



**REPORT TO
THE MINISTER OF FINANCE**

**REQUESTS FOR TARIFF RELIEF BY
PARAPAD INC.
REGARDING
CERTAIN MAN-MADE NONWOVEN AND
NEEDED FELT FABRICS**

APRIL 1, 1996

PARAPAD INC.

**REQUEST NOS.: TR-95-007
AND TR-95-008**

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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*.¹ 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.

Pursuant to the Minister's reference, on May 15, 1995, the Tribunal received two requests from Parapad Inc. (Parapad) of Montréal, Quebec, for the permanent removal of the customs duty on importations of certain man-made, nonwoven fabrics (Request No. TR-95-007) and certain man-made, needled felt fabrics (Request No. TR-95-008) for use in the production of high-quality shoulder pads, which are used in the manufacture of men's and women's garments (the subject fabrics).

On August 17, 1995, the Tribunal, being satisfied that the requests were properly documented, issued notices of commencement of investigation, which were distributed and published in the August 26, 1995, edition of the Canada Gazette, Part I.²

As part of the investigations, the Tribunal's research staff sent questionnaires to potential producers of fabrics identical to or substitutable for the subject fabrics. Questionnaires were also sent to known users of fabrics identical to or substitutable for the subject fabrics. A letter was sent to the Department of National Revenue (Revenue Canada) requesting information on the tariff classification of the subject fabrics, and samples of the subject fabrics were provided for laboratory analysis. Letters were also sent to a number of other government departments requesting information and advice.

A staff investigation report, summarizing the information received from these departments, Parapad and other firms that responded to the questionnaires, was provided to the parties that had filed notices of appearance for these investigations. These parties are: Parapad, the Canadian Textiles Institute (CTI), Texel Inc. (Texel), Handler Canada Inc. (Handler), Matador Converters Co. Ltd. (Matador) and Altrim Inc. (Altrim).

Matador, Altrim, Handler and the CTI filed submissions with the Tribunal, to which Parapad provided a response.

The Tribunal reviewed all the information on file and determined that it required certain additional information in order to make a reasoned and fully researched recommendation to the Minister. On January 19, 1996, the Tribunal sent out requests for additional information to Parapad, Altrim and Matador. Responses to these requests were then circulated to parties for their final submissions.

A public hearing was not held for these investigations.

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

2. Vol. 129, No. 34 at 2931 and 2932.

PRODUCT INFORMATION

Parapad requests tariff relief, in Request No. TR-95-007, on certain nonwoven fabrics and, in Request No. TR-95-008, on certain needled felt fabrics. Parapad uses both fabrics in the manufacture of shoulder pads. The production process is performed at Parapad's own facilities. Parapad performs operations such as designing, making patterns and samples, preparing, marking and cutting the fabrics, and sewing and preparing the shoulder pads to a finished state. The shoulder pads are then inspected and distributed.

Altrim, a producer of shoulder pads that supports the requests, imports similar fabrics. However, certain characteristics, such as fibre content and weight, differ.

Request No. TR-95-007

The subject nonwoven fabrics are classified for customs purposes under classification No. 5603.00.99.51 of Schedule I to the *Customs Tariff*.³ They are dutiable at 20.3 percent *ad valorem* under the MFN tariff; at 7.4 percent *ad valorem* under the U.S. tariff; and at 19.8 percent *ad valorem* under the Mexico tariff.

As a result of its analysis of a sample of the subject nonwoven fabrics, Revenue Canada suggested the following product description:

nonwovens of blended polyester and viscose rayon staple fibres, weighing 87 g/m² (weighing less than 100 g/m²) for use in the manufacture of shoulder pads for apparel.

The apparent Canadian market for the subject nonwoven fabrics and allegedly substitutable fabrics in 1995 was estimated to be approximately 670,000 linear metres. This estimate⁴ comprises the combined purchases of imports reported by the two known users and Matador's volume of sales of the allegedly substitutable fabrics to other producers of shoulder pads.

