

CANADIAN  
INTERNATIONAL  
TRADE TRIBUNAL



TRIBUNAL CANADIEN  
DU COMMERCE  
EXTÉRIEUR

**REPORT TO THE  
MINISTER OF FINANCE**

**REQUEST FOR TARIFF RELIEF BY  
WIRE ROPE INDUSTRIES LTD.  
REGARDING  
SISAL ROPE**

**JANUARY 5, 1999**

**WIRE ROPE INDUSTRIES LTD.**

**REQUEST NO. :TR-97-021**

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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 with respect to those requests to the Minister.

Pursuant to the Minister's reference, the Tribunal received a request from Wire Rope Industries Ltd. (Wire Rope) on March 30, 1998, seeking the immediate removal, for an indeterminate period of time, of the customs duty on imports from all countries of sisal core for use in the manufacture of elevator cables.

On August 5, 1998, the Tribunal, being satisfied that the request was properly documented, issued a notice of commencement of investigation which was distributed and published in the August 15, 1998, edition of the *Canada Gazette*, Part I.<sup>3</sup> In the notice of commencement of investigation, the input for which tariff relief was sought was described as "sisal rope for use in the manufacture of elevator cables" (the subject rope).

As part of the investigation, the Tribunal's research staff sent a questionnaire to the sole domestic producer of sisal rope. The Department of Foreign Affairs and International Trade was asked to report on whether quantitative import restrictions would be imposed on the subject rope and, if so, under what circumstances. The Department of Industry also was asked to provide any information or comments that it deemed relevant, and the Department of Finance was informed of the investigation.

## **PRODUCT INFORMATION**

The Department of National Revenue advised the Tribunal that the subject rope is classified under tariff item Nos. 5607.29.20 and 5607.29.90 of the schedule to the *Customs Tariff*.<sup>4</sup> In 1998, sisal rope of a circumference not exceeding 25.4 mm is classified under tariff item No. 5607.29.20 and is dutiable at 11.5 percent *ad valorem* under the MFN tariff and at 6.0 percent *ad valorem* under the Chile tariff and the Mexico tariff and is duty free under the US tariff and the Canada-Israel Agreement tariff. Sisal rope of a circumference exceeding 25.4 mm is classified under tariff item No. 5607.29.90 and is dutiable at 16.0 percent *ad valorem* under the MFN tariff and at 10.0 percent *ad valorem* under the Chile tariff and the Mexico tariff and is duty free under the US tariff and the Canada-Israel Agreement tariff.

## **REPRESENTATIONS**

### **User of the Subject Rope**

Wire Rope's request is for the removal of the customs duty, for an indeterminate period of time, on imports of the subject rope. Wire Rope, located in Montréal, Quebec, has been serving the Canadian market for wire rope for over 100 years. It is a Canadian-based designer, manufacturer and marketer of

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1. On March 20 and July 24, 1996, and on November 26, 1997, the Minister of Finance revised the terms of reference.

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

3. Vol. 132, No. 33 at 2095.

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

general-purpose and proprietary wire rope and is the only remaining Canadian producer of wire rope. Its primary customer for elevator cables in 1997 was a US company, Otis Elevator Co. (Otis). There are currently no purchasers of its elevator cables.

Wire Rope has two suppliers of sisal rope, a domestic source, Canada Cordage Inc. (Canada Cordage), and a foreign source, Star Fibres Limited (Star Fibres) in the United Kingdom. Wire Rope is seeking tariff relief because it claims that the subject rope is technically superior to the domestically produced rope and that, since the market is highly price competitive, any reduction in total costs would have a positive effect on Wire Rope's ability to compete in the world market for elevator cables. Wire Rope further claims that removal of the tariff would enable it to be competitive without having to reduce its quality or alter its production methods.

Wire Rope submitted that, although sisal rope is produced in Canada, it has incurred production delays when domestically supplied sisal rope did not meet the requested product specifications and that the subject rope had never failed to meet these standards, which are important from a safety perspective. In addition to the foregoing quality problems, Wire Rope claimed that it has experienced late deliveries from Canada Cordage, again resulting in production delays. Despite these problems, Wire Rope endeavoured to maintain two sources of supply in order to avoid the risks associated with reliance on a sole supplier.

