

TEXTILE AND CLOTHING BOARD

REPORT ON AN INQUIRY RESPECTING ACRYLIC YARNS

OTTAWA, CANADA DECEMBER 11, 1974.

TEXTILE AND CLOTHING BOARD

ACRYLIC YARNS

Initial Inquiry

Following an inquiry in 1971, the Board reported to the Minister of Industry, Trade and Commerce that it had found that there was a threat of serious injury resulting from the importation into Canada of acrylic machine knitting yarns in hanks or skeins. The Board's recommendation that imports of such yarns in 1972 be limited to 4.4 million pounds was accepted by the Government, and export restraint arrangements were concluded with the major exporters of the yarns in question.

In December 1972, the Board reported that the acrylic yarn situation had begun to improve and was likely to continue to improve in 1973, but that it would be premature to remove the restraints. In a further review in December 1973 the Board found that imports of acrylic yarns were no longer causing or threatening to cause serious injury to production in Canada and recommended that the special measures of protection be removed. The Government announced its acceptance of the Board's recommendation on January 25, 1974.

New Inquiry

In a letter to the Board dated September 25, 1974, the Canadian Textiles Institute alleged that acrylic yarns were again being imported into Canada from a number of countries, including Japan, South Korea and Taiwan, under such conditions as to cause and threaten serious injury to Canadian production and employment, and requested the Board to institute an inquiry on an urgent basis.

The Board agreed to act upon this request. Notice of an inquiry was published in the Canada Gazette of October 5, 1974, and copies of the notice were distributed to the news media and to parties who could be expected to have an interest in the matter. Interested parties were invited to submit briefs to the Board by November 4, 1974, and to indicate at the same time if they wished to make supplementary oral presentations to the Board.

Written submissions were received from the Canadian Textiles Institute; the major Canadian spinners of acrylic yarn; the Canadian producer of acrylic fiber; the Quebec Outerwear Knitters' Association; a number of individual acrylic yarn users; the Japan Silk and Synthetic Textiles Exporters' Association and the Japan Chemical Fibres Association.

No request was received by the Board for a public hearing in this inquiry and no public hearing was held. However, the Board obtained additional information from some of the interested parties.

Published data relating to the production and importation of acrylic yarns were examined and special analyses of unpublished data were carried out in collaboration with Statistics Canada. The Board was provided with reports from the Department of Industry, Trade and Commerce and from the Department of Manpower and Immigration on matters within their respective areas of responsibility.

Briefs and Other Evidence

The following is a summary of the evidence presented to the Board, and of the claims and allegations made by the various interested parties in this inquiry.

In its brief to the Board the Canadian Textiles Institute alleged that foreign inventories of acrylic yarn were being unloaded at distress prices and were freely entering the Canadian market. The Institute claimed that as a result several Canadian mills had sharply curtailed their production of worsted spun acrylic yarns, that others had been closed for varying lengths of time, and that employee lay-offs had exceeded 450 persons, many of them still out of work. It said that these inventory disposals would grow worse and unless imports were checked would result in further downward pressures on Canadian prices and further reductions in the volume of Canadian production.

The Institute claimed that the single most important factor causing an abrupt reversal of the situation from a year ago was a startling drop in prices quoted for worsted spun acrylic yarns from certain sources. It contended that such low priced yarns could largely take the place of Canadian yarns when normal buying resumes and inventories are being built up again, unless immediate steps were taken.

The Institute recommended that negotiations be undertaken immediately with Japan, South Korea and Taiwan to re-establish quantitative restraints at a level which they claimed would be in accordance with the provisions of the Arrangement Regarding International Trade in Textiles, and for a period of at least three years with an annual growth. They recommended also that similar negotiations be undertaken with Brazil. The Institute asked that surcharges be applied for a short term on acrylic yarn imported from the four countries which it proposed be placed under quantitative restraints. The Institute excluded from its recommendations acrylic yarns spun on the cotton system and yarns for hand knitting.

The three labour unions representing workers in the acrylic yarn sector reported that they had participated in the preparation of the Institute's brief, and added that they were worried about increasing lay-offs and unemployment in the sector, particularly because several of the plants affected were in small localities where alternative employment opportunities were limited or non-existent.