Request No. TR-95-008

The subject needled felt fabrics are classified for customs purposes under classification No. 5602.10.99.00. They are dutiable at 20.5 percent *ad valorem* under the MFN tariff; at 7.5 percent *ad valorem* under the U.S. tariff; and at 20.0 percent *ad valorem* under the Mexico tariff.

3. R.S.C. 1985, c. 41 (3rd Supp.).

4. The market estimate for the subject nonwoven fabrics and allegedly substitutable fabrics includes a range of fabrics with varying fibre contents and weights. For example, the fabrics imported by Altrim contain 100 percent by weight of polyester staple fibres, and the fabrics range in weight from 60 to 100 g/m².

As a result of its analysis of samples of the subject needled felt fabrics, Revenue Canada suggested the following product descriptions:

needled felts containing 80 percent by weight of viscose rayon staple fibres and 20 percent by weight of polyester staple fibres, weighing 155 g/m², for use in the manufacture of shoulder pads; and

needled felts containing 88 percent by weight of viscose rayon staple fibres and 12 percent by weight of polyester staple fibres, weighing 183 g/m², for use in the manufacture of shoulder pads.

The domestic textile industry submitted its own analysis of samples of the subject fabrics. It reported similar findings to those reported by Revenue Canada.

The apparent Canadian market for the subject needled felt fabrics and allegedly substitutable fabrics in 1995 was estimated to be approximately 675,000 linear metres. This estimate⁵ comprises the combined purchases of imports reported by the two known users and Matador's volume of sales of the allegedly substitutable fabrics to other producers of shoulder pads.

REPRESENTATIONS

The requests made by Parapad are for the permanent removal of the customs duty under the MFN tariff. The estimated duty savings for the identified users of the subject and similar fabrics would be less than \$60,000 per annum for the subject nonwoven and needled felt fabrics.

Users of the Subject Fabrics

Parapad was formed in 1948 as a manufacturer of shoulder pads and canvas fronts. Parapad claims that it is the largest manufacturer of shoulder pads in Canada. Parapad alleges that the subject fabrics are not available from North American production. As a result, Parapad argues that the landed costs of the subject fabrics are unnecessarily high. Parapad submits that tariff relief will enable it to remain competitive and profitable. In turn, it will enable Parapad to expand its operation, expand its employment and compete more favourably both domestically and in foreign markets.

Parapad claims that there are no acceptable substitutes available domestically. Shoulder pads made of other fabrics would not be accepted by manufacturers of quality garments that require quality shoulder pads. Parapad also claims that the price of potential substitutable fabrics will further render shoulder pads made of those fabrics unacceptable.

5. The market estimate for the subject needled felt fabrics and allegedly substitutable fabrics includes a range of fabrics with varying fibre contents and weights. For example, the fabrics imported by Altrim contain 70 percent by weight of viscose rayon staple fibres and 30 percent by weight of polyester staple fibres, with fabric weights ranging from 120 to 175 g/m².

Parapad explains that proposed substitutable fabrics offered by Matador are not acceptable because they are unproved and untested. Parapad highlights that Matador's allegedly substitutable nonwoven fabric is over 50 percent heavier than the subject nonwoven fabrics and lacks the viscose component.

Parapad continues to purchase certain nonwoven fabrics from Matador; however, Parapad argues that the quality of nonwoven fabric required for its quality shoulder pads is simply not available domestically. Parapad claims to be very cognizant of the differences between a higher-quality and a lower-quality shoulder pad, as evidenced by the various types of shoulder pads that it produces.

Regarding the needled felt fabrics, Parapad argues that there is a substantial difference between the samples provided by Matador and the subject needled felt fabrics. Parapad notes that Matador's allegedly substitutable needled felt fabrics currently do not come in both heavier and lighter weights, as do the subject needled felt fabrics. Further, the relative proportion of viscose to polyester of the allegedly substitutable needled felt fabrics is reversed when compared to the subject needled felt fabrics.

