

Apparel

HD9505
.C3
I5
1990-91
A5 c.2

IC

I
N
D
U
S
T
R
Y

P
R
O
F
I
L
E



Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Business Service Centres / International Trade Centres

Industry, Science and Technology Canada (ISTC) and International Trade Canada (ITC) have established information centres in regional offices across the country to provide clients with a gateway into the complete range of ISTC and ITC services, information products, programs and expertise in industry and trade matters. For additional information contact any of the offices listed below.

Newfoundland

Atlantic Place
Suite 504, 215 Water Street
P.O. Box 8950
ST. JOHN'S, Newfoundland
A1B 3R9
Tel.: (709) 772-ISTC
Fax: (709) 772-5093

Prince Edward Island

Confederation Court Mall
National Bank Tower
Suite 400, 134 Kent Street
P.O. Box 1115
CHARLOTTETOWN
Prince Edward Island
C1A 7M8
Tel.: (902) 566-7400
Fax: (902) 566-7450

Nova Scotia

Central Guaranty Trust Tower
5th Floor, 1801 Hollis Street
P.O. Box 940, Station M
HALIFAX, Nova Scotia
B3J 2V9
Tel.: (902) 426-ISTC
Fax: (902) 426-2624

New Brunswick

Assumption Place
12th Floor, 770 Main Street
P.O. Box 1210
MONCTON, New Brunswick
E1C 8P9
Tel.: (506) 857-ISTC
Fax: (506) 851-6429

Quebec

Tour de la Bourse
Suite 3800, 800 Place Victoria
P.O. Box 247
MONTREAL, Quebec
H4Z 1E8
Tel.: (514) 283-8185
1-800-361-5367
Fax: (514) 283-3302

Ontario

Dominion Public Building
4th Floor, 1 Front Street West
TORONTO, Ontario
M5J 1A4
Tel.: (416) 973-ISTC
Fax: (416) 973-8714

Manitoba

8th Floor, 330 Portage Avenue
P.O. Box 981
WINNIPEG, Manitoba
R3C 2V2
Tel.: (204) 983-ISTC
Fax: (204) 983-2187

Saskatchewan

S.J. Cohen Building
Suite 401, 119 - 4th Avenue South
SASKATOON, Saskatchewan
S7K 5X2
Tel.: (306) 975-4400
Fax: (306) 975-5334

Alberta

Canada Place
Suite 540, 9700 Jasper Avenue
EDMONTON, Alberta
T5J 4C3
Tel.: (403) 495-ISTC
Fax: (403) 495-4507

Suite 1100, 510 - 5th Street S.W.
CALGARY, Alberta
T2P 3S2
Tel.: (403) 292-4575
Fax: (403) 292-4578

British Columbia

Scotia Tower
Suite 900, 650 West Georgia Street
P.O. Box 11610
VANCOUVER, British Columbia
V6B 5H8
Tel.: (604) 666-0266
Fax: (604) 666-0277

Yukon

Suite 301, 108 Lambert Street
WHITEHORSE, Yukon
Y1A 1Z2
Tel.: (403) 668-4655
Fax: (403) 668-5003

Northwest Territories

Precambrian Building
10th Floor
P.O. Bag 6100
YELLOWKNIFE
Northwest Territories
X1A 2R3
Tel.: (403) 920-8568
Fax: (403) 873-6228

ISTC Headquarters

C.D. Howe Building
1st Floor East, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 952-ISTC
Fax: (613) 957-7942

ITC Headquarters

InfoExport
Lester B. Pearson Building
125 Sussex Drive
OTTAWA, Ontario
K1A 0G2
Tel.: (613) 993-6435
1-800-267-8376
Fax: (613) 996-9709

Publication Inquiries

For individual copies of ISTC or ITC publications, contact your nearest Business Service Centre or International Trade Centre. For more than one copy, please contact:

For Industry Profiles:

Communications Branch
Industry, Science and Technology
Canada
Room 704D, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-4500
Fax: (613) 954-4499

For other ISTC publications:

Communications Branch
Industry, Science and Technology
Canada
Room 208D, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-5716
Fax: (613) 954-6436

For ITC publications:

InfoExport
Lester B. Pearson Building
125 Sussex Drive
OTTAWA, Ontario
K1A 0G2
Tel.: (613) 993-6435
1-800-267-8376
Fax: (613) 996-9709

Canada

1990-1991

APPAREL

APR - 7 1992

BIBLIOTHÈQUE
INDUSTRIE, SCIENCES ET
TECHNOLOGIE CANADA

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.



Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

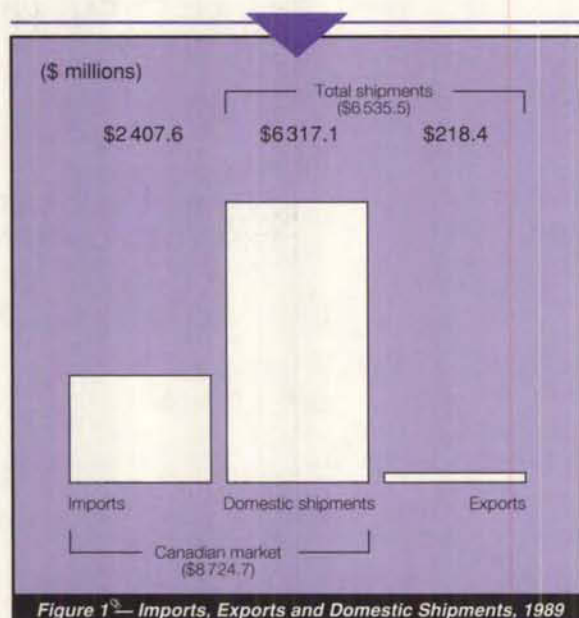
Structure and Performance**Structure**

The Canadian apparel industry has a reputation for producing a diversified range of fashionable, high-quality garments, mostly for the medium- to higher-priced retail markets. It also produces functional apparel for industrial and institutional users. The industry's principal products consist of women's, men's and children's wear, leather apparel, furs, foundation garments and a wide range of knitted apparel such as T-shirts, underwear, gloves, sweaters and hosiery. The fur sector is considerably different from the mainstream apparel industry, and its activities are described in a separate industry profile, *Fur Apparel*.

