

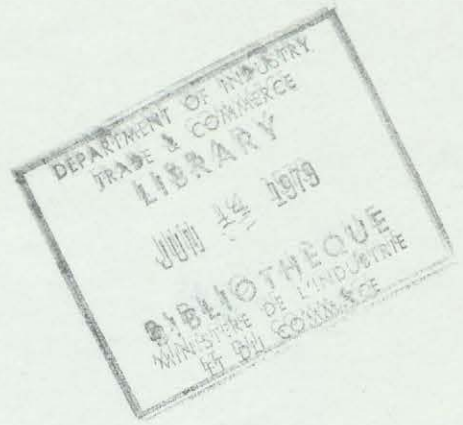
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RESPONSE OF THE FEDERAL
GOVERNMENT TO THE
RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE ON
**THE CANADIAN TEXTILE AND
CLOTHING INDUSTRIES**



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 TEXTILE AND CLOTHING 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 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. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Textile and Clothing Industry, constitutes one of the twenty-three 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. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The Textiles and Clothing Consultative Task Force presented for Government's consideration sixty-four recommendations, "all of them unanimous - designed to assist the textile and apparel industries to make the best possible contribution to the Canadian economy". The Task Force stated that "basic to our recommendations is a rededication by government to the achievement of a more favourable investment climate for Canadian manufacturing industry in general".

The Government is very much aware of the contribution the industries make to the economic and employment prospects for Canadians. Through the establishment of the sector task forces in themselves, the creation of the Board of Economic Development Ministers to focus government efforts on industrial development and its commitment to respond to the recommendations, the Government has shown that it concurs with the overall thrust of this basic premise.

The recommendations of the Task Force were consolidated into five major areas for attention: Consultation, Federal Government Incentive Programs, Fiscal Policy, Trade Policy and Competition Policy.

In keeping with the Government's commitment to continue a meaningful ongoing consultative process and in response to a specific recommendation in the task force report, government officials have recently met with members of the Textile and Clothing Advisory Panel to review the progress to date on the recommendations.

In the area of Federal Government Incentive Programs and Trade Policy, the Government, through the Department of Industry, Trade and Commerce, has made significant progress in a number of areas to which the task force has directed its recommendations. As a complement to the existing Enterprise Development Program, the Government is at present considering the benefits to be derived from the implementation of a program which encourages the textile and clothing industries to hire outside consulting expertise for comprehensive audits and provides assistance for the implementation of restructuring programs. A regional productivity program for apparel has been successfully implemented in Manitoba, and is in the planning stages for Quebec and Ontario. In addition, a scholarship program designed to assist students pursuing a course in apparel management will be commenced in conjunction with the apparel industry in the near future.

The import monitoring system is operational and has assisted in the identification of potentially disruptive sources. Meetings with representatives of industry groups have been held to discuss the appropriate format for the dissemination of some data elements captured by the computerized system. As well, the 1970 Textile Policy is being examined in light of the changes in the environment which have occurred since its enunciation.

The specific recommendations directed at the policies and procedures of the Department of Regional Economic Expansion have undergone a rigorous examination and discussion process within that Department and between the Department and the textile and clothing industries.

A significant portion of the recommendations presented in the report by the Textile and Clothing Task Force pertain to issues being considered during the course of the current multilateral trade negotiations. In view of this, definitive responses to specific areas of concern cannot be developed until the conclusion of these talks, as the government's overall position will depend upon the outcome.

The Budget Papers of November 16, 1978 have met the intent of several recommendations in the report relating to fiscal policy, particularly those concerning the level and treatment of the investment tax credit. A further response indicative of Government's continuing commitment to industrial growth must await subsequent budgets.

On the topic of competition policy, the government is giving consideration to the task force recommendations in its formulation of future legislation.

Some of the recommendations, particularly those pertaining to educational matters, fall outside the Federal Government's jurisdiction; however, the Government will strongly support initiatives in this area by the provinces. As well, the Government looks forward to receiving notification from the industry on the progress achieved from implementation of those recommendations which fall within the industries' purview.

In the following section the specific recommendations of the Textile and Clothing Consultative Task Force are reproduced, with the federal government's response to each.

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

CONSULTATION

1. Recommendation

During the course of its study the task force has noted the desirability of improving the level of consultation which has existed between the textile and apparel industries, their labour unions and the retail merchants associations of Canada. We recommend that an early study be conducted by the parties involved to determine whether the establishment of a federation of the trade associations concerned would be a feasible and satisfactory method of achieving this objective.

Government Response

The Government awaits the initiation of this study as a further step in the attainment of improved dialogue among those directly concerned with the textile and apparel fields.

2. Recommendation

To ensure that the required emphasis is given to development of domestic industry, we recommend that one of the following courses of action be implemented at the earliest opportunity.

- a) The Department appoint an Associate Deputy Minister - Industry who would be responsible for those functions now reporting to:
 - The Assistant Deputy Minister - Industry and Commerce Development
 - The Assistant Deputy Minister - Policy and Planning
 - The Assistant Deputy Minister - Enterprise Developmentor
- b) A new Department be created - The Department of Industry. This Department would be composed of the above groups.

