air filters, whereas Farr's US parent company may export completed air filters to Canada duty-free. Farr argued that, under the present anomaly, it was more economical for the company to import finished air filters from its parent company in the United States than to manufacture them in Canada. The firm maintained that this situation may necessitate a change from a manufacturing to a distribution facility.

Farr argued that the tariff anomaly was a key factor affecting management's decision whether to maintain production of air filters in Canada or to become a distribution centre. Farr claimed that its material costs were of principle concern and that there was little room for further cost savings by improving operational efficiencies elsewhere. Farr noted that, even with tariff reduction acceleration, Canadian production costs would continue to exceed US production costs. A 6- to 12-month time frame has been allowed for this decision in order for Farr to take into account the outcome of its request for tariff acceleration.

**AAF-Canada, Division of Snyder General Canada Inc.** (AAF-Canada) of Ville de Saint-Laurent, Quebec, manufactures air filters and nonwoven wadding media that it uses in the manufacture of pleated air filters. The nonwoven media is classified under tariff item No. 5601.21.00, which is not subject to this inquiry. AAF-Canada opposed the acceleration of the tariff reduction for the nonwoven media under statistical code No. 5603.00.90.99, as it was, in its view, in direct competition with its own product. AAF-Canada argued that the removal of duties would give Farr an economic advantage in the marketplace.

**National General Filter Products Ltd.** (National General Filter) of Brampton, Ontario, a manufacturer/converter of air filters, stated that sufficient sources of polyester filtration media exist in Canada. National General Filter sources its requirements of nonwoven media domestically. National General Filter did not state its position

regarding tariff reduction acceleration on nonwoven media classified under the subject tariff item.

**Airguard Industries** (Airguard) of Concord, Ontario, is a manufacturer of industrial air filters. The media used in the production of Airguard's filters include non-subject media made of fibreglass and polyester. However, the firm argued in favor of accelerating the tariff reduction schedule for nonwovens. Airguard attempts to convert all input material locally, but is hindered by competitors importing finished air cleaners duty-free. Airguard noted that its market share and local employment would increase if it had access to duty-free nonwoven media.

**Stearns Canada Inc.** (Stearns) of Brampton, Ontario, a producer of nonwoven media, submitted that it was in favor of acceleration of the tariff reduction schedule of the duty on nonwoven media. This, it argued, would create a more competitive pricing situation for its raw materials and would allow Stearns to compete in the US market.

**Fybon Industries Ltd.** (Fybon) of Toronto, Ontario, manufactures bonded polyester fibre fill for use in the manufacture of air cleaners. Fybon urged that the duty on finished air filters be reinstated because of the potential loss of sales by the Canadian air filter industry and, in turn, the loss of Fybon's sales of nonwoven media to the air filter industry.

Other manufacturers were contacted regarding the possible effects of this anomaly. They indicated that they did not have an interest in making a submission due to the insignificant impact that it would have on their firm.

**(d) Assessment and Conclusion**

It is currently more economical for Farr to import finished air filters from the United States than to manufacture them in Canada. The anomaly cost contributes to this cost disadvantage. Farr's management will soon decide whether to continue production of the air filters in Canada or to change the Canadian operation into a distribution centre.

In our view, the anomaly cost contributes in a meaningful way to the cost disadvantage of Canadian production. The removal of the anomaly should influence a decision to continue production in Canada.

The only Canadian producer of a similar nonwoven material is not opposed to the tariff acceleration on the subject nonwoven media. However, some of Farr's competitors in the domestic air filter market, and their input suppliers, opposed the acceleration because of the possible price advantage that it would give to Farr.

In our opinion, competition in the domestic market, to the limited extent that it may be affected, will not be greatly different if it is against domestically produced Farr filters using duty-free media or US-produced Farr filters imported duty-free. Because the anomaly is contributing to Farr's cost disadvantage in Canada, and because acceleration of the input media is not expected to have any significant impact on Farr's domestic

competitors, we recommend that the tariff on nonwoven media imported from the United States under statistical code No. 5603.00.90.99 be removed.

#### **4. Recommendations**

##### **(a) Primary Recommendation**

The tariff anomaly on the following input material is causing or will cause economic difficulty for producers of finished products. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for the following input material:

- (i) nonwoven media of cotton-polyester blends (included in statistical code No. 5603.00.90.99) used directly in the manufacture of air filters. This input material should be accelerated to "free" as soon as possible.

##### **(b) Secondary Recommendation**

The tariff anomaly on the following input product is not causing and will not cause economic difficulty for the producers of the finished products. However, for this product, no domestic producers were identified. The Tribunal brings this case to the attention of the Minister. For the following input part, the Minister is encouraged to consider remedial action:

- (i) 1/12 hp (electric) motors (tariff item Nos. 8501.20.11 and 8501.20.19) used directly in the manufacture of air cleaners. This input part should be accelerated to "free" as soon as possible.<sup>1</sup>

The full listing of the Tribunal's recommendations is included in Appendix C.

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1. Customs Duty Acceleration Order No. 1, SOR/90-301, dated May 24, 1990, was passed allowing the acceleration of customs duty rate reductions from 1989 to 1993 on 1/12 hp electric motors under tariff item Nos. 8501.20.11 and 8501.20.19. This order was effective April 1, 1990.

## CHAPTER III

### DISPOSABLE DIAPERS

#### 1. Introduction

Under the FTA, finished disposable diapers will be duty-free as of January 1, 1993, whereas the tariffs on the major components imported from the United States, for use in the production of the disposable diapers, will not be phased out until 1998. Manufacturers of disposable diapers argued that this tariff anomaly would penalize the production in Canada of disposable diapers and would favor the importation of finished diapers into Canada from the United States.

#### (a) Product Definition

Disposable diapers consist basically of an outer layer of plastic (polyethylene film), a fastening and release tape system, various layers of nonwoven fabric and a nonwoven soft inner lining (diaper liner-transfer layer), waist and leg elastic, absorbent padding and a super absorbent material.

Table 3.1 lists the products covered by this inquiry, together with the respective rates of duty, prior to the FTA, through 1993.

#### (b) Survey Coverage

In order to assess the economic benefits and costs of possible remedial measures on the disposable diaper industry and domestic input producers, the research staff of the Tribunal sent out requests for submissions to 8 disposable diaper manufacturers and to 30 Canadian companies potentially involved in the production of the subject materials.

Responses were received from five manufacturers of disposable diapers (Procter & Gamble Inc., Kimberly-Clark Canada Inc., Weyerhaeuser Canada Ltd., Dafoe & Dafoe Inc. and Health Care Diaper Inc.) representing close to 99 percent of the market in Canada.

Responses were also received from all Canadian manufacturers of nonwoven materials (Veratec (Canada) Inc. and Stearns Canada Inc.), tapes (3M Canada Inc.) and polyethylene and polypropylene films (Du Pont Canada Inc. and Blarek Inc.) that are used in the production of disposable diapers.

None of the four Canadian manufacturers of the polyethylene bags, used in the packaging of disposable diapers, made a written submission to the Tribunal.

Table 3.1

TARIFF RATES FOR SUBJECT PRODUCTS

<u>Product</u>	<u>Pre-FTA Rate (%)</u>	<u>1989 (%)</u>	<u>1993 (%)</u>
<b>Finished Product:</b>			
Disposable diapers	10.2	8.1	FREE
<b>Input Parts &amp; Materials:</b>			
Nonwoven materials	24.8	22.3	12.3
Polyethylene films	13.6	12.2	6.8
Polypropylene films	13.5	12.1	6.8
Fastening tapes and release tapes	13.5	12.1	6.8
Polyethylene bags	13.5	12.2	6.8

Note: Tariffs on the input parts and materials are scheduled to be phased out in 1998.

Source: Pre-FTA and 1989 rates from the *Customs Tariff*.  
1993 rates based on FTA tariff reduction schedules.

2. Finished Goods

(a) Overview

Disposable diapers accounted for approximately 80 percent of total diaper changes (1.4 billion) in Canada in 1989. This amounted to an estimated \$400 million in revenues. The industry employed over 1,000 persons and it is concentrated in Ontario and Quebec.

There was no significant export or import activity of finished disposable diapers during the survey period. Manufacturers sell directly to retailers such as major grocery stores, drugstores and other retail chains. Canadian producers say that it is a fiercely competitive industry currently undergoing rapid technological evolution that requires continuous major modifications to facilities and ongoing product research. In this connection, both finished diaper manufacturers and input manufacturers have made important investments in plants and equipment in Canada to meet the growing demand for disposable diapers.



In general, sales of disposable diapers represent a large proportion of the total sales of companies involved in this activity and, as such, contribute significantly to overall company sales. Financial data provided to the Tribunal generally show poor or weak financial results for Canadian manufacturing relating to the production of disposable diapers.

**(b) Summary of Submissions**

The manufacturers of disposable diapers in Canada submitted that the Tribunal should recommend the acceleration of the tariff reduction schedule for the input materials for diapers. They argued that the FTA, with the current reduction schedule, would put the Canadian disposable diaper industry at an unfair disadvantage commencing with the fourth anniversary of the FTA until January 1998. Given its relatively poor financial situation, the disposable diaper industry stressed that the impact of the tariff anomaly was substantial. **Kimberly-Clark Canada Inc.** (Kimberly-Clark), a major Canadian manufacturer of disposable diapers, argued that the tariff anomalies put its plant at a cost disadvantage compared to similar plants of its parent company in the United States.

In its submission, Kimberly-Clark made the point that the disposable diaper market was driven by constant and rapid product innovations that demanded continually changing product specifications from input suppliers. This meant ongoing capital investment and research and development in the case of suppliers of both finished diapers and of the input materials. In this context, Kimberly-Clark argued that most domestic input suppliers could not continue to meet the new requirements and upgraded specifications because of high fixed costs and the limited size of the Canadian market. It was important for Kimberly-Clark to import a large portion of its input material requirements.

**3. Input Materials**

The input materials covered by this inquiry include nonwoven materials, poly films, tapes and poly bags. These four input materials represent approximately 45 percent of the total material costs of a disposable diaper. Of the subject input materials, the nonwoven materials are the most important, followed by poly films, the tape system and the poly bags.

**(a) Summary of Submissions**

**(i) Nonwoven Materials**

The nonwoven materials in a disposable diaper are strong, absorbent and soft. The market for these nonwoven materials has increased because diaper manufacturers use more and more of these materials in the manufacture of a disposable diaper. A good deal of the materials was imported in 1989.

The selling price for nonwoven materials for the diaper industry has dropped in Canada since 1988 and is expected to drop in 1991. Two reasons for the price decrease are that:

- sourcing of the polypropylene fibre used to produce thermal bond nonwoven materials has changed to domestic suppliers and the prices have fallen; and
- the high value of the Canadian dollar has made spunbonded nonwoven (that was all imported) less expensive, and this has lowered the prices of thermal bonded nonwoven materials that were in direct competition with the imported spunbonded nonwoven materials.

**Veratec (Canada) Inc.** (Veratec) of Toronto, Ontario, is a subsidiary of Veratec U.S.A. Veratec employs about 200 persons and has both thermal bond and chemical bond technologies to manufacture nonwoven materials. Veratec is in the process of introducing spunbonded technology to produce nonwoven materials. The firm supplies the largest Canadian diaper manufacturer, **Procter & Gamble Inc.**, as well as a number of the smaller producers of disposable diapers.

Veratec expressed some reservations about the company's ability to compete over the next 12 to 18 months. It argued that, if the Canadian dollar remained at its current level, the firm could be forced to lower prices to retain business. Veratec remarked that the bilateral elimination of duties would open up the market south of the border and that the company would be in a position to take advantage of the increased market opportunities. Veratec stated that, in spite of the anticipated increased competition after 1993, it could retain most of its domestic market share.

**Stearns Canada Inc.** (Stearns) of Mississauga, Ontario, is a wholly owned subsidiary of Stearns Technical Textiles Trust U.S.A. The company is now totally devoted to the manufacture of nonwovens in the United States and in Canada. Stearns produces a wide range of products, including thermal bonded polypropylene, resin bonded rayon, high loft resin bonded polyester and resin bonded needled polyester. In addition to the corporate office in Mississauga, Stearns has manufacturing locations in Montréal, Brampton and Trenton. The Trenton plant produces the nonwoven materials used in disposable diapers, sanitary napkins, moist towelettes, household wipes and fabric softener sheets. The firm supplies nonwoven materials to the smaller manufacturers of the private label and no-name brands of diapers.

Both Veratec and Stearns are not opposed to the acceleration of the tariff reduction schedule for this input material.

## (ii) Poly Films

Polyethylene and polypropylene films make up the outermost layer of the diaper. There are two manufacturers of the subject films in Canada for the diaper market. However, the submissions indicated that the major portion of this market was supplied by US imports.

**Blarek Inc.** (Blarek) of Brantford, Ontario, a privately owned company, employed about 30 persons in 1989. The firm sells polyethylene and polypropylene films to a number of the smaller diaper manufacturers and plastic sticks to swab manufacturers. Sales to the disposable diaper industry represented an important portion of the company's total revenues in 1989.

Blarek opposed any action that would eliminate the tariff protection on the poly films in question. The submission filed by Blarek showed that the company was not in a strong financial position. Blarek argued that it would lose market share to large US competitors with greater economies of scale.

**Du Pont Canada Inc.** (Du Pont) did not provide information on the profile of the company or on the division producing poly films. Du Pont stated that acceleration of the duty reduction schedule for poly films, used in the production of disposable diapers, would not have a significant impact on the company; therefore, it was not opposed.

### (iii) Tapes

Tapes, used in the production of disposable diapers, include fastening tapes, release tapes and the front patch dedicated fastening surface. There is substantial export activity in this industry.

**3M Canada Inc.** (3M Canada) is the predominant Canadian supplier of the tapes used in the production of disposable diapers. 3M Canada has its headquarters in London, Ontario, with other manufacturing plants located in Perth and Havelock, Ontario, and Mordern, Manitoba.

3M Canada employs over 2,000 persons and manufactures a wide range of products, including coated abrasive products, industrial adhesives, electrical insulating products, industrial chemicals, surgical masks, medical tapes and a broad range of industrial and consumer pressure-sensitive tapes.

Tapes, used in disposable diapers, are manufactured in London and Perth, Ontario. Employment involved in the manufacturing of tapes for the diaper industry totalled about 150 persons in 1989.

The major competition in the area of tapes, used in the production of disposable diapers, comes from the parent company in the United States, 3M Company. There are a few other domestic manufacturers of tape products, but these companies have trouble meeting the specifications and quality standards demanded by the diaper manufacturers.

3M Canada fully supported and specifically requested the reciprocal end-use acceleration of the tariff reduction schedule for both tapes and poly films, used in the manufacture of the tape system for disposable diapers, because the company considered it to have considerable economic merit.

3M Canada imports the poly film used to make the front dedicated fastening surface. 3M Canada reported that it had exhausted all possibilities of sourcing this film in Canada. The imported film is manufactured using a special wide press so that the film

can be printed with a design. This input material falls under statistical code No. 3920.20.00.00. Neither Blarek nor Du Pont manufactures the poly film used to make the front dedicated fastening surface.

#### (iv) Polyethylene Bags

The outer bags in which the diapers are sold are also covered by this inquiry. There are many manufacturers of poly bags in Canada. However, only four companies (**Multipack Packaging Canada** of Montréal, Quebec; **Paramount Packaging Canada Inc.** of Whitby, Ontario; **Pacimex Fabricated** of Belleville, Ontario, and **Progressive Packaging** of Aurora, Ontario) were identified as suppliers of poly bags to Canadian diaper manufacturers.

No submissions were received from the manufacturers of the poly bags used in the manufacture of disposable diapers. Therefore, the acceleration of the tariff reduction schedule for this input item does not seem to be an issue for these manufacturers.

#### 4. Assessment

Based on the submissions received, the Tribunal has determined that nonwoven materials accounted for the greatest proportion of the subject material costs, followed by poly films, the tape system and poly bags. Over 40 percent of the subject materials were sourced in the United States in 1989. US sourcing was particularly important for the nonwoven material and poly films.

The Tribunal estimates that, for 1989, had the subject materials been on a 5-year phase-out schedule rather than a 10-year schedule, the direct duty cost of the anomaly in 1989 would have been 0.19¢ per \$1 of cost of goods sold for disposable diapers.

In addition to the direct duty cost of the anomaly, there is an implicit duty cost on materials sourced in Canada because the domestic input producing industries would have been compelled to offer some price reductions to remain competitive with lower priced imports from the United States. In this report, these implicit duty costs are referred to as foregone cost savings to the finished product industry.

Based on evidence provided by the input producers, the value of the foregone cost savings in 1989 is estimated to be 0.19¢ per \$1 of cost of goods sold for disposable diapers. Thus, the anomaly cost in 1989 (actual duties and foregone cost savings) is estimated to be 0.38¢ per \$1 of cost of goods sold for disposable diapers.

The 1993 anomaly cost per \$1 of cost of goods sold is, all other things being equal,<sup>1</sup> five times the 1989 anomaly cost. Thus, the 1989 anomaly cost of 0.38¢ per \$1 of

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1. Among other things, this calculation assumes that the 1989 material costs, material mix and sourcing patterns are held constant.

cost of goods sold grows to 1.9¢ in 1993. It declines each year thereafter reaching zero in 1998. The time path of the anomaly cost is shown in Figure 3.1.

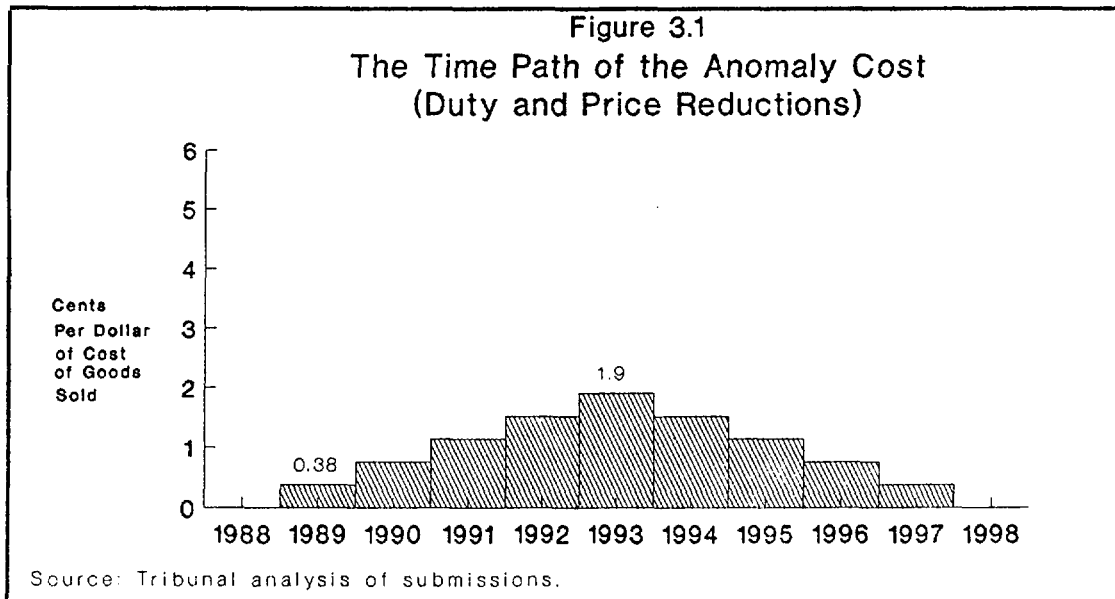
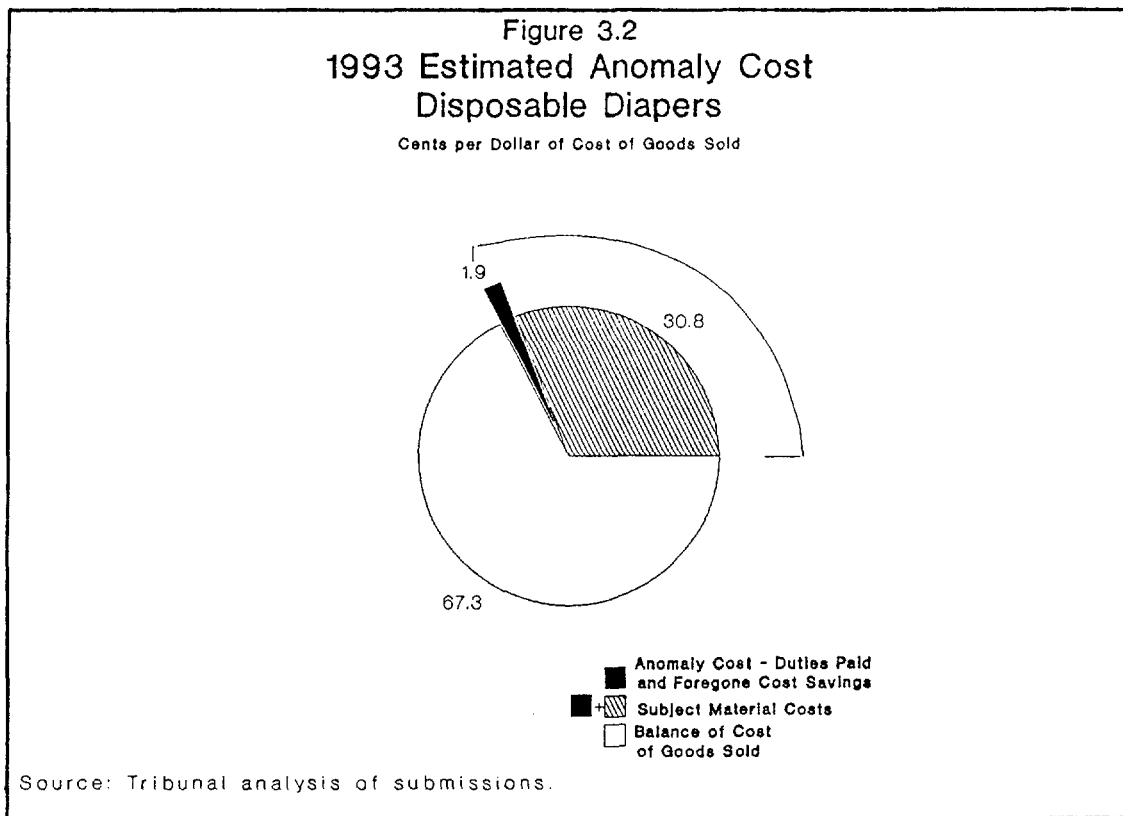


Figure 3.2 shows the expected anomaly impact in 1993 for the domestic disposable diaper industry. For each \$1 of cost of goods sold, 0.9¢ is the duty cost of subject input materials sourced in the United States. As well, the diaper producers will be foregoing cost savings on domestic materials purchased of an additional 1¢. An anomaly cost of close to 2¢ per \$1 of cost of goods sold is significant when viewed in the context of the current weak financial performance of many firms on this product.