The first and perhaps most crucial step in the production of apparel is its design. The design can lead to either rapid

acceptance of the product by consumers or poor sales that force retailers to mark down prices in order to dispose of unwanted inventories. The other major steps in apparel fabrication include material sourcing, pattern making and grading, fabric cutting, sewing and finishing.

From its early beginnings in Canada, most of the industry has been concentrated in Quebec, which accounted for 57 percent of the total estimated apparel work force of 112 940 in 1989. Other provinces with a significant industry concentration include Ontario, which accounted for 31 percent of employment in 1989 and Manitoba, which had 6 percent. Manufacturers have chosen to locate primarily in the large urban centres of Montreal, Toronto and Winnipeg to be close to major markets and pools of semiskilled labour. Today, however, upward pressure on hourly wages in many of these areas is causing some firms to consider relocating to rural regions where labour costs may be lower. Apparel production



accounts for 18, 17 and 6 percent of all manufacturing employment in the metropolitan areas of Montreal, Winnipeg and Toronto, respectively. A feature of the Quebec segment is the presence of large contractors (firms that cut and sew garments for others) concentrated in the Eastern Townships. Indications are that the popularity and usage of contractors in other provinces is increasing.

Small enterprises predominate among apparel firms, estimated in 1989 at 2 425 establishments, of which about 650 were contractors. Roughly 88 percent of firms have fewer than 100 employees, but they provide only about half the jobs and value of shipments. About 76 percent of the total apparel work force are women and an estimated 45 percent are immigrants. About 40 percent of workers have union affiliation. Employment within the major subsectors is distributed as follows: women's wear, 39 000; men's wear, 39 000; children's wear, 7 400; foundation garments and knitting mill products, 14 000; and other apparel, such as occupational clothing, sleepwear, loungewear, swimwear and underwear, 15 900. In addition to employment reported in published data, there are an estimated 15 000 people working in their homes who are not included in official labour statistics, but who are occupied on a part-time basis making apparel.

Shipments of apparel produced in Canada were estimated at \$6 535.5 million in 1989, almost all of which was for domestic use (Figure 1). Imports in 1989 were valued at \$2 407.6 million and exports were \$218.4 million. More than three-quarters of all imports came from low-cost countries, while more than four-fifths of Canadian exports went to the United States.

There is little upstream integration in the industry. Virtually all firms purchase yarns and fabrics from textile mills. Apparel manufacturers are important customers of the Canadian textile industry, using about 35 percent of its output, measured in weight.

Ownership is predominantly Canadian, with foreign-owned companies accounting for less than 2 percent of the total number of firms. Although there have been some take-overs of Canadian firms over the years, most of the foreign-owned firms are part of multinational enterprises that have established their own production facilities in Canada to overcome high tariff barriers and serve the particular requirements of the Canadian market. These firms tend to concentrate on standardized large-volume products, such as jeans, foundation garments and underwear. Foreign-owned firms account for about 3 percent of total industry shipments. Industry, business and political interests are represented by one national association and 12 regional or product-specific associations throughout Canada.

Performance

The major factors affecting the demand for apparel include population growth, the level of personal disposable income and the aging of the population. Personal disposable income has been increasing in current dollars but the proportion spent on apparel has been fairly stable since the mid-1970s at around 5.5 percent. Since 1980, the overall market in current dollars has increased at a yearly average of about 5 percent. Although the overall market growth is not expected to accelerate over the next decade, anticipated increases in personal disposable income might stimulate discretionary spending on fashion-oriented apparel.

Changing lifestyles and leisure activities have been largely responsible for the increasing influence of fashion on consumer spending decisions. Consumers' awareness of fashion is having a direct impact on apparel manufacturers. Since the early 1980s, apparel firms have been driven more by the demands of the market than by production or operational considerations, as was the case in earlier years. In the early 1970s, the Canadian apparel market was less fashion-conscious than it is today. Price then was a more important factor in the consumer purchasing decision, which, in large part, prompted retailers to source an increasing portion of their inventories from low-cost countries. Although the influence of fashion on consumer purchases is increasing, the price of apparel nonetheless remains an important consideration in the buying process.

Increasing competitive pressure from low-cost imports began to disrupt what once had been stable markets. These imports have increased at rates in excess of Canadian market growth and apparel firms have lost market share.

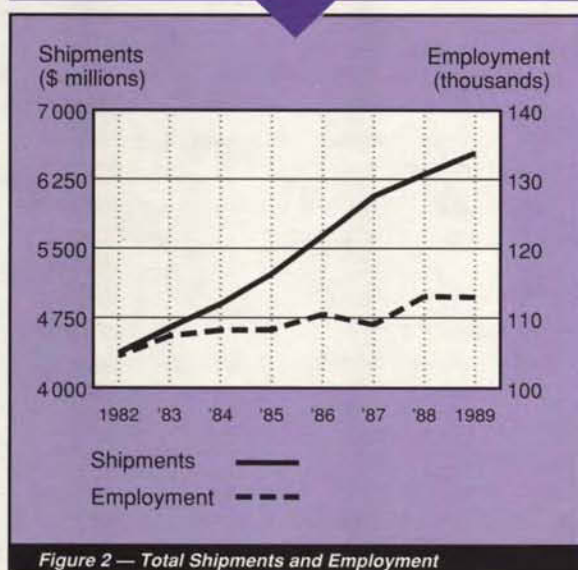


Figure 2 — Total Shipments and Employment

Over the years, the industry has attempted to adjust. To a great extent, however, the adaptation process has been hampered by the small Canadian market, high trade barriers protecting the markets of other major industrialized nations and a highly labour-intensive manufacturing process. Nonetheless, Canadian manufacturers are continuing their adjustment efforts by investing in new technology, reducing their costs, improving their market position and service to customers and importing directly to complement their own domestic production.