The Canadian producers of worsted spun acrylic yarns submitted plans to improve the efficiency of their operations and to enhance their ability to face international competition. They argued, however, that they could not possibly compete with foreign inventories being liquidated at prices below cost. They said that they would have to curtail operations until such time as appropriate protection was provided in the form of restraints, surtaxes or other means.

The Canadian firm producing acrylic fiber stated that as a result of the situation it had been forced to stop production for a short period in October, since when it had been operating at only 50 per cent of capacity. It urged that appropriate measures be taken to control imports of acrylic yarns, on the grounds that effective action was needed to restore confidence in the industry.

The Quebec Outerwear Knitters Association presented a brief in which it stated that a domestic acrylic yarn industry was essential to Canadian knitters because of their need for an assured, steady yarn supply. It commented that even the exclusive use of low cost imported yarns would not give them sufficient economic advantage to compete against imported garments. The knitters supported the Canadian Textiles Institute's request for quantitative restraints, but expressed their opposition to surcharges.

Two users of acrylic yarns who presented briefs thought that protection against low cost yarns was required to prevent further damage to the Canadian yarn industry. One user stated that acrylic yarn imports had had no effect on his operations as he relied exclusively on Canadian supplies.

Exporters Association and of the Japan Chemical Fibres Association commented on market changes in Canada, noting a recent softening in demand for acrylic yarn products. They alluded to the fact that up to the end of July 1974 imports of acrylic yarns from Japan and other countries which had exercised restraints previously, were well below the 4.4 million pound annual level which had been recommended by the Board. They noted that meanwhile imports of acrylic yarns from other countries had increased significantly, and suggested that such imports probably were affecting worsted yarn production in Canada irrespective of whether they were worsted spun or cotton spun. The Associations contended that neither the furtherance of the objectives of the Canadian textile policy nor the provisions of the International Textile Arrangement would justify the introduction of restrictions on imports of acrylic yarn into Canada at this time.

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The Department of Manpower and Immigration reported on the employment situation in those communities where acrylic yarns are produced. Unemployment is at a relatively high level in most of these communities.

The Textiles and Consumer Products Branch of the Department of Industry, Trade and Commerce provided a report to the Board based on a comprehensive survey of the situation in the acrylic yarn sector of the industry. The Office of Special Import Policy of the same department reported to the Board on the implementation of the recommendations which the Board made last year concerning acrylic varns.

The Canadian Industry

There were 13 producers of worsted spun machine knitting acrylic yarn in Canada in early 1974. Three of these firms reported that they have since either phased out the spinning of such yarns or else planned to do so in the near future as a result of adverse market conditions. The remaining ten firms have 12 spinning plants.

Several of these spinning plants were originally designed to produce wool worsted yarns and have been adapted for the production of worsted yarns of man-made and blended fibres as well as wool. Some of the newer plants were designed primarily for the production of acrylic yarns.

In 1973 the 13 producers of worsted spun acrylic yarns had an estimated total spinning capacity of 24 million pounds per annum, a decline from a peak capacity of 27 million pounds in 1971. In 1973 they produced 17 million pounds of yarns of all fibres, of which 10 million pounds were acrylic yarns. These 10 million pounds included a substantial volume of hand knitting yarns.

Cotton spun acrylic yarns and carpet yarns are usually produced in separate plants even when made by a firm which also makes worsted spun yarns. There are five producers of cotton spun acrylic yarns in Canada including one of the worsted system producers. Both cotton spun and worsted spun yarns are mainly used for machine knitting but the nature of the product differs. Cotton spun yarns are also used for weaving. Worsted spun yarns are used for sweaters and other garments in which a bulky appearance is desired, while cotton spun yarns are used for less bulky garments and fabrics. Carpet yarns are produced mainly by the modified worsted system of spinning, and mainly by carpet producers.

Domestic producers of worsted spun acrylic yarns usually sell dyed and finished yarn. Accordingly nearly all of them have dyeing facilities, either as integral parts of their plants or as separate plants. Some producers have dyeing and finishing capacity in excess of their spinning capacity and commission dye for others. These firms may dye and finish imported yarn, which for the most part arrives in the undyed state.