Altrim was incorporated in 1954 and serves various women's and men's apparel manufacturers across Canada and the United States. It produces shoulder pads, sleeve-heads, chest pieces, waistbands, bindings and trims. Altrim supports the requests made by Parapad because it states that it faces the same problem, namely, that the subject fabrics or substitutable fabrics are not available in Canada. Altrim argues that the duty-paid cost makes the subject fabrics very expensive. Altrim submits that European producers have captured an important share of the local market for quality shoulder pads due to their lower cost advantage and that the removal of the tariff will allow Canadian producers of shoulder pads to have competitive access to all of the Canadian market and many more export opportunities.

Altrim submits that, if the Tribunal recommends tariff relief, it is of the utmost importance that the description of the subject fabrics include variations in fibre content and weight to allow for typical differences between the various mills and their product lines. It argues that the basic characteristics and function of its imported nonwoven and needled felt fabrics are identical to those of the subject fabrics. Altrim states that, as long as producers of shoulder pads benefit from the tariff relief equally and have their imported fabrics treated similarly, its competitive position will remain unchanged vis-à-vis Parapad.

Altrim provided a number of technical reasons why the subject fabrics meet its quality requirements. Altrim argues that, for both the subject nonwoven and needled felt fabrics, features such as thinness, softness, uniformity, resin bonding, lightweight and a proven ability to withstand repeated dry cleaning and pressing are very important. Altrim argues that, specifically, the resin bonding helps create the "bounce-back-ability" that its customers demand. Altrim submits that, increasingly, more garment manufacturers are demanding these types of fabrics for their shoulder pads, because of the added durability and superior look that they give a garment.

Based on a simple examination of a small sample of the allegedly substitutable needled felt fabric provided by Matador, Altrim states that it does not have enough body, has poor abrasion resistance and has too much stretch in both directions.

If tariff relief is granted on a broader range of fabrics that includes those imported by Altrim, it anticipates that it will be able to recapture market share from the imported European shoulder pads. Altrim

explains that this is a labour-intensive industry and that the added business will have an immediate and significant impact on employment. Further, it argues that Canadian producers of nonwoven fabrics will benefit by selling more filling and lining fabrics, as the majority of these types of fabrics are purchased domestically.

Domestic Producers of Identical or Substitutable Fabrics

The **CTI** represents Canadian manufacturers of textiles. It opposes the requests on the basis that substitutable fabrics are produced in Canada.

Matador has been producing needled and nonwoven fabrics since 1945. Matador submits that granting tariff relief will have a serious negative impact on its sales, employment levels and profitability. Matador claims that it currently sells similar fabrics to a number of producers of shoulder pads, including Parapad. Matador notes that other interested parties, such as Altrim and Handler, have requested that the Tribunal expand the description of the fabrics for which tariff relief should be granted.

Matador claims that it is capable of and very interested in producing fabrics substitutable for the subject fabrics. In this respect, Matador provided samples of new fabrics to the Tribunal that it has developed in order to meet the demands of producers of shoulder pads like Parapad and Altrim. Matador alleges that the fibre content of the samples provided closely parallels that of the subject fabrics. For example, the samples have characteristics similar to those of the subject fabrics in terms of hand, weight, resilience and “bounce-back-ability.” The fibre, substrate and production technology used to manufacture the allegedly substitutable fabrics closely parallel those used to manufacture the subject fabrics. Matador claims that its fabrics were developed after an extensive worldwide search for the proper substrate and after several in-house trial production runs. It also states that it spent a considerable amount of effort to develop these allegedly substitutable fabrics for both the subject nonwoven and needled felt fabrics.

Matador submits that it has made significant investments in plant and machinery over the last 10 years in order to remain competitive in a global marketplace. In this respect, Matador submits that it has the capability to produce fabrics substitutable for the subject fabrics in lighter and/or heavier weights, depending on the customers’ preferences. With the recent purchase of new equipment, Matador argues that it can produce needled felt fabrics weighing as little as 80 to 90 g/m².