Overall, in 1993, it is estimated that a cost saving of 1.9 percent of the total cost of goods sold, or 5.9 percent of the subject material costs, would accrue to the domestic disposable diaper industry if the anomaly were remedied. It is estimated that the federal government and the input producing industries would equally share the cost in terms of lost revenues.

The disposable diaper industry in Canada is relatively new. The market is highly competitive with individual firms incurring high costs in their efforts to establish and maintain market position. Significant investments are also required to keep pace with technological change. It is expected that companies will be required to continue to make significant investment in product research and development to achieve improved product performance, as well as to address emerging environmental concerns. While it might be argued that these costs are, in reality, investments that will provide returns in future years, the fact remains that the industry is currently experiencing poor financial performance at a time when important longer term investment decisions by some

companies are required to be made. The tariff anomaly is a factor contributing to the industry's low profit margins.



The tariff anomaly issue, along with other factors, may cause certain companies to curtail planned investments and to import finished diapers duty-free from their US plants. This may result in a loss of jobs and future investment in Canada. In this regard, Kimberly-Clark stressed that key investment decisions under consideration depend, in part, on the outcome of this tariff acceleration question.

Table 3.2 shows a summary of the impact of the tariff anomaly for each of the input materials for 1993. The anomaly cost is expressed as a contribution to the cost of goods sold of \$1.

Nonwoven materials were ranked by the diaper industry as the most important item under review in terms of value and its relative importance in the cost of making diapers. For 1993, over one-third of the benefit of removing the anomaly is attributed to the nonwoven materials. The cost of remedying this anomaly is shared equally between the Government, in the form of lost tariff revenues, and the input producers, in the form of price reductions.

Veratec, the largest Canadian manufacturer of these nonwoven materials, expressed some concern about the possible impact of the tariff acceleration in the short term, but the company did not oppose the acceleration of the tariff reduction.

**Table 3.2**

**1993 SUMMARY IMPACTS - DISPOSABLE DIAPERS**

**What if tariffs on inputs were reduced on a 5-year schedule?**

**Contribution of the Anomaly Cost per \$1 of  
Cost of Goods Sold**

	<u>Benefits to Diaper Industry</u>	<u>Cost to Government from Lost Tariff Revenues</u>	<u>Domestic Industry from Price Reductions</u>
Nonwovens	0.63¢	0.32¢	0.31¢
Poly films	0.57	0.49	0.08
Tape system	0.36	0.08	0.28
Poly bags	<u>0.34</u>	-	<u>0.34</u>
Total	1.90¢	0.89¢	1.01¢

Source: Tribunal analysis of submissions.

Poly films ranked second in terms of the relative importance in the cost of making diapers. In 1993, 30 percent of the potential benefit to the disposable diaper industry will be attributed to poly films. In this case, the Government would be absorbing 86 percent of the cost of remedying the anomaly. Most of this product is sourced in the United States. Blarek, a Canadian producer of the subject poly films, opposed the tariff reduction acceleration and argued that the current schedule under the FTA would force the company to decrease prices in order to meet competition from larger US firms, thereby weakening the firm's financial position. The Tribunal is of the view, however, that other factors, such as the value of the Canadian dollar and the scale of operations, will play a more important role in determining Blarek's future. We are confident that current management initiatives will enable the firm to meet additional competitive pressures caused by remedying the anomaly.

With respect to tapes used in the manufacture of disposable diapers, the principal Canadian manufacturer, 3M Canada, indicated that, whether or not there is tariff

acceleration, it would grant the necessary price reductions to the diaper industry to help keep its product and the disposable diaper industry competitive. Tapes represent 18 percent of the potential benefit to industry in 1993.

3M Canada brought to our attention a possible consequential anomaly related to the tape system. Poly films are used as an input material to make the dedicated front fastening surface portion of the tape system used in the manufacture of disposable diapers. Accelerating the tariff reduction on this product would have the benefit of mitigating the cost to 3M Canada of moving to an accelerated schedule for tapes. Our investigation showed that there was no domestic manufacturing of the type of film used by 3M Canada in the manufacture of this dedicated fastening surface.

On the question of polyethylene bags, none of the domestic producers of this product filed submissions. Poly bags represent 18 percent of the potential benefit to the diaper industry in 1993 from removing the anomaly.

Table 3.3 highlights the summary of the impact of the tariff anomaly on the input producing industries.

<b>Table 3.3</b>	
<b>1993 SUMMARY IMPACTS ON THE INPUT PRODUCING INDUSTRIES</b>	
<b>Industry</b>	<b>Comments</b>
Nonwovens	Cost-competitive with US products at some exchange rates. Do not oppose acceleration.
Poly Films	Not cost-competitive with US product. Small-scale operation. Opposed to acceleration.
Tape System	Price reductions planned. Does not oppose acceleration. Impact mitigated if films accelerated.
Poly Bags	No opposition registered.

## 5. Conclusion

In summary, we are of the opinion that the tariff anomaly on input materials for the manufacture of disposable diapers is causing and will cause economic difficulty for the disposable diaper industry.



The size of the anomaly cost is growing annually and, by 1993, will represent 2 percent of the cost of goods sold for the industry. This amount is significant for firms experiencing low profit margins on this product. While we are not convinced that investment decisions will depend solely on the resolution of the anomaly situation, we are persuaded that the anomaly will have a meaningful influence on those decisions, given the financial health of the industry.

Both the domestic producers of nonwoven materials and the tape system for disposable diapers recognized the difficult situation faced by the Canadian disposable diaper industry because of the tariff anomaly. Both expressed their commitment to help keep the domestic industry competitive with duty-free imports through planned price reductions. The tariff acceleration will not only assure these price reductions, but also lower the cost of materials imported from the United States. In the case of the nonwoven materials and the tape system, Veratec and 3M Canada requested that the Government seek bilateral tariff reductions. They argued that open access to the US market would provide further opportunity to increase sales.

We recognize that remedying the anomaly for tapes for disposable diapers will create another anomaly related to poly films used in the manufacture of the tape system for diapers. The poly films, used to produce the dedicated fastening surface, are currently not produced in Canada, and accelerating the tariff reduction schedule for the subject films would reduce the costs to the industry in Canada of remedying the anomaly. We recommend, therefore, acceleration of the tariff phase-out on films used to make tapes for diapers.

As for poly films used for the outer covering of diapers, we have carefully considered the opposition of the domestic producer. We are of the view that Blarek will be able to handle the increased price pressures brought about by remedying the anomaly. Other economic factors are of more concern to management and will play a greater role in determining the company's future. We also note that poly films for diapers accounted for over half of the direct duty cost to the domestic industry. While an important part of Blarek's operation is dependent on films for the diaper industry, Blarek supplies only a small proportion of the industry films. Films for the diaper industry are largely imported. We, therefore, recommend tariff acceleration of poly films used in disposable diapers.

As for poly bags, in the absence of industry reaction, we conclude that the industry is indifferent to acceleration. We, therefore, recommend the acceleration of the tariff reduction schedule for poly bags.

## **6. Recommendations**

### **(a) Primary Recommendations**

The tariff anomalies on the following inputs are causing or will cause economic difficulty for producers of disposable diapers. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these products:

- (i) nonwoven materials (tariff item No. 5603.00.90), used directly in the manufacture of disposable diapers, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible;
- (ii) polyethylene and polypropylene films (tariff item Nos. 3920.10.00 and 3920.20.00), used directly in the manufacture of disposable diapers, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible;
- (iii) tapes (tariff item No. 3919.10.99), used directly in the manufacture of disposable diapers, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible; and
- (iv) polyethylene bags (tariff item No. 3923.21.00), used directly in the packaging of disposable diapers, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible.

**(b) Secondary Recommendation**

Acceleration of the tariff phase-out schedule on the following products would reduce the cost to domestic tape producers<sup>1</sup> of addressing the anomalies. The recommendation would also remove the consequential anomalies caused by remedying the initial anomaly. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for the following:

- (i) polyethylene and polypropylene films (tariff item Nos. 3920.10.00 and 3920.20.00), used directly in the manufacture of tapes for use in the manufacture of disposable diapers, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible.

**(c) Bilateral Action**

These recommendations are not contingent on securing bilateral agreement. However, in some cases, export opportunities could mitigate the costs to input producers of remedying the anomaly. This is particularly true for nonwoven materials and tapes used in the manufacture of disposable diapers.

The full listing of the Tribunal's recommendations is included in Appendix C.

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1. A tape producer is defined as a firm making fastening tapes, release tapes and/or front patch dedicated fastening surfaces.

## CHAPTER IV

### DETERGENTS AND HOUSEHOLD CLEANERS

#### 1. Introduction

The phasing out of tariffs under the FTA put the chemical industry, generally, on a 5-year schedule. Notable exceptions to this schedule were the tariffs on certain phosphates and on soda ash. These materials were placed on a 10-year tariff phase-out schedule. The domestic producers of these materials argued successfully that they required additional time to make the necessary adjustments to be competitive in a free trade environment.

Under the present tariff phase-out schedules, detergents and household cleaners will be duty-free as of January 1, 1993, but important materials used in their manufacture will continue to be dutiable until 1998. Producers of the finished products claim that this anomaly places them at a competitive disadvantage with their US competitors.

Table 4.1 outlines the products relevant to this chapter of the inquiry, together with the respective rates of duty, prior to the FTA, through 1993.

In carrying out this part of the inquiry, requests for submissions were sent to 21 companies estimated to account for over 90 percent of domestic production of detergents and household cleaners, to the sole domestic producer of detergent phosphates and to the sole domestic producer of soda ash. A number of companies believed to be involved in the distribution of imported materials were also canvassed. The Canadian Manufacturers of Chemical Specialties Association and the Canadian Chemical Producers' Association were fully advised of the inquiry and invited to make representations.

The only subject finished product for which submissions were received was automatic dishwasher detergent powder. These submissions were filed by Lever Brothers Limited and Chempac Powder, a Division of CCL Industries Inc. These two companies account for virtually all domestic production of this product.

Submissions were also received from Albright & Wilson Americas, Division of Tenneco Canada Inc. and General Chemical Canada Ltd., the domestic producers of detergent phosphates and soda ash, respectively.

Submissions were received from Church & Dwight Ltd./Ltée, a producer of washing soda, a laundry additive, as well as from Procter & Gamble Inc., a major producer of detergents and household cleaners.

Although phosphates and soda ash are used in many products, no other substantive representations were received, essentially because the tariff anomalies have minimal cost impact. This is explained by a number of factors. Laundry detergents are, by regulation, restricted to a maximum phosphate content of 7-8 percent by weight. At the same time, it is estimated that 60 percent of laundry detergents currently sold are

phosphate-free. There are no similar regulations limiting the use of phosphates in automatic dishwasher detergents, with the phosphate content of this product ranging up to 35 percent by weight. There appears, at present, to be no suitable substitute for phosphates used in automatic dishwasher detergents.

Soda ash is a relatively low value material, and its cost in relation to a finished product's total material cost is small. Soda ash is generally not used in liquid products.

<b>Table 4.1</b>			
<b>TARIFF RATES FOR SUBJECT PRODUCTS</b>			
<u>Product</u>	<u>Pre-FTA</u> <u>Rate</u> <u>(%)</u>	<u>1990</u> <u>(%)</u>	<u>1993</u> <u>(%)</u>
<b>Finished Products:</b>			
(1) Detergents	12.8	7.6	0
(2) Auto. Dish. Detergents	19.4	11.6	0
(3) Household Cleaners	12.8	7.6	0
<b>Input Parts and Materials:</b>			
(1) Phosphates	12.5	10	6.2
- of mono or disodium			
- of trisodium			
- of potassium			
- other phosphates of calcium			
- other phosphates			
(2) Polyphosphates	12.5	10	6.2
- sodium tripolyphosphate			
- other polyphosphates			
(3) Disodium Carbonate (Soda Ash)	12.5	10	6.2
Note:	Tariffs on the input parts and materials are scheduled to be phased out in 1998.		
Source:	Pre-FTA and 1990 tariff rates from the <i>Customs Tariff</i> . 1993 rates based on FTA tariff reduction schedules.		

## 2. Finished Goods

### (a) Overview

Automatic dishwasher detergents are included in the soap and cleaning compound industry as defined by Statistics Canada. This industry consists of some 130 establishments owned by about 80 firms. Employment in the soap and cleaning compound industry is close to 9,000 persons, with shipments in 1989 reaching \$1.6 billion. There is a high level of concentration in the industry with over 80 percent of the shipments accounted for by 10 percent of the establishments. The industry is domestically oriented with less than 5 percent of domestic production exported.

The current domestic market for soaps and cleaning compounds is close to \$1.65 billion with imports holding a 5-percent share. Consumer products make up approximately 80 percent of the total market. Subsidiaries of major multinationals are estimated to account for more than 90 percent of the market.

Automatic dishwasher detergent powder is produced in Canada by two companies: Chempac Powder, a Division of CCL Industries Inc. and Lever Brothers Limited. There is no domestic production of liquid automatic dishwasher detergents, with domestic demand supplied by imports from the United States.

The current domestic market value of automatic dishwasher detergents is estimated at \$70-\$75 million, representing less than 5 percent of the total market for soaps and cleaning compounds. Employment associated with this product is reported to be in the area of 115 persons.

### (b) Summary of Submissions

**CCL Industries Inc.** is a Canadian-based company operating in Canada, the United States and Europe. Total sales of the corporation in 1989 were \$385.7 million. CCL Industries Inc. is involved in custom manufacturing, primarily of consumer goods, the printing of pressure-sensitive labels and the manufacturing of aluminum aerosol containers and tubes.

**Chempac Powder, a Division of CCL Industries Inc.** (Chempac Powder) is one of five plants located in Canada involved in the custom manufacturing of consumer products. In addition to producing automatic dishwasher detergents, Chempac Powder, among other things, packages food wrap films, as well as produces an insecticide product. However, automatic dishwasher detergents are the major product produced by Chempac Powder.

Chempac Powder is the major producer of automatic dishwasher detergents in Canada. All of the dishwasher detergents produced by Chempac Powder are manufactured to its customers' specifications, packaged under brands owned by the customers and shipped to the customers' distribution systems. Chempac Powder does not market automatic dishwasher detergents under its own name.

**Lever Brothers Limited** (Lever Brothers) is a major manufacturer of laundry detergents, fabric softeners, dishwashing detergents, liquid abrasives and personal wash products (bar soaps). Lever Brothers is the manufacturing company and Lever Brothers Inc., the marketing/distributing company. Both are wholly owned by Unilever World-Wide with head offices in London, England, and Rotterdam, Holland.

Lever Brothers' dishwashing products are produced in its Toronto plant and marketed under the "All" and "Sunlight" labels. The automatic dishwasher detergent operation provides only a modest contribution to the company's total sales and employment.

Chempac Powder claimed that the 10-year tariff reduction schedules on the majority of its materials, while its finished product was on a 5-year phase-out schedule, left it at a competitive disadvantage vis-à-vis its US competitors. This, the firm argued, jeopardized Chempac Powder's ability to continue to produce automatic dishwasher detergents in Canada.

As a first priority, Chempac Powder requested that the tariff phase-out schedule for sodium tripolyphosphate (STPP) and soda ash, where used specifically in the manufacture of automatic dishwasher detergents, be accelerated from 10 years to 5 years. Chempac Powder expressed the opinion that the domestic suppliers of these materials would support such a narrow application of the tariff reduction acceleration.

As a second priority, Chempac Powder urged the Government to pursue rectifying the tariff anomalies on other non-subject parts and materials, in particular, printed foil overwrap, sodium sulphate, perfume, sealspouts and sealing tape.

Lever Brothers submitted that it would experience a reduction in the cost of raw materials if the tariff reduction schedule for STPP and soda ash were accelerated. This would result in lower prices to consumers since the cost savings would be passed on to the end users, would mean less cost pressures and, hence, a delay in any future price increases, would make Lever Brothers more competitive with imported products and would provide additional employment security to those in the dishwasher detergent operation.

**Church & Dwight Ltd./Ltée** (Church & Dwight) filed a submission opposing acceleration of the duty phase-out for soda ash. Church & Dwight is a producer of, among other products, washing soda, which is a laundry additive. Soda ash is a major material used in the manufacture of the washing soda. Church & Dwight's plant is located next to General Chemical Canada Ltd.'s soda ash facility in Amherstburg, Ontario, which is its prime supplier of soda ash. While acknowledging modest cost savings from an acceleration of the phase-out of the tariff on soda ash, Church & Dwight views the continued viability and operation of the soda ash plant as outweighing the benefits of the cost reductions.

**Procter & Gamble Inc.** (Procter & Gamble), while supporting acceleration of the tariff reductions on phosphates and soda ash, advised that this would have only a minor impact on its costs and declined further participation in this part of the inquiry. Automatic dishwasher detergent is produced for Procter & Gamble by Chempac Powder.

### 3. Input Materials

There are two input materials of interest, STPP and soda ash. STPP is, by far, the more important of the two materials in terms of cost. There is only one domestic producer of each of the materials.

#### (a) Summary of Submissions

##### (i) Phosphates

To all intents and purposes, **Albright & Wilson Americas, Division of Tenneco Canada Inc.** (Albright & Wilson) is the sole domestic producer of the subject phosphates. Albright & Wilson is part of Albright & Wilson Ltd. (London, England), which in turn is a wholly owned subsidiary of Tenneco Inc., a US corporation with headquarters in Houston, Texas. Albright & Wilson Ltd. is a world-scale producer of phosphorous chemicals, surfactants and paper chemicals, employing over 6,000 persons worldwide.

Albright & Wilson operates six plants in Canada producing phosphorous and phosphates, as well as sodium chlorate for the pulp industry. Detergent phosphates are produced in plants in Buckingham, Quebec, and Port Maitland, Ontario. In terms of sales revenues and employment, production of phosphates provides an important contribution to Albright & Wilson's total operations in Canada.

The decreasing use of phosphates in laundry detergents has resulted in a substantial decline in the domestic market for the subject phosphates and, in particular, the demand for STPP, the major phosphate used in detergents. The reduced demand has severely impacted on Albright & Wilson's financial performance in this market segment. Although Albright & Wilson currently holds a dominant position in the domestic market for detergent phosphates, the incentives for US producers to aggressively seek business in Canada resulting from the FTA and the strong Canadian dollar are expected to cause some erosion in the firm's market position.

Exports account for only a minor part of Albright & Wilson's sales of detergent phosphates.

In its submission, Albright & Wilson requested that, should the Tribunal find that the anomalies in the duty removal schedule impact adversely on the Canadian detergent and household cleaner industry and should this adverse impact be determined to be greater than the adverse impact on it, then the Tribunal consider the following.

- (a) Isolate the accelerated duty removal to a specific area of the detergent and household cleaner industry. For example, STPP used in automatic dishwasher applications would be established as a separate tariff classification under a 5-year schedule.
- (b) Shift to a 5-year schedule for soda ash, which is an important raw material in the production of detergent phosphates. This would partially offset the adverse impact of moving phosphates to a 5-year schedule.

- (c) Remove completely the duty on phosphoric acid (non-agricultural) that Albright & Wilson imports from the United States to use as a feedstock for its phosphate operation. This product is currently on a 5-year schedule. Albright & Wilson is the only domestic producer of industrial phosphoric acid, and the duty removal would strengthen its Canadian manufacturing operations, as well as provide benefits to all industrial phosphoric acid purchasers.

**(ii) Soda Ash**

**General Chemical Canada Ltd.** (General Chemical) is the sole producer of soda ash in Canada. General Chemical, through General Chemical Canada Holding Inc., is controlled by General Chemical Corporation in the United States.

Soda ash, along with calcium chlorate, a co-product, is produced at General Chemical's facility in Amherstburg, Ontario. General Chemical uses the Solvay process in the production of soda ash. Basically, limestone (calcium carbonate) and salt (sodium chloride) react with an ammonium agent to produce sodium carbonate. This is then put through an oxidation process to produce disodium carbonate or soda ash.

Production of soda ash in the United States is centered at Green River, Wyoming, where large deposits of soda ash exist naturally. The mining and processing of these natural deposits is a much lower cost operation, resulting in the closing of all Solvay plants in the United States.

Because of transportation costs, General Chemical's soda ash is marketed only in Eastern Canada, with important quantities exported to the Eastern United States. The western Canadian market is supplied by US producers.

The major uses for soda ash are in glass making, detergents, silicates and phosphates.

The eastern Canadian market appears to have a mature customer base and, in the near term, is likely to grow moderately. General Chemical is expected to maintain its major position in the market.