The pattern has repeated itself in other countries. Over the past three decades, the trend in the international apparel trade has been for low-cost countries to increase their share of world exports. These countries have put considerable emphasis on developing apparel industries that are primarily geared to exporting, and the trend is expected to intensify. Using their labour cost advantages, these countries have put increasing competitive pressure on the apparel industries of developed countries. Several newly industrialized countries (NICs), such as Hong Kong, have lately adopted a new strategic direction and have been working diligently at upgrading their products in order to compete with medium- to higher-priced merchandise produced in developed countries.

Import restraints have not stopped the Canadian industry's market share from declining. A growing number of apparel manufacturers are reducing the production of uneconomical lines and, in order to maintain their profitability as well as meet their customers' diverse needs, are importing an increasingly significant portion of their product mix. It is estimated that 25 percent of apparel imports are now accounted for by domestic manufacturers. This trend is expected to continue.

Since the early 1970s, there have been large fluctuations in import levels created by the underfilling of import quotas in one year, followed by steep increases the following year. This situation has been exacerbated by the emergence of new low-cost suppliers not covered by restraint agreements.

Between 1975 and 1988, the Canadian market for apparel (in units)¹ increased by 18 percent. During the same period, the volume of foreign apparel entering Canada grew by 27 percent² and increased its share of the market from 35 percent in 1975 to 41 percent in 1988, despite high tariff protection (about 25 percent) and bilateral import restraint arrangements. Canadian manufacturers did not benefit as significantly from the overall market growth during this period; the volume of net domestic shipments rose by only 11 percent (379 million units in 1988, compared with 342 million units in 1975).

Employment in the apparel industry in 1989 was lower by approximately 11 000 workers relative to the 1973 level, stabilizing at between 109 000 and 113 000 since 1986 (Figure 2). From 1976 to 1980, the sector's productivity growth compared very favourably with that of manufacturing as a whole. Despite an overall growth in the industry's productivity between 1976 and 1986, as shown in Table 1,

Table 1 — Growth in Productivity

Average annual growth in value-added per person-hour worked^a (%)

	1976-1980	1981-1986	1976-1986
Apparel	7.4	0.1	3.4
Textiles	4.1	3.6	3.8
All manufacturing	1.3	2.4	1.8

^aIncludes fur apparel; ISTC estimates based on constant 1981 dollars.

¹The industry uses units of apparel to evaluate performance, as this is consistent with the measurements used in negotiating import restraint arrangements.

²Volume data are available only for items under quantitative restraint. These represent about 75 percent of total industry shipments in value terms. Major product categories outside special import control measures include apparel accessories (e.g., scarves, ties and suspenders), hats and caps, gloves and mittens (other than work gloves), sheer hosiery and pantyhose, leather and fur garments, survival apparel and disposable garments.



the productivity level of the apparel industry is estimated to be 22 percent below that of the manufacturing sector as a whole. The long-term improvement was a consequence of increases in the value of apparel produced and a decline in employment due to rationalization and import competition, as well as direct improvements in production efficiency. In recent years, the apparel industry has definitely lagged in productivity, which may reflect a slower rate of investment in labour-saving technology than in the early 1980s.

Exports have not been a major factor in the industry's overall sales performance. However, over the past few years, there are signs that more firms are taking an interest in promoting exports. While still constituting a small portion of total activity, overall exports, excluding furs and accessories, have grown from 2.2 percent of total industry shipments in 1981 to 3.7 percent in 1987. Among the products exhibiting the best performance record are ladies' designer fashions, winter outerwear, some types of men's fine clothing, children's wear and occupational apparel. Sales to the United States, which absorb about 85 percent of Canada's apparel export shipments, have shown consistent improvement. Canada has shown that it is able to compete successfully in developed countries based on quality, style and price. An estimated 65 percent of apparel exported is fashion-oriented rather than commodity-oriented. Canada's competition in foreign markets is primarily from European producers.

The industry has generally maintained its profitability and long-term debt-to-equity position over the past 10 years. The relatively low ratio in apparel manufacturing (7.1 percent in 1987 compared with 23.2 percent for all manufacturing) is due to its lower capital requirements and reliance on short-term credit. For the same reasons, after-tax profit on capital employed by the industry from 1973 to 1987 has remained higher than that of all manufacturing (12.2 percent compared with 8 percent for all manufacturing in 1987). In 1987, the after-tax profit on total income in the industry was 3.2 percent, compared with 4.4 percent for all manufacturing.

This relatively good profit performance despite the industry's weak productivity and the persistent competitive pressure from low-cost imports is largely attributable to the industry's low capital requirements and labour intensity, the strongly entrepreneurial character of its management and the small size of the average firm. These factors have contributed to the industry's flexibility, allowing it to switch from one style (or product) to another as profitable market opportunities are discovered. As a result of operating in this high-risk environment, manufacturers have become averse to the long-term strategic reinvestment of profits and tend to concentrate on short-term tactical planning.

