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SECTOR COMPETITIVENESS FRAMEWORKS

APPAREL PART 1 – OVERVIEW AND PROSPECTS



**Industry
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Consumer
Products Industries

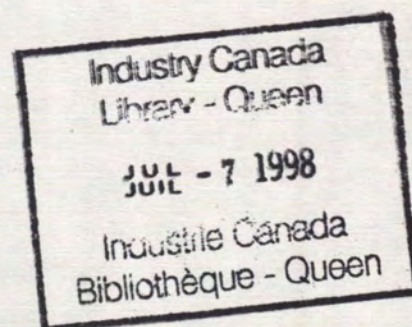
**Secteur
de l'industrie**
Industries des produits
de consommation

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APPAREL

PART 1 — OVERVIEW AND PROSPECTS



PREPARED BY:

**CONSUMER PRODUCTS
INDUSTRIES BRANCH**

This *Overview and Prospects* is the first of two companion documents on the Canadian apparel industry in the **Sector Competitiveness Frameworks** series, which is being produced by Industry Canada in collaboration with Canada's key stakeholders in the industry. *Part 2 — Framework for Action* will be prepared in coming months, based on discussions with major industry stakeholders, following study and review of the *Overview and Prospects*.

The **Sector Competitiveness Frameworks** series focusses on opportunities, both domestic and international, as well as on challenges facing each sector. The objective is to seek ways in which government and private industry together can strengthen Canada's competitiveness and, in doing so, generate jobs and growth.

Part 1 — Overview and Prospects is being made available for distribution in printed as well as electronic forms. In all, some 29 industrial sectors are being analyzed.

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FOREWORD

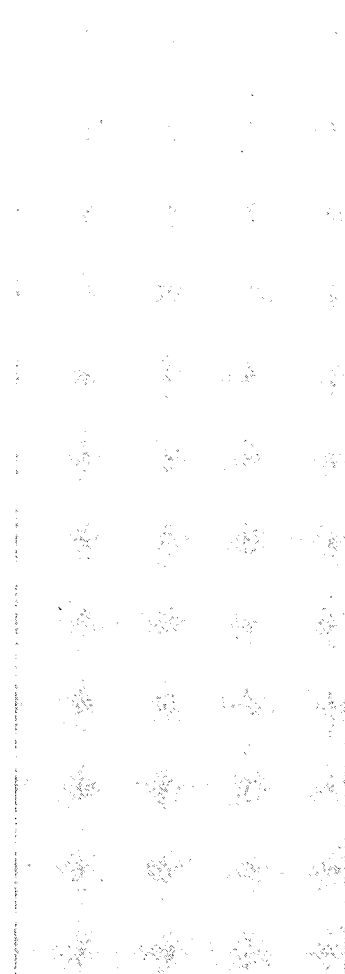
The new Canadian marketplace is expanding from national to global horizons and its economic base is shifting increasingly from resources to knowledge. These trends are causing Canadian industries to readjust their business approaches, and government must respond with new tools to help them adapt and innovate. Industry Canada is moving forward with strategic information products and services in support of this industry reorientation. The goal is to aid the private sector in what it is best qualified to do — create jobs and growth.

Sector Competitiveness Frameworks are a series of studies published by Industry Canada to provide more focussed, timely and relevant expertise about businesses and industries. They identify sectors or subsectors having potential for increased exports and other opportunities leading to jobs and growth. During 1996 and 1997, they will cover 29 of Canada's key manufacturing and service sectors.

While they deal with "nuts and bolts" issues affecting individual sectors, the Sector Competitiveness Frameworks also provide comprehensive analyses of policy issues cutting across all sectors. These issues include investment and financing, trade and export strategies, technological innovation and adaptation, human resources, the environment and sustainable development. A thorough understanding of how to capitalize on these issues is essential for a dynamic, job-creating economy.

Both government and the private sector must develop and perfect the ability to address competitive challenges and respond to opportunities. The Sector Competitiveness Frameworks illustrate how government and industry can commit to mutually beneficial goals and actions.

The Sector Competitiveness Frameworks are being published sequentially in two parts. An initial *Overview and Prospects* document profiles each sector in turn, examining trends and prospects. The follow-up *Framework for Action* draws upon consultations and input arising from industry-government collaboration, and identifies immediate to medium-term steps that both can take to improve sectoral competitiveness.



CONTENTS

1 HIGHLIGHTS	1
1.1 Major Trends	1
1.2 The Bottom Line	6
2 KEY POINTS ABOUT THIS INDUSTRY	7
2.1 Global Context	7
2.2 North American Context	9
2.3 Canadian Industry Snapshot	9
2.4 Public Policy Governing the Industry	14
2.5 Performance	17
3 CHANGING CONDITIONS AND INDUSTRY RESPONSE	29
3.1 Trade	29
3.2 Human Resources	30
3.3 Technology	31
3.4 Investment/Financing	32
3.5 Sustainable Development	32
4 GROWTH PROSPECTS FOR THE INDUSTRY	33
4.1 Market Growth	33
4.2 Apparel Retailing	35
4.3 Design, Quality and Marketing	36
4.4 Current Strengths and Weaknesses	37
4.5 Future Competitiveness Challenges	39
4.6 Future Opportunities	40
4.7 The Bottom Line	40
ANNEXES	
A Statistical Information	42
B The Multi-Fibre Arrangement	50
C Market Share Analysis	51

The apparel industry forms part of a complex supply chain in which a diverse range of apparel products is designed, produced and made available for purchase by the ultimate consumer. The suppliers of inputs, the apparel industry and the retail industry are inextricably linked in this effort. In addition, the apparel industry is a major player in the broader fashion industry, which encompasses the textile, leather, footwear, accessory and cosmetic industries as well as organizations involved in fashion education, modelling, fashion publications, promotion, sales and distribution.

In 1995, Canadian apparel industry shipments were valued at \$6.2 billion, representing 1.6 percent of the manufacturing total. Close to 2 000 firms employed about 84 000 people, who represented close to 6 percent of employment in the total manufacturing sector. The apparel industry, which is primarily privately owned by Canadians, is clustered in four provinces, the most important of which — Quebec — accounts for 67 percent of establishments, 63 percent of shipments and 56 percent of employment. The other clusters are located in Ontario, Manitoba and British Columbia.

1.1 Major Trends

The value of Canadian apparel shipments increased from the early 1980s to 1989. The industry underwent significant restructuring following the implementation of the Canada–U.S. Free Trade Agreement (FTA) in 1989 and during the recession of the early 1990s. Between 1988 and 1993, about 800 firms closed their doors and nearly 33 000 people lost their jobs. Between 1993 and 1995, both total shipments and employment increased.

The apparent Canadian market for apparel was valued at \$8.5 billion in 1995, based on wholesale prices. In 1995, domestic shipments accounted for 58 percent of the market, compared with 72 percent in 1988. Total imports, which made up 42 percent of the market in 1995, came primarily from China, the United States and Hong Kong and a number of low-wage Asian countries.

Apparel exports have increased rapidly since 1989, reaching \$1.3 billion in 1995. In that year, they represented 21 percent of shipments, compared with only 5 percent in 1989. Between 1990 and 1994, Canadian apparel exporters gained market share in the U.S. — by far the most important export destination — and accounted for 0.8 percent of total apparel sales in 1994.

Despite its recent export successes, Canada is not a major player on the world scene, accounting for less than 1 percent of world exports and about 2 percent of world imports. Although Canada has a negative (but improving) overall balance of trade in apparel, it does enjoy a positive balance of trade with the United States, its major trading partner in apparel.

Trade

Globalization and trade liberalization are impacting on apparel industries around the world. For the past 20 years or so, the apparel and textile industries in developed countries were protected from the rapidly expanding apparel and textile industries in developing nations. The latter, with large low-wage labour pools and a focus on exporting to the world, were able to penetrate developed country markets. From 1974 to 1994, apparel and textiles did not fall under the normal trading rules of the General Agreement on Tariffs and Trade. Trade in these industries was governed by the Multi-Fibre Arrangement (MFA), which allowed quantitative restrictions on imports of apparel and textiles to be negotiated bilaterally between member countries.

Since the late 1980s, protectionist policies have given way to trade liberalization. The implementation of the FTA and the subsequent North American Free Trade Agreement (NAFTA), implemented in 1994, as well as the introduction of the Canada-Israel Free Trade Agreement and the interim bilateral agreement between Canada and Chile, are altering the commercial landscape.

In addition, the Uruguay Round Agreement on Textiles and Clothing (ATC), concluded in 1994, provided for a 10-year, gradual phase-out of the quantitative import restrictions on apparel and textiles, which began January 1, 1995. Products are being removed from the quantitative restraint system in four steps over the phase-out period, and quota levels

will be increased. Tariff reductions were also part of the Uruguay Round negotiations and will be implemented in small increments over the 1995–2004 period.

The NAFTA, which led to the development of a single North American market, has increased competitive pressures while at the same time offering Canadian producers opportunities for growth. Canadian apparel exports to the U.S. have grown, but so have imports from the United States. American retailers, who often have well-established networks of suppliers, are becoming a more important factor in the domestic market. While some American firms are still according product licences to Canadian companies, others, faced with the gradual elimination of Canada–U.S. tariffs, are rescinding product licences and are repatriating production or moving it elsewhere.

The American apparel industry, which is about 10 times the size of the Canadian industry, is also undergoing significant restructuring in response to the implementation of the NAFTA. Employment in the industry fell by about 10 percent between August 1995 and August 1996 to the lowest level ever recorded. Production is shifting to Mexico and to the Caribbean, where the U.S. has unique outward processing arrangements. This restructuring is changing the import mix in the American and Canadian markets.

Canadian apparel firms source a large proportion of their textile inputs internationally. Apparel makers require access to a wide range of fabric constructions and styles in order to exploit all market possibilities. The apparel industry is of the view that Canadian textile producers cannot supply all these needs, while the latter argue that there is a degree of substitutability between different yarns and fabrics. Free trade agreements, duty remission programs, across-the-board tariff reductions and referrals to the Canadian International Trade Tribunal have provided some relief for apparel firms. As the U.S. is a major export destination for Canadian-made apparel, foreign sourcing of materials creates problems in meeting the NAFTA rules of origin. This problem is alleviated to some extent by tariff preference levels, which allow the export, at NAFTA preferential rates, of a specific quantity of products manufactured from inputs that do not originate in the NAFTA trade area.

Technology

Apparel technologies for the most part are developed outside the industry and outside the country. Major technological advances have occurred in the preproduction stages of apparel manufacture through the development of computer-aided design systems, and in the final production stages through the development of automated garment pressing equipment as well as sorting and packaging systems. Apparel manufacture worldwide still relies on the use of individually operated sewing machines, although specialized equipment has been developed to perform specific assembly operations.

Technologies are being adopted to reduce the time it takes to bring products to market. These technologies, which fall under the heading quick response (QR), include electronic data interchange, just-in-time manufacturing and vendor-managed inventory. New work methods have also been introduced that reduce throughput times for individual garments.

QR strategies are changing the relationship between manufacturers and retailers. Sophisticated information technologies able to track consumer preferences are allowing manufacturers to respond more directly and more rapidly to market demands.

Human Resources

Human resources issues are of particular importance to the apparel industry because labour costs on average represent more than 30 percent of production costs. Three quarters of all workers are female and about half of the work force consists of immigrants. Wage rates are about 60 percent of the average for the total manufacturing sector but are competitive with those offered in other developed economies including the U.S.

In 1995, industry and labour representatives asked Human Resources Development Canada for assistance in carrying out a human resources needs analysis of the apparel industry, which was conducted by Price Waterhouse Management Consultants ("Human Resources Needs Analysis of the Canadian Apparel Industry: Final Report (Draft)," Ottawa, 1996). The research identified a number of issues, including a need for better human resources planning, the development of strong networks across the industry especially between manufacturers and between educators and manufacturers, improvement of the industry's image, consolidation of apparel education programs and better industry-wide data gathering methods.

To address these issues, the report recommended, in part, establishment of a Human Resources Sector Council for apparel, establishment of strategic partnerships, development of various human resources management tools, and consolidation of apparel educational programs. Consultations to validate the results of the study were held early in 1997.

Demand Outlook

Demand for apparel is driven by demographic, economic and lifestyle factors. Because Canada's net population is expected to continue to grow into the next century, demand for apparel should increase. The demographics phenomena of the baby boom and echo, which together account for 56 percent of the population, will be the main drivers for the growth in demand. As baby boomers age, their needs in terms of apparel are likely to include a greater emphasis on quality, comfort, functionality, value and service. In 1996, the individuals comprising the baby boom echo phase began entering their teenage years, when people are typically more fashion-conscious.

Per capita expenditures on apparel, measured in constant dollars, declined annually from 1987 to 1992, but rose in 1993 and 1994. Demand for apparel has been adversely affected by other competing priorities such as the purchase of computers and other products. Also, today's consumers devote less time to the purchase of apparel.

Design, quality and marketing will determine the success of Canadian apparel products in domestic and export markets. As less time is spent shopping, consumers will look for reliable indicators of product quality and service. Brand-name development, used extensively in the U.S., caters to the consumer's need for mechanisms that provide a reliable signal of product quality.

Other Factors

In Canada, most apparel is sold through retail channels of distribution such as department, specialty or discount stores. With the significant consolidation that has occurred in recent years, apparel retailing has become highly concentrated. The Hudson's Bay Company is Canada's largest retailer. In general, large Canadian retailers have sought to narrow their supplier base and to increase their margins. In addition, there has been a

significant influx of American retailers such as The Gap, Eddie Bauer and WalMart. In some cases, this has created new opportunities, while in others it has led to the displacement of some domestic suppliers.

