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**REPORT
ON A REVIEW
CONCERNING COATED
BROADWOVEN POLYESTER
FABRICS FOR USE IN
THE MANUFACTURE
OF TEXTILE COVERS**

Canada



Government
of Canada

Gouvernement
du Canada

Textile and
Clothing Board

Commission du
textile et du vêtement



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Ottawa, Canada
K1A 0H5

(613) 954-2771

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June 23, 1988

The Honourable Robert R. de Cotret, P.C., M.P.
Minister of Regional Industrial Expansion
Ottawa, Ontario
K1A 0H5

Mr. Minister,

The Board has concluded its review concerning coated broadwoven polyester fabrics for use in the manufacture of textile covers.


We have the honour to present to you the report of this review. It contains an overview of the situation of the sector in question, as well as our conclusions and recommendations.

Should you wish further information or explanations about this report, we will be pleased to do so at your convenience.


Yours sincerely,



Otto E. Thur
Chairman



William L. Hawkins
Member



Jacques St-Laurent
Member

Canada

TEXTILE AND CLOTHING BOARD

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COATED BROADWOVEN POLYESTER FABRICS
FOR USE IN THE MANUFACTURE OF
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1. MANDATE AND PROCEDURE

On February 27, 1988, the Textile and Clothing Board gave public notice of its intention to conduct a review of the situation in Canada concerning coated broadwoven polyester fabrics in which the warp is composed of filament polyester yarns, flat or textured, and where the coating accounts for 50 per cent or less by weight of the fabric, for use in the manufacture of covers for snowmobiles, motorcycles, and all-terrain vehicles. This decision to conduct a review stemmed, in large part, from representations made last year to the Board and to the Department of External Affairs by H.D. Brown Enterprises Ltd. concerning the difficulties allegedly encountered in sourcing their polyester fabric requirements in South Korea in 1987.

The purpose of the review was to determine if any recommendations should be made to the Minister of Regional Industrial Expansion concerning the modification or removal of the special measures of protection relating to these fabrics.

In its Notice of Review published in the Canada Gazette¹, the Board invited all interested parties to submit briefs on the subject matter no later than April 15, 1988. The Board also announced in the notice that it would hold hearings to receive supplementary data and asked interested parties to indicate if they wished to appear before the Board to make oral presentations.

1 See Appendix 1

Copies of the notice were distributed to interested firms, individuals and groups, including major trade and other organizations, and to interested government departments.

The Board received five briefs relating to the review: one by an organization representing the Canadian primary textile industry; one by a Canadian fibre producer; one by a Canadian producer of polyester fabrics; and two by Canadian manufacturers of textile covers.

Hearings took place in Toronto and Montréal during May, 1988. Four parties were heard, either publicly or privately. Appendix 2 identifies those who appeared before the Board at these hearings.

In addition to the information received in the briefs and during the hearings, Board personnel carried out research on the industry sector and conducted plant visits of all four domestic manufacturers of textile covers for snowmobiles, motorcycles, and all-terrain vehicles.

2. THE PRODUCT UNDER REVIEW

Coated broadwoven polyester fabrics have a multitude of end uses. The Board's review, however, was limited to those polyester fabrics used in the manufacture of covers for snowmobiles, motorcycles and all-terrain vehicles. These covers are designed to protect vehicles from the

elements, and have certain physical characteristic requirements, such as tear strength, cold crack resistance, adhesiveness, and water resistance. In addition to being used as covers for stationary and stored vehicles, the covers are often used during transportation when the vehicles are trailered behind an automobile or truck.

In addition to polyester fabrics, these covers are also made of nylon fabrics, or of nylon/polyester blend fabrics. All these fabrics are close substitutes in these specific end uses. The covers themselves may be "universal fit" products where only one size, or a limited number of sizes, are designed to fit all makes of a particular kind of vehicle, or they may be custom made to fit individual makes of each kind of vehicle. In the latter case, the fit of the cover can be more precise, and therefore the cover is less subject to stresses caused by flapping at high speed trailering.

