

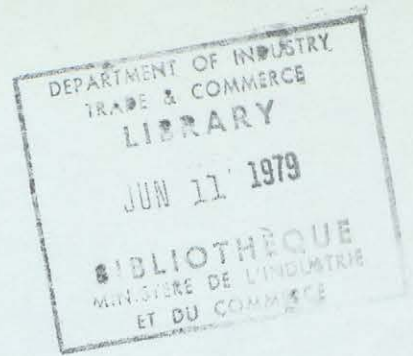
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RESPONSE OF THE FEDERAL
GOVERNMENT TO THE
RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE ON
**THE CANADIAN FOOTWEAR
INDUSTRY**



Government
of Canada

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du Canada



Canada

RESPONSE OF THE FEDERAL GOVERNMENT
TO THE RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE
ON THE
CANADIAN FOOTWEAR INDUSTRY

May 1979

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INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial and territorial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. This document constitutes one of the 23 detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The report of the Consultative Task Force on the Canadian Footwear Industry presented recommendations in the areas of import controls, tariff and taxation policy, government assistance programs and the footwear channel of distribution. In the paper that follows, the Government has made detailed responses to most of those recommendations within its jurisdiction. Where recommendations are still under study, it is the Government's intention to continue the consultative process. In certain instances however, circumstances prevent a detailed response at this time.

One of the major issues of concern to this task force is the import situation after the quota term expires. The response to the recommendations in this area must await the outcome of the current multilateral trade negotiations. This also applies to certain other recommendations in the tariff section of the report.

In the area of taxation policy, the Budget Papers of November 16, 1978 provided a response to certain of the recommendations, particularly those dealing with structural changes and tax reductions for the manufacturing sectors, by concluding that the corporate tax structure is competitive and workable and should not be changed significantly at this time. Other recommendations concerning the employment tax credit program and tax concessions on the sale of small privately owned firms to employees must await future budgets for consideration.

The Government has responded in many of the areas pinpointed in the task force report. One meeting has been held to date with industry representatives on the matter of an international footwear agreement. Plans are underway to hold a meeting of all interested parties this summer to discuss the subject of raw material availability vis-à-vis the footwear industry requirements with a view to identifying product areas where relief from duties could be considered. The recent review and the approval by Cabinet of changes in the adjustment assistance program have the effect of introducing a greater degree of flexibility in the assistance thus making it even more accessible to small and medium-size firms.

Both the industry and the provincial governments are responsible for certain recommendations cited in the report. A motion has been passed by FLICCC's Board of Directors to amend the by-laws to allow participating associate members. This includes firms supplying the footwear and tanning industries and thus conforms to the recommendation of the task force.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

IMPORT CONTROLS AND INDUSTRY VIABILITY

1. Recommendation

The principal recommendations of this report are that following the term of the existing quota system (1st December, 1977 to 30th November, 1980), for the medium term (1981 to 1985) and the longer term (1986 to 1995), constant monitoring on a formal basis be maintained and industry participation in the monitoring process be put in place. It is expected that as a result of this monitoring:

- 1) Import restrictions for some developed countries could be eliminated from the quota program while the existing tariff provisions on imports are left in place.
- 2) For some other developed countries orderly marketing agreements should be negotiated establishing quantitative levels of imports from these sources along with maintaining existing tariff provisions.
- 3) Long-term special measures of protection be maintained with respect to the state trading countries of Eastern Europe, the Far Eastern Countries, developing countries, including major exporters in Central and Latin America coupled with maintaining existing tariff provisions.

Government Response (Under review)

Consideration is being given to medium-term and long-term policy in this area. This will have to take into account the outcome of the current multilateral trade negotiations. In the interim, the government is committed to taking expeditious action on injurious imports compatible with our international rights and obligations.

Recommendation

- 4) That the National Footwear Conference of Canada, which represents all of the groups concerned with the footwear channel of distribution, supplemented by participants from both federal and provincial governments, be involved in on-going monitoring of import quantities and sources, domestic and import prices with statistical information provided monthly for the previous month by the Office of Special Import Policy and Statistics Canada.

Government Response (Agree in part)

It is recognized by the federal government that the National Footwear Conference of Canada is in a position to make valuable recommendations. These will be welcomed. It is the government's intention to recommend that departmental officials meet with the National Footwear Conference on an annual or semi-annual basis whereupon information will be made available, with the exception of any material of a confidential nature, to enable the Conference to formulate its recommendations.

2. Recommendation

Further recommendations were discussed including the suggestion that a study be made by governments to determine the feasibility of relating import quota granting to employment created in Canada. The proposed study would also include comparisons of costs of job creation both in Canada and in the major footwear exporting countries.