While the higher value of the Canadian dollar and, recently, the more favorable transportation rates in the United States have resulted in increasingly competitive pricing, the adverse impact on General Chemical's financial performance is projected to be modest.

General Chemical opposed any acceleration of the duty phase-out on soda ash, either on an overall basis or on an end-use-specific basis to detergent producers. It argued that changes in the tariff policy for the detergent industry would attract other industries to seek similar treatment, and this would have serious financial implications for the Amherstburg facility.

General Chemical pointed out that it had obtained a 10-year phase-out of the duty on soda ash in order to have sufficient time to make the necessary adjustments to remain



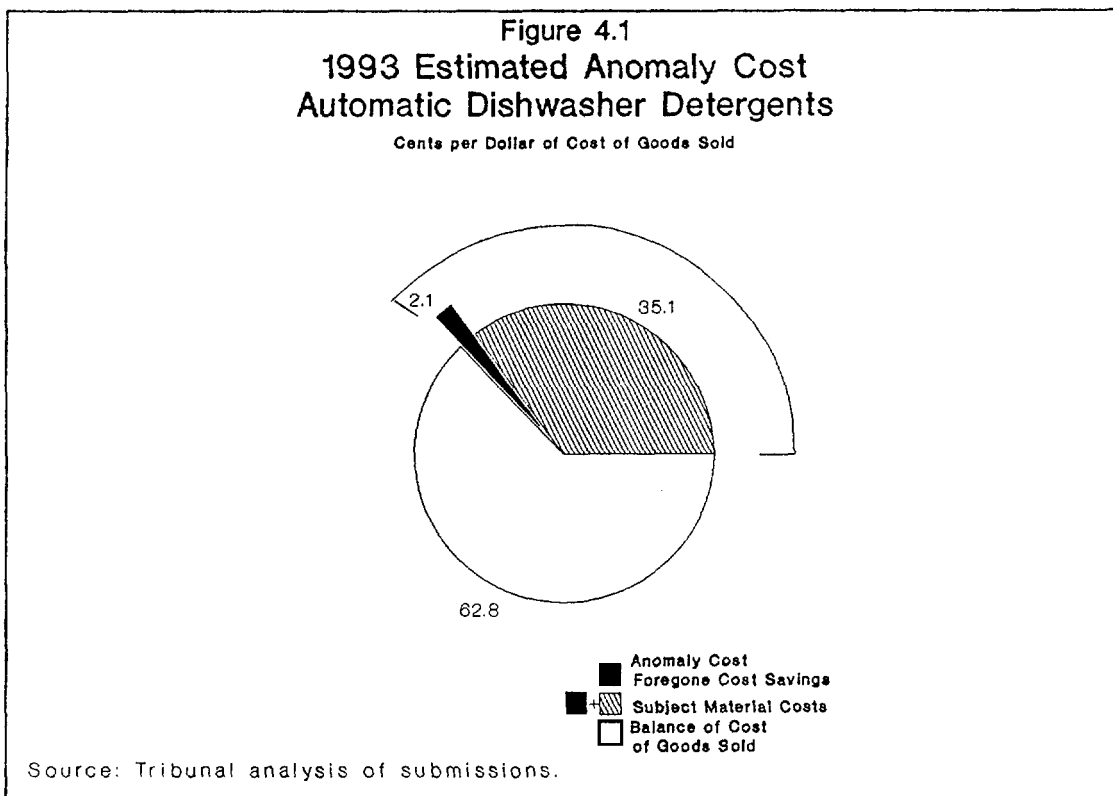
competitive. The FTA annual review program and additional anomaly reviews create uncertainty in the current duty policy that places at risk capital commitments for the Amherstburg facility. It argued that the current 10-year duty phase-out should be maintained as established and not be subject to further reviews.

#### 4. Assessment

Analysis of the submissions received showed that STPP accounted for the greater proportion of the subject material costs of automatic dishwasher detergents, some 85 percent, with soda ash accounting for the remaining 15 percent. Except for a modest amount of soda ash imported in 1990, the subject materials going into automatic dishwasher detergents were sourced from the domestic suppliers.

The submissions also revealed that the domestically supplied materials are generally priced in relation to the landed cost of imports from the United States. Thus, in addition to the cost of the duties paid on imports of the subject materials, there was an implicit duty cost, or foregone cost saving, on material sourced in Canada because the domestic industry would have been expected to offer some price reductions so as to remain competitive with lower priced imports from the United States. The expected anomaly cost in 1990 (actual duties plus foregone cost savings) was estimated to be less than one percent of the total cost of producing automatic dishwasher detergents.

Figure 4.1 shows the expected impact of the anomaly in 1993 for the domestic automatic dishwasher detergent producers as a whole. For every \$1 of cost of goods sold, the anomaly effect in 1993 is calculated to be 2.1¢.



As set out in Table 4.2 below, it is expected that all of the subject materials will be sourced domestically and, thus, the total cost of the anomaly represents foregone cost savings. Of the 2.1¢ anomaly cost, 1.8¢ is accounted for by STPP.

**Table 4.2**

**1993 SUMMARY IMPACTS - AUTOMATIC DISHWASHER DETERGENTS**

**What if tariffs on inputs were reduced on a 5-year schedule?**

**Contribution of the Anomaly Cost per \$1 of  
Cost of Goods Sold**

	<u>Benefits to Auto. Dish. Detergent Industry</u>	<u>Cost to</u>	
		<u>Government from Lost Tariff Revenues*</u>	<u>Domestic Industry from Price Reductions</u>
STPP	1.8¢	0¢	1.8¢
Soda Ash	<u>0.3</u>	<u>0</u>	<u>0.3</u>
Total	2.1¢	0¢	2.1¢

\* Are zero because no products are imported for the specified end uses.

Source: Tribunal analysis of submission.

The cost of the anomaly will rise each year to a peak in 1993 and will decline each year thereafter until 1998, when the anomaly will cease to exist.

For firms selling automatic dishwasher detergents to the retail market, it does not appear that the anomaly is causing or will cause economic difficulty. This is consistent with the position taken by Procter & Gamble on the inquiry and is confirmed in the Lever Brothers' submission. Lever Brothers has indicated that any savings occasioned by removing the anomaly would be passed on to consumers in lower prices.

Unlike Lever Brothers, which produces and markets its own products, Chempac Powder is a custom packer. Its customers for automatic dishwasher detergents are few, and all are subsidiaries of multinational companies, with most of the product brands marketed in both Canada and the United States. These factors make Chempac Powder more sensitive to import competition. Chempac Powder accounts for the major proportion of domestic production of automatic dishwasher detergents.

The evidence clearly demonstrates a deterioration in Chempac Powder's financial performance. Both sales revenues and operating income have declined. While Chempac Powder has not lost any volume of its automatic dishwasher detergent business, average revenue per kilogram has fallen significantly.

There are a number of factors that have contributed to Chempac Powder's financial difficulties: the loss to US competitors of significant business volume in products other than automatic dishwasher detergents; the appreciation of the Canadian dollar vis-à-vis the US dollar of close to 20 percent over the past few years; and the phasing out of the comparatively high tariff of 19.4 percent that was applied to automatic dishwasher detergent imports. The latter two factors together, to date, amount to a loss of import protection on automatic dishwasher detergents in excess of 25 percent. This loss in import protection is offset partially by lower material costs and lower input tariffs leaving a net effective loss of protection closer to 13 percent.

There are indications that Chempac Powder has been extended concessionary prices on its purchases of materials, particularly STPP, resulting in prices below competitive US offerings. Thus, the impact of the anomaly has been largely offset by the extension of the concessionary prices. In the circumstances, it would be difficult for the Tribunal to conclude that the tariff anomaly relating to STPP and soda ash is currently causing economic difficulty to Chempac Powder.

The extent to which the anomaly will contribute to economic difficulty in the future depends on whether material suppliers continue extending price concessions in order to maintain their sales volumes and on the degree of certainty that Chempac Powder requires that these price concessions be forthcoming in the future, as the anomaly grows. In the absence of an acceleration of the tariff phase-out on its input materials, an operating loss is projected on Chempac Powder's dishwasher detergent operation by 1993.

The cost of remedying the anomaly would be borne by the domestic suppliers in the form of revenue attrition, since they would be forced to meet lower priced competition from US suppliers in order to retain volumes.

As STPP is, by far, the more important of the two input materials, the major part of the revenue loss will be borne by Albright & Wilson. The company is experiencing poor financial performance on its detergent phosphate business and may have difficulty in absorbing this additional cost burden. However, it may be argued that it is in Albright & Wilson's interest to keep Chempac Powder viable and, thereby, maintain its sales volume to it. Some relief may be provided by Albright & Wilson's recent move to import lower cost phosphoric acid feedstock.

Acceleration of the tariff phase-out on soda ash is calculated to have only a minimal impact on General Chemical's revenues and income.

Table 4.3 highlights the situation for the material suppliers in the event of tariff phase-out acceleration.

**Table 4.3**

**1993 SUMMARY IMPACTS ON THE INPUT PRODUCING INDUSTRIES**

<b>Industry</b>	<b>Comments</b>
STPP	Company is experiencing poor financial performance on this product. Impact mitigated if soda ash accelerated and tariff on phosphoric acid removed.
Soda Ash	Opposed to acceleration. Small financial impact on domestic supplier.

**5. Conclusion**

It has been demonstrated that the Canadian automatic dishwasher detergent industry, as represented by Chempac Powder, has experienced economic difficulty. The major part of the difficulty, however, is related to factors other than the tariff anomaly. To the extent that the anomaly may have contributed to Chempac Powder's problems, this has been largely offset by concessionary pricing extended on Chempac Powder's purchases of STPP.

Chempac Powder's revenues and profit margins will continue to be affected through 1993 by the phase-out of the remaining tariff on automatic dishwasher detergents. The anomaly, in these circumstances, without other offsetting benefits, is expected to add to Chempac Powder's economic problems in the future. There is no assurance that the concessionary prices, which Chempac Powder requires in order to maintain its automatic dishwasher detergent operation in Canada, will continue to be extended in the future.

**6. Recommendations**

**(a) Primary Recommendations**

The tariff anomalies on the following inputs are causing or will cause economic difficulty for producers of finished products. The benefits of remedial action to the producers of automatic dishwasher detergents exceed the costs to the suppliers of STPP and soda ash. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these inputs:

- (i) sodium tripolyphosphate (tariff item No. 2835.31.00), when used directly in the manufacture of automatic dishwasher detergents, should be

accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible; and

- (ii) disodium carbonate (tariff item No. 2836.20.00), when used directly in the manufacture of automatic dishwasher detergents, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible.

**(b) Secondary Recommendations**

Acceleration of the tariff phase-out schedule on the following products would reduce the cost to the domestic STPP producer of addressing the anomaly. As well, acceleration of the tariff phase-out on soda ash would remove the consequential anomaly caused by remedying the initial anomaly. The Tribunal recommends acceleration of the FTA tariff phase-out schedules for these products:

- (i) non-agricultural-grade phosphoric acid (tariff item No. 2809.20.00) should be accelerated to "free" as soon as possible; and
- (ii) disodium carbonate (tariff item No. 2836.20.00), when used in the production of sodium tripolyphosphate for automatic dishwasher detergents, should be accelerated to "free" by January 1, 1993, through three equal reductions of the existing tariff rate beginning as soon as possible.

The full listing of the Tribunal's recommendations is included in Appendix C.

## CHAPTER V

### PRESSURE VESSELS

#### 1. Introduction

The terms of reference cover the generic heading of pressure vessels. Within that heading, five industry segments were identified. However, on the basis of representations received, as well as the technical characteristics and industrial organization of the finished product industries, this chapter has separated the finished product industries into two segments. These segments consist of:

- feedwater heaters and condensers; and
- pressure vessels, heat exchangers and double-acting hydraulic cylinders.

Tariff rates for the subject finished product industries and their respective input materials are shown in Table 5.1. The finished product industry is on a 5-year tariff reduction schedule, while the input materials are on a 10-year schedule.

#### (a) Survey Coverage

The Tribunal received a submission from Foster Wheeler Limited, the only Canadian manufacturer of feedwater heaters and condensers in Canada, as well as from Associated Tube Industries, Division of Samuel Manu-Tech Inc., the only domestic supplier of the subject input parts and materials for these finished products.

With regard to pressure vessels and heat exchangers, the Tribunal received submissions from the industry associations and 10 individual producers. These associations represent over 80 percent of the Canadian production of these goods. Relatively complete submissions received from individual companies represented only 6 percent of the total value of heat exchanger/pressure vessel sales by Canadian producers in the domestic market. The other companies provided very limited responses. The use of additional short-form questionnaires enabled us to obtain basic sales, sourcing and other data from approximately 15 to 20 percent of this industry.

For double-acting hydraulic cylinders, complete submissions were received from two companies. These two companies represent roughly 20 percent of total estimated domestic production. Five other companies provided limited written responses. In total, these companies represent approximately 40 percent of estimated domestic production. The use of supplementary questionnaires to these latter firms enabled us to obtain basic data necessary to complete our analysis.

With regard to submissions received from Canadian producers of input parts and materials, substantial coverage was achieved in the key areas of flat-rolled steel products (100 percent of domestic supply) and tubing (close to 100 percent). In other areas where inputs are less important, coverage varied from over 85 percent of domestic supply in formed heads, while some or no representations were received from the producers of nuts, fittings and rods/bars in Canada.

Table 5.1

## TARIFF RATES FOR SUBJECT PRODUCTS

<u>Product</u>	<u>Pre-FTA Rate (%)</u>	<u>1989 (%)</u>	<u>1993 (%)</u>
<b>Finished Products:</b>			
Feedwater Heaters	10.2	6.1	FREE
Condensers	10.3	6.1	FREE
Pressure Vessels	9.2-12.5	7.4-10.0	FREE
Heat Exchangers	9.2-10.2	7.4-10.0	FREE
Double-Acting Hydraulic Cylinders	9.2	7.4	FREE
<b>Input Parts &amp; Materials:</b>			
Flat-Rolled Products of Iron/Steel	6.8-10.2	6.1-9.2	3.4-5.1
Flat-Rolled Products of Stainless Steel	10.0-12.5	9.0-11.3	5.0-6.3
Flat-Rolled Products of Other Alloy Steel	10.0-12.5	9.0-11.3	5.0-6.3
Tubes/Pipes of Iron/Steel	4.0-12.2	3.6-11.0	2.0-6.1
Tubes and Pipe Fittings of Iron or Steel	6.8-12.2	6.1-11.3	3.4-6.1
Copper Tubes and Pipes	4.0-10.3	3.6-9.3	2.0-5.2
Bars and Rods of Iron or Non-Alloy Steel	8.0	7.2	4.0
Nuts	11.1	10.0	5.6
Articles of Iron/Steel	10.2	8.1	5.1
Titanium and Articles Thereof	10.2	8.1	5.1

Note: Tariffs on the input parts and materials are scheduled to be phased out in 1998.

Source: Pre-FTA and 1989 tariff rates from the *Customs Tariff*.  
1993 rates based on FTA tariff reduction schedules.

## **2. Feedwater Heaters and Condensers**

### **(a) Finished Goods**

#### **(i) Product Definition**

Feedwater heaters are components of a boiler that are used to preheat water being returned to a boiler. A feedwater heater is a long cylindrical vessel or tank that contains tubes bent into a "U" shape through which returning boiler water is pumped. Steam taken from various sections of the turbine is piped into the feedwater vessel and passes over the water-filled tubes, raising the temperature of the water.

A condenser is also part of a boiler that receives exhaust steam from a boiler and condenses the steam into water, which is subsequently pumped back into the boiler for reuse. A condenser is a very large tank containing tubes through which water is pumped from an ocean, a river, a lake or another cool-water source. The exhaust steam flows over these cool-water-filled tubes and gives up its remaining heat to the cooling water. As it cools, the steam condenses into water, hence, the name condenser.

#### **(ii) Overview**

Foster Wheeler Limited, located in St. Catharines, Ontario, has served the power-generating and power-consuming industries since 1926. The company employs, in total, approximately 500 persons. Foster Wheeler Limited is wholly owned by Foster Wheeler Corporation of Clinton, New Jersey. The company's product range includes industrial steam-generating units firing a variety of liquid, gaseous and solid fuels, gas and oil-fired industrial boilers, heat-recovery steam generators, condensers, feedwater heaters, nuclear steam generators, nuclear heat exchangers and specialized heat-transfer equipment. All of these products are manufactured at the St. Catharines facility.

The combined market for feedwater heaters and condensers has been declining since 1988. Sales of the subject goods represented a minor proportion of overall company sales in 1989, though they were profitable.

#### **(iii) Summary of Submission**

**Foster Wheeler Limited** (Foster Wheeler) argued that condensers and feedwater heaters were one-of-a-kind, custom-made engineered products, designed and manufactured to detailed specification provided by customers, which are usually utilities. The products are usually marketed in competitive situations, by means of detailed proposals, in which prices are quoted based upon custom-made designs and estimates. The company emphasized that an already competitive market was becoming even more competitive, largely because of the inequities caused by the subject tariff anomalies.

The subject materials for which Foster Wheeler is seeking accelerated tariff elimination are: seamless cold-drawn carbon steel tubes bent into a "U" shape; seamless



cold-drawn stainless steel tubes bent into a "U" shape; seamless cold-drawn ferritic<sup>1</sup> stainless steel tubes; welded austenitic<sup>1</sup> stainless steel tubes bent into a "U" shape; titanium plate; and titanium tubes. The first four products are used in the manufacture of feedwater heaters, while the last two products are used in the manufacture of condensers.

Foster Wheeler indicated that its duty costs would fall by a meaningful amount on actual bid proposals, in the context of an acceleration in the phase-out of tariffs. Plant utilization would rise. It further indicated that the acceleration would result in the creation of a number of full-time jobs in 1993, and that its market share for feedwater heaters and condensers would increase in 1993 from its forecast levels, resulting in an increase in sales and in net income.

In the absence of accelerated tariff removal, Foster Wheeler believed that its market share, which had declined over the last few years, would continue to drop, with a negative effect on sales and net income.

Foster Wheeler strongly favors an acceleration of the elimination of tariffs on imported parts and materials. It asked that, in the absence of tariff elimination, it be granted commensurate duty remission for parts and materials being used in its manufacture of feedwater heaters and condensers.

**(b) Input Materials**

**(i) Overview**

The only Canadian supplier of subject parts and materials to Foster Wheeler is Associated Tube Industries, Division of Samuel Manu-Tech Inc., located in Markham, Ontario. The company employs about 180 persons. It produces a diverse line of welded pipe and tube products in a variety of size ranges, grades and configurations. Of the products subject to a request for acceleration for use in the production of feedwater heaters and condensers, only welded austenitic stainless steel tubing bent into a "U" shape is produced by the company.

**(ii) Summary of Submission**

In its submission, **Associated Tube Industries, Division of Samuel Manu-Tech Inc.** (ATI) argued that it would be negatively affected by an accelerated tariff phase-out schedule, principally because it would suffer under a significant "new" tariff anomaly on its principal raw material, stainless steel sheet and strip, which is on a 10-year schedule. The company further stated that the real impact on ATI would only be known long after potential changes were implemented. With respect to tubing, ATI stated that it has been prevented by non-tariff barriers (buy-American clauses) from participating in the US market and that it has been left with only one Canadian customer, Foster Wheeler.

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1. Ferritic steel is magnetic and has no nickel content, whereas austenitic steel is non-magnetic and contains nickel-chrome alloy.

The company indicated in its submission that sales of tubing for feedwater heaters and condensers in 1989 were down substantially from 1988. This was particularly true for feedwater heater tubes. The company predicts that this declining trend will continue over the next few years. Sales of feedwater and condenser tubing represented relatively minor proportions of the company's total domestic sales in 1989.

ATI argued for retention of the originally negotiated and universally accepted 10-year tariff reduction program on all steels and steel products. If tariff reduction acceleration to the 5-year schedule for subject materials becomes the recommendation, then reciprocity with the United States is vital. Any tariff reduction acceleration on stainless steel tubes must be accompanied by similar tariff reduction acceleration on stainless steel sheet and strip, and it must also be bilateral.

ATI added that the issue of tariff rates was of lesser significance to the company's success than a number of other factors, such as the need for lower interest rates in Canada and the need for a lower Canadian dollar. An increasing preponderance of new requirements under federal and provincial legislation was another factor cited by ATI.

**(c) Assessment**

For feedwater heaters, seamless stainless steel tubing accounted for the greatest proportion of subject material costs (76 percent), followed by welded austenitic stainless steel tubing (19 percent) and seamless carbon steel tubing (5 percent). Even though Foster Wheeler has not purchased seamless ferritic steel tubing in the past few years, the company has requested accelerated tariff reduction on this material as well.

In the case of condensers, titanium tubes accounted for the largest proportion of the subject material costs (86 percent), followed by titanium plate (14 percent). There are currently no Canadian producers of these two materials, with all of the product being sourced in the United States.

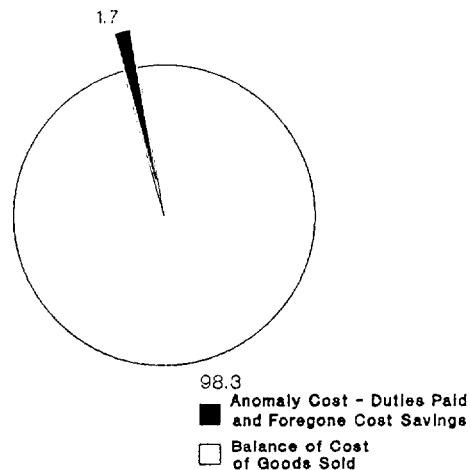
The subject parts and materials represented a significant percentage of the cost of manufacturing feedwater heaters and condensers.