According to a special survey by the Department of Industry, Trade and Commerce, the number of employees in plants producing worsted spun acrylic yarns was, on specified dates, as follows:

	Jan. 1/1972	Jan. 1/1973	Jan. 1/1974	Oct. 1/1974
Ontario Quebec	1,703 1,089	1,644 1,260	1,452 1,428	1,338 993
Total.	2,792	2,904	2,880	2,331

These data are for total employment in the plants concerned. The sharp decline in employment between January 1 and October 1, 1974 is attributed primarily to a decline in the production of the major product, which was worsted spun acrylic yarn.

Most of the acrylic yarn plants in Quebec are located in small cities and towns where a plant closure or a major lay-off would be expected to affect noticeably the employment situation. Some of the Ontario plants are in relatively large cities. Data on the employment situation in communities with acrylic yarn plants are presented in the Appendix, Tables 1 and 2. Some of the Quebec communities involved have relatively high unemployment rates.

In 1973 three acrylic yarn plants changed ownership, all being purchased by firms experienced in the yarn spinning business, but not much was spent on plant improvements. However, plans were developed which led to the three largest firms spending about \$1.3 million on new equipment in 1974. Some additional planned expenditure was deferred following an abrupt change in market demand about the middle of the year.

The Market

The combined apparent market for worsted spun and cotton spun acrylic yarn has been as follows:

	1972	<u> 1973</u>	January - September 1973	January - September 1974
			- 000 pounds	Cas .
Shipments a)			· ·	
Cotton Spun Worsted Spun	8,277 8,889	8,743 10,299	6,598 7,988	6,406 7,056
Total b) Imports	17,166 3,542	19,042 10,089	14,586 6,190	13,462 7,276
Apparent Market	20,708	29,131	20,776	20,738

- a) Based on a survey of producers by the Textiles Division, Department of Industry, Trade and Commerce.
- b) Statistics Canada. See Appendix, Tables 3 and 4 for further details on imports.

Canadian shipments of worsted spun acrylic yarns have fluctuated more than those spun on the cotton system. From the above table it will be seen that shipments of the former increased 16 per cent from 1972 to 1973 and it should be added that probably the increase would have been greater if producers had not experienced difficulties in securing adequate supplies of fibre in 1973. The fibre situation eased early in 1974, but at about the same time the demand for Canadian produced worsted spun acrylic yarn began to decline. Shipments in the first half and the first three quarters of 1973 and 1974, respectively, were as follows:

	<u> 1973</u>	1974	Decline
	- 000 I	ounds -	per cent
January-June July-September	5,388 2,600	5,146 1,910	4.5 26.5
Total, January-September	7,988	7,056	117

The import data presented earlier included all types of acrylic yarn. A substantial but varying proportion of these imports was of yarn types other than worsted spun machine knitting, especially cotton spun and hand knitting yarns.

In the context of this inquiry the Board had an interest in knowing exactly what proportion of the total imports of acrylic yarn from each major source was worsted spun machine knitting yarns and what was hand knitting yarns or cotton spun yarns. Analyses made for the Board revealed that nearly all imports of acrylic yarn from the United Kingdom and other European countries were either cotton spun or hand knitting yarns. While imports from the United Kingdom increased sharply in 1973 and 1974, this growth was accounted for largely by intra-company purchases of cotton spun yarn made from a dyed fibre not available in Canada. Cotton spun yarns comprised the bulk of the imports from the United States, although there were also some worsted spun yarns and hand knitting yarns. In contrast worsted spun machine knitting yarns accounted for most of the imports from Japan, South Korea, Taiwan and Brazil. In the case of Japan imports of hand knitting yarns were also substantial.

Total imports from Japan, South Korea, Taiwan and Brazil of yarns identified as worsted spun machine knitting acrylic yarns during the period April to September 1974 were as follows:

Month	Thousands of pounds
April May	96 169
June	137
July	207
August	410
September	465

It will be noted from the above table that the volume of imports from these countries of worsted spun machine knitting acrylic yarns started to rise in July and that in August and September it was far above earlier levels. Japan remained the main source, with substantial amounts coming also from Taiwan.

Japan and Taiwan restrained their exports of acrylic yarns to Canada in 1972. In 1973 Taiwan was the only country to exercise a formal restraint covering this product. No restraint agreements covering acrylic yarns were negotiated for 1974.