In the North American market, Canadian apparel companies generally do not compete with U.S. suppliers of goods having long production runs, such as basic men's underwear or T-shirts, but rather seek market segments where they can compete on the basis of innovation, unique design or quality. The flexibility of Canadian manufacturers and their reputation for European styling as well as quality will serve them well as they strive to increase their penetration of the U.S. market. Canadian manufacturers have had to remain flexible, to develop viable market niches, to improve quality and to increase responsiveness to the marketplace in order to gain competitive advantage.

1.2 The Bottom Line

The Canadian apparel industry has taken important steps in adjusting to major changes in its environment. Firms that have developed the ability to respond quickly, flexibility and a reputation for excellent design and high quality have succeeded in gaining a foothold in export markets. However, the industry will continue to face intense competition in both domestic and international markets.

To become more competitive, the Canadian apparel industry must supplement its production focus with a greater emphasis on marketing that will enable it to better meet the challenges posed by changing consumer and retailer demands and the need to take advantage of new opportunities in export markets.

2 KEY POINTS ABOUT THIS INDUSTRY

The Canadian apparel industry's principal products are women's, men's and children's wear, furs, foundation garments and a wide range of knitted apparel such as T-shirts, underwear, gloves, sweaters and hosiery. Most data used in this document come from Statistics Canada and are identified in its *Standard Industrial Classification* (SIC) system under Major Group 24 (Clothing Industry), which includes furs. This Overview, however, does not discuss the fur apparel industry, as its characteristics differ significantly from other segments of the apparel industry.

2.1 Global Context

Apparel is manufactured in virtually every country in the world. On a global basis, the apparel industry together with the textile industry are the largest source of industrial employment in the world. Apparel industries account for roughly half of that employment.

Apparel production is labour-intensive and requires only a limited number of special skills. Set-up costs are low, barriers to entry are few and rates of return on investment can be high. Therefore, many low-wage developing economies with abundant labour supply have attracted heavy investment in the apparel industry. This has resulted in consistent growth in apparel production levels among low-wage supplier countries with a focus on selling to the world, particularly to developed economies.

The apparel industry also contributes significantly to the economies of the industrialized countries. In 1993, total production in the member countries of the Organisation for Economic Co-operation and Development (OECD) was estimated at about \$250 billion. Canada, with production valued at about \$6 billion, ranked ninth of 22 countries (Figure 1). On average, production levels of the individual members' apparel industries represented about 2 percent of the total manufacturing sector in each country. Apparel manufacturing in the OECD countries provided employment for nearly three million individuals in 1993. Employment levels, as a percentage of total manufacturing employment, averaged 4 percent (Annex Table A-1).

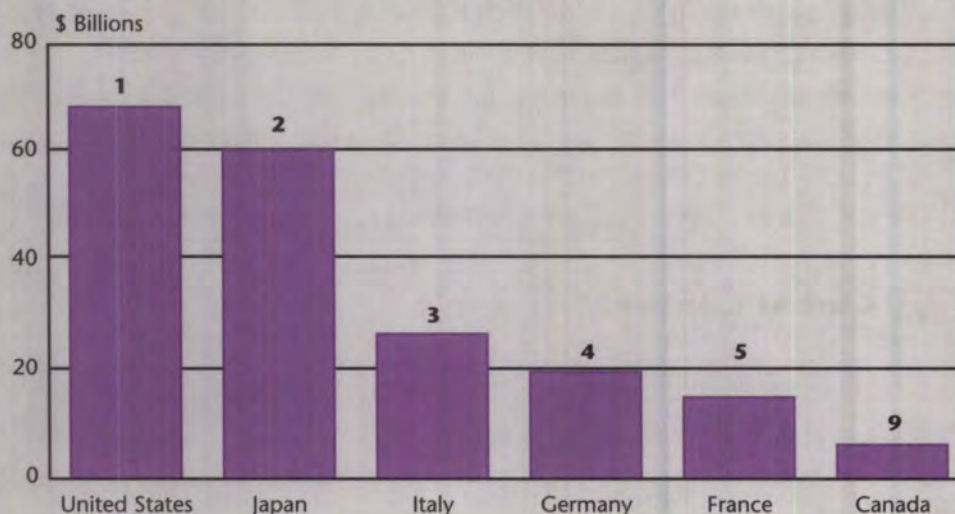
Apparel industry manufactures wide array of products

Apparel and textiles are world's largest industrial employers

Apparel has few barriers to entry and potentially high rates of return

Canada ranks 9th of 22 OECD countries in apparel production

Figure 1. Comparison of the Value of Production, Canada and Top 5 OECD Countries, 1993^a



^a 1992 for Germany.

Source: OECD, STAN Database 1994.

**One half of the \$190B
in world apparel trade
flows from developing
to developed countries**

**Interdependence
increases with
globalization**

World trade in apparel, as measured by the value of exports, was about \$190 billion in 1994, Canada's share being less than 1 percent. The major exporting countries were China, Hong Kong, Italy, Germany and the Republic of Korea. Based on 1992 figures, about 34 percent of trade flows between developed countries (including flows within the European Union), while over 50 percent is between developing and developed economies.

As a result of regional trading blocs and globalization, apparel firms operate in an environment that involves an increasing interdependence between countries supplying inputs, other factors of production or finished products. Linkages among firms can be complex, embracing both developed and developing economies in a network of trade relationships. For example, offshore processing, to take advantage of lower labour costs, is a common strategy of American and western European apparel manufacturers but is used only to a limited extent in Canada.

The United States, the world's largest single market, accounts for about 28 percent of world imports, followed by Germany and Japan. Canada accounts for close to 2 percent of world imports.

2.2 North American Context

As with other Canadian industries, the implementation of the Canada–U.S. Free Trade Agreement (FTA) in 1989 and of the North American Free Trade Agreement (NAFTA) involving Canada, the U.S. and Mexico in 1994 has had profound effects on the structure of the Canadian apparel industry. The creation of a single North American marketplace has encouraged many Canadian apparel manufacturers to develop an export orientation. It has also forced them to refocus their strategies and adjust their organizational structures to meet the demands and take advantage of the opportunities the North American market offers.

Since the introduction of the FTA, apparel exports have almost quadrupled, mostly through increased sales to the U.S. market, which has long been the industry's main export target. In 1995, the Canadian apparel industry exported products valued at over \$1.3 billion, 91 percent of which went to the United States. Canadian apparel exports make up only about 2 percent of total American apparel imports, but represent about one quarter of U.S. imports from developed countries, second only to those from the European Union.

The American apparel industry is well established and is about 10 times the size of the Canadian industry. The American industry is undergoing significant restructuring with reductions in domestic employment levels due to a continued shift in production from domestically based manufacturing to production in Mexico and in the Caribbean countries, where the U.S. has unique outward processing arrangements. In August 1996, U.S. apparel industry employment stood at 835 000, down about 10 percent from the level of the previous year, and represented the lowest employment level since 1939, when recording began. With this increased concentration of production in Mexico and the Caribbean, the U.S. has reduced its dependence on other — particularly Asian — sources of supply.

Although exports from Mexico to the U.S. have increased significantly since the NAFTA came into effect, they have not had a major impact on Canada's position in the American market. The most competitive Mexican products are generally in lower-priced markets or in segments where Canadian producers tend increasingly not to compete.

2.3 Canadian Industry Snapshot

The principal stages of apparel production are design, material sourcing, pattern making, marking and grading, fabric cutting, assembly and finishing. Some firms produce innovative, high-fashion apparel while others concentrate on adaptations of styles that are gaining acceptance

Single NA marketplace encourages Canadian apparel makers to export

Export increases have been dramatic

U.S. apparel industry is restructuring

Products range from high fashion to basic

**Fashion design
is industry hallmark**

**Apparel is significant
employer: over 84 000
in nearly 2 000
establishments**

with consumers and for which demand can be reasonably projected. Still other firms produce apparel having longer production runs, such as basic underwear or T-shirts, whose styles do not change as rapidly and for which demand can be predicted more accurately.

Apparel firms that produce more fashion-oriented products cater to up to six fashion seasons annually and need to start their planning cycles up to 18 months ahead of expected shipment.

Innovation in the form of fashion design is the apparel industry's most distinctive feature. It is a factor often overlooked in assessing sector competitiveness. While many other manufactured goods industries have a design focus, none has the same impact on the marketplace and influence on success as fashion design. It involves trend research, fabric sourcing and testing, and pattern and sample making.

While most Canadian fashion designers are employed as stylists by ready-to-wear manufacturers, a number of talented individuals have established reputations in the domestic market for the production of higher-end, ready-to-wear clothing under their own labels. Although most of these designers may not yet be known internationally, a few have gained recognition in the United States and other export markets.

The apparel industry is a significant component of the Canadian economy. In 1995, the industry accounted for 1.6 percent of Canada's total manufacturing sector shipments (Table 1). Close to 2 000 establishments were primarily engaged in apparel manufacture and employed an estimated 84 328 individuals, accounting for close to 6 percent of total manufacturing sector employment.

Table 1. Key Apparel Industry Statistics, 1995

	Apparel	Share of total manufacturing sector
		(%)
Employment	84 328	5.7
Total shipments	\$6.2 billion	1.6
Exports	\$1.3 billion	0.6
Imports	\$3.6 billion	1.8
Source: Statistics Canada, TIERS, CANSIM matrices 5439 and 4285.		

The total Canadian market for apparel, based on wholesale prices, was estimated at \$8.5 billion in 1995. Fifty-eight percent of the domestic market was supplied by Canadian manufacturers and the rest by imports.

While producers of women's wear accounted for most shipments and establishments in 1993 (the latest year for which such data are available) (Figure 2), men's wear firms accounted for the greatest proportion of industry employment.

Figure 2. Canadian Apparel Industry Subsectors, 1993



^a Other apparel includes a variety of products such as sweaters, occupational clothing and gloves.
Source: Statistics Canada, CANSIM matrices 9550 and 5451.

Small firms predominate throughout the industry, with approximately three quarters of firms having fewer than 50 employees. These firms account for about one third of industry shipments. Men's wear firms tend to be largest, averaging 74 employees per firm in 1993 (the latest year for which such data are available), and women's wear the smallest, averaging 30 employees in 1993.

The vast majority of companies are privately owned by Canadians. Foreign-owned firms account for about 2 percent of the total number of firms. Most foreign-owned firms are controlled by U.S.-based multinational corporations. They tend to be among the larger firms in the industry and concentrate on manufacturing large-volume products such as jeans, underwear and foundation garments.

Wholesale market for apparel was valued at \$8.5B in 1995

Small firms predominate . . .

. . . 98% are Canadian-owned

Contractors
specialize in cutting,
sewing apparel

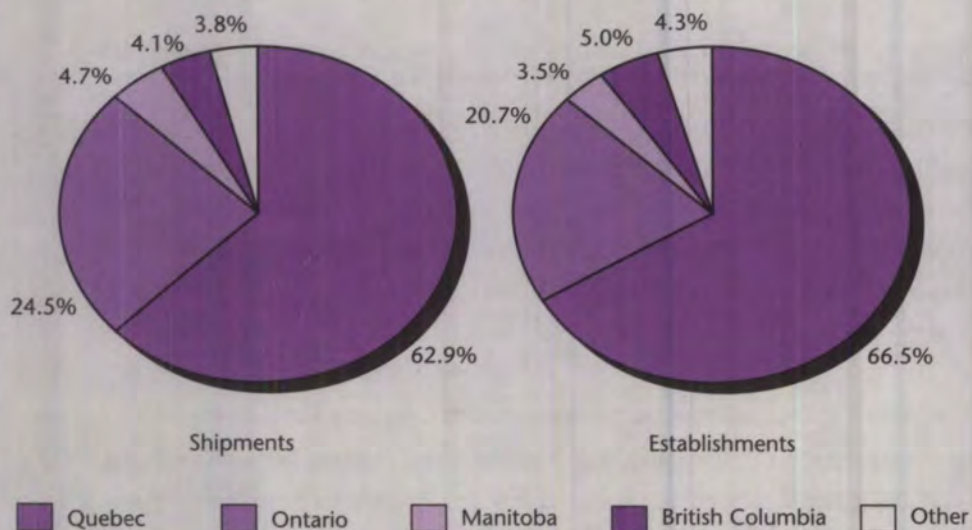
Firms are clustered
in 4 regions

There is little vertical integration. Upstream integration into textile production is most prominent in the sweater and hosiery subsectors and among larger underwear and active-wear manufacturers, which purchase yarns and knit their own fabrics. A number of manufacturers such as Roots, Mountain Equipment Co-Op and Tilley Endurables have integrated downstream into retail operations.

Firms that specialize in cutting and sewing apparel, known as contractors, account for about 25 percent of the total number of establishments in the industry. Many large contractors are located in Quebec's Eastern Townships. The use of contractors is more pronounced in women's wear than in men's wear. Because the latter is less influenced by fashion changes than women's apparel, production tends to be more mechanized, requiring a greater level of capital investment.

Although apparel is manufactured in all provinces and territories, Quebec accounts for 63 percent of the value of Canada's apparel production. Significant contributions come also from firms in Ontario, Manitoba and British Columbia (Figure 3). Firms are usually located in large urban centres near major consumer markets and labour sources. The industry accounts for significant portions of total manufacturing employment in Montreal, Toronto, Winnipeg and Vancouver. However, there is a recent trend toward firms establishing operations in rural areas and smaller communities.

Figure 3. Regional Distribution of Shipments and Establishments, 1994



Source: Statistics Canada, *Manufacturing Industries of Canada: National and Provincial Areas, 1994*, Catalogue No. 31-203-XPB.

