

**REPORT TO  
THE MINISTER OF FINANCE**

**REQUEST FOR TARIFF RELIEF BY  
CAMP MATE LIMITED  
REGARDING  
NO-SEE-UM MESH FABRIC**

**SEPTEMBER 3, 1996**

**CAMP MATE LIMITED**

**REQUEST NO.: TR-95-061**

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## **INTRODUCTION**

On July 14, 1994, the Canadian International Trade Tribunal (the Tribunal) received terms of reference<sup>1</sup> from the Minister of Finance (the Minister) pursuant to section 19 of the *Canadian International Trade Tribunal Act*.<sup>2</sup> The Minister directed the Tribunal to investigate requests from domestic producers for tariff relief on imported textile inputs for use in their manufacturing operations and to make recommendations in respect of those requests to the Minister.

Pursuant to the Minister's reference, on November 24, 1995, the Tribunal received a request from Camp Mate Limited (Camp Mate) of Scarborough, Ontario, for the permanent removal of the customs duty on importations of No-See-Um mesh fabric, a warp-knit fabric solely of polyester filaments and polyester monofilaments, treated with a fire retardant, for use in the manufacture of mesh windows and ventilation for tents (the subject fabric).

On May 8, 1996, the Tribunal, being satisfied that the request was properly documented, issued a notice of commencement of investigation, which was distributed and published in the May 18, 1996, edition of the *Canada Gazette*, Part I.<sup>3</sup>

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

A staff investigation report, summarizing the information received from these government departments, Camp Mate and firms that responded to the Tribunal's questionnaires, was provided to the parties that had filed notices of appearance for this investigation. These parties are Camp Mate, Bay Mills Limited - Brampton Division (Bay Mills) and the Canadian Textiles Institute (CTI).

A public hearing was not held for this investigation.

## **PRODUCT INFORMATION**

Camp Mate originally described the subject fabric as No-See-Um mesh fabric, a warp-knit fabric solely of polyester filaments and polyester monofilaments, treated with a CPAI-84 fire retardant and an ultraviolet inhibitor, for use in the manufacture of mesh windows and ventilation for tents.

Camp Mate indicated in its request that the subject fabric was classified under classification No. 6002.43.90.23 of Schedule I to the *Customs Tariff*.<sup>4</sup>

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1. On March 20 and July 24, 1996, the Minister of Finance revised the terms of reference.
  2. R.S.C. 1985, c. 47 (4th Supp.).

Revenue Canada analyzed the sample of the subject fabric and concluded that it is a warp-knit fabric solely of polyester filaments and polyester monofilaments. Revenue Canada confirmed that, for customs purposes, the subject fabric is classified under classification No. 6002.43.90.23.

Revenue Canada noted that, in its request, Camp Mate described the subject fabric as being treated with a CPAI-84 fire retardant. Revenue Canada's analysis cannot determine whether the specifications for CPAI-84 fire retardancy have been met without having the subject fabric analyzed at an independent laboratory at a cost of approximately \$600 per sample. Therefore, upon agreement of Camp Mate, the reference to the CPAI-84 standard for fire retardancy was not included in the product description provided in the notice of commencement of investigation, which simply stated that the subject fabric was treated with a fire retardant. Revenue Canada also noted that the product description provided by Camp Mate indicated that the subject fabric was treated with an ultraviolet inhibitor. However, its analysis found no evidence of the ultraviolet inhibitor. Camp Mate confirmed that the subject fabric was not treated with an ultraviolet inhibitor and, consequently, the reference to that inhibitor was not included in the product description provided in the notice of commencement of investigation.

Under tariff item No. 6002.43.90, imports of the subject fabric 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.

Statistics Canada data for imports under the applicable tariff item indicate that, during 1995, approximately 573,185 kg of fabric, with a value of \$7,127,628, were imported into Canada. The total volume and value of the subject fabric imported by Camp Mate and Woods Canada Limited (Woods), the only other manufacturer of tents that reported imports of the subject fabric, were much less than 5 percent of the total volume and value reported under the tariff item. Thus, the imports of the subject fabric for use in the manufacture of mesh windows and ventilation for tents represent a very small portion of the imports reported under the applicable tariff item.

## **REPRESENTATIONS**

### **Users of the Subject Fabric**

**Camp Mate** has been a manufacturer of tents and tent flies for over 30 years. Historically, Camp Mate's strength has been in the production of high-wall tents. Because of a continued shift in consumer preference towards the more labour-intensive dome tents, Camp Mate has been placed at a disadvantage relative to foreign producers that enjoy lower labour costs and that, allegedly, also enjoy the benefits of export subsidies. Camp Mate submits that, currently, imported tents account for between 85 and 90 percent of the domestic tent market. It produces tents at its plant in Scarborough. It uses the subject fabric for mesh windows and ventilation in the tents that it manufactures.