Prices

Between 1971 and the first quarter of 1974 the average value for duty of acrylic yarns imported from Japan rose from 81 cents to \$1.66 per pound. Most of this increase occurred during the last half of 1973 under the pressure of an active demand and an apparent world wide shortage of acrylic fibre and yarns. The extent to which changes in product mix were a factor cannot be determined.

Early in 1974 it became apparent that in Japan and elsewhere acrylic yarn inventories had become excessive. Efforts to unload these inventories on a declining market at a time of credit stringency led to a collapse in the prices quoted in Japan both for home consumption and for export. This, of course, quickly affected prices in other markets. Japan Textile News, September 1974, reported that "domestic sales dropped sharply to 30-40 per cent of the normal level", during the April-June period. The spot price for 2/32 SMM worsted spun greige yarn, FOB Osaka as reported in the Asian Textile Record fell from \$1.58 U.S. at the beginning of 1974 to a low of \$0.76 U.S. early in October. South Korean yarn has been offered recently to Canadian firms at 85 cents U.S. per pound FOB South Korea. The foregoing prices are for undyed yarn in hanks or skeins. Allowing for transportation costs, duty and commission dyeing in Canada, such Japanese or South Korean yarns could be available in Canada at about \$1.50 to \$1.60 per pound, dyed. Similar current price data were not obtained by the Board for yarns from Taiwan and Brazil, but it appears that Taiwanese yarns have been readily available at about the same prices as Japanese yarns.

Prices of Canadian made yarns have not fluctuated as widely as those of Japanese yarns. The Canadian price in 1971-1972 for 2/24's dyed worsted spun yarn was generally about \$1.75 per pound with some producers selling as low as \$1.55. Late in 1973 and early in 1974 it rose to a range of \$1.90 to \$2.45 per pound, partly as a result of increases in the price of acrylic fibre. The bottom of the range appears to have remained at \$1.90 but the top was down to \$2.10 and possibly lower at the end of October. On the basis of data furnished to the Board by producers, it appears that the prices being quoted by Canadian mills in October, 1974, were barely sufficient to cover the cost of production of a mill operating at optimum efficiency, i.e. at close to 100 per cent of capacity. While Asiatic yarn has recently been offered

at prices considerably lower than this, it is clear that on the basis of prices recently reported in the Daily News Record United States worsted spun acrylic yarn would land at costs somewhat above prices currently being quoted by Canadian mills.

Conclusions

Injury

Although all types of acrylic yarns were included in the scope of this inquiry, the allegations of serious injury or threat thereof made by the Canadian producers during the inquiry related only to machine knitting yarns spun on the worsted system. Consequently, the Board addressed itself only to the question of whether or not imports of these particular yarns were causing or threatening serious injury.

It is apparent that there has been a remarkable change in conditions in the market for acrylic yarns since the Board's December 1973 report on the subject. Where there were shortages, there are now surpluses, and prices which were then at a peak have declined sharply in recent months. There is convincing evidence that these changes have occurred world-wide, and that worsted spun acrylic yarns are now being offered for sale in countries such as Japan and South Korea at prices substantially below Canadian costs of production. It is not possible to forecast at this time how long these conditions of excess supply and low prices will continue, nor is it yet clear how successful foreign suppliers will be in disposing of surplus inventories on the Canadian market. However, the surge in imports of acrylic yarn from Japan, in particular, during July, August and September, and the layoffs and temporary closings of the plants of some Canadian producers of worsted spun acrylic yarn during recent months leave no doubt that these conditions are already having an adverse impact on production in Canada. The reductions in Canadian production could, of course, be attributable to some extent to factors other than imports, such as a cyclical reduction in the size of the market. However, in the light of all the evidence the Board has concluded that worsted spun acrylic yarns for machine knitting are being imported into Canada at such prices, in such quantities and under such conditions as to cause or threaten serious injury to production in Canada.