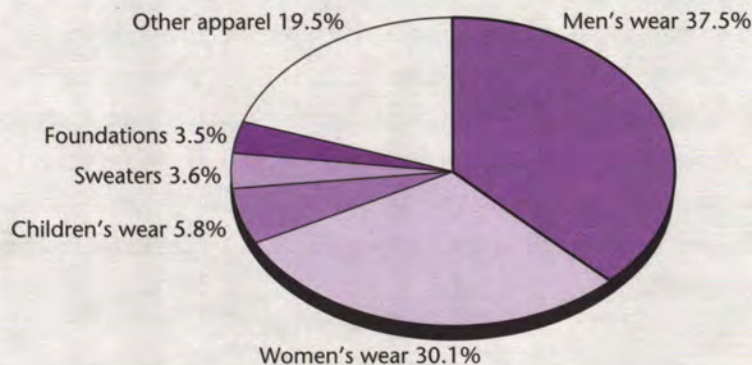
In terms of its contribution to provincial manufacturing output, the industry's largest impact is felt in Manitoba, followed closely by Quebec. In Quebec in 1994 (the most recent year for which these data are available), apparel accounted for 9.8 percent of manufacturing employment and was the province's most important manufacturing employer.

The Canadian Apparel Federation (CAF) is the national industry association representing the interests of apparel producers and related groups. The CAF, which was formed in 1993 with the aid of a five-year assistance program from Industry Canada, is affiliated with a number of regional associations. The CAF undertakes numerous activities including industry promotion, discount programs, information gathering and dissemination, export promotion and human resources planning and has provided a focal point for the industry's efforts to improve its competitiveness. Smaller associations, such as the Children's Apparel Manufacturers' Association and the Canadian Shirt Manufacturers' Association, represent specific subsectors.

Employment Profile and the Labour Market

Industry employment is spread across a number of subsectors, the largest of which is men's wear (Figure 4).

Figure 4. Employment by Subsector, Apparel Industry, 1993



Source: Statistics Canada, CANSIM matrices 5439 to 5457.

The apparel industry is an important employer of women and immigrants, with about three quarters of the total apparel work force being female and an estimated 50 percent immigrant. Most of the labour force are between the ages of 25 and 44. The industry's employees tend to be less educated than the average worker in the total manufacturing sector and, according to

**Most important impact
is in Manitoba
and Quebec**

**CAF has represented
industry since 1993**

**Industry employs many
women, immigrants**

the 1991 census, 56 percent of apparel workers have less than a secondary school education. The work force is also culturally diverse, often with limited French or English language capabilities. Apparel manufacturers may consequently face challenges in adopting new technologies where training or greater levels of interaction are required.

**Hourly wages average
60% of those in total
manufacturing sector**

Hourly wages in the Canadian apparel industry average about 60 percent of average hourly wages for the total manufacturing sector, as they have done since 1982. In the case of unionized firms, minimum wages in the apparel industry are established by collective bargaining agreements. Quebec and Ontario have industry-specific regulations governing wages and working conditions.

**Union affiliation
has declined**

It is estimated that about 30 percent of apparel workers have union affiliation. In Quebec, unionization has declined from more than 50 percent to less than 30 percent over the past two decades due to the downsizing/closing of unionized factories, the increased use of non-unionized contractors and home workers, and employers' increased resistance to unionization. The major union representing apparel workers is the Union of Needle Trades, Industrial and Textile Employees (UNITE), formed in 1995 through the merger of the Amalgamated Clothing and Textile Workers Union and the International Ladies' Garment Workers' Union.

2.4 Public Policy Governing the Industry

**Historically, apparel
industry has had
import protection**

Over the past quarter-century, the Canadian apparel industry benefited from significant import protection and adjustment assistance. The first national Textile Policy, introduced in 1970, led to the provision of financial assistance to firms for restructuring and adjustment assistance benefits to laid-off workers. With the announcement of a new textile and clothing policy in 1981, financial assistance was consolidated under the Canadian Industrial Renewal Board (CIRB), which was given a five-year mandate to promote adjustment in the textile, clothing, footwear and tanning industries.

**Under NAFTA,
apparel tariffs
between Canada
and U.S. will be
reduced to zero**

In the late 1980s, protectionism gave way to trade liberalization, and Canada entered into the FTA in 1989 and the NAFTA in 1994. Under the latter, apparel tariffs in 1996 stood at 5 percent or less between Canada and the U.S. and, in general, at 17.5 percent or less between Canada and Mexico. Under the terms of the NAFTA, which incorporates the tariff schedule of the earlier Canada-U.S. FTA, all tariffs on apparel will be reduced to zero. This will happen by January 1, 1998, for Canada-U.S. tariffs and by January 1, 2003, for Canada-Mexico tariffs.

A major feature of the FTA, made even stricter under the NAFTA, is the rules of origin. In general, they allow preferential access to apparel that is manufactured in North America from fabrics woven or knitted in North America from yarns produced in North America. If a product exported to another NAFTA partner fails this test, it is subject to the Most Favoured Nation (MFN) rate of duty. Annual tariff preference levels (TPLs) are an exception to this requirement. In the case of apparel, they allow manufacturers to export a specified amount of products manufactured from non-originating inputs at the preferential rate of duty.

NAFTA has strict rules of origin

From 1974 to 1994, apparel and textiles did not fall under normal trading rules of the General Agreement on Tariffs and Trade (GATT). Trade in this sector was governed by the Multi-Fibre Arrangement (MFA), which involved the negotiation of bilateral import restraint agreements, or quotas (see Annex B — *The Multi-Fibre Arrangement*). In 1996, Canada still had 43 bilateral apparel and textile import restraint agreements in place.

For 20 years, apparel did not conform to normal GATT trading rules

In addition to the phase-out of tariffs under the FTA and the NAFTA, the apparel industry is also facing tariff reductions as a result of the Uruguay Round of multilateral trade negotiations under the GATT, concluded in 1994. These reductions are occurring in annual increments over a 10-year period beginning January 1, 1995, and will reduce the average tariff for apparel from 25 percent to 18 percent. Tariffs on textile fabrics will also be reduced from a maximum of 20 percent to a maximum of 14 percent.

Tariffs are being phased out over 10 years . . .

The Uruguay Round Agreement on Textiles and Clothing also provided for the gradual phase-out of quotas on apparel and textiles over a 10-year period beginning January 1, 1995. Products are being removed from the quantitative restraint system in four steps over the phase-out period, with the second phase taking effect on January 1, 1998. At the same time, the annual quota growth rates of those products remaining under restraint are being increased according to a set schedule. The phase-out applies only to Canada's agreements with member countries of the World Trade Organization (WTO), which comprise 32 of the 43 bilateral restraint agreements.

. . . quotas also are being phased out

Under the Uruguay Round Agreement on Rules of Origin, Canada and other WTO members are working to establish one set of non-preferential rules of origin that could eventually be used for MFN tariff treatment, country-of-origin marking, safeguard actions and other purposes. The government has sought the comments of interested parties on the non-preferential rules for apparel and has submitted them to the World Customs Organization for consideration. Under the NAFTA, the rules of origin described earlier for determining preferential tariff treatment for textile and apparel goods are to be reviewed before January 1, 1998.

WTO works on new rules of origin

Existing duty
remission programs
are set to expire

Public policy in the apparel industry has also included duty remission programs, which currently cover tailored collar shirts, woven shirting fabrics, blouses and shirts, outerwear apparel, and woven outerwear fabrics. These programs, which aim at assisting the most vulnerable subsectors of the apparel industry adjust to increased competition, primarily from low-wage sources, are due to expire on December 31, 1997. The remission entitlements under these orders are conditional upon a manufacturer's fulfilment of specified performance requirements in terms of domestic production and in some cases sourcing. Under the NAFTA, existing performance-based duty remission programs cannot be extended nor can new programs based on specific performance requirements be introduced.

Other Regulatory Issues

Canadian-made
garments face manda-
tory and voluntary
labelling requirements

In Canada, the *Textile Labelling Act* and the Textile Labelling and Advertising Regulations require labelling articles of apparel in a prescribed manner to indicate fibre content and dealer identity. Care labelling of apparel is voluntary. However, if the Canadian system of coloured care symbols is used, this must be done in accordance with the National Standard of Canada, Care Labelling of Textiles.

NA labelling
requirements may
be harmonized

Work is proceeding under the NAFTA Subcommittee on Labelling of Textile and Apparel Goods to harmonize the labelling requirements in various areas including care labelling, fibre content information, dealer identity and the use of national registration numbers in the territory of the other countries, and the use of pictograms and symbols. The establishment of a single care labelling system in North America is being explored. The impact would be greatest on the United States, which is in the process of adopting a voluntary symbol-based system of care labelling.

CA database is
under review

In Canada, the responsible apparel dealer must be identified on the garment label by name and address or by using a registration number known as a CA number. A review, currently being conducted by Industry Canada, will examine the purpose and needs served by the CA number database as well as evaluate measures for keeping the information as current as possible. Since the NAFTA issue of mutual recognition of identification numbers is still unresolved, consideration of the proposal by the CAF to take over administration of the registry is still in abeyance.

The flammability of apparel is regulated under the *Hazardous Products Act*. The Act sets out a basic, minimum flammability standard for all consumer textile products and a somewhat stricter standard for children's sleepwear, depending on its design. The industry has not been

well informed about requirements under the regulations, and there has been no standard testing on the part of the industry to ensure compliance. Following a recent Health Canada advisory on fleece apparel, the CAF and the Canadian Textiles Institute began working together with Health Canada to address this issue.

Other Government Support Mechanisms

Through its Fashion Apparel Sector Campaign, Industry Canada supported the establishment of the CAF and funded the Inter-Firm Linkages Program. The latter, which was initiated in 1993 to encourage cooperative projects among apparel manufacturers, designers, textile suppliers and retailers, is no longer in operation. The CAF's funding agreement with Industry Canada ran from 1993 to March 1997.

The industry has also benefited from general federal initiatives, such as the Department of Foreign Affairs and International Trade's Program for Export Market Development (PEMD), and the National Research Council of Canada's Industrial Research Assistance Program (IRAP). As well, the industry receives assistance from federal regional development agencies and general provincial programs. Of particular importance is an industry-specific initiative, instituted by the Quebec government in 1994, to promote fashion design and increase sales of high-value-added, quality apparel. Tax credits as a percentage of the design costs incurred by a qualifying manufacturer are allowed as an offset to the amount of any corporate tax due.

2.5 Performance

Growth and Profitability

The 1980s were a period of significant growth for the Canadian apparel industry. This was interrupted by the recession of the early 1990s and the introduction of the FTA. More intense competition from the U.S., coupled with the effect of increasing offshore imports, accentuated the impact of the decline in domestic demand over the early 1990s on Canadian producers. Apparel shipments went down, the number of establishments declined and the industry experienced two years (1991 and 1992) of operating losses.

Between 1988 and 1993, the industry lost more than 800 firms, amounting to 30 percent of its total, with most of the closures occurring in 1991. The number of closures was fairly evenly distributed across all the major subsectors. The percentage of shipments, employment and establishments accounted for by each of the major subsectors remained fairly consistent between 1989 and 1993. Along with the decline in the number of firms between 1988 and 1993, there was an average annual loss in measured employment of 5.2 percent over this period, with the biggest losses occurring in 1991 and 1992.

**Sector campaign
encouraged
cooperative projects**

**Other support
mechanisms promote
exports, fashion design**

**Industry was hit
hard by recession,
introduction of FTA . . .**

**. . . with loss of firms,
reduced employment**

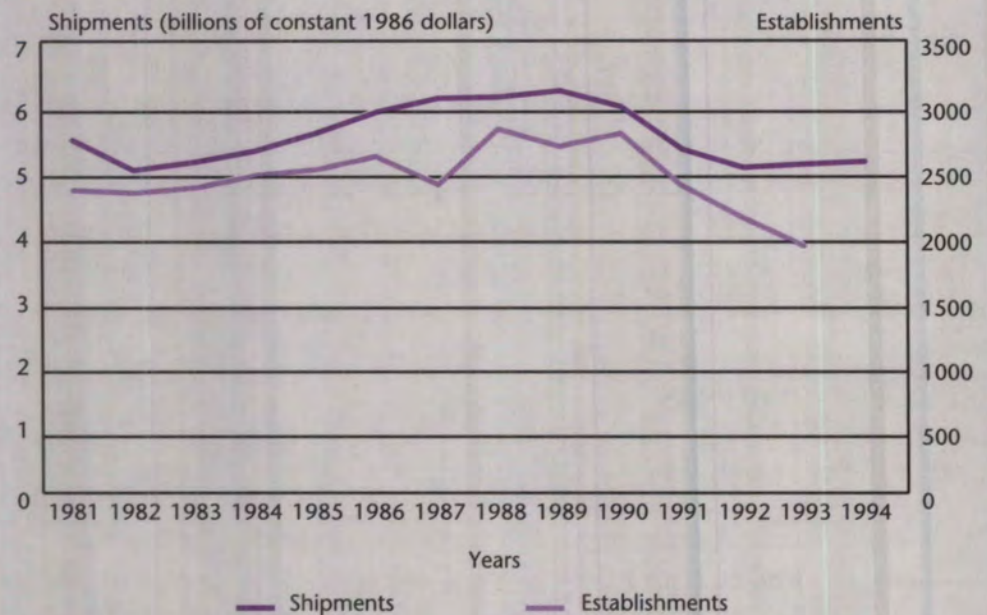
Since 1993,
employment has been
relatively stable . . .

. . . and value
of shipments
began to recover

Since 1993, apparel employment has been relatively stable. Estimates indicate that it increased at a rate of 1 percent in both 1994 and 1995 and continued to benefit from growing industry shipments into 1996. In comparison, the total manufacturing sector from 1988 to 1993 showed an average annual decrease in employment of 3 percent.

