

Canada
TEXTILE AND CLOTHING BOARD



ACRYLIC YARNS

REPORT TO THE MINISTER OF INDUSTRY, TRADE AND COMMERCE
PURSUANT TO SECTION 19 OF THE TEXTILE AND CLOTHING BOARD
ACT RESPECTING ACRYLIC YARNS

OTTAWA, CANADA.
FEBRUARY 11, 1976.

ACRYLIC YARNS

The Board gave public notice in the Canada Gazette of December 13, 1975, that it was undertaking a review of the acrylic yarn situation in Canada, pursuant to the requirements of Section 19 of the Textile and Clothing Board Act. Interested parties were invited to submit views or information relating to this review not later than January 12, 1976.

Background

Following its initial inquiry in 1971, the Textile and Clothing Board reported to the Minister of Industry, Trade and Commerce its finding of a threat of injury resulting from the importation into Canada of worsted spun acrylic yarns for machine knitting 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 appropriate export restraint arrangements were concluded with the major exporters of the yarns in question.

The Board conducted a review of the acrylic yarn situation in late 1972 and found that events during the year had confirmed the seriousness of the injury, but that the situation of the producers had begun to improve. It considered, however, that because of the unsettled conditions then prevailing it would have been premature to remove the restraints applicable to imports of acrylic yarns. It recommended that the 4.4 million pound limit on such imports be retained in 1973.

A further review of the acrylic yarn situation made by the Board in late 1973 led to the conclusion that the situation had improved sufficiently to recommend the removal of all restraints on imports of acrylic yarns into Canada.

In September 1974, an allegation was made by the Canadian Textiles Institute that acrylic yarns were again being imported in injurious quantities, and the Board was requested to institute another inquiry on an urgent basis.

The Board did carry out the inquiry and found that market conditions for worsted spun acrylic yarns for machine knitting were significantly changed. There were world-wide surpluses of yarn, and prices offered by countries such as Japan and the Republic of Korea were below Canadian costs of production. In view of the rapidly increasing imports of acrylic yarns into Canada and of the reduced activity of the domestic spinners the Board concluded that worsted spun acrylic yarns for machine knitting were 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. The Board considered that the injurious imports were limited to those from Japan, the Republic of Korea, and Taiwan; that the maximum total of imports of worsted spun acrylic yarns for machine knitting which should be allowed into Canada in 1975 from those countries should be 3.5 million pounds; and that, in accordance with the provisions of the Arrangement Regarding International Trade in Textiles, this total be allocated on the basis of imports from the three countries in question during the 12-month period ending September 30, 1974. It was hoped that restraint arrangements with these countries could be negotiated. Failing that, however, the Board stated it would be necessary to make use of the Import Control List and a system of permits.

The Government accepted the Board's recommendations, but was unsuccessful in negotiating appropriate export restraint arrangements. Consequently, worsted spun acrylic yarns were placed on the Import Control List and steps were taken to ensure that the maximum limit of 3.5 million pounds of yarn for all three countries not be exceeded. No limitations were placed on imports from other countries, but permits were required for these imports for surveillance purposes.

Representations - Current Review

Representations were received from the Canadian Textiles Institute jointly with the three textile labour unions, one of which, the Canadian Federation of Textile Workers Inc., also presented a separate submission; three major Canadian producers of acrylic yarns; the Canadian producer of acrylic fibres; the Quebec Outerwear Knitters Association Inc.; and the Japan Silk and Synthetic Textile Exporters' Association jointly with the Japan Chemical Fibres Association. A complete list of those who made submissions to the Board is shown in Appendix I.

The Board and some of its staff members also met privately with officials of the Canadian Textiles Institute and some of the leading Canadian producers of acrylic yarns to obtain additional information about the situation.