On the basis of extensive import analyses carried out during this inquiry, the Board has concluded that imports of acrylic yarn from the United States and Britain do not constitute an immediate threat to Canadian production, the great bulk of these imports being of types of yarn other than worsted spun for machine knitting. On the other hand, on the basis of prices and conditions prevailing at present and in the recent past, the Board has concluded that worsted spun acrylic yarns for machine knitting are being imported from Japan, South Korea and Taiwan at such prices, in such quantities and under such conditions as to cause or threaten serious injury to the production of such goods

in Canada. As to imports from Brazil, the Board does not believe that these are at present causing or threatening imminent serious injury, but has concluded that they should be kept under surveillance with a view to prompt action being taken if this proves to be necessary.

Plans

The plans presented to the Board by the Canadian producers during this inquiry included some replacement of existing machinery and some expansion of capacity to produce worsted spun yarns in certain plants as well as an increase in capacity to produce other products. Viewing these plans in the light of the guidelines laid down in Section 18 of the Textile and Clothing Board Act, the Board found them acceptable. However, the Board wishes to repeat the comment it made in its December 1971 report on acrylic yarns that more consolidation of production facilities in this industry sector is desirable.

Application of Guidelines

The report received by the Board from the Department of Manpower and Immigration on the employment situation where acrylic yarns are produced indicated that maintenance of employment opportunities in those communities is an important consideration.

In the Board's opinion, the application of special measures of protection to worsted spun acrylic machine knitting yarns under the existing circumstances would not be inconsistent with Canada's international agreements, including the Arrangement Regarding International Trade in Textiles.

As to the interest of various classes of consumers, the Board noted that an organized group of knitters gave some support to the yarn producers' request for quantitative limitations on imports, on the grounds that it was in the knitters' interest to have a reliable domestic source of supply of acrylic yarns. The Board noted also that the effect of reasonable limitations of imports of this product on the ultimate consumer would be virtually undetectable.

On the question of ultimate viability, the Board remains of the opinion that, in the longer term, special measures of protection will not be necessary to permit the production of these yarns in Canada. Conditions now prevailing in international trade in this product are highly abnormal.

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On the basis of the foregoing considerations, the Board has concluded that it should recommend the introduction of special measures of protection with respect to imports of worsted spun acrylic machine knitting yarns from Japan, South Korea and Taiwan, for the calendar year 1975. The Board is of the opinion that these measures should be quantitative, and does not believe that the imposition of a surcharge on imports of acrylic yarn is desirable at this time.

In determining what levels of imports were appropriate, the Board was aware of the fact that, whereas the published statistics on imports include all types of acrylic yarns, its recommendation applied only to worsted spun yarns for machine knitting. During the twelve month period ending September 30th, 1974, two of the three countries named in the recommendation shipped some quantities of hand knitting yarn to Canada. In the case of Japan, hand knitting yarns made up a substantial percentage of its exports of acrylic yarn to Canada. The Board bore in mind also the fact that a restraint arrangement covering exports of acrylic yarn from Taiwan to Canada was in effect in 1973.

Taking these factors into account, the Board has concluded that the maximum total of imports of worsted spun acrylic yarn for machine knitting which should be allowed to enter Canada during the calendar year 1975 from Japan, South Korea and Taiwan should be 3.5 million pounds. The Board is of the opinion that, in the light of the provisions of the Arrangement Regarding International Trade in Textiles this total should be allocated on the basis of imports of acrylic yarns from the countries in question during the 12 month period ending September 30th, 1974.

It is to be hoped that satisfactory restraint arrangements can be negotiated with the countries in question. If, however, that does not prove to be possible, it will be necessary to make use of the Import Control List and a system of import permits.

The Board will continue to keep imports of acrylic yarns under close observation with a view, on the one hand, to recommending appropriate action promptly if other countries increase their exports to Canada in a disruptive fashion and, on the other hand, to recommending removal of the special measures of protection as soon as conditions permit.

RECOMMENDATION

The Board recommends that steps be taken to ensure that imports of worsted spun acrylic yarns for machine knitting from Japan, South Korea and Taiwan do not exceed 3.5 million pounds in the calendar year 1975.

