



**REPORT TO  
THE MINISTER OF FINANCE**

**REQUEST FOR TARIFF RELIEF BY  
B.C. GARMENT FACTORY LTD.  
REGARDING  
SEWING THREAD**

**AUGUST 20, 1996**

**B.C. GARMENT FACTORY LTD.**

**REQUEST NO.: TR-95-047**

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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 September 8, 1995, the Tribunal received a request from B.C. Garment Factory Ltd. (B.C. Garment) of Vancouver, British Columbia, for the immediate and permanent removal of the customs duty on importations from all countries of sewing thread of 100 percent polyester staple fibres, measuring 196.7 decitex (60/2 ply cotton count), bleached or yarn dyed, for use in the production of girls' and women's knitted garments (the subject sewing thread).

On March 25, 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 April 6, 1996, edition of the Canada Gazette, Part I.<sup>3</sup>

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

A staff investigation report, summarizing the information received from these departments, B.C. Garment and firms responding to the Tribunal's questionnaires, was provided to the parties that had filed notices of appearance for this investigation. These parties are: (1) B.C. Garment; (2) Fantastic-T Knitters Inc. of Vancouver, a user of sewing thread similar to the subject sewing thread; (3) the Canadian Textiles Institute (CTI)<sup>4</sup> of Ottawa, Ontario; (4) Allied Threads Inc., a subsidiary of American & Efird Inc. (Allied) of Montréal, Quebec, a producer of sewing thread identical to or substitutable for the subject sewing thread; and (5) Fountain Set Textiles (B.C.) Limited, a wholly owned subsidiary of Fountain Set (Holdings) Limited, of Vancouver, an importer of the subject sewing thread.

The CTI filed a submission with the Tribunal, to which B.C. Garment filed a response. A public hearing was not held for this investigation.

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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.).

3. Vol. 130, No. 14 at 1025.

4. The CTI represented Canadian textile producers and, in particular, Cansew Inc., formerly Canadian Sewing Supply Ltd. (Cansew) of Montréal, Quebec, and Coats Bell, Division of Coats Canada Inc. (Coats) of Arthur, Ontario, both firms also being parties that had filed notices of appearance for this investigation. Cansew and Coats manufacture allegedly identical or substitutable sewing thread.

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**PRODUCT INFORMATION**

The notice of commencement of investigation described the subject sewing thread as follows:  
bleached or dyed yarn consisting of a multiple (2 ply) yarn of 100 percent polyester staple fibres, having a final “Z” twist, measuring 206 decitex or 103 decitex per single yarn, and dressed with silicone, for use as sewing thread in the production of girls’ and women’s knitted garments.

Revenue Canada determined that the subject sewing thread is classified for customs purposes under classification No. 5508.10.00.10 of Schedule I to the *Customs Tariff*.<sup>5</sup> Revenue Canada’s laboratory analysis found that the results obtained analytically, except for the yarn size, agreed with the information submitted by B.C. Garment. The laboratory determined that the yarn size of the submitted sample measured 206.0 decitex or 103.0 decitex per single yarn (57 cotton count per single yarn), which was slightly higher than B.C. Garment’s claimed value of 196.7 decitex (60/2 ply cotton count). Revenue Canada also found that the subject sewing thread and support together weighed 114 g and met all the requirements for sewing thread as specified in Note 5 to Section XI of the *Customs Tariff*.<sup>6</sup>

Furthermore, Revenue Canada described the sample of the subject sewing thread as being wound onto a small white plastic cone and packaged in a clear plastic bag. Each cone contains 5,000 metres of either bleached or yarn dyed sewing thread.

The subject sewing thread is dutiable at 10 percent *ad valorem* under the MFN tariff and the GPT; at 2 percent *ad valorem* and 2.2¢/kg under the US tariff; and at 7 percent *ad valorem* and 7.7¢/kg under the Mexico tariff.

Sewing thread similar to the subject sewing thread is made in Canada from imported “raw” yarns. These “raw” yarns are allegedly not produced in Canada. When imported, the “raw” yarns are not dressed with silicone or other lubricant and, as such, would normally be classified under tariff item No. 5509.22.10.