Apparel shipments, based on constant 1986 dollars, declined from a peak of \$6.4 billion in 1989 to \$5.1 billion in 1992, which returned production to levels achieved in 1982. In 1993 and 1994, shipments grew at the rate of 1 percent annually. However, the decline in the number of establishments was more severe than the decline in the value of shipments (Figure 5), indicating that there has been some consolidation of apparel production.

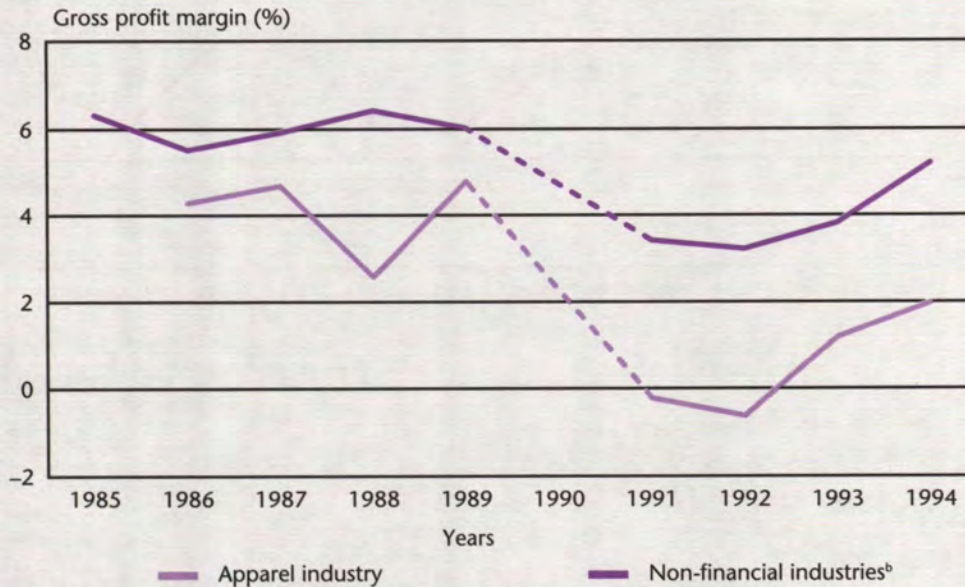
Figure 5. Apparel Shipments and Establishments



Source: Statistics Canada, CANSIM matrices 5439 and 2008.

Gross profit margins achieved in the apparel industry recovered in 1993 following the two years of losses. However, between 1986 and 1994, they were consistently lower than those achieved in all non-financial industries. Moreover, the gap was wider in the early 1990s than in the late 1980s (Figure 6).

Figure 6. Financial Performance^a



^a Data for 1990 are not available.

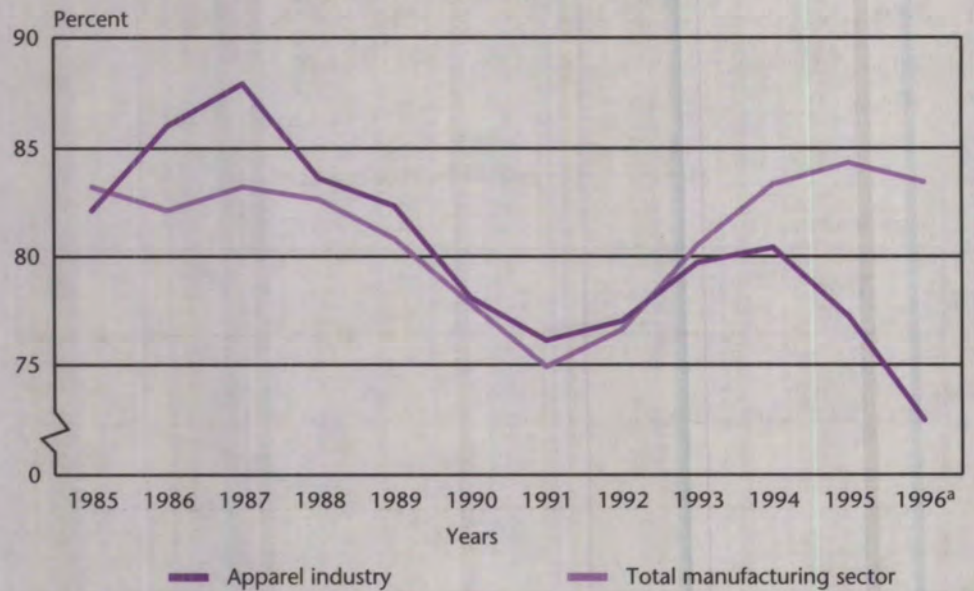
^b Includes industries such as total manufacturing, services and transportation.

Source: Statistics Canada, *Financial Statistics for Enterprises*, Catalogue No. 61-219P.

Capacity utilization in the apparel industry fluctuated widely between 1985 and 1995, reaching a high of 88 percent in 1987 and a low of 76.1 percent in 1991. While capacity utilization was above the average for the total manufacturing sector from 1985 to 1992, it then fell below the total manufacturing average (Figure 7). The continued decline in recent years is in contrast to the recovery in utilization rates in total manufacturing and indicates that the apparel industry is still adjusting to the effects of the decline in domestic market sales since 1989.

Profit margins are consistently below those of non-financial industries

Capacity utilization has fluctuated widely

Figure 7. Capacity Utilization

^a Average of the first three quarters.

Source: Statistics Canada, CANSIM matrix 3140.

Trade

**Recent export growth
is outstanding . . .**

**. . . especially in men's
and boys' wear**

While traditionally the apparel industry has not been heavily export-oriented, this has started to change in recent years. This change is occurring within the context of a process of North American rationalization that is giving rise to both strongly increasing apparel exports to, and growing imports from, the U.S. Recent export success, due in part to the low Canadian exchange rate, reflects the Canadian apparel industry's successful adaptation to changing conditions, which augurs well for the industry's long-term prospects.

Between 1990 and 1995, the average annual growth rate of exports was 32.5 percent, compared with 12.7 percent for total manufacturing over the same period. As a result, apparel exports represented 21 percent of apparel shipments in 1995, up from 5 percent in 1989 (Figure 8). Canada's highest export orientation is in men's and boys' apparel, which accounts for 38 percent of all apparel exports, followed by women's wear at 26 percent, fur apparel at 6.3 percent and children's wear at 5.5 percent.

Figure 8. Export Share of Canadian Apparel Shipments, by Subsector

Source: Statistics Canada, CANSIM matrix 9550 and TIERS CD-ROM.

Over 91 percent of apparel exports are shipped to the U.S. market. Other export markets include Japan, the United Kingdom and Germany, to which Canadian apparel exports have increased at much the same rate as achieved in the U.S.

Between 1990 and 1994, the Canadian apparel industry's strong export performance resulted in its share of the total U.S. market expanding from 0.3 to 0.8 percent. This gain, however, was insufficient to offset the larger decline in the industry's domestic market share. Thus, over this period, the Canadian apparel industry's share of the combined Canada-U.S. market declined from 6.9 to 4.6 percent (see Annex C — *Market Share Analysis*).

One of the most dominant features of the Canadian apparel market has been the strong growth in imports. Between 1981 and 1995, imports grew from \$1 billion to \$3.6 billion, and their share of the domestic market expanded from 18 percent to 42 percent.

U.S. is Canada's major foreign market, receiving 91% of exports

Canadian share of Canada-U.S. market drops to 4.6%

Imports command 42% of Canadian market

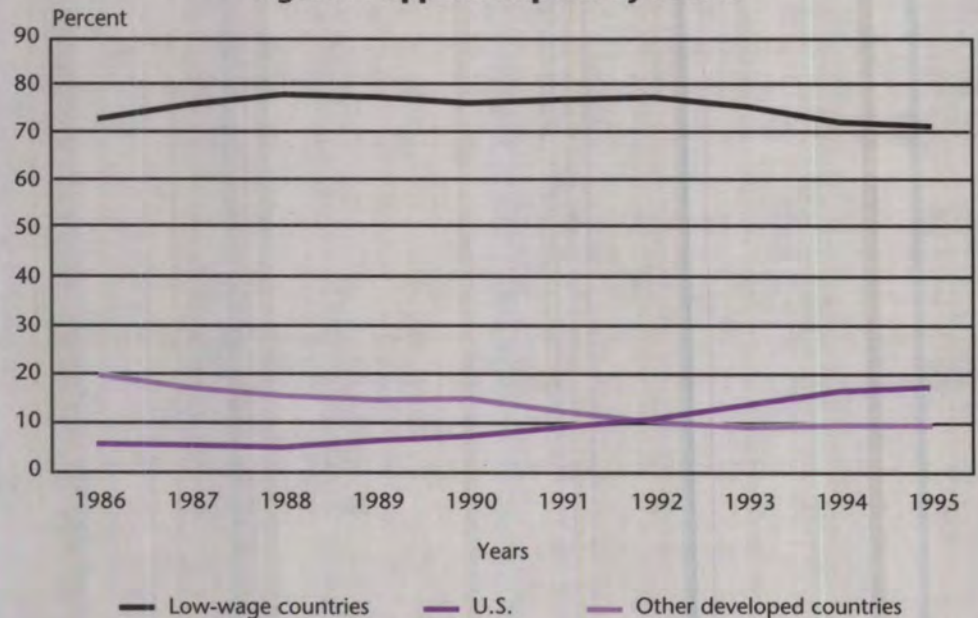
**Apparel firms are
important importers**

**U.S. is second
most important
source of imports,
after China**

Canadian apparel manufacturers have also become importers themselves. As of 1993, the latest year for which such data are available, apparel manufacturers accounted for over 26 percent of the value and 31 percent of the volume of imports of apparel products under restraint. These figures are up from 1988 levels, which were 23 percent for both value and units. This trend was encouraged by the availability of duty remission programs that allow Canadian manufacturers to complement domestically manufactured product lines with imported garments and to harmonize prices.

Low-wage countries have historically been the source of about three quarters of Canadian apparel imports, with China, Hong Kong and the Republic of Korea being the most important suppliers. However, since the implementation of the FTA and the NAFTA, the United States has become the second most important source of imports overall and the fastest-growing source in many product categories. Between 1988 and 1995, while apparel imports increased by about 4 percent annually, imports from the United States grew at an average rate of over 25 percent. The share of Canadian apparel imports held by low-wage countries declined from 78 percent in 1989 to 72 percent in 1995, while the share of developed countries (including the U.S.) rose from 22 percent to 28 percent over the same period (Figure 9).

Figure 9. Apparel Imports by Source



Source: Statistics Canada, TIERS CD-ROM.

Although the protection offered by the MFA helped slow the growth of low-cost apparel imports from abroad, it did not prevent low-wage producers from increasing their market penetration. Because the quantitative restraints applied to volume as opposed to value of imports, low-wage suppliers were able to increase the dollar value of their exports by shifting to higher-value-added products. They competed in these market segments with domestic producers, who had initially shifted to higher-value-added product lines in response to low-cost foreign competition. The MFA thus had encouraged both domestic manufacturers and low-wage suppliers to produce higher-priced goods for more exclusive market segments. The result for Canadian apparel producers has been a continued erosion of their share of the domestic market. Import penetration varies considerably from subsector to subsector, but is most pronounced among the industries coming within the definition of Statistics Canada's *Standard Industrial Classification* (SIC) 249 (Other Clothing and Apparel Industries), which includes sweaters and work gloves, as well as in the men's shirts and underwear subsector and the ladies' blouses subsector (Figure 10).

Figure 10. Import Shares of Apparent Canadian Market for Apparel, by Subsector



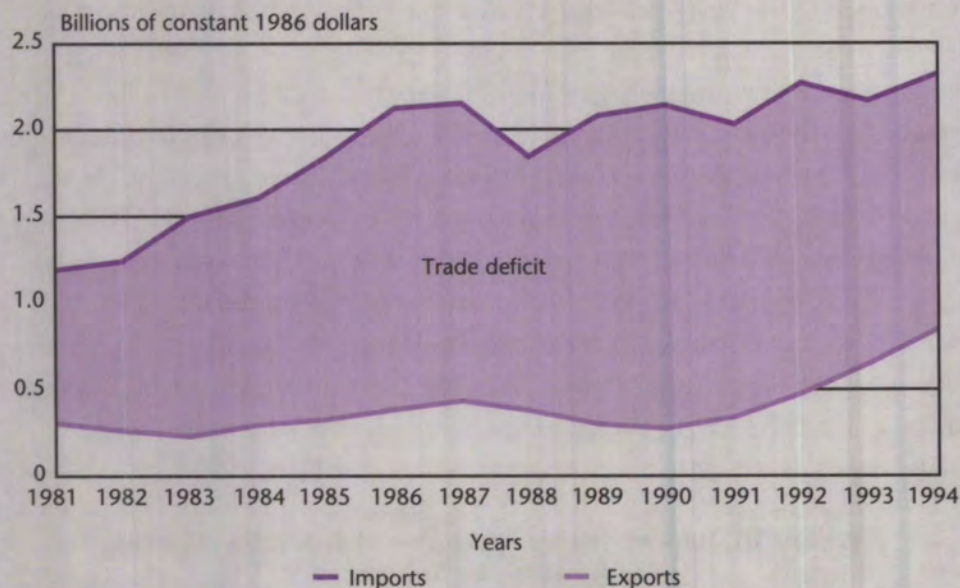
Source: Statistics Canada, CANSIM matrix 9550 and TIERS CD-ROM.

Although Canada had an overall deficit of close to \$1.5 billion in 1994 in its apparel trade, this was less than that in previous years (Figure 11).

Quotas encouraged low-wage sources to increase their value-added

Apparel balance of trade is negative but improving

Figure 11. Canada's Apparel Balance of Trade with All Countries



Source: Industry Canada calculations based on data from Statistics Canada TIERS CD-ROM and Statistics Canada unpublished data.