E. a. Quinia

Chairman

Member Member

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TABLE 1

LABOUR FORCE IN LOCALITIES AND

CMC AREAS WHERE ACRYLIC YARN IS MANUFACTURED

Canada			Estimated our Force
Manpower Centre	Locality	Canada Manpower Centre	Locality
Drummondville Granby Grand'Mère Louiseville Valleyfield Sherbrooke St.Georges de Beauce St. Thérèse Cowansville Carleton Place Cambridge Guelph Hamilton Listowel Perth Scarborough Toronto (Incl.Scarborough)	Drummondville Granby Grand'Mère Louiseville Ormstown Sherbrooke St.Georges de Beauce St. Placide Sutton Almonte Cambridge Guelph Hamilton Listowel Perth Scarborough Toronto	24,680 25,945 12,195 9,045 23,045 62,550 27,180 30,970 8,990 5,450 31,480 42,585 226,140 15,690 7,235 N/A 1,134,310	12,700 13,455 5,990 N/A N/A 31,530 N/A N/A N/A N/A N/A N/A 154,080 367,000

Source: Department of Manpower and Immigration

TABLE 2

REGISTERED CLIENTS WITHOUT EMPLOYMENT
IN CMC AREAS WHERE ACRYLIC YARN IS MANUFACTURED
JULY 1974

Canada Manpower		Registered Clie Without Employm	<u>ent</u>
Centre .	Male	Female	Total
Drummondville Granby Grand'Mère Louiseville Valleyfield Sherbrooke St. Georges de Beauce St. Thérèse Cowansville Carleton Place Cambridge Guelph Hamilton Listowel Perth Scarborough Toronto (incl. Scarborough)	2,302 841 1,246 489 782 4,126 2,227 1,072 270 259 946 550 8,986 223 169 3,959 41,627	2,219 1,389 1,017 315 1,491 4,220 1,817 1,471 448 208 930 770 11,062 372 171 3,606 34,812	4,521 2,230 2,263 804 2,273 8,346 4,044 2,543 718 467 1,876 1,327 20,048 595 340 7,565 76,439

Source: Department of Manpower and Immigration

TABLE 3

IMPORTS OF ACRYLIC YARNS, BY SOURCE

·	•	•		January - S	eptember
	1971	1972	1973	1973	1974
			-000 pounds -		. •
Asiatic Sources				· .	٠.
Japan South Korea Hong Kong Taiwan Philippines	3,847 48 2 405 309	1,770 144 1 172 69	2,385 1,172 206 100	1,861 596 63 20	1,743 191 - 289 63
Sub-Total	4,611	2 , 156	3,863	2,540	2,286
Other Sources					
United States United Kingdom Brazil France Italy Belgium-Luxembourg All Other	787 136 61 41 54 11 357	947 65 2 73 46 53 200	3,266 1,724 602 356 89 51 138	1,634 1,305 267 315 28 27 74	2,678 1,669 253 231 12 25 122
Sub-Total	1,447	1,386	6,226	3 , 650	4,990
Grand Total	6,058	3,542	10,089	6,190	7,276

Source: Statistics Canada, Imports by Commodities

TABLE 4

IMPORTS OF ACRYLIC YARNS FROM SELECTED SOURCES
BY MONTH 1973-1974

		Japan	South Korea	Taiwan	Brazil	United Kingdom	United States	All Countries
				-00	00 pounds -			
1973	Jan. Feb. Mar. Apr. May June July Aug. Sept. Oct. Nov. Dec.	129 225 206 276 302 195 258 160 111 218 201 104	20 55 10 175 30 40 192 74 - 244 187 144	- - - - 20 - 50 - 30	- - 26 29 137 62 13 283 52 - 602	72 160 92 108 119 254 38 206 255 200 39 179	45 77 135 113 157 156 238 383 330 578 615 439	294 561 508 690 664 715 879 1,094 784 1,752 1,197 950
1974			,					
	Jan. Feb. Mar. Apr. May June July Aug. Sept.	100 112 1 185 215 165 265 335 365	- 115 50 1 - - 25 -	- - 30 - 52 52 55 100	- 44 31 46 48 22 16 47	157 94 273 275 194 126 62 233 255	464 414 259 384 373 265 200 145 154	767 812 679 977 863 693 697 871 899

Source: Statistics Canada, Imports by Commodities.

N.B. Imports from Japan, South Korea, Taiwan and Brazil are mainly worsted spun machine knitting yarn but include some hand knitting yarn. Imports from the United States and the United Kindom are mainly cotton spun yarn.