

CANADIAN  
INTERNATIONAL  
TRADE TRIBUNAL



TRIBUNAL CANADIEN  
DU COMMERCE  
EXTÉRIEUR

**REPORT TO  
THE MINISTER OF FINANCE**

**REQUEST FOR TARIFF RELIEF BY  
MAJESTIC INDUSTRIES (CANADA) LTD.  
REGARDING  
WOVEN TERRY CLOTH OF 100 PERCENT COTTON**

**JANUARY 12, 2001**

**MAJESTIC INDUSTRIES (CANADA) LTD.**

**REQUEST NO.: TR-2000-002**

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## INTRODUCTION

On July 14, 1994, the Canadian International Trade Tribunal (the Tribunal) received terms of reference from the Minister of Finance (the Minister) pursuant to section 19 of the *Canadian International Trade Tribunal Act*.<sup>1</sup> The Minister directed the Tribunal to investigate requests from domestic producers for tariff relief on imported textile inputs for use in their manufacturing operations and to make recommendations with respect to those requests to the Minister.

Pursuant to the Minister's reference, on July 18, 2000, the Tribunal received a request from Majestic Industries (Canada) Ltd. (Majestic) for the removal, for an indeterminate period of time, of the customs duty on importations from all countries of certain woven terry cloth of 100 percent cotton, for use in the manufacture of bathrobes and men's shave wraps. As part of its request, Majestic asked for immediate tariff relief.

On October 2, 2000, the Tribunal, being satisfied that the request was properly documented, issued a notice of commencement of investigation that was distributed and published in the October 14, 2000, edition of the *Canada Gazette*.<sup>2</sup> The notice described the fabric for which tariff relief was sought as "terry fabric, solely of cotton, warp pile, bleached or dyed, of a weight of 350 g/m<sup>2</sup> or more but not exceeding 450 g/m<sup>2</sup>, of tariff item No. 5802.19.90, for use in the manufacture of bathrobes and men's shave wraps" (the subject fabric).

As part of the investigation, the Tribunal's research staff sent questionnaires to potential domestic producers of fabrics identical to or substitutable for the subject fabric. Questionnaires were also sent to potential users and importers of the subject fabric. A letter and a sample of the subject fabric were sent to the Canada Customs and Revenue Agency (CCRA) requesting its advice as to the tariff classification of the subject fabric and an analysis of its technical characteristics. In addition, the Department of Foreign Affairs and International Trade (DFAIT) was asked to provide current information on any quantitative import restrictions on the subject fabric, and the Department of Industry was informed of the request and asked to provide any relevant comments. The Department of Finance was also informed of the request.

A staff investigation report was not necessary for the purposes of this investigation, since potential producers of fabrics identical to or substitutable for the subject fabric did not oppose the request.

A public hearing was not held for this investigation.

## PRODUCT INFORMATION

The subject fabric is described as a 100 percent cotton woven terry velour. It is currently imported from Brazil and Turkey.

The CCRA indicated that the subject fabric is classified under tariff item No. 5802.19.90 of the schedule to the *Customs Tariff*<sup>3</sup> and is presently dutiable at 14 percent *ad valorem* under the MFN tariff and at 5 percent *ad valorem* under the Mexico tariff and the Chile tariff and is duty free under the U.S. tariff and the Canada-Israel Agreement tariff.

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1. R.S.C. 1985 (4th Supp.), c. 47.  
2. C. Gaz. 2000.I.3188.  
3. R.S.C. 1985 (3d Supp.), c. 41.

## REPRESENTATIONS

### Requester

Majestic is a privately owned and operated company, located in Montréal, Quebec, that has been in operation for 80 years. Majestic is a leading manufacturer of men's bathrobes and loungewear and supplies major retailers, independent stores and institutions in Canada and the United States.

Majestic argued that no identical or substitutable fabrics are available from domestic sources. It stated that one domestic supplier, FCC Canada Inc., of Toronto, Ontario, is not able to provide towelling fabric by the yard. Further, over the last two years, Majestic has been unable to supply its needs domestically and has had to seek alternative sources of supply overseas. It further stated that tariff relief would put the company in a better position to compete against the direct importation of finished garments and would maintain and foster growth for the domestic production of bathrobes. It estimated that it could create 20 to 30 full-time positions within a year of tariff relief being granted.

Majestic also stated that similar types of fabrics, namely, jacquard and yarn-dyed woven terry fabrics, have been the subject of favourable recommendations by the Tribunal.<sup>4</sup>

Majestic pointed out that tariff relief would provide it with a competitive advantage and would enable it to compete against foreign manufacturers that operate in an economic climate characterized by much lower labour and overhead costs. It further submitted that tariff relief would allow it to increase its domestic production, provide more jobs and contribute to its financial health and stability.

### Domestic Users and Importers of the Subject Fabric

#### Cantex Distribution Inc. (Cantex)

Cantex, of Niagara Falls, Ontario, submitted that it supported the request without any limitation with respect to end use or dyeing. Cantex indicated that, since it manufactures bibs, wraps, towels and face cloths, it did not want any limitations in the product definition.

#### Lubertex Inc. (Lubertex)

Lubertex, of Montréal, Quebec, indicated that terry cloth was not an area in which it had an interest and, therefore, did not complete the questionnaire. However, it did indicate that it supported any duty reductions, since it would allow Canadian manufacturers to become more competitive in a difficult market.