Trade balance
with U.S. is positive

This improvement stems largely from Canada's impressive trade performance with the U.S. In constant dollars, Canada's trade surplus with the U.S. increased from a low of \$69 million in 1990 to a record high of \$373.4 million in 1994 (Figure 12).

Figure 12. Canada's Apparel Balance of Trade with the U.S.



Source: Industry Canada calculations based on data from Statistics Canada TIERS CD-ROM and Statistics Canada unpublished data.

Technology

Technology for the apparel industry for the most part is developed by equipment manufacturers located outside the industry and outside the country. Generally, apparel manufacturers purchase appropriate production technology on the open market.

Technological developments in apparel manufacturing have occurred primarily in the pre-production stages of designing, pattern grading and marking, and cutting. Computer-aided design (CAD) and computer-numerically controlled (CNC) cutting systems developed in the late 1970s and early 1980s have allowed manufacturers to improve efficiency, reduce throughput times, increase productivity and lower costs, and in some instances they have provided greater flexibility.

As has long been the case, the assembly stages of apparel manufacture rely on the use of individually operated sewing machines. Developments have been limited primarily to ergonomic features for operator comfort and highly specialized equipment, such as pocket setters and buttonholers, based on the incorporation of microprocessors into sewing machines. The development of automated assembly systems has been inhibited by the complexities involved in the conversion of soft, limp fabrics into three-dimensional garments. The final production stages have seen technological advances in the form of automated garment-pressing equipment, and sorting and packaging systems.

Traditional apparel manufacturing has encouraged operators to maximize their efficiencies on single sewing operations. An increasing focus on flexibility has led to innovations such as unit production systems using computer-controlled overhead rail systems. New team work or modular manufacturing methods have been introduced to decrease work-in-progress and thus reduce production throughput times. Team approaches usually involve the cross-training of sewing operators to enable them to move from operation to operation.

Quick response (QR) technologies, designed to reduce the lead times required to get products to market, can provide Canadian apparel companies with a competitive advantage over offshore sources of supply. Examples of QR technologies include electronic data interchange (EDI), just-in-time (JIT) manufacturing, bar coding and vendor-managed inventory. EDI provides two-way communication and paperless transactions, thus contributing to a speedier turnaround time between the placing and completion of an order. In vendor-managed inventory, retailers are able immediately to process, store and forward point-of-sale statistics to the manufacturer, who assumes responsibility for replenishing inventory levels. Participation in QR initiatives demands close cooperation and investments in modern information technologies by retailers

Technology is developed outside industry, country

Computer technology allows apparel makers to improve efficiency

Sewing machines still dominate assembly stages, likely to continue to do so

Focus is on flexibility in production systems

QR is predominant apparel strategy

and apparel manufacturers. There is a proliferation of systems and software addressing all aspects of the apparel business. The challenge is finding ways to integrate the various systems in a manner that optimizes the resources and varied needs of the individual firm.

**Apparel manufacturers
adopt AMT, but at
slower rate than
total manufacturing**

Statistics Canada determined that 23 percent of all apparel manufacturers had adopted between five and nine advanced manufacturing technologies (AMT) by 1993, compared with 27 percent for the total manufacturing sector. The technologies most embraced by apparel manufacturers were CAD systems, factory computers and intercompany networks. In general, adoption is higher in larger firms having the economies of scale to benefit from the automation.

**Technology use
varies by subsector**

The level of technology use also varies by industry subsector. For example, the knitting subsector, which is considerably more capital-intensive than other subsectors, has invested heavily in new technology in recent years. Comparatively higher levels of technology penetration are also found in the production of men's dress shirts and tailored clothing, which are less susceptible to style changes. Firms in these subsectors are considered to be as technologically advanced as their U.S. counterparts, although Canadian manufacturers generally have been slower than their counterparts in developed countries in adopting new technologies. Canadian apparel manufacturers have tended to invest in technology only when existing equipment broke down or in the presence of government subsidy programs. In addition, the infrastructure to support the purchase of new equipment is not as developed as it is in the U.S. or Europe.

**Investment is geared
more to developing
talent than R&D**

The apparel industry in general does not conduct much new product research and development. Investments in this area are made mainly to develop the talent, skills and inspiration of fashion designers. There are subsectors where product R&D is more prevalent, including specialized outerwear such as that used for cycling or mountain climbing and marine survival clothing. These products require the use of specialized fabrics, assembly methods and unique design features to accommodate their end use.

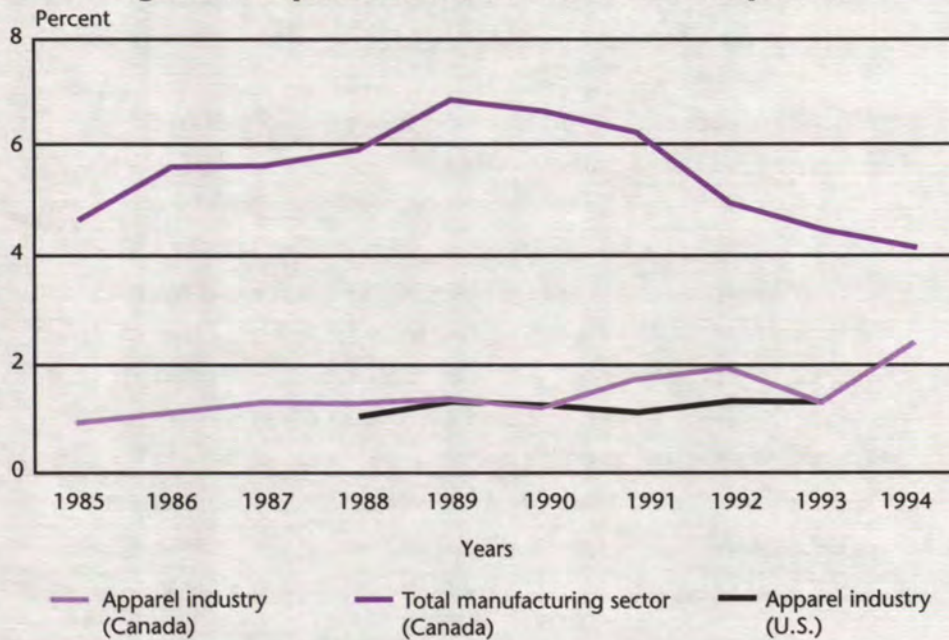
Capital Investment

**Ratio of capital
investment
to shipments
historically has
been low . . .**

Capital investment as a share of shipments historically has been much lower than that for manufacturing in general. This was true in the U.S. as well as in Canada. During the 1980s, the Canadian apparel industry invested proportionately more than its American counterpart as well as more than the average for the total manufacturing sector in Canada. A government support program (the Canadian Industrial Renewal Board) existed at the time to bolster capital investments.

Capital investment as a share of shipments for Canadian and American apparel industries was at about the same level between 1988 and 1993. In addition, the gap between the apparel industry and the average for the total manufacturing sector narrowed between 1989 and 1994 (Figure 13).

Figure 13. Capital Investment as a Share of Shipments



Source: Statistics Canada, CANSIM matrices 5378 and 5439 and unpublished data; U.S. Department of Commerce, Bureau of Census, unpublished data.

Labour and Material Costs

Labour costs on average represent more than 30 percent of production costs in apparel manufacturing, compared with 13 percent in the total manufacturing sector. In domestic currencies, wages and salaries of production workers, who make up more than 82 percent of the employees in this industry, increased at a slightly higher rate in Canada, at 3.24 percent, than in the U.S., at 2.9 percent, over the 1988–94 period. In 1994, wages per hour worked (expressed in Canadian dollars) were \$9.77 for Canadian production workers and \$10.06 for U.S. workers.

Although wage costs are considerably lower in developing countries than developed ones, Canada's wage rates are competitive with those of other OECD member countries. Labour costs per employee in Canada are below the average for OECD member countries and below those for countries such as France, Germany and the United States, which rank among the world's top 10 apparel exporters.

... but is rising
in recent years

Apparel manufacture
is labour-intensive

Labour costs are
competitive with
those of other
developed countries

**Value-added
per employee has
been increasing**

Value-added per employee grew steadily between 1988 and 1993, the latest year for which such data are available. In 1993, the Canadian apparel industry ranked twelfth in terms of value-added per employee among 22 OECD countries. Canada's performance was below the average for all the OECD member countries, as well as below the U.S. level. Lower value-added may be related to the slower rate of technology adoption but may also reflect the lower degree of specialization among Canadian apparel manufacturers relative to larger American apparel companies, which produce longer runs of undifferentiated products, thus achieving greater economies of scale.

**Industry sources
many textile inputs
internationally**

The cost of textiles and other materials usually represents over 50 percent of the total cost of production. It is estimated that Canadian apparel firms source more than half of their textile inputs internationally. Of imported fabrics, "man-made" (the industry term for non-natural fibres) and cotton fabrics, both woven and knitted, are sourced mainly from the U.S., while wool fabrics are primarily imported from Italy, Turkey and the U.S. The tariff on fabrics from the U.S. will be reduced to zero by 1998, and sourcing in the U.S. can help Canadian apparel companies meet the NAFTA rules of origin. Once the Uruguay Round tariff reductions are in place, the average Canadian MFN tariff on apparel will be about 2 percent lower than that of the United States, while average Canadian tariffs on textile inputs will be up to 3 percent higher. While these differences are relatively small, the apparel industry argues that they put Canadian apparel manufacturers at a disadvantage relative to their U.S. competitors and undermine tariff relativity between textile inputs and finished garments in Canada.

3 CHANGING CONDITIONS AND INDUSTRY RESPONSE

3.1 Trade

The most dramatic changes in business conditions affecting apparel producers are a result of globalization and trade liberalization. The trade liberalization provisions of the WTO, the implementation of the FTA and the NAFTA, the introduction of other free trade agreements and the accession of China and Russia to the WTO are all factors that will significantly impact on the Canadian apparel industry.

As tariffs decline and the system of quantitative import restraints is dismantled over the period ending December 31, 2004, textile and apparel imports into Canada are likely to increase. Meanwhile, Canadian textile and apparel producers will benefit from the protection afforded by the improved WTO rules governing unfair trading practices, fraud and circumvention.

The full impact of the dismantling of the MFA is difficult to predict, as there are several unknown factors. For example, China, the largest source of Canadian imports, is not yet a member of the WTO and therefore Canada can continue to maintain a bilateral agreement limiting the level of Chinese imports. With its accession to the WTO, China would benefit from the trade liberalization provisions of the Agreement on Textiles and Clothing and could compete for an increased share of the Canadian market. Furthermore, the order in which textile and apparel products are integrated into normal trading rules by Canada and other developed countries, particularly the U.S., could alter the impact by encouraging the shipment of products to the Canadian market through the U.S., or vice versa, to escape quota restrictions.

A number of duty remission programs for the apparel industry are due to expire in December 1997. A request for duty remission on tailored collar shirts for future years is currently being reviewed by the government.

To fully exploit all market possibilities, apparel producers require access to a wide range of fabric constructions and styles. The apparel industry is of the view that the Canadian textile industry cannot meet all of their needs and that the yarns and/or fabrics which cannot be sourced domestically should enter Canada duty-free. Textile producers argue that, because there is a degree of substitutability between different yarns and/or fabrics, tariff elimination on the basis of availability would be detrimental to their industry. The Textile Reference of the Canadian International Trade Tribunal was put in place to address this issue on a case-by-case basis.

**Globalization,
freer trade impact
heavily on apparel**

**Apparel imports are
likely to increase**

**Future trade with
China remains
unknown for now**

**Duty remission
program is
under review**

**Textiles' tariff status is
source of contention**

**Foreign sourcing
of inputs creates
problems under NAFTA**

The industry is concerned about the impact of the NAFTA rules of origin on its ability to export to the U.S., at preferential rates of duty, goods containing materials sourced abroad. The industry believes that neither Canada, the United States nor Mexico produce sufficient quantities of certain textile inputs to meet their needs, which include differentiating Canadian-made product from U.S.- or Mexican-made apparel. While the non-wool apparel TPL has not been fully utilized by Canadian apparel manufacturers, the ceiling of the wool apparel TPL was reached in 1995 and 1996. Companies that export wool apparel believe they will be disadvantaged if the wool apparel TPL is not substantially increased.

**U.S. seeks limits to
imports of wool
suits from Canada**

Canada's export successes in the area of men's wool suits have not gone unnoticed in the U.S. In 1996, the U.S. industry formed a "Wool Products Coalition" to press for a renegotiation of the NAFTA's wool apparel TPL to obtain cutbacks in the levels of wool suits, sport coats and slacks imported from Canada. The Canadian government has been following developments closely and is working with the Canadian apparel industry to address this issue.

3.2 Human Resources

**Human resources
needs analysis of
apparel industry was
conducted in 1995-96**

Human Resources Development Canada (HRDC) in 1995 established a steering committee of business, labour, education and government representatives to oversee a human resources needs analysis of the Canadian apparel industry. The research, which included a survey of some 300 apparel companies, was concluded in 1996. Following industry consultations in early 1997, concrete proposals will be developed to address the human resources needs of the apparel industry.

**Increased HR
planning is required**

The research identified a number of needs, including better human resources planning; the development of strong networks across the industry, especially between manufacturers and between educators and manufacturers; improvement of the industry's image; consolidation of apparel education programs; and better industry-wide data gathering methods.

**Technology adoption
leads to shortages of
workers in some
skill areas . . .**

Apparel workers, who have largely learned on-the-job, generally meet the current level of skill requirements. However, as skill needs evolve with the introduction of new technology and new production processes, more formal training and skill development opportunities will be required. Those occupations identified as already suffering from skill gaps include management and professional positions, supervision, administration, maintenance, marketing and sales.