Government Response (Disagree)

In the present environment with strong continuing emphasis on measures to enhance industrial performance, the Government believes that the maintenance of an integrated cohesive operation within Industry, Trade and Commerce will facilitate the delivery of its recently announced programs.

The recent creation of the Board of Economic Development Ministers will focus further Government efforts relative to industrial development.

3. Recommendation

Recognizing the useful nature of the many consultations which have taken place since 1976, the task force recommends that the Textile and Clothing Advisory Panel continue in existence to advise the Minister on the implementation of the recommendations contained in this task force report, and on any other matters related to the role of these industries in the Canadian economy.

Government Response (Agree)

The Government looks forward to continued consultation with textile and clothing industries through this forum.

PRODUCTIVITY

4. Recommendation

We recommend that a Productivity Improvement Program, the general principles of which are described in appendix 2 (of the report), be implemented as soon as each region can organize to do so. This would be the fulcrum for productivity development for the apparel industry and tailored to regional and sectoral needs. Its characteristics would reflect all those elements required to strengthen and complement the productivity improvement process. The key elements would include training and the promotion of new technology, particularly computer technology. The heads of all regional apparel associations should undertake jointly and immediately to prepare fully detailed plans for such programs by the end of 1978, to obtain the necessary initial funding from the federal and provincial governments, and to proceed with the implementation of the regional productivity programs by the end of June, 1979.

Government Response (Agree)

Action has already commenced on the task force recommendation. Implementation of the Manitoba program is underway and industry/government (including provincial governments) committees are examining specific industry needs in Quebec and Ontario with a view to developing suitable programs and funding proposals.

5. Recommendation

A program similar to the Footwear and Tanning Industries Adjustment Program be introduced for the textile and apparel industries.

Government Response (Under review)

The Government is at present assessing the benefits to be derived from the provision of a program similar to the Footwear and Tanning Industries Adjustment Program (FTIAP) to the textile and clothing industries as well as other financial assistance programs suggested to the Government by the industries.

6. Recommendation

We recommend that a study of the apparel industry be undertaken to identify the characteristics of high productivity firms. Correlation between productivity and profitability on the one hand, and purchasing and marketing factors on the other, should also be determined.

Government Response (Disagree)

In view of the fact that government is currently examining various productivity programs it is felt that the undertaking of this study would not be appropriate at this time.

7. Recommendation

That national accreditation course programs leading to a diploma in apparel management be developed as a catalyst to the training of middle management currently employed within industry.

8. Recommendation

To meet the growing need for more and better trained middle managers, we recommend that a college program in apparel production management be available in all areas of the country for which it is economically feasible. Regional availability of programs similar to the model established by George Brown College in Toronto would be most useful to the apparel industry.

9. Recommendation

Within the framework of existing textile colleges, credit course programs leading to diplomas in textile production and management be made more readily available to employees working in the industry.

Government Response

Although the primary responsibility for educational matters lies within provincial jurisdiction, the Government is reviewing the adequacy of management training programs and in the light of needs identified by the task forces will recommend options for the better delivery of financial assistance to industry-based associations or other appropriate industry groups for the improved development, coordination and dissemination of management training programs.

Already, the allocation of funds for a scholarship program for students pursuing courses in apparel management has been approved.

10. Recommendation

We recommend that the work of Fashion/Canada in the development of a design potential for the apparel industry be encouraged and re-directed to make it more broadly applicable to the needs of the industry.

Government Response (Agree in principle)

This recommendation has been reviewed by the Board of Directors of Fashion/Canada. The 1979/80 programs have been revised in accordance with the needs of the industry and the design students. It is anticipated that the format now being implemented will better meet this industry concern.

11. Recommendation

We recommend that the industries determine the existing and anticipated needs for all types of mechanics by region. It is further recommended that the manner in which the needed mechanics could be quickly trained be identified so that the needs of the industry can be met in every region.

Government Response (Agree in principle)

The Government strongly supports the recommendation for an increased private sector role in manpower planning and in the determination of existing and anticipated needs for textile mechanics. Under its Canada Manpower Industrial Training Program, the Government already supports training in this occupational area, while provincial governments are responsible for the pedagogical aspects of such training (course content, etc.). The Government would be willing to co-operate with provincial governments and the industries to support further training in this field if such a need is identified; and awaits with interest the industries' findings in this regard.

12. Recommendation

We recommend that a Productivity Improvement Program, the general principles of which are described in appendix 2 (of the report), be implemented for those sectors of the textile industry which require it. In this connection we commend the Canadian Textile Labour - Management Committee for its excellent program to educate middle management and their union counterparts in all aspects of productivity improvement.

Government Response (Under review)

In recognition of the recent changes in the competitive environment and the challenges facing industry today, the Government intends to renew discussions with the textile industry on the concept of a productivity centre.

FEDERAL GOVERNMENT INCENTIVE PROGRAMS

13. Recommendation

The recent refusal of DREE to offer RDIA grants to textiles and clothing apparently in all designated regions, for reasons which have not been satisfactorily or publicly explained, should be corrected immediately.

14. Recommendation

The textile and apparel industries be included as eligible industries for assistance under RDIA in all designated areas.