In 1988, apparel firms invested \$48 million (constant 1981 dollars) in buildings, machinery and equipment, down from the record level of \$50 million set the previous year. Nevertheless, the 1988 investment level exceeded by 7 percent the average annual investment of the previous four years.

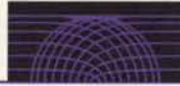
Most manufacturers located in the major apparel-producing regions have not had any significant difficulties in obtaining resources to finance restructuring projects or to acquire new technology. However, a good portion of the financial community has a poor image of apparel manufacturers, which is fostered by the heavy market penetration of low-cost imports and the special measures of protection. Some financial institutions may be hesitant to extend long-term financing to apparel manufacturers because of the low value of the industry's fixed assets relative to those of other manufacturing sectors. To enhance their capitalization, a number of firms have reorganized their financial structures and have become public companies. To date, however, this strategy does not appear to have been very successful; the share offerings have performed poorly on the public exchanges.

Strengths and Weaknesses

Structural Factors

The past two decades have been a period of transition for the apparel industry. It has struggled to become more competitive in the face of steadily increasing pressure from low-cost imports. Its efforts are being hindered by four significant long-term structural weaknesses: market size, comparatively high labour costs, a lack of variety in sources and kinds of materials within Canada, and the large number of relatively small companies. On the other hand, the industry's strengths — namely, its diversified manufacturing base and product range, high product quality, imaginative fashion orientation, flexible and adaptive manufacturing plants and good profitability — have enabled it to maintain a core group of strong and viable manufacturing enterprises.

Economies of scale are an important factor influencing the cost structure of apparel production. The potential for deriving important cost savings through larger-scale operations is limited by the relatively small size of the Canadian market. The small scale and the highly labour-intensive production processes are probably the major weaknesses facing the apparel industry today. Although there are certain scale economies to be gained in the case of standardized products such as pants and shirts, the average size of operations in Canada is considerably smaller than that of apparel industries in developed countries like the United



States and many low-cost suppliers (e.g., the Republic of Korea and Taiwan). However, an important strategic option is slowly gaining in popularity among apparel manufacturers in developed countries, including Canada.

Many firms are adjusting their production to accommodate shorter and more diverse production runs to better serve apparel markets where a quick response to fashion trends and the service needs of retailers has become crucial. Consequently, the market size and production scale disadvantages of Canadian firms are to some extent being offset by their compact size, which allows for greater production flexibility. Although this places additional pressures on production costs, new technology introducing modular or flexible manufacturing systems has the potential to relieve some of this pressure over the long term.

Wages account for 24 percent of shipment value, compared with 12 percent for all manufacturing. Unit labour costs for the apparel industry were about 6 percent higher in Canada than in the United States in 1986, the latest year for which accurate comparable data are available. There are no similar data available for low-cost countries.

Another structural weakness involves access to materials. The industry suffers disadvantages concerning the availability and price of Canadian-made apparel fabrics. Fabrics account for 35 to 45 percent of the industry's value of shipments. Apparel manufacturers cannot rely exclusively on Canadian-made fabrics, because the styles and patterns essential to meet the demands of fashion-conscious consumers are not available from textile firms in a sufficiently broad range. Approximately 50 percent of apparel fabric requirements are imported, with sources almost evenly split between developed and low-cost countries. The high tariffs on imported fabrics and yarns result in increased production costs for Canadian apparel manufacturers. The eventual removal of duties on U.S. apparel fabrics under the Canada-U.S. Free Trade Agreement (FTA) might help to reduce the impact of this problem if manufacturers could locate a wider variety of apparel fabric sources in the United States than in Canada. For the even wider variety of apparel fabrics originating in other countries, the government is addressing the problem of import costs by pledging to reduce textile tariffs to levels more comparable with those of other industrialized countries.

In most countries, apparel is manufactured by a large number of small companies. The Canadian industry does not suffer a serious comparative disadvantage in this regard, except perhaps in the manufacture of some high-volume items, such as pants and shirts. A diversified industry such as Canada's is more responsive to consumer fashion trends than some of the larger, more volume-oriented industries in low-cost countries and in the United States.

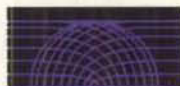
Until recently, the industry's management style could be characterized as entrepreneurial. Owners, supported by informally organized executive staffs, performed all the functions required in the day-to-day operations of the business. During the 1960s and 1970s, most firms did not establish and develop specific management functions in the areas of production, marketing and finance. Although this approach is still prevalent among the smaller firms, more and more of the medium-sized and larger operations have recently introduced specialized skills to their management teams to bring a more corporate approach to executive decision making. Despite this trend, many apparel firms suffer from chronic deficiencies in strategic planning, lack a cohesive approach to the adoption of new technologies and are generally reluctant to systematically reinvest profits.

The industry has not stressed improvement in market identification and development. Most management resources have been concentrated in other priority areas, such as cost reduction. In a market that is dominated by a limited number of large department stores and chain stores that are also significant importers, many apparel firms are not sufficiently familiar with the techniques of market development and positioning to be able to maximize their opportunities fully. The marketing strategies of many are confined to selling their products (through their own representatives or independent agents and wholesalers) to retailers at the most advantageous prices they can get.

Trade-Related Factors

Canada's tariff on apparel provides little protection for the industry against low-cost imports. The federal government's trade policy for apparel therefore involves the negotiation of bilateral quantitative restraint agreements with individual low-cost countries under the Multifibre Arrangement (MFA) sponsored by the General Agreement on Tariffs and Trade (GATT). Canada's objective, as well as those of the United States and the European Community (EC) in participating in the MFA since 1974 is to slow the growth of garment imports to give the apparel industry time to adjust to the increasing competition from low-cost countries. Approximately 50 countries, including Canada, are signatories to the MFA, the future of which is under review in the current Uruguay Round of multilateral trade negotiations (MTNs) under the GATT.