Wire Rope stated that it purchases manufacturing inputs domestically whenever possible and that, by using domestic suppliers, it simplifies its purchasing activities by reducing freight and other business costs (e.g. currency exchange factors) inherent in dealing with foreign suppliers. Wire Rope argued, however, that it simply cannot be restricted to one supplier. While it would prefer to purchase domestically, it alleged that quality and cost factors have necessitated, in the past, the importation of the subject rope. In Wire Rope's view, the soundness of its business decision to ensure both a domestic supply and a foreign supply of the subject rope is obvious.

### **Producer of the Domestic Sisal Rope**

Canada Cordage (founded in 1856 as Doon Twines Limited) of Kitchener, Ontario, is the sole domestic producer of sisal rope. It claims that it supplies a product that meets Wire Rope's specifications. Ropes constitute the largest part of its revenue, and sisal rope for use in the manufacture of elevator cables constitutes its largest product line in terms of revenue.

Canada Cordage claims to be the pre-eminent supplier of sisal rope in North America and to supply the two largest US producers of elevator cables with 100 percent of their sisal rope requirements. It contends that the support that it received from those two customers is testament to Canada Cordage's product quality and delivery performance.

Canada Cordage disputed any allegation that it provided poor quality or poor delivery on its sales to Wire Rope. It stated that its deliveries had been unfavourably impacted by unreasonably short lead times, inaccurate measurement of on-time performance and "cherry picking" of small volume items by Wire Rope. Canada Cordage also contended that it was used to fill in on deliveries when Wire Rope experienced supply problems. With regard to the timeliness of its deliveries, Canada Cordage submitted a copy of a "Core Supplier's Performance" rating issued by Wire Rope which revealed that, in 1996, its on-time delivery rating was 89 percent, compared to 92 percent for Star Fibres.

Canada Cordage opposed the request for tariff relief based on its demonstrated ability to compete in the North American market in terms of price, quality and service. In Canada Cordage's view, its pricing structure to Wire Rope enabled the latter to compete on a favourable basis with US producers of elevator cables. Additionally, Canada Cordage argued that its sisal rope was chosen by the leading US producers over sisal rope from the United Kingdom, as well as over sisal rope available from US producers. According to Canada Cordage, unlike Wire Rope, US producers of elevator cables do not import sisal rope from the United Kingdom, even though the tariff rate on imports from the United Kingdom into the United States is lower than on imports from the United Kingdom into Canada. Canada Cordage further claimed that its sisal rope was the choice of the US company that secured, in 1998, the Otis contract that had formerly been held by Wire Rope.

Canada Cordage submitted that it is a competitive supplier, since it has invested in improved processes over the years. Finally, it further submitted that, not only is Canada Cordage ISO 9002 certified, all its products are tested for diameter, linear density, twist factor, lubricant content, etc., throughout and at the end of the manufacturing process. Thus, Canada Cordage disagreed that its product is of poor quality.

### **Other Submissions**

The Department of Foreign Affairs and International Trade advised that Canada does not maintain quota restraints on sisal rope classified under tariff item Nos. 5607.29.20 and 5607.29.90. Sisal rope, therefore, is not subject to any quantitative import restrictions.

### **ANALYSIS**

The Minister's terms of reference direct the Tribunal to assess the economic impact on domestic textile and downstream producers of reducing or removing a tariff and, in doing so, to take into account all relevant factors, including the substitutability of imported textile inputs for domestic textile inputs and the ability of domestic producers to serve the Canadian downstream industries.

This request covers a specific product (i.e. sisal rope) that Wire Rope conceded is made in Canada. Wire Rope acknowledged that it has purchased sisal rope regularly from the sole Canadian producer. Furthermore, Wire Rope noted that, should tariff relief be granted, it would wish to retain this Canadian producer as a supplier of sisal rope in order to avoid the risks associated with reliance on a sole supplier.

Notwithstanding the foregoing, Wire Rope simultaneously contends that the domestic sisal rope is not always produced in the high quality available from its offshore supplier and that it has experienced late deliveries of sisal rope from the Canadian producer. This alleged failure by the Canadian producer to meet Wire Rope's stringent product specifications and delivery schedules is claimed to have resulted in production delays for Wire Rope.