Government Response (Agree in part)

The thrust of these recommendations is directed at the introduction of the Montreal Special Area program in 1977. The basic aims in establishing the Montreal Special Area were:

- a) to help reduce high unemployment;
- b) to help re-vitalize the industrial structure of the province by attracting high technology industries; and
- c) to improve the labour market situation.

The Government of Canada and the Government of Quebec recognize that present economic problems in Quebec can in part be attributed to an over-concentration in the lower-growth, lower-productivity sectors coupled with a marked deficiency in advanced technology industries. These problems are particularly evident in the greater Montreal area where 70 per cent of the manufacturing activity is concentrated.

The strategy of limiting incentive support in the Montreal Special Area to high growth, high productivity sector industries in order to revitalize the industrial structure of the province, responds to stated objectives of the General Development Agreement signed with Quebec. It is consistent therefore with provincial economic and industrial policy.

In developing incentives measures for the Montreal region, emphasis has been placed on attracting dynamic sector activities offering strong market growth potential and relatively high levels of productivity. At the same time, in order not to upset the industrial balance in other areas of the province by unduly concentrating industrial development activities within the Montreal area, incentive levels are less generous than in the other regions of the province designated under the Regional Development Incentives Act.

With respect to RDIA incentives in general, there is no departmental policy in effect which explicitly discriminates against the textile, knitting or apparel industries with respect to the application of the program.

On the other hand, the eligibility of a particular industrial sector or activity does not automatically guarantee that all incentives applications within that sector will receive support. Each application is considered on its own merit and is assessed according to eligibility criteria which apply equally to all projects. In addition to basic eligibility criteria such as location, industrial coverage, need for an incentive and absence of prior commitment, assessment of each application must also take into account such factors as industrial sensitivity, viability in terms of management capability, financing, profitability, technology, labour force and availability of materials, as well as its potential impact on the environment of the region concerned. It is evident that not all projects will qualify for assistance when assessed on the basis of these criteria.

15. Recommendation

That whenever changes affecting the textile and apparel industries are being considered by DREE these industries and the provinces concerned be given an opportunity to express their opinions on the proposed measure, and be informed of the outcome when a decision is taken.

Government Response (Agree)

DREE has a very wide range of contacts with individual firms and industry associations, especially in the textile and clothing industries. In the evaluation of applications for incentive assistance, industrial and sector information is constantly reviewed and updated. Sectoral specialists in other government departments, both federal and provincial, are regularly consulted. Meetings with

associations, and the review of industry association briefs to government have taken place frequently, either bilaterally or in coordination with other federal departments. Such exchanges contribute to a continuous process of program review within DREE.

16. Recommendation

That RDIA ceilings for development incentives for apparel industries be increased from 40% at present to the 80% provided for other industries.

Government Response (Under review)

Maximum grant amounts are set forth in Section 5(1) to 5(4) inclusive of the Regional Development Incentives Act. Incentive ceilings include the following:

1. For modernizations and volume expansions:
...the lower of 20 per cent of capital costs or \$6,000,000.
2. For new facilities and new product expansions, the lowest of the following:
...25 per cent of the approved capital costs and \$5,000 for each direct job (the initial 20 per cent of capital costs may not exceed \$6,000,000).
...\$30,000 for each direct job created;
...50 per cent of the capital to be employed in the operation.

These are the ceilings which are applied for the purpose of calculating incentive grant amounts. The garment industry is not singled out in either the Regional Development Incentives Act or its Regulations. Obviously, however, because the apparel industries have a relatively large labour component, their incentives grants in practice work out to a smaller grant per employee simply because the number of jobs involved is usually large in relation to the capital investment. The actual amount of an incentive grant, it should be kept in mind, is determined by a number of factors, including financial need. In the apparel industries, the level of capital needed is not ordinarily as high as it is in more capital-intensive industries.

Current ceilings in the RDIP legislation are under review.

17. Recommendation

That apparel firms be eligible for a new facility grant if expanding into new product lines or where a new facility is acquired for this purpose.

Government Response (Agree in part)

New product lines, as defined under the RDIP, are eligible to receive grants at new facility levels. The problem here therefore, is one of definition.

At present, determination as to whether a project can qualify as a new product expansion is on the basis that:

- a) the product is significantly different from any product being manufactured (or manufactured within the three years immediately prior) in the facility; and
- b) the product could not be economically manufactured or processed in the present operation unless the facility was expanded and additional assets acquired.

This implies differences in raw materials, technology, production methods, production equipment, etc.

A main purpose in providing a higher level of incentive for new product expansions than for production or volume expansions is to help meet the need to broaden and diversify the economic base of designated regions. Distinctions between production expansions and new product expansions are therefore necessary, since the latter, in addition to generating additional jobs, can also provide new and diversified job opportunities. Also, the establishment of a new facility or product line usually implies a higher cost and greater risk than the expansion of an existing facility.

Concerning the second part of the recommendation, the acquisition of a "going concern", which in effect only transfers ownership, clearly does not contribute towards achieving regional economic goals. On the other hand, in the case where a closed facility is acquired and where the acquisition of the facility constitutes an "arms length" transaction between the former and new owners, such a facility, if it is re-opened, may be eligible for assistance on a "new facility" basis under the Regional Development Incentives Program, provided that it can meet the normal project assessment criteria.