The made-to-fit covers are sold to original equipment manufacturers (O.E.M.) who sell them to recreational vehicle dealers as accessories to the sale of their vehicles. The universal fit covers are also sold through recreational vehicle dealers to the vehicle aftermarket, but, additionally, are marketed through large retail chains.

The prices of these two kinds of covers vary significantly. Some consumers are quite prepared to pay more for O.E.M. accessories designed specifically to fit their particular vehicle and bearing the company

colours and logo. O.E.M. snowmobile covers, for example, sell in the \$100 range. Aftermarket purchasers, on the other hand, are more or less indifferent to product identification and affiliation and tend to purchase the more utilitarian (normally sold in black) universal fit covers for as little as one-third the price of an O.E.M. cover. This vast price differential suggests that global sales volumes for aftermarket covers would be little affected by relatively minor price changes resulting from changed production input costs such as the use of different fabrics.

**3. CANADIAN MANUFACTURERS OF COVERS FOR SNOWMOBILES,
MOTORCYCLES AND ALL-TERRAIN VEHICLES**

There are four Canadian manufacturers of such covers. Two of these manufacturers are located in Ontario, and two in Québec. One manufacturer in each province is a producer of covers for such original equipment snowmobile manufacturers as Bombardier, Yamaha and Polaris, while the other two produce covers for sale to the aftermarket.

J.R.C. Manufacturing Limited of Toronto, Ontario, and Les Créations Morin Inc. of Drummondville, Québec, sell covers to O.E.M.s. Both manufacture their covers from fabrics supplied by Consoltex Inc. of Montréal. These fabrics include 100% nylon fabrics, 100% polyester fabrics and, more recently, a 60% nylon/40% polyester fabric. The 100% nylon fabric has been the material most commonly used by these two manufacturers.

H.D. Brown Enterprises Limited, of St. George, Ontario and Gilles Soucy Inc. of Drummondville, Québec, sell covers to the recreational vehicle aftermarket. H.D. Brown Enterprises Limited has used South Korea as a supplier of 100% polyester fabrics while Gilles Soucy Inc. currently imports 100% nylon fabrics from South Korea.

4. THE MARKET

Precise data on the market in Canada for covers for snowmobiles, motorcycles and all-terrain vehicles are not available since only two of the four Canadian manufacturers of these products submitted briefs to the Board and testified before it. Nevertheless, on the basis of the data presented and that obtained by Board staff during visits to the other two cover manufacturers, it is likely that domestic shipments of the subject covers amount to only about 70,000 to 80,000 units on an annual basis.

There was no evidence to indicate that imports are significant in the market for snowmobile covers. However, covers for motorcycles are being exported to Canada by some original equipment manufacturers in Japan. No data is available on the volume of these imports. Nevertheless, some domestic production of these covers would still take place in order to service the aftermarket.

The question before the Board had to do with the availability, from domestic or offshore sources, of reasonably priced, quality fabrics which were suitable to the end use required of them. For lack of any evidence, the Board's review did not speculate about potential market penetration by imported covers in the future, although that threat was raised by a producer as a likely occurrence if low-cost imported fabrics could not be obtained from South Korea.

5. IMPORT RESTRICTIONS

There are currently three restrained low-cost sources of polyester filament fabric: South Korea, Taiwan and Poland. Korea is by far the largest supplier of the three restrained countries, and accounted for over 84 per cent of the total polyester filament fabric quota in 1987. Details of these restraint levels are provided in appendix 3.

In 1986, at the time when H.D. Brown Enterprises Limited was apparently encountering no difficulty in importing coated polyester filament fabrics from South Korea, the restraint level with that country amounted to just over 592 thousand kilograms of total polyester filament fabrics. In 1987, when the restraint definition was revised to specifically include coated polyester filament fabrics which had not been previously designated, the restraint level was almost 729 thousand kilograms, an increase of more than 23 per cent. In spite of this large increase in its permissible

level of exports, South Korea apparently chose to limit its exports of these polyester fabrics to types and constructions which were not acceptable to H.D. Brown Enterprises Limited. It is realistic to expect that any restrained exporter will tend to concentrate exports in the highest price category.