The total cost of the anomaly in 1993, including duty savings and foregone cost savings, is estimated to amount to 1.7 percent of the cost of manufacturing feedwater heaters and condensers. See Figure 5.1.

These estimates are consistent with the 1993 forecasts provided by Foster Wheeler. The forecasts showed that removal of the tariff anomaly would reduce the firm's costs of operation. In turn, this would enhance Foster Wheeler's competitive position and help to arrest the firm's declining participation in the domestic market.

Although the cost burden to Foster Wheeler caused by the anomaly is small, we are of the view that it contributes in a meaningful way to Foster Wheeler's competitive position in the domestic market. In a capital-intensive industry, such as this one, contracts can swing on small margins. In our view, removal of the tariff anomaly, combined with other initiatives by the firm to enhance its competitiveness, may enable Foster Wheeler to compete more successfully against US firms on domestic contracts.

Figure 5.1  
**1993 Estimated Anomaly Cost**  
**Feedwater Heaters and Condensers**  
 Cents per Dollar of Cost of Goods Sold



Source: Tribunal analysis of submissions.

The benefits to Foster Wheeler in 1993 of accelerating the tariff phase-out on the subject input materials are summarized in Table 5.2. With the exception of welded austenitic stainless steel tubing bent into a "U" shape, the subject materials are not produced in Canada. Thus, the costs of remedying the anomaly will be borne largely by the Government in the form of lost tariff revenues (85 percent).

The only domestic material supplier to be affected by tariff acceleration is ATI, the sole producer of welded austenitic stainless steel tubes bent into a "U" shape. It is estimated that ATI may be required to reduce its price to Foster Wheeler for this product by a small percentage in 1993. The resulting revenue and income loss to ATI would, in our view, be manageable. Indeed, there is the potential for ATI to increase sales of its tubing if, as submitted by Foster Wheeler, tariff acceleration leads to its increased participation in the Canadian market for feedwater heaters and condensers. Table 5.3 summarizes the impact of the tariff anomaly on the input supplying industry.

ATI has indicated in its submission that, because of non-tariff barriers, it is effectively prevented from participating in the US market for its tubing. Therefore, acceleration of the tariff phase-out on a bilateral basis is not expected to result in additional benefit.

**Table 5.2**

**1993 SUMMARY IMPACTS - FEEDWATER HEATERS AND CONDENSERS**

**What if tariffs on inputs were reduced on a 5-year schedule?**

**Contribution of the Anomaly Cost per \$1 of  
Cost of Goods Sold**

	<u>Benefits to Subject Industry</u>	<u>Cost to</u>	
		<u>Government from Lost Tariff Revenues</u>	<u>Domestic Industry from Price Reductions</u>
Seamless Carbon Tubes (U-bent)	0.03¢	0.03¢	-
Seamless Stainless Tubes (U-bent)	0.40	0.40	-
Seamless Ferritic Tubes	-	-	-
Welded Austenitic Tubes (U-bent)	0.25	-	0.25
Titanium Tubes	0.85	0.85	-
Titanium Plate	<u>0.14</u>	<u>0.14</u>	<u>-</u>
Total	1.67¢	1.42¢	0.25¢

Source: Tribunal analysis of submission.

**Table 5.3**

**1993 SUMMARY IMPACTS ON INPUT PRODUCING INDUSTRIES**

<b>Industry</b>	<b>Comments</b>
Seamless Carbon Tubes (U-bent)	Not available in Canada.
Seamless Stainless Tubes (U-bent)	Not available in Canada.
Seamless Ferritic Tubes	Not available in Canada.
Welded Austenitic Tubes (U-bent)	Some impact on domestic supplier, but considered minimal.
Titanium Tubes	Not available in Canada.
Titanium Plate	Not available in Canada.

In recommending acceleration on welded austenitic stainless steel tubes bent into a "U" shape, the Tribunal recognizes that a further anomaly will be created on austenitic stainless steel sheet and strip (sometimes referred to as "skelp") that is used by ATI in producing the subject tubing. This anomaly should also be addressed.

**(d) Conclusion**

In summary, the subject imported parts and materials represented a significant percentage of the cost of manufacturing feedwater heaters and condensers in 1989. Duties on these products, while not large, can be significant in individual competitive situations of bidding for custom production. The anomaly cost, in our view, contributes in a meaningful way to Foster Wheeler's difficulty in competing against US firms.

Accordingly, the Tribunal recommends acceleration of the FTA tariff phase-out schedule for the input products requested by Foster Wheeler. Refer to the section on recommendations at the end of the chapter for the detailed recommendations.

**3. Pressure Vessels, Heat Exchangers and Double-Acting Hydraulic Cylinders**

**(a) Finished Goods**

**(i) Product Definition**

Pressure vessels are storage devices used to contain, distribute, transfer or otherwise handle, under pressure, gas, vapor or liquid. These vessels are used extensively in such applications as petrochemical and chemical industries, pulp and paper, refrigeration for the food and beverage industry and oil and gas (e.g., to keep gases in a liquid state).

Heat exchangers are devices used to transfer heat from one medium to another. There are many types of heat exchangers built in Canada, but the major types include shell-and-tube exchangers and, to a lesser degree, plate-type exchangers. Applications include the same end-use industries as described for pressure vessels.

Double-acting hydraulic cylinders are used in industrial, agricultural and mobile equipment and consist of a cylinder with two ports to enable hydraulic fluid to enter the cylinder at both ends. Applications include cylinders for dump trucks, industrial equipment for use in manufacturing plants, front-end loaders and various types of agricultural equipment.

**(ii) Overview**

The pressure vessel and heat exchanger industry consists of some 100 producers, many of which produce both pressure vessels and heat exchangers. Total employment is currently estimated at 3,500 persons. The industry is represented by two associations, the Alberta Pressure Vessel Manufacturers' Association and The Canadian Heat

Exchanger and Vessel Manufacturers' Association. There is a concentration of producers in two distinct geographical areas - Alberta and Ontario/Quebec. It is estimated that these associations represent over 80 percent of the production of the subject goods in Canada.

The double-acting hydraulic cylinder industry consists of a limited number of firms located principally in Ontario, Quebec and Saskatchewan. While the number of firms cannot be assessed accurately, it would appear that there exists about a dozen firms in Canada producing the types of cylinders that are the subject of this inquiry. Current total employment is estimated at 600 persons.

The combined Canadian market for the pressure vessel/heat exchanger and double-acting hydraulic cylinder industries was estimated at \$354 million for 1989.

### (iii) Summary of Submissions

The Tribunal received submissions from the two industry associations, **The Canadian Heat Exchanger and Vessel Manufacturers' Association (CHEVMA)** and the **Alberta Pressure Vessel Manufacturers' Association (the Alberta Association)**. Both industry associations argued that the phase-out of tariffs for input parts and materials should coincide with those for finished products. Alternatively, they suggested duty remission for the affected manufacturers.

In summary, the Alberta Association argued that, as tariffs were currently structured, US companies would have a distinct competitive advantage in shipping finished products to Canada. CHEVMA argued that the industry was very competitive, and a factor, such as tariffs, had always been an important consideration. As a labor-intensive, high-tech industry, it feels vulnerable to US competition at all times, but especially so in the context of unequal tariff phase-out schedules.

**Bas-Kim Industries Ltd.** is a privately held Canadian company, located in London, Ontario. It produces custom pressure vessels and heat exchangers. Major customers are in the Canadian petrochemical industry. The company employs 30 persons.

The company was profitable on sales of the subject pressure vessels and heat exchangers for 1989. The firm requested tariff acceleration on most of the subject input parts and materials.

**Patterson Industries (Canada) Limited** is a Canadian-owned company operating in Scarborough, Ontario. The company designs and manufactures process equipment for a wide range of industries including the chemical, petrochemical and food industries.

The company stated that the subject materials represented a significant percentage of its sales, much of it purchased from the United States. Tariff treatment on imported parts and materials should be in line with finished products, the firm argued, because it would suffer a serious disadvantage when competing with imported equipment. Sizeable contracts, it argued, were often lost on small price differentials. The company requested tariff acceleration on most of the subject input parts and materials.

**The Arthur S. Leitch Company Limited**, a Canadian company located in Midland, Ontario, employs some 65 persons, of which more than half are involved in the manufacturing of heat exchangers and pressure vessels.

The company argued that, in a typical heat exchanger of the shell and tube type, the subject materials are largely obtained from US suppliers, and these materials frequently account for a minimum of 50 percent of the total direct cost (material and labor) of the unit. Similarly, in the case of pressure vessels, material costs could account for 40 to 60 percent of the total cost of the completed unit.

The company argued that, because of lower duty rates, Canadian manufacturers would suffer a competitive disadvantage of 2.5 to 6 percent of the final selling price, effective January 1993. The tariff anomaly would have a serious impact on the company's competitive position, particularly in 1993 and 1994.

**S.A. Armstrong Limited**, a privately owned Canadian company located in Scarborough, Ontario, manufactures circulators, pumps, commercial engineered products and heat exchangers for the commercial and industrial markets. The company employs 190 persons.

The company is seeking tariff acceleration on only one input material, i.e., refined copper tubing for use in manufacturing heat exchangers. The company argued that, without similar phase-out schedules for both finished products and input parts and materials, it would lose market share. It anticipates that an acceleration in the phase-out of tariffs for copper tubing would result in increased net income in 1993.

**Hayes-Dana (Québec) Inc.**, located in Saint-Wenceslas, Quebec, currently employs about 125 persons. The company specializes in the production of various types of hydraulic cylinders.

Double-acting hydraulic cylinders accounted for a significant portion of 1989 sales. The company was profitable on sales of the subject cylinders for 1989, but expects its sales of these cylinders to fall somewhat in 1990.

The company indicated that the major input material most affected by import duties was pipes and tubes.

**(b) Input Materials**

**(i) Introduction**

The subject input parts and materials used in the production of the subject finished product industries consist of flat-rolled steels, tubes and pipes, articles of iron or steel, rods and bars of iron or non-alloy steel, tubes and pipe fittings of iron or steel, and nuts.

Of these input parts and materials, the two key products are flat-rolled steels and pipes and tubes, which represented almost two-thirds of the total cost of materials used to produce the finished products in 1989.

**(ii) Overview and Submissions - Flat-Rolled Steels**

This sector consists of flat-rolled products of carbon steel, stainless steel and other alloy steels. "Pressure vessel quality plate" was the only distinct product that could be identified by the five steel producers of this product category as being used in the broadly defined sector of pressure vessels. The estimated market for this type of plate was estimated at some \$78 million for 1989. Total imports constituted nearly one quarter of this market in 1989, with imports from the United States constituting less than 10 percent of the market.

Submissions were received from all five producers of the subject flat-rolled products. Comprehensive submissions were received from Stelco Inc. and Ipsco Inc. All submissions strongly oppose unilateral end-use-specific acceleration of the elimination of tariffs.

**Stelco Inc.** (Stelco) argued that any anomaly that may exist does so in theory only, that the American mills need no additional assistance to be competitive and that Canadian pressure vessel manufacturers already have access to plate from the United States at prices significantly below Canadian mills' book prices. Any acceleration in the rate of the tariff reduction on pressure vessel quality plate would simply lead to increased US participation in the Canadian market at the expense of Canadian mills. Stelco questioned the need for this acceleration, given that the pressure vessel industry was already enjoying the benefits of depressed steel prices.

The company's financial results, according to Stelco, were not as good in 1989 as in 1988.

Given the prices prevailing in the marketplace for plate of both Canadian and US manufacture, Stelco argued that any tariff anomaly could not be considered to be imposing a hardship on Canadian producers of pressure vessels.

Stelco also opposed bilateral acceleration on all input parts and materials, arguing that Canadian steel plate was excluded from certain US applications by "Buy American" statutes in many states and by the US Surface Transportation Assistance.

**Ipsco Inc.** (Ipsco) has four plants in Canada, producing carbon and alloy sheet and plate, pipes, and a variety of tubular goods.

If the tariff elimination schedule were to be accelerated from 10 to 5 years, Ipsco would expect its participation in the market to be curtailed somewhat. Whatever the natural market-induced price levels are, there would be some depression of prices as a result of any accelerated tariff removal. Furthermore, the depression of prices in one end-use-specific market could result in depression of prices for the material in general, as knowledge of reduced prices became known in the trade. The price depression could affect employment and planned investment.



Reciprocal end-use-specific accelerated tariffs would be of no benefit to Ipsco as none of the company's exports were sold to the US pressure vessel industry. Ipsco further argued that tariff anomalies, arising as a result of the FTA, should not be resolved by shifting the burden onto another manufacturing sector. Manufacturers being affected by any tariff anomaly, Ipsco argued, should avail themselves of the provisions for relief under the *Financial Administration Act*, such as remission of duties for specific products.

Ipsco's financial results in 1989 were down significantly from those achieved in 1988. The company anticipates continued depressed market price levels and softer markets in 1990.

**Dofasco Inc. (Dofasco) and The Algoma Steel Corporation Limited (Algoma)** argued that any remedial measures involving bilateral or unilateral reductions in rates of duty, applied on a tariff heading basis, would have a major impact on domestic producers. In regard to any problems faced by the pressure vessel industry, they suggested that recourse could be made to alternative relief measures currently in place, such as remission of duties or the establishment of temporary tariff codes.

In a supplementary submission, Algoma indicated that most imports of carbon plate, for use in the manufacture of pressure vessels and heat exchangers, have not originated in the United States, but rather in Japanese and German mills. In this context, Algoma suggested that the concerns raised by the pressure vessel industry were more philosophical than practical.

**Atlas Stainless Steels, Division of Sammi Atlas Inc. (Atlas)**, Canada's sole producer of stainless steel flat-rolled products, urged the Tribunal to retain the agreed-upon tariff reduction schedule. The company has operated and based its planning for the next several years on the expectation that the present tariff reduction schedule would be maintained. Secondly, it argued that the pressure vessel industry had not demonstrated any economic hardship. Finally, according to Atlas, there was no evidence that any of the materials were not readily available from Canadian producers at competitive prices.

### (iii) Overview and Submissions - Tubes and Pipes

These products, which consist of welded and seamless tubes and pipes of iron or steel and copper tubes and pipes, form a significant portion of the total material costs used by the finished goods producers.

Submissions were received from five producers of pipes and tubes, representing close to 100 percent of Canadian production of these goods.

**Standard Tube Canada Inc.** indicated that it would be opposed to any acceleration of tariff elimination on tubes or pipes of iron or steel under heading Nos. 73.04 and 73.06, on the grounds that the scope of these two tariff headings is very broad, and there appeared to be a lack of clarity between the many products covered by these tariffs and the focus of the inquiry. The company argued that its products were under severe competition from imports and that the proposed acceleration would only make matters worse and deter new capital investment.

**Sonco Steel Tube Division, Ferrum Inc.** indicated that it was extremely concerned about a possible reduction of rates on pipes and tubes. The company stated that a small proportion of the market is consumed in pressure vessel applications, that US pipes are penetrating the market due to a high Canadian dollar and that any further erosion of the relative position of domestic producers is equivalent to opening the floodgates.

**Associated Tube Industries, Division of Samuel Manu-Tech Inc.** is opposed to tariff elimination acceleration, except on a reciprocal basis. Its submission is described more fully in the section devoted to feedwater heaters and condensers.

**Sandvik Tube, Division of Sandvik Canada Inc. (Sandvik)**, a producer of seamless cold-reduced tubes and pipes, argued that there was no tariff anomaly between the subject tubes and pipes and pressure vessels at present, since the MFN tariff rates protecting pressure vessels are almost three times as high as those protecting Sandvik's products. It further stated that the FTA tariff rates protecting pressure vessels have been higher than those protecting Sandvik's tube products and would continue to be higher until 1992.

The company also opposed a bilateral acceleration because all of its products are denied access to the US market by an alleged defect in the relevant FTA rules of origin.

**Wolverine Tube (Canada) Inc. (Wolverine)** is Canada's only producer of seamless copper and copper alloy tubing. The company indicated that it was strongly opposed to any acceleration in tariff elimination. The company stated that the acquisition of certain assets was significantly influenced by existing tariffs and the orderly reduction over 10 years, as contained in the FTA. Another 3 to 5 years would be required to modernize the facilities, if economically justified. Wolverine indicated that the greatest measure of protection for its industry had been the currency exchange factor between the US and Canadian dollar. However, this protection was no longer present, making the company more vulnerable to imports and less competitive for exports. It stated that, if tariff reductions were accelerated, it could be impossible to compete against foreign competition.

As noted earlier in the industry profile for flat-rolled steels, **Ipsco Inc.** is a producer of a variety of steel products, including tubular goods. The company opposes any form of further acceleration respecting the phase-out in tariff rates under the FTA.

#### **(iv) Overview and Submissions - Articles of Iron or Steel**

Formed heads, the only subject product falling under this tariff heading, represents an important component cost in building pressure vessels. The formed head is fabricated from flat-rolled plate, usually carbon steel, and is used to "cap" the end of a pressure vessel or heat exchanger. There are five known producers, four of which made submissions to the Tribunal.

All submissions received from producers of formed heads for the pressure vessel industry strongly opposed a further acceleration of tariff removal. Formed heads constitute, in many instances, a significant portion of total company sales. Comments regarding any further acceleration ranged from "would severely damage our company sales" (**Clark, Kennedy Co. Limited**), to "we would surely be forced into receivership"

(Edmonton Exchanger & Manufacturing Ltd.), to "would have an adverse impact on our operations" (Conrex Steel Ltd.).

C.E. MacPherson Company stated that prices were already depressed in 1990 and that US producers should not be allowed to export their product to Canada duty-free while Canadian producers would still be faced with 5 years of paying duty to export to the United States.

These firms submitted that their competitive positions were severely affected by numerous non-tariff factors, such as exchange rates, interest policies and other fiscal policies. According to the industry, the current 10-year phase-out period should be maintained.

(v) **Overview and Submissions - Rods and Bars**

This input part is an important component in making double-acting hydraulic cylinders and a minor component in producing pressure vessels and heat exchangers.

All potential suppliers/producers of these goods, which consist of steel mills such as Dofasco Inc., Stelco Inc., Sidbec-Dosco Inc. and Manitoba Rolling Mills, Division of MRM Steel Ltd. (MRM), were contacted. None of the companies could determine how much of their production of bars or rods was sold to the pressure vessel/cylinder industry. Dofasco, which supplies rods and bars through a subsidiary, is opposed to acceleration. MRM indicated that it supported an accelerated phase-out of duties, but only on a reciprocal basis.

In a supplementary submission, Stelco noted that the bars that it produced would be open to fraudulent entry should authority be granted for tariff relief on the HS classification, rather than on particular commercial specifications that are used in the manufacture of pressure vessels. Given the variety of end uses for these products, the absence of detailed commercial specifications might permit a circumvention of customs duties at the time of entry.

(vi) **Overview and Submissions - Tubes and Pipe Fittings of Iron/Steel**

A number of companies were contacted in order to determine whether they produced or supplied tubes and pipe fittings (including elbows, couplings and flanges) to the pressure vessel/heat exchanger industry. The only known producer of pressure vessel fittings in Canada is Canvil Limited (Canvil) in Simcoe, Ontario. No written representation was made regarding the tariff anomaly, since, according to Canvil, sales of fittings to the pressure vessel industry represented an insignificant percentage of its total sales.

(vii) **Overview and Submissions - Nuts**

Potential suppliers of nuts to the pressure vessel industry include steel mills such as Stelco Inc. and H. Paulin & Co. Limited (H. Paulin) a manufacturer of nuts and fasteners. None of these companies could identify any specific sales to the subject end-use markets. ESNA Fasteners Inc. and Marmon Keystone, distributors of various

steel products, including nuts and fasteners, had very few sales to the pressure vessel industry and, as such, had no views regarding the acceleration of the phase-out of tariffs.

In a supplement to its submission, Stelco, as a producer of nuts, cautioned that granting authority for tariff relief on an HS classification basis for nuts would open the door to fraudulent entry.

**(c) Assessment**

The evidence submitted by the domestic producers of pressure vessels, heat exchangers and double-acting hydraulic cylinders, viewed in aggregate, does not suggest that they are experiencing or are likely to experience economic difficulty. The industry associations for pressure vessels and heat exchangers basically highlighted that an anomaly in tariff phase-out schedules existed and that, in principle, it placed their members at a competitive disadvantage compared to their US counterparts. These submissions did not address the issue of economic difficulty to any substantive degree.

As for individual producer submissions, less than five producers of pressure vessels and heat exchangers, representing only 6 percent of that industry, presented evidence of economic difficulty caused by the anomaly. The response rate for double-acting hydraulic cylinders was somewhat higher (about 20 percent).

Many of the producers of pressure vessels and heat exchangers, which either filed submissions or were visited, were profitable over the last complete fiscal year. Likewise, two of the three hydraulic cylinder firms supporting an acceleration of tariff removal reported healthy profit margins over the last year. Some producers of the subject goods reported that business was expanding and that the tariff anomaly was not an issue.