18. Recommendation

DREE procedures be simplified and speeded up considerably.

Government Response (Agree in principle)

The Department of Regional Economic Expansion is cognizant of the on going need to review its policies. Following a major policy review undertaken by DREE in 1972, new administrative policies and procedures with respect to RDIP were introduced, in conjunction with a major decentralization of departmental operations.

In order to speed up the decision-making process and to streamline and minimize information requirements, project applications involving capital investments of less than \$2.0 million and less than 100 direct jobs are calculated on the basis of a standard formula. About 85 per cent of all applications fall within this category. These applications are evaluated and decided on locally. The commitment of public funds cannot, of course, be made without sufficient information being supplied by the applicant to enable an assessment of project viability to be made.

19. Recommendation

Where unemployment levels remain persistently high in any area of Canada, even though the economic health of the broader region is satisfactory, that area should be designated as eligible for RDIA grants.

Government Response (Agree in principle)

The objective of the Department of Regional Economic Expansion is to foster economic development in regions of slow growth where high unemployment prevails and this is the general principle which guides the designation of areas under RDIP. It is, however, perfectly true that pockets of high unemployment may exist inside high growth regions and this remains a concern for the federal government and the provincial authorities. Through its General Development Agreements jointly signed by the federal and the provincial governments, DREE, in conjunction with other federal departments, is able to bring some forms of assistance to those pockets of high unemployment through program activity in infrastructure and industrial development. It might also be pointed out that the high unemployment recorded in those areas is often more of a cyclical rather than structural nature and our capacity to deal effectively with it may often be limited. Fortunately, it is often the case that alternative employment opportunities exist in the relatively close vicinity.

20. Recommendation

The prohibition against an RDIA grant for modernization of a facility which had originally been established with the help of an RDIA grant, should be rescinded. This prohibition is now provided for under article 9 (4) of the RDIA.

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 DREE 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.

21. Recommendation

The potential for the textile and apparel industries to contribute to Canadian progress in the area of regional economic disparities should be fully utilized. We recommend that the Minister of Regional and Economic Expansion meet with industry and labour leaders to initiate an assessment of this opportunity.

Government Response (Agree)

The Minister and departmental officials are open to discussion with industry representatives in order to create a good climate of understanding between industry and government. A full awareness of the particular circumstances of an industry both locally and nationally is regarded as an important element in the process of evaluating individual requests for incentive assistance.

22. Recommendation

In the determination of qualified research and development expenditures, the government revert to the former IRDIA definition, modified to allow for the inclusion in legitimate outlays for new product and style development.

23. Recommendation

Clearly understood definitions of allowable research and development expenses be made available to the textile and clothing industries.

Government Response (Under review)

The Government is currently examining the present definitions of research and development in light of recommendations presented by several task forces.

24. Recommendation

The Department should increase its efforts to inform smaller companies of the incentives available to them and advise as to how each specific company can make best use of these programs.

25. Recommendation

EDP procedures be simplified, made more speedy and less costly than at present.

Government Response (Agree)

These issues were raised as well during the Enterprise '77 campaign. The Department of Industry, Trade and Commerce has recently deployed additional resources to its regional offices and established the Business Centre to serve more effectively the needs of the business community. The Government has also established the Office of the Paper Burden Controller to streamline and simplify processing procedures.

As well, the Board of Economic Development Ministers is developing a system of Regional Business Centres. These will be offices located in regional centres that will be able to provide complete information on all incentives programs offered by the federal government.

26. Recommendation

Flexibility in EDP procedures be introduced by permitting textile and apparel manufacturers to deal, at their option, either directly with Ottawa-based officials or with regional officers.

Government Response (Agree)

This option has always existed; however, companies have been encouraged to deal at the regional level.

FISCAL POLICY

27. Recommendation

The present 5-10% investment tax credit for research and development expenditures be made non-incremental, raised to 25% and made permanent.

28. Recommendation

The investment tax credit be increased and restructured. The credit itself should be doubled and should be administered in such a way that the benefits are not diluted through a corresponding reduction in the available capital cost allowance. The credit should be made permanent.

Government Response (Agree in part)

- a) The November 16, 1978 budget extended the credit indefinitely by repealing the June 30, 1978 termination date for qualifying property and expenditures. It also raised the rate of credit for qualifying property acquired after November 16, 1978 to 7%, 10% and 20% depending on location and use of the property in Canada.

- b) a credit of 7% apply to acquisitions after November 16, 1978 of prescribed transportation equipment for use in a taxable business carried on in Canada, and
- c) the credit for eligible current and capital scientific research expenditures incurred after November 17, 1978 increased
 - i) to 25% for a Canadian-controlled private corporation which qualifies in the year in which the expenditure is made for the small business deduction, and
 - ii) in any other case, to 20% for research carried on in the Atlantic provinces and the Gaspé Peninsula of Quebec and 10% for research carried on elsewhere in Canada.