Government Response (Disagree)

The question of employment is, of course, a consideration in any decision to restrain imports. Government policy, reflecting Canada's international rights and obligations, however, does not provide for directly linking the granting of import quotas to job creation. Other measures and government programs are available which are more appropriate to encouraging employment creation.

TARIFF AND TAXATION POLICY

TARIFF

3. Recommendation

Because of world-wide disruption in the footwear trade, the federal government should include footwear on its exemption list in the present multilateral trade negotiations thus exempting footwear from the proposed tariff cuts.

Government Response (Disagree)

This recommendation of the task force, together with the views submitted earlier to the Canadian Trade and Tariffs Committee, has been taken into account in the development of Canada's position for the multilateral trade negotiations.

4. Recommendation

The Canadian government should provide leadership and together with other governments pursue the development of an international footwear agreement.

Government Response (Agree in part)

Preliminary discussions between industry and government representatives have taken place. While not planning to take the initiative in this matter, the Government would seriously consider participating in the negotiation of an international footwear agreement.

5. Recommendation

In cases for which value for duty cannot be determined by the usual methods, Canadian selling price of footwear should be used in evaluating imported footwear for duty purposes.

Government Response (Under review)

Issues associated with valuation systems and practices are being considered in the current multilateral trade negotiations where a multilateral Code on valuation practices is being developed. The industry's views have been taken into account in the development of Canada's position.

6. Recommendation

In cases where complaints from domestic manufacturers about foreign government subsidies to exporters are brought to the attention of the federal government, the machinery already in place for the application of countervailing duties should be activated. This should be strengthened by the negotiation of a code of conduct in the current multilateral trade negotiations.

Government Response (Agree)

Government policy is consistent with the task force recommendation.

7. Recommendation

In cases where raw materials are not available in Canada, duty should be refunded through duty remissions, and/or tariff schedule should be revised accordingly, until such time as the industry is large enough to support domestic production. When this happens duty should be reimposed.

Government Response (Agree in part)

It is the Government's policy to review requests from Canadian industries on a case-by-case basis to assess whether certain imported components used by these industries not available in Canada could be considered for duty free entry after taking into account the substitutability of Canadian made materials available in Canada.

8. Recommendation

It is further recommended that the Government of Canada convene a meeting of all the interested parties to the above recommendation, including representatives of various government departments, to clarify the positions of the textile, plastics and footwear industries.

Government Response (Agree)

The Department of Industry, Trade and Commerce is planning to arrange a meeting of all interested parties this summer in order to identify specific products where relief from duties could be considered.

TAXATION

9. Recommendation

It is recommended that federal and provincial corporate taxes on profits of firms in the footwear and allied manufacturing sectors be reduced as follows until stabilization is achieved in these industries:

- a) Reduction of the net federal tax rate from 30 per cent to 26 per cent.

Government Response (Disagree)

The statutory federal corporation income tax rate is 36 per cent. Special deductions provide lower federal tax rates of 30 per cent for manufacturing and processing activities and 15 per cent for small business (10 per cent if engaged in manufacturing). Footwear and allied manufacturing sectors qualify for the manufacturing and processing deduction and a majority of firms also receive the small business deduction.

A comprehensive tax comparison of Canadian and United States tax systems released with the November 16, 1978 budget showed that Canadian taxes on business are fully competitive with those in the U.S. Manufacturing and small business corporations compared most favourably in this regard. In addition, the dividend tax credit mechanism in Canada provides significant incentives to individuals for equity participation in corporate business.

The footwear and allied manufacturing sector thus have a relatively favourable tax position in both domestic and international comparisons. The Second Tier Committee recommended that special tax concessions for particular industries should be used only on a clearly established rationale. Government policy is not to adopt special income tax rates for a particular industry. The federal budget of November 1978 provided tax reductions to the manufacturing sector in the form of increases in the rates of investment tax credit.

9. Recommendation

- b) Reduction of provincial tax rates by a similar amount.

Government Response

This recommendation falls under provincial jurisdiction.

10. Recommendation

The present 12 per cent federal sales tax on special purpose footwear is discriminatory and favours imported footwear. It is recommended that this tax be removed immediately.

Government Response (Disagree)

All special purpose sports equipment, whether imported or domestic, including ski boots and hockey skates, attracts tax at a rate of 9 per cent. The exemption in the Excise Tax Act for clothing and footwear is available only for items of normal streetwear. The Minister of Finance proposed in the November 16, 1978 budget that the federal manufacturers' sales tax be reduced from 12 percent to 9 per cent.

11. Recommendation

It is recommended that all provincial sales taxes on all footwear be eliminated immediately.

Government Response

This recommendation falls under provincial jurisdiction.

12. Recommendation

It is recommended that the sale of family and small privately owned footwear manufacturing companies to children and/or employees be facilitated by tax forgiveness or deferment on dividends to purchasers up to purchase costs.