In any event, the 23 per cent increase in the South Korean restraint level in 1987 had an implied impact on the operations of Canadian producers of these fabrics, since these increased imports could represent lost sales opportunities.

Finally, there are unrestrained sources of polyester filament fabrics throughout the world, so that Canadian users of these fabrics have unrestricted access to imports from a multitude of other countries, including Japan and the United States, the two largest suppliers of these fabrics to Canada. In fact, U.S. polyester filament fabrics have been used in the past to manufacture covers in Canada.

6. FABRIC AVAILABILITY

In spite of a higher restraint level in 1987, H.D. Brown claimed that quota could not be obtained to import coated polyester fabrics from South Korea. As a one-time concession, the Department of External Affairs then granted H.D. Brown ex-quota permits to import this fabric in 1987.

This concession was made only to H.D. Brown Enterprises Limited, notwithstanding the fact that a Canadian manufacturer was supplying not only polyester fabrics, but also nylon fabrics and nylon/polyester blend fabrics to two of H.D. Brown's domestic competitors, and that the remaining cover manufacturer was competing successfully with imported nylon fabrics obtained under quota from South Korea. This concession was granted without consulting the Canadian fabric manufacturer or the three other cover producers.

It has been the contention of H.D. Brown Enterprises Limited that the firm cannot compete in the Canadian market for covers unless it can obtain low-cost polyester fabrics from South Korea. It has also been H.D. Brown's contention that Canadian fabrics, in addition to being uncompetitively priced, are either inferior in quality or unsuitable for cover applications. However, H.D. Brown has had no support from the other three Canadian cover manufacturers with respect to those contentions.

The argument was put forward that the construction of the South Korean polyester fabric (250 denier X 250 denier) was far superior to the polyester fabric construction offered by Consoltex (150 denier X 300 denier), but no evidence was offered to support that contention. Indeed, the Consoltex fabric was found to be perfectly suitable as a cover material by one of H.D. Brown's competitors. Nevertheless, Consoltex has

offered to produce a 250 denier X 250 denier polyester fabric to H.D. Brown's specifications if the company insists on having that particular product.

Brown also argued that the price of the imported South Korean polyester fabric, suggested as \$2.20 per metre (ex-quota), was substantially lower than the prices quoted by Consoltex for its polyester fabrics (\$2.75 per metre for the 150 denier X 300 denier construction or \$3.15 per metre for the 250 denier X 250 denier construction). While H.D. Brown maintained that the lower priced polyester fabric imported from South Korea was essential to the maintenance of his cover production in Canada, no invoices were produced to substantiate the allegedly lower price of \$2.20 per metre at which this fabric had been imported.

In the circumstances, the Board could find no evidential support for the arguments put forward by H.D. Brown with respect to either fabric availability, fabric suitability, or fabric price.

7. CONCLUSIONS

- Coated polyester filament fabrics of the particular yarn denier and construction demanded by H.D. Brown Enterprises Limited can be produced by Consoltex Inc. of Montréal on demand.

- Coated polyester filament fabrics of a slightly different yarn denier and construction, but of the same overall strength as that sought by H.D. Brown Enterprises Limited, as well as coated nylon fabrics and coated nylon/polyester fabrics, all currently produced by Consoltex, are being used by the Canadian industry which produces the subject covers.

- Coated nylon fabrics, imported under the existing import restraint agreement with South Korea, are being used by the Canadian industry which produces the subject covers.

- There was no support from the other three Canadian producers of the covers for the request by H.D. Brown Enterprises Limited for quota-free access to coated polyester filament fabrics imported from South Korea.

- There was no evidence supplied to support the contention of H.D. Brown Enterprises Limited that the price of the South Korean polyester fabrics was significantly lower than the prices for similar polyester, or other, fabrics available from a Canadian supplier.