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3. Vol. 130, No. 20 at 1470.

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

Camp Mate purchases its supplies of the subject fabric from the Orient. It submits that there are no domestic producers of identical or substitutable fabrics, while there are numerous foreign suppliers of the subject fabric. Further, the subject fabric is not available from producers in the United States. Camp Mate reports that its main competitors are importers of tents from the Orient.

**Woods** supported Camp Mate's request for tariff relief and asked that the Tribunal broaden the scope of the investigation to include the subject fabric for use in the production of "anti-bug clothing." During the course of the investigation, the Tribunal advised Woods that it would have to submit a separate request for tariff relief covering that specific end use.

Woods purchases its supplies of the subject fabric from the Republic of Korea. It uses the subject fabric in the manufacture of specialty tents (approximately 1,000 tents per year) and "anti-bug clothing," with the majority of Woods' purchases of the subject fabric being used in the manufacture of "anti-bug clothing." Woods currently uses less than 5,000 m<sup>2</sup> per year of the subject fabric in the production of tents.

### **Domestic Textile Producers**

**Rentex Mills Inc.** (Rentex) is a privately owned company which manufactures warp-knit fabrics primarily for intimate apparel, active sportswear and the automotive, home furnishings and medical sectors. It opposes the request for tariff relief on the basis that it claims to produce a fabric identical to the subject fabric.

Rentex stated that it had met with Camp Mate and developed a fabric that is identical to the subject fabric, but that Camp Mate was not interested because of the price of Rentex's fabric. Rentex claims to have fully developed the identical fabric and that it could produce it immediately. It would require minimum annual quantities of approximately 11,400 linear metres.

Rentex submitted that granting tariff relief would result in its losing its initial investment in research and development and losing profits in 1997 and 1998 of \$50,000 and \$100,000 respectively. It submitted that these losses would stem from lost sales to Camp Mate and other tent manufacturers in export markets and from sales for other end uses. In addition, two or three jobs that Rentex planned to create in the short term, and five or six jobs in the longer term, would not be created if tariff relief were granted.

**Bay Mills** produces fibreglass and aluminum insect screens at its plant in Brampton, Ontario. It opposes the request for tariff relief on the basis that its foreign competitors have significant cost advantages due to lower wage rates and greater economies of scale. The tariff imposes a fair "playing field" for Bay Mills to compete with these foreign producers. It does not currently produce identical or substitutable fabrics, but plans to expand its plant capacity in 1998. At that time, it will be adding new products to its product line, including a 20 × 20 mesh fabric of either PVC coated fiberglass or PVC coated polyester, which it submitted is identical to the subject fabric.

Bay Mills submitted that granting tariff relief would significantly hurt its chances to expand its operations. It is also concerned that, if tariff relief were granted, it would only be a matter of time before

imports of fabrics that compete directly with its standard fabrics could be brought in tariff free. Bay Mills stated that price reductions would severely hurt the economics of its mill and jeopardize the viability of its operations, affecting both jobs and tax revenue for the government.

**The Nalpac Company** (Nalpac) also opposes the request for tariff relief. It submitted that any of its fabrics can be treated with a fire retardant for use as mesh windows and ventilation for tents.

Nalpac submitted that, if tariff relief were granted, it would have an adverse impact on its domestic and export businesses. While Nalpac's production of mesh fabric does not represent a large portion of its overall business, the sales of its mesh fabric do make an important contribution to overhead and general administrative expenses. Nalpac expressed the hope that the Canadian government would encourage manufacturers such as Nalpac to develop domestic and export markets and not undermine their efforts through tariff relief on competitive products.

The **CTI** stated that there are several Canadian fabric knitters that make warp-knit fabrics, including Rentex, LaGran Canada Inc. and Nalpac. It claims that these three companies are capable of manufacturing identical or substitutable fabrics. In fact, both Rentex and another Canadian producer have quoted Camp Mate to supply an identical fabric. Thus, the CTI submitted that there is no doubt about the ability of the Canadian industry to produce a fabric identical to the subject fabric and to supply Camp Mate's requirements. Further, it submitted that the cost of the subject fabric is not a significant factor in Camp Mate's competitiveness versus imported tents from the Orient and that the benefits of granting tariff relief would be very small, representing a small fraction of 1 percent of the wholesale price of a tent. In addition, given the significant volumes of man-made, warp-knit fabrics for non-apparel end uses imported from the United States, it submits that these fabrics are probably available from US suppliers at NAFTA rates of duty.

