



Canadian International  
Trade Tribunal

Tribunal canadien du  
commerce extérieur

CANADIAN  
INTERNATIONAL  
TRADE TRIBUNAL

# Textiles

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## RECOMMENDATION

Request No. TR-2007-002

Korhani Manufacture Inc.

(Textured Polypropylene  
Multifilament Yarn)

*Recommendation issued  
Monday, February 25, 2008*

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## REPORT TO THE MINISTER OF FINANCE

### INTRODUCTION

1. On July 14, 1994, the Canadian International Trade Tribunal (the Tribunal) received terms of reference<sup>1</sup> from the Minister of Finance (the Minister) pursuant to section 19 of the *Canadian International Trade Tribunal Act*.<sup>2</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 in respect of those requests to the Minister.

2. On June 12, 2007, pursuant to the Minister's reference, the Tribunal received a request from Korhani Manufacture Inc. (Korhani), of Sorel, Quebec, for the removal, for an indeterminate period of time, of the customs duty on importations from all countries of polypropylene multifilament yarn, for use in the manufacture of area rugs.

3. On October 18, 2007, the Tribunal, being satisfied that the request was properly documented, issued a notice of commencement of investigation<sup>3</sup> into the matter, which was distributed to those whom the Tribunal identified as potentially having an interest. The yarn under investigation was described in the notice as “. . . multifilament yarn, solely of polypropylene, textured, fully drawn, with an ‘S’ twist exceeding 50 turns per metre, measuring per single yarn 1,680 decitex or more but not exceeding 3,215 decitex, of tariff item No. 5402.34.00 of the schedule to the *Customs Tariff*<sup>4</sup>, for use in the manufacture of area rugs” (the subject yarn).

4. As part of the investigation, the Tribunal sent questionnaires to potential domestic producers of yarns identical to or substitutable for the subject yarn. It also sent a request for information to potential users and importers of the subject yarn. The Tribunal requested the Canada Border Services Agency (CBSA) to provide a complete description of the physical characteristics of the samples submitted by Korhani, an opinion on whether the requested tariff relief would be administrable and suggested wording to describe the subject yarn should tariff relief be recommended. The CBSA indicated that there would be no additional costs, over and above those that it normally incurs, to administer the tariff relief should it be granted.

5. The Tribunal also wrote to the Department of Foreign Affairs and International Trade and the Department of Industry, requesting information that could assist the Tribunal in its investigation.

6. The Tribunal provided a staff investigation report summarizing the information received from the CBSA, Korhani and Seaway Yarns Ltd. (Seaway), a domestic yarn producer, to those that had become parties to the proceedings by filing notices of appearance in the investigation. Following distribution of the staff investigation report, Korhani filed a submission with the Tribunal.

7. No public hearing was held for this investigation.<sup>5</sup>

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1. The terms of reference were last modified on October 27, 2005.

2. R.S.C. 1985 (4th Supp.), c. 47.

3. C. Gaz. 2007.I.3024.

4. S.C. 1997, c. 36.

5. Pursuant to rule 25 of the *Canadian International Trade Tribunal Rules*, S.O.R./91-499, the Tribunal has the authority to proceed by way of written submissions.

## PRODUCT INFORMATION

8. Korhani imports the subject yarn from Iran and Turkey. It submitted three yarn samples with its request for tariff relief, which were each textured, multifilament single yarns of fully drawn filaments, solely of polypropylene, with an “S” twist that exceeded 50 turns per metre. The three samples measured 1,779 decitex, 2,759 decitex and 3,063 decitex.

9. As of January 1, 2008, the subject yarn is classified for customs purposes under tariff item No. 5402.34.00 and is dutiable at 8 percent *ad valorem* under the Most-Favoured-Nation Tariff and at 8 percent *ad valorem* under the General Preferential Tariff, and is duty-free under the United States Tariff, the Least Developed Country Tariff, the Mexico Tariff, the Canada-Israel Agreement Tariff, the Costa Rica Tariff and the Chile Tariff.

## REPRESENTATIONS

### Domestic User of Yarn

#### Korhani

10. Korhani has been manufacturing area rugs in Sorel since 2001. Korhani’s core business is the production of area rugs, and its facility has three looms with an annual capacity of 1.2 million square metres.

11. An important characteristic of the yarn that Korhani uses to manufacture area rugs is that it is heat-set. In its original request to the Tribunal, Korhani requested tariff relief for heat-set yarn. However, the Tribunal excluded the term “heat-set” from the definition of the subject yarn in the notice of commencement of investigation because the CBSA indicated to the Tribunal that it was not aware of any test that could determine if yarn has been heat-set.

12. According to Korhani, there are no domestic producers of identical or substitutable heat-set yarns. In the past, Korhani was able to purchase such yarns from a domestic producer, Engineered Fibres, but this company ceased operations more than four years ago. Korhani contacted another domestic producer, Springs Decorative Floor Canada, Inc. (Springs Canada), to determine if it could manufacture heat-set yarns. Springs Canada cannot produce such products. Korhani is not aware of any other domestic producer of heat-set yarns.

13. Korhani submitted that U.S. suppliers are not cost-competitive and, in most cases, are also direct competitors in the manufacture of area rugs.

14. Korhani submitted that tariff relief would enable it to be more competitive in the Canadian market against U.S. and offshore products. Korhani also submitted that the reduced costs would enable it to invest in more machinery and to hire more staff.

15. Korhani submitted that, although Seaway proposed changes to the description of the subject yarn, it supports the description found in the notice of commencement of investigation.