- There was no evidence, and certainly no support from other Canadian cover manufacturers, to support the contention that the Canadian-made fabrics, of whatever fibre or construction, were inferior to the quality of the polyester fabrics produced in South Korea.

- There was no evident justification for the initial granting of permits to H.D. Brown Enterprises Limited to import South Korean polyester fabrics ex-quota in 1987.

- Such action was potentially detrimental to competitors of H.D. Brown Enterprises Limited who were using fully substitutable Canadian fabrics or other fabrics imported under the conditions of an existing restraint agreement.

8. RECOMMENDATIONS

The Board therefore recommends:

- that the request of H.D. Brown Enterprises Limited for permission to import, ex-quota, coated polyester fabrics from any of the countries with which Canada has restraint agreements on such polyester fabrics, not be granted;

- that any requests for ex-quota concessions, no matter how temporary in nature, be more widely circulated to interested parties to make the review process more equitable and transparent.

TEXTILE AND CLOTHING BOARD

NOTICE OF REVIEW

COATED BROADWOVEN POLYESTER FABRICS

The Textile and Clothing Board hereby gives notice of its intention to conduct a review, pursuant to Section 19 of the Textile and Clothing Board Act, of the situation in Canada concerning coated broadwoven polyester fabrics in which the warp is composed of filament polyester yarns, flat or textured, where the coating accounts for 50 per cent or less by weight of the fabric, for use in the manufacture of covers for such items as snowmobiles, motorcycles, and all-terrain vehicles. The purpose of the review is to determine if any recommendations should be made to the Minister of Regional Industrial Expansion concerning the modification or removal of the special measures of protection relating to this product.

The Board invites all interested parties to submit to it, not later than April 15, 1988, briefs relating to this review. Ten copies of each brief should be supplied. The Board will not make such briefs public; however, those submitting briefs are free to do so if they wish. Confidential information supplied to the Board will be treated in the strictest confidence.

Public hearings relating to this review are expected to be held by the Board in Montréal and Toronto, if required, in May 1988. Specific dates and places for hearings will be announced at a later date.

These public hearings will be for the purpose of receiving supplementary explanations or arguments from organizations or persons who will have presented briefs by April 15, 1988 and who have asked or have been invited to appear before the Board.

The Board will also receive requests for private hearings from parties who have presented or supported the presentation of briefs and wish to discuss confidential matters. These private hearings will be arranged at mutually convenient times.

All correspondence and briefs relating to this inquiry should be addressed to the Executive Director, Textile and Clothing Board, 235 Queen Street, Ottawa, Ontario, K1A 0H5 (telephone (613) 954-5014).

Ottawa, Canada
February 27, 1988.

**FIRMS AND ORGANIZATIONS WHICH SUBMITTED
BRIEFS TO THE BOARD AND
APPEARED AT HEARINGS OF THE BOARD**

	<u>Submitted a brief</u>	<u>Appeared at hearings</u>
Consoltex Canada Inc.	X	X
Canadian Textiles Institute	X	X
Du Pont Canada Inc.	X	
H.D. Brown Enterprises Limited	X	X
J.R.C. Manufacturing Limited	X	X

SUMMARY OF BILATERAL RESTRAINT ARRANGEMENTS(1)

POLYESTER FILAMENT FABRICS

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
	———— KG ————			
<u>South Korea</u>				
ORL	492,307	526,768	563,642	693,561
ARL	527,883	585,257	592,142	728,992
PI	495,732	573,601	573,036	684,678
UR	94%	98%	97%	94%
 <u>Poland</u>				
ORL	63,737	67,561	71,615	75,911
ARL	-	-	78,777	69,520
PI	43,491	7,734	17,010	15,461
UR	68%	11%	22%	22%
 <u>Taiwan</u>				
ORL	47,741	49,173	50,648	54,422
ARL	52,992	54,582	53,319	60,408
PI	45,851	54,443	47,141	57,143
UR	87%	100%	88%	95%

(1) Revised April 11, 1988

ORL - Original Restraint Level
 ARL - Adjusted Restraint Level
 PI - Permits Issued
 UR - Utilization Rate