#### Caulfeild Apparel Group Ltd. (Caulfeild)

Caulfeild, of Downsview, Ontario, submitted that, to its knowledge, there are no commercial mills in Canada capable of producing the type of fabric used to produce bathrobes to the quality standards that would be required to become commercially "cuttable". It further stated that it has closed its large terry bathrobe manufacturing operation. Although it continues to manufacture some terry robes in Canada, those quantities are minimal and it now imports virtually all its terry cloth needs. Accordingly, Caulfeild stated that, although it was not interested in supporting the request because it would have an impact on its own importations of finished products, it recognized that the subject fabric is not available in Canada and denying the request would be a disservice to Canadian manufacturers, particularly those that are export capable.

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4. See Request Nos. TR-95-053 and TR-95-059.

### Tex-Pro Western Limited (Tex-Pro)

Tex-Pro, of Vancouver, British Columbia, submitted that it supported the request, since it produces similar items and was formerly supplied by the same domestic supplier as Majestic. Since that source of supply has now ceased, the only alternatives are offshore. Tex-Pro further stated that, without a domestic source of velour terry fabric, it would have to compete at a disadvantage with importers of finished robes. It also submitted that, with tariff relief, it would be able to continue to manufacture robes in Canada.

### W. Laframboise Ltée (Laframboise)

Laframboise, of Ville d'Anjou, Quebec, indicated that it did not import the subject fabric.

## **OTHER INFORMATION**

DFAIT informed the Tribunal that Canada currently maintains quota restraints on cotton terry fabric, finished, imported from the People's Republic of China, Hong Kong and Chinese Taipei. These restraints include cotton fabric of tariff item No. 5802.19.90. DFAIT also informed the Tribunal that the bilateral agreement, which provides for this restriction between the Government of Canada and the Government of the People's Republic of China, has been in place since 1987. The bilateral agreements between the Government of Canada and the Government of Hong Kong and with the Taiwan Textile Federation have been in place since 1979. According to DFAIT, the quota limit on this particular woven fabric was implemented to protect Canadian manufacturers from large volumes and low prices of exports from these countries.

DFAIT also indicated that it would consider requests for ex-quota entry on textile inputs where a recommendation has been made by the Tribunal to remove the customs tariff on the basis of non-availability. Ex-quota treatment will only be granted in cases where it can be demonstrated that there is an extra charge for using products under quota or where goods are not otherwise available in Canada.

The CCRA has indicated that there would be no additional costs, over and above those already incurred by it, to administer the tariff relief requested for the subject fabric.

## **ANALYSIS**

The Minister's terms of reference direct the Tribunal to assess the economic impact on domestic textile and downstream producers of reducing or removing a tariff and, in so doing, to take into account all relevant factors, including the substitutability of an imported fabric for a domestic fabric and the ability of domestic producers to serve the Canadian downstream industries. Consequently, the Tribunal's decision to recommend tariff relief is based on the extent to which it considers that such tariff relief would provide net economic gains for Canada.

Majestic claimed that there is no domestic production of fabrics identical to or substitutable for the subject fabric and, consequently, over the last two years, it has been obliged to seek alternative sources of supply overseas. This claim was not contested by any domestic fabric producers. Therefore, other than the corresponding duty revenues forgone by the government, the Tribunal does not believe that there will be any direct costs associated with the removal of the customs duty on the importation of the subject fabric. Furthermore, tariff relief has already been provided for two similar types of fabrics, namely, jacquard and yarn-dyed woven terry fabrics.

On the basis of the information available to the Tribunal, tariff relief would result in yearly benefits to Majestic in excess of \$100,000. Furthermore, the Tribunal is of the opinion that tariff relief would provide Majestic with a competitive advantage that would enable it to compete against foreign manufacturers that operate in an economic climate characterized by much lower costs.

In summary, the Tribunal finds that tariff relief would provide net economic gains to Canada.

With respect to Majestic's request that tariff relief be effective "immediately", the Tribunal interprets this request to mean that Majestic would like tariff relief to be effective as of the date of the request. The Tribunal has stated, in previous cases, that it will not consider recommending such relief other than in exceptional circumstances. Majestic has provided no evidence to justify such a request. The Tribunal, therefore, is not persuaded that the current circumstances are so exceptional as to warrant a recommendation for retroactive tariff relief.

Finally, the Tribunal has reviewed Cantex's request to expand the end-use provision to cover all other end uses (e.g. bibs, face cloths). As it has stated in the past,<sup>5</sup> the Tribunal will only consider such requests when received prior to the initiation of the investigation. Consequently, the Tribunal has decided not to expand the scope of the investigation beyond the goods described in the notice of commencement of investigation. Should Cantex wish to obtain tariff relief for all other end uses, a new request must be filed according to the Tribunal's *Textile Reference Guide*.

## RECOMMENDATION

The Tribunal hereby recommends to the Minister that tariff relief be granted, for an indeterminate period of time, on importations from all countries of terry fabric, solely of cotton, warp pile, bleached or dyed, of a weight of 350 g/m<sup>2</sup> or more but not exceeding 450 g/m<sup>2</sup>, of subheading No. 5802.19, for use in the manufacture of bathrobes and men's shave wraps.

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Presiding Member

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5. See Request No. TR-98-007.