Where new technology has been introduced, there have been reported shortages of workers trained in operating and maintaining the technology. Statistics Canada reported that 47 percent of apparel firms using advanced manufacturing technologies in 1993 experienced a shortage of skills and 22 percent reported training difficulties, compared with 24 and 21 percent of non-clothing manufacturing firms.

Immigration levels and the availability of skilled immigrants are important factors for the apparel industry. Historically, the apparel industry has been a source of entry-level positions, especially for new immigrants. The industry's reliance on unskilled labour may lessen as technical skill requirements increase. If new production methods are to be successfully implemented, sewing machine operators will also need to improve their literacy, numeracy and team work skills.

Some regions have experienced labour shortages. The Manitoba apparel industry in 1996 entered into an agreement with the federal government to allow the entry of up to 200 foreign sewing-machine operators to come to Manitoba to work in the industry to alleviate shortfalls in the province.

The HRDC study also confirmed that the educational system cannot meet all of the industry's training needs. The needs analysis revealed that 90 percent of the apparel programs offered by some 60 educational institutions were focussed on apparel design and merchandising rather than production and management. With the industry's increased emphasis on exporting, quick response, quality and new technology, educational institutions are being called upon to adjust and expand their curricula.

3.3 Technology

Although QR strategies are changing the relationship between apparel manufacturers and retailers, Canada is still several years behind the United States in the adoption of the technology. The continued development of information technologies will impact significantly on the apparel industry by allowing individuals and corporations to collaborate and increasingly share information on-line. The Internet is expected to facilitate the development of retailer/manufacturere links and to further enhance the development and implementation of QR strategies. It is also expected to help overcome problems associated with the lack of uniformity in the systems and in the information requirements of the various retailers.

... including AMT ...

... and reduced need
for unskilled labour

Educational institutions
need to adjust
their curricula

Internet is expected
to facilitate linkages

QR affords comparative advantages over offshore sources of supply in NA market

To respond to consumer needs, sophisticated information systems able to track consumer preferences in apparel will allow apparel products to be replenished in a timely manner in accordance with demand. Leading-edge apparel companies are developing mechanisms to link directly with consumers or to provide product customization in a timely manner. These and other QR initiatives that are decreasing producers' market response time can provide domestic companies with a potential advantage over offshore producers. These developments can turn into a disadvantage, however, if Canadian apparel firms continue to lag significantly behind their American counterparts in adopting the appropriate technologies.

3.4 Investment/Financing

Financing is difficult to obtain

Banks are by far the major source of debt financing for small businesses, providing over 80 percent of their financing needs. Due to the high level of risk, the banks tend to shun start-up financing where there is no proven track record, collateral or equity in place. The poor public image of the industry may also act as a deterrent to lending by financial institutions. Thus, small apparel firms may encounter problems in raising the collateral needed to secure funding for major new investments in equipment, expansion and renovation.

3.5 Sustainable Development

Fabric waste is major environmental issue in apparel

The major environmental problem for apparel producers is disposal of the fabric waste that results from the cutting of fabric into garment pieces. Generally, the waste can be sold to waste recyclers or disposed of in landfill sites. Fabric waste is increasingly used to produce unique fabrics or products such as blankets or pillows. The automotive industry uses fabric waste in, for example, the production of trunk liners. Increased fabric utilization through adoption of new technologies reduces fabric waste.

Research into new finishing processes is under way

Processes such as stone-washing of denim products are also of concern due to water usage and the need for bleaches and colorants. Research is under way in the U.S. to develop processes that will reduce the negative environmental impact of this aspect of production.

Environmental concern gives impetus to new apparel products

Increased consumer awareness of environmental issues is driving the development of unique product offerings, such as naturally coloured cotton T-shirts, and new processes, such as printing using water-based dyes. For some apparel products, such as panty hose, foundation garments or underwear, packaging also poses an environmental issue.

Finally, the objectives of sustainable development are achieved through the significant recycling of garments by agencies that receive donations, and organize the resale, of used clothing.

4 GROWTH PROSPECTS FOR THE INDUSTRY

4.1 Market Growth

The two major markets for apparel are the consumer market and the industrial or institutional market including hospitals, corporations or governments. As a consumer product, apparel competes with other such products for a share of the consumer's disposable dollar, as shown in Table 2. Demand for apparel products is driven by demographic, economic and lifestyle factors.

Two markets:
consumer, institutional

Table 2. Personal Expenses on Consumer Goods and Services

Expenses	1985	1990	1995
	(%)	(%)	(%)
Net expenditure abroad	0.8	1.8	0.3
Medical care and health services	4.2	4.0	4.0
Clothing, footwear and accessories	6.0	5.4	5.1
Furniture, furnishing and household equipment and operations	9.0	9.0	8.8
Recreation, entertainment, education and cultural services	10.5	10.9	12.0
Transportation and communications	15.3	15.2	14.6
Food, beverage and tobacco	17.7	15.0	14.7
Personal goods and services	15.3	16.2	16.5
Gross rent, fuel and power	21.8	22.5	24.0
Total	100.0	100.0	100.0

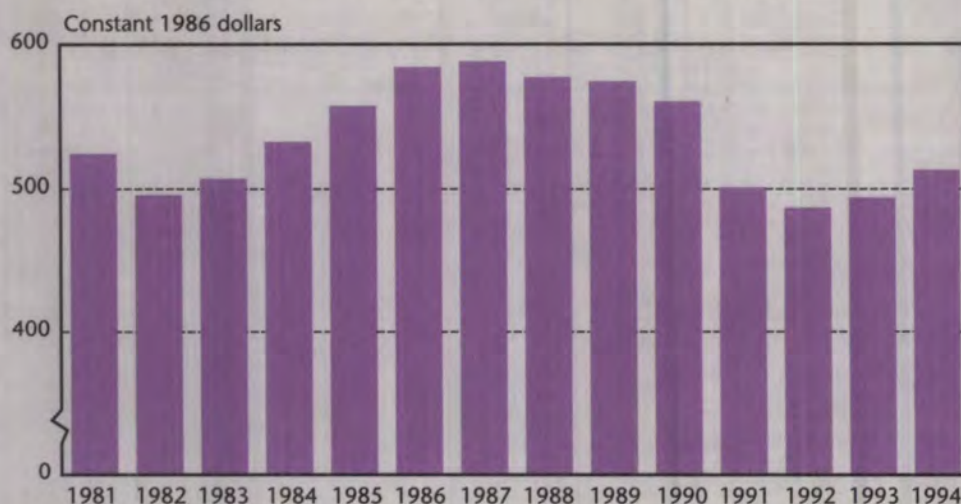
Source: Statistics Canada, *National Income and Expenditure Accounts, Annual Estimates 1984-1995*, Catalogue No. 13-201 XPB.

Canada's actual population is projected to grow as a result of immigration well into the next century. Two phenomena — the baby boom and the echo — represent close to 56 percent of the Canadian population. People in the largest cohort, baby-boomers aged 30 to 49 years in 1996, have entered their years of highest earnings. As baby-boomers age, apparel makers will have to address their evolving demands, which are expected to include a greater emphasis on quality, comfort, functionality, value and service. An increasing proportion of the baby boom echo, which comprises children aged one to 16 years in 1996, are becoming teenagers, who are typically more fashion-conscious. On average, females spend more on apparel than males and achieve their highest spending between the ages of 20 and 54 years. Males, on the other hand, achieve their highest spending on apparel between the ages of 25 and 50 years.

Changes in population
profile alter apparel
demand for quality,
comfort, value, etc.

Regardless of their income levels, Canadian households tend to spend about 5 to 6 percent of their income on apparel. Real personal disposable income (PDI) per capita of Canadians has declined each year between 1989 and 1995. This helps account for the recent downturn in real per capita apparel consumption (Figure 14). While there was a slight recovery in real personal expenditures on apparel in 1993 and 1994, this was insufficient to raise expenditures to the levels achieved in the late 1980s.

Figure 14. Per Capita Consumption of Apparel



Source: Statistics Canada, CANSIM matrices 0599 and 6844.

Changes in shopping habits contribute to lower expenditure on apparel

CPI for apparel is growing more slowly than that for all consumer goods

In addition to the decline in real PDI per capita, other factors contributing to the recent drop in real expenditure include a growing shift toward more casual, less expensive clothing for both men and women; increased cross-border shopping over part of the recent period; and the introduction of the Goods and Services Tax (GST) in 1991, which ended the exemption of clothing from federal and Quebec sales taxes. More recently, demand for apparel has been affected by other competing priorities, such as the purchase of computers or electronics, by a trend toward shopping in discount stores and by consumers' increased insistence on good value for the price paid.

In general, the consumer price index (CPI) for apparel since 1989 has been rising more slowly than the CPI for all consumer goods. The only exceptions occurred in 1991 when, following the introduction of the GST, the apparel index jumped by 9 percent and in 1994 when it matched that for all consumer goods. The CPI for apparel has been growing at a higher rate than the apparel industrial product price index, which could reflect higher profit margins for retailers.

The Canadian economy has been forecast (Informetrica Limited, *National Forecast Services*, Ottawa, October 1996) to grow at an average rate of 2.6 percent growth over the rest of the decade. Economic growth should lead to modest employment and income gains. This, combined with changing consumer needs and habits, should support continued, albeit moderate, expansion in the domestic apparel market.

4.2 Apparel Retailing

Most apparel reaches the consumer through retail channels. In terms of retail dollars, the market for apparel was valued at \$15.2 billion in 1995, a 4-percent increase over the 1994 level. The market is still down from the \$16.3-billion level it reached in 1990.

The major retail channels of distribution are department stores such as The Bay or Eaton's, specialty stores such as Fairweather's or Suzy Shier, and discount stores such as Biway. Department stores account for about 25 percent of retail sales, specialty stores for 44 percent, discount stores for 22 percent and other channels (including mail-order catalogues, warehouse stores and non-traditional outlets such as grocery stores) about 9 percent (data from *Canadian Apparel Market Monitor*, Kormos Harris & Associates (Canada) Ltd., Toledo, Ohio, 1995).

Ownership of apparel retailing in Canada is highly concentrated, with the top 12 retailers accounting for close to half the total sales. The Hudson's Bay Company, Canada's largest retailer, increased its share of total retail sales of apparel, mainly through growth of its Zellers operation. This high ownership concentration means that many Canadian manufacturers have a very narrow customer base and that large retailers have significant power in their negotiating with manufacturers over prices and other terms.

Throughout the 1990s, the Canadian apparel retail sector has been undergoing significant consolidation and restructuring, which has added to the uncertainty facing Canadian apparel manufacturers. In addition, the retail industry has witnessed an influx of U.S. retailers such as The Gap, Eddie Bauer and WalMart, some of whom have their own worldwide network of suppliers. In some cases, this has increased opportunities and, in others, it has displaced or reduced opportunities for Canadian suppliers. New channels of distribution are also emerging, such as home sales, mail-order, and major new entrants such as Avon or Discovery Toys. The Internet is a potentially significant sales vehicle, whose potential is still being explored.

Modest growth
in expenditures is
predicted for rest of
decade and beyond

Retail market for
apparel was valued
at \$15.2B in 1995

Specialty stores are
main channel of
distribution

High ownership
concentration means
narrow customer base
for apparel makers

Influx of U.S. retailers
alters channels for
Canadian suppliers

4.3 Design, Quality and Marketing

Future apparel
industry focus will
be on quality, service

Design, quality and marketing will be critical to the future success of Canadian products and the growth of apparel manufacturing in this country. In carrying out their marketing strategies, manufacturers attempt to influence the purchasing decisions of consumers. In addition to strategic pricing, manufacturers may adapt products to satisfy perceived consumer needs, alter designs to enhance fashion appeal and use branding to project a specific product image. As the consumer tends to spend less time shopping, product quality and service will become more important.

Canadian firms are
becoming more
design-oriented

Canadian manufacturers have been striving to improve their design capabilities. Many firms are moving away from making "knock-off" products with mass appeal to producing designs for targeted markets, which often yields better sales growth and profitability. As one observer has noted (Jeffery Solway, "The Business of Synergy," *Policy Options Politiques*, November 1988, p. 17):

The shift in the product base — from standardized garments produced in mass production, to medium and upscale fashion produced in short runs for rapidly changing demand — is nothing less than a shift from the industrial age to the knowledge economy. The primary consideration is no longer production cost per unit, but quality, continuous creativity, responsiveness to the market and the ability to carve out a unique niche. As in other knowledge industries, success is built less on rivalry than on differentiation.

Brand names
will become more
important as
marketing tool

Brand-name development is an important tool used extensively in the U.S. market, and to a lesser extent in the Canadian market, to convey to the consumer a consistent image of quality. Well-developed brands are usually licensed to other manufacturers under negotiated arrangements. The Canadian market includes apparel produced by Canadian manufacturers under product licences with large American apparel firms. For example, Calvin Klein jeans are produced for the Canadian market by a Winnipeg apparel manufacturer. Some product licences have been rescinded recently, and others could be in jeopardy as U.S. manufacturers consolidate North American production.

Canadian makers need
to adopt NA market
orientation

As Canadian apparel manufacturers adopt a North American market orientation, they should become aware of important American marketing trends. Canadian firms that hope to compete successfully in the U.S. should be prepared to adopt appropriate business strategies that are likely to prove successful in that market.

In 1991, an assessment by the apparel industry of its image and promotion strategies indicated that apparel manufacturers had not done a very good job of marketing products or of promoting a positive image to retailers and consumers. U.S. retail buyers in particular were unaware of the product offerings of Canadian apparel manufacturers and designers because they had seldom encountered Canadian sales representatives. The Fashion Apparel Sector Campaign Market Intelligence and Development Committee and the Image Development Committee concluded that the industry would have to drastically improve its marketing skills and image. While recent export successes indicate that U.S. buyers may now be more aware of Canadian capabilities, Canadian apparel makers cannot afford to become complacent.