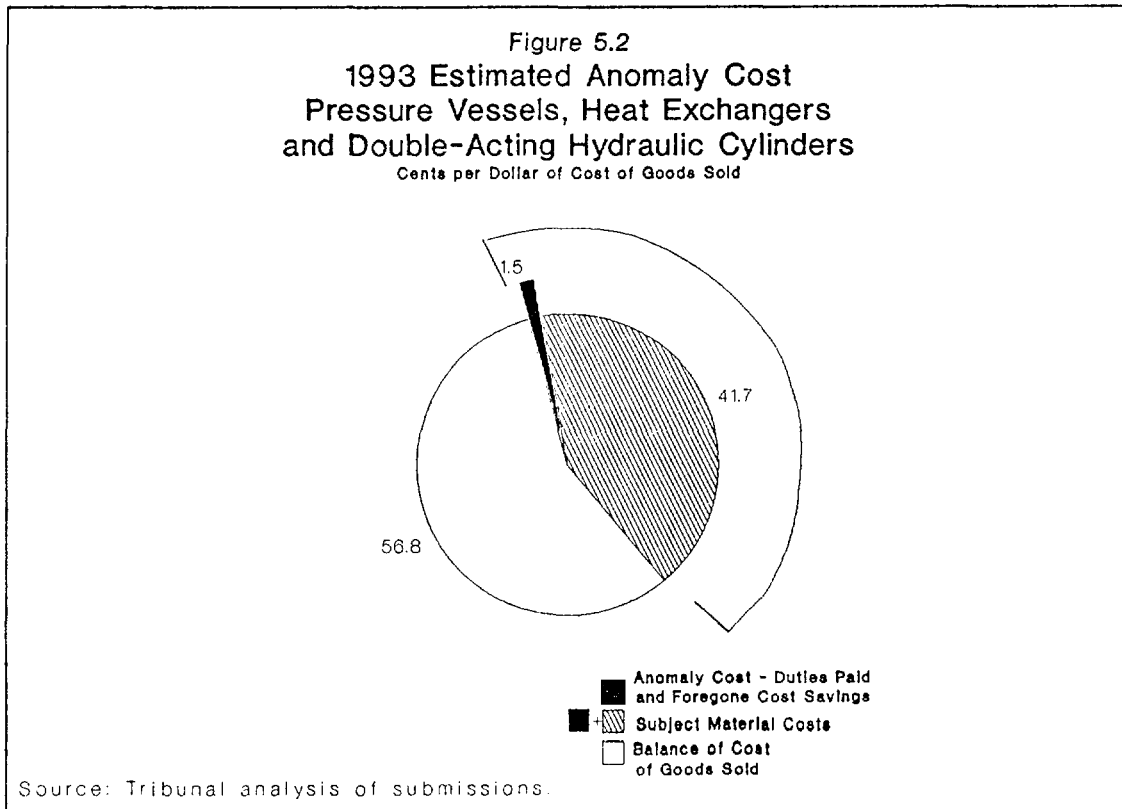
Despite the low response rate to our request for submissions and the inability of input producers to identify sales to the subject end uses, supplementary questionnaires and additional research enabled us to determine the approximate costs of input materials, sourcing and estimated duties paid by the finished product industries.

Figure 5.2 shows the expected anomaly impact in 1993 compared to a cost of goods sold of \$1. The total cost of the anomaly is expected to be approximately 1.5¢ in 1993.

Table 5.4 summarizes the impact of the tariff anomaly for each of the input materials for 1993. The anomaly cost is expressed as a contribution to the cost of goods sold of \$1.

Tubes and pipes ranked first in terms of the relative importance in the cost of producing the subject goods, followed by flat-rolled steels. These two component industries accounted for more than two-thirds of the total benefits to the subject finished product industries. In terms of the cost breakdown of the total anomaly, the loss of revenues to the Government would represent 48 percent, with the balance consisting of lost revenues to input producers.

Representations were received from all major groups of input parts and materials used to produce the subject goods: the steel mills supplying flat-rolled steels, rods and bars and nuts, as well as the producers of welded and seamless tubes and pipes, and formed heads. The producers may be required to provide price reductions of up to 4 percent in 1993. As indicated by the major suppliers, domestic price levels are already at depressed levels. Given existing and forecasted price levels, these industries do not consider themselves well-poised to provide such additional price reductions and may instead cede some of their markets to US firms.



**(d) Conclusion**

In summary, there has been no persuasive evidence or arguments put forward by manufacturers of pressure vessels, heat exchangers and double-acting hydraulic cylinders that their industries are experiencing or are likely to experience economic difficulty resulting from the tariff anomalies covered by the reference. The response rate to our request for submissions was low, suggesting that this was not a pressing issue. Many of the companies reporting that the anomaly was of concern were profitable in 1989. Other players in the subject industries reported that business was expanding, that they were doing well financially and that they were not concerned by the anomaly.

On the other hand, producers of major inputs, such as flat-rolled steels, pipes and tubes, and formed heads, argued against any changes to the current phase-out schedules affecting input parts and materials. They are against both an end-use-specific unilateral acceleration and a bilateral acceleration of all input parts and materials with the United States.

**Table 5.4**

**1993 SUMMARY IMPACTS - PRESSURE VESSELS, HEAT EXCHANGERS  
AND DOUBLE-ACTING HYDRAULIC CYLINDERS**

**What if tariffs on inputs were reduced on a 5-year schedule?**

**Contribution of the Anomaly Cost per \$1 of  
Cost of Goods Sold**

	<u>Benefits to Subject Industry</u>	<u>Government from Lost Tariff Revenues</u>	<u>Cost to Domestic Industry from Price Reductions</u>
Flat-Rolled Steels	0.42¢	0.06¢	0.36¢
Tubes and Pipes	0.64	0.46	0.18
Tubes and Pipe Fittings	0.11	0.11	0.00
Rods and Bars	0.16	0.04	0.12
Formed Heads	0.16	0.05	0.11
Nuts	<u>0.04</u>	<u>0.02</u>	<u>0.02</u>
Total	1.53¢	0.74¢	0.79¢

Source: Tribunal analysis of submissions.

Accordingly, the Tribunal is persuaded that a recommendation to alter the phase-out schedules of the input parts and materials, used to produce pressure vessels (narrowly-defined), heat exchangers and double-acting hydraulic cylinders, is not justified.

#### **4. Recommendations**

##### **(a) Primary Recommendations**

The tariff anomalies on the following inputs are causing or will cause economic difficulty for the domestic producer of feedwater heaters and condensers. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these input products:

- (i) seamless cold-drawn carbon steel tubes bent into a "U" shape, used directly in the manufacture of feedwater heaters, should be accelerated to "free" as soon as possible;
- (ii) seamless cold-drawn stainless steel tubes bent into a "U" shape, used directly in the manufacture of feedwater heaters, should be accelerated to "free" as soon as possible;
- (iii) seamless cold-drawn ferritic stainless steel tubes, used directly in the manufacture of feedwater heaters, should be accelerated to "free" as soon as possible;
- (iv) welded austenitic stainless steel tubes bent into a "U" shape, used directly in the manufacture of feedwater heaters, should be accelerated to "free" by January 1, 1993, in three equal reductions of the existing tariff rate starting as soon as possible;
- (v) titanium plate, used directly in the manufacture of condensers, should be accelerated to "free" as soon as possible; and
- (vi) titanium tubes, used directly in the manufacture of condensers, should be accelerated to "free" as soon as possible.

##### **(b) Secondary Recommendation**

Acceleration of the tariff phase-out schedule on the following product would reduce the cost to the domestic input producer of addressing the anomaly. The recommendation would also remove the consequential anomaly caused by remedying the initial anomaly:

- (i) austenitic stainless steel sheet and strip, used directly in the manufacture of welded austenitic stainless steel tubes bent into a "U" shape for feedwater heaters, should be accelerated to "free" by January 1, 1993, in three equal reductions of the existing tariff rate starting as soon as possible.

In the case of both primary and secondary recommendations, it is suggested that the Government work closely with the input industries in describing the exact commercial specifications of the subject imported products, in order to prevent any circumvention of customs duties.

The full listing of the Tribunal's recommendations is included in Appendix C.



## CHAPTER VI

### FURNITURE

#### 1. Introduction

The furniture industry is on a 5-year phase-out schedule under the FTA. Last year, the furniture industry sought and obtained the acceleration of tariffs on most woven surface fabrics. These fabrics had been on a 10-year phase-out schedule. This year, the Government has asked the Tribunal for advice on the accelerated phase-out of hardware and fittings for the furniture industry.

#### (a) Product Definition

The categories of finished furniture subject to our inquiry are household, office, restaurant, hotel, educational, medical and other institutional furniture. Furniture in these categories may be wooden, metal or upholstered. The subject finished furniture does not include garden furniture, mattresses and bedsprings.

The Minister's letter of reference included 39 input parts. These can be divided into 10 categories. Table 6.1 summarizes the furniture products and input parts and materials falling within the Minister's terms of reference.

The inquiry was primarily of interest to producers of wooden and other non-upholstered household furniture and office furniture manufacturers. The reasons are twofold: first, the list of input parts and materials is comprised mostly of functional and decorative hardware parts and components used in the manufacture of casegoods, which is the furniture industry's term for non-upholstered furniture products. Many of the plastic and metal hardware items are also used by the office furniture sector. Second, vinyl-coated fabric is the only surface fabric included in the list of subject materials. A large variety of woven surface fabrics, which are the principal material inputs used in the upholstered sector of the industry, were accelerated to a 5-year phase-out schedule earlier this year. This resolved the upholstered furniture sector's primary concern with the tariff anomaly.

Du Pont Canada Inc. requested that an additional fabric designed for use as a seating support system be added to the list of input materials used in the production of furniture. The company was informed that the scope of the inquiry was limited to the finished and input products identified in the Minister's terms of reference and that, therefore, we could not accede to Du Pont Canada Inc.'s request.

(b) **Survey Coverage**

(i) **Furniture Industry**

The Tribunal staff established a mailing list for our guide for submissions for furniture manufacturers based on the membership lists of the industry's three regional associations: the Ontario Furniture Manufacturers Association, the Quebec Furniture Manufacturers Association Inc. and Furniture West Inc.

**Table 6.1**

**TARIFF RATES FOR SUBJECT PRODUCTS**

<u>Product</u>	<u>Pre-FTA Rate</u> %	<u>1989</u> %	<u>1993</u> %
<b>Finished Products:</b>			
Household	12.6-15.0	10.1-12.0	FREE
Office	12.6-15.0	10.1-12.0	FREE
Other (excluding mattresses and bedsprings)	12.6-15.0	10.1-12.0	FREE
<b>Input Parts &amp; Materials:</b>			
Stains and Lacquers	12.5	11.2	6.3
Plastic Hardware	13.6	12.1	6.9
Vinyl-Coated Fabric	22.5-25.0	20.2-22.5	11.5-12.5
Paper Decorative Laminate	13.5	12.1	7.0
Wood Turnings	11.2	10.1	5.6
Metal Tubing	10.2-12.2	9.2-11.0	5.1-6.1
Metal Fasteners	10.2	9.2	5.1
Springs (for sofa-bed mattresses)	9.6	8.6	4.8
Metal Hardware	10.2	9.2	5.1
Metal and Fibre Buttons	11.5-12.6	10.3-11.3	5.7-6.3

Note: Tariffs on the input parts and materials are scheduled to be phased out in 1998.

Source: Pre-FTA and 1989 tariff rates from the *Customs Tariff*.  
1993 rates based on FTA tariff reduction schedules.

Through consultation with officials of these associations and with the Executive Vice-President of the national body, the Canadian Council of Furniture Manufacturers, the Tribunal staff developed a sample that included the largest firms, companies with employment of 100 persons or more and a number of small firms employing 20 persons or less. The selection was, in part, influenced by information obtained from the Furniture Directorate of the Department of Industry, Science and Technology, and through consultation with the officials of a number of furniture companies. In addition, 14 firms that filed submissions with the Department of Finance seeking tariff acceleration were incorporated in the sample.<sup>1</sup> In total, the staff provided 99 furniture manufacturing firms with the Tribunal's notice of inquiry and guide for submissions.

In addition, the staff provided the Canadian Council of Furniture Manufacturers with 100 copies of the notice and guide, which were made available to delegates attending the Canadian Council of Furniture Manufacturers' national convention that took place in Toronto from May 30 to June 1, 1990.

In total, we surveyed furniture firms accounting for \$2 billion in sales or 54 percent of the subject industry. We received responses from firms representing 25 percent of industry sales.

We are satisfied that the finished product firms surveyed comprise a representative sample and that the response rate is sufficient to make the determinations outlined in the Minister's terms of reference.

#### **(ii) Input Parts and Materials Industries**

The basis for establishing our sample of producers was the Canadian Index of Manufacturers supplemented by consultation with furniture industry users of the subject parts and materials and with producers of the parts and materials. The Canadian Textiles Institute provided a list of upholstery fabric manufacturers.

The initial selection of input producers totalled 70 firms. These received the Tribunal's notice and guide for submissions by input producers. During the course of the inquiry, the staff identified additional suppliers.

We found that the input industry sectors supplying the furniture industry tended to be highly concentrated. Consequently, the staff was able to identify the key manufacturers and provide them with our notice of inquiry and guide. Although the staff worked closely with the furniture industry and input manufacturers, they were unable to identify a domestic manufacturer for a number of subject items. These are detailed in the "Assessment" section of this chapter. We are satisfied that the input firms contacted represent a major proportion of domestic production in their respective sectors.

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1. This list was provided to the Tribunal by the Canadian Council of Furniture Manufacturers.

## 2. Finished Goods

### (a) Overview

Canadian furniture manufacturing is comprised of three industries: household, office and other furniture. Household furniture accounts for 42 percent of total furniture shipments, office, 26 percent and other furniture, 32 percent. The "other furniture" industry includes manufacturers of bedsprings and mattresses, hotel, restaurant and institutional furniture, picture and mirror frames and furniture frames and components. The mattress and bedspring industry is excluded from the inquiry because the tariffs on both the finished products and input parts and materials are being phased out over 10 years. Consequently, there is no tariff anomaly. The data presented in this report refer to the subject furniture industry excluding the mattress and bedspring sector.

There are more than 1,700 establishments manufacturing furniture in Canada, employing over 60,000 persons. The industry is concentrated in Toronto, Western Ontario, Montréal, the Quebec City area and Winnipeg.

	(\$ million)					<u>1st Quarter</u>	
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1989</u>	<u>1990</u>	
Shipments	3,711	4,038	4,301	4,526	1,121	1,063	
Exports	802	861	824	802	114	164	
Dom. Shipm't	2,909	3,177	3,477	3,724	1,007	899	
Imports	466	522	602	775	246	290	
Market	3,375	3,699	4,079	4,499	1,253	1,189	
Balance of Trade	336	339	222	27	(132)	(126)	
Source: Statistics Canada Catalogues		31-001 Monthly Survey, Published and Unpublished Data. 65-004 Exports. 65-006 Imports.					

In 1989, the Canadian market for the subject furniture was \$4.5 billion. The share held by Canadian producers was 83 percent. Between 1986 and 1989, the market increased by approximately 10 percent per year. In the first quarter of 1990, the apparent market declined by \$64 million (5 percent) over the first quarter of 1989. Canadian

producers' sales declined \$108 million, while imports increased \$44 million over the first three months of 1989. The net result was a decline in the domestic producers' market share from 80 percent to 76 percent.

We examined financial information for furniture firms with \$10 million or more in assets.<sup>1</sup> The sales data indicated that the reporting enterprises accounted for about 30 percent of total industry shipments in 1989. Our analysis shows an overall decline in profitability between 1987 and 1989. Net income declined to 1.6 percent of sales in 1989, from 4.4 percent in 1987. Net income to shareholders' equity fell from 14.3 percent in profitability to 6.3 percent during that period. The downward trend continued in the first quarter of 1990.

The cost of materials and labor and other expenses rose from just over 95 percent of sales revenues in 1987 to over 99 percent in the first quarter of 1990. During that period, the growth in costs (30 percent) outstripped the growth in revenues (28 percent). In 1989, the capital expenditures to sales ratio rose after declining in 1988, but not to 1987 levels.

#### **(b) Summary of Submissions**

The majority of the submissions that we received from furniture companies are brief statements expressing their view on acceleration. A large proportion are single-page letters or verbal confirmations. The submissions can be divided into three categories:

- those supporting accelerated tariff reduction on the subject parts;
- those arguing that the accelerated tariff reduction would have minimal impact; and
- those arguing that other issues are more important.

#### **(i) Submissions in Support of Acceleration**

We received submissions from eight furniture manufacturers in support of accelerating the tariff phase-out period for the inputs covered by the terms of reference.

**Jeffrey-Craig Limited** (Jeffrey-Craig) manufactures custom laminated office furniture products, including tables, desks, credenzas and wall units at its facilities in Scarborough, Ontario. In its submission, Jeffrey-Craig requested acceleration of high-pressure paper decorative laminate and most of the subject metal and plastic hardware items and steel screws (zinc-plated). The firm's major input material is paper decorative laminate.

All of Jeffrey Craig's requirements for this product are imported from the United States. The company provided cost and financial information that enabled the Tribunal to estimate that the cost of the tariff anomaly in 1993 would amount to

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1. Source: Statistics Canada, Catalogue 61-003, Industrial Corporations, Financial Statistics.

0.9 percent of its cost of goods sold and a substantial proportion of the firm's 1989 net income.

**Accro Furniture Industries, Division of Acme Chrome Furniture Ltd.** (Accro), manufactures household, office, educational, hospital and health care furniture at its facilities in Winnipeg, Manitoba. The company asked for acceleration of table slides, hinges, brackets and buttons. On the basis of the financial statistics provided, the Tribunal established that the cost of the tariff anomaly would amount to 0.2 percent of the cost of goods sold in 1993. Accro argued that acceleration would help the company be competitive with imports of finished furniture from the United States.

**Regal Furniture Mfg.** (Regal) produces upholstered furniture, including sofa beds, at its plant in Winnipeg, Manitoba. The company requested the acceleration of springs, tack strips, buttons and castors. Regal argued that the acceleration would reduce costs and improve its competitiveness with furniture imports originating in the United States.

**King Koil Sleep Products, Division of Bedford Furniture Industries Inc.** is located in Weston, Ontario, where it manufactures upholstered furniture and bedding products. The company argued that the US furniture industry had a cost advantage in such areas as wages, health benefits and operational costs. The company asked for the removal of Canadian duties on all inputs as an offsetting cost-reduction measure.

**Atlantic Furniture Manufacturing Ltd.** (Atlantic) manufactures upholstered furniture in Burnaby, British Columbia. Atlantic requested acceleration of the phase-out period for vinyl-coated fabric. In its submission, the company stated that, generally, fabric accounts for 50 percent of the production costs of upholstered furniture.<sup>1</sup> However, furniture covered with vinyl fabric is a small portion of Atlantic's overall production value. Atlantic argued that the cost savings from acceleration would bring the company's fabric costs more in line with its US competitors' cost. Atlantic also submitted that all upholstery fabrics, whether woven or vinyl, should be subject to the same phase-out schedule.

The company also seeks acceleration for metal tack strips, but noted that the fabric issue is its principal concern.

**Meubles Laurier Ltée** (Laurier) produces wooden household furniture at Laurier Station, Quebec. The company asked for acceleration for high-pressure paper decorative laminate, PVC decorative tape, zinc-plated screws and hinges. Laurier provided financial statistics that enabled the research staff to establish that the cost of the tariff anomaly in 1993 would amount to 0.05 percent of the company's 1989 cost of goods sold.

**Reflections Limited and Clément Roy Inc.** submitted verbal support for acceleration as a cost-reduction measure.

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1. **Morbern Inc.**, the primary manufacturer of vinyl fabric in Canada, suggested that, in its experience, fabric would account for only 25-30 percent of the cost of producing upholstered furniture and that, if only vinyl fabric were used, then it would be less.

(ii) **Submissions Reporting Minimal Impact from Acceleration**

We received 43 submissions from furniture producers that take the position that acceleration of the phase-out period on the subject inputs would have minimal impact on their performance. The reasons given are:

- the cost of the subject products as a proportion of total costs is minimal; other products (wood, fabric) make up their major input cost;
- the duties paid on imports of the subject parts and materials amount to a negligible percentage of the cost of materials or the cost of goods sold; and
- the subject products are sourced from local distributors that acquire these products from third-country sources, rather than from the United States.

The following are summaries of a selection of these submissions.

**Kaufman of Collingwood** (Kaufman), located in Collingwood, Ontario, manufactures household wooden and leather upholstered furniture and uses most of the subject metal hardware products, wood turnings and plastic grommets. The company reported subject duties paid in 1989 that amounted to 0.12 percent of its cost of goods sold. The Tribunal's calculation of the cost of the tariff anomaly to the firm is 0.01 percent of the cost of goods sold in 1989 and 0.07 percent in 1993.

The casegoods division of **Sklar-Peppler Inc.** (Sklar-Peppler), located in Hanover, Ontario, submitted statistics that showed that, in 1989, the cost of the anomaly amounted to 0.04 percent of the company's cost of goods sold and 0.2 percent in 1993.

The casegoods division of **Kroehler Furniture Co., Division of Strathearn House Group Limited**, in Durham, Ontario, reported that the duties paid on parts and materials imported from the United States in 1989 was less than one percent of the company's total material costs.

**Steelcase Canada Ltd.** of Markham, Ontario, uses over 20 of the subject input parts in the production of office furniture. The company submitted that a change in the phase-out period of the tariffs would have little or no influence on the company's decisions concerning investment, employment, location and marketing.

**Palliser Furniture** (Palliser) of Winnipeg, Manitoba, submitted that tariffs on third-country imports is a more pressing issue than the FTA tariff anomalies. Palliser has been pursuing the removal of tariffs on paper decorative laminate with officials of the Department of Finance. The Tribunal's calculation of the cost of the tariff anomaly, based on Palliser's forecasted purchases of paper decorative laminate, is 0.06 percent of the cost of goods sold in 1989 and 0.36 percent in 1993. The Tribunal's calculation of the total cost of the tariff anomaly to the firm is 0.14 percent of the cost of goods sold in 1989 and 0.88 percent in 1993.

**BNI International Inc.** (BNI) of Montréal, Quebec, submitted that rectifying the tariff anomaly would have minimal impact on its operations. BNI is concerned with the effect of the termination of duty drawback provisions under the FTA in 1994.