In its brief to the Board, the Canadian Textiles Institute, jointly with the textile labour unions, made known its conviction that unless urgent and firm measures of protection were taken, serious and immediate injury that would be difficult to repair would occur to the Canadian acrylic yarn industry. It referred to the falling market for 100% acrylic worsted spun yarns, the high and continuing levels of imports of garments made of acrylic yarns, and the extraordinarily

high levels of inventories of acrylic yarns as contributory factors in the difficult position of the acrylic yarn industry. It considered, however, that the most important factor of the crisis in the industry was the large quantities of imports of 100% worsted spun acrylic yarns reported to be sold often below cost. As a result of such imports, some Canadian acrylic yarn producers had abandoned production of such yarns, and others had turned increasingly to blends of acrylic fibres and other fibres. It was felt, however, that it was not possible to continue in this situation. The Institute, therefore, considered that the Government must now decide whether the acrylic yarn industry should be left to disappear or if it should be helped. Should a decision be made to help the industry, the Institute recommended that, for the short term, no further import permits for 100% worsted spun acrylic yarns for machine knitting be issued in 1976 to low cost countries, and that a new restraint of no more than one million pounds imported from low cost countries designated by the Board be put in place for 1977, the allocation of this restraint to be determined by the Textile and Clothing Board and the Government at as steady a rate of entry as possible. For the long term, the Institute recommended that a solution be found to the problem of sales below cost, either by new legislation or by more effective and vigorous use of the tools at present at the disposal of the Government. It recommended also that sectoral restraints covering acrylic fibres, yarns and products be put in place and maintained for a minimum period of three years.

The Canadian producers of acrylic worsted yarns expressed their full support for the statements and recommendations in the brief presented by the Canadian Textiles Institute and the textile labour unions. They gave confidential details of how their operations had been adversely affected by the increased imports of acrylic yarns. They urged the Board to recommend the vigorous protective measures advocated by the Canadian Textiles Institute, stating that the only alternative for them would be to abandon production of acrylic yarns in Canada and to transfer their operations to the United States.

The Canadian producer of acrylic fibres also supported the brief of the Canadian Textiles Institute. In his confidential brief he described the adverse results on his operations of the high level of acrylic yarn imports, which had led to a decision to stop all expansion projects in acrylic fibre production, and to make no further investment in that area unless strong Government action were taken to provide a measure of protection to the Canadian market.

In its individual brief to the Board the Canadian Federation of Textile Workers (CSD) considered that the protective measures taken up to date had been totally inadequate. In order to protect what is left of the acrylic yarn industry and to restore some stability in this employment sector the Federation urged the Board to make immediate effective recommendations, and the Government to implement these without delay.

In its brief, the Quebec Outerwear Knitters Association took the position that import restraints were necessary to protect the domestic industry and recommended that the annual quota for acrylic yarn be reduced to 2.5 million pounds. The Association recommended that import licences for yarn be distributed on a more equitable basis, and at the same time that the Board consider the imposition of restraints on sweaters and yarns jointly, in order to maintain stable conditions where both spinners and knitters could survive.

The joint statement of the Japan Silk and Synthetic Textiles Exporters' Association and of the Japan Chemical Fibres Association pointed out that prices in the Japanese acrylic yarn industry had increased sharply and were no longer competitive with prices from other Asiatic countries; that Japanese acrylic worsted spinning capacity would decrease substantially; and that Japan's share of the Canadian market for acrylic yarns had been declining. Consequently, the Associations were of the opinion that import restraints on acrylic yarns from Japan were not needed.

A report was received by the Board from the Textile and Consumer Products Branch of the Department of Industry, Trade and Commerce, which detailed the current situation in the production and marketing of acrylic yarns in Canada. From the same department, the Office of Special Import Policy reported on developments in the administration of import controls in force since the Board's last report. Additional research was carried out by the Board's staff, including extensive analyses of import documents in collaboration with Statistics Canada.

The Canadian Industry

In early 1974 there were 13 producers of worsted spun acrylic yarns for machine knitting in Canada. At the time of the Board's last report in December 1974, it was stated that 3 of those producers had either phased out the spinning of such yarns or were in the process of doing so.