Matador submits that, when its customers want to achieve a certain “feel,” “loft,” “resiliency” and “bounce-back,” they communicate their needs, provide samples and work together with Matador in a joint effort to achieve a mutual goal. In dealing with Parapad, however, Matador claims that Parapad’s needs were never fully communicated. Product information seems to be closely guarded. Matador claims that it has never seen a finished shoulder pad made from the subject fabrics. In this respect, Matador argues that Parapad was not forthcoming with a true desire to source the subject fabrics domestically.

Matador strongly believes that there is significant potential for its customers to avail themselves of the requested tariff relief and begin importing a much broader range of nonwoven fabrics that they would have otherwise sourced from Matador. Matador argues that this would definitely have a serious negative impact on future sales, employment levels and profitability.

Texel, a producer of nonwoven fabrics and needled felt fabrics, submits that, if tariff relief is granted, it must be restricted to the subject fabrics as described in the requests. Specifically, the polyester/viscose fibre content must be respected.

Jasztex Fibers Inc. (Jasztex), a producer of nonwoven fabrics of synthetic and natural fibres, has been producing nonwoven fabrics for the past 11 years. Jasztex has four plants located in the province of Quebec. Jasztex originally opposed the requests for tariff relief; however, when it realized that tariff relief would be limited to manufacturers of shoulder pads, it withdrew its opposition.

Other Parties

The **Department of Foreign Affairs and International Trade** informed the Tribunal that Canada does not maintain quota restraints on either nonwoven fabrics classified under classification No. 5603.00.99.51 or needled felt fabrics classified under classification No. 5602.10.99.00. Therefore, these fabrics are not subject to any quantitative import restrictions. Furthermore, these fabrics are not included in the Import Control List and, therefore, no import permit is required.

Revenue Canada has indicated that there would be no additional costs, over and above those already incurred by it, to administer the tariff relief, should it be granted.

ANALYSIS

Throughout these investigations, the arguments made by parties were generally applicable to both the subject nonwoven and needled felt fabrics. As a result, the Tribunal's analysis and comments apply to both subject fabrics, unless otherwise stated.

The 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 domestically produced textiles for imported textiles, the ability of Canadian producers to serve the Canadian downstream industries and domestic versus imported price competition.

According to Parapad and Altrim, there is no domestic production of fabrics identical to or substitutable for the subject fabrics. This position was contested by Matador, which argued that it is capable of producing fabrics substitutable for the subject fabrics. Texel and Jasztex, both domestic producers of nonwoven and needled felt fabrics, submitted that they did not oppose the requests for tariff relief if the Tribunal's recommendation was limited to the fabrics and end use described in the requests.

The question of "fabric substitutability" is of critical importance, as Parapad's main reason for seeking tariff relief is that the shoulder pads produced from the subject fabrics are "unique" and are positioned in the "high priced" market segment for which there is no Canadian production.

Early in the investigations, Matador provided samples of its allegedly substitutable fabrics to the Tribunal for examination. The Tribunal sent these samples to Parapad. Parapad then produced and provided the Tribunal with sample shoulder pads using both the subject fabrics and the allegedly substitutable fabrics. Based on characteristics such as "feel," "bounce-back-ability" and "appearance" identified by Parapad as the

principle determinants of substitutability, the Tribunal finds it difficult to detect substantial differences between the subject fabrics and the allegedly substitutable fabrics provided by Matador, even though the allegedly substitutable fabrics do not have the same fibre contents and weights as the subject fabrics. On more than one occasion, Matador submitted that it can change the fibre content and weight to suit the needs of its customers. Further, if the Tribunal accepts the point made by Altrim that different weights and fibre content should be considered in an expanded definition if tariff relief is recommended, it also makes sense to consider domestically produced fabrics which have different fibre contents and weights, as they all compete in the same segments of the marketplace.

The Tribunal puts great importance on the efforts and commitment made by Matador to produce an acceptable substitutable fabric for Parapad. It appears, from the evidence available, that Parapad did not extend full cooperation to Matador, which may explain why, in Parapad's view, the samples supplied by Matador are still judged to be unsatisfactory. The Tribunal recognizes that the circumstances in these investigations are unique in that domestic producers do not currently produce fabrics identical to or substitutable for the subject fabrics. However, the Tribunal is persuaded that domestic producers have the technical knowledge and production equipment and facilities necessary to produce fabrics substitutable for the subject fabrics.

The Tribunal does not accept the argument put forth by Parapad that the domestic fabrics are unacceptable because they are untested. The Tribunal strongly believes that if domestic users and producers were to cooperate and work together, they could produce acceptable fabrics. Evidence before the Tribunal indicates that companies such as Matador and The Rumpel Felt Co. Ltd. (Rumpel Felt) have shown their expertise in producing similar fabrics, notwithstanding the lack of user/customer input.

Jasztex, which originally opposed the requests for tariff relief, but later withdrew its opposition, stated that the subject fabrics are relatively generic and are similar to many needed felt fabrics currently produced. Jasztex states that the main difference is in the finishing, which requires careful preparation, but which, in its opinion, could be performed by many domestic fabric finishers.

The Tribunal believes that the domestic manufacturers of shoulder pads using the subject fabrics are relatively competitive under the current tariff structure. Further, with the introduction of the new fabrics produced by Matador and the capabilities of producers such as Texel and Rumpel Felt, the Tribunal believes that there is imminent potential for a domestic supply of substitutable nonwoven and needed felt fabrics. The Tribunal is of the view that Matador will be in a position to adjust the selling price of its allegedly substitutable fabrics because, for example, Altrim submitted that it would value the advantages of quick delivery time and limited warehousing requirements of a local supplier at approximately 7 to 10 percent. In addition, Altrim states that a domestic producer can add a 15 to 20 percent premium on the European price due to high shipping costs and still be competitive. Further, with increased volumes of domestically purchased fabrics, the potential for increased efficiencies and economies may lead to lower prices of domestic fabrics in the longer term.

The estimated primary direct benefits of granting the tariff relief, based on the historical level of imports of the subject fabrics and the projections made by the users of the subject fabrics, would be less than \$60,000 per annum, if the subject fabrics were dutiable under the MFN tariff and assuming no further changes to the import volumes and prices as estimated for 1995.

Overall, the Tribunal is of the view that the costs which would be incurred by the domestic textile industry, if tariff relief were granted, would exceed the benefits to the producers of shoulder pads as a result of granting the tariff relief on either or both of the subject fabrics. These costs, as estimated by Matador, would include reduced prices of current nonwoven fabrics sold to manufacturers of shoulder pads in Canada and lost market opportunities.

In summary, the Tribunal finds that the domestic textile industry produces, or is capable of producing with the proper level of cooperation with users, substitutable fabrics for the subject fabrics and that the net economic costs of granting the tariff relief, in the longer term, would be greater than the economic benefits for the manufacturers of shoulder pads. The investment in time and effort incurred by Matador in developing its substitutable fabrics is tangible. In addition, the potential increase in future sales by the domestic industry of these new nonwoven and needled felt fabrics is encouraging. The Tribunal believes that these costs and potential future sales outweigh the benefits that would accrue to the manufacturers of shoulder pads if the tariff relief were granted. Removing or reducing the tariff protection presently available to domestic producers of competitive fabrics, in this particular instance, could limit the ability of Canadian textile producers to substantially expand their market in Canada.

RECOMMENDATION

In view of the above information and evidence before the Tribunal in this matter, the Tribunal hereby recommends to the Minister that tariff relief on importations of the subject fabrics covered by Request Nos. TR-95-007 and TR-95-008 not be granted.

If, after proper consultation and cooperation with the domestic industry, Parapad is unable to obtain an acceptable product from domestic producers, it can file a new request for tariff relief with the Tribunal.

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