In addition, the Minister of Finance in the Budget Papers noted that: "Several sectoral reports suggested that the effective rate of the investment tax credit be raised by removing the requirement that the credit received reduce the capital cost allowance (CCA) base. The rates of investment tax credit have been chosen with regard to the degree of incentive provided and government revenue requirements. The reduction of the CCA base by the credit received has been recognized in the choice of rates and is desirable in order to provide neutral treatment of longer- and shorter-lived assets. In the United States, where the credit is not deducted from the capital cost allowance base, a similar result is achieved by giving only partial credits to assets with a life of less than seven years. The more appropriate method of enhancing the value of the credit is through increasing the credit rates directly, as proposed in this budget."

29. Recommendation

RDIA capital grants not be diluted by a corresponding reduction in the available capital cost allowance.

Government Response (Disagree)

Incentive grants are offered basically to offset any extra costs involved with locating facilities in the designated regions, and the level of incentive offered therefore already reflects this extra cost and an amount of inducement. The amount of the incentive grant is not part of income for tax purposes. A general principle of the tax system is that deductions are related to the actual costs incurred by taxpayers. The treatment of RDIA grants is consistent with this principle. If the applicant were also allowed to deduct for income tax purposes the depreciated value of the assets covered by the grant, this would represent a further financial return which would be in excess of the amount of financial assistance considered necessary to offset additional costs of locating within a designated region - the amount in question having already taken into account the loss of CCA privileges.

30. Recommendation

The recently introduced 3% inventory allowance does provide some relief against the effects of inflation on the higher costs of inventories. But the relief is equivalent to only 39% of the higher costs, and its impact is highly variable between industries. This allowance should be increased. As a very minimum, firms should be allowed the option of claiming either the 3% allowance or of using LIFO in determining the cost of goods sold for tax purposes.

31. Recommendation

Capital cost allowances for older fixed assets should be reviewed. Accelerated depreciation should be provided for buildings.

Government Response (Disagree)

The Government does recognize the distortions that arise from use of historic cost accounting in an inflationary environment. It has come to be generally accepted that inflation not only leads to an overstatement of profit because of first-in first-out inventory and historic cost depreciation accounting, but also to an understatement of profit because accounting conventions overstate the real cost of corporation borrowing during an inflationary period.

When the implications of debt financing are recognized, along with the full implication of accelerated capital cost allowances, the investment tax credit and the three per cent inventory adjustment, the overall level of Canadian corporation taxation does not differ greatly from what it would be under a comprehensive system of inflation accounting. Again, the need to maintain tax system stability indicates caution in any early movement to a comprehensive system of inflation accounting. There would also be many considerations in such a move related, for example, to the changes in tax burden on particular sectors in both directions that would result, to tax complexity, to the interaction between the corporate and personal tax, and to the harmonization of Canada's tax system with that in other countries.

The Government will continue to support the development of appropriate inflation accounting systems in the private sector because of the importance of accurate information on business operations for the efficient operation of the economy, and the possibility that the existence of such information would allow a fairer distribution of the total corporation tax burden among sectors.

32. Recommendation

The existing five-year carry-forward limitations for losses and investment tax credits should be eliminated, so that firms currently in a low profit or loss position can ultimately claim full benefits.

Government Response (Disagree)

In the Budget Papers tabled by the Minister of Finance on November 16, 1978, this issue was addressed as follows:

"Business losses and the investment in tax credit may be carried forward to reduce tax for up to five years. Given the discretion in timing available to taxpayers in claiming capital cost allowances, this provides for full utilization of the amounts in all but exceptional circumstances. Many sectors, in arguing for extension of the carry-forward, referred to the United States, where the period is seven years. However, it should be noted that in that country CCA must be claimed in full in each year, giving taxpayers significantly less flexibility in the claiming of deductions.

The five-year time period in Canada matches the period for tax reassessments. To change the connection among the two types of carry-forwards and the reassessment period would entail considerable administrative difficulties for taxpayers and taxation authorities, without significantly aiding many taxpayers".

33. Recommendation

Unrealized foreign exchange losses on capital accounts should be deductible from taxable income on an accrual basis.

Government Response (Disagree)

There is a general principle running throughout the tax system that makes a basic distinction between capital transactions and current income from normal operations. Capital gains and losses are treated in a different manner from current income from normal operations. This extends to foreign exchange losses and gains which are treated differently depending upon whether they are capital gains or losses or gains or losses in the course of current operations. There are currently no plans to deviate from this principle. As there is some degree of interpretation required to determine whether particular transactions are capital transactions or not, the Minister of Finance will consider the merits of individual cases presented to him.

It must always be kept in mind that gains and losses are always treated in a parallel fashion. For example, if the Minister were to rule that in a particular case unrealized foreign exchange losses were to be deductible from taxable income on an accrual basis then automatically unrealized foreign exchange gains would have to be included in taxable income on an accrual basis.

34. Recommendations

The federal sales tax on fabrics and textile products should either be levied at the wholesale level, or its implementation should be amended to remove the current advantage accruing to imported products.

Government Response (Under review)

The Standing Committee of the House of Commons on Finance, Trade and Economic Affairs has already received a large number of submissions on the Report of the Commodity Tax Review Group. It is expected that the Committee, after finishing its review, will make recommendations on the structure of Canada's commodity tax system. The report makes many specific recommendations which directly address the concerns raised, such as those related to the effect of the federal sales tax in discriminating between imports and domestically produced goods. It is the intention of the Government to decide on the appropriate course of action once it has heard the views of the Committee.