Government Response (Agree in part)

The Government has moved to respond in these areas. In general, when shares in a business are sold, or transferred between generations, any capital gains are included in income for tax purposes. There are a few, limited exceptions to allow for a further deferral of gains. The small business package announced on May 25, 1978 provided for a deferral of up to \$200,000 in capital gains when shares of an incorporated small business are transferred between generations of a family.

As well, the March 31, 1977 budget changed the treatment of employee stock options to facilitate the participation of employees in the ownership of small business corporations. Any difference between the option price and the market value of the shares is now treated as a capital gain taxable only when the shares are eventually sold rather than as income when the option is exercised.

13. Recommendation

It is recommended that regional loans and incentives to encourage plant location in designated areas be combined with a corporate tax holiday for any five years of the first ten years of existence.

Government Response (Disagree)

The Regional Development Incentives Program provides financial assistance to help offset costs associated with locating in a designated region. The basic aim of the program is to make location in a designated area as viable as elsewhere. To that end, assistance is directed towards front-end financing to enable the new investment to take place. Tax incentives, on the other hand, usually favour companies already operating at a profit. In addition, tax incentives are a costly mechanism to administer compared to incentive grants.

Industrial development incentives in the form of loans (in many cases with low interest and deferred payment provisions) are already available under many provincial incentives programs.

Greater use of regional development oriented loans and guarantee assistance is being considered by DREE. However, care must be taken to avoid impinging on existing public and private lending institutions.

14. Recommendation

The federal government should give serious consideration to a basic modification of its corporate tax structure in order to generate growth and create jobs in the manufacturing sector.

Government Response (Disagree)

The past seven years have seen dramatic changes in the tax system. The Government does not believe that further changes of a far-reaching nature should be considered at this time. The current system is competitive and workable. Attention at this time needs to be given to stability in taxation and simplification of the tax system.

15. Recommendation

The recently introduced employment tax credit program should become a permanent program to encourage continued increase in employment.

Government Response (Under review)

At the time of introduction of the employment tax credit program, the Minister of Finance indicated that it was an experimental program that would be subject to continuous monitoring. This monitoring has already resulted in some modifications to improve the program. Prior to the expiry of the employment tax credit, there will be an extensive final review to determine if it has been a successful part of national employment strategy. At that time, a decision will be made to determine if some form of an employment tax credit should be continued.

INDUSTRY RATIONALIZATION - FOOTWEAR AND TANNING INDUSTRIES SECTOR STRATEGY
- MANPOWER TRAINING AND DEVELOPMENT - PROVINCIAL GOVERNMENT ASSISTANCE
PROGRAMS

16. Recommendation

The ease of access to assistance through the utilization of both sector strategy and manpower programs should be increased and the time necessary from the initiation of an application to its acceptance and implementation reduced.

Government Response (Agree in principle)

In line with this recommendation, Cabinet has recently approved the extension of the adjustment program for the footwear and tanning industries to March 31, 1981, as well as an administrative change allowing the implementation of restructuring measures prior to the completion of the audit. This latter amendment will accelerate changes which will in turn lead to more immediate results.

17. Recommendation

It is recommended that the design scholarship programs of the federal government be continued. In addition, instructors should be brought to Canada to present the course.

Government Response (Agree in principle)

The Footwear Design Scholarship program will be continued. The recommendation to have instructors from foreign countries brought to Canada to give courses must be considered in terms of provincial jurisdiction.

18. Recommendation

It is recommended that qualification for the DREE program, or a similar program, insofar as it relates to enlargement of existing shoe manufacturing facilities and the utilization of more modern technology be made available to all footwear manufacturers regardless of "geographic" location.

Government Response (Disagree)

The basic aim of regional development incentives is to attract new investment and to create new jobs in slow growth areas of the country. Under most circumstances, therefore, incentives are available only to projects in the areas designated for assistance. In special cases, however, assistance may be provided by special assistance measures under a subsidiary agreement with individual provincial governments.

Recommendation

It is recommended that Article 9(4) of the Regional Development Incentive Act be amended to permit a firm that has already received a grant some years ago to obtain additional financing from DREE if a modernization program is warranted by competition and/or new technology.

Government Response (Under review)

The principal rationale for this policy which prohibits a facility from receiving RDIP assistance for modernization if it was established with the help of a RDIP grant, is that the Government must be careful to avoid creating a lasting dependence on its grants. It should be noted, however, that facilities which have previously received RDIP assistance may qualify for assistance for production expansion and new product expansion.

It is recognized that as the operation of the incentives program extends over a longer period of time, there may well be particular situations in which facilities that initially received regional development incentives grants later require further assistance to meet new competition or to keep pace with new technology. Serious thought, therefore, is currently being given to this particular proposal.