Wire Rope does not currently have any customers for elevator cables. The contract that it formerly held to produce elevator cables for Otis was lost to Paulsen Wire Rope Corporation (Paulsen), a competing US producer of elevator cables. Wire Rope argued that tariff relief would enable it to bid more competitively in the future, when this contract again becomes open for competition, as well as to bid more competitively on other contracts that may arise in the interim. In order to be on equal footing with significant US competition, Wire Rope further argued that, at a minimum, the duty rate on sisal rope imported into Canada should closely approximate the US duty rate currently applied on such products. It contended that a reduction in the cost of this key manufacturing input would allow Wire Rope to be more price competitive in a highly

price-sensitive market. It further contended that the granting of tariff relief would alleviate the additional costs that it had to absorb because of the elimination of full duty drawback on non-NAFTA inputs.<sup>5</sup>

The Tribunal is not persuaded by Wire Rope's arguments.

The evidence shows that Canada Cordage currently supplies 100 percent of the sisal rope requirements of the US manufacturer of elevator cables that replaced Wire Rope as a supplier to Otis. The evidence further shows that Canada Cordage supplies 100 percent of the sisal rope requirements of another major US manufacturer of elevator cables and a substantial portion of the sisal rope requirements of a third US producer of elevator cables. The fact that Canada Cordage has achieved such a high level of success in the US market undermines the allegations by Wire Rope as to the quality of Canada Cordage's sisal rope. In the Tribunal's view, Canada Cordage's successful and broad penetration of the US market and its ISO 9002 certification testify not only to its price competitiveness but also to the quality of the sisal rope that it produces, given the safety requirements inherent in the use to which elevator cables are committed. Canada Cordage contends that, in winning the contract with Paulsen, it competed against the UK supplier of the allegedly higher-quality subject rope, as well as against duty free competition from domestic US suppliers of sisal rope.

While Wire Rope stated that sisal rope represented a key manufacturing cost, the evidence showed that sisal rope constitutes a small percentage of the total material costs involved in the production of elevator cables. In that connection, the Tribunal observed that Wire Rope clearly stated, in its submission, that it had been faced with increased costs for manufacturing inputs other than sisal rope.

The Tribunal examined the impact that a reduction in Canadian duty rates on imported sisal rope would have on Wire Rope's selling price structure for elevator cables. The proposed reduction in duty rates to US levels (a reduction of approximately 50 percent) would halve the duty cost implicit in Wire Rope's selling price for elevator cables. Neither such an absolute reduction in duty costs (and presumably in Wire Rope's selling price for elevator cables) nor the total removal of the duty on imported sisal rope would, however, in the Tribunal's opinion, significantly alter Wire Rope's competitive position in the US market for elevator cables.

The Tribunal considered the impact of the additional costs incurred by Wire Rope as a result of the elimination, by 1998, of full duty drawback on non-NAFTA inputs. The Tribunal notes that the total elimination of duty drawback (i.e. from full drawback of duty paid on its imports of sisal rope in 1995 to zero drawback in 1998) would have had a cumulative impact on Wire Rope's cost structure and, therefore, on its selling price for elevator cables. Nevertheless, even if the full duty drawback that was in place in 1995 was still available to Wire Rope in 1998, the difference in price or cost would not have been sufficient, in the Tribunal's view, to have materially affected Wire Rope's ability to compete in the US market.

In summary, tariff relief would provide no immediate benefit to Wire Rope, as it currently has no contracts with US or other elevator manufacturers. Tariff relief would allow it to lower its future bid prices,

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5. Under NAFTA, a new duty refund system was instituted effective January 1, 1996. This new system allowed for a refund of duties equal to the lesser of the total amount of customs duties paid or owed on the goods or materials when imported into a NAFTA country and the total amount of the customs duties paid or owed on the finished product in the NAFTA country to which it is exported. In 1998, when its qualifying exports of elevator cables from Canada began to enter the United States duty free, duty drawback could no longer be claimed by Wire Rope.

but to a lesser degree than would appear to be required to materially improve its competitive position in NAFTA countries, the only markets for Wire Rope's elevator cables that would be affected by such relief. Tariff relief, therefore, would seem to offer only minimal improvement in Wire Rope's long-term prospects in the United States, its major export market, and would do nothing to enhance its competitiveness in other non-NAFTA markets for elevator cables.<sup>6</sup>

Clearly, tariff relief would provide no immediate benefit to Wire Rope, nor would it impose any immediate cost on Canada Cordage. Tariff relief would, in the Tribunal's view, have a neutral impact on both parties in the short term.