**Les industries de la Rive Sud Ltée** of Sainte-Croix, Quebec, did not file a written submission but informed us that removing the tariff anomaly would have minimal impact on its operations. It expressed concern that US manufacturers may be dumping furniture in the Canadian market.

**(iii) Other Considerations**

During the course of the inquiry, many firms informed us that the 55 to 60 furniture company bankruptcies that have occurred in the past 18 months are due to severe economic difficulty resulting from the following:

- high interest rates,
- the high value of the dollar, and
- the 5-year phase-out of tariffs on furniture under the FTA.

The Canadian Council of Furniture Manufacturers raised these matters with the Ministers of International Trade and of Finance in a letter dated July 6, 1990. It added three other matters of concern:

- lower transportation costs in the United States than in Canada;
- the potentially serious effect on the industry of a one-third tariff cut in accordance with the formula approach to tariff reductions tabled at the Multilateral Trade Negotiations in Geneva; and
- confusion over the basis for calculating the federal sales tax rebate under the Goods and Services Tax rules may cause furniture retailers to postpone purchases in the third and fourth quarters in order to have the least possible inventory by the end of the year.

Furniture producers also attributed economic difficulty to delays in correcting the tariff anomaly on fabrics used in the manufacture of furniture, and to the tendency of furniture retailers to increasingly shift to lower priced US sources of supply.

The cumulative impact of these various pressures has raised concerns about the viability of the Canadian industry.

We draw these matters to the Minister's attention because officials representing furniture manufacturers and parts and materials producers have consistently identified these factors as the principal influences on the performance of the furniture industry.

**3. Input Parts and Materials**

**(a) Overview**

The various industries that manufacture furniture input parts and materials in Canada are highly concentrated with fewer than four firms accounting for 100 percent of the production of each component.



These industries are primarily located in Ontario and Quebec. Western Canada furniture producers rely on imported parts and materials, mostly from the United States and the Far East. Transportation costs from Central Canada and the proximity of US distributors encourage this practice. Taiwan is the primary offshore participant in the furniture component market. The imports are chiefly plastic and metal hardware parts. Domestic producers are competitive with US firms in these product categories. Taiwan is the main source of import competition. The growing presence of Taiwan in the furniture part market suggests that US imports are not the sole nor even the major influence on price levels.

**(b) Summary of Submissions**

**(i) Stains and Lacquers**

The subject products are preparations containing by weight 70 percent or more of petroleum oils or oils obtained from bituminous minerals, these oils being the basic constituents for the preparations.

**Chemcraft Sadolin Inc.** (Chemcraft Sadolin) of Port Hope, Ontario, and **Guardzman Products Limited** (Guardzman) of Cornwall, Ontario, supply most of the furniture industry's requirements. Guardzman objected to acceleration on the grounds that the combined effect of lower tariff protection and high interest rates could cause economic difficulty. Chemcraft Sadolin and **Almatex Inc.**, a smaller producer located in London, Ontario, registered no objection to acceleration.

**(ii) Plastic Hardware**

The subject products included in this category are: glides, grommets, handles, drawer divider holders and decorative moulding and PVC tape with glue for decorating furniture.

**ITW Plastiglide, An ITW Canada Inc. Company** (ITW Plastiglide) of Concord, Ontario, is the leading producer of plastic handles and glides for the furniture industry. The company is owned by a US firm, Illinois Tool Works Inc., that has extrusion moulding plants in California and Mexico serving the US furniture market. ITW Plastiglide does not export to the United States. There is very little competition from US imports in Canada. Competing imports originate primarily in Taiwan and, to a lesser extent, in Israel.

The company has adopted a marketing strategy of targeting furniture firms that it considers to be survivors, based on their efforts to address the US market.

ITW Plastiglide stated no objection to the bilateral acceleration of the tariff phase-out period on plastic furniture hardware.

**The Geo. Cluthé Manufacturing Company Limited** is located in Waterloo, Ontario. Its principal subject products are plastic glides, both fixed and adjustable. The company also manufactures plated caps for the furniture industry. Sales of these items

accounted for less than 30 percent of its total business in 1989. The company registered no objection to the acceleration of the tariff phase-out period. Company officials expressed concern over the ability of the furniture industry to compete in the free trade environment given the US industry's overall lower production costs and more favorable taxation.

**Nicolet Plastique Ltée** (Nicolet) of Nicolet, Quebec, manufactures plastic drawer divider holders, grommets, handles and glides for use in furniture production. Nicolet submitted that tariff acceleration would have a minimal impact on the firm. However, company officials expressed concern that imports of plastic parts manufactured in Taiwan may be entering Canada, via the United States, at FTA rates of duty.

**Canplast Inc.** (Canplast), of Montréal, Quebec, manufactures plastic decorative moulding and PVC tape with glue used to decorate furniture. Canplast submitted that it has no objection to acceleration on a bilateral basis. Canplast exports to the United States and has a plant located in North Carolina. **Canada Woodtape Inc.** of Mississauga, Ontario, also submitted no objection.

### (iii) Vinyl-Coated Fabric

**Morbern Inc.** (Morbern) is the primary manufacturer of upholstery vinyl-coated fabric in Canada. The product manufactured is cellular vinyl and is produced at the company's plant in Cornwall, Ontario. Sales to the Canadian furniture industry in 1989 were substantial. Morbern's exports exceed its domestic sales.

Morbern opposed the acceleration of fabrics of non-cellular or solid sheet vinyl. The company invested in equipment in 1989 to manufacture solid vinyl, and production has not yet reached commercial volumes. The company argued that the investment was made on the basis of a 10-year phase-out of the tariff. Morbern submitted that acceleration would undermine its ability to enter this sector of the Canadian market and to effectively compete in the US market.

**Hafner Inc.**, a Canadian producer of upholstery fabrics, filed a submission opposing the acceleration of vinyl-coated fabrics. The company does not manufacture the subject goods, but expressed concern that its products would suffer from substitution of the subject vinyl fabric.

### (iv) Paper Decorative Laminate

There is no known Canadian manufacturer of high-pressure paper decorative laminate. The product is used to surface household casegoods and office furniture. Paper decorative laminate up to gauge 30 grams per square metre is exempt from duty. Palliser of Winnipeg, Manitoba, which uses 40-gram paper in 50 percent of its applications of this input, has asked the Department of Finance to recommend removing the duty from all high-pressure paper decorative laminate. Palliser imports these papers from Japan.

(v) **Wood Turnings**

**The Canada Wood Specialty Co.** of Orillia, Ontario, supplies wood turnings to the furniture industry. The firm indicated that it did not object to accelerating the FTA phase-out period.

(vi) **Steel Tubing**

**Welded Tube of Canada Limited, Sonco Steel Tube (Sonco)** and **Tubes Solac Ltée** are the major suppliers of cold-rolled steel tubing to the furniture industry. Sonco opposed accelerating the tariff phase-out period for cold-rolled steel tubing. No producer has been identified for stainless steel tubing and decorative brass-plated tubes used in furniture applications.

(vii) **Steel Fasteners**

The subject products included in this input category are steel screws (zinc-plated), steel nails (zinc-plated), brass upholstery nails and metal tack strips for upholstery. **Robertson Whitehouse** is the largest domestic producer of screws for use in furniture manufacturing. The firm objected to the acceleration on the grounds that the company would face additional competition from imports. **H. Paulin & Co. Limited (H. Paulin)** is also a manufacturer, but sales to the furniture industry represent a small percentage of total sales. H. Paulin's submission stated its objection without reasons.

A major manufacturer of nails in Canada informed us that it opposed any reduction in the adjustment period afforded by the FTA respecting to steel nails (zinc-plated). No producer of brass upholstery nails was identified.

**Convexo Limited (Convexo)** of Pickering, Ontario, is the largest Canadian producer of metal tack strips for upholstery. The company is establishing a manufacturing facility in the United States to produce tack strips that use a cardboard strip rather than metal. The Canadian facility will continue to produce the 100-percent metal version of the product. Convexo indicated verbal support for tariff acceleration on a bilateral basis.

(viii) **Springs for Sofa-Bed Mattresses**

**Globe Spring** is the leading manufacturer of inner springs used in the manufacture of sofa-bed mattresses in Canada. Globe Spring contended that sofa-bed producers were generally vertically integrated companies that manufacture mattresses for their own sofa-bed products. These firms acquire the springs from Globe Spring. Other mattress manufacturers produce most of their spring requirements and complete their needs by purchasing from Globe Spring. **Simmons Limited (Simmons)** is an example of this type of firm. Globe Spring and Simmons registered opposition to the reduction of the 10-year adjustment period established for the spring industry in the FTA.

Simmons also submitted that, if the Government proceeded with acceleration on an end-use basis, it would be virtually impossible to enforce.

(ix) **Metal Hardware**

The subject products included in this input category are: steel table slides, steel rings and sockets (brass-plated), steel drop-leaf hinges including continuous hinges, steel drop-leaf hinges including continuous hinges (brass-plated), steel drop-leaf supports, metal castors (zinc- or brass-plated), zinc pulls and knobs (including brass-plated), decorative brass-plated rods, steel catches, steel leg brackets, brass scuff plates, closure glides for end of tubing on chairs (brass, nickel, heat-treated) and steel keyplates (zinc-plated).

**Ilco Unican Inc., Division of Unican Security Systems Ltd.** (Ilco Unican) of Montréal, Quebec, is the leading Canadian manufacturer of decorative zinc pulls and knobs used by the furniture industry.

In its submission, Ilco Unican expressed concern that, if tariffs were quickly eliminated on furniture hardware, the company would be faced with increased competition from two strong forces in the United States, namely, Keeler Brass and Continental Hardware. However, the company expressed confidence that it would remain competitive and did not object to the acceleration of the tariff phase-out period for decorative hardware.

In terms of functional metal hardware, **Larsen & Shaw Limited** (Larsen), of Walkerton, Ontario, produces hinges, leg brackets and leaf supports. The firm filed a submission opposing acceleration of the phase-out period for steel drop-leaf supports, drop-leaf hinges and leg brackets.

Larsen argued that accelerating the phase-out period to 5 years would not give the firm sufficient time to adjust to free trade in terms of cost reduction or new market development. As a result, it would be required to reduce selling prices in 1993 to maintain its sales volume. The company forecasted that reduced revenues would place it in a net loss position.

**FX Drolet Inc.** (Drolet), which manufactures steel table slides in Quebec, told us during our consultations that acceleration would have a minimal impact on its performance.

No domestic producer was identified for steel rings and sockets (brass-plated), metal castors (zinc- or brass-plated), decorative brass-plated rods, steel catches, brass scuff plates, closure glides for end of tubing on chairs (brass, nickel, heat-treated) and steel keyplates (zinc-plated) used in furniture manufacturing.

(x) **Buttons (Metal, Fibre)**

There is no known domestic producer of this item for the furniture industry.

**4. Assessment**

The furniture industry had a very limited interest in the inquiry and only a small number of firms responded in any detail to our request for submissions. In and of itself,

this lack of interest tells us something about the importance that the industry attaches to the anomaly issue as a cause of its economic difficulty. However, based on the limited information available, one could estimate the anomaly cost for the industry. Because it is reasonable to expect that we would receive submissions from those firms with the most to gain from removing the anomaly, it is thought that our estimate of the industry anomaly cost is overstated.

Six companies reported sufficient information on their costs of production and import duties to allow us to estimate the average direct duty cost of the tariff anomaly. These were: Laurier, Kaufman, Sklar-Peppler, Palliser, Jeffrey-Craig and Accro.<sup>1</sup> The calculation used the average cost of goods sold to sales ratio reported by the firms to determine the industry cost of goods sold and assumed that their export orientation was the same as the industry average.

The average cost of the anomaly for these firms amounted to 0.04 percent of the cost of goods sold in 1989. The cost in 1993 would rise to 0.19 percent of the cost of goods sold. The dollar cost of the anomaly to the furniture industry is determined by applying these average costs to the industry's cost of goods sold. The dollar cost of the anomaly to the furniture industry was \$1 million in 1989 and \$5.1 million in 1993.<sup>2</sup>

We could also estimate the sensitivity of the anomaly cost estimate to a possible bias for the firms reporting. If that bias accounted for a 25-percent overstatement compared to the industry average, then the direct duty cost of the anomaly would be closer to \$0.8 million in 1989 and \$3.8 million in 1993.

The sensitivity of the estimated anomaly cost to the cost of goods to sales ratio can be shown by repeating the calculation using information for firms with total assets of \$10 million or more and applying it to the industry as a whole. The cost of goods sold figure for these firms amounted to 91 percent of sales. The direct duty cost of the anomaly under this scenario is \$1.3 million in 1989 and \$6.4 million in 1993.

The furniture industry provided insufficient information on the sourcing of the subject parts to estimate accurately the implicit duty cost.

Figure 6.1 shows the proportion of \$1 of cost of goods sold attributable to the cost of the tariff anomaly. The anomaly cost is 0.19¢ per \$1 as calculated from the sample of firms reporting.

In 1993, when the anomaly cost is at its maximum, the cost to the industry could be estimated at \$4 to \$6 million. This cost is not large compared to industry domestic sales in 1989 of \$3.7 billion (total sales of \$4.5 billion) and domestic cost of goods sold of \$2.7 billion (total cost of goods sold of \$3.3 billion). The anomaly cost is not large enough to be contributing in a meaningful way to the economic difficulty faced by the industry.

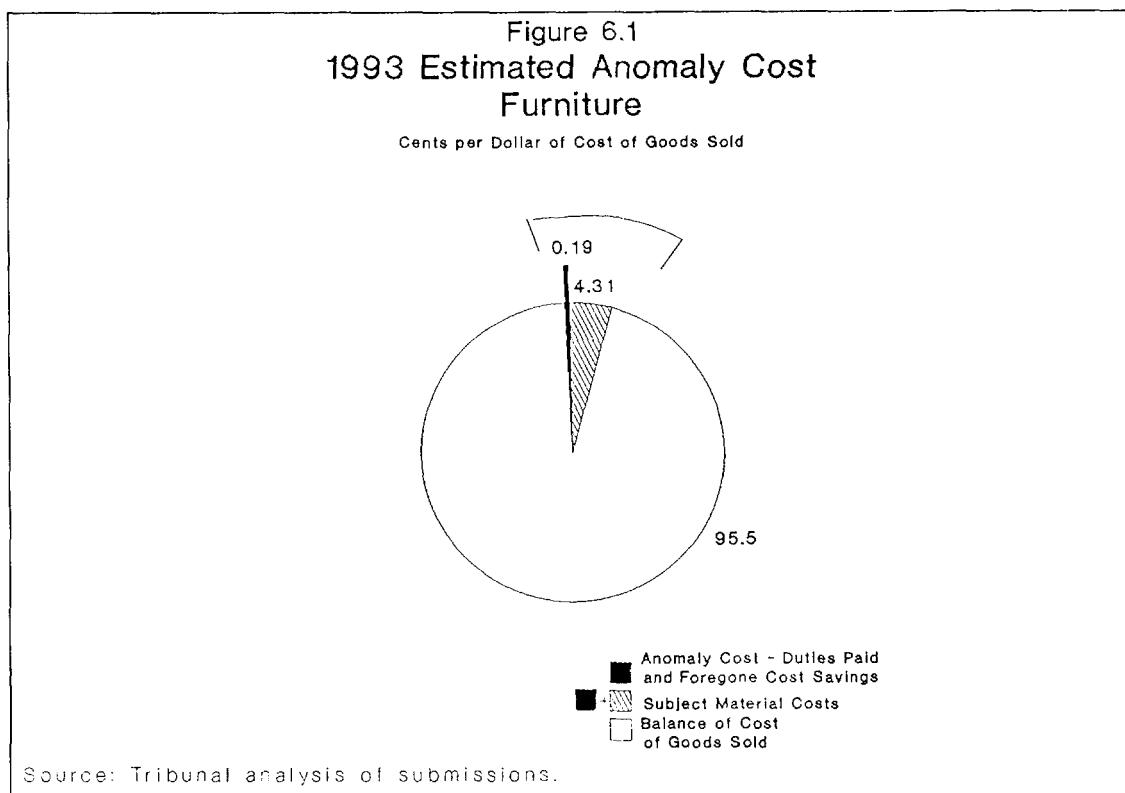
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1. The anomaly cost of laminate to Palliser and to Jeffrey-Craig was excluded from the calculation of the average cost. The anomaly cost of laminate is dealt with later in this assessment.

2. The 1993 estimate adopts the 1989 cost structure. No adjustment was made for industry growth.

On a product-specific basis, the cost of the anomaly, as a percentage of cost of goods sold, would be greater or less than the industry average, depending upon the extent to which subject inputs are used in production. We asked furniture producers to provide an income statement for products that use subject inputs in order to ensure that we were measuring the maximum effect of the tariff anomaly. We are satisfied that, in the cases where this form of reporting helped to make their case, firms used it in their submissions to the Tribunal. For some products, this showed an impact that was greater than the industry average. One notable example, discussed below, is the case of high-pressure paper decorative laminate.

As indicated above, a limited number of submissions specifically identify the subject parts and materials for which the submitting company seeks acceleration. In reviewing the individual justifications for tariff acceleration, we are persuaded that only in the case of high-pressure paper decorative laminate could a sustainable argument be made that the anomaly cost was significant enough to be causing economic difficulty.



The tariff anomaly affects furniture producers that purchase pre-laminated particle board, as well as those that use paper decorative laminate in their production process. Of those that use the product directly, Jeffrey-Craig and Palliser provided evidence of the anomaly cost. Our analysis shows that, in 1993, the average of the cost of the anomaly for these firms would amount to about 0.75 percent of the cost of goods sold for domestic consumption. For Jeffrey-Craig, the cost of the anomaly, in 1993, would amount to a substantial proportion of the firm's 1989 reported net income before tax and, in our view, may cause economic difficulty.

There is no domestic producer of the subject paper decorative laminate. The product is currently exempt from duty up to the 30 grams per square metre category. Annex Code 3972 was introduced by Governor in Council Order No. PC 1990-1842, on August 28, 1990, providing duty-free entry for the subject paper decorative laminate.

The anomaly cost for all other subject inputs was either very small and not meaningful to the economic performance of furniture producers using these products or not measurable, as no evidence was submitted to enable us to determine the cost.

The Tribunal received specific objections to accelerating the tariff phase-out period from domestic producers of stains and lacquers (preparations containing by weight 70 percent or more of petroleum oils or oils obtained from bituminous minerals, these oils being the basic constituents for the preparation), upholstery vinyl-coated fabric, inner springs used in the manufacture of sofa-bed mattresses, steel drop-leaf hinges including continuous hinges, steel drop-leaf hinges including continuous hinges (brass-plated), steel drop-leaf supports, steel leg brackets, steel screws (zinc-plated), cold-rolled steel tubing and steel nails (zinc-plated) used in the manufacture of furniture. We recommend no remedial action be taken respecting these inputs.

## 5. Conclusions

Our overall assessment of the impact of the tariff anomaly on the furniture industry establishes that a blanket acceleration is not warranted because:

- firms in the industry have informed us that the anomaly is not contributing significantly to the economic difficulty being experienced by the industry; and
- our assessment of the anomaly cost, based on submissions received, confirms that the anomaly cost for individual producers is very small, and we conclude that the anomaly is not causing economic difficulty.

High-pressure paper decorative laminate is the only exception to our general assessment. The tariff anomaly could cause economic difficulty for users of this input in the absence of remedial action. In addition, there is no domestic producer of the subject paper decorative laminate. We recommend that the Minister accelerate the FTA tariff on high-pressure paper decorative laminate to "free" as soon as possible.

Although we have not been asked to decide where acceleration may be appropriate in the absence of economic difficulty, there is certain information that we would like to bring to the Minister's attention. For over 20 products listed in the terms of reference, either no domestic producer for the furniture industry was identified or no objection to accelerating the phase-out period was received from domestic manufacturers that sell the subject products to the furniture industry.

The Minister may wish to consider accelerating the tariff on these products on an end-use basis. Because the tariff cost is not large for individual producers, the cost of the administrative action, both to the Government and to users, would have to be minimal. The Tribunal is not in a position to determine if there is an administratively acceptable basis to implement these recommendations.

## **6. Recommendations**

### **(a) Primary Recommendations**

The tariff anomaly on high-pressure paper decorative laminate is causing or will cause economic difficulty for producers of furniture. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for this input product.

High-pressure paper decorative laminate, used directly in the manufacture of furniture, should be accelerated to "free" as soon as possible.

Annex Code 3972, introduced on August 28, 1990, exempts imports of this product from the application of MFN and GPT tariffs until June 30, 1991. In the event that domestic production emerges during the intervening period, the Annex Code may not be renewed, thereby reinstating the application of MFN and GPT tariffs. In that circumstance, the accelerated FTA rate would remain intact.

### **(b) Secondary Recommendations**

The tariff anomalies on the following inputs are not causing and will not cause economic difficulties for the producers of the finished products. However, for these products, either no domestic producers were identified or no domestic producers objected to accelerating the phase-out schedule of tariffs. The Tribunal brings these cases to the Minister's attention. The Minister is encouraged to consider remedial action, if this can be done in a simple way.

Closure glides for end of tubing on chairs (brass, nickel, heat-treated), fibre and metal buttons, decorative brass-plated tubes, stainless steel tubing, steel rings and sockets (brass-plated), brass upholstery nails, metal castors (zinc- or brass-plated), decorative brass-plated rods, steel keyplates (zinc-plated), steel catches and brass scuff plates, used directly in the manufacture of furniture, should be accelerated to "free" as soon as possible.

Metal tack strips for upholstery, steel table slides, PVC tape with glue for decorating furniture, plastic decorative moulding, plastic drawer divider holders, plastic grommets, plastic handles, plastic glides, wood turnings and carvings, and zinc pulls and knobs (including brass-plated), used directly in the manufacture of furniture, should be accelerated to "free" by January 1, 1993.

