# A REPORT BY THE SECTOR TASK FORCE ON

# THE CANADIAN TEXTILE AND CLOTHING INDUSTRIES

Chairman J.E. Newall,

CONSULTATIVE TASK FORCE

ON TEXTILES AND CLOTHING



REPORT

TO THE

MINISTER OF INDUSTRY, TRADE AND COMMERCE

GOVERNMENT OF CANADA

JUNE 22, 1978

1080 BEAVER HALL HILL, MONTREAL, QUEBEC H2Z 1T6

# REPORT OF THE CONSULTATIVE TASK FORCE

# ON TEXTILES AND CLOTHING

## TABLE OF CONTENTS

# CONSULTATIVE TASK FORCE
# ON
# TEXTILES AND CLOTHING

| | |
|---|---|
| Chairman | J.E. Newall, Executive Vice-President - Du Pont of Canada Limited |
| Vice-Chairman | B.G. Coté, Chairman - Celanese Canada Inc. |
| Vice-Chairman | M.E. Enkin, President - Cambridge Clothes Ltd. |
| MEMBERS | |
| F.P. Brady | Senior Vice-President, Corporate Services - Dominion Textile Limited |
| J. Bronson | President - Silknit Limited |
| P.K. Carry | President - Superb Sportswear Limited |
| D.D. Cohen | Executive Vice-President - The Freedman Co. Limited |
| G.R.S. Crutchley | President and Managing Director - Jantzen of Canada Limited |
| P.E. Dalpé | Président - Centrale des Syndicats Démocratiques |
| J.G. Dionne | President - Dionne Spinning Inc. |
| S. Fox | Director, Clothing Division - Amalgamated Clothing and Textile Workers Union of America |
| M. Kape | President - Style Guild of Canada Limited |
| C. Lapierre | President - Claudel Lingerie Inc. |
| V. Mustard | Canadian Director - United Textile Workers of America |
| S. Perkal | Manager, Cloak Industry - International Ladies Garment Workers Union |
| J.H. Picard | Chairman - Textile Sales Limited |
| P.P. Proulx | Professor Agrégé - Université de Montréal |
| J.R. Stanford | President - West Coast Woollen Mills Limited |
| I.C. Stewart | President - Domstrand Limited |
| D. Taran | President - Consolidated Textiles Ltd. |
| N. Wexelman | President - Skirt Togs Industries Limited |
| I. Wismer | President - Cluett Peabody and Company of Canada Limited |
| C. Yan | General Manager - Rice Sportswear Limited |
| PARTICIPATING ON BEHALF OF THE RETAIL COUNCIL OF CANADA | |
| C.R. Sharpe | Vice-President Merchandising - Simpsons-Sears Ltd. |
| S.J. Shortt | Senior Vice-President, Merchandising Personnel - The T. Eaton Company Limited |
| OBSERVERS | |
| R.C. Dunn | Market Development Centre - Prince Edward Island |
| M. Levy | Department of Industry and Commerce - Manitoba |
| P. Marceau | Ministère de l'Industrie et du Commerce - Québec |
| Ms. B. Mazer | Ministry of Economic Development - British Columbia |
| L.R. Wilson | Ministry of Industry and Tourism - Ontario |
| SECRETARY | |
| P.A. Barker | Director General, Textiles and Consumer Products Branch - Department of Industry, Trade and Commerce |

CONSULTATIVE TASK FORCE
ON
TEXTILES AND CLOTHING

June 22, 1978

The Honourable Jack Horner
Minister of Industry, Trade and Commerce
Ottawa, Ontario
K1A OH5

Dear Mr. Horner

On behalf of the members of the Textiles and Clothing Consultative Task Force, we herewith submit our report on these industries.

We have also forwarded this report to the provincial ministers most directly concerned.

Yours truly,

J.E. Newall, Chairman

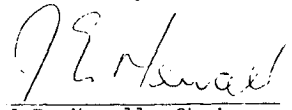
B.G. Coté, Vice-Chairman

M.E. Enkin, Vice-Chairman

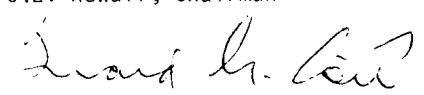
## ACKNOWLEDGEMENT

The members of the Textiles and Clothing Task Force wish to record their thanks for the help given to us by a considerable number of support staff. They made a very substantial contribution to this report. Their names are recorded below.

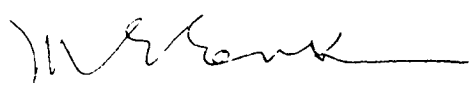
Yours truly,



J.E. Newall, Chairman



B.G. Coté, Vice-Chairman



M.E. Enkin, Vice-Chairman


| | |
|---|---|
| J. Adams | Department of Industry, Trade and Commerce - Ottawa |
| A.D. Amery | Du Pont of Canada Limited |
| J.I. Armstrong | Canadian Textiles Institute |
| W.J. Berry | Canadian Textiles Institute |
| M.A. Brull | Ministère de l'Industrie et du Commerce - Montréal |
| F. Bryan | Apparel Manufacturers Association of Ontario |
| M. Chapleau | Department of Industry, Trade and Commerce - Ottawa |
| P. Clark | Canadian Apparel Manufacturers Institute |
| P.R. Duffield | Du Pont of Canada Limited |
| R. Hastings | Dominion Textile Limited |
| R. Hest | Celanese Canada Inc. |
| F.S. Kenny | Du Pont of Canada Limited |
| Ms. E. Kutasi | Dominion Textile Limited |
| C. Kuzik | Superb Sportswear Limited |
| G.P. MacPherson | Corporation House Limited |
| J.W. McLaggan | Department of Industry, Trade and Commerce - Ottawa |
| K. Parsonage | Department of Industry, Trade and Commerce - Ottawa |
| J.M. Robertson | Canadian Textiles Institute |
| M. Scheim | Consolidated Textiles Limited |
| J.L. Thibault | Canadian Manufacturers Association |
| W.C. Wilton | Department of Industry, Trade and Commerce - Ottawa |
| R. Winston | Manitoba Fashion Institute |

# REPORT OF THE CONSULTATIVE TASK FORCE ON TEXTILES AND CLOTHING

## INTRODUCTION

The Textiles and Clothing Consultative Task Force is one of 23 task forces established by government following the First Ministers' Conference in Ottawa on February 13-15, 1978. It is composed of representatives of management and labour of the textile and clothing industries, the provinces most directly concerned - Quebec, Ontario, Manitoba, British Columbia, and the academic community. In this report the Task Force has addressed itself to a detailed examination and analysis of the textile and clothing industries, to recommending appropriate action to improve the economic performance of these manufacturing sectors and to "determining what policy changes would be needed to enable those industries to make the best possible contribution to the Canadian economy".