Cansew and Allied both produce sewing thread of 100 percent polyester staple fibres which, they claimed, are identical to or substitutable for the subject sewing thread. Cansew’s sewing thread, 80SP, purportedly measures 196.8 decitex, and Allied’s sewing thread, Tex 21, measures 210.0 decitex. Revenue Canada analyzed the submitted samples of sewing thread and found that Cansew’s sewing thread measured 214.0 decitex (55 cotton count per single yarn) and that Allied’s sewing thread measured 242.0 decitex (49 cotton count per single yarn).

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

6. Note 5 reads as follows:

For the purpose of heading Nos. 52.04, 54.01 and 55.08 the expression “sewing thread” means multiple (folded) or cabled yarn:

- (a) Put up on supports (for example, reels, tubes) of a weight (including support) not exceeding 1,000 g;
- (b) Dressed for use as sewing thread; and
- (c) With a final “Z” twist.

[Emphasis added]

Cansew claimed also that its 70/2 and 65/2 sewing threads are substitutable for the subject sewing thread. On the other hand, while Coats stated that it did not manufacture a sewing thread identical to or substitutable for the subject sewing thread, it indicated that it had the capability to do so. Moreover, Coats stated that its 42/2 sewing thread of 100 percent polyester staple fibres is substitutable for the subject sewing thread. The table below summarizes the measurements of the subject sewing thread and the allegedly identical or substitutable sewing thread.

<b>SUBJECT SEWING THREAD AND ALLEGEDLY IDENTICAL OR SUBSTITUTABLE SEWING THREAD</b>			
	<b>Description</b>	<b>Cotton Count (per single yarn)</b>	<b>Decitex</b>
<b>Subject Sewing Thread</b>			
B.C. Garment			
As per request		60	196.7
As per Revenue Canada		57	206.0
<b>Allegedly Identical or Substitutable Sewing Thread</b>			
Allied			
As per Submission	Tex 21	-	210.0
As per Revenue Canada		49	242.0
Cansew			
As per Submission	80SP	60	196.8
As per Revenue Canada		55	214.0
Cansew	70/2	50	236.0
	65/2	40	296.0
Coats	42/2	42	280.0
<b>Not Allegedly Substitutable Sewing Thread</b>			
Allied	Tex 27	40	270.0

Allied, as the manufacturer of Tex 21, a sewing thread allegedly identical to or substitutable for the subject sewing thread, did not consider substitutability to be at issue with respect to Tex 27, despite the fact that it also produces a sewing thread of 100 percent polyester staple fibres sold under the brand name "Tex 27" similar in size to the allegedly substitutable sewing thread produced by Cansew and Coats.

On the basis of the confidential information presented, it is estimated that the larger sewing thread, i.e. 270 to 296 decitex, dominates the Canadian market for fine count sewing thread used to sew apparel and that the sewing thread identical to or substitutable for the subject sewing thread, i.e. 214 to 242 decitex, represents a very small portion of that market. B.C. Garment uses the subject sewing thread to stitch knitted

garments, mainly for women and girls. Both Allied and Cansew, the Canadian producers of sewing thread identical to or substitutable for the subject sewing thread, indicated that, while the subject sewing thread can be used to sew garment seams, because of its relative fineness and low tensile strength, it is more often used as selvage or serging thread. Moreover, they noted that the use of the identical or substitutable sewing thread is not limited to sewing girls' and women's knitted garments.

The Tribunal found that only two firms, namely, B.C. Garment and Hang Tung Garment Factory (Canada) Limited (Hang Tung) of Vancouver, had imported 57/2 to 60/2 (i.e. 206.0 to 196.7 decitex) sewing thread of 100 percent polyester staple fibres in 1995 and that only two Canadian firms, namely, Cansew and Allied, had produced similar sizes (i.e. 214.0 to 242.0 decitex) of sewing thread. The estimated value of the Canadian market for sewing thread in these sizes cannot be made public owing to the relatively small number of participants. However, it can be stated that the Canadian producers account for the largest share of the market.

As noted in the staff investigation report, the Department of Foreign Affairs and International Trade informed the Tribunal that the Government of Canada does not maintain quota restraints on sewing thread classified under classification No. 5508.10.00.10. Hence, the subject sewing thread is not subject to any quantitative import restriction. Furthermore, the subject sewing thread is not included in the *Import Control List*; therefore, no import permit is required.

