



REPORT TO THE MINISTER OF FINANCE

**REQUESTS FOR TARIFF RELIEF BY
LADCAL INVESTMENTS LTD.
O/A PINTAR MANUFACTURING,
NOUR TRADING HOUSE INC. AND
T.S. SIMMS AND COMPANY LIMITED
REGARDING
WOVEN CUT PILE FABRICS**

APRIL 14, 1999

**LADCAL INVESTMENTS LTD. O/A PINTAR MANUFACTURING,
NOUR TRADING HOUSE INC. AND
T.S. SIMMS AND COMPANY LIMITED**

**REQUEST NOS. : TR-98-004,
TR-98-005 AND TR-98-006**

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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 in respect of those requests to the Minister.

Pursuant to the Minister's reference, the Tribunal received, on August 20, 1998, three requests for the removal, for an indeterminate period of time, of the customs duty on importations from all countries of woven cut pile fabrics for use in the production of paint rollers. The requesters are Ladcal Investments Ltd. O/A Pintar Manufacturing (Pintar), Nour Trading House Inc. (Nour) and T.S. Simms and Company Limited (Simms).

On January 29, 1999, the Tribunal, being satisfied that the requests were properly documented, consolidated them and issued a notice of commencement of investigation, which was widely distributed and published in the February 6, 1999, edition of the *Canada Gazette*, Part I.³ The fabrics under investigation were described in the notice as narrow woven cut pile fabrics, predominantly of man-made fibres, for use in the manufacture of paint rollers (including paint roller refills) (the subject fabrics).

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

A staff investigation report was not necessary for the purposes of this investigation, since potential producers of fabrics identical to or substitutable for the subject fabrics did not oppose the requests.

A public hearing was not held for this investigation.

PRODUCT INFORMATION

The subject fabrics consist of man-made fibres (polyester), with a woven-in cut pile of man-made fibres (acrylic, modacrylic and nylon), which are coated on the non-pile side with a clear acrylic polymer. Woven cut pile fabrics are used to produce lint-free paint rollers that are in the high-end segment of the paint roller market.

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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. 133, No. 6 at 303.

Revenue Canada indicated that the subject fabrics are classified under tariff item No. 5806.10.90⁴ and are currently dutiable at 16 percent *ad valorem* under the MFN tariff, at 10 percent *ad valorem* under the Mexico tariff and the Chile tariff, and are duty free under the US tariff.

REPRESENTATIONS

Requesters

Pintar

Pintar, located in Toronto, Ontario, employs 57 people. It submitted that, although it purchases knitted cut pile fabrics domestically for rollers not requiring shed-resistant characteristics, a woven cut pile fabric is preferred for higher-quality shed-resistant rollers. Pintar alleged that it has been unable to find a domestic producer of woven fabrics suitable for “high-end” paint rollers. Pintar stated that tariff relief will allow it to remain competitive with US manufacturers. Pintar also submitted that its major purchasers prefer to deal with one supplier, and it argued that, if tariff relief is not granted, these purchasers will switch all their business to the most competitive supplier.

Pintar argued that tariffs on the subject fabrics reduce its competitiveness and eliminate any chance that it has of exporting products made from the subject fabrics. It further argued that, if these tariffs were not eliminated, it would be forced to reduce capacity and employment or to move production to an area where tariffs do not affect the cost of producing paint rollers.

Nour

Nour, located in Waterloo, Ontario, is a privately owned corporation employing 81 people. Nour submitted that its most successful line of products is made from a woven cut pile fabric imported from the United States. These rollers often are referred to in the market as “lint-free” roller products.

Nour alleged that there are no domestic suppliers of woven cut pile fabrics suitable for use in the paint application market. The company alleged that, although there are domestically knitted cut pile fabrics (sliver knit) used in other product lines, woven cut pile fabrics are superior and are sold in Nour’s top of the line products.