The industries covered by the report have been the subject of many studies and reports in recent years - probably more than most other sectors of the Canadian manufacturing industry. (See bibliography). Consequently, a broad data base and a wealth of information about the industries already exists. This has been particularly helpful in view of the very short time that has been made available by the Minister for a study of the size and complexity required. The Task Force has reviewed all of the existing material and has used, as the most recent data base available, the Sector Profiles on the Textile and Clothing Industries which accompany this report.

Our intention in this report is to be positive and constructive. We do not endorse a "winners and losers" approach to industrial strategy. It is our unanimous view that while Canada does not have a comparative advantage for significant components of the manufacturing sector, there are many compelling reasons for maintaining and strengthening a broadly based industrial structure. Specific programs will need to be tailored to the particular requirements of individual manufacturing sectors, programs which will best achieve the goals of job creation and the generation of wealth through economic growth. This must surely be the objective of any new industrial strategy for Canada.

There are some very fundamental perspectives and assumptions which have formed the basis upon which this study has been undertaken. They relate essentially to the role the textile and clothing industries can be expected to play in the Canadian economy in the years to come and to a determination of whether or not the interests of the nation could be served in any way by the phasing out of the industries, to all intents and purposes, or by the adoption of policies which would ensure the existence of healthy, viable and growing textile and apparel industries during the near and medium term. These perspectives and assumptions are noted hereunder.

## PERSPECTIVES AND ASSUMPTIONS

(a) In a situation of endemically high unemployment every job in every industrial sector must be considered critical. Studies conducted by the Task Force and summarized in Appendix 1-I - "The Role of the Textile and Clothing Industries in the 1980's" show clearly that during the mid-eighties Canada will face an employment shortfall of between 750,000 and 1,150,000 jobs with the bulk of this shortfall concentrated in relatively few localities in Eastern Canada. For many years the textile and clothing industries have been the second largest employer in the manufacturing industry sector in Canada. They have traditionally employed more than 200,000 persons and have supported indirectly an additional 330,000 persons elsewhere in the economy. All the evidence available to us indicates that the employment provided by these industries will be needed in Canada in the 1980's (Appendix 1-I). To propose, in these circumstances, the progressive reduction of the employment base of any industry in the face of high unemployment and before viable, identified, alternative employment opportunities are found is, in the view of the Task Force, socially and economically irresponsible.

The economic costs of unemployment are well known, but the social tragedies involved are not often fully understood. A study of this latter aspect has been undertaken by the Task Force and Appendix 1 contains a summary of our findings as prepared by the Vice-President of the Canadian Labour Congress and Co-Director of the Amalgamated Clothing and Textile Workers Union of America.

The characteristics of the textile/apparel labour force, its concentration in small urban or rural centres, its high proportion of female labour, its age, language and education are all factors which have contributed to the lack of inter-regional or inter-industry mobility of the work force, in spite of the battery of adjustment assistance programs which now exist.

Workers in the industry are simply not mobile. A recent study of a plant closure in Louiseville, Quebec, illustrates this point in a tragic way (Appendix 1-II). Contrary to some beliefs the extensive array of programs administered by the Department of Employment and Immigration has not dealt adequately with most problems of worker dislocation. Moreover, it is unlikely that the additional and special forms of adjustment assistance which are under development will achieve any real degree of worker mobility in the textile and apparel industries. Just one year ago the Textile and Clothing Board, following an extensive study, concluded

> "The Board feels the problem of displaced labour would be difficult to solve. Some have argued that the workers could be absorbed into the 'higher skilled' industries, but no one could point to any specific industry which would be ready and willing to receive such displaced labour; or indeed if any such industry were contemplated in the communities which are primarily or totally dependent upon the textile and clothing manufacture. It was suggested that relocation would be necessary if employment opportunities exist beyond the communities of the unemployed. But relocation would be difficult since a large percentage of these workers are second family wage earners and are not mobile".[1]

(b) At the present time Canada's deficit on trade in textiles and clothing is running at about $1.6 billion annually and, if recent trends continue, this deficit will increase to about $3 billion in 1985, over one-quarter of the nation's total international deficit on current account. Imports into Canada now account for close to 60% of textile and clothing consumption and any significant increase in imports will put intolerable pressure on Canada's current account deficit and will lead to serious and inflationary downward pressure on the Canadian dollar (Appendix 1-III).

(c) With such a significant percentage of Canadian textile and apparel consumption being supplied by imports, Canada is heavily dependent on foreign sources of supply for her essential requirements. Following World War II it was recognized that textiles had been second only to steel in importance during that conflict. Since 1946 changes, in large measure related to the growth of imports, have occurred in the Canadian mobilization base. For total textile needs there can now be serious question whether conversion of the industry could be accomplished quickly enough to bring production up to usage rate by the end of a year, if large-scale mobilization were necessary. If a conflict were prolonged the industry base would not now be adequate to meet the needs of both the military and civilian population. The demands for military textiles would so limit the amount available to consumers that, with imports shut off, severe and unacceptable limitation upon civilian usage would be required. Sweden, for example, adopted a conscious policy of relying on imports for their textile and apparel needs. This resulted in a deterioration of their productive capacity in these industries to the point where their national security interests were jeopardized. They had to invoke the national security clause of GATT to limit imports of apparel and footwear in order to regain minimum viable production levels.

Even in peacetime, with Canada's hostile climate, it is essential that minimum viable production levels be maintained and that the consumer be assured of essential textile and clothing supplies, and be protected from uncontrolled cost escalations, during times of shortages such as occurred immediately following the oil crisis in late 1973.

The Textile and Clothing Board reached the same conclusion in 1977 when it stated "The Board feels further that the Canadian public needs the assurance of a supply of clothing from Canadian sources, without drifting into dependence upon foreign sources for such a basic commodity".[2] Article XXI of the GATT similarly recognizes the importance of maintaining essential industries such as textiles and apparel for national security reasons. The recommendations of the Task Force have taken this perspective into full account.

---

1 Clothing Inquiry - A Report to the Minister of Industry, Trade and Commerce - Textile and Clothing Board, May 29, 1977, p. c-4.

2 Ibid., p. c-5.

(d) No Canadian industry operates in a vacuum. Each sector of the economy is inextricably linked to other sectors either through its purchases from upstream industries or sales to downstream industries. Any increase or decrease in production has an impact on the economy far beyond the confines of the industry itself. The textile and apparel industries are no exception being substantial and, in some cases, critical customers for other Canadian industries. By the same token the future of the apparel industry can be no brighter than the future of its customers. A healthy apparel industry is the final link in the textile chain from petroleum, through petrochemicals, yarns and fabrics to clothing. The vertical chain of processes by which oil or wood are upgraded into clothing, home furnishings and industrial products, and the extent of value added thereby, is illustrated in a graph presented in Appendix I, Addendum B.

(e) The textile and apparel industries are modern, technologically efficient and innovative (See Sector Profiles). They must remain strong and major and efficient employers capable of developing their technology and production techniques by means of continuing high long-term investment if they are to make the kind of contribution to the economy that will be required in the decades to come.

It is clear to all members of the Task Force that the recommendations it makes in this report, if effectively and vigorously implemented, will ensure that the industries continue to play their role as major employers for the foreseeable future. It is equally clear that this role will be required in Canada through the 1980's and probably beyond. To assume the existence within a few years of a healthy economy in which alternative production and employment opportunities are plentiful is a luxury we cannot afford in light of the employment and labour force projections contained in Appendix 1-I. Even if employment opportunities were to be plentiful it is unthinkable that any country should forego the security of supply of an essential commodity. Certainly no developed nation has done so. The following quotations from the Report of the European Parliament (Document 438/77) is relevant:

> "The textile/clothing sector is indispensable for the social and economic balance of the EEC."
>
> "...in America or the East European countries, whose governments have clearly shown that they intend to maintain a textile industry in their territory".

## CONCLUSIONS

In this report, in the limited time available, the Task Force has made a number of recommendations - all of them unanimous - designed to assist the textile and apparel industries to make their best possible contribution to the Canadian economy. The actions which we propose are essential if the industries are to survive as vigorous contributors to Canada's economic health and future and if the dramatic decline which has taken place during the past decade is to be reversed.

To achieve this objective we have recommended various means of increasing productivity in the industry, some of them our responsibility, and some within the purview of government. We have discussed the role of the industries in Canada in the 1980's in terms of employment, security of supply and Canada's serious balance of trade problems. We have addressed existing and proposed incentive programs, fiscal and competition policy and have stressed our view that a Canadian trade policy similar to that in place in the United States and the European Communities is necessary if there is to be an investment flow into high productivity, efficient and competitive textile and apparel processes in Canada.

We do not endorse a "winners and losers" approach to industrial strategy and accept as fundamental to Canada's present and future economic policy the existence of a modern, skill-intensive technologically efficient and innovative textile and apparel industry. Also basic to our recommendations is a re-dedication by government to the achievement of a more favourable investment climate for Canadian manufacturing industry in general.

We see the impact of our recommendations as substantial if they are promptly implemented and if the business environment is concurrently improved for a broad range of industries.

Specifically, if a $1 billion increase in production by the textile and clothing industries were to flow from our recommendations (and we consider this to be a conservative estimate) the results would be of the following order of magnitude. (Appendix 1 - Table 3).

Employment

56,000 textile and apparel jobs
84,000 non-textile jobs
140,000 total new jobs

Wages, Salaries and Fringe Benefits

Increase of $760 million annually
($345 million in textiles and apparel, $415 million in other sectors of the economy)

Total Household Incomes

Increase of $927 million annually

Consumer Spending

Increase of $681 million annually

Total Industrial Output

Increase of $1,560 million annually

Government Revenue (All levels)

Increase of $414 million annually

The First Ministers of Canada's eleven governments agreed in February, 1978 that "the basic and clear objectives of economic policy should be a sustained growth of output and employment, a reduction of unemployment and a reduction in the rate of inflation". Our recommendations are consistent with these objectives and an industrial strategy based thereon will, moreover, provide a fair trading environment in which legitimately efficient and competitive enterprises can prosper - surely a sound objective for any industrial policy.

## RECOMMENDATIONS

Our recommendations are grouped in five parts. The first deals with inter/sector and sector/government consultation, the second with the productivity of the industry and how it can be improved. The third suggests incentives or grant programs which can assist in meeting this objective. The fourth deals with broad fiscal measures which would lay the foundations for a healthy industry. Finally, an industry under attack from countries with cost structures significantly different from our own cannot hope to survive without special measures of protection and the fifth section suggests the elements of a Canadian trade policy which will create the necessary climate for continued long-term investment and viability.

### I. CONSULTATION

#### (a) Inter/Sector

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 trade as represented by the Canadian Retail Council and the Retail Merchants Association 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.

Retail industry representatives on the Task Force have suggested that the retail industry could help the textile and apparel industries by increasing the proportion of domestic goods offered to the consumer. It is recognized that there has been a tendency toward the importation of basic merchandise while the domestic industry has been required to supply the shorter run items resulting in a negative impact on productivity.

Consequently, the Task Force is pleased that the Retail Council of Canada is discussing ways and means of increasing the proportion of their purchases drawn from domestic sources.

(b) Industry/Government

The textile and apparel industries have enjoyed close contact and extensive consultation with the federal Department of Industry, Trade and Commerce at senior levels over the past two years. The industries wish to record their appreciation for the courteous reception their various submissions have met.

The industries have concluded, however, that the crisis which occurred in these industries in 1976 and 1977 need not have occurred and would not have happened, had industry advice and counsel been accepted and acted upon prior to 1976. Government did not act until massive and irreparable damage had been done.

The members of the Task Force perceive that many other sectors of manufacturing in Canada are also falling well short of making an optimum contribution to the economy for various reasons. Some have problems similar to our own and others different problems but all have suffered as a result of long delays in government reaction.

Our experience with certain sections of the Department has led us to conclude that they often have an inadequate understanding of how the private sector operates, are often unsympathetic to the private sector's problems and objectives, are preoccupied with defending current policy and practice, and thus are not responsive to developing problems and do not propose or implement corrective action until far too late.

The Department appears to us to have conflicting objectives and responsibilities; on the one hand the development of domestic industry and on the other hand, the development of external trade. In many cases the promotion of exports must go hand in hand with a viable domestic industry. However, it is our impression that the Department's priorities in recent years and the main thrust of the Department's efforts has been heavily oriented to the development of external trade. The development of domestic industry has suffered as a result. We believe that the current positive balance of payments of $2.5 billion in the merchandise account, included in which is a negative imbalance of $11.5 billion in the finished goods or fully manufactured sector, is evidence of this fact.

To rectify this situation and 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.

1. 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 Development.

or

2. A new Department be created - The Department of Industry. This Department would be composed of the above groups.

(c) Minister's Advisory Panel

Early in 1976 the Honourable Don Jamieson appointed a "Minister's Ad Hoc Textile and Clothing Advisory Committee" composed of representatives of the textile and apparel industries, labour unions and the provinces most directly concerned with textile issues. The mandate of the Committee included a study and report to the Minister, related to the administration of the Textile Policy, and "current conditions and prospects in the textile and clothing industries".

This Ad Hoc Committee was later replaced by a permanent Textile and Clothing Advisory Panel which has continued to provide a very important consultative mechanism for the industries, unions and provinces concerned to advise the Minister and his senior officials on broad issues affecting the viability of the two industries.

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.

## II. PRODUCTIVITY (See Appendix 2)

The Task Force has found that since 1965, the rate of productivity improvement in the textile and apparel industries has been positive, and for many sectors and companies, significant improvements have been made that have been recognized and used internationally.

Productivity levels in these industries are comparable with those achieved in the United States. The differences are remarkably small, considering the indigenous factors which constrain the Canadian performance.

CANADIAN - UNITED STATES PRODUCTIVITY PERFORMANCE
(Value added per man hour paid - 1975)

| | United States | Canada |
|---|---|---|
| Textiles | $9.06 | $9.21 |
| Knitting | $8.30 | $6.52 |
| Apparel | $6.95 | $6.25 |

Productivity levels in these industries have been subject to exhaustive government examination. The most extensive review was summarized in the House of Commons as follows:-

> "Contrary to the opinions sometimes expressed, these industries are as efficient technologically as those of any other including the 'low cost producers ...' ."[1]

A major study of productivity in the apparel industry was commissioned by the Textile and Clothing Board in 1977. It concluded that:

> "Overall the Canadian apparel industry compares favourably with its American counterpart."[2]

Productivity is a relative term. Although there is deserved pride over past achievements, more is needed relative to the new technologies that are rapidly appearing worldwide if these industries are to continue to use the best available machinery, equipment and systems. Further, they must do more to protect existing jobs and offer higher paying wages without unnecessary inflationary effects. Therefore, accelerated productivity improvement in these industries is strongly recommended by the Task Force.

The requirements for productivity improvements vary significantly between the textile and apparel sectors. The textile sector is characterized as heterogeneous and capital intensive, with production concentrated in a few firms over much of the textile manufacturing chain. The critical element to rapidly improved productivity is the adaptation of the new capital intensive technologies, including those which are scale insensitive. The most recent capital expansions indicate that the costs range from $150,000 per job for a new spinning, weaving and finishing facility, to more than $400,000 per job in a man-made fibre plant. The profitability of this sector is therefore essential if expenditures of these magnitudes are to be financed.

The apparel industry represents a more homogeneous industry in terms of production processes. It is entrepreneurial, labour intensive, and fragmented. Much productivity improvement will come from greater mechanization, which, like the textile industry, will require an improvement in industry profit levels. However, the greater potential for apparel industry productivity improvement requires a fundamentally different approach in comparison with most companies within the textile industry.

---

[1] Statement to the House of Commons on the Textile Policy, May 14, 1970

[2] Clothing Inquiry - A Report to the Minister of Industry, Trade and Commerce - Textile and Clothing Board, May 29, 1977.

The principal production activity within the apparel industry has been and will continue to be, sewing. However, the operational fact is that, on average, 80% of the production workers' time is spent taking work to and from the needle; with only 20% actual sewing. Improvement in that ratio requires strong management input in terms of factory layout, work station and product engineering, operator training, and improved supervisor capabilities (along with more mechanization, electronic and other work aids, attachments, etc.). There are some large firms which are able to operate engineering and training facilities for supervisors in-house. However, the small and middle size companies find it difficult to do so. Consequently the approach to productivity improvement requires that this type of training be done through associations, institutes or productivity centres.

Efforts to improve productivity, by companies, unions, associations, federal and provincial governments, should be strengthened. These efforts should be co-ordinated and complemented by other elements at present not available in Canada, which competing nations in the world enjoy. Through such an approach, costs would be minimized, and the effect on productivity improvement greater than the sum of the individual program elements.

These industries have benefited from exemplary labour management relations, Both industry and union leaders are keenly aware of the need to modernize and to take advantage of existing and future technological advances, and are confident that, through negotiation between the two parties, agreements can be reached and plans devised for the rapid but orderly introduction of technologies which will assist the industry to operate at higher levels of efficiency. It is recognized that too rapid or ill-planned introduction of new technologies could adversely affect this harmony. This underlines the importance of continuous consultation.

The gap between new technology on the one hand, and company productivity improvement on the other, is bridged by training, particularly for middle management personnel. In addition, given the nature of the new technology, highly skilled employees are needed, including mechanics, computer and electronic specialists and engineers. Therefore human resource development is a high priority in any productivity improvement program.

## RECOMMENDATIONS TO IMPROVE PRODUCTIVITY

### (a) Apparel

1. We recommend that a Productivity Improvement Program, the general principles of which are described in Appendix 2, 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.

2. The implementation of recommendation number 17 on page 9 would assist firms to carry out comprehensive audits of their operations, and to formulate and implement restructuring plans with the assistance of government consulting grants and low interest loans. (See Appendix 2 p. 34).

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

4. We recommend 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.

5. 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.

6. The increased use of advanced technology is impeded in many instances by the lack of trained mechanics. We recommend, therefore, that the apparel associations determine the existing and anticipated shortages of mechanics by type and region. The training needs should then be identified and solutions implemented in co-operation with the Department of Employment and Immigration.

7. 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.

(b) Textiles

1. We recommend that a Productivity Improvement Program, the general principles of which are described in Appendix 2, be implemented for those sectors of the 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.

2. We recommend that the Footwear and Tanning Industry Adjustment Program be extended and adapted to meet the needs of those sectors of the textile industry which require it.

3. We recommend that 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.

4. We recommend that the industry 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.

III. FEDERAL GOVERNMENT INCENTIVE PROGRAMS (See Appendix 3)

The textile and clothing industries have not been able to fully utilize the incentive programs offered by the federal government, for a variety of reasons, and this situation has worsened since the changes made in the DREE program in mid-1977.

In order to ameliorate this situation the Task Force respectfully submits that:

1. 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.

2. 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.

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

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

5. 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.

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

7. DREE procedures be simplified and speeded up considerably.

8. 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.

9. 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.

10. 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.

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

12. 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.

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

14. 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.

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

16. 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.

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

IV. FISCAL POLICY (See Appendix 4)

In recent budgets the federal government has taken several measures in the fiscal policy area which have helped to improve the business environment for manufacturing enterprise. We welcome the temporary reductions in retail sales taxes. In addition, the two-year writeoff for new machinery and equipment, the 40% tax rate on manufacturers profits, the modest investment tax credit, the 3% inventory cost allowance, and the high dividend tax credit have all been constructive steps.

However, given the inflationary environment which has existed in Canada in recent years, the burden of corporation taxation has increased in an unintended but serious fashion. For example, the recent Ontario Commission on Inflation Accounting pointed out that when inflation is taken into account, Canada's textile and clothing industries pay taxes equivalent to 142% of pre-tax incomes.

In order to reduce this onerous tax burden, as well as to provide concrete incentives to productive investment, and to improve the competitiveness of Canadian manufacturing in both export and domestic markets, the Task Force respectfully puts forward the following recommendations which are supported more fully in Appendix 4.

RECOMMENDATIONS - Fiscal Policy

1. 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.

2. 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.

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

4. The existing 5-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.

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

6. 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.

7. Finally, 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.

As part of this study the following issues should be addressed directly.

(a) The textile and apparel industries must attract and retain a strong force of employees for every function and for every level within their constituent companies. Under existing circumstances a particular problem is identified at middle and upper management areas. The individuals and entrepreneurs employed in these industries judge their remuneration not just in terms of gross income but also in terms of take-home pay. The impact of personal income taxes on disposable income is greater in Canada than in most states in the U.S. In addition, there are considerable differences between provinces with the burden in Quebec, where there is a concentration of textile and apparel companies, being particularly onerous.

The demands for higher remuneration by employees at all levels of the organization take into account this burden and the desire to maintain and increase their take-home pay eventually is reflected in the cost structure of the industry. Consequently, government actions in the area of personal income tax can have a direct impact on the relative competitiveness of industry.

Personal income taxes (and corporate income taxes) are costs borne solely by domestic production. To the extent that our cost of government and social services are borne by these taxes, domestic production bears a cost that is not imposed on competing imported products. Sales taxes or value added taxes on the other hand bear almost equally on imports and domestic production.

In addition, entrepreneurs and managers tend to be relatively mobile and the added burden of taxation together with other factors are an important ingredient in their decisions to locate in a given region. There are indications that the current differences within Canada and between Canada and the U.S. are beginning to have a negative impact on attracting qualified people to these industries and this is particularly evident as regards Quebec.

The Task Force, therefore, 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.

(b) It is suggested that capital gains tax be entirely eliminated on the sale of shares of companies in the manufacturing sector.

Such removal of capital gains tax would encourage equity ownership and new capital spending in Canada. It has been suggested that the Canadian stock market's broad decline is attributable to the introduction of capital gains tax in Canada. The elimination of capital gains tax cannot help but greatly increase capital spending in Canada as the raising of capital through the market will be made easier and make equity ownership much more attractive to all types of investors. This measure would equally encourage investment in private corporations engaged in manufacturing.

Rules could readily be set up to distinguish companies which would qualify as manufacturing companies from those which would not. This could be accomplished in a manner similar to the rules for distinguishing manufacturing from non-manufacturing profits for purposes of the deduction for manufacturing and processing profits.

(c) Under the current system, when a employee exercises a stock option granted to him by his employer he is deemed to have received a taxable benefit by virtue of his employment in the taxation year in which he acquired the shares equal to the difference between the market value of the shares and the option price. Thus he incurs an immediate tax liability although any gain, if any, may take years to be realized. Further, after having paid the tax on the difference as aforesaid, should the market value of the shares drop, the sale of such shares will only yield a capital loss, available only to be set off against capital gains (with few exceptions).

It is suggested that as an incentive to all employees, the previous rules for stock options be revived both as regards public and private corporations.

In other words, if capital gains tax is removed on the transfer of shares of manufacturing companies, it is suggested that the often illusory gain on the exercise of stock options be tax free.

If capital gains tax is not to be removed, then, at the very least, such gains should be treated as a capital gain (but only when realized) and not as an immediate taxable benefit.

V. TRADE POLICY (See Appendix 5)

The Canadian Textile Policy announced on May 14, 1970 and the trade policies stemming from and associated with it are vital elements in the determination of the future role of the textile and apparel industries in the Canadian economy. In addressing this issue the Task Force has identified two basic requirements for the survival and growth of this sector of Canadian manufacturing industry:

(a) reduction of the penetration rate of imports from low-wage and state-trading countries to a level somewhat more comparable to that permitted by the United States, the European Community and other industrialized nations;

(b) the vigorous control of unfair trading practices on the part of both the developed nations and those of the Third World.

To achieve these objectives changes are required in the Textile Policy itself, in the administration of the Policy, and in Canadian trade policies of a more general nature which have a particular bearing on the textile and apparel industries.

Also of major immediate concern are the current negotiations on tariffs and non-tariff measures in the Tokyo Round of the GATT. The results of these negotiations will have an immediate effect, for better or for worse, on employment and capital investment in the textile and apparel industries.

The Task Force has conducted an in-depth analysis of these and related issued and our report, with detailed supporting data, is presented in Appendix 5 "A Canadian Trade Policy for Textiles and Apparel" from which the following recommendations have been drawn.

RECOMMENDATIONS - Trade Policy

1. Comprehensive Bi-Lateral Export Restraint Arrangements

The Textile and Clothing Board, in its Report on Clothing dated May 29, 1977, recommended the negotiation of comprehensive export restraints on apparel with 21 named countries. Arrangements covering a broad range of apparel and certain primary textile products have recently been negotiated with seven of the 21 countries to become effective on January 1, 1979.

Existing global restraints imposed under Article XIX of the GATT on November 29, 1976 are now commencing to have a favourable and measurable effect on certain industry sectors and if these quotas are discontinued on January 1, 1979, as now appears likely, the following recommendations should be implemented with the least possible delay.

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

(b) 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".[1]

---

1 Ibid., p. r-1.

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.

(c) 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.

(d) 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 bi-lateral 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.

(e) 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.

2. Canadian Textile Policy

We applaud the stated intention of the government to "provide a sense of direction, a framework and conditions within which the textile and clothing industries can plan, invest and develop with a greater degree of confidence".[1] At the same time we believe that many of the critical problems now faced by the industry are a reflection of the failure of that Textile Policy to achieve the objectives set for it and that, as a result, the industries are often placed in a disadvantageous position vis-à-vis their counterparts in other developed nations.

We recommend, therefore, 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.

In framing this recommendation the Task Force is mindful of the fact that Canada is a country having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production and that concrete steps should be taken to preserve Canada's minimum viable production of textiles and apparel.

It is understood that neither the textile nor apparel industry require nor request special measures of protection vis-à-vis fair competition from countries with cost structures similar to our own.

3. Textile and Clothing Board

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.

4. Anti-Dumping Legislation

Despite the recent speed-up of administration procedures in the Canadian anti-dumping regulations, the elapsed time before dumping duties can be levied and the high cost of initiating and carrying most anti-dumping cases through to completion remain serious problems for apparel and textile producers.

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

---

[1] Statement to the House of Commons on the Textile Policy, May 14, 1970.

(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.

5. Countervail

The recently issued countervail regulations suggest that the same constraints of high cost and long investigative time, as experienced in anti-dumping inquiries, will apply to countervail actions. It is recommended therefore that:

(a) 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.

(b) The government define what it considers a subsidy or bounty in terms of the new regulations.

6. The Tokyo Round of the GATT Multilateral Trade Negotiations (MTN)

(a) Tariffs

The Task Force joins in the recommendations of the textile and apparel industries, previously presented to the Canadian Trade and Tariffs Committee, that textiles and apparel be exempted in their entirety from the negotiation of tariff reductions.

(b) Article XIX

We recommend that:

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

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

(c) Brussels Tariff Nomenclature (BTN)

We recommend that, if any consideration is given to adopting the BTN system, detailed discussions with the industry be completed before any decision is taken.

(d) Customs Valuation

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.

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.

The BDV concept is particularly inappropriate in the Canadian context where such a large proportion of transactions across the border are not arms-length transactions in respect of finished goods. What was for the original signatories to the Brussels Convention a relatively small exception to the general rule would, in the Canadian context, apply to a large proportion of imports. Quite aside from any question of the level of protection this would involve, for the

administration of the Canadian Customs Tariff, a degree of exercise of administrative discretions, without any factual reference points, which would be highly undesirable and would, in fact, create the opposite effect to the principles expressed as the intent of the BDV.

Another feature of great importance in the Canadian context is the application of federal sales tax to goods manufactured in Canada and to goods imported into Canada. We are aware that there have been proposals to change the basis for calculation of the federal sales tax but there is no assurance that this will be done, or if done, when it will be done. Reduction of the valuation basis for calculating federal sales tax in respect of imported goods which are not tax exempt would be highly discriminatory against competitive Canadian goods.

7. Duty Remission and Fabric Availability

Lengthy, full and frank discussions were held by members of the Task Force on two issues of significant importance to the textile and clothing industries; duty remission and fabric availability. The ramifications flowing from both these issues are such that it is not possible to fully explore these matters in the depth that they obviously require within the time frame allowed for the Task Force report. It is unanimously recommended that these matters 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.

8. Canada-U.S. Free Trade

The Task Force has given preliminary consideration to the merits, or otherwise, of some form of free trade, customs union or "automotive type" arrangement with the United States. We recognize, of course, that any such measure would require appropriate safeguards and a suitable phasing-in formula.

It was clear that a subject of this complexity and importance could not be suitably addressed within the time frame available to the Task Force. We recommend therefore that a thorough study of the subject be undertaken at an early date by a joint industry/government committee constituted for that purpose.

9. Competition Policy

The primary textile and apparel industries tend to respond somewhat differently to production economics and market forces.

The apparel industry, by and large, is obliged to maintain the broadest possible range of fashion items in the product line of the individual firm. Furthermore, having already largely adapted to the need to be extremely flexible in the marketplace and to carve out a niche within a fairly well identified product category, many apparel firms are already at optimum size. This optimum size can vary from very small in the case of high-priced, high-fashion, high-risk goods serving a small market, to very large in the case of firms producing a more homogeneous product.

Some sectors of the primary textile industry, on the other hand, can benefit from a process of further consolidation, both as to product line, and the merging of existing firms seeking better overhead absorption and cost efficiency if they are to achieve improved competitiveness, a requirement for continued existence in the Canadian open economy. The primary textile industry will tend to feature larger production units, obtaining most of its profitability from mass market products, while at the same time being able to economically produce a wider variety of less profitable items destined to marginal markets.

It is important, for both the primary textile and apparel industries, that as world and Canadian market and economic forces may dictate acquisitions, mergers, and consolidations, even to the point where a single firm is making a single textile product, competition policy should not impede this process.

Competition policy must recognize that the Canadian primary textile and apparel industries are more highly exposed to world market forces than most other manufacturing industries, and their behaviour in the marketplace is influenced to a correspondingly greater degree by these world forces, so that higher concentration in Canada must be seen in a world, not domestic, competitive context.

RECOMMENDATIONS - Competition Policy

Among the elements of competition unique to, or of great interest to, the textile and clothing industries are the following:

1. 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 "offsetting" 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. 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, formal or otherwise, required for the economic survival of these industries.

7. 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.

8. 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.

The proposed civil monopolization provisions set out a negative threshold, if anything, adding substantially to the uncertainty inherent in the definition of monopolization and the proposed elaborate tests for abuses of market power.

The proposed joint monopolization provisions, while providing a threshold, add significantly to the areas of uncertainty particularly because of the nature of the severe competition in our industries, and appear, like the proposed civil monopolization and merger provisions, to take little account of the realities of international trade competition, since it can and does occur that a Canadian firm may supply in excess of a "threshold" share of market, while locked in unprofitable competition with other suppliers which are not Canadian.

The members of the Task Force subscribe to the submission made in February 1978 by the Canadian Manufacturer's Association to the Committee of the Senate on Banking, Trade and Commerce.

9. 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.

SECTOR PROFILE

# CANADIAN TEXTILE INDUSTRY

The following profile of the Canadian Textile Industry which is based on a document prepared by the Federal Department of Industry, Trade and Commerce, has been revised and updated in consultation with the Sector Task Force on the Canadian Textile and Clothing Industries.

# CANADIAN TEXTILE INDUSTRY

## INTRODUCTION

The textile industry is a complex entity composed of a large number of differing yet inter-related subsectors, each of which could be viewed as a separate industry in its own right. Activities in the textile industry extend from the production of man-made fibres and yarns to the transformation of natural or man-made fibres into apparel fabrics, and to the production of a wide variety of household and industrial products as well as knitted underwear and hosiery. From the initial fibre stage, the output of each phase of production is the major material component for the next production stage, although in many firms these stages are integrated.

The interdependence of production stages extends beyond the textile industry to such downstream sectors as apparel, automotive and furniture. Actions which affect the final output of these downstream products have an important effect on the performance of the textile industry, and in turn on its suppliers, notably the petrochemical industry. Similarly, the cost and availability of products and services from the textile industry have a strong impact on the industry's customers in other sectors.

The natural fibres used by the Canadian textile industry are almost entirely imported. Natural fibres are first spun into yarn in a number of processing steps which are generally performed in the same mill. Yarn may be converted into fabrics by weaving, knitting, tufting, braiding, felting or bonding. Sometimes it undergoes special processing such as bleaching, dyeing, mercerizing and conversion into thread, string, cord, and rope. Woven fabrics usually require bleaching, dyeing and other finishing operations before make-up into end products. The production of many household textiles such as sheets, towels and draperies is carried out in textile factories.

Although the production of man-made fibres is essentially a petrochemical process, these establishments are considered part of the textile industry. In the production process, the fibre is extruded as a filament yarn which is then either chopped into staple fibre or left in filament form. Staple fibres are spun into yarns by a different subsector (yarn spinners) while filament yarns may be texturized in yet another subsector (texturizers or throwsters). The finished yarn is then woven or knitted in the same manner as natural fibres.

## DEFINITION OF INDUSTRY

The Canadian textile industry is composed of establishments manufacturing the following products: man-made fibres and yarns; cotton and wool yarns; cotton, wool and man-made fabrics; knitted fabrics; hosiery and underwear; thread, cordage and twine; carpets, mats and rugs; and sheets, pillowcases, towels, blankets and bedspreads. It further comprises dyeing, finishing and printing of many of these products whether in an integrated firm or on commission.

While hosiery and knitted underwear are used as clothing, they are produced by textile technology. Many producers spin their own yarns, and all knit their own fabric or hosiery on textile machines. However, despite the fact that these producers are part of the textile industry, the statistical data on hosiery and knitted underwear appear in the companion sector profile of the Clothing Industry.

TABLE 1

Relative Size of Subsectors, Textile Industry, 1976

| | *Establishments* | | *Shipment* | | *Employment* | |
|---|---|---|---|---|---|---|
| *Subsector* | *No.* | *Per cent* | *($000,000)* | *Per cent* | *No.* | *Per cent* |
| Man-made yarns and fabrics | 89 | 9.0 | 480 | 15.6 | 12,477 | 16.4 |
| Cotton yarns and cloth | 22 | 2.2 | 364 | 11.8 | 8,947 | 11.8 |
| Wool yarn and cloth | 38 | 3.9 | 170 | 5.5 | 5,165 | 6.8 |
| Yarn and woven cloth | 149 | 15.1 | 1,014 | 32.9 | 26,589 | 34.9 |
| Man-made fibres | 11 | 1.1 | 270 | 8.8 | 5,805 | 7.6 |
| Carpet, mat and rug | 32 | 3.2 | 384 | 12.5 | 7,060 | 9.3 |
| Knitted fabric (P) | 79 | 8.0 | 217 | 7.1 | 4,604 | 6.1 |
| Auto fab. and accessories | 20 | 2.0 | 305 | 9.9 | 5,557 | 7.3 |
| Lino. and coated fabric (P) | 17 | 1.7 | 158 | 5.1 | 3,272 | 4.3 |
| Dye and finish (P) | 74 | 7.5 | 95 | 3.1 | 3,757 | 4.9 |
| Narrow fabrics (P) | 38 | 3.9 | 55 | 1.8 | 2,171 | 2.9 |
| Canvas products (P) | 144 | 14.6 | 60 | 1.9 | 2,117 | 2.8 |
| Fibre and felt | 33 | 3.3 | 39 | 1.3 | 1,065 | 1.4 |
| Cotton and jute bags (P) | 22 | 2.2 | 31 | 1.0 | 681 | 0.9 |
| Thread mills (P) | 16 | 1.6 | 34 | 1.1 | 960 | 1.3 |
| Cordage and twine | 18 | 1.8 | 18 | 0.6 | 630 | 0.8 |
| Embroidery, etc. (P) | 90 | 9.1 | 22 | 0.7 | 1,307 | 1.7 |
| Misc. textile industries*(P) | 244 | 24.7 | 374 | 12.2 | 10,521 | 13.8 |
| Total | 987 | 100.0 | 3,076 | 100.0 | 76,096 | 100.0 |

*Mainly home furnishings, such as draperies, curtains and bedspreads, non-woven.
Source: ITC Estimates based on Statistics Canada Census of Manufactures, 1976
(P) Preliminary
May not add due to rounding.

In 1976, the five largest subsectors (considering all yarn and cloth mills as one subsector) in terms of shipments accounted for 71 per cent of shipments, 65 per cent of employment, and 29 per cent of establishments.

While the automotive fabric and accessory subsector forms part of the textile industry, some of its operations are not wholly textile related. For example about 10 per cent of its shipments in 1976 included non-fabric accessories made from plastic or metal. Nevertheless, this subsector is a substantial consumer of all types of fabric and accounts for 9.9 per cent of industry shipments and 7.3 per cent of employment. Similarly, the linoleum and coated fabric subsector is part of the textile industry but produces tile and linoleum from non-textile products. These shipments represented about half of the subsector value in 1975.

Finally, yarn and woven cloth mills are viewed as an overall group (excluding man-made fibres) despite the usual statistical breakdown. This is because the advent of man-made fibres has changed the nature of the yarn and cloth mills group. Man-made fibres are substituted for or blended with natural fibres in varying degrees, from year to year, depending on demand and cost factors.

## INDUSTRY IN PERSPECTIVE

The textile industry is composed of about 900 firms which operate 987 establishments that are located for the most part in Ontario and Quebec, and provide direct employment for about 76,000 people. About 60 per cent of the industry's establishments in Ontario and about 35 per cent of those in

Quebec are located in centres with populations of less than 100,000. The industry is often the sole or main employer in these areas, particularly for the semi-skilled and unskilled workers, and often provides the essential second source of family income through employment of women.

The industry's estimated shipments of $3.1 billion in 1976 represented about three per cent of the output of all Canadian manufacturing and accounted directly for about 4.4 per cent of total employment in manufacturing. Salary and wage payments accounted for about 54 per cent of the industry's value added of $1.4 billion. The industry provides an important market for a wide variety of goods and services.

In the last five years exports accounted for five to six per cent of the industry's value of shipments. Most of this output is further processed by secondary manufacturers although some products such as carpeting and bedding are distributed directly to retailers. The following is a breakdown of domestic shipments to the major market segments:

| | Based on dollar value | Based on fibre weight equivalent |
|---|---|---|
| Clothing | 34 per cent | 45 |
| Home furnishings | 44 per cent | 30 |
| Industrial | 22 per cent | 25 |

**Concentration and Economies of Scale.**

As Table 2 illustrates, establishments in the textile industry range from a relatively small number with more than 500 employees to a large number of small firms with fewer than 20 employees. The largest 26 establishments (three per cent) accounted for 31 per cent of industry employment in 1975. The smallest 529 establishments (52 per cent) accounted for only five per cent of industry employment. The average establishment in the Canadian textile industry in 1975 employed 78 people and had shipments of about $2.7 million.

TABLE 2

Size and Distribution of Establishments, Textile Industry, 1975

| | *Establishments* | | *Employees* | |
|---|---|---|---|---|
| No. of employees | No. | Per cent | No. | Per cent |
| Less than 20 | 529 | 52 | 4,206 | 5 |
| 20 — 49 | 194 | 19 | 5,959 | 7 |
| 50 — 99 | 110 | 11 | 7,924 | 10 |
| 100 — 199 | 87 | 9 | 13,003 | 16 |
| 200 — 499 | 76 | 7 | 24,077 | 30 |
| 500 — 999 | 19 | 2 | 14,411 | 18 |
| 1,000 and more | 7 | 1 | 10,232 | 13 |
| | 1,022 | 100 | 79,812 | 100 |

Despite the large number of establishments in some sectors of the industry, there is a high degree of industry concentration in specific product areas. For example, most types of man-made fibres are produced by one or two firms. Similarly, there are only two Canadian producers of cotton apparel fabric; one of cotton denim fabric (another denim fabric facility is being established); two of nylon apparel fabric and three of polyester apparel fabric; two producers of sheets and pillowcases and acetate lining fabric; and three of towels. In addition, 87 per cent of domestic production of worsted fabrics is supplied by two firms.

Generally, as production approaches the consumer level the number of firms increases as a result of the lower investment requirements associated with smaller scale production and the variety demanded by the final consumer. To illustrate, there are only 11 establishments in the man-made fibres industry, whereas in the downstream apparel sector there are about 2,200