While no further attrition has yet taken place, some of the remaining 10 producers may be too small and too weak to remain competitive under existing market conditions. Other firms, which are among the largest and the strongest producers of acrylic yarn in Canada, have stated that they are prepared to cease operations in the face of what they view as a losing battle against imports whose prices are allegedly set with scant, if any, concern for production cost.

In 1973, the producers of worsted spun acrylic yarns had an estimated total capacity for worsted spun yarns of all fibres of 24 million pounds per annum, a decline from a peak capacity of 27 million pounds in 1971. In 1973 they produced 18 million pounds of worsted yarns of all fibres of which 10.5 million pounds were yarns containing 50% or more acrylic fibre.

While capacity has remained at approximately the same level throughout 1974 and 1975, the production of worsted spun yarns of all fibres in 1975 amounted to almost 16.5 million pounds, of which approximately 8.4 million pounds were yarns containing 50% or more acrylic fibre. However, inventories of these acrylic yarns increased by almost 900,000 pounds by November 30, 1975 over the comparable date in 1974, at which time inventories were already considered excessive in relation to market demand. As a result, unless unforeseen demand develops, production in 1976 will have to be curtailed below the reduced rates of 1975.

In order to evaluate the industry's contention that the production of 100% acrylic worsted spun yarns is vital to the existence of the Canadian worsted spinning industry, the Board analyzed the Canadian production of worsted yarns for machine knitting from 1973 to 1975. The results of this analysis are shown in the table below:

Canadian Production of Worsted Yarns for Machine Knitting

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>% Change from 1973</u>
	(000 lbs.)			
100% Acrylic Yarns	8,819	6,796	5,870	-33.4
Blends (50% Acrylic or More)	1,770	2,458	2,518	+42.3
Other Yarns	<u>7,522</u>	<u>7,643</u>	<u>8,092</u>	+ 7.2
Total Production	18,111	16,897	16,480	
Total Normal Capacity	23,650	24,172	24,000	
<u>Percentage of Total Production</u>				
	(percent)			
100% Acrylic Yarns	48.7	40.2	35.6	
Blends (50% Acrylic or More)	9.8	14.5	15.3	
Other Yarns	41.5	45.3	49.1	

Source: Industry, Trade and Commerce Report

It will be noted that the domestic worsted yarn spinners began to diversify heavily into production of blend yarns and other yarns in 1974. Nevertheless, total production declined by over 1.5 million pounds from 1973 to 1975, while production of 100% acrylic yarns declined by almost 3 million pounds during the same period. The industry has contended (and a comparison of their 1974 and 1975 production figures tends to substantiate this) that the market demand for blend yarns of 50% acrylic fibre or more appears to be levelling off.

It is also significant that while the industry operated at 77% of normal capacity in 1973, utilization of capacity had decreased to 69% in 1975.

Employment

A special survey conducted by the Department of Industry, Trade and Commerce provided the following data on employment by worsted yarn producers:

	<u>Number of Employees</u>		
	<u>Jan. 1, 1974</u>	<u>Jan. 1, 1975</u>	<u>Jan. 1, 1976</u>
All types of worsted spun yarns	3,170	2,514	2,407

It has not been possible to determine the exact number of employees affected to the production of 100% acrylic yarns. However, if it is assumed that employment is proportional to production, the following estimates of the number of employees producing 100% acrylic yarns only are obtained:

<u>Number of Employees</u>		
<u>Jan. 1, 1974</u>	<u>Jan. 1, 1975</u>	<u>Jan. 1, 1976</u>
1,544	1,011	857

These data show that total employment involved in the production of all types of worsted spun yarns decreased by 24 percent from January 1, 1974 to January 1, 1976. The change in employment in the production of 100% acrylic yarns was more severe, decreasing by 45 percent during this period. The percentage of employment affected to the production of 100% acrylic yarns has decreased from 49 percent of total employment on January 1, 1974 to 35 percent on January 1, 1976.