Canada's apparel tariff rates also are being negotiated in the Uruguay Round, since apparel tariffs had not been reduced as much as other tariffs in earlier talks. In the previous Tokyo Round of MTNs, for example, Canadian apparel tariffs were reduced by a trade-weighted average of 9.5 percent, those of the United States by 17 percent and those of the EC by 18 percent, whereas the average industrial tariff was



reduced by 33 percent. (Trade-weighted averages in effect in 1987 are shown in Table 2.) The developed countries felt that low-cost suppliers already had a considerable competitive advantage in developed-country markets without adding to that advantage through lower apparel tariffs. Because the MFA and apparel tariffs were virtually untouched in previous rounds, current efforts to negotiate a more liberalized trading structure might well result in both the dismantling of the MFA with improved GATT general safeguard disciplines and the reduction of tariff levels on fabrics and finished apparel.

As for the industry's need to import its material requirements, the implementation of tariff reductions under the FTA should assist apparel firms by giving them better access to the wide selection of fabrics in the United States. In addition, the government has responded to this long-standing problem by reducing the duties on certain types of specialized apparel fabrics. To complement these tariff initiatives, the government introduced three new sector-specific duty remission programs in 1989 for a period of nine years, the full period allowed under the FTA. It also enhanced the tailored-collar shirt program, which had been implemented earlier. The objective of these measures is to encourage the sectors of the apparel industry most adversely affected by import competition to implement effective adjustment strategies.

As well, the government has announced its intention to reduce Canada's fabric tariffs to levels comparable with those of other industrialized countries as a step in widening the variety of fabrics available. The Canadian International Trade Tribunal (CITT) has recently made recommendations to the government on the magnitude and the timing of reductions necessary to honour this commitment. The CITT recommended tariff cuts averaging 26 percent to be staged over a period of up to nine years. It also recommended that these

cuts be incorporated into the final Canadian MTN offer to obtain maximum credit for them. In receiving the CITT report, the government reiterated its commitment to introducing these tariff reductions to improve the competitive position of apparel manufacturers. The government has also expressed its intention to ask the CITT to study the costs and benefits of a tariff relief program for partially manufactured Canadian apparel processed abroad and returned to Canada as finished goods and its possible impact on manufacturers and employment.

Under the FTA, tariffs will be eliminated in 10 annual, equal steps beginning 1 January 1989. As a general rule, apparel made from third-country fabrics is not eligible for duty-free treatment under the agreement. However, the agreement allows an exemption to this rule whereby, in any calendar year, Canadian apparel exports to the United States made from third-country non-wool fabric up to 50 million square-yard-equivalents (41.8 million square metres) and from wool fabrics up to six million square-yard-equivalents (five million square metres) will qualify for the FTA tariff treatment. The Canadian duty-free limits or tariff rate quotas (TRQs) on similar apparel imported from the United States are 10.5 million and 1.1 million square-yard-equivalents (8.8 million and 0.9 million square metres), respectively.

Duty drawback provisions for the apparel industry (refund of duties on materials imported to make goods for export) are being continued for an indefinite period under the FTA, if the exported garments are made from third-country fabric and do not qualify for duty-free entry into the United States. For other industrial sectors, duty drawback on goods traded with the United States will be withdrawn within five years of the date of implementation of the FTA. Over the first five years of the implementation period, duty drawback can be claimed in full, whether or not the exported product qualifies for preferential tariff treatment.

In addition, both countries have agreed to move toward harmonizing their regulations in such non-tariff areas as the flammability and labelling of clothing.

The United States offers the most likely export market for most firms. In Europe, the duty-free movement of goods between EC countries, strong competition from European designer labels and the lack of aggressive marketing of private-label manufacturing capability have hindered Canada's apparel trade in this market.

Technological Factors

Apparel equipment manufacturers are located mainly in Japan, the EC and the United States. They have made major innovations to automate apparel production, shorten the manufacturing cycle and improve flexibility and productivity.

Table 2 — Post-Tokyo Round MTN Rates, 1987

Trade-weighted averages by value, (%)

	Apparel	Fabrics
Canada ^a	24.0	21.5
United States	22.5	11.5
European Community	13.5	10.5
Japan	14.0	9.5

^aThe trade-weighted average Canadian tariff on industrial goods is 10 percent.

Source: GATT, *Textiles and Clothing in the World Economy*, 1984.

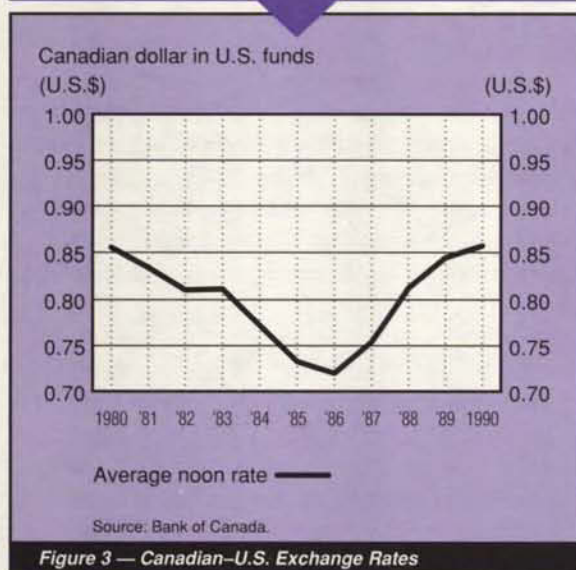
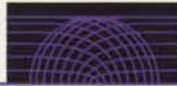


Figure 3 — Canadian-U.S. Exchange Rates

These developments usually involve computer-assisted design (CAD) and computer-assisted manufacturing (CAM). Such advances and the specialized management skills they require are being adopted at the early production stages (design, pattern making and cutting). Some progress has also been made toward the reduction of material handling costs. Automating the sewing process is complex, and consequently has been and is expected to be much slower. It poses major challenges for engineers and technologists in the area of robotics and systems infrastructure, with the result that progress has been restricted to certain high-volume operations.