### **(c) Bilateral Action**

None of these recommendations is contingent on securing bilateral agreement. However, in some cases, export opportunities could mitigate the costs to input producers of remedying the anomaly. This is particularly true for metal tack strips for upholstery, PVC tape with glue for decorating furniture, plastic decorative moulding, plastic drawer



divider holders, plastic grommets, plastic handles and plastic glides used in the manufacture of furniture.

The full listing of the Tribunal's recommendations is included in Appendix C.

## **APPENDICES**

## APPENDIX A

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Letter of Reference, May 22, 1990

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Mr. John C. Coleman  
Chairman  
Canadian International Trade Tribunal  
Journal Tower South  
365 Laurier Avenue West  
19th Floor  
Ottawa, Ontario  
K1A 0G7

Dear Mr. Coleman:

I am writing you pursuant to Section 19 of the Canadian International Trade Tribunal Act, to direct the Canadian International Trade Tribunal to provide advice on how the Government should deal with certain anomalies that have occurred in the phasing-out of tariffs under the Canada-U.S. Free Trade Agreement (FTA).

As you know, the FTA provides for the elimination of tariffs, by January 1, 1998, on all goods originating in Canada and the U.S. that are traded between the two countries. The FTA also provides that tariff reductions being implemented over five or ten years can be accelerated on the mutual agreement of Canada and the U.S.

In early 1989, the Canadian and U.S. Governments invited interested parties to submit requests for the acceleration of the FTA tariff reductions on specific products. Negotiations resulted in agreement on a list of products which will be subject to earlier tariff elimination than that provided in the FTA.

During the tariff reduction acceleration exercise, some Canadian firms indicated that the rates of duty on products they make are being phased-out faster than the rates on certain parts and materials they import from the U.S. for use in the manufacture of those products. They have asked that these tariff "anomalies" be rectified.

I am asking the Tribunal to examine tariff anomalies that have been brought to our attention by Canadian manufacturers of air cleaners, disposable diapers, detergents and household cleaners, pressure vessels and furniture and, if considered desirable, to recommend appropriate remedial measures. A description of the products, their associated inputs, and their tariff classifications are set out in the attachment to this letter.

In its review of these issues, I would ask the Tribunal to:

- determine if the tariff anomalies are causing, or will cause, economic difficulties for the Canadian producers of the finished goods;

- where the Tribunal determines that the anomalies are causing, or will cause, such difficulties, assess the economic benefits and costs (to Canadian producers of both the finished products and the associated parts and materials) of possible remedial measures, including bilateral acceleration of the FTA tariff reductions or unilateral reductions in rates of duty; and,
- make recommendations on the manner in which the government should proceed in each case.

In undertaking this review, I would direct the Tribunal to consider the views of all interested parties before making any recommendations to the Government.

I would ask the Tribunal to report to me by October 15, 1990 so that, if necessary, its recommendations can be incorporated into the next round of negotiations with the U.S. on the acceleration of tariff reductions under the FTA.

Yours sincerely,

(signed)

Michael H. Wilson

Attachments

(Ed. note: Attachments form part of Appendix C.)

APPENDIX B

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Addendum to the Letter of Reference, June 1, 1990

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Mr. John C. Coleman  
Chairman  
Canadian International Trade Tribunal  
365 Laurier Avenue West  
19th Floor  
Ottawa, Ontario  
K1A 0G7

Dear Mr. Coleman:

I refer to my letter of May 22, 1990 directing the Canadian International Trade Tribunal to provide advice on how the government should deal with certain anomalies that have occurred in the phasing-out of tariffs under the Canada-U.S. Free Trade Agreement.

I had asked the Tribunal to examine certain cases that have been brought to our attention by manufacturers of finished products (that is, air cleaners, disposable diapers, detergents and household cleaners, pressure vessels and furniture) and, if warranted, to recommend appropriate measures to deal with these. A description of the products, their associated inputs and their tariff classification were set out in an attachment to my letter.

In the light of subsequent representations received from manufacturers of furniture, an additional list of input materials for that industry has been submitted and is here attached. I would ask the CITT to include these additional products as part of their review.

In addition, the Governor-in-Council has now approved an Order providing for the accelerated elimination of the phase-out of tariffs on certain items. As a result, there is no longer an anomaly in respect to one product which had previously been referred to the Tribunal and the CITT is therefore requested to delete resistors (tariff item 8533.29.00) from their review.

Yours sincerely,

(signed)

Michael H. Wilson

Attachment

(Ed. note: Attachment forms part of Appendix C.)

## APPENDIX C

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### TRIBUNAL'S TARIFF RECOMMENDATIONS

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#### GENERAL NOTES

##### Primary Recommendations

The recommendations for acceleration of the FTA tariff phase-out schedules are on an end-use tariff item basis. Thus, the first recommendation on the first page of this appendix is for the accelerated removal of the tariff on nonwoven media, under statistical code No. 5603.00.90.99, used directly in the manufacture of air cleaners, under tariff item No. 8421.39.90. There are 17 such recommendations.

The tariff anomalies on these inputs are causing or will cause economic difficulty for producers of finished products. The benefits of remedial action exceed the costs. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for these input products.

##### Secondary Recommendations

###### **(a) Remediating Consequential Effects on Input Producers**

For four recommendations, the acceleration of the FTA tariff phase-out is on a "double" end-use tariff item basis. The four recommendations are:

- polyethylene films used directly in the manufacture of tapes for disposable diapers;
- polypropylene films used directly in the manufacture of tapes for disposable diapers;
- disodium carbonate used directly in the manufacture of sodium tripolyphosphate for automatic dishwasher detergents; and
- austenitic stainless steel sheet and strip used directly in the manufacture of welded austenitic stainless steel tubes bent into a "U" shape for feedwater heaters.

The fifth recommendation for non-agricultural-grade phosphoric acid is on a tariff item basis.

Acceleration of the tariff phase-out schedules on these products would reduce the cost to domestic input producers of addressing the anomalies. The recommendations, excepting that on phosphoric acid, would also remove consequential anomalies caused by remediating the initial anomaly. The Tribunal recommends acceleration of the FTA tariff phase-out schedule for non-agricultural-grade phosphoric acid and, on an administratively acceptable basis, for the other four products as well.

###### **(b) Accelerating Tariff Reductions Where There Is No Production In Canada Or Where Producers Do Not Object**

These recommendations are identified by a double asterisk (\*\*). There are 24 such recommendations.

The tariff anomalies on these inputs are not causing and will not cause economic difficulty for the producers of the finished products. However, for these products, either no domestic producers were identified or no domestic producers objected to accelerating the phase-out schedule of tariffs. The

Minister is encouraged to remove these anomalies provided the solution does not create excessive administrative costs for users or the Government.

#### **Start of Implementation**

"As soon as possible" should be interpreted in the context of the Minister's request to the Tribunal to report "by October 15, 1990 so that, if necessary, its recommendations can be incorporated into the next round of negotiations with the U.S. on the acceleration of tariff reductions under the FTA," which the Tribunal expects to be implemented some time in 1991.

#### **Pace of Implementation**

For tariffs accelerated to "free" by January 1, 1993, the Tribunal recommends three equal reductions (i.e., as soon as possible in 1991, January 1, 1992, and January 1, 1993) of the existing 1990 FTA tariff rate.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

AIR CLEANERS

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA Rate (%)	1990 (%)	Free On	Free On
<b><u>Finished Product</u></b>					
Air cleaners	8421.39.90	9.2	free	Jan. 1, 1989	XXXX
<b><u>Input Parts and/or Materials<sup>1</sup></u></b>					
Nonwoven media (statistical code No. 5603.00.90.99)	5603.00.90	24.8	19.8	Jan. 1, 1998	As soon as possible
Aluminum tubes and pipes <sup>2</sup>	7608.10.00	8.1	4.8	Jan. 1, 1993	No change
Air cleaner parts <sup>2</sup>	8421.99.30	9.2	5.5	Jan. 1, 1993	No change
1/12 hp motors	8501.20.11	9.2	5.5	Jan. 1, 1993	As soon as possible**
	8501.20.19	12.5	7.5	Jan. 1, 1993	As soon as possible**
High-voltage power supplies	8504.31.00	9.2	7.3	Jan. 1, 1998	No change
Rectifiers	8504.40.91	17.5	10.5	Jan. 1, 1993	No change
Ceramic capacitors	8532.23.00	10.2	6.1	Jan. 1, 1993	No change
Parts for switches <sup>2</sup>	8538.90.90	10.1	8.0	Jan. 1, 1998	No change
Indicator lights	8539.22.00	12.6	10.0	Jan. 1, 1998	No change

\*\* No domestic producers were identified.



APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

DISPOSABLE DIAPERS

	Present Situation			Tribunal Recommendation	
	<u>HS No.</u>	Pre-FTA	1990	<u>Free On</u>	<u>Free On</u>
		<u>Rate (%)</u>	<u>(%)</u>		
<b><u>Finished Product</u></b>					
Disposable diapers	4818.40.90	10.2	6.1	Jan. 1, 1993	XXXX
<b><u>Input Parts and/or Materials</u></b>					
Certain polyethylene films	3920.10.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993*
Certain polypropylene films	3920.20.00	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993*
Diaper liners	5603.00.90	24.8	19.8	Jan. 1, 1998	Jan. 1, 1993
Transfer layers	5603.00.90	24.8	19.8	Jan. 1, 1998	Jan. 1, 1993
Certain tapes	3919.10.99	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993
Polyethylene bags	3923.21.00	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993

\* Interpretation: Certain polyethylene and polypropylene films used directly in the manufacture of disposable diapers and tapes for disposable diapers. Tapes include fastening tapes, release tapes and/or front dedicated fastening surfaces.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

AUTOMATIC DISHWASHER DETERGENTS<sup>3</sup>

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA	1990	Free On	Free On
		Rate (%)			
<b><u>Finished Product</u></b>					
Automatic dishwasher detergents	3402.20.10	19.4	11.6	Jan. 1, 1993	XXXX
<b><u>Input Parts and/or Materials</u></b>					
Phosphates	2835.22.00	12.5	10.0	Jan. 1, 1998	No change
	2835.23.00	12.5	10.0	Jan. 1, 1998	No change
	2835.24.00	12.5	10.0	Jan. 1, 1998	No change
	2835.26.00	12.5	10.0	Jan. 1, 1998	No change
	2835.29.00	12.5	10.0	Jan. 1, 1998	No change
Sodium tripolyphosphate	2835.31.00	12.5	10.0	Jan. 1, 1998	Jan. 1, 1993
Polyphosphates	2835.39.00	12.5	10.0	Jan. 1, 1998	No change
Disodium carbonate (soda ash)	2836.20.00	12.5	10.0	Jan. 1, 1998	Jan. 1, 1993*
Non-agricultural-grade phosphoric acid	2809.20.00	12.5	10.0	Jan. 1, 1993	As soon as possible***

\* Interpretation: Disodium carbonate used directly in the manufacture of automatic dishwasher detergent and in the manufacture of sodium tripolyphosphate for automatic dishwasher detergents.

\*\*\* Non-agricultural-grade phosphoric acid was not included in the reference to the Tribunal.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FEEDWATER HEATERS

	<u>HS No.</u>	<u>Present Situation</u>		<u>Free On</u>	<u>Tribunal Recommendation</u>
		<u>Pre-FTA Rate (%)</u>	<u>1990 (%)</u>		<u>Free On</u>
<b><u>Finished Product</u></b>					
Feedwater heaters	8404.10.90	10.2	6.1	Jan. 1, 1993	XXXX
<b><u>Input Parts and/or Materials<sup>4</sup></u></b>					
Seamless cold-drawn carbon steel tube bent into "U" shape	7304.31.00.90	4.0	3.2	Jan. 1, 1998	As soon as possible
Seamless cold-drawn stainless steel tube bent into "U" shape	7304.41.00.90	4.5	3.6	Jan. 1, 1998	As soon as possible
Seamless cold-drawn ferritic stainless steel tube	7304.51.00.20	4.5	3.6	Jan. 1, 1998	As soon as possible
Welded austenitic stainless steel tube bent into "U" shape	7306.40.00.10	12.2	9.7	Jan. 1, 1998	Jan. 1, 1993
Austenitic stainless steel sheet and strip	72.19 72.20	10.0-12.5 10.0-12.5	8.0-10.0 8.0-10.0	Jan. 1, 1998 Jan. 1, 1998	Jan. 1, 1993* Jan. 1, 1993*

\* Interpretation: Austenitic stainless steel sheet and strip used directly in the manufacture of welded austenitic stainless steel tubes ("U" shape) for feedwater heaters. Austenitic stainless steel sheet and strip were not included in the reference to the Tribunal.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

CONDENSERS

	<u>Present Situation</u>			<u>Free On</u>	<u>Tribunal</u>
	<u>HS No.</u>	<u>Pre-FTA</u> <u>Rate</u> <u>(%)</u>	<u>1990</u> <u>(%)</u>		<u>Recommendation</u>
<b><u>Finished Product</u></b>					
Condensers	8404.20.90	10.3	6.1	Jan. 1, 1993	XXXX
<b><u>Input Parts</u></b> <b><u>and/or Materials</u></b>					
Titanium plate	8108.90.00.30	10.2	8.1	Jan. 1, 1998	As soon as possible
Titanium tube	8108.90.00.40	10.2	8.1	Jan. 1, 1998	As soon as possible

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

HEAT EXCHANGERS/DOUBLE-ACTING HYDRAULIC  
CYLINDERS/PRESSURE VESSELS

	Present Situation			Free On	Tribunal	
	HS No.	Pre-FTA			Free On	Recommendation
		Rate (%)	1990 (%)			
<b><u>Finished Product</u></b>						
Heat exchangers	8419.50.91	9.2	5.5	Jan. 1, 1993	XXXX	
	8419.50.99	10.2	6.1			
Double-acting hydraulic cylinders	8412.21.00	9.2	5.5	Jan. 1, 1993	XXXX	
Pressure vessels	84.01	9.2-12.5	5.5-7.5	Jan. 1, 1993	XXXX	
	84.02	12.5	7.5	Jan. 1, 1993	XXXX	
	84.03	11.3-12.5	6.7-7.5	Jan. 1, 1993	XXXX	
	84.04	9.2-10.3	5.5-6.1	Jan. 1, 1993	XXXX	
	84.05	9.2	5.5	Jan. 1, 1993	XXXX	
	84.19	6.8-12.5	Free-10.0	Jan. 1, 1993	XXXX	
<b><u>Input Parts and/or Materials</u></b>						
Flat-rolled products of iron or steel	72.08	6.8-9.8	5.4-7.8	Jan. 1, 1998	No change	
	72.09	6.8-10.2	5.4-8.1	Jan. 1, 1998	No change	
	72.10	6.8-8.0	5.4-6.4	Jan. 1, 1998	No change	
Flat-rolled products of stainless steel	72.19	10.0-12.5	8.0-10.0	Jan. 1, 1998	No change	
	72.20	10.0-12.5	8.0-10.0	Jan. 1, 1998	No change	
Flat-rolled products of other alloy steel	72.25	10.0-12.5	8.0-10.0	Jan. 1, 1998	No change	
	72.26	10.0-12.5	8.0-10.0	Jan. 1, 1998	No change	
Tubes and pipes of iron or steel	73.04	4.0-12.2	3.2-9.7	Jan. 1, 1998	No change	
	73.06	6.8-12.2	5.4-9.7	Jan. 1, 1998	No change	
Tubes and pipe fittings of iron or steel	73.07	6.8-12.2	5.4-9.7	Jan. 1, 1998	No change	

**APPENDIX C**

**TRIBUNAL'S TARIFF RECOMMENDATIONS**

**HEAT EXCHANGERS/DOUBLE-ACTING HYDRAULIC  
CYLINDERS/PRESSURE VESSELS (continued)**

	<u>Present Situation</u>			<u>Tribunal Recommendation</u>	
	<u>HS No.</u>	<u>Pre-FTA</u>	<u>1990</u>	<u>Free On</u>	<u>Free On</u>
		<u>Rate</u>	<u>(%)</u>		
<b><u>Input Parts and/or Materials</u></b>					
Copper tubes and pipes	74.11	4.0-10.3	3.2-8.2	Jan. 1, 1998	No change
Bars and rods of iron or non-alloy steel	7215.90.00	8.0	6.4	Jan. 1, 1998	No change
Nuts	7318.16.00	10.2	8.1	Jan. 1, 1998	No change
Articles of iron or steel <sup>5</sup> (formed heads)	7326.90.99	10.2	8.1	Jan. 1, 1998	No change

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FURNITURE

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA Rate (%)	1990 (%)	Free On	Free On
<b><u>Finished Product</u></b>					
Furniture	94.01	6.0-25.0	3.6-15.0	Jan. 1, 1993	XXXX
	94.02	10.0-12.6	Free-6.0	Jan. 1, 1993	XXXX
	94.03	12.5-16.1	7.5-9.6	Jan. 1, 1993	XXXX
<b><u>Input Parts and/or Materials<sup>6</sup></u></b>					
High-pressure paper decorative laminate <sup>7</sup>	3921.90.90	13.5	10.8	Jan. 1, 1998	As soon as possible
Upholstery vinyl-coated fabric	3921.90.11	25.0	20.0	Jan. 1, 1998	No change
Open woven fabric of nylon filament yarn containing man-made or glass fibres	3921.90.11	25.0	20.0	Jan. 1, 1998	No change
Materials of polymers of vinyl chloride having a cotton or man-made fabric backing	3921.90.19	22.5	18.0	Jan. 1, 1998	No change
	3921.90.90	13.5	10.8	Jan. 1, 1998	No change
Polymers of PVC flexible, thickness greater than 0.25 mm	3920.42.00	13.5	10.8	Jan. 1, 1998	No change
Metal tack strips for upholstery <sup>8</sup>	7326.90.99	10.2	8.1	Jan. 1, 1998	Jan. 1, 1993**

\*\* No domestic producer objected to accelerating the phase-out schedule of tariffs.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FURNITURE (continued)

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA	1990	Free On	Free On
		Rate			
<u>Input Parts and/or Materials</u> <sup>6</sup>					
Inner springs used in the manufacture of sofa-bed mattresses	7320.20.90	9.6	7.6	Jan. 1, 1998	No change
Steel table slides <sup>9</sup>	8302.42.00	10.2	8.1	Jan. 1, 1998	Jan. 1, 1993**
Steel drop-leaf supports	8302.42.00	10.2	8.1	Jan. 1, 1998	No change
Closure glides for end of tubing on chairs - brass, nickel, heat-treated	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Fibre buttons	9606.29.00	12.6 and 5¢/gross	10.0 and 4¢/gross	Jan. 1, 1998	As soon as possible**
Preparations containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals, these oils being the basic constituents for the preparations	2710.00.10	12.5	10.0	Jan. 1, 1998	No change

\*\* Where "As soon as possible," no domestic producers were identified. Where 1993, no domestic producers objected to accelerating the phase-out schedule of tariffs.



APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FURNITURE (continued)

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA Rate (%)	1990 (%)	Free On	Free On
<b>Input Parts and/or Materials<sup>6</sup></b>					
PVC tape with glue for decorating furniture	3916.20.00	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993**
Plastic decorative moulding	3916.10.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993**
	3916.20.00	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993**
	3916.90.90	13.5	10.8	Jan. 1, 1998	Jan. 1, 1993**
Plastic drawer divider holders	3926.30.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993**
Plastic grommets for furniture	3926.30.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993**
Plastic furniture handles	3926.30.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993**
Plastic glides	3926.30.00	13.6	10.8	Jan. 1, 1998	Jan. 1, 1993**
Wood turnings and carvings	4420.90.00	11.2	8.9	Jan. 1, 1998	Jan. 1, 1993**
Decorative brass-plated tubes	7306.30.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
	7306.50.00	12.2	9.7	Jan. 1, 1998	As soon as possible**
	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Cold-rolled steel tubing	7306.30.00	10.2	8.1	Jan. 1, 1998	No change

\*\* Where "As soon as possible," no domestic producers were identified. Where 1993, no domestic producers objected to accelerating the phase-out schedule of tariffs.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FURNITURE (continued)

	Present Situation			Tribunal Recommendation	
	HS No.	Pre-FTA Rate (%)	1990 Rate (%)	Free On	Free On
<b><u>Input Parts and/or Materials</u><sup>6</sup></b>					
Stainless steel tubing	7306.40.00	12.2	9.7	Jan. 1, 1998	As soon as possible**
Steel nails, zinc-plated	7317.00.90	10.2	8.1	Jan. 1, 1998	No change
Steel screws, zinc-plated	7318.15.00	10.2	8.1	Jan. 1, 1998	No change
Steel rings and sockets, brass-plated	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Brass upholstery nails	7415.10.00	10.3	8.2	Jan. 1, 1998	As soon as possible**
Steel drop-leaf hinge including continuous hinge <sup>10</sup>	8302.10.00	10.2	8.1	Jan. 1, 1998	No change
Steel drop-leaf hinge including continuous hinge, brass-plated <sup>10</sup>	8302.10.00	10.2	8.1	Jan. 1, 1998	No change
Metal castors, zinc- or brass-plated	8302.20.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Zinc pulls and knobs <sup>11</sup>	8302.42.00	10.2	8.1	Jan. 1, 1998	Jan. 1, 1993**

\*\* Where "As soon as possible," no domestic producers were identified. Where 1993, no domestic producers objected to accelerating the phase-out schedule of tariffs.