35. Recommendation

Several possible suggestions for more fundamental, innovative changes in Canada's approach to corporate and personal taxation are proposed for further study. We strongly recommend that the federal government undertake to produce a green paper on corporate taxation within twelve months and that the proposals then be subjected to a full and public process of consultation with the private sector.

Government Response (Disagree)

The Government does not intend at this time to initiate such a study. A recent study prepared by the Department of Finance demonstrated that Canada's tax system is basically sound. The Government does not believe that fundamental changes are in order at this time when stability in taxation is of prime importance.

36. Recommendation

The task force recommends that the federal and provincial governments review the differences that exist and make modifications to the income tax structure to minimize their negative impact and reduce the barriers to managerial mobility.

Government Response (Agree in principle)

The effect of the tax system on personal incentives is one of the major considerations in framing federal tax policy. In the November 16, 1978 Budget Papers the Minister of Finance responded by saying: "A number of Task Forces referred to the need for federal and provincial cooperation in fiscal policy. While it would not be possible nor desirable to have a rigid, uniform system of tax and expenditure policies in a diverse federation such as Canada, some important avenues for cooperation do exist. The consultative industry task force process itself arose from a meeting of First Ministers on economic issues. Finance Ministers meet on a regular basis to exchange information and discuss economic matters. The federal government is committed to these avenues of cooperation and will continue to support them."

TRADE POLICY

37. Recommendation

Comprehensive textile and apparel export restraint arrangements should be negotiated with the remaining 14 countries identified by the Textile and Clothing Board.

Government Response (Disagree)

At the time of the Textile and Clothing Board's Report, information available indicated major import disruption from the 21 countries listed in the Report. Subsequent information, that has become available through an effective monitoring system, indicates imports from a number of the remaining 14 countries are now modest. The monitoring system, however, has identified other countries which have begun exporting textiles and clothing in sufficient quantities to potentially disrupt the market.

38. Recommendation

The computerized import reporting system now under development for the Department of Industry, Trade and Commerce is welcomed by the task force as a progressive and much-needed initiative and we recommend that every effort be made to have the system fully operational well in advance of January 1, 1979. It is understood that the textile and apparel industries should have prompt access to the aggregate data thus collected.

Government Response (Agree in part)

The computerized import reporting system has been fully operational since January 1, 1979. The Department has held discussions with representatives of industry groups concerning the type of information that could be obtained from the system that would be most beneficial to the industries, bearing in mind the confidential nature of some elements of the collected data.

39. Recommendation

As it is comparatively easy for an exporting entrepreneur to shift his base of operations, since the technology is mobile, to a country with which an export restraint arrangement has not been negotiated and as it is essential that a trade policy based on the negotiation of bilateral restraints be accompanied by a monitoring system which can be used promptly in a preemptive way, we recommend that foreign exporters and the distributive trades in Canada be informed that import patterns from non-restrained sources will be subject to review and monitoring on a continuous basis and that restraint action will be taken quickly as required.

40. Recommendation

The task force concurs with the findings of the Textile and Clothing Board that "there will be a continuing import threat which is a 'moving' threat and can shift from country to country as restraints are negotiated or imposed country by country. This threat will surely be relentless, and will not diminish for the foreseeable future as long as entrepreneurs can move to unrestrained countries where labour is cheap". We therefore recommend that provision be made for prompt and preemptive negotiations with countries other than those named by the Board as soon as the risk of disruptive imports is detected.

Government Response (Agree)

The Government has stated a policy of ensuring that appropriate action will be taken to prevent potentially disruptive increases in imports from any unrestrained source. Bilateral consultations have already been initiated with six additional sources, four of which were the subject of the Textile and Clothing Board's recommendations.

In addition, the Minister of Industry, Trade and Commerce in a press release dated June 21, 1978 "cautioned importers that any potentially disruptive shifts in the pattern of trade could lead to further restraint measures". This has been further emphasized through the Department's Notices to Importers.

41. Recommendation

The task force is unanimous on the importance of ensuring that all importing entities make every effort to ensure that the interests of low wage earners in Canada are served by the means adopted to administer export restraints on import quotas.

Government Response

This recommendation lies beyond government jurisdiction.

42. Recommendation

We recommend that the 1970 Textile Policy be reviewed on a priority basis and replaced or amended by an announced policy designed to achieve a strong flow of investment into high productivity and efficient textile and clothing processes in Canada. Measures to achieve this objective would include, inter alia, the negotiation of comprehensive export restraint arrangements designed to deal with real risk of market disruption.

Government Response (Under review)

The Government is currently examining the policy in light of the changes in the trading environment.

43. Recommendation

The Textile and Clothing Board has played a central role in the implementation of the national Textile Policy and it is our recommendation that this role continue under the revised textile policy we have recommended.

Government Response (Agree in principle)

While no significant changes are at present contemplated in the role of the Textile and Clothing Board, its role is being reviewed in conjunction with the examination of the policy.