The Tribunal also received advice from the Department of Industry on potential Canadian producers of sewing thread and from Revenue Canada indicating that there would not be any costs, over and above those already incurred by it, to administer the tariff relief, should it be granted. In that event, Revenue Canada suggested using a new concessionary code with the following specific description: "Sewing thread, of 100% polyester staple fibres, 2 ply, bleached or dyed, measuring not less than 95 decitex and not more than 110 decitex per single yarn." This would permit distinguishing the subject sewing thread from others that would be classified under a tariff item without an end-use designation.

## **REPRESENTATIONS**

### **Producers of Sewing Thread**

#### **CTI**

In its submission following receipt of the Tribunal's staff investigation report, the CTI commented on the staff investigation report and other documentation pertaining to this investigation.

The CTI recalled the three reasons invoked by B.C. Garment in making its request:

- the price of identical or substitutable sewing thread is allegedly higher in Canada than the subject sewing thread imported by B.C. Garment from the Orient;
- domestic sewing thread is allegedly unavailable "off-the-shelf" in colours which match the garments produced by B.C. Garment; and

- producers of sewing thread in the Orient will custom dye a colour for a lower minimum quantity than that allegedly required by Canadian producers.

For the following reasons, the CTI submitted that the Tribunal should not recommend tariff relief.

The CTI pointed out that, even if B.C. Garment's reasons were well founded, these facts alone would not justify recommending tariff relief. The CTI argued that the government's reasons for maintaining the scheduled tariff on any goods were not predicated on Canadian products being superior or equal to all competing goods from other countries.

Moreover, the CTI pointed to the domestic producers' evidence which contradicts B.C. Garment's allegations on production, pricing and service and, as B.C. Garment itself acknowledged, to the fact that it had little experience of these matters through lack of purchasing from domestic suppliers.

For the CTI, it is clear from the record that identical and substitutable sewing thread is made and sold successfully in Canada. One domestic supplier of sewing thread manufactures the 60/2 sewing thread to which B.C. Garment attaches special importance. Although demand for this size of sewing thread is relatively low in Canada, another important producer indicated that it has immediate access to the required raw materials and is equipped to produce 60/2 sewing thread, in volume, at any time.

The CTI further noted that, faced with competition from the large US and offshore industries, the domestic producers of sewing thread had earned and continued to serve a large share of the Canadian market for sewing thread. That market share, added the CTI, could not have been maintained if the derogatory opinions expressed by B.C. Garment had reflected the general opinion in the marketplace. The CTI concluded that the Canadian producers had demonstrated market acceptance for their sewing thread, thus negating the reasons for making the request.

Finally, the CTI questioned the alleged benefits on which the request is based. In support, it pointed to the confidential record which showed that, by B.C. Garment's own calculations, the effect of the tariff on the cost of the garments was minuscule. Therefore, the CTI argued, the request must fail on the simple basis that any influence that tariff removal could have on B.C. Garment's competitiveness is *de minimis*. On the other hand, the CTI submitted that tariff removal would harm domestic producers of sewing thread whose prices could be depressed by as much as 9 percent, with consequent important losses of margin which would stop the production of certain products or product ranges.

#### Other Producers

Subsequent to B.C. Garment's final response, the Tribunal received a further submission from American & Efirid Inc. correcting what it considered to be an error in B.C. Garment's calculations of the amount of duty incurred, on a per garment produced basis, on the subject sewing thread. This information was taken into the record. However, because of the nature of the information, it did not affect the Tribunal's decision and, because the Tribunal felt that the parties had not been prejudiced by admitting the information, their views were not sought.

No other producer registered as an interested party made a further submission.

## Users of Sewing Thread

### B.C. Garment

In response to the CTI's submission, B.C. Garment made a number of arguments opposing the views of the Canadian producers. Since counsel for B.C. Garment had not completed a declaration and undertaking with respect to confidential information, it could only have access to the public information. B.C. Garment's main arguments can be summarized as follows.

With respect to Canadian production of identical or substitutable sewing thread, B.C. Garment stated that Cansew, Allied and Coats cannot provide it with the size of sewing thread that it is currently using. It added that, according to the Canadian manufacturers of sewing thread themselves, the market for the subject sewing thread is virtually nil in Canada. From this, B.C. Garment concluded that production of 60/2 sewing thread is very limited and that it is only made if requested.