The CTI submitted that, since the request did not mention specifications such as yarn size, fabric weight, etc., these specifications must not be critical to the end use. The CTI also pointed out that the request stated that Camp Mate currently obtains the quality that it requires from its current supplier, but it did not specify what constitutes an acceptable quality, how that quality is determined or why it is required. It speculated that Camp Mate may be benefiting from the purchase of substandard fabrics arising from offshore production that are aimed at higher-value applications.

The CTI stated that it and its member companies were unaware, until late June 1996, of when the staff investigation report was issued and that the references to the CPAI-84 standard for fire retardancy and to the ultraviolet inhibitor had not been included in the product description provided in the notice of commencement of investigation. The CTI submitted that these changes in the description of the subject fabric would have an impact on the cost of production of identical or substitutable fabrics and, therefore, on the price of those fabrics.

Finally, the CTI submitted that Camp Mate already enjoys an advantageous price for the subject fabric and that the price advantage should not be compounded by removing the tariff. Thus, the CTI urged the Tribunal not to recommend tariff relief.

**ANALYSIS**

The Tribunal, in accordance with the Minister's terms of reference, must determine if there would be net economic gains in recommending tariff relief. In its analysis of the evidence, the Tribunal must determine if textile inputs, identical to or substitutable for those imported and for which tariff relief is requested, are produced in Canada.

Four domestic producers claim that they could produce identical or substitutable fabrics if there was enough demand. Rentex claims to have developed a fabric identical to the subject fabric and to stand ready to produce it immediately. Bay Mills indicates that it will soon be expanding its plant capacity and adding one or more fabrics that will be identical to the subject fabric, but higher in strength, performance and cost than the subject fabric. Nalpac has advised the Tribunal that it already produces fabrics similar to the subject fabric and that they can be treated with a fire retardant. Finally, a fourth producer, LaGran Canada Inc., recently issued a price quotation to Camp Mate on a fabric claimed to be identical to the subject fabric, with the exception that the specific fabric quoted would be treated with an ultraviolet inhibitor.

From the evidence on the record, the Tribunal concludes that, while no production of identical or substitutable fabrics is currently taking place, domestic producers could probably, in the very near future, produce fabrics identical to or substitutable for the subject fabric. However, the Tribunal does not necessarily equate the ability to produce a fabric with the ability to supply this fabric when all other factors are considered. In the present case, the price at which this fabric is transacted is of prime importance and essentially dictates where the fabric is ultimately sourced.

A review of the prices quoted by domestic producers for identical or substitutable fabrics indicates that there is, indeed, a large difference between these prices and landed import prices. Textile producers advanced two possible explanations for the low import prices: the subject fabric does not contain an ultraviolet inhibitor and is probably not of prime quality. In its final response, Camp Mate<sup>5</sup> does not dispute this interpretation; however, Camp Mate argues that it has been buying the subject fabric for years with no complaints about quality. Considering this price differential and the extremely price-competitive nature of the recreational tent industry in which Camp Mate is operating, the Tribunal believes that there is no likelihood that Camp Mate will source identical or substitutable fabrics from domestic producers in the foreseeable future. Furthermore, the Tribunal is of the view that the most likely scenario, if tariff relief is not granted, is that Camp Mate will continue sourcing abroad.

While tariff relief would provide economic benefits worth close to \$30,000, the Tribunal does not see any offsetting costs that would be incurred by domestic producers if tariff relief were granted. One domestic producer, Rentex, has argued that, if tariff relief is granted, it will lose its initial investment in research and development and lose profits in 1997 and 1998. The Tribunal does not find this argument persuasive, nor similar ones advanced by other potential domestic producers. In its view, for these very specific and very limited end uses, and given current landed import prices, inclusive of the tariff, there is

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5. Camp Mate is, by far, the largest of the two identified users of the subject fabric; Woods is the other user.

no likelihood that domestic producers will shortly be in a position to supply identical or substitutable fabrics to either Camp Mate or Woods at competitive prices. Accordingly, Canadian producers of identical or substitutable fabrics cannot lose sales that they did not have in the first place and cannot realistically be expected to have in the near future.

In summary, the Tribunal finds that recommending tariff relief will provide a net economic benefit to Canada.

### **RECOMMENDATION**

In view of the above information and evidence before the Tribunal in this matter, the Tribunal hereby recommends to the Minister that the customs duty on importations of No-See-Um mesh fabric, a warp-knit fabric solely of polyester filaments and polyester monofilaments, treated with a fire retardant, of tariff item No. 6002.43.90, for use in the manufacture of mesh windows and ventilation for tents, be removed for an indeterminate period.

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Presiding Member

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