APPENDIX C

TRIBUNAL'S TARIFF RECOMMENDATIONS

FURNITURE (continued)

	Present Situation			Tribunal Recommendation	
	<u>HS No.</u>	<u>Pre-FTA Rate (%)</u>	<u>1990 (%)</u>	<u>Free On</u>	<u>Free On</u>
<b><u>Input Parts and/or Materials</u><sup>6</sup></b>					
Zinc pulls and knobs, brass-plated <sup>11</sup>	8302.42.00	10.2	8.1	Jan. 1, 1998	Jan. 1, 1993**
Decorative brass-plated rods	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Steel keyplates suitable for furniture, zinc-plated	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Steel catches	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Brass scuff plates	8302.42.00	10.2	8.1	Jan. 1, 1998	As soon as possible**
Steel leg brackets	8302.50.00	10.2	8.1	Jan. 1, 1998	No change
Metal buttons	9606.30.00	11.5	9.2	Jan. 1, 1998	As soon as possible**

\*\* Where "As soon as possible," no domestic producers were identified. Where 1993, no domestic producers objected to accelerating the phase-out schedule of tariffs.

## EXPLANATORY NOTES

1. Resistors were deleted from the list of input materials in the second letter of reference dated June 1, 1990.
2. Aluminum tubes and pipes, air cleaner parts and parts for switches are no longer at issue because they can now be imported duty-free under the Machinery Program.
3. The scope of the inquiry was narrowed to automatic dishwasher detergent, as the Tribunal received submissions concerning this product only.
4. Based on the submissions received, a more precise description of the input parts and/or materials for feedwater heaters was established.
5. Based on discussions with the industry and officials from the Department of Finance, formed heads were the only item considered within the terms of reference of this inquiry.
6. Formed wire springs, support wires, platform assemblies and steel spans, used in the manufacture of box springs, were deleted from the list of input materials, as they did not constitute an anomaly within the terms of reference of this inquiry.
7. High-pressure paper decorative laminate refers to a foil of plastics backed with paper.
8. The HS tariff item number for metal tack strips was changed from 7317.00.10 to 7326.90.99 with the concurrence of Revenue Canada so as to reflect the description of the product.
9. Steel table slides under HS tariff item No. 7326.90.99 was deleted since it appeared twice in the letters of reference and is a "mounting" properly covered by tariff item No. 8302.42.00.
10. Based on discussions with the industry, a more precise description of a steel drop-leaf hinge (including brass-plated) was established.
11. Based on discussions with the industry, the description was changed from steel pulls and knobs (zinc- or brass-plated) to zinc pulls and knobs (including brass-plated) since the input parts are made of zinc, not steel.

## APPENDIX D

### LISTS OF SUBMISSIONS

#### AIR CLEANERS

##### Finished Product

- AAF - Canada, Division of Snyder  
General Canada Inc.
- ABB/Flakt Canada Ltd.
- \* Airguard Industries  
Bionaire Inc.
- \* Cantech Environmental Systems Inc.
- \* Cimatic Engineering Inc.  
Circul-Aire Inc.
- Electro Air Canada Limited/Five  
Seasons Comfort Limited
- \* Engineering Dynamics Ltd.  
Farr Inc.
- \* Filterfab Inc.  
Honeywell Limited
- Hosokawa Micron Ltd.
- \* Industrial Filter Fabrics Ltd.
- \* Kraemer Tool & MFG. Co. Ltd.  
N.R. Murphy Limited
- National General Filter Products Ltd.  
Snyder-General Canada Inc.
- Temprite Industries Ltd.
- \* Trion Canada Inc.  
Tykron Industries Ltd.
- \* Wheelabrator Canada Inc.

##### Parts and Materials

- \* Albarrie Canada Limited  
Alcan Extrusions  
Franklin Electric of Canada Ltd.  
Freudenberg Nonwovens Inc.
- \* Fybon Industries Ltd.  
General Electric Canada
- \* Hayes-Dana Inc., Weatherhead  
Products Division
- \* Laval Spirotube Inc.  
Moteurs Leroy-Somer Canada Ltée  
Peninsula Fittings (St. Catharines)  
Limited  
Reynolds Extrusion Company Limited  
Spectube Inc.  
Stearns Canada Inc.  
Telemecanique Canada Ltée/Ltd.

\* Completed a short-form questionnaire.

## APPENDIX D

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### LISTS OF SUBMISSIONS

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#### DISPOSABLE DIAPERS

##### Finished Product

Dafoe & Dafoe Inc.  
Health Care Diaper Inc.  
Kimberly-Clark Canada Inc.  
Procter & Gamble Inc.  
Weyerhaeuser Canada Ltd.

##### Parts and Materials

3M Canada Inc.  
Allied Colloids (Canada) Inc.  
Blarek Inc.  
Cryovac Division, W.R. Grace & Co.  
of Canada Ltd.  
Du Pont Canada Inc.  
Fasson Canada Inc.  
Stearns Canada Inc.  
Veratec (Canada) Inc.

#### DETERGENTS & HOUSEHOLD CLEANERS

##### Finished Product

Cartier Chemicals Ltd.  
Chempac Powder, a Division of  
CCL Industries Inc.  
Church & Dwight Ltd./Ltée  
Dustbane Products Ltd.  
Javex Manufacturing Inc.  
Lever Brothers Limited  
Procter & Gamble Inc.  
Van Water & Roger Ltd., Subsidiary  
of Univar

##### Parts and Materials

Albright & Wilson Americas, Division  
of Tenneco Canada Inc.  
General Chemical Canada Ltd.

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APPENDIX D

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LISTS OF SUBMISSIONS

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PRESSURE VESSELS

Finished Product

Alberta Pressure Vessel  
Manufacturers' Association  
Alo Canada Inc.  
Andrus & Foster Hydraulics Ltd.  
Arthur S. Leitch Company Limited,  
The  
Babcock & Wilcox Canada  
Bas-Kim Industries Ltd.  
Canadian Erectors Limited  
Canadian Tool & Die Ltd.  
Cessco Fabrication & Engineering  
Limited  
CHEVMA (The Canadian Heat  
Exchanger and Vessel  
Manufacturers' Association)  
Foster Wheeler Limited  
Hayes-Dana (Québec) Inc.  
Horton CBI Limited  
Koch Engineering Company Ltd.  
Leon-Ram Enterprises Inc.  
Miller Fluid Power (Canada) Ltd.  
O'Connor Tanks Limited  
Patterson Industries (Canada) Limited  
S.A. Armstrong Limited  
Slegers Engineering Inc.  
Spotton Inc.  
\* Ultra Metal Inc.

Parts and Materials

Adtek Pipe & Tube  
Algoma Steel Corporation Limited,  
The  
Associated Tube Industries, Division  
of Samuel Manu-Tech Inc.  
Atlas Alloys, A Division of Rio Algom  
Limited  
Atlas Stainless Steels, Division of  
Sammi  
Atlas Inc.  
Canadian Steel Service Centre  
Institute  
C.E. MacPherson Company  
Clark, Kennedy Co. Limited  
Conrex Steel Ltd.  
Dofasco Inc.  
Drummond McCall Inc.  
Edmonton Exchanger &  
Manufacturing Ltd.  
Ellett Copper & Brass, Division of  
Ellwood Properties Ltd.  
ESNA Fasteners Inc.  
Grinnell Corporation of Canada  
Ltd.  
H. Paulin & Co. Limited  
Ipsco Inc.  
Jannock Steel Operations  
Manitoba Rolling Mills, Division of  
MRM Steel Ltd.  
Quality Tube Supply Ltd.  
Samuel, Son & Co., Limited  
Sandvik Tube, Division of Sandvik  
Canada Inc.  
Sidbec-Dosco Inc.  
Sonco Steel Tube Division, Ferrum  
Inc.  
Standard Tube Canada Inc.  
Stelco Inc.  
Tyco Laboratories, Inc.  
Union Drawn Steel Company Limited  
Wolverine Tube (Canada) Inc.

\* Completed a short-form questionnaire.

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APPENDIX D

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LISTS OF SUBMISSIONS

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FURNITURE

Finished Product

- Accro Furniture Industries, Division of Acme Chrome Furniture Ltd.
- \* Allsteel Canada, Division of Allsteel Inc.
- \* Ambassador Furniture Ltd.
- Arcese Brothers Furniture Limited
- Association des fabricants de meubles du Québec Inc.
- Atlantic Furniture Manufacturing Ltd.
- BNI International Inc.
- \* Brentwood Furniture Inc.
- Canadian Council of Furniture Manufacturers
- \* Ducan Industries (1977) Ltd.
- \* Dutilier Inc.
- Dynasty Furniture
- \* Dynasty Wood Products
- Jeffrey-Craig Limited
- Kaufman of Collingwood
- King Koil Sleep Products, Division of Bedford Furniture Industries Inc.
- Kroehler Furniture Co., Division of Strathearn House Group Limited
- \* Lacasse Inc.
- Les Industries A.P. Inc.
- \* Magnussen/Presidential Furniture
- Meubles Daveluyville Ltée
- Meubles Laurier Ltée
- Palliser Furniture
- Parkland Furniture Mfg. Ltd.
- \* Pro-Meubles Inc.
- \* Quality Bed and Spring Ltd.
- \* Regal Furniture Mfg.
- Sealy Canada Ltd./Ltée
- \* Shermag Inc.
- Simmons Limited
- Sklar-Peppler Inc.
- \* SMED Manufacturing Inc.
- \* Star Bedding Products (1986) Limited
- Steelcase Canada Ltd.

Parts and Materials

- \* Almatex Inc.
- Associated Tube Industries, a Division of Samuel Manu-Tech Inc.
- \* Canada Wood Specialty Co., The
- \* Canada Woodtape Inc.
- Canadian Tack & Nail Ltd.
- Canadian General-Tower Limited
- \* Canplast Inc.
- \* Chemcraft Sadolin Inc.
- Darcor Castors Inc.
- Dominion Textile Inc.
- Duchesne & Fils Ltée
- Du Pont Canada Inc.
- Esso Chemical Canada
- \* Fraser Fasteners/Div. of Robertson Whitehorse
- Geo. Cluthé Manufacturing Company Limited, The
- Globe Spring
- Globe Stamping Company Limited
- \* Guardsman Products Limited
- H. Paulin & Co. Limited
- \* Hafner Inc.
- Hager Hinge Canada, Ltd.
- Ilco Unican Inc., Division of Unican Security Systems Ltd.
- ITW Plastiglise, An ITW Canada Inc. Company
- Larsen & Shaw Limited
- Melet Plastics Inc.
- \* Mont-Hard (Canada) Inc.
- Monterey Textiles Inc.
- Morbern Inc.
- Newlands Inc.
- Nicolet Plastique Ltée
- \* Precision Small Parts Limited
- Primeau Inc.
- \* Rentex Mills Inc.
- \* Riverside Brass
- Robertson Whitehouse
- Sidbec-Dosco Inc.

\* Completed a short-form questionnaire.



APPENDIX D

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LISTS OF SUBMISSIONS

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FURNITURE (continued)

Finished Product

- \* Strathearn House Group Limited  
Strathroy Furniture, Division of  
Wilfred Karldon Furniture  
Company Inc.
- \* The Valley City MFG. Co. Ltd.
- \* Wild Rose Furniture (Ltd.)

Parts and Materials

- Signode Fasteners Inc.
- Sonco Steel Tube
- \* Stanley Hardware, Division of  
Stanley Canada Inc.
- Vanguard Plastics Ltd.
- Waterloo Metal Stampings Ltd.

\* Completed a short-form questionnaire.

APPENDIX E

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COUNSEL OF RECORD

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Messrs. Glenn A. Cickello and  
Brian Rankin Staples  
Foster International Inc.  
Ottawa, Ontario

Representing  
ABB/Flakt Canada Ltd. for air  
cleaners.

Messrs. John M. Coyne,  
Ronald C. Cheng and  
Gregory O. Sommers  
Osler, Hoskin & Harcourt  
Ottawa, Ontario

Representing  
The Algoma Steel Corporation  
Limited  
Dofasco Inc.  
Atlas Stainless Steels,  
Division of Sammi Atlas Inc.  
Associated Tube Industries,  
Division of Samuel Manu-Tech  
Inc.  
Ipsco Inc. and  
Stelco Inc. for pressure vessels.

Mr. Riyaz Dattu  
McCarthy Tétrault  
Toronto, Ontario

Representing  
Kimberly-Clark Canada Inc. for  
diapers.

Messrs. Eric Hehner and Brian Barr  
Corporation House  
Ottawa, Ontario

Representing  
Albright & Wilson Americas,  
Division of Tenneco Canada Inc.  
for detergents.

Mr. J. Alec Macpherson  
Public Affairs International  
Ottawa, Ontario

Representing  
3M Canada Inc. for diapers.

Mr. Patt MacPherson  
Corporation House  
Ottawa, Ontario

Representing  
Canadian Textiles Institute for air  
cleaners, diapers and furniture.  
Morbern Inc. for furniture.  
Sandvik Tube, Division of Sandvik  
Canada Inc. for pressure vessels.

Mr. Peter A. Magnus  
Osler, Hoskin & Harcourt  
Ottawa, Ontario

Representing  
Procter & Gamble Inc. for diapers,  
detergents and household  
cleaners.

APPENDIX E

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COUNSEL OF RECORD (continued)

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Mr. John D. Richard  
Lang Michener Honeywell  
Wotherspoon  
Ottawa, Ontario

Representing  
General Chemical Canada Ltd. for  
detergents.

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**APPENDIX F**

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**VISITS TO FIRMS BY TRIBUNAL MEMBERS AND/OR STAFF**

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<b>COMPANY NAME</b>	<b>MUNICIPALITY</b>	<b>PROVINCE</b>	<b>SECTOR</b>
<b>AIR CLEANERS</b>			
Bionaire Inc.	Lachine	Quebec	Portable air filters
Farr Inc.	Laval	Quebec	Air filters
Honeywell Limited	Toronto	Ontario	Electrostatic air cleaners
Reynolds Extrusion Company Limited	Richmond Hill	Ontario	Aluminum tubes and pipes
<b>DISPOSABLE DIAPERS</b>			
3M Canada Inc.	London	Ontario	Tapes
Blarek Inc.	Brantford	Ontario	Poly films
Kimberly-Clark Canada Inc.	Ste-Hyacinthe	Quebec	Disposable diapers
Procter & Gamble Inc.	Toronto	Ontario	Disposable diapers
Veratec (Canada) Inc.	Toronto	Ontario	Nonwoven material
<b>DETERGENTS &amp; HOUSEHOLD CLEANERS</b>			
Albright & Wilson Americas, Division of Tenneco Canada Inc.	Port Maitland	Ontario	Phosphates
Chempac Powder, a Division of CCL Industries Inc.	Toronto	Ontario	Automatic dishwasher detergents
General Chemical Canada Ltd.	Amherstburg	Ontario	Soda ash
General Chemical Canada Ltd.	Toronto	Ontario	Soda ash

APPENDIX F

VISITS TO FIRMS BY TRIBUNAL MEMBERS AND/OR STAFF

COMPANY NAME	MUNICIPALITY	PROVINCE	SECTOR
<b>DETERGENTS &amp; HOUSEHOLD CLEANERS (cont.)</b>			
Procter & Gamble Inc.	Toronto	Ontario	Detergents and household cleaners
<b>PRESSURE VESSELS</b>			
A.J. Forsyth	Vancouver	British Columbia	Steel service centre
Associated Tube Industries, Division of Samuel Manu-Tech Inc.	Markham	Ontario	Tube producer
Bas-Kim Industries Ltd.	London	Ontario	Heat exchangers and pressure vessels
Canadian Erectors Limited	Calgary	Alberta	Heat exchangers
Ellett Copper & Brass, Division of Ellwood Properties Ltd.	Vancouver	British Columbia	Steel service centre
Exchanger Industries Ltd.	Calgary	Alberta	Heat exchangers
Foster Wheeler Limited	Niagara-On-The Lake	Ontario	Feedwater heaters & condensers
Grinnell Corporation of Canada Ltd.	Toronto	Ontario	Fittings supplier
Hayes-Dana (Québec) Inc.	St-Wenceslas	Quebec	Double-acting hydraulic cylinders
Ipsco Inc.	Regina	Saskatchewan	Pipe and tube producer
Isko Heat Exchangers Ltd.	Montréal	Quebec	Heat exchangers

**APPENDIX F**

**VISITS TO FIRMS BY TRIBUNAL MEMBERS AND/OR STAFF**

COMPANY NAME	MUNICIPALITY	PROVINCE	SECTOR
<b>PRESSURE VESSELS (cont.)</b>			
Koch Engineering Company Ltd.	Toronto	Ontario	Heat exchangers
Leon-Ram Enterprises Inc.	East-Yorkton	Saskatchewan	Double-acting hydraulic cylinders
Miller Fluid Power (Canada) Ltd.	Mississauga	Ontario	Double-acting hydraulic cylinders
S.A. Armstrong Limited	Scarborough	Ontario	Pressure vessels and heat exchangers
Sandvik Tube, Division of Sandvik Canada Inc.	Arnprior	Ontario	Tube producer
Spotton Inc.	Toronto	Ontario	Double-acting hydraulic cylinders
Unifin International	London	Ontario	Heat exchangers and pressure vessels
<b>FURNITURE</b>			
Acme Chrome Furniture Ltd.	Winnipeg	Manitoba	Household, office and institutional furniture
Amerock Company	Meaford	Ontario	Kitchen and bathroom cabinet hardware
Amisco (Les industries) Ltée	L'Islet	Quebec	Household, office and institutional furniture
Arcese Brothers Furniture Limited	Toronto	Ontario	Wooden household furniture
BNI International Inc.	Montréal	Quebec	Office furniture

**APPENDIX F**

**VISITS TO FIRMS BY TRIBUNAL MEMBERS AND/OR STAFF**

COMPANY NAME	MUNICIPALITY	PROVINCE	SECTOR
<b>FURNITURE (cont.)</b>			
Birchwood Furniture 1984 Ltd.	Winnipeg	Manitoba	Household furniture
Clément Roy Inc.	La Durantaye	Quebec	Household and office furniture
El Ran Furniture Ltd.	Montréal	Quebec	Household furniture
Enterprises Sommex Ltée	Cap-de-la-Madelaine	Quebec	Bedding/sofa beds
Global Upholstery	Toronto	Ontario	Office furniture
Globe Spring	Downsview	Ontario	Springs for sofa-bed mattresses
Globe Stamping Company Limited	Kitchener	Ontario	Metal hardware
Hager Hinge Canada, Ltd.	Kitchener	Ontario	Builders hardware (hinges)
Hanover Kitchens (Canada) Inc.	Hanover	Ontario	Kitchen cabinets
ITW Plastiglide, An ITW Canada Inc. Company	Concord	Ontario	Plastic hardware
Jeffrey-Craig Limited	Scarborough	Ontario	Office furniture
Jacmoor Manufacturing Ltd.	Waterloo	Ontario	Metal hardware, plastic glides
Larsen & Shaw Limited	Walkerton	Ontario	Furniture hinges
Meubles Laurier Ltée	Laurier Station	Quebec	Household furniture

APPENDIX F

VISITS TO FIRMS BY TRIBUNAL MEMBERS AND/OR STAFF

COMPANY NAME	MUNICIPALITY	PROVINCE	SECTOR
<b>FURNITURE (cont.)</b>			
Morigeau (Meubles) Ltée	Saint-François	Quebec	Household furniture
Nicolet Plastique Ltée	Nicolet	Quebec	Plastic hardware
Palliser Furniture	Winnipeg	Manitoba	Household furniture
Regal Furniture Mfg.	Winnipeg	Manitoba	Household furniture
Rive Sud (Les industries) Ltée	Ste-Croix	Quebec	Household and office furniture
Simmons Limited	Mississauga	Ontario	Mattresses/springs
Sklar-Pepler Inc.	Hanover	Ontario	Wooden household furniture
Steelcase Canada Ltd.	Markham	Ontario	Office furniture
The Geo. Cluthé Manufacturing Company Limited	Waterloo	Ontario	Plastic glides
Unican Security Systems Ltd.	Montréal	Quebec	Metal hardware
Waterloo Metal Stampings Ltd.	Kitchener	Ontario	Drawer slides



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APPENDIX G

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TRIBUNAL STAFF

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Function/Subject

I RESEARCH BRANCH

**Directors**

Ron Erdmann  
Sandy Greig

Executive Director  
Project Director

**Managers**

Ken Besharah\*  
Audrey Chapman  
Richard Cossette  
Don Shires

Detergents and Household Cleaners  
Disposable Diapers and Air Cleaners  
Pressure Vessels  
Furniture

**Research Officers & Economists**

Doug Allen  
Paul Berlinguette\*  
Rick Cameron  
Peter Rakowski

Air Cleaners  
Furniture  
Tariffs and Economics  
Pressure Vessels

**Statistics**

Sonia McEachern  
Michael Meuse\*  
Gilles Richard

**Administrative Support**

Isabelle Bourdeau\*  
Joanne Yelle

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\* Temporary or secondment agreement.

APPENDIX G

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TRIBUNAL STAFF

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Function/Subject

II SECRETARIAT

**Secretary**

Robert J. Martin  
Michel Granger

Secretary  
Deputy Secretary

**Registry**

Nicole Pelletier  
Janet Rumball  
Paul Davies

Assistant Secretary and Registrar  
Scheduling and Hearings Officer

**Editing & Publishing**

Manon Carpentier  
Lynne Assad  
Monique Henri

Chief Editor  
Editor  
Editor

**Word Processing Unit**

Danielle Lefebvre  
Michelle Dupont  
Linda Kirkwood  
Danielle Matchem  
Linda McCreath

Information Processing Supervisor

**Library**

Lisa McPhail

**Records Office**

Lucie Cyr

APPENDIX G

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TRIBUNAL STAFF

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Function/Subject

II SECRETARIAT (cont.)

Finance

Johanne Grégoire

III LEGAL SERVICES

Louise Sabourin-Hébert, Q.C.      General Counsel