These innovations were initially designed for larger-scale products and producers. Because of both this and the limited size of the Canadian market for international equipment suppliers, according to industry experts, the pace of adoption in Canada has been slower than the pace in Japan, the United States or the EC. Lately, however, equipment manufacturers have been paying increasing attention to the needs of the smaller firms typical in Canada and elsewhere.

New technology now available can improve the industry's ability to respond more quickly to changing consumer preferences. Dynamic manufacturers are co-operating with retailers to improve their response time by gathering consumer point-of-sale data using computerized bar-coding systems and electronic communications. The constantly updated information improves inventory control and reordering. When these relatively economical systems become fully operational, they will provide manufacturers with important time advantages and cost savings in competing against low-cost imports.

The application of the more complex new technologies to apparel production offers the potential to change the industry gradually into a more capital-intensive one in which developed countries can offset, to a limited extent, the wage advantage enjoyed by low-cost countries. Adoption of new technologies will likely accelerate industry restructuring to achieve greater scale economies. Nonetheless, the process will continue to be highly labour-intensive.

Other Factors

The industry imports about 15 percent of its fabric requirement from the United States, so the strengthening of the Canadian dollar against the U.S. dollar (Figure 3) has made these imports marginally less expensive. To date, currency fluctuations have had little impact on imports of finished apparel, given that most are from low-cost sources. Apparel manufacturers who have succeeded in selling to U.S. markets compete largely on the basis of style and quality.

Price is generally a less important consideration and, so far, currency fluctuations have had little impact on export competitiveness. However, industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the U.S. dollar. On the other hand, it is widely recognized that a significantly lower exchange rate weakens the international purchasing power of Canadians and can be inflationary. The resulting higher domestic costs and prices in turn can erode, over time, the short-term competitive gains of such a lower-valued dollar.

In the case of the EC, apparel manufacturers have faced an additional impediment as a consequence of the currency differential. The devaluation of the Canadian dollar relative to European currencies over the past two years has sparked renewed interest by manufacturers in that market.

Apparel manufacturers have not encountered any difficulties in meeting municipal, provincial or federal environmental laws or regulations. Indeed, some firms are developing innovative and environmentally friendly apparel packaging systems using recyclable materials without appreciably increasing their production costs.

Evolving Environment

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring.



With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

Over the long term, market growth is not expected to accelerate; in fact, weak growth may prevail throughout the next decade. However, rising incomes should generate a higher level of discretionary spending on apparel that is influenced by lifestyles and leisure activities. Changes in demographics and the current weak business climate are causing the industry to reconsider strategic options for the future. It is facing up to the fact that it must improve its domestic market positioning and seriously consider exporting to overcome the size and growth limitations of the Canadian market. The industry is also realizing that it must increase its investment in labour-saving technologies and develop original product lines and marketing techniques if it is to continue to be a viable and thriving sector.

The growth of apparel production in Canada will depend on how successfully manufacturers adapt to the new trading environment that emerges following the current MTNs and under the FTA. It is anticipated that additional competition will come from low-cost imports under the liberalized trading regime involving lower tariffs and the phase-out of MFA restraints, possibly over 10 years if the MTN is successfully concluded. In the FTA context, well-financed U.S. firms with their strong marketing capabilities are expected to create competitive pressures for Canadian manufacturers. The nine-year phase-in period for the FTA should allow Canadian manufacturers sufficient time to implement revised business strategies. Imports of apparel from the United States are not large at present but could increase if Canadian manufacturers, particularly those that concentrate on high-volume products such as shirts or foundation garments, are unable to rationalize their product lines and improve their marketing capabilities.

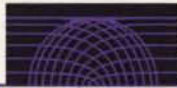
Although the tariff rate quotas in the FTA could eventually hinder the export efforts of many apparel manufacturers who rely extensively on foreign fabrics to give their products a fashion edge, the FTA significantly improves Canada's access to the U.S. market relative to the current situation. It is estimated that the negotiated tariff quota levels will provide manufacturers with the potential to increase their current level of exports to the United States by a factor of six without incurring Most Favoured Nation (MFN) duties. In addition, scale economies in that market and free access under the FTA to a wide variety of U.S. fabrics and yarns will help producers reduce manufacturing costs. Opportunities for exports are likely to be concentrated in fashion-oriented higher-quality outerwear, ladies' sportswear, co-ordinates, dresses and men's fine clothing.

If manufacturers improve their marketing and especially their restructuring of product lines and production capacity over the nine-year phase-in period of the FTA, there will likely be little change in overall shipments and employment that could be attributed directly to the agreement. Losses of market share among producers of basic items such as jeans or underwear, the loss of licences to manufacture U.S.-designed apparel in Canada and a possible reduction in the scope of Canadian operations by U.S. parent companies will likely be offset by job creation related to new opportunities to export to the United States.