Moreover, B.C. Garment argued that there is no substitutable sewing thread produced in Canada. While Cansew informed the Tribunal that its 40/2 and 50/2 sewing threads are substitutable for the subject sewing thread, arguing that they are equal to or better than the subject sewing thread with a higher single end tensile strength and similar performance and construction, B.C. Garment pointed out that Cansew had also indicated that its sewing thread is heavier than the subject sewing thread. For this reason, B.C. Garment advanced that Cansew's claim of substitutability should be rejected, as the latter's sewing thread would create larger holes in the fabric during sewing. B.C. Garment argued that it is not seeking a better sewing thread, but one that exactly matches the subject sewing thread. Whether or not the subject sewing thread is considered to be of North American standard, B.C. Garment pointed out that it is using a large amount of it.

In comparing its average price for the subject sewing thread with Allied's published list prices, B.C. Garment estimated a cost saving of at least 25 percent. With respect to terms of sale, B.C. Garment indicated that, contrary to what is claimed by Canadian producers on the record, it waits only two weeks for delivery of custom-dyed colours, not six weeks as alleged.

B.C. Garment also drew attention to its gradual loss of customs duty drawback under the *North American Free Trade Agreement*<sup>7</sup> and questioned how it might remain viable in the long run if it has to pay an additional cost that would make it less competitive. On the other hand, if purchased from Canadian suppliers, B.C. Garment's raw material costs, it argued, would "sky rocket."

On the question of net economic gains for Canada, B.C. Garment argued that tariff relief would not cause harm to Canadian production. In its estimation, while there is at least a 25 percent difference in the cost of sewing thread between the price that it pays and the price offered by Canadian producers, there nevertheless seems to be no great rush by domestic garment manufacturers to source in the Orient. B.C. Garment concluded that domestic users were willing to pay more because they obtained a better product from Canadian manufacturers, i.e. greater tensile strength. For this reason, B.C. Garment argued

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7. 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).



that, contrary to what domestic producers have advanced, the price of domestic sewing thread would not be affected by 10 percent if tariff relief were granted. Furthermore, since the general marketplace prefers to use the 40/2 sewing thread in Canada, contrary to what is submitted by the CTI, the effect of removing or reducing the duty on the 60/2 sewing thread would have no impact on the Canadian industry. On the other hand, B.C. Garment argued that, while the dollar savings resulting from tariff relief may not be large, every penny counts in the apparel industry, and it could lose a contract for the pennies not saved.

#### Other Users

In preparation of its staff investigation report, the Tribunal's research staff canvassed a number of users. Only four firms provided information, but, except for Hang Tung, none used the 60/2 sewing thread in its production.

Hang Tung made a submission in support of B.C. Garment's request, on June 24, 1996, following the publication and distribution of the staff investigation report. This additional information was distributed to interested parties. Hang Tung's reasons for supporting the request were almost identical to B.C. Garment's reasons for making the request.

Besides B.C. Garment, no user registered as an interested party responded to the CTI's submission.

#### **Textile Importers**

Similarly, the Tribunal's research staff canvassed a number of importers, in addition to the users/importers or manufacturers/importers already contacted in the course of the investigation. Four firms provided information, but none imported the subject sewing thread.

No importer registered as an interested party responded to the CTI's submission.

#### **ANALYSIS**

The Tribunal has considered all the facts made available by the investigation and the position of parties in the light of its terms of reference.

The Tribunal's mandate is to determine if there would be net economic benefit in granting tariff relief. In so doing, 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.

On the basis of the record, the Tribunal is satisfied that sewing thread identical to or substitutable for the subject sewing thread is produced in Canada by Cansew in small quantities. According to Revenue Canada's laboratory analysis, the subject sewing thread measures 206 decitex and Cansew's 80SP sewing thread measures 214 decitex. The record also shows that the demand in Canada for sewing thread in the 60/2 (approximately 200 decitex) size range is relatively small, the demand being rather concentrated in the larger 40/2 (approximately 300 decitex) size range when used to sew apparel.

B.C. Garment, while acknowledging the existence of Canadian production, nevertheless requested tariff relief, noting that an acceptable Canadian sewing thread would need to be less expensive and have smaller minimum dye lot orders and shorter delivery times. Subsequently, in response to the CTI's submission, B.C. Garment referred to its need for a Canadian sewing thread exactly matching the 60/2 subject sewing thread.