Investment

Capital expenditures of over \$3 million have been made in the worsted spinning sector over the last two years. The bulk of this investment has been made for the production of 100% acrylic worsted spun yarns. Producers have developed plans for future capital expenditures but these are being held in abeyance pending an improvement in the market and, on the basis of statements made to the Board by the producers, to an even greater extent on the outcome of this review.

The Market

The apparent Canadian market for 100% acrylic worsted spun yarns for machine knitting is as follows:

Apparent Canadian Market for
100% Acrylic Worsted Spun Yarns

	<u>1973</u>	<u>1974</u>	<u>Jan. - Nov.</u>	
			<u>1974</u>	<u>1975</u>
			(000 lbs.)	
Domestic Shipments	8,819	6,796	6,230	5,381
Imports*	<u>3,755</u>	<u>2,865</u>	<u>2,483</u>	<u>3,942</u>
Total	12,574	9,661	8,713	9,323
<u>Market Share</u>		- per cent -		
Domestic Shipments	70	70	72	58
Imports	30	30	28	42

Source: Shipments - Industry, Trade and Commerce Report.
Imports - Statistics Canada, Imports by Commodities,
and import analyses by staff of the Textile
and Clothing Board.

* See section on Imports for details.

The Canadian market for worsted spun acrylic yarns declined in 1974, but recovered somewhat during the first eleven months of 1975. All of this recovery was taken up by imports. Shipments by domestic manufacturers have continued to decrease. As a result, the share of the Canadian market held by Canadian producers has declined from 72% in the first eleven months of 1974 to 58% for the same period in 1975.

The decrease in Canadian shipments in 1975, which was 14% from the level of shipments in 1974, followed a decrease of greater magnitude in the preceding year. Shipments in 1975 were actually 33% below the level of shipments in 1973.

Imports

Imports of 100% acrylic worsted spun yarns for machine knitting are classed by Statistics Canada in import class 366-16 along with all other types of acrylic yarns.

An analysis of the imports in this class disclosed that the yarns which are the subject of this review are imported from the Republic of Korea, Japan, Taiwan, the Philippines, Hong Kong, Brazil and Colombia. Imports from these countries, with the exception of Japan, were found to be essentially 100% acrylic worsted spun yarns in hanks or skeins for machine knitting. In the case of Japan, the imports were found to consist in large part of hand knitting yarns. The percentage of 100% acrylic

The above manufacturing cost in Canada does not appear unreasonable in view of the fact that acrylic fibre in tow form is now selling in Canada at 76¢ a pound. In comparison, the average value for duty of the above type of yarns imported from the Philippines up to the end of November, 1975, was 80¢ a pound.

Summary and Conclusions

It is clear from the evidence which has been presented to the Board that the worsted spun yarn sector of the industry

- is vitally dependent for its existence on the production of 100% acrylic worsted spun yarns for machine knitting,
- is an essential link in the production chain from fibre to garment,
- has been under import pressures for several years, which pressures have intensified considerably in the latter part of 1975,
- as a result of these import pressures, has suffered serious declines in production and employment,
- has made serious efforts to diversify out of the production of 100% acrylic worsted spun yarns for machine knitting, into the production of blend yarns and yarns of other fibres.

In the opinion of the Board the nature of the problem confronting the industry is such that the solution is not confined to simply providing protection which would allow Canadian producers of 100% acrylic worsted spun yarn to "adjust" to the import situation. Unrestricted imports of these yarns would reduce domestic production to a level which would seriously jeopardize the existence of the entire worsted spun yarn manufacturing sector. The loss of this sector of the market could seriously affect the production of acrylic fibre and the manufacture of knitted garments in this country. The situation has already deteriorated to the point where the Canadian producer of acrylic fibre has cancelled plans to expand plant capacity even though construction had already begun.