44. Recommendation

We recommend that the Minister of Finance initiate amendments to the Canadian legislation to permit:

- a) Price undertakings as an alternative to the imposition of dumping duties. The objective should be to achieve a solution in weeks rather than months and at a cost within the means of small Canadian producers.
- b) Sales below cost of production to be considered as dumping regardless of the selling prices in the country of export. This should also apply where the below-cost export pricing is the result of below-cost sales of raw materials to the exporting producers of the product imported into Canada.
- c) That anti-dumping procedures be streamlined to shorten the time necessary for inquiries to be carried through to completion and to lessen the costs thereof to the participants.

45. Recommendation

The Canadian countervail procedure be streamlined to achieve results immediately after the subsidized importing is detected, before serious damage is done to the domestic producers, and at a cost within the means of the smaller Canadian businesses.

Government Response (Under review)

The Government is committed to taking expeditious action on injurious imports compatible with our international rights and obligations. Specifically, its efforts in this area include:

- a) Improved execution of the significant positive measures already taken by Finance, the Anti-Dumping Tribunal and Revenue Canada in Anti-Dumping and Countervail legislation;
- b) Continued development by the Government of more efficient domestic procedures and administration of regulations/legislation dealing with injurious imports, taking into account changes resulting from the MTN.

The suggestions in (a) and (b) of recommendation 44, together with proposals and suggestions made by other industry sectors will be taken into account in the on-going consideration of devising more efficient procedures.

46. Recommendation

The Government define what it considers a subsidy or bounty in terms of the new regulations.

Government Response (Under review)

The Government will consider the elaboration of such a definition.

47. Recommendation

The task force joins in the recommendation of textile and apparel industries, previously presented to the Canadian Trade and Tariff Committee that textiles and apparel be exempted in their entirety from the negotiation on tariff reductions.

Government Response (Disagree)

The Government cannot accept this position for the MTN; however, as the Deputy Prime Minister indicated to the House of Commons on October 31, 1978, the industry is unlikely to face a major reduction in tariffs as a result of the multilateral trade negotiations.

48. Recommendation

Article XIX be amended to ensure that in cases of demonstrated injury or threat of injury there be no right to compensation or retaliation.

49. Recommendation

Article XIX of the GATT be revised to provide for the selective application of safeguard measures.

Government Response (Under review)

The provisions of Article XIX of the GATT regarding safeguard measures are under consideration in the multilateral trade negotiations which are expected to conclude in mid-1979. The views of the task force, in this regard, have been taken into account in the development of Canada's negotiation position.

50. Recommendation

If any consideration is given to adopting the BTN (Brussels Tariff Nomenclature) system, detailed discussions with the industry be completed before any decision is taken.

Government Response (Agree)

It is government policy to consult thoroughly on matters of this nature with industry.

51. Recommendation

Any move to change Canada's valuation for duty to a transaction price system such as has been proposed by the European Community in its submission to the MTN would adversely affect the textile and clothing industries, and is opposed by the task force.

52. Recommendation

To accept arms-length transaction prices in export trade as acceptable values for duty will, in a large proportion of cases, mean accepting dumped prices which, under Article VI of the GATT (and as dealt with in the International Anti-Dumping Code) are "to be condemned" as not being fair values.

Government Response (Under review)

Canada is taking part in the development of a Code respecting valuation systems and practices in the multilateral trade negotiations. The views of the industry in this regard have been brought to the attention of the Canadian Co-ordinator for the negotiations and have been taken into account in the development of Canada's position.

53. Recommendation

The matters of duty remission and fabric availability be referred to a joint permanent committee of the textile and clothing industries and their labour unions for immediate and continuing study to arrive at solutions and make recommendations which will take into account the real interests of all the parties involved. It is specifically recommended that this committee be formed and begin its study within 30 days from the date this task force report is submitted to the Minister of Industry, Trade and Commerce.

Government Response

The responsibility for the initiation of this study lies directly with the textile and clothing industries and their labour unions. The Government is aware of the efforts being expended by the industries to reach solutions to these problems and looks forward to the receipt of the industries' proposals.

54. Recommendation

It is recommended that a thorough study of some form of free trade, customs union or "automotive type" arrangement with the United States be undertaken at an early date by a joint industry/government committee constituted for that purpose.

Government Response (Agree in part)

Preliminary research initiated by the Government is being pursued. The formation of a joint industry/government committee for the purpose of such a study will be considered.

COMPETITION POLICY

55. Recommendation

Competition policy must not hinder mergers and acquisitions where these are deemed to be appropriate to achievement of scale - efficiency and improved competitiveness. The incentives for such mergers and acquisitions are reinforced by the need to be profitable in a fast-changing and sophisticated market with its higher costs of wages, taxes, and other business costs in Canada. Particularly for the primary textile industry, increases in scale can yield significant cost and productivity benefits. But it is equally important that competition policy and legislation not impose "off-setting" reductions in trade barriers as merged firms become more profitable and efficient. The prospect of such "offsets" would inhibit the process of merger and acquisition.

Government Response (Agree)

The merger provisions of Bill C-13 resolve conflict between effective competition and that of increased efficiency, in favour of the efficiency goal.