The multilateral reduction of tariffs in the current round of MTNs is not expected to enhance, to any great extent, the export opportunities for the industry. Instead, the industry's efforts to adjust to the FTA will improve its competitiveness in other developed country markets such as the EC. The economic integration of Europe after 1992 will not have much of an impact on the industry's export competitiveness, as the barriers to EC market entry relate more to the high cost of market development. Tariff reductions under GATT could lead to increased import penetration, particularly from Western European countries. As well, multilateral freer trade would reduce the advantages of the FTA for Canadian exporters competing in the United States against third countries. Under multilateral freer trade, imports from low-cost sources would increase somewhat as they become even more price-competitive.

During the early 1990s, the annual growth rate in shipments of Canadian-made apparel for the Canadian market will likely be minimal, while export markets are expected to grow by an average annual rate of 10 percent because of the FTA. Imports, on the other hand, are expected to grow at an average annual rate of about 7 percent. Productivity growth is expected to average 2 percent per year. Over the long term, the number of firms and employment in the industry will probably decline as a consequence of anticipated rationalizations and increases in low-cost imports.

Canada, the United States and Mexico have initiated negotiations aimed at achieving a trilateral free trade agreement. For the apparel industry, the Mexican market is not of significant export interest at the present time. Similarly, apparel imports from Mexico are not very important now. If a three-way agreement were negotiated, the apparel industry would not be able to ignore the interesting potential of the Mexican market, in addition to the very attractive export opportunities available in the United States. On the other hand, there would be a need for considerable adjustment on the part of Canadian firms to increased imports of widely produced apparel from low-wage Mexican plants.



Competitiveness Assessment

The fragmented and entrepreneurial nature of the industry, the high seasonality of its operations and the fact that so much apparel is sold on the Canadian market by the 10 largest retailers have not encouraged the development of strategic business planning, profit reinvestment and strategic market positioning. The implementation of the FTA and the prospects for liberalized trade following a successful completion of the MTNs have provided powerful stimuli for the industry to change its attitudes and strategic approaches.

The apparel industry already competes fairly effectively against imports from developed countries for products in the medium- to higher-priced ranges. The adjustments that will be encouraged by the FTA and trade liberalization following the MTNs can only improve a generally favourable position, despite an increase in the level of competition by foreign garment producers on the Canadian market. It will also enhance access to the United States and other foreign markets and offer domestic producers an opportunity to develop production structures and marketing capabilities that will contribute to the improvement of their competitive position.

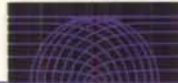
Under the current U.S. duty structure, Canadian apparel manufacturers have shown that they can compete in specific segments of the U.S. market. They likely will continue to be competitive with American manufacturers in a wide range of product lines. Canadian manufacturers will have access to apparel fabrics at the same price as U.S. firms when the FTA tariff reductions are fully implemented.

Nonetheless, a large segment of the industry is not now capable of competing against low-cost imports without special measures of protection. Despite the efforts being made by many manufacturers to acquire labour-saving technologies, the industry continues to be fundamentally labour-intensive, as production processes such as sewing are very difficult to automate.

Import penetration and slow market growth have increased pressures on manufacturers to rationalize and restructure. Although their adjustment efforts have been moderately successful, they cannot be expected to offset fully the significant cost advantages working in favour of low-cost countries. These adjustment efforts contribute, however, to expanding the core of apparel companies that can be expected to fare well in an environment of freer global trade.

For further information concerning the subject matter contained in this profile or to obtain any of the studies or reports listed on page 14, contact

Consumer Products Branch
Industry, Science and Technology Canada
Attention: Apparel and Footwear
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-2891
Fax: (613) 954-3107



PRINCIPAL STATISTICS^a

	1982	1983	1984	1985	1986	1987	1988	1989
Establishments	2 056	2 102	2 193	2 254	2 316	2 152	2 554	2 425 ^b
Employment	104 554	107 393	108 197	108 270	110 477	109 004	113 039	112 940 ^b
Shipments (\$ millions)	4 376.3	4 640.1	4 894.8	5 221.5	5 640.8	6 066.5	6 305.2	6 535.5 ^b
Shipments ^c (millions of units)	336.1	338.5	339.7	355.6	381.3	392.9	379.0	N/A
GDP ^d (constant 1981 \$ millions)	1 845.4	1 847.5	1 989.6	2 053.5	2 148.3	2 201.5	2 130.5	2 189.9
Investment ^e (\$ millions)	23.6	32.6	41.3	36.1	44.7	60.6	55.5	66.5
Profits after tax ^f (\$ millions)	70.6	139.4	148.7	157.8	175.0	199.8	N/A	N/A
(% of income)	1.7	3.1	3.0	2.9	3.0	3.2	N/A	N/A

^aFor establishments, employment and shipments, see *Clothing Industries*, Statistics Canada Catalogue No. 34-252, annual (major group 24, clothing industries, excluding SIC 2495, fur goods industry).

^bISTC estimates.

^cVolume data are available only for items under quantitative restraint, which represent about 75 percent of total industry shipments in value terms. Units exclude furs.

^dSee *Gross Domestic Product by Industry*, Statistics Canada Catalogue No. 15-001, monthly, including fur goods industry.

^eSee *Capital and Repair Expenditures, Manufacturing Subindustries, Intentions*, Statistics Canada Catalogue No. 61-214, annual, including fur goods industry.

^fSee *Corporation Financial Statistics*, Statistics Canada Catalogue No. 61-207, annual, including fur goods industry.

N/A: not available

TRADE STATISTICS^a

	1982	1983	1984	1985	1986	1987	1988 ^b	1989 ^b
Exports (\$ millions)	130.9	122.5	150.3	169.5	181.6	227.0	226.4	218.4
Domestic shipments (\$ millions)	4 245.4	4 517.6	4 744.5	5 052.0	5 459.2	5 839.5	6 078.8	6 317.1
Imports (\$ millions)	1 024.8	1 244.8	1 663.1	1 720.7	2 085.4	2 262.3	2 181.5	2 407.6
Canadian market (\$ millions)	5 270.2	5 762.4	6 407.5	6 772.7	7 544.6	8 101.8	8 260.3	8 724.7
Exports (% of shipments – value basis)	3.0	2.6	3.1	3.3	3.2	3.7	3.6	3.3
Imports (% of Canadian market – value basis)	19.5	21.6	26.0	25.4	27.6	27.9	26.4	27.6
Imports ^c (% of Canadian market – units basis)	33.0	38.0	41.0	41.0	42.0	42.0	41.0	43.0

^aSee *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly; and *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly, excluding fur goods industry.

^bIt is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.

^cVolume data are available only for items under quantitative restraint, which represent about 75 percent of total industry shipments in value terms. Units exclude furs.



SOURCES OF IMPORTS^a (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	12	10	9	7	6	6	5	7
European Community	9	10	11	15	17	15	14	13
Other developed countries	3	2	2	2	4	3	2	2
Low-cost countries	76	78	78	76	73	76	79	78

^aSee *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly, excluding fur goods industry.

DESTINATIONS OF EXPORTS^a (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	61	73	79	83	85	83	83	82
European Community	17	11	6	4	4	6	7	7
Other developed countries	17	11	7	5	8	8	7	7
Low-cost countries	5	5	8	8	3	3	3	4

^aSee *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly, excluding fur goods industry.

REGIONAL DISTRIBUTION^a (average over the period 1986 to 1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	1	65	25	6	3
Employment (% of total)	1	57	31	8	3
Shipments (% of total)	1	61	27	8	3

^aSee *Clothing Industries*, Statistics Canada Catalogue No. 34-252, annual.



MAJOR FIRMS

Name	Country of ownership	Location of major plants
Algo Group Inc.	Canada	Montreal, Quebec
Canadelle Inc.	United States	Montreal, Quebec Quebec City, Quebec
Cluett Peabody Canada Inc.	United States	Kitchener, Ontario
John Forsyth Company	Canada	Kitchener, Ontario
Levi Strauss & Co. (Canada) Inc.	United States	Edmonton, Alberta Brantford, Ontario Cornwall, Ontario Stoney Creek, Ontario Rexdale, Ontario
Mr. Jax Fashions Inc.	Canada	Vancouver, British Columbia Winnipeg, Manitoba
Nygard International Ltd.	Canada	Winnipeg, Manitoba
Peerless Clothing International Inc.	Canada	Montreal, Quebec
Stanfield's Limited	Canada	Truro, Nova Scotia



INDUSTRY ASSOCIATIONS

Name	Location
Alberta Apparel Manufacturers Institute	Edmonton, Alberta
Apparel Manufacturers Association of Ontario	Don Mills, Ontario
Apparel Manufacturers Institute of Quebec	Montreal, Quebec
British Columbia Apparel Manufacturers Association	Vancouver, British Columbia
Canadian Apparel Manufacturers Institute (CAMI)	Ottawa, Ontario
Canadian Shirts Manufacturers Association	Toronto, Ontario
Children's Apparel Manufacturers' Association	Montreal, Quebec
Lingerie and Loungewear Manufacturers Association of Canada	Montreal, Quebec
Manitoba Fashion Institute	Winnipeg, Manitoba
Men's Clothing Manufacturers Association Inc.	Montreal, Quebec
Men's Clothing Manufacturers Association of Ontario	Don Mills, Ontario
Quebec Fashion Apparel Manufacturers' Guild	Montreal, Quebec
Quebec Outerwear Knitters Association Inc.	Montreal, Quebec



SECTORAL STUDIES AND INITIATIVES

The following publications are available from Industry, Science and Technology Canada (see address on page 9).

Apparel Manufacturing in the United States

The study is intended to provide a comparison of the major features of the apparel industry in the United States.

Apparel Retailing in the United States

The Apparel and Footwear Division of ISTC has commissioned a consultant's study of the complexities of apparel retailing in the United States to encourage manufacturers to become better exporters to the United States.

Lingerie and Loungewear Sector Profile

The study describes the major characteristics of the sector and assesses its strengths and weaknesses.

Report on the Japan International Apparel Machinery Exhibition

The report, prepared by a consultant, highlights the major apparel technology innovations on a worldwide basis.

Sweater Sector Profile

The study provides an overview of the sweater sector. It gives some insight on how firms are adapting to low-cost imports, the FTA and how they have responded to technological advances.

The following initiatives are supported by Industry, Science and Technology Canada.

Fashion Apparel Sector Campaign

To encourage more manufacturers to adopt a global market attitude and to improve their product appeal, marketing techniques and business practices, the Apparel and Footwear Division of ISTC has recently embarked on a Fashion Apparel Sector Campaign. This initiative has been developed to enhance the industry's competitiveness by encouraging it to improve its fashion capabilities, management practices, marketing and technology, as well as linkages with apparel designers and the textile industry. In the context of this initiative, the industry has been asked to propose ways in which these issues may be addressed. The focus is on areas where the industry could modify its strategies to improve competitiveness. Management and technical skills as well as market and image development are being explored as ways of improving linkages between the textile and apparel industries and between designers and apparel manufacturers. A pledge by the industry or its members to take action on these several fronts will be matched by government encouragement and support of that undertaking.

Technology Study

The Apparel and Footwear Division of ISTC is in the process of commissioning a study to compare Canada's performance in technology adoption with that of comparatively sized industry segment in the United States and the European Community.

Printed on paper containing recycled fibres.