Canada's image is improving, but more intensive, focussed marketing strategy is required

4.4 Current Strengths and Weaknesses

The Canadian apparel industry has a number of positive attributes.

- **Entrepreneurial management:** The industry is characterized by a large proportion of highly motivated proprietors willing to assume the risks inherent in doing business in a high-paced, rapidly changing business environment.
- **Good design capabilities and a capacity for producing fashionable, quality products:** Many firms in the industry have reoriented production from undifferentiated commodity apparel toward high-quality, value-added products with greater fashion orientation.
- **Adaptability and flexible production capability among firms that have led the way in adopting new technologies:** The industry's responsiveness has been enhanced by investments in flexible production facilities.
- **An historical resilience manifesting itself as an ability to adapt to changing business conditions:** The industry continues to adapt to changing conditions in the domestic market and increased global competition resulting from trade liberalization.
- **An increasing export orientation:** With the implementation of the NAFTA, apparel exports to the United States have increased dramatically in recent years.
- **A strong national industry association:** Membership in the CAFE, which is focussed on promoting the industry and providing services of benefit to it, continues to grow.

The industry has responded and adapted to the competitive challenges facing it by rationalizing, increasing its fashion orientation, developing niche products and significantly increasing its export efforts. Apparel producers have demonstrated an ability to compete against imports from developed countries in the medium- to higher-priced ranges, and to penetrate export markets, particularly the United States.

Canadian apparel makers have many strengths . . .

... but some
weaknesses remain

However, the industry also exhibits a number of significant competitive weaknesses and constraints.

- **An inability to compete against the continued emergence of low-wage competitors:** Rising wages in traditional apparel-exporting newly industrialized countries such as Hong Kong, the Republic of Korea and Taiwan have resulted in a trend toward offshore production by manufacturers in these countries. The move has been to lower-wage suppliers including China, Vietnam and, in some cases, Caribbean Basin nations. Investors are also being attracted by the low wages in many African nations.
- **An historical reliance on government protection, which discouraged an export orientation:** For many years, the Canadian apparel industry has been sheltered by high tariffs and import quotas. It has only recently focussed on exporting in any significant way following trade liberalization under the FTA and the NAFTA, and more recently with the WTO.
- **A poor public image:** Negative perceptions of the industry as having uniformly low levels of technology and poor working conditions impact on its ability to attract skilled managers and employees. The poor public image may also cause financial institutions to look less favourably upon applications for assistance from industry firms.
- **A shortage of skilled managers and technically skilled personnel:** The Human Resource Needs Analysis (Price Waterhouse Management Consultants, Ottawa, 1996) identified current skill gaps in the areas of management and professional occupations, supervisory roles, administrative and maintenance functions, as well as marketing and sales. There exists a need to increase the skills and knowledge of employees in technology, new production processes and exporting. Barriers to firms in obtaining the training they require include lack of funds, lack of in-house training knowledge and lack of local training programs. More partnering with secondary and post-secondary educational institutions is required to ensure that apparel graduates have the necessary skills and knowledge to contribute to the success of the industry.
- **Relatively weak links with textile suppliers and retail customers:** The need for the industry to develop stronger links with textile manufacturers and retailers was recognized by the industry during the Fashion Apparel Sector Campaign. While some initiatives have been undertaken to address this issue, there is still scope for greater cooperation to solve common problems and share information to the benefit of each of the sectors.

- **Relatively slow technology adoption in both the areas of production and information technologies:** The industry remains behind its major competitors in the United States and Europe with regard to technology. Because of the small size of most apparel companies, they lack the personnel and financial resources to keep abreast of changing technologies and business practices. The lack of adequate service support has also been a contributing factor.
- **The lack of resources at the firm level and of infrastructure at the industry level:** The industry needs the resources and infrastructure to keep up with the rapid changes occurring in the business environment. However, the small size of most apparel companies and the difficulty they face in accessing capital inhibit many of them from devoting the necessary human and financial resources to address changing business conditions such as the need to broaden and sustain exporting.

4.5 Future Competitiveness Challenges

Future growth opportunities for the industry will exist primarily in export markets; the growth in domestic demand, resulting from increases in population and real income, is expected to be fairly modest. At the same time, the phase-out of import quotas on apparel as established under the GATT Uruguay Round Agreements may expose Canadian apparel producers to greater competition from low-wage sources formerly restrained under the Multi-Fibre Arrangement.

The consolidation and restructuring that has occurred in recent years in the retail sector has limited the ability of producers to implement product planning and selling strategies. The larger retailers can use their power to extract favourable terms. They are also narrowing their supplier base, thereby reducing opportunities for smaller and/or new suppliers. The entry into the Canadian market of U.S. retailers with their own U.S. supplier base will further reduce opportunities for Canadian apparel manufacturers.

Although there is no immediate competitive threat to the apparel industry from Mexican goods imported under the NAFTA, Canadian manufacturers should not be complacent. The industry will need to adapt to increased competition from Mexico and U.S. outward processing arrangements. Canadian manufacturers are already experiencing increased competition from the U.S. in some market segments and, to compete effectively, Canadian firms will have to adjust to the U.S. business style. In addition, several Canadian companies have been affected by the trend of U.S. firms consolidating their manufacturing and marketing operations in the United States. This has resulted in the withdrawal of apparel licences and the closure of several Canadian manufacturing plants.

Growth in domestic demand is expected to be modest

Restructuring in Canadian market reduces opportunities

Increased competition in NA market will force adjustment to U.S. business style

4.6 Future Opportunities

NAFTA, WTO provide
opportunities to
increase exports

Significant opportunities exist for the industry to build on its recent export success. There are excellent prospects for increased exports to the United States and other developed country markets. Canadian manufacturers have only begun to tap into the potential of the unified North American market resulting from the NAFTA. While the North American market will be the main focus for Canadian producers, firms will also be able to take advantage of tariff reductions negotiated under the Uruguay Round by diversifying their export markets.

Reduction in textile
tariffs, elimination of
quotas will help
apparel makers adjust

With the reduction in textile tariffs and the phase-out of import quotas on textiles under the WTO, some of the industry's concerns about government policy regarding offshore fabric sourcing will be addressed. The industry may gain additional tariff relief from Canadian International Trade Tribunal recommendations regarding textiles not made in Canada.

Technology
adoption may
improve efficiencies

Adoption of appropriate new technologies in the manufacturing process, as well as EDI systems, will allow firms to improve manufacturing efficiencies and reduce cycle times. These developments will enhance producers' competitiveness in both domestic and export markets.

4.7 The Bottom Line

Industry rationalization
and focus on exports
are on track to
continued growth

The apparel industry has undertaken important steps in adjusting to a more competitive and rapidly changing business environment. The industry has rationalized production and is focussing more on export opportunities. Firms are increasingly realizing the necessity of developing original product lines and enhancing their marketing capabilities.

Successful firms will be
those best able to
adjust to changing
business environment

Competitive pressures will continue to be intense, and products from low-wage sources will become a greater competitive threat. Over the next decade, industry gross domestic product is expected to increase at a modest rate while employment declines slightly. In the future, the industry is likely to consist of a smaller number of companies, including both medium to large firms and small, highly focussed design enterprises. The common feature among successful firms, however, will be their ability to adjust their business strategies in response to trade liberalization and the changing business environment. Companies that develop a marketing focus, invest in appropriate technologies, adopt efficient production methods, implement human resources development strategies, and focus on product design and customer service should be well placed to prosper in the increasingly competitive business environment.

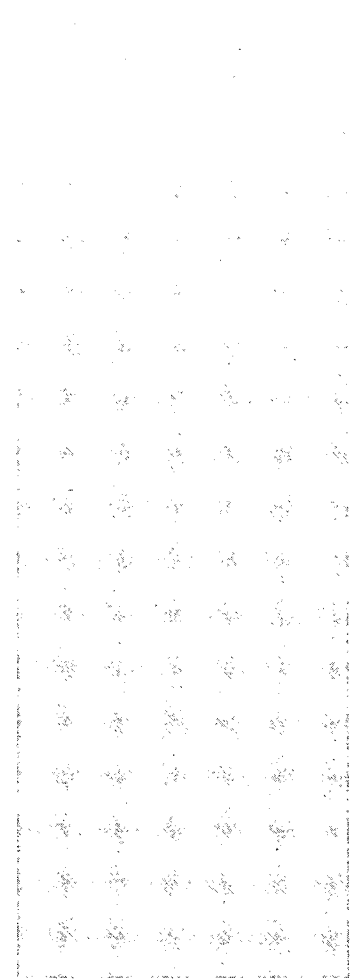
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Annex A

STATISTICAL INFORMATION

Table A-1. Apparel Industry Comparisons, Canada and OECD Countries

Country and year ^a	Production		Employment		Labour costs	Value-added per employee
	Value	Share ^b	Value	Share ^b		
	(\$ millions)	(%)	(number)	(%)	(\$)	(\$)
Australia (1992)	3 007	2.03	44 200	4.01	18 315.12	18 315.12
Austria (1992)	1 876	1.33	24 300	2.95	20 943.71	20 943.71
Belgium (1994)	4 262	2.08	35 100	4.68	24 139.40	24 139.40
Canada (1993)	6 373	1.97	89 000	5.17	22 921.35	22 921.35
Denmark (1992)	1 136	1.49	12 200	2.42	19 922.72	19 922.72
Finland (1993)	501	0.78	8 600	2.35	21 691.72	21 691.72
France (1993)	15 099	1.86	131 000	3.13	36 556.26	36 556.26
Germany (1992)	19 783	1.19	159 000	1.79	27 322.40	27 322.40
Greece (1993)	1 357	3.89	35 000	11.15	12 201.66	12 201.66
Iceland ^c (1992)	41	1.19	500	2.34	32 346.26	32 346.26
Italy (1993)	26 857	3.73	339 000	7.34	18 463.36	18 463.36
Japan (1993)	60 502	1.54	476 000	3.02	50 988.63	50 988.63
Mexico (1993)	3 437	1.60	90 000	3.86	7 020.91	7 020.91
Netherlands (1993)	1 497	0.71	17 800	1.94	19 628.60	19 628.60
New Zealand ^c (1993)	662	2.25	12 500	5.30	15 294.87	15 294.87
Norway (1993)	201	0.34	1 900	0.76	28 980.01	28 980.01
Portugal (1990)	2 521	4.71	79 000	8.92	9 291.02	9 291.02
Republic of Korea (1993)	6 966	1.89	193 000	6.20	6 647.47	6 647.47
Spain (1992)	8 264	2.46	152 000	5.69	17 246.88	17 246.88
Sweden (1993)	393	0.31	4 300	0.58	24 477.06	24 477.06
United Kingdom (1992)	10 678	1.49	191 000	3.85	21 623.63	21 623.63
United States (1993)	68 371	1.70	808 000	4.46	25 781.24	25 781.24
OECD	243 786	1.70	2 903 400	3.96	26 106.63	26 106.63

^a Year's basis shown in parentheses, except for:
- employment: Belgium (1992), Denmark (1991), New Zealand (1994)
- labour costs: Belgium (1992), Denmark (1991), France (1992), New Zealand (1994), Norway (1992), Portugal (1993)
- value-added per employee: Belgium (1992), Denmark (1991), Portugal (1993), Spain (1991).
^b Share of total manufacturing sector.
^c Values shown for Iceland and New Zealand are in current prices.

Source: OECD, STAN Database, 1994.

Table A-2. Principal Statistics, Canadian Apparel Industry

Year	Estab- lishments		Canadian shipments		Total employees		Hourly wages		Total value-added		Value-added per employee	
	Number	Δ	Value	Δ	Number	Δ	Value	Δ	Value	Δ	Value	Δ
		(%)	(\$ millions)	(%)		(%)	(\$)	(%)	(\$ millions)	(%)	(\$000)	(%)
1981	2 347	—	4 767.5	—	113 288	—	5.81	—	2 516.5	—	22.2	—
1982	2 326	-1	4 624.2	-3	106 887	-6	6.09	5	2 432.6	-3	22.8	2
1983	2 368	2	4 891.1	6	109 816	3	6.24	2	2 604.0	7	23.7	4
1984	2 465	4	5 174.9	6	110 634	1	6.47	4	2 813.4	8	25.4	7
1985	2 497	1	5 543.2	7	110 910	0	6.63	3	2 913.7	4	26.3	3
1986	2 607	4	6 015.6	9	113 649	2	6.86	3	3 150.1	8	27.7	6
1987	2 390	-8	6 457.4	7	112 002	-1	N/A	N/A	3 380.6	7	30.2	9
1988	2 819	18	6 656.7	3	115 485	3	7.36	N/A	3 450.1	2	29.9	-1
1989	2 686	-5	6 948.1	4	112 177	-3	7.96	8	3 697.7	7	33.0	10
1990	2 785	4	6 831.3	-2	103 431	-8	8.28	4	3 611.0	-2	34.9	6
1991	2 390	-14	6 156.2	-10	93 464	-10	8.45	2	3 296.1	-9	35.3	1
1992	2 137	-11	5 853.7	-5	83 927	-10	8.61	2	3 150.1	-4	37.5	6
1993	1 921	-10	5 933.3	1	82 737	-1	8.71	1	3 131.1	-1	37.8	1
1994 ^a	N/A	N/A	6 060.5	2	83 790	1	N/A	N/A	N/A	N/A	N/A	N/A
1995 ^a	N/A	N/A	6 213.2	3	84 328	1	N/A	N/A	N/A	N/A	N/A	N/A

Δ = Change from previous year.

N/A = Not available.

^a Based on Statistics Canada, CANSIM matrix 9550 (shipments), matrix 4285 (employment).