56. Recommendation

Rationalization or specialization agreements between Canadian firms should be encouraged rather than hindered or limited by competition policy. Provision should be made for such agreements on a long-term basis as well as for a broad range of such agreements, to include, for example, agreements providing for concentration of production in one manufacturer who would agree to supply those manufacturers who had agreed to discontinue production.

Government Response (Agree)

Bill C-13 makes explicit provision for specialization agreements, unlike the existing Combines Investigation Act. Furthermore, the current and proposed legislation would prohibit market-sharing arrangements only where they are undue.

57. Recommendation

There should be more clear-cut permission to reach agreement in matters of export pricing. The present law is not widely understood or used in this regard, and indeed deters textile manufacturers from meeting together to discuss price in any context whatsoever.

58. Recommendation

To permit Canadian companies to approach export markets on the same basis as that available to competitors, the Competition Act and the Combines Investigation Act be amended so that they do not apply to the conduct of export trade.

Government Response (Agree)

Bill C-13 would make the export arrangement provisions more permissive. Pricing arrangements between firms in relation to their export markets would be permitted provided that there is no intent that such arrangements impact upon domestic pricing.

59. Recommendation

Permission is needed for firms in any sub-sector of the textile and clothing industries to enter into agreements designed to shed capacity in times of cyclical over-supply. Such measures have been adopted by, for instance, the Japanese yarn spinning industry and more recently by the European man-made fibre producing industry under the authority of the Treaty of Rome.

Government Response (Agree)

No exemption from Canadian law is required to do this, where import competition is sufficiently vigorous. The specialization agreement provisions of Bill C-13 would permit such agreements where gains in efficiency were likely, even in the absence of strong import competition.

60. Recommendation

The confinement of lines to single customers is an important element in textile and apparel marketing. Competition policy should not prohibit this traditional marketing tool.

Government Response (Agree in part)

A civil provision concerning exclusive dealing was introduced in the Stage I amendments to the existing Act in 1976. Arrangements would be challenged under those provisions only in exceptional circumstances where exclusive dealing is (1) engaged in by a major supplier or is widespread in the market, (2) is likely to impede new entry, impede the introduction of a new product or have any other exclusionary effect, (3) is likely to lessen competition substantially.

61. Recommendation

Because of the nature of the markets served by these industries and of their internationally competitive milieu, the proposed joint monopolization provisions will tend unduly to restrict the opportunity to achieve the rationalization, format or otherwise, required for the economic survival of these industries.

Government Response (Under Review)

The thrust of the argument is that Bill C-13's joint monopolization provisions would prevent the concentrations necessary for the attainment of scale efficiencies. The need for such provisions arises from the fact that efficiency considerations dictate a highly concentrated structure in many Canadian industries and that the efficiency over-ride in the merger and specialization agreement provisions contemplates still higher levels of concentration. Accordingly, it is important that the law be vigilant against potential abuses of market power.

62. Recommendation

It is submitted that the proposed price differentiation provisions be removed from the Bill. The proposals run counter to long-standing trade practice in the industries, and the proposed defence based on costs is unrealistic and impracticable of determination. Furthermore, the existing provisions respecting price discrimination adequately protect against the major problems.

Government Response (Disagree)

While the current Combines Investigation Act requires that competitors be supplied at equal prices when buying in equal quantities, Bill C-13 proposes a provision, as a matter of civil law, for a challenge before the Competition Board of cases where the advantage accorded a large buyer appears excessive. The provision is intended to apply only where price differentiation is likely to impede substantially the expansion of a firm that, but for the practice, would be a strong competitor in the market. While the provision may protect small manufacturers against large retailers exacting unjustified concessions, it could also promote undesirable price rigidity in the economy. Because of this latter danger, a defence has been drafted which, notwithstanding a finding that the practice has impeded the expansion of an efficient firm, provides that no order may be made if the price differentiation engaged in by a supplier is based on a reasonable assessment of the difference in the actual or anticipated cost of supplying customers in different quantities and under different terms and conditions of delivery. Resource limitations on the Competition Advocate may well ensure that only grossly unjustified price differentiation cases will be challenged before the Board.

63. Recommendation

The proposed merger provisions of the new competition policy envisage an arbitrary market share threshold at a very low level. A merger which will result in crossing this threshold will, at the instance of the Competition Policy Advocate, be open to review by the Competition Board. The criteria to be applied in such a review are necessarily subject to a wide range of interpretation and are therefore uncertain. Some are so uncertain as to involve a degree of crystal-ball gazing.

Government Response (Under review)

This recommendation is under review.

64. Recommendation

Bill C-13, replacing B-42, has incorporated a number of improvements, but is still defective in many of its provisions. It would, if enacted, frustrate the attainment of the rationalization which is necessary if we are to achieve many of the economic objectives of our two industries. Among its flaws is the inability to distinguish between industries operating purely in a domestic as opposed to an international competitive environment.

Government Response (Disagree)

Bill C-13 in the merger provisions, instructs the Board explicitly to take account of the degree to which imports offer, or are likely to offer, effective competition in respect of products supplied by the parties to the merger. Moreover, in both the merger and specialization provisions, there is a direct link between competition policy and tariff policy.

ANNEX I

MEMBERSHIP OF THE CONSULTATIVE TASK FORCE ON TEXTILES AND CLOTHING

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