## Yarn Producer

### Seaway

16. Seaway, of Cornwall, Ontario, was established in 1990 and manufactures a wide range of high-tenacity filament yarns, aramid yarns, spun yarns and monofilament yarns. Seaway is a “yarn twister”. It buys yarns and builds them up or processes them in some way to meet customer requirements.

17. According to Seaway, duty-free imports of twisted yarn always have the potential to harm its business. However, in this case, Seaway submitted that it did not object to tariff relief for what it described as the “input (base or single)” yarn. Nonetheless, Seaway requested three changes to the description of the subject yarn.

18. First, Seaway requested that the term “textured” be removed from the description of the subject yarn and replaced with the name of the specific type of texturing process used to produce the subject yarn. Seaway uses a process known as air jet texturing (AJT) to produce textured yarns. In this process, flat yarns, single or multiple, are passed through an air jet that textures them, giving them bulk. In comparison, according to Seaway, carpet yarns are typically textured in a one-step operation when the yarn is extruded using a bulked continuous filament (BCF) process.

19. Second, Seaway requested that the term “heat-set” be included in the description of the subject yarn.

20. Finally, Seaway submitted that listing the single yarn size in the description of the subject yarn was insufficient and that this would allow the importation of all yarns greater than 3,360 decitex. Accordingly, Seaway requested that the “. . . resultant count, both maximum and minimum, be included . . . .”

21. Seaway contended that it could make a yarn virtually identical to the subject yarn and submitted three samples of yarn that it currently manufactures. According to the CBSA, two of the samples were of nylon, while the third sample was of polypropylene with a decitex per single yarn of 388.

22. Seaway did not make a submission to the Tribunal following distribution of the staff investigation report.

## ANALYSIS

23. 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 economic factors, including, where appropriate, the availability of substitutable inputs from domestic sources and a domestic versus foreign price comparison. The Tribunal’s decision on whether to recommend tariff relief is based on the extent to which it considers that such tariff relief would maximize net economic gains for Canada and would be administrable on a cost-effective basis.

24. The Tribunal notes that none of the three samples submitted by Seaway met the description of the subject yarn, with two of the samples being of a different fibre. Seaway provided no other evidence to support its submission that it could produce a virtually identical yarn. In fact, Seaway acknowledges that the AJT process that it uses is a secondary operation that cannot produce exactly the same effect as BCF yarn. Further, the Tribunal notes Seaway’s submission that it does not oppose Korhani’s request as it applies to “input (base or single)” yarn.

25. In view of the above, the Tribunal concludes that Seaway does not produce a yarn identical to or substitutable for the subject yarn.

26. With respect to the changes to the description of the subject yarn requested by Seaway, as noted above, the Tribunal excluded the term “heat-set” from the definition of the subject yarn because the CBSA indicated that it was not aware of any test that could determine if yarn has been heat-set.

27. Likewise, when the Tribunal requested the CBSA’s view on the feasibility of Seaway’s request to include the name of the specific texturing process in the description of the subject yarn, the CBSA indicated that it would be difficult to conduct tests to differentiate among texturing processes.

28. However, the Tribunal does accept Seaway’s request to restrict the subject yarn to multifilament single yarn. It agrees with Seaway that the current description of the subject yarn would allow for the duty-free entry of multi-ply yarns with a total decitex exceeding the maximum of 3,215 decitex, as long as the decitex per single yarn met the definition. For example, a two-ply yarn that measured 1,700 decitex per single yarn would qualify for tariff relief even though the yarn measured 3,400 decitex overall.

29. The Tribunal notes that, on the first page of its original submission, Korhani requested tariff relief on “. . . 100 percent heat-set polypropylene yarn . . .” for use in the manufacture of area rugs. It went on to describe the three products “. . . being placed under this review . . .” as “multifilament single yarn”, making reference to the results of the National Classification Rulings, which it obtained from the CBSA prior to submitting its request to the Tribunal. Nevertheless, Korhani concluded its letter by requesting tariff relief for the broader description of classification No. 5402.34.00.10. When the CBSA proposed a description for the subject yarn to the Tribunal, based on its analysis of the samples submitted by Korhani, it did not explicitly describe the yarn as being single yarn; rather, it included a decitex measure “per single yarn” in the description. When consulted by Tribunal staff prior to the commencement of the investigation, Korhani agreed that the description proposed by the CBSA would appear in the notice of commencement as the subject yarn and that its tariff relief request was to be applied to this yarn. In the Tribunal’s view, this description was not limited to multifilament single yarn but also applied to multifilament yarn of more than one ply.

30. The Tribunal considers that the current description of the subject yarn could unnecessarily broaden the scope of the tariff relief and that describing the subject yarn as “multifilament single yarn” is more consistent with the products described and submitted for review by Korhani, which are single yarns.

31. On the basis of the information provided to the Tribunal, tariff relief would result in yearly benefits to users of the subject yarn of more than \$25,000 in terms of lower duty costs. In addition, tariff relief would provide potential benefits to users by making it possible for Korhani’s prices to be more competitive in the Canadian market against U.S. and offshore products. Other than the revenues forgone by the Government, the evidence does not indicate that there would be any costs to administer the tariff relief. Therefore, the Tribunal finds that the tariff relief requested by Korhani would provide net economic gains for Canada.

**RECOMMENDATION**

32. In light of the foregoing, the Tribunal hereby recommends to the Minister that tariff relief be granted as soon as possible, for an indeterminate period of time, on importations from all countries of multifilament single yarn, solely of polypropylene, textured, fully drawn, with an "S" twist exceeding 50 turns per metre, measuring 1,680 decitex or more but not exceeding 3,215 decitex, of tariff item No. 5402.34.00, for use in the manufacture of area rugs.

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Presiding Member

James A. Ogilvy  
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Member

Diane Vincent  
Diane Vincent  
Member

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