

**REFERENCE FROM THE MINISTER OF FINANCE
PURSUANT TO SECTION 19 OF THE
CANADIAN INTERNATIONAL TRADE TRIBUNAL ACT
CONCERNING
CERTAIN COMBED, RING-SPUN, POLYCOTTON, BLENDED YARNS
REQUEST NO. TR-94-002A**

JANUARY 22, 1996

On November 22, 1995, pursuant to section 19 of the *Canadian International Trade Tribunal Act*,¹ the Minister of Finance (the Minister) requested that the Canadian International Trade Tribunal (the Tribunal) inquire into information submitted to him by Canadian Yarns Ltd. (CYL), a producer of certain carded, open-end spun yarns, taking into account information previously submitted to the Tribunal in connection with the inquiry conducted in respect of a request for tariff relief (Request No. TR-94-002),² together with any other information that the Tribunal considers appropriate in the circumstances. The reference also directed the Tribunal to report within 60 days from the date of reference as to whether tariff relief is warranted on the importations of combed, ring-spun, polycotton, blended yarns.

On July 5, 1995, the Tribunal, following an investigation into a request by Kute-Knit Mfg. Inc. (Kute-Knit), recommended to the Minister that the customs duty on importations of combed, ring-spun, polycotton, blended yarns be removed for a period of three years, on the grounds that carded, polycotton yarns produced in Canada were not substitutable for the imported combed, ring-spun, polycotton yarns and that there would be net economic benefits from granting tariff relief.

At the time of the original investigation in Request No. TR-94-002, the Tribunal was unable to conclude that there was domestic production of combed, ring-spun yarns. However, it was satisfied, on the basis of information on file, that there were significant quantifiable and qualitative differences between the yarns produced in Canada and those imported by Kute-Knit, a knitter and manufacturer of children's wear, and other users of combed, ring-spun yarns which led the Tribunal to conclude that carded yarns were not substitutable for combed, ring-spun yarns and, therefore, to recommend tariff relief.

As part of the present investigation, the Tribunal reviewed all the information from the previous investigation, as well as more up-to-date information obtained through questionnaires and submissions from domestic producers, importers and users relating to the production, importation, sales and prices of polycotton blended yarns in Canada.

In its submissions to the Tribunal, CYL provided volumes and values of the various carded, open-end, polycotton yarns that it produces. In addition, a price list showed how the prices for these yarns fluctuated between April and October 1995, with a general decline over the period. CYL explained that yarn producers have been required to reduce prices of open-end spun yarns because of excess inventories due to slowness in the North American retail market. It was submitted that, under normal economic conditions, the price difference between open-end spun yarns and ring-spun yarns would be less pronounced than under current prices.

CYL's position is that the removal of the tariff on combed, ring-spun yarns will be injurious to the production of carded, open-end spun yarns in Canada. It was argued that combed, ring-spun yarns are technically substitutable for open-end spun yarns and of a higher quality. If the MFN duty on combed, ring-spun, polycotton yarns were removed, a small price difference would exist, resulting in a switch to

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

2. Report to the Minister of Finance: Request for Tariff Relief by Kute-Knit Mfg. Inc. Regarding Combed, Ring-Spun, Polycotton, Blended Yarns, July 5, 1995.

ring-spun yarns. To protect their market, domestic producers would be required to reduce the price of open-end spun yarns by an amount equivalent to the tariff relief or risk the loss of market share. Furthermore, tariff relief would create a tax loophole for lower-priced carded, ring-spun yarns to which only a small percentage of the cotton fibres were combed.

The Tribunal notes that CYL commenced production of a limited range of blends and yarn sizes of carded, open-end spun yarns in April 1995. This company is one of five domestic producers of carded yarns. The others are Dominion Yarn Company (DYC) and Dominion Specialty Yarns (DSY), both of which are divisions of Dominion Textiles Inc., Glendale Yarns Inc. and Les Fils Select, a new entrant in the industry. DYC is by far the largest Canadian producer, with more than 70 percent of the total domestic production of polycotton yarns, and it supplements this production with significant volumes of imports.

The Tribunal also notes that DSY reported some production of combed yarns and carded, ring-spun, polycotton yarns during 1995, but that the combined production of those yarns accounted for less than 3 percent of the total estimated domestic production of polycotton yarns. Moreover, DSY's production of combed, ring-spun yarns was less than 1 percent of the total domestic production of polycotton yarns. The preponderance of domestic production of carded, open-end, polycotton yarns is concentrated in the lower yarn sizes, such as 12/1, 18/1 and 24/1, while imports of the combed, ring-spun, polycotton yarns are concentrated in the higher yarn sizes.

The pricing data submitted to the Tribunal generally show that combed, ring-spun yarns command markedly higher prices than carded, open-end spun yarns. The significant gap in prices is attributable, in part, to the superior quality of combed, ring-spun yarns which results from additional processing. Another reason for the higher prices is the higher cost of production, because the labour content of combed, ring-spun yarns is significantly higher than that of carded, open-end spun yarns.

It has been the position of the Canadian Textiles Institute (CTI) in these proceedings, on behalf of its member companies, that the MFN tariff, in this case 10 percent, act as a "breakwater," thereby sheltering domestic yarn producers against the full impact of artificially underpriced imports. The CTI also contends that, given a small enough price differential, knitters will undoubtedly switch from carded, open-end spun yarns to combed, ring-spun yarns, given their superior quality. The Tribunal does not take issue with these arguments. However, it has found, based on information submitted to it, that the price differential between the domestically produced carded, open-end, polycotton yarns and imported combed, ring-spun yarns is significantly greater than the MFN tariff. Knitters now using domestic carded yarns in the production of fabrics and garments are, therefore, not likely to switch to imported, combed, ring-spun yarns in the absence of the customs duty on such imports.

The Tribunal notes that, to the extent that the textile industry can justify its allegations of subsidized fibres used in imported yarns, the proper mechanism for seeking relief is the imposition of countervailing duties under the *Special Import Measures Act*.³

3. R.S.C. 1985, c. S-15.

On the basis of its examination of all information and submissions in Request No. TR-94-002A and re-examination of the record in Request No. TR-94-002, the Tribunal finds no reason to change the recommendation in Request No. TR-94-002. Accordingly, the Tribunal hereby recommends that the customs duty on importations of combed, ring-spun, polycotton, blended yarns be removed for a three-year period.

Raynald Guay
Raynald Guay
Presiding Member

Arthur B. Trudeau
Arthur B. Trudeau
Member

Robert C. Coates, Q.C.
Robert C. Coates, Q.C.
Member