Tariff relief could, however, have serious negative consequences for Canada Cordage in the longer term. If tariff relief were to be granted, and if Wire Rope were to win back the Otis contract from Paulsen in the future or to pursue and gain other contracts in the interim, Canada Cordage would be faced with the potential loss of the entire volume of sales involved in the Otis contract over a period of several years. Canada Cordage argued that the loss of this sales volume (in excess of half a million dollars per annum) could have an adverse affect on its economies of scale and, thereby, potentially threaten the viability of its entire production of sisal rope for use in the manufacture of elevator cables.

Canada Cordage testified that sisal rope for use in the manufacture of elevator cables constitutes its largest product line in terms of revenue. The evidence also showed that a high percentage of the total number of persons employed at Canada Cordage is dedicated to the production of sisal rope. For these reasons, Canada Cordage believes that tariff relief would have the potential to negatively affect its total annual sales of sisal rope (well in excess of one million dollars), as well as to threaten the job security of considerably more than 25 employees.

These losses obviously would be balanced against the gain by Wire Rope of several millions of dollars in additional sales revenue related to the Otis contract alone, together with the increase in employment that would be required for the resumed production of elevator cables.

In endeavouring to weigh these estimated consequences of granting tariff relief, the Tribunal has to keep in mind several other factors in addition to the purely quantitative ones discussed earlier. For instance, Wire Rope does not currently produce elevator cables. It has not done so for some time; therefore, there is no existing production and sale of elevator cables that would be helped or hindered by the Tribunal's recommendation. Additionally, when elevator cables were in production, they accounted for a comparatively small percentage of Wire Rope's total sales volume.

As it has no current production of elevator cables, employment dedicated to the production of elevator cables at Wire Rope is not at risk should tariff relief not be forthcoming. Furthermore, employees dedicated to the production of elevator cables have not accounted for a significant percentage of total employment levels at Wire Rope in the past; therefore, the production and sales volume of elevator cables and related employment levels at Wire Rope are not at risk should tariff relief not be granted. The loss of the Otis contract already has had its impact on Wire Rope's total sales revenue and employment levels. At the same time, a recovery of that lost sales revenue and employment would be less likely to take place if tariff relief were not granted.

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6. The Tribunal notes that full duty drawback is still available to Wire Rope on its sales of elevator cables to purchasers in non-NAFTA countries.

In contrast to the situation at Wire Rope, sisal rope accounts for a large percentage of Canada Cordage's total current sales revenue, and a high percentage of its total employment is currently dedicated to the production of sisal rope. Canada Cordage contended that a recommendation to grant tariff relief would pose a significant threat not only to its total revenues but also to its employment levels.

Canada Cordage has achieved its current level of success not only from being a supplier for some years to Wire Rope but also from competing very successfully in the United States against US producers and the allegedly superior sisal rope produced in the United Kingdom. The evidence indicates that the domestically produced sisal rope meets the quality and delivery requirements of a number of large US producers of elevator cables, including the company that displaced Wire Rope as a supplier of elevator cables to Otis.

Evidence submitted by Wire Rope shows that Canada Cordage's sisal rope is priced competitively with the subject rope. Furthermore, evidence submitted by Canada Cordage shows that it has offered sisal rope for sale to Wire Rope at prices that should have allowed it to compete fairly against elevator cables produced by its US competitors, which also are supplied with sisal rope by Canada Cordage.

All of the foregoing suggests to the Tribunal that Wire Rope's competitiveness in the US market was not adversely affected or compromised either by the rates of duty on the subject rope or by an inability on the part of the domestic producer of sisal rope to meet the required quality and delivery standards. The Tribunal believes that compromising the demonstrated current competitiveness of Canada Cordage, in favour of the potential for benefits that might accrue to Wire Rope in the future should tariff relief be granted, would not be justified. Consequently, the Tribunal concludes that granting tariff relief would not provide net economic gains to Canada.

### **RECOMMENDATION**

In light of the foregoing, the Tribunal hereby recommends to the Minister that tariff relief not be granted on importations from all countries of sisal rope for use in the manufacture of elevator cables.

Anita Szlczak  
Anita Szlczak  
Presiding Member

Raynald Guay  
Raynald Guay  
Member

Peter F. Thalheimer  
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Member