Nevertheless, on this question of size, the investigation showed that B.C. Garment initially compared the value for duty of a 5,000-metre cone of the subject sewing thread (206 decitex) purchased in large quantities, whether bleached or yarn dyed, with a recent purchase, at list price, of a small quantity of a 6,000-metre cone of Cansew's premium quality larger sewing thread (296 decitex) identified as 65/2. Notwithstanding this difference in size, B.C. Garment's initial concern was not one of matching sizes, but one of the perceived difference in price and ready availability of Canadian sewing thread in the required colours. Thus, by purchasing Cansew's 65/2 sewing thread, by using this sewing thread in its production and by comparing its price with the price of the subject sewing thread as if comparing equals, B.C. Garment failed to demonstrate convincingly its alleged need for the smaller sewing thread. Notwithstanding this failure, the record unquestionably showed Canadian production of sewing thread identical to or substitutable for the subject sewing thread.

With respect to price, the record also showed that there is a very small difference in price between the published list price of Allied's Tex 21 sewing thread (242 decitex), which it produces in considerable quantities, and the confidential price of the subject sewing thread, despite the fact that the Tex 21 sewing thread is slightly larger than the subject sewing thread. While B.C. Garment estimated this difference at 25 percent, the Tribunal notes also that list prices are subject to negotiation and, from the available information, it is impossible to state how different the negotiated domestic price for Cansew's 80SP or Allied's Tex 21 sewing thread would be from the import price of the subject sewing thread. B.C. Garment should have obtained and submitted a quotation to the Tribunal from the domestic suppliers for large quantity purchases, but it did not. Furthermore, such requests should have included Coats, which has indicated its capability of producing sewing thread in the 60/2 size range and its actual production of 42/2 (280 decitex) sewing thread.

The record also showed that B.C. Garment's claim that Canadian producers require minimum orders of 500 cones for custom dyeing to order, whereas producers in the Orient require minimum orders of only 50 cones, is largely exaggerated. The minimum requirements of two Canadian producers, Cansew and Allied, range from 90 to 132 cones for custom dyeing, while Coats custom dyes upon request beginning at 50 cones. Moreover, the three Canadian producers have the required technology and skills to dye to match required colours and are already providing this service to the Canadian market at no cost.

On the question of shorter delivery times, Cansew's and Allied's delivery times range from within hours for in-stock products, as they each have warehouses in Vancouver, to two or three days depending on whether the goods are in Vancouver or Montréal. Coats also provides same day delivery for in-stock colours. As for delivery of non-standard colours, the three Canadian producers offer equal or shorter delivery times than experienced by B.C. Garment for shipment from the Orient.

Finally, with respect to B.C. Garment's need to increase its competitiveness in the US market as a reason for requesting tariff relief, the record showed that tariff relief represented less than 1 percent of B.C. Garment's wholesale price, F.O.B. Vancouver. Furthermore, tariff relief in total, for both B.C. Garment and Hang Tung, while confidential, is less than \$25,000 on sales of several million dollars.

With respect to the costs of granting tariff relief, taking into consideration the downward pressure that it would create for price reductions on the sale of identical or substitutable sewing thread (214 to 242 decitex), estimated at more than \$50,000, and taking into consideration the concomitant effect on the gross margins of the Canadian producers, thus placing in jeopardy domestic production of such sewing thread, the Tribunal estimates that these costs would far outweigh the benefits of duty savings to B.C. Garment and Hang Tung.

In sum, the Tribunal considers that sewing thread that is identical to or substitutable for the subject sewing thread is available from Canadian producers. B.C. Garment has failed to prove that the price of the subject sewing thread is not comparable to the price of identical or substitutable sewing thread produced in Canada. Moreover, the Canadian sewing thread has found market acceptance in terms of price, availability of colours and delivery times. Finally, the Tribunal finds that granting tariff relief would not result in a net economic benefit for Canada.

### **RECOMMENDATION**

In light of the foregoing, the Tribunal hereby recommends to the Minister that tariff relief not be granted.

Arthur B. Trudeau

Arthur B. Trudeau  
Presiding Member

Desmond Hallissey

Desmond Hallissey  
Member

Lyle M. Russell

Lyle M. Russell  
Member