. Recommendation

The industry will continue its efforts to promote use of government assistance grants to enable "joint efforts" by groups of manufacturers for the purpose of putting on joint training programs, purchasing high technology machinery on a group basis, and for the development of export opportunities.

Government Response

This is to be undertaken by the industry.

. Recommendation

It is recommended that the manpower training assistance for the footwear industry be expanded to include not only training in production personnel and first line supervisors, but also management training on all levels.

Government Response (Agree)

Present policy under the Canada Manpower Industrial Training Program permits the Government to support management training at all levels (except owners) for the footwear manufacturing industries. However, participation in management training programs above the first level is limited to reimbursement of instructional costs only. The Footwear and Leather Institute of Canada (FLICCC) which is financially assisted by Government is taking a leading role in management training at all levels. It could also effectively act as the link for increased utilization of the government manpower assistance program by interested manufacturers.

22. Recommendation

It is recommended that a review of footwear product definitions be carried out to achieve consistency between reports on shipments, imports, exports. Further it is recommended that closer liaison be established between the Shoe Manufacturers' Association of Canada and the Footwear and Leather Institute of Canada and Statistics Canada to produce statistical data on a more timely basis, in a format more readily usable by the industry.

Government Response (Agree)

Review of footwear product definitions for Canadian shipments has already been completed in co-operation with the trade association and Statistics Canada. A review of footwear import and export definitions will be considered in the course of 1979.

THE FOOTWEAR CHANNEL OF DISTRIBUTION - CO-ORDINATION AND RATIONALIZATION

23. Recommendation

The development of the marketing information program and market projections by the Footwear and Leather Institute of Canada (FLICCC) is considered to be an essential factor in eliminating the imbalances and fluctuations in the channel of distribution. It is recommended that supplementary funding be supplied to FLICCC for the implementation of the marketing information program and that this be a major priority.

Government Response (Agree)

The Department of Industry, Trade and Commerce plans to implement a coordinated approach to identifying potential domestic markets currently being supplied by imports and to assisting Canadian manufacturers to improve their domestic marketing practices. The Footwear and Leather Institute of Canada (FLICCC) is at present involved in the development of a market information system. Administrative changes have recently been introduced which improve FLICCC's financial situation. Current funding provisions from government have been deemed adequate for the present, however, this is subject to review at a later date should additional funds be required as identified by FLICCC's Board of Directors.

24. Recommendation

The support of FLICCC insofar as it provides services to the National Footwear Conference be increased to enable closer cooperation between the two bodies, particularly in dealing with problems of footwear labelling and the promotion of increased consumption.

Government Response (Agree)

The Footwear and Leather Institute of Canada (FLICCC) which is partly government supported, is taking part in a project to improve footwear labelling, a project in which the National Footwear Conference is also involved. The Government has announced a program to encourage consumers to shop for Canadian-made goods.

25. Recommendation

The terms of reference of FLICCC should be enlarged to enable suppliers to the Canadian footwear and tanning industries to become full members of FLICCC and thereby be entitled to full benefits of membership.

Government Response (Agree)

At a meeting of the Board of Directors of FLICCC on November 21, 1978, a motion was passed to amend the by-laws to include participating associate members. This includes firms supplying the footwear and tanning industries, retailers of footwear, as well as manufacturers of leather goods such as handbags, luggage and gloves.

ANNEX I

MEMBERSHIP OF THE CONSULTATIVE TASK FORCE ON FOOTWEAR

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Division - Retail Clerks
International Union

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S. Troster
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Maple Leaf Shoe Co. Ltd.

OBSERVERS

R.J. Halfnight
Ministry of Industry and Tourism
Ontario

M.W. Hanson
Ministère de l'Industrie et du
Commerce - Québec

J.G. Maheu
Shoe Manufacturers' Association
of Canada

P. Marceau
Ministère de l'Industrie et du
Commerce - Québec

B. Mazer
Ministry of Economic Development
British Columbia

C. Pestieau
C.D. Howe Research Institute

SECRETARY

P.A. Barker
Director General, Textiles and
Consumer Products Branch -
Department of Industry, Trade
and Commerce - Ottawa

OTHER PARTICIPANTS

F. Bastien
Department of Labour - Ottawa

C.G. Desmarais
Department of Industry, Trade
and Commerce - Ottawa

R. Fournier
Department of Regional
Economic Expansion - Ottawa

B.T. Giacomin
Department of Industry, Trade
and Commerce - Ottawa

S. Kirby
Department of Industry, Trade
and Commerce - Ottawa

J.P. Roy
Department of Industry, Trade
and Commerce - Ottawa

B.A. Sulzenko
Department of Finance - Ottawa

W.C. Wilton
Department of Industry, Trade
and Commerce - Ottawa

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