



REPORT TO THE MINISTER OF FINANCE

REQUESTS FOR TARIFF RELIEF BY
FANTASTIC-T KNITTER INC., AND BY
B.C. GARMENT FACTORY LTD. AND
GLOBAL GARMENT FACTORY LTD.
REGARDING
CERTAIN CIRCULAR KNITTED FABRICS

JULY 11, 1996

REQUEST NOS.: TR-95-015 TO
TR-95-032, TR-95-038 TO
TR-95-042, TR-95-046,
TR-95-048 TO TR-95-050
AND TR-95-055

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**Request Nos.: TR-95-015 to TR-95-032,
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TR-95-050 and TR-95-055**

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INTRODUCTION

On July 14, 1994, the Canadian International Trade Tribunal (the Tribunal) received terms of reference¹ from the Minister of Finance (the Minister) pursuant to section 19 of the *Canadian International Trade Tribunal Act*.² 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 June 28, August 2 and 10, September 8 and October 18, 1995, the Tribunal received a total of 28 requests from Fantastic-T Knitter Inc. (Fantastic-T), and from B.C. Garment Factory Ltd. and Global Garment Factory Ltd. (collectively called B.C. Garment) of Vancouver, British Columbia, for the permanent removal of the customs duty on importations of a variety of knitted fabrics. These fabrics were described as follows by the Tribunal for the purposes of this investigation:

1. weft-knit fabric, single or double knit (including interlock), of an open width ranging from 40 in. (approx. 101 cm) to 74 in. (approx. 188 cm), of ring-spun combed cotton fibres, whether or not containing by weight less than 5 percent of elastomeric yarn (spandex), the cotton yarns measuring not less than 160 decitex and not more than 350 decitex per single yarn, and the fabric weighing more than 100 g/m², but not more than 300 g/m², of tariff item No. 6002.92.90 of Schedule I to the *Customs Tariff*³;
2. weft-knit fabric, single or double knit (including interlock), of an open width ranging from 74 in. (approx. 188 cm) to 78 in. (approx. 198 cm), of ring-spun combed cotton fibres, containing laid-in yarns composed of either cotton fibres or a blend of cotton fibres and polyester staple fibres, whether or not brushed on one side, whether or not containing by weight less than 5 percent of elastomeric yarn (spandex), the yarns of the ground fabric measuring not less than 160 decitex and not more than 200 decitex per single yarn and the laid-in yarns measuring not less than 150 decitex and not more than 900 decitex per single yarn, and the fabric weighing more than 200 g/m², but not more than 300 g/m², of tariff item No. 6002.92.90;
3. weft-knit fabric, single or double knit (including interlock), of an open width ranging from 52 in. (approx. 132 cm) to 60 in. (approx. 152 cm), of ring-spun combed cotton fibres, containing by weight 5 percent or more of elastomeric yarn (spandex), the cotton yarns measuring not less than 160 decitex and not more than 350 decitex per single yarn, and the fabric weighing more than 100 g/m², but not more than 300 g/m², of tariff item No. 6002.30.90;
4. weft-knit fabric, single or double knit (including interlock), of an open width of 60 in. (approx. 152 cm), of ring-spun combed cotton fibres, containing laid-in yarns composed of either cotton fibres or a blend of cotton fibres and polyester staple fibres, whether or not brushed on one side,

1. On March 20, 1996, the Minister of Finance revised the terms of reference.

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

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

containing by weight 5 percent or more of elastomeric yarn (spandex), the yarns of the ground fabric measuring not less than 160 decitex and not more than 200 decitex per single yarn and the laid-in yarns measuring not less than 150 decitex and not more than 900 decitex per single yarn, and the fabric weighing more than 200 g/m², but not more than 300 g/m², of tariff item No. 6002.30.90; and

5. cut pile, single-knit fabric, of an open width of 66 in. (approx. 167 cm), containing by weight 75 percent or more of ring-spun combed cotton fibres and 20 percent or more of polyester filaments, and the fabric weighing more than 200 g/m², but not more than 300 g/m², of tariff item No. 6001.91.00.

These fabrics are for use in the production of men's and boys' shirts, pullovers and pants, and of women's and girls' blouses, pants, T-shirts and tops (the subject fabrics).

On December 5, 1995, the Tribunal, being satisfied that the requests were properly documented, issued a notice of commencement of investigation into the appropriateness of reducing or removing the customs duties on the subject fabrics. This notice was widely distributed and published in the December 16, 1995, edition of the Canada Gazette, Part I.⁴

As part of the investigation, the Tribunal's research staff sent questionnaires to 45 potential producers of identical or substitutable fabrics. Questionnaires were also sent to 20 manufacturers of men's and boys' knitted shirts, pullovers and pants, and of women's and girls' knitted blouses, pants, T-shirts and tops and to several potential importers of the subject fabrics.

The Department of National Revenue (Revenue Canada) was asked for its advice as to the tariff classification of the subject fabrics, and samples were provided to assist it in its laboratory analysis. Revenue Canada indicated that there would be no costs, over and above those presently incurred by it, to administer the tariff relief, should it be granted. The Department of Industry (Industry Canada) provided information on the apparent Canadian market for broad-knitted fabrics, and the Department of Foreign Affairs and International Trade advised that the subject fabrics were not subject to any quantitative import restrictions.

On February 21, 1996, a staff investigation report was provided to parties that had filed notices of appearance for this investigation. This report summarized the information received from the departments, Fantastic-T, B.C. Garment, firms that responded to the questionnaires and a number of interested parties.

Submissions filed with the Tribunal were received from: Corporation House Ltd., on behalf of the Canadian Textiles Institute (CTI); Agmont Inc. (Agmont); and Ladner Downs, on behalf of Fountain Set Textiles (B.C.) Limited, Golden Lion Garment Factory Ltd., Hang Tung Garment Factory (Canada) Ltd., K.P. Collection Ltd., Maple Leaf Fashions Inc., Oceanic Sportswear (1995) Ltd., Sunflower Fashions Ltd., Topline Garments Ltd., Triumph Fashions Ltd. and Welcan Knitters Garment Factory Ltd.

4. Vol. 129, No. 50 at 4250.

B.C. Garment and Ladner Downs, on behalf of Fantastic-T, provided responses to those submissions and to the staff investigation report. A public hearing was not held for this investigation.