Nour submitted that it began importing the subject fabrics in the late 1980s after receiving samples from US manufacturers, samples that met its high-quality standards. According to Nour, Canadian manufacturers believed that they were importing a US-made product which would be subject to NAFTA duty rates. However, Nour indicated that it was recently determined that the fibres used in making the subject fabrics do not originate in the United States and, thus, it is required to pay substantial amounts of duty. Nour argued that, if this situation is allowed to continue, Canadian manufacturers risk losing significant market share to US competitors that can export to Canada finished paint roller refills duty free. Nour further argued that the loss of sales of this particular product would result in a layoff of 60 percent of the manufacturing staff, as well as support staff. In addition, Nour alleged that, because customers prefer to buy from one supplier to take advantage of rebates and allowances, there is a real risk that it will lose sales in the

4. These fabrics originally were classified under tariff item No. 5801.35.90. However, on January 8, 1999, Revenue Canada advised the Tribunal that these fabrics should be classified under tariff item No. 5806.10.90.

knitted fabric lines as well. It submitted that its roller sales represent 50 percent of total company sales and that, in the absence of tariff relief, it may have to relocate its paint roller manufacturing plant.

Simms

Simms manufactures brooms and paint applicators at its plant in Saint John, New Brunswick. It sells its products worldwide and employs 200 people.

Simms submitted that the subject fabrics are more shed-resistant, produce a finer finish and splatter less. Simms stated that tariff relief is being requested to maintain cost parity with US manufacturers, which are not required to pay duty on woven cut pile fabrics. Simms maintained that NAFTA certification was withdrawn when a major supplier in the United States discovered that the primary inputs used in woven paint roller fabric originated outside North America and, consequently, no longer qualified for duty-free entry.

According to Simms, Canadian manufacturers are required to pay 16 percent duty on woven cut pile fabrics, which represent up to 50 percent of the cost of the raw materials of a finished product. Simms submitted that tariff relief will return it to the competitive position that it held prior to the loss of duty-free status for the subject fabrics. It alleged that, if it is required to continue to pay duty, its products using the subject fabrics will be 8 percent more expensive relative to US products. Simms also alleged that woven fabric refills comprise a significant portion of overall sales and that many customers will not deal with a supplier that is not competitive on an entire line.

Importer/User

BMC Coaters Inc.

BMC Coaters Inc. was the only importer/user that communicated in writing with the Tribunal regarding these requests. Although it did not complete the Tribunal's questionnaire, it indicated that it did not have any interest in these requests.

Domestic Producers of Allegedly Substitutable Fabrics

Huntingdon Mills (Canada) Ltd.

Huntingdon Mills (Canada) Ltd. did not complete the Tribunal's questionnaire. However, it indicated that it did not oppose the requests for tariff relief.

Glenoit Corporation of Canada

Glenoit Corporation of Canada did not complete the Tribunal's questionnaire, but stated that it had no interest in these requests.

OTHER INFORMATION

The Department of Foreign Affairs and International Trade informed the Tribunal that Canada does not maintain quota restraints on the subject fabrics classified under classification No. 5806.10.90.90 and, accordingly, that these fabrics are not subject to any quantitative import restrictions.

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

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 so doing, to take into account all relevant factors, including the substitutability of an imported fabric for a domestic fabric and the ability of domestic producers to serve the Canadian downstream industries. Consequently, the Tribunal's decision to recommend tariff relief is based on the extent to which it considers that such tariff relief would provide net economic gains for Canada.

The requesters, Pintar, Nour and Simms, all claimed that there is no domestic production of fabrics identical to or substitutable for the subject fabrics. This claim was not contested by any domestic fabric producers. Therefore, other than the corresponding duty revenues forgone by the government, the Tribunal does not believe that there would be any direct costs associated with the removal of the customs duty on the subject fabrics.

On the basis of the information available to the Tribunal, the granting of tariff relief would result in yearly benefits to the requesters in excess of \$400,000. In addition, tariff relief would allow the requesters to remain competitive with US manufacturers and maintain current production and employment levels in Canada.

In summary, the Tribunal finds that the granting of tariff relief would provide net economic gains to Canada.

RECOMMENDATION

The Tribunal hereby recommends to the Minister that tariff relief be granted, for an indeterminate period of time, on importations from all countries of narrow woven cut pile fabrics, predominantly of man-made fibres, of subheading No. 5806.10, for use in the manufacture of paint rollers (including paint roller refills).

Anita Szlazak

Anita Szlazak
Presiding Member