The collapse of the acrylic worsted spinning industry in Canada would leave the Canadian knitting industry in the untenable position of not only having to rely on offshore suppliers for much of its raw materials, but also of having to rely on imports from the very countries whose knitted garments are sold in Canada in direct competition with the products of that industry. If such a situation were to develop the competitiveness of the Canadian knitting industry would then depend, to a great extent, on reasonable quantities of raw

materials being made available at reasonable prices from exporting countries with which Canadian knitters are competing in the Canadian market.

The markets for the other types of worsted spun yarns manufactured by the producers of 100% acrylic worsted spun yarn for machine knitting are finite. The markets for acrylic blend yarns, acrylic hand knitting yarns, and other worsted spun yarns could not possibly occupy the entire production capacity now being devoted to 100% acrylic worsted spun yarn for machine knitting. Furthermore, there is, at this moment, unutilized capacity even in those areas of production. The possibility of converting further 100% acrylic productive capacity to other worsted spun yarns is, indeed, limited. As a consequence, diversification by itself cannot be the long term solution for this industry since the product under review is an essential adjunct to the possible areas open for diversification.

As a result of this review, the Board has concluded that 100% acrylic worsted spun yarns for machine knitting in hanks and skeins 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. The Board is also satisfied that the industry has made acceptable progress in the implementation of its adjustment plans.

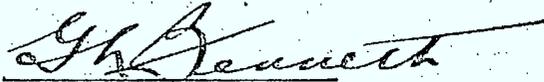
The Board has also concluded that the previously noted potential impact of the loss of this industry on both downstream and upstream producers (the knitters and the acrylic fibre producer) make it imperative that the deterioration in the industry should be arrested and alleviated. The Board is, therefore, of the opinion that it should recommend a tightening of the special measures of protection with respect to imports of 100% acrylic worsted spun machine knitting yarns in hanks and skeins.

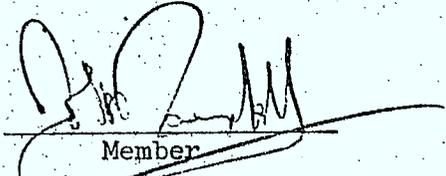
A major contention of the domestic acrylic worsted yarn spinners has been that their difficulties in meeting foreign competition in the Canadian market have been exacerbated by imports at prices which bear no relation to cost of production. While the Board is not in a position to comment on the accuracy of the industry's allegations respecting import prices it is concerned, however, that Canada should not lose a basically strong, competitive industry because of unrealistic import prices. In this respect, the Board is confident that the Government departments responsible for these matters would be prepared to examine the industry's allegations without delay.

RECOMMENDATIONS

The Board recommends that:

- (1) the Import Control List be amended to include 100% acrylic worsted spun yarns in hanks and skeins for machine knitting having an export price determined in accordance with the Anti-dumping Act of less than \$1.30 Canadian funds per pound;
- (2) a global quota be imposed on imports of the yarns described in (1) above for a three-year period beginning January 1, 1976;
- (3) the maximum level of imports under the global quota for the calendar year 1976 be 2.5 million pounds;
- (4) the maximum level of imports under the global quota for the calendar years 1977 and 1978 be the level of the quota for 1976, increased by the minimum amount possible, commensurate with Canada's international obligations; and
- (5) the responsible government departments examine the import prices for the yarns described in (1) above and take appropriate corrective action as may be indicated within the terms of existing legislation.


Chairman


Member


Member

ACRYLIC YARNS

LIST OF THOSE WHO MADE SUBMISSIONS TO THE BOARD

Canadian Textiles Institute

La Fédération Canadienne des Travailleurs du Textile Inc. - (C.S.D.)

Textile Workers' Union of America

United Textile Workers of America

Canadian Worsted Manufacturing Limited

Yarntex Corporation Limited

Zephyr Textiles Company Ltd.

Du Pont of Canada Limited

Quebec Outerwear Knitters Association Inc.

Japan Silk and Synthetic Textiles Exporters Association
and

Japan Chemical Fibres Association