Source: Statistics Canada, CANSIM matrix 5439.

Table A-3. Apparent Canadian Apparel Market (in current dollars)

Year	Canadian shipments		Exports		Domestic shipments		Imports		Apparent Canadian market (ACM)		Imports as share of ACM	Exports as share of Canadian shipments
	Value	Δ	Value	Δ	Value	Δ	Value	Δ	Value	Δ		
	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(%)	(%)
1982	4 624.2	—	243.4	—	4 380.8	—	1 034.5	—	5 415.3	—	19	5
1983	4 891.1	6	221.2	-9	4 669.9	7	1 257.0	22	5 926.9	9	21	5
1984	5 174.9	6	292.5	32	4 882.4	5	1 683.0	34	6 565.4	11	26	6
1985	5 543.2	7	329.5	13	5 213.7	7	1 747.0	4	6 960.7	6	25	6
1986	6 015.6	9	389.5	18	5 626.1	8	2 127.0	22	7 753.1	11	27	6
1987	6 457.4	7	456.6	17	6 000.8	7	2 332.5	10	8 333.3	7	28	7
1988	6 656.7	3	413.7	-9	6 243.0	4	2 409.6	3	8 652.6	4	28	6
1989	6 948.1	4	339.6	-18	6 608.5	6	2 714.2	13	9 322.7	8	29	5
1990	6 831.3	-2	321.5	-5	6 509.8	-1	2 937.9	8	9 447.7	1	31	5
1991	6 156.2	-10	411.0	28	5 745.2	-12	2 629.1	-11	8 374.3	-11	31	7
1992	5 853.7	-5	580.7	41	5 273.1	-8	3 053.6	16	8 326.7	-1	37	10
1993	5 933.5	1	787.9	36	5 145.6	-2	3 156.6	3	8 302.2	0	38	13
1994	6 060.5 ^a	2	1 040.9	32	5 019.6	-2	3 349.7	6	8 369.3	1	40	17
1995	6 213.2 ^a	3	1 310.6	26	4 902.6	-2	3 586.0	7	8 488.5	1	42	21

Δ = Change from previous year.

N/A = Not available.

^a Based on Statistics Canada, CANSIM matrix 9550.Source: Statistics Canada, CANSIM matrix 5439, TIERS CD-ROM. For data prior to 1988, Statistics Canada, *Exports by Commodity*, Catalogue No. 65-004, monthly, and *Imports by Commodity*, Catalogue No. 65-007, monthly.

Table A-4. Apparent Canadian Apparel Market (in constant dollars)

Year	Canadian shipments		Exports		Domestic shipments		Imports		Apparent Canadian market (ACM)		Imports as share of ACM	Exports as share of Canadian shipments
	Value	Δ	Value	Δ	Value	Δ	Value	Δ	Value	Δ		
	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(%)	(%)
1982	5 104.0	—	266.4	—	4 837.6	—	1 204.2	—	6 041.8	—	20	5
1983	5 231.1	2	233.1	-12	4 998.0	3	1 500.0	25	6 498.0	8	23	4
1984	5 407.4	3	299.7	29	5 107.8	2	1 608.4	7	6 716.1	3	24	6
1985	5 685.3	5	330.9	10	5 354.4	5	1 841.8	15	7 196.2	7	26	6
1986	6 015.6	6	389.5	18	5 626.1	5	2 127.0	15	7 753.1	8	27	6
1987	6 233.0	4	439.4	13	5 793.7	3	2 156.0	1	7 949.7	3	27	7
1988	6 244.6	0	382.7	-13	5 861.9	1	1 845.7	-14	7 707.6	-3	24	6
1989	6 351.1	2	301.5	-21	6 049.6	3	2 081.8	13	8 131.3	5	26	5
1990	6 099.4	-4	275.8	-9	5 823.5	-4	2 142.4	3	7 965.9	-2	27	5
1991	5 433.6	-11	343.1	24	5 090.4	-13	2 031.0	-5	7 121.4	-11	29	6
1992	5 143.9	-5	481.9	40	4 662.0	-8	2 272.0	12	6 934.0	-3	33	9
1993	5 195.7	1	652.8	35	4 542.9	-3	2 168.0	-5	6 710.9	-3	32	13
1994	5 238.1 ^a	1	849.7	30	4 388.4	-3	2 323.0	7	6 711.4	0	35	16

Δ = Change from previous year.

^a Based on Statistics Canada, CANSIM matrix 9550.

Source: Statistics Canada, CANSIM matrices 5439 and 2008, TIERS CD-ROM. For data prior to 1988, Statistics Canada, *Exports by Commodity*, Catalogue No. 65-004, monthly, and *Imports by Commodity*, Catalogue No. 65-007, monthly.

Table A-5. Main Destinations of Apparel Exports

	1991	1992	1993	1994	1995
Total Canadian exports:			(\$ millions)		
All countries	411.1	580.7	787.9	1 040.9	1 310.6
Top 10 trading partners:					
United States	345.8	517.8	704.1	944.4	1 196.2
Japan	13.4	10.3	12.1	15.1	22.7
United Kingdom	3.1	5.5	13.1	17.6	18.3
Germany	5.3	3.7	4.5	12.4	16.0
Russia	0.0	0.0	14.0	5.4	9.6
Switzerland	11.5	5.0	4.0	4.9	4.2
Hong Kong	1.8	1.0	4.0	5.4	4.2
France	2.7	4.5	3.3	3.5	3.6
Saudi Arabia	3.0	1.7	3.3	4.3	2.8
Algeria	0.0	0.0	0.0	0.0	2.4
Total	386.6	549.5	762.4	1 013.0	1 280.0
Other:					
European Union	24.8	27.2	29.1	42.9	49.7
Developed non-EU	372.0	534.4	721.5	966.3	1 225.5
Low-wage countries	10.5	9.6	19.0	24.0	22.8
Eastern Europe	3.8	9.5	18.3	7.8	12.7
Source: Industry Canada, Trade Trends database.					

Table A-6. Main Sources of Apparel Imports

	1991	1992	1993	1994	1995
Total Canadian imports:			(\$ millions)		
All countries	2 629.1	3 053.7	3 156.6	3 349.7	3 586.0
Top 10 trading partners:					
China	458.5	637.8	655.2	606.0	668.8
United States	254.2	347.9	451.6	573.3	645.1
Hong Kong	416.7	506.0	502.3	471.7	495.5
Republic of Korea	371.5	331.8	263.2	246.9	202.1
India	95.4	120.9	131.0	172.7	197.7
Taiwan	196.5	180.3	176.7	171.1	143.8
Italy	126.7	123.6	111.6	124.5	139.0
Bangladesh	23.8	33.4	47.0	60.5	90.1
Thailand	48.8	56.9	61.5	71.9	85.5
Indonesia	40.9	57.2	77.4	83.7	84.0
Total	2033.0	2 395.8	2 477.5	2 582.3	2 751.6
Other:					
European Union	312.3	305.6	284.4	312.5	332.6
Developed non-EU	281.2	369.4	474.1	601.1	675.5
Low-wage countries	2 002.4	2 330.7	2 336.8	2 373.7	2 522.0
Eastern Europe	33.2	48.0	61.3	62.4	55.8
Source: Industry Canada, Trade Trends database.					

Table A-7. Apparel Balance of Trade, All Countries and the United States

Year	All countries						United States					
	Exports		Imports		Balance of trade		Exports		Imports		Balance of trade	
	TIERS	Δ	TIERS	Δ	TIERS	Δ	TIERS	Δ	TIERS	Δ	TIERS	Δ
	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)	(\$ millions)	(%)
1981	265.6	—	1 005.1	—	-739.5	—	N/A		N/A		N/A	
1982	243.4	-8	1 034.5	3	-791.1	7	N/A		N/A		N/A	
1983	221.2	-9	1 257.0	22	-1 035.8	31	N/A		N/A		N/A	
1984	292.5	32	1 683.0	34	-1 390.5	34	N/A		N/A		N/A	
1985	329.5	13	1 747.0	4	-1 417.5	2	N/A		N/A		N/A	
1986	389.5	18	2 127.0	22	-1 737.5	23	332.0	—	131.4	—	200.6	—
1987	456.6	17	2 332.5	10	-1 875.9	8	378.1	14	138.0	5	240.1	20
1988	413.7	-9	2 409.6	3	-1 995.9	6	342.5	-9	132.2	-4	210.3	-12
1989	339.6	-18	2 714.2	13	-2 374.6	19	287.0	-16	186.8	41	100.2	-52
1990	321.5	-5	2 937.9	8	-2 616.4	10	275.8	-4	229.6	23	46.2	-54
1991	411.1	28	2 629.1	-11	-2 218.0	-15	345.8	25	254.2	11	91.6	98
1992	580.7	41	3 053.7	16	-2 473.0	11	517.8	50	347.9	37	169.9	85
1993	787.9	36	3 156.6	3	-2 368.7	-4	704.1	36	451.6	30	252.5	49
1994	1 040.9	32	3 349.7	6	-2 308.8	-3	944.4	34	573.3	27	371.1	47
1995	1 310.6	26	3 586.0	7	-2 275.4	-1	1 196.2	27	645.1	13	551.1	49

Δ = Change from previous year.

N/A = Not available.

Source: Statistics Canada, TIERS CD-ROM.

Table A-8. Apparel Industry Capital Investment and Financial Performance

	1985	1986	1987	1988	1989	1990 ^a	1991	1992	1993	1994	1995 ^a	1996 ^a
	(millions of dollars)											
Financial performance:												
Operation profit												
Apparel industry	220	248.2	301.6	353	717	—	-27	-67	122	206	—	—
Gross profit margins												
Apparel industry	—	4.3	4.7	2.6	4.8	—	-0.2	-0.6	1.2	2	—	—
Non-financial industries ^b	6.4	5.6	6	6.5	6.1	—	3.5	3.3	3.9	5.3	—	—
Capital investment:												
Apparel industry, Canada	50.1	65.4	82.5	83.9	93.8	80.7	104.8	112.3	75.9	149.9	95.2 ^p	53.8 ^e
Total manufacturing sector	11 516.6	14 250	15 330.5	17 662.3	21 175.1	19 862.2	17 522.3	14 146.7	13 777.4	14 528.3	16 608.3	17 079
Apparel industry, U.S.				672 100	828 500	798 400	723 400	942 000	961 300			
^a Financial performance data not available for 1990, 1995 and 1996. ^b Includes all manufacturing, services and transportation sectors. ^p Preliminary actual 1995. ^e Expected 1996. Source: For financial performance data, Statistics Canada, <i>Financial Statistics for Enterprises</i> , Catalogue No. 61-219P, annual. For capital investment data, Statistics Canada, CANSIM matrices 5378 and 5439, and unpublished data; U.S. Department of Commerce, Bureau of Census unpublished data.												

Annex B

THE MULTI-FIBRE ARRANGEMENT

The worldwide phenomenon of increased import penetration of the apparel markets of industrialized economies by developing economies led to the formalization of the Multi-Fibre Arrangement in 1974. Participants were permitted to employ special restraint mechanisms against injurious imports of specified goods from specified countries in certain defined circumstances, and they were required to pursue appropriate policies to encourage adjustment within their industries. The rights of the importing countries to impose quota restrictions were balanced by their obligation to the low-wage suppliers to maintain annual growth rates and flexibility of the restraint levels.

The MFA restraint regimes of the industrialized countries differed in coverage and protective effect. The negotiation and administration of the restraints resulted in fluctuating import patterns with, for example, the United States and western Europe (the largest apparel traders), alternately relaxing and tightening their quotas and coverage. Canada was essentially a supplementary market to the United States and the European Community (now the European Union) as far as most low-wage suppliers were concerned. Specific market segments and the domestic producers that supply them tended to be very vulnerable to the overflow created by the tightening of non-tariff import restrictions in either marketplace while the MFA was in effect.

Although protection by the MFA provided apparel producers in the industrialized countries with time to adjust to increased import penetration, few of them made much progress in improving their competitiveness against low-cost goods. Nonetheless, participation in the MFA to protect employment levels and investments was the cornerstone of Canada's protection policies for the apparel industry for 20 years until its expiration on December 31, 1994.

The trade restraints of the MFA clearly violated the principles of the GATT and its goal of reducing non-tariff barriers to trade. Moreover, it abrogated the MFN status of the low-wage nations by denying them market entry and lowest tariffs as trading partners under the GATT. The so-called Uruguay Round of multilateral trade negotiations under the GATT concluded with a new agreement for the WTO to replace the GATT organization as of January 1, 1995. The WTO provisions regarding apparel and textiles introduced a phased increase in the growth rates of existing quotas and a phased integration of products into normal trading rules, concluding December 31, 2004.

Annex C

MARKET SHARE ANALYSIS

Table C-1. Apparel Market Shares, 1994

	Canadian market	American market	Combined
	(percent)		
Canadian industry	60.0	0.8	4.6
American industry	6.9	70.7	66.6
All others	33.1	28.5	28.8
Source: Industry Canada calculations based on Statistics Canada, TIERS CD-ROM, CANSIM matrix 5439; Bank of Canada, <i>Review</i> , Ottawa, Summer 1996; U.S. Department of Commerce, <i>Annual Survey of Manufactures</i> , 1994.			

Table C-2. Gain (Loss) of Apparel Market Share, 1990-94

	Canadian market	American market	Combined
	(percent)		
Canadian industry	(8.9)	0.5	(2.3)
American industry	4.5	(0.9)	1.7
All others	4.5	0.4	0.6
Source: Industry Canada calculations based on Statistics Canada, TIERS CD-ROM, CANSIM matrix 5439; Bank of Canada, <i>Review</i> , Ottawa, Summer 1996; U.S. Department of Commerce, <i>Annual Survey of Manufactures</i> , 1994.			