PRODUCT INFORMATION

The subject fabrics are manufactured on single knit and double knit (including interlock) circular knitting machines. These machines produce fabrics in a broad range of widths, depending upon a number of variables such as the cylinder diameter of the knitting machine, the gauge or cut of the cylinder (number of needles per inch), the type of input yarn used (i.e. fibre content and yarn count) and the particular stitch used in the fabric construction.

Fantastic-T and B.C. Garment use the subject fabrics in the production of men's and boy's shirts, pullovers and pants, and of women's and girls' blouses, pants, T-shirts and tops.

TARIFF CLASSIFICATION

Fantastic-T and B.C. Garment indicated in their submissions that the subject fabrics were classified under tariff item No. 6001.92.90, which pertains to single-knit and double-knit fabrics of cotton. However, Revenue Canada's laboratory analysis determined that a number of the fabrics contained 5 percent or more by weight of elastomeric yarn or rubber thread and were, thus, classified under tariff item No. 6001.30.90. In addition, one fabric was determined to be a pile fabric and, thus, classified under tariff item No. 6001.91.00.

In addition to advising on the tariff classification of the subject fabrics, Revenue Canada informed the Tribunal of numerous discrepancies between its findings and the descriptions of the subject fabrics submitted by Fantastic-T and B.C. Garment. Those discrepancies ranged from variances in the described fabric weight and fibre content to the misdescription of double-knit fabrics as single-knit fabrics. Revenue Canada also determined that all of the subject fabrics, including those allegedly constructed from yarns with an "S" twist configuration, were constructed from yarns with a "Z" twist configuration.

In 1996, fabrics classified under tariff item No. 6001.91.00 are dutiable at 19.0 percent *ad valorem* under the MFN tariff; at 12.0 percent *ad valorem* under the GPT; at 5.0 percent *ad valorem* under the US tariff; and at 10.5 percent *ad valorem* under the Mexico tariff.

When classified under tariff item No. 6002.30.90, fabrics are dutiable at 19.0 percent *ad valorem* under the MFN tariff and the GPT; at 5.0 percent *ad valorem* under the US tariff; and at 17.5 percent *ad valorem* under the Mexico tariff.

Fabrics classified under tariff item No. 6002.92.90 are dutiable at 19.0 percent *ad valorem* under the MFN tariff and the GPT; at 18.0 percent *ad valorem* under the BPT; at 5.0 percent *ad valorem* under the US tariff; and at 17.5 percent *ad valorem* under the Mexico tariff.

REPRESENTATIONS

Fantastic-T and B.C. Garment

Fantastic-T and B.C. Garment export the bulk of their production of finished apparel to the United States. In that connection, Fantastic-T submitted that, with the phasing out of the Duty Drawback Program on imported fabrics, tariff relief was needed to help it to compete in world markets. Similarly, B.C. Garment stated that, if tariff relief were not granted, the increase in input costs resulting from the termination of the Duty Drawback Program would make its finished garments uncompetitive in the United States.

B.C. Garment

B.C. Garment did not dispute that the fabrics for which it was seeking tariff relief could be produced in Canada. However, it did contend that the price and quality of Canadian fabrics were not competitive with imported fabrics, that Canadian producers were not willing to change and that service from Canadian producers was poor.⁵

In its submission, B.C. Garment questioned the ability of specific Canadian knitters to meet its requirements for knitted fabrics and found Industry Canada's submission to the Tribunal to be very biased towards domestic broad-knitted fabric manufacturers. On the other hand, it found the comments by a Fairweather employee to be indicative of the true situation regarding the quality differences between fabrics made from carded yarns and fabrics made from combed yarns and the fundamental non-substitutability of one fabric for the other in retail markets.

B.C. Garment argued that granting tariff relief would have no detrimental effect on domestic knitters, since relief could be made conditional on exportation of the garments made from the subject fabrics. In this way, the situation that existed prior to 1996 would be reinstated. Since knitters were not affected adversely by the duty drawback provisions that existed prior to 1996, neither would they be affected adversely by tariff relief provided only to those producers that export the finished apparel from Canada.

In response to the submission by Agmont, B.C. Garment contended that Agmont's fears about a massive switch of purchasing from domestic to imported fabrics, should tariff relief be granted, were foundless. It proposed that tariff relief need only be limited to imported fabrics for use in exports only. In that connection, it pointed out that the huge increase of 600 percent in exports to the United States by Canadian knitters⁶ over the last four years proved that the duty-free entry of B.C. Garment's fabric imports during that time period had not hurt domestic knitters.

5. Tribunal Exhibit TR-95-015-69 at 2, Administrative Record, Vol. 5.

6. Tribunal Exhibit TR-95-015-64 at 1, Administrative Record, Vol. 5.

B.C. Garment dismissed Agmont's speculation that fabrics made from carded yarns would be labelled as fabrics made from combed yarns in order to gain duty-free entry into Canada. It pointed out that it would not risk its business in Canada by falsely declaring fabric content. In any event, it contended that distinguishing between fabrics made from combed yarns and those made from carded yarns was fairly easy to do.

While Agmont argued that B.C. Garment's costs would not be 10 percent higher due to the loss of duty drawback, B.C. Garment contended that the 10 percent figure was a conservative estimate on its part. Its costs would actually be 16 percent higher, since the duty on the subject fabrics would be 16 percent in 1998.

Fantastic-T

Fantastic-T argued, first, that carded and combed cotton fabrics are not substitutable. Even if they were, neither fabric is available from domestic sources on terms competitive with Fantastic-T's Asian suppliers. Second, it argued that the domestic industry would not suffer from tariff relief because the potential for fraud is overstated. The suggestion by domestic knitters that widespread and unpreventable fraud would occur if duty relief were granted was discounted by Fantastic-T. It submitted that Revenue Canada is sufficiently equipped to prevent any such fraudulent misclassifications or any other potential customs abuse. Since Revenue Canada had voiced no apprehension concerning its administration of the requested tariff relief, the Tribunal should take no account of the concern expressed by the domestic industry on this point.

In addition, Fantastic-T contended that existing users of carded fabrics were unlikely to switch from lower-priced carded fabrics to higher-priced imported combed fabrics. It argued that the potential for domestic purchasers of domestic knitted fabrics to shift their purchases to imported fabrics made from combed cotton yarns was not only unlikely, but that the impact of whatever shifting that did occur would be minimal. Much of the domestic production of knitted fabrics consists of fabrics that are not covered by this investigation; by fabrics that are exported from Canada and, hence, would be unaffected by tariff relief on the subject fabrics; and by fabrics that are consumed internally by integrated fabric/apparel mills. Fantastic-T estimated that the amount of residual domestic production that could be considered at risk would be less than 25 percent of the total production of the domestic circular knitting industry. Accordingly, even if there were a 100 percent shift to imported fabrics by domestic users of carded fabrics, the potential loss to the domestic knitting industry would be significantly less than the "total devastation" predicted by the domestic industry.

Furthermore, Fantastic-T noted that imports of knitted fabrics from the United States were higher in volume and lower in value than imports from the Far East and that the United States, therefore, was the domestic industry's primary source of competition for knitted cotton fabrics. If domestic users of carded fabrics were to switch suppliers, it would be to much cheaper US knitters, whether or not tariff relief is granted as requested.

Fantastic-T argued that domestic knitters are protected from any import surge by Canada's existing safeguard remedies. It pointed out that the domestic knitting industry has available to it an existing, quick and effective safeguard remedy should imports of combed cotton fabrics surge to the extent forecast by the domestic industry. If the domestic knitting industry could not demonstrate injury as a direct result of those imports, its forecasts of impending doom would be proven to have been unmerited.

Third, the economic effects on Fantastic-T of the elimination of duty drawback are real and significant. It will produce financial losses that are not sustainable over the medium term. Fantastic-T presented calculations to show that the elimination of the duty drawback has increased its input costs substantially. In order to remain competitive with its Asian competitors, Fantastic-T cannot pass on those cost increases to its customers with the result that it is losing money on almost every garment that it is now selling. Accordingly, it must either reduce its input costs by obtaining the requested tariff relief or it must relocate its manufacturing facilities to a cost-competitive location.⁷

Lastly, Fantastic-T argued that granting the tariff relief was consistent with Canada's obligations under the *North American Free Trade Agreement* (NAFTA).⁸ Fantastic-T acknowledged that the type of conditional relief requested by B.C. Garment would clearly be inconsistent with Canada's obligations under Article 303(1)(b) of NAFTA. Nevertheless, Fantastic-T argued that tariff relief that was not performance-based could be granted without detrimentally affecting domestic knitters.

In Fantastic-T's view, one of the factors that motivated the Minister to direct the Tribunal to investigate requests for tariff relief was the elimination of the duty drawback under Article 303 of NAFTA. In the terms of reference, the Minister specifically directed the Tribunal to take into account "the effect of the elimination of full manufacturing duty drawback on non-NAFTA inputs post-1996, in the case of exports to the U.S."

Interested Parties

Fountain Set Textiles (B.C.) Limited, Golden Lion Garment Factory Ltd., Hang Tung Garment Factory (Canada) Ltd., K.P. Collection Ltd., Maple Leaf Fashions Inc., Oceanic Sportswear (1995) Ltd., Sunflower Fashions Ltd., Topline Garments Ltd., Triumph Fashions Ltd. and Welcan Knitters Garment Factory Ltd.

One fabric importer and nine B.C. apparel manufacturers other than Fantastic-T and B.C. Garment (the Group) filed submissions with the Tribunal in regard to this investigation. The nine manufacturers import knitted fabrics or purchase imported knitted fabrics for use in the garments that they produce in British Columbia for export to the United States. The fabric importer's customers in British Columbia

7. Tribunal Exhibit TR-95-015-71 at 32, Administrative Record, Vol. 5.

8. Done at Ottawa, Ontario, December 11 and 17, 1992, at Mexico, D.F., on December 14 and 17, 1992, and at Washington, D.C., on December 8 and 17, 1992 (in force for Canada on January 1, 1994).

produce garments mainly for export. The 10 interested parties generally supported all of the allegations made by Fantastic-T and B.C. Garment and sought similar tariff relief on the fabrics that they import.

The Group, Fantastic-T and B.C. Garment contended that, if tariff relief were not granted, the result would be decreased investment, and perhaps disinvestment, in Canada by them. Their plans to expand production capacity in Canada would likely not materialize and current, as well as prospective, employment opportunities would be threatened.

They further contended that removal of the customs duties would have a beneficial effect. It would not only stabilize the level of investment and employment that already exists for the production and export of garments to the United States, it would create an atmosphere and opportunity for further investment and employment opportunities.

The Group contended that the less than 50 percent response rate from domestic knitters to the Tribunal's questionnaires was significant and indicated that the potential negative effects of tariff removal claimed by responding domestic knitters were significantly overstated. Furthermore, many of the industry responses had been inadequate, in that they contained no evidence to support their general claims of fabric substitutability.

The Group contended that the most important factor affecting substitutability related to the use of carded, as opposed to combed, yarns in fabric construction. In that connection, they claimed that the vast majority of domestically produced fabrics was made from carded yarns and that the two yarns were not substitutable for one another. The evidence by Doris DeSouza of Fairweather was cited as support for that position.

The Group argued that there was very little domestic production of combed yarns (again, supported by Doris DeSouza) and that the use of imported combed yarns increased the cost of domestically produced fabrics by the amount of the MFN tariff of 10 percent. Accordingly, domestic knitters should be seeking the removal of the duty on imported combed yarns because of the lack of domestic production of those yarns. This would mitigate any negative effects that might result from granting the requested tariff relief.

Many of the Group argued that they would no longer be able to source their fabrics in Asia, if faced with duty on their inputs of almost 20 percent, and still be able to manufacture in Canada on a competitive basis.

With regard to the dyeing and finishing issues, the Group noted that the contracting-out process is largely used in Canada. This must be compared with the fully integrated situation which prevails in Asia, where dyeing and finishing are undertaken as one continuous process within the same facility. Contracting out not only results in variable quality, it also substantially increases both manufacturing time and costs. In addition, the question of blame if quality problems arise is not an issue in an integrated operation, as compared to the problems of allocating responsibility with contracted-out products.

The Group also noted that domestic knitters quote prices for separate colours (e.g. white, medium, dark, specialty), while Asian suppliers quote one price regardless of the shades that are ordered. The “average colour pricing” used in Asia allowed members of the Group to provide price quotes to customers before exact colour requirements were known. It also allowed the Group to reduce its input costs and F.O.B. prices more efficiently than could be done with Canadian prices based on various colour shades.

While accepting that narrower-width fabrics are the industry standard in North America, members of the Group contended that this standard was outdated and not as cost-effective as the Asian standard of wider fabric widths.

The Group argued that the advantage gained by elimination of US NAFTA duties on imports of apparel from Canada was more than offset by the much lower labour and other input costs in Asian countries. As well, US MFN tariffs on competing products are being reduced, and US quotas are being phased out pursuant to obligations under the World Trade Organization. Therefore, competition in the US market from non-Canadian imports is likely to increase substantially over the near term. An increase in the Group’s F.O.B. prices of up to 10 percent (caused by duty on fabric inputs) could be devastating.

As to the CTI’s contention that other Canadian users of the subject fabrics for use in the production of garments sold in the domestic market would switch from domestic fabrics to imported fabrics, the Group noted that no substantive evidence of such a potential shift was provided by knitters or the CTI. Instead, the Group argued, it was only a small group of niche manufacturers (including the Group) that produce for export to the United States that was interested in the reduction of the relevant tariffs.

The Group found that Industry Canada’s position was biased in favour of Central Canada generally, and the domestic knitting industry specifically, and must be discounted by the Tribunal for that reason.

In the Group’s view, price reductions by domestic knitters would make their products more competitive in export markets, leading to potential increases in export sales. Furthermore, price reductions would result in increased investment in garment manufacturing in Canada and, subsequently, increased domestic sales.

Domestic Knitters

The domestic knitted fabric industry was almost unanimously of the view that it manufactured, or was capable of manufacturing, fabrics identical to or substitutable for the fabrics for which tariff relief had been requested. Price reductions of the magnitude that would be required of them by removal of the 1996 rates of duty of 19 percent would not be possible, given the very tight profit margins under which the industry operates. In the industry’s view, the granting of tariff relief would impact heavily on its sales of identical and substitutable fabrics, resulting in the forced layoff of its employees and the ultimate closure of many of its production facilities.

The CTI

The CTI argued that fabrics are manufactured in Canada in every one of the five categories constructed by the Tribunal to define the scope of this investigation. Accordingly, the scope of the investigation was such that it put at risk the investment, production, sales, profitability and jobs across the entire circular knitting industry in Canada.

The CTI contended that the Duty Drawback Program was designed to eliminate the double payment of duties (i.e. on the inputs when they enter Canada and as a component of the goods entering the export market). Therefore, when exported goods become duty-free, as knitted goods soon will be under NAFTA, there will no longer be a “double payment” issue. Furthermore, the transition period during which full duty drawback remained available was to provide NAFTA producers that use imported inputs ample opportunity to shift their sourcing to NAFTA suppliers. Fantastic-T and B.C. Garment had opted instead to continue sourcing from their non-NAFTA suppliers.

Fantastic-T’s and B.C. Garment’s access to the US market, as manifested in the duty-paid price of the exported garments, improved as a result of the *Canada-United States Free Trade Agreement*⁹ (the FTA) and NAFTA year after year from 1988 to 1995. This access will continue to improve in 1996, 1997 and 1998 in all cases where the Canadian value added at the garment manufacturing level is relatively high.

The CTI noted the price differentials between very similar fabrics imported by Fantastic-T and B.C. Garment and suggested that those price differentials were “inexplicable,” “not rational” and “not justified.” It also suggested that the internal inconsistencies among the prices of the subject fabrics raised questions about the reliability of the price information generally.

The CTI disputed the contention by Fantastic-T and B.C. Garment that the wastage factor was significant in using fabrics of narrower widths, arguing that, if savings were substantial through the use of wider fabrics, apparel manufacturers throughout North America would have demanded such fabrics from their suppliers. Such was not the case. The CTI also rejected allegations concerning the “hand feel” of domestic fabrics, the dyeing consistency of Canadian mills, the delivery times from Canadian mills and the level of knitting capacity that exists in Canada. In all cases, it argued, these allegations were unsupported by the evidence.

In summary, the CTI concluded that the cost of any tariff change massively outweighed any prospective benefit.

9. Canada Treaty Series, 1989 (C.T.S.), signed on January 2, 1988.

Agmont

Agmont pointed out that, while some knitters had not responded to the Tribunal's request for information, most major knitters, representing the majority of the industry, had responded.

In Agmont's view, the single most important consideration in evaluating the requests for tariff relief was whether domestic apparel manufacturers would use imported fabrics if duty-free access were granted. It believed that a tariff reduction to zero from 19 percent would lead to greatly increased purchases of foreign fabrics by apparel manufacturers that have relocated in Canada from foreign countries and that have strong ties to fabric producers in their originating countries. In order to compete with those manufacturers, other domestic apparel manufacturers would be forced to follow suit.

The impact of such actions would be severe and a death blow to the Canadian knit fabric industry. It would give Fantastic-T and B.C. Garment a new competitive advantage over the domestic industry's US customers for their fabrics. As well, Fantastic-T and B.C. Garment would gain an advantage over the domestic knitters' Canadian customers that export about 20 percent of their production to the United States. Therefore, about 36 percent of the domestic knitting industry's production that ends up in the US market would be negatively impacted by granting tariff relief to Fantastic-T and B.C. Garment.

Fantastic-T and B.C. Garment would use up the limited tariff preference levels (TPLs) which, according to Canadian apparel manufacturers, will be filled quickly. Therefore, in the future, the knitting industry's customers that used domestic fabrics that did not qualify for NAFTA treatment would be denied access to the TPLs and would not be able to expand their exports. Those garment TPLs are needed to offset garment manufacturers' and knitters' loss of domestic market share to imports from the United States and the rest of the world. If Fantastic-T and B.C. Garment used up the TPLs, there would be more jobs lost than gained, as the losses would occur in both the apparel and textile sectors.

Agmont believed that there was a strong possibility that fabrics made of carded cotton yarns, but labelled as being made of combed cotton yarns, would be exported to Canada. Accordingly, Canadian production of fabrics made of carded yarns, as well as production of fabrics made of combed yarns, could be affected if such falsely labelled imports entered Canada.

In Agmont's view, the principle of NAFTA was that only North American components should enjoy its full benefits in order to encourage North American production. In that context, there is a huge unused capacity in the domestic knit fabric industry, and domestic quality is as good as that available from the best mills in the world. Whether there is combed yarn production in Canada is immaterial. There is a huge combed yarn production available in NAFTA countries.

The immediate unilateral elimination of tariffs without gaining access to competitors' markets would be devastating to the knit fabric industry. Tariffs on knitted fabrics were already being reduced by 44 percent following a thorough investigation and recommendations to the government by the Tribunal.¹⁰

If the duty on cotton fabrics were reduced to zero from 19 percent overnight, there would be a substantial shift to imported fabrics. Profit margins were so slim for domestic knitters that the industry could not withstand even a 5 percent drop in prices.¹¹

ANALYSIS

Group v. Individual Treatment of the 28 Requests

As noted at the beginning of this report, the Tribunal's investigation grouped the 28 requests for tariff relief submitted by Fantastic-T and B.C. Garment. Each of the subject fabrics differed in some respect from the others, whether on the basis of fabric width, fibre content, yarn size, finishing or type of knitting machine used in its construction. The one common element pertaining to all the subject fabrics was the use of combed, rather than carded, cotton yarns in the fabric construction. In the Tribunal's view, a separate description of each fabric, on the basis of factors that appeared to be secondary to the essential characteristics of the fabrics, was not required.

Therefore, the Tribunal divided the subject fabrics into five different product categories. These five categories essentially grouped those fabrics that were classified under three different tariff items and, within two of those tariff items, separated those fabrics containing laid-in yarns from those that did not. One of the five categories consisted of one specific fabric.

The requests submitted by B.C. Garment and the requests submitted by Fantastic-T each contained common elements or arguments for the removal of customs duties on each of the subject fabrics. Neither Fantastic-T nor B.C. Garment advanced different arguments specifically related to each of the individual fabrics for which they were seeking tariff relief. Rather, the issue of the fundamental capacity of the domestic knitting industry to offer comparable cotton fabrics at competitive prices was the focal point of submissions by all interested parties, including the domestic knitting industry.

Accordingly, throughout this report, the Tribunal has not referred directly to each of the subject fabrics, but has dealt with them generically as knitted combed cotton fabrics. At the same time, the Tribunal was prepared to accept, and to deal with, any submissions that targeted specific fabrics within each or any of the five product categories or that targeted one or more specific product groups. No such submissions were received.

10. An Inquiry into Textile Tariffs, Reference No. MN-89-001, February 1990.

11. Tribunal Exhibit TR-95-015-64 at 4, Administrative Record, Vol. 5.

Industry Coverage

Fantastic-T argued that, since some of the fabrics produced by the knitted fabrics industry consisted of fabrics that are not identical to or substitutable for the subject fabrics, less than 25 percent of the total production of the domestic industry could be considered at risk if tariff relief were granted as requested.

The data received by the Tribunal were, for the most part, received from producers of circular knitted fabrics. A large portion of the broad-knitted fabric industry, such as producers of warp knitted fabrics and knitted fleece fabrics, had been excluded from the Tribunal's investigation at the outset. Thus, while the knitters surveyed undoubtedly produce certain non-subject goods such as polyester/cotton and man-made fabrics, many of the fabrics that they produce would fall within the scope of this investigation. Furthermore, contrary to Fantastic-T's contention, production data for integrated fabric/apparel mills are not included in the data pertaining to the broad-knitted fabric industry, so no deletion of that production data was required.

Therefore, the impact of tariff removal would be concentrated among those knitters surveyed by the Tribunal and not spread throughout the entire industry sector, as suggested by Fantastic-T.

Major Issues

As noted, all of the allegations put forward by Fantastic-T and B.C. Garment as justification for removal of the tariffs on the subject fabrics were denied by domestic knitters. However, two allegations were most central to the requests and most in dispute by the interested parties. These areas of contention were:

- (1) the substitutability of fabrics made from carded cotton yarns with fabrics made from combed cotton yarns; and
- (2) the price competitiveness of domestically produced fabrics with imported fabrics.

Retail Viewpoint

The allegation by Fantastic-T and B.C. Garment that fabrics made from carded yarns were not substitutable for fabrics made from combed yarns was supported by a respondent from the retail industry.¹² Ms. DeSouza noted that, although there was very little domestic production of combed yarns, domestic fabrics manufactured from combed yarns were readily available. Her comments regarding the substitutability of fabrics made from combed yarns with those made from carded yarns related to the different price points at which apparel made from fabrics using those two types of yarn was sold.

12. In response to a request by Tribunal staff, Doris DeSouza, Quality Assurance Manager for Fairweather, commented on the substitutability of knitted fabrics made from carded yarns and those made from combed yarns.

In the view of Ms. DeSouza, fabrics made from combed, ring-spun cotton yarns sell for a considerable premium over fabrics made from carded, open-end spun cotton yarns and would, therefore, be used only in garments that would also sell at premium price points. Accordingly, fabrics made from the two types of yarn do not compete in the same end markets and are, therefore, not substitutable in that sense.

While the Tribunal accepts that less expensive fabrics made from carded cotton yarns may not be substitutable for high-quality fabrics made from premium-priced combed cotton yarns, it believes that there is a range of qualities and prices within which combed-yarn fabrics and carded-yarn fabrics are substitutable for one another.

The whole issue of substitutability depends on a number of factors having to do, ultimately, with consumer perceptions about “value for money.” In considering the substitutability of one fabric for another that has similar physical characteristics, a great deal depends on whether there is a price differential between them. Any substantial narrowing of that differential arising from a lowering of the price of more expensive (i.e. combed) fabrics would tend to broaden their appeal to manufacturers that normally purchased less expensive (i.e. carded) fabrics. If imported fabrics made from combed yarns could be substituted at relatively low premiums for domestic fabrics made from carded yarns, domestic apparel manufacturers choosing that option would clearly have a marketing advantage over competitors that continued to purchase fabrics made from carded yarns. With tariff relief, the imported fabrics would also have a price advantage over domestic fabrics made from imported combed yarns.

Price Points of Finished Outputs

The evidence of Fantastic-T and B.C. Garment concerning the proposition that apparel sold at higher price points would likely be made from fabrics of higher-priced yarns was somewhat ambiguous, if not contradictory.

For example, all of the subject fabrics used by Fantastic-T and B.C. Garment are made from similar ring-spun combed cotton yarns. Nevertheless, the subject fabrics used by one of the requesters were generally found to be more expensive than the subject fabrics used by the other requester. Furthermore, the wholesale prices of the garments sold by the latter generally exceeded, and by considerable margins, the wholesale prices of the garments sold by the former.

In other words, the garments that were sold at premium prices by one requester were constructed of less expensive fabric inputs than those used by the other requester, whose garments sold at lower prices. In the Tribunal’s view, this lack of any apparent correlation between fabric input cost and apparel selling price weakened the argument put forward by Fantastic-T and B.C. Garment that there are different end markets to which fabrics made from combed cotton yarns and fabrics made from carded cotton yarns naturally gravitate. In the foregoing example, technically similar fabrics made from combed cotton yarns were used in apparel sold into two end markets having significantly different price points.

Markup Over Input Cost

The evidence shows that the considerable differential in the markup over fabric cost earned by Fantastic-T and B.C. Garment did not appear to detract from the ability of the requester with the lower markup to compete successfully in the US market. In 1994-95, this differential was approximately 60 percent, based on a selected sample of apparel produced by Fantastic-T and B.C. Garment from fabrics possessing similar physical characteristics.

Application of the 19 percent tariff in 1996 would clearly have a different impact on the competitiveness of Fantastic-T and B.C. Garment in the US market. The requester with the higher markup would have a residual markup over fabric cost that was still greater than that earned by the other requester before the 19 percent tariff was applied.

Fantastic-T and B.C. Garment claimed that tariff relief was equally imperative to their continued success in the US market and to their continued viability as producers in Canada. The Tribunal concluded that the evidence was not entirely consistent on that point. While the viability of the requester with the lower markup might be threatened if tariff relief were not granted, the evidence suggests that the requester with the higher markup is far better situated to withstand the application of that tariff.

Tariff Changes Arising from NAFTA

Both Fantastic-T and B.C. Garment have benefited in the past from full remission of the duties payable on fabric imports used in the production of apparel exported from Canada. They have also benefited from access to the US market at NAFTA rates of duty that are considerably lower than MFN rates of duty.¹³ Fantastic-T and B.C. Garment will continue to benefit from NAFTA duty rates on their exports to the United States and will continue to receive, until the end of 1997, a partial refund of the duties to which they are susceptible. When those refunds expire at the end of 1997, apparel exported by Fantastic-T and B.C. Garment will enter the US market duty-free. This compares to US duties ranging from 6.6 to 8.4 percent in 1994 and from 11.6 to 14.7 percent in 1991, when Fantastic-T and B.C. Garment commenced production in Canada. In 1996, the rates range from 3.3 to 4.2 percent.

Accordingly, the loss of duty drawback on their fabric inputs will have been partially offset by the substantially reduced (and soon to be eliminated) rates of duty applicable on their exports to the United States under both the FTA and NAFTA.

13. Fantastic-T and B.C. Garment export finished garments to the United States under the TPL scheme. TPLs are quantitative export limits under which Canadian apparel exports that do not meet all of the requirements of the rules of origin under NAFTA may still be eligible for NAFTA access benefits.

<u>FTA AND NAFTA RATES OF DUTY</u>					
<u>US IMPORTS OF KNITTED COTTON APPAREL</u>					
Tariff Item	Description	<u>FTA</u>	<u>NAFTA</u>		
		1991	1994	1996	1998
		(%)	(%)	(%)	(%)
6103.42.10	Men's/Boys' Trousers	11.9	6.8	3.4	0
6104.62.20	Women's/Girls' Trousers	11.6	6.6	3.3	0
6105.10.00	Men's/Boys' Shirts	14.7	8.4	4.2	0
6106.10.00	Women's/Girls' Blouses	14.7	8.4	4.2	0
6109.10.00	Women's/Girls' T-Shirts/Tops	14.7	8.4	4.2	0
6110.20.20	Men's/Boys' Sweaters	14.4	8.2	4.1	0

As the table shows, the rates of duty applicable in 1991 to apparel imports into the United States from Canada were almost double the rates that prevailed in 1994 and triple those that prevail in 1996. By 1998, those rates will have fallen to zero.

In order to examine the net effect of those tariff reductions and of the MFN tariff reductions on imports of fabrics into Canada, the Tribunal calculated the 1991 duty costs that would have applied and the 1998 duty costs that would apply to the same volume of business as reported by Fantastic-T and B.C. Garment for 1994-95. The base year 1991 was used since both Fantastic-T and B.C. Garment commenced production in Canada and exportation to the United States in that year.

The data indicate that Fantastic-T's and B.C. Garment's competitive position in the US market in 1998 will be far superior to what it was in 1991. In 1991, after receiving a full drawback of the 25 percent duty applicable at that time to their fabric imports into Canada, Fantastic-T and B.C. Garment would have been faced with duties exceeding \$3.5 million on their exports to the United States if they had done the same volume of business then as in 1994-95. On that volume in 1998, without the benefit of duty drawback or removal of the existing customs duties, their net duty cost would be less than \$1.5 million (16 percent duty on fabrics imported into Canada, with no duty on exports to the United States).

Accordingly, Fantastic-T's and B.C. Garment's competitive position in the US market would have improved by approximately \$2 million over the period from 1991 to 1998, as a result of the reduction and ultimate removal of the duties applicable to their exports to the United States and the decrease in the duties applicable to the fabric inputs imported into Canada.

The Tribunal recognizes that 1995-96 represents a transition period for Fantastic-T and B.C. Garment and other interested parties supporting the requests for tariff removal. In 1995, exporters of apparel were able to apply for a full refund of the duties paid (20.5 percent MFN tariff) on the textile inputs used in the manufacture of that apparel. In 1996, those same exporters are eligible for a refund of the “lesser of” the MFN duties paid (19 percent) on the fabrics imported into Canada and the NAFTA duties paid (3.25 to 4.20 percent) on the importation of the finished apparel into the United States.¹⁴ The amount of duty refunded will vary, of course, depending on the value for duty of the fabrics imported into Canada and the value for duty of the apparel exported to the United States. In most instances, the amount of duties refunded in 1996 will be less than the amount of duties refunded in 1995.

Consequently, during this transition period in 1996, apparel exporters are likely to experience an upward movement in the amount of duties for which they are liable, depending upon the amount of Canadian value added in those exports. Those duties should decrease again in both 1997 and 1998, as US import duties on Canadian apparel fall to zero under NAFTA and as Canadian MFN import duties on the subject fabrics fall to 16 percent. In spite of the increase in duties occurring during the transition period in 1996, applicable duties would still have fallen by approximately 60 percent over the entire period from 1991 to 1998.

Capacity of Domestic Mills to Produce Identical or Substitutable Fabrics

On the question of the domestic industry’s ability to produce identical or substitutable fabrics, B.C. Garment has stated: “We never have indicated that the fabrics we are asking for relief cannot be produced in Canada.¹⁵” It also stated that, “[e]ven if Canadian mills can supply us with the same quality fabrics, they cannot or will not meet the price we are paying for fabrics in the Orient.¹⁶” The public submission by Ladner Downs on behalf of Fantastic-T states that “existing domestic production of combed cotton fabric is clearly limited to a minor proportion of domestic knitted-cotton fabric production.¹⁷”

Accordingly, the Tribunal concluded that the physical and/or technical capacity of domestic mills to produce combed cotton fabrics was not in question. Rather, the major issue regarding these requests for tariff relief centred on price.

Price Competitiveness of Domestic Fabrics

The evidence shows that, although Fantastic-T and B.C. Garment did receive price quotes from several of the larger domestic knitters of fabrics, only a fraction of the domestic circular knitted fabric industry was contacted by them. Nevertheless, price quotes submitted to the Tribunal by a number of

14. Article 303 of NAFTA.

15. Tribunal Exhibit TR-95-015-69 at 1, Administrative Record, Vol. 5.

16. *Ibid.* at 13.

17. Tribunal Exhibit TR-95-015-71 at 6, Administrative Record, Vol. 5.

domestic knitters indicated that domestic prices were lower than import prices in a limited number of instances, but higher than import prices in a greater number of instances. In most cases, the price quotes submitted by domestic knitters were for fabrics identical to the subject fabrics. In other cases, the price quotes were for fabrics alleged to be substitutable for, but not identical to, the subject fabrics. In those cases, the domestic fabrics often used carded, rather than combed, cotton yarns.

Definitive price comparisons between imported and domestic fabrics are difficult to make because the exact depth or intensity of the dyeing on the subject fabrics was not evident from the fabric descriptions provided. Nevertheless, a number of domestic knitters provided a range of fabric prices that spanned the dye spectrum from light to medium to dark shades. As that evidence shows, dyeing can add considerably to the cost of the finished fabric, depending upon the dye shade required, and can, therefore, make precise price comparisons difficult.

On the question of input fabric price, the Tribunal noted that the preferential prices that B.C. Garment paid for its imports of the subject fabrics (compared to the prices paid by Fantastic-T) derived from the large volume purchases made by the entire group of companies to which B.C. Garment belongs.¹⁸ At the same time, B.C. Garment pointed out that Fantastic-T, although also purchasing fabrics from the Far East, paid higher prices because of the lower economies of scale that Fantastic-T was able to achieve with production facilities in Canada only. In other words, fabric prices are a function of the size of the order being placed.

Notwithstanding those comments, B.C. Garment seemed to contend that domestic mills should be able to meet the prices offered by B.C. Garment's Far East suppliers, even though the orders that it would place with domestic knitters would be for far lower volumes than the orders that the B.C. Garment "group" placed with suppliers in the Far East.

On the question of price competitiveness, therefore, it appears to the Tribunal that Canadian knitted fabric mills are being judged by B.C. Garment under a different set of standards than those that it uses to evaluate knitted fabric mills in the Orient.

At the same time, the Tribunal acknowledges that it was directed by the Minister to take into account the ability of Canadian producers to offer domestically produced goods at prices competitive with imports. In so doing, however, the Tribunal was also directed to consider the net economic benefit for Canada when evaluating a request for tariff relief.

The Tribunal does not find credible the argument by Ladner Downs that any reduction in prices by domestic knitters would result in increased sales in both the domestic and export markets. Firstly, domestic knitters are already competing very effectively in export markets, having increased their export volumes by 600 percent in the past four years. Secondly, in the Tribunal's view, the more likely outcome of price

18. Tribunal Exhibit TR-95-015-69 at 14, Administrative Record, Vol. 5.

reductions of any magnitude would be the closure of smaller, less financially viable companies, as domestic knitters fought over the smaller domestic market that would be available to them. Until a new equilibrium was reached where a reduced number of knitters remained to service this smaller market, the situation in the domestic circular knitted fabrics industry would be uncertain at best, and seriously disruptive at worst.

Effects of Tariff Relief

The effect on the domestic knitted fabrics industry if tariff relief were granted, although difficult to quantify with any precision, would, in the Tribunal's view, clearly be negative. Removal of the current duties, at a rate of 19 percent, would reduce the landed cost of the subject fabrics by approximately 16 percent.

If the requested tariff removal could be limited to Fantastic-T and B.C. Garment alone, or even to all manufacturers that imported fabrics to be incorporated into garments that were subsequently exported from Canada, the effect on the domestic knitting industry would likely be minimal.¹⁹ However, because the NAFTA rules do not permit tariff reductions to be tied to export performance, the benefit of such a tariff removal would have to be made available to all manufacturers, whether the finished garments were exported from Canada or sold in the Canadian market. Accordingly, apparel manufacturers currently purchasing domestically produced knitted fabrics would have the option to purchase imported fabrics of identical or superior quality, at prices reduced by as much as 16 percent as a result of the tariff removal. The extent to which those apparel manufacturers would switch to imported fabrics would depend upon the extent to which those cheaper fabric inputs would allow them to sell garments to their regular customers at price points the same as, or lower than, the price points at which they sold when using domestically produced fabrics made from either combed or carded cotton yarns.

Based on testimony by Fantastic-T and B.C. Garment, domestic fabrics made from combed cotton yarns are not price competitive with imported fabrics made from combed cotton yarns. Therefore, a potential price reduction of 16 percent for those imported fabrics could be devastating for domestic knitters producing fabrics made from combed cotton yarns. In order to maintain the same level of competitiveness with imports and to maintain sales volumes to their current customers, domestic fabric knitters would have to reduce their prices on those fabrics by up to 16 percent. If price reductions were at the higher end of the scale, it would severely strain the viability of domestic knitters, that have stated that they could not absorb price reductions of that magnitude. Alternatively, domestic knitters could opt to maintain their prices at their current levels, or to lower their prices by less than 16 percent, and suffer whatever decreases in sales volumes resulted from such a decision.

19. Nevertheless, it has also been argued that, if these exports benefit from preferential treatment, Canadian fabric producers' sales to Canadian apparel producers that export to the United States may suffer. Available TPLs would also be reduced for other Canadian apparel exporters.

Either alternative would be detrimental to the financial health and stability of the domestic industry. In the first scenario, volume would be maintained, but profit margins would be low or non-existent, so that the long-term capacity of those companies to survive and to re-invest would be seriously impaired. In the second scenario, volume decreases would result in underutilization of capacity and reduced economies of scale. Fixed costs would have to be absorbed by lower unit volumes of production, and profitability would again be reduced. In a situation where excess production capacity already exists because of soft retail market sales of apparel, further reductions in capacity utilization would exacerbate market conditions that are already unfavourable. Neither scenario would serve as a long-term solution to the competitive situation of domestic knitters.

Fantastic-T and B.C. Garment allege that domestic production of fabrics made from combed cotton yarns is insignificant in comparison to domestic production of fabrics made from carded cotton yarns. Therefore, the real threat to the domestic knitting industry arises if the reduced prices of imported fabrics made from combed cotton yarns make those fabrics more directly competitive with domestically produced fabrics made from carded cotton yarns.

If it is assumed that imported fabrics made from combed cotton yarns would still be higher-priced than, and therefore not directly competitive with, domestic fabrics made from carded cotton yarns, the impact on the domestic circular knitted fabric industry would be considerably less, and perhaps non-existent.

While Fantastic-T contends that this scenario is the correct one,²⁰ the information presented does not allow the Tribunal to arrive at the same conclusion. The Tribunal finds it more reasonable to conclude that any price differential between imported fabrics made from combed cotton yarns and domestic fabrics made from carded cotton yarns would be substantially reduced, if not eliminated, should a 16 percent price reduction occur for the former fabrics as a result of the removal of the tariff.

Therefore, the question really concerns the extent to which the price differential between imported fabrics made from combed cotton yarns and domestically produced fabrics made from carded cotton yarns is greater or less than 16 percent.

Fantastic-T and B.C. Garment consistently argued that domestically produced fabrics were not price-competitive with comparable imported fabrics. In other words, imported fabrics made from combed cotton yarns were substantially lower-priced than domestic fabrics made from combed cotton yarns. Pricing information presented to the Tribunal supported that argument and showed that domestically produced fabrics made from combed cotton yarns were sometimes substantially higher-priced than comparable imported fabrics made from combed cotton yarns.

20. Tribunal Exhibit TR-95-015-71 at 35, Administrative Record, Vol. 5.

Indeed, the evidence shows that the prices for a number of imported fabrics made from combed cotton yarns were even lower than the prices for a number of domestic fabrics made from carded cotton yarns. A reduction of 16 percent in the prices for those imported fabrics would likely make them price-competitive with an even broader range of domestically produced fabrics made from carded cotton yarns. Therefore, the Tribunal is persuaded that the effect of tariff removal would be detrimental not only to domestic production of fabrics made from combed cotton yarns but also to domestic production of fabrics made from carded cotton yarns. Since domestic knitted fabric production is concentrated in the latter sector, it is the Tribunal's view that the consequences of tariff relief for the domestic knitting industry would be considerable even if tariff relief were extended only to fabrics made from combed cotton yarns.

Economic Benefit/Cost

Considerable economic benefit has already accrued to Fantastic-T and B.C. Garment upon the exportation of apparel to the United States under the terms of NAFTA. This economic benefit will increase even further as US NAFTA duties fall to zero in 1998 and as Canadian rates of duty on imported knitted fabrics decline. As a consequence of those two events, the net duty cost incurred by Fantastic-T and B.C. Garment on their exports to the United States will have decreased by about 60 percent from 1991 to 1998. Unquestionably, this improved economic position would be enhanced even further if tariff relief were granted. In such circumstances, the net duty cost for Fantastic-T and B.C. Garment will have declined by 100 percent from 1991 to 1998.

The benefits for Fantastic-T and B.C. Garment and other actual or potential importers of acceding to such a request must be weighed against the costs that would be incurred by the domestic knitted fabric industry. While granting tariff relief would remove an existing, although diminishing in importance, burden on Fantastic-T and B.C. Garment, it would impose a new, and potentially devastating, burden on domestic knitters. It could be argued, therefore, that the choice to be made is between: (1) implementing an action that would enhance the already improved competitive situation of one party, but simultaneously impose a new set of conditions with strong potential to threaten the economic viability of another party; and (2) maintaining the status quo, which would remove the potential threat to the viability of one party, but which would not impose a new or unforeseen set of competitive conditions on the other party.

The Tribunal noted that the Group argued that an increase in their F.O.B. apparel prices of up to 10 percent, caused by the duty on their fabric imports, would be devastating to their competitive position in the US market. If that argument is accepted, profit margins in the apparel industry must be sufficiently slim that any increased input costs could not be absorbed within the current pricing structure of those firms.

This position contrasted sharply with the Group's contention that price reductions by domestic fabric knitters in response to removal of the 19 percent duty on the subject fabrics would somehow be beneficial to Canadian knitters. This suggests that domestic knitters, in order to break even, are currently earning a markup over full cost of at least 16 percent. The Tribunal finds it difficult to accept that such wide variances in profitability exist between firms in these two different, but closely related and highly price-competitive,

industry sectors. As noted earlier in this report, Agmont submitted that profit margins were so slim for domestic knitters that the industry could not withstand even a 5 percent drop in prices. Additionally, pricing and cost data submitted by several domestic knitters showed that markup over cost on a number of different fabrics ranged from as low as 3.2 percent to as high as 17.0 percent, with an average markup of 7.9 percent.

Even if it were concluded, in spite of the evidence, that domestic knitters' average markup over cost was at the high end of the range (17 percent), a price reduction of 16 percent would clearly have disastrous consequences for domestic knitters.

In the Tribunal's view, the viability of domestic knitters would be adversely affected by tariff reductions that would put pressure on them to reduce prices by up to 16 percent. The Tribunal, therefore, concludes that granting tariff relief would not maximize net economic benefits for Canada. Removal of the duty on the subject fabrics would open the door to a number of different scenarios, all negative, that could affect the competitiveness of domestic knitters. Continuation of the duty, on the other hand, would be neutral in its effect on all parties, in that it would maintain the status quo as it stands in 1996 and would not impose a new set of conditions under which either Fantastic-T and B.C. Garment or domestic knitters must compete.

RECOMMENDATION

In view of the above information and evidence before the Tribunal in this matter, the Tribunal recommends to the Minister that tariff relief on the subject fabrics not be granted.

Raynald Guay
Raynald Guay
Presiding Member

Desmond Hallissey
Desmond Hallissey
Member

Lyle M. Russell
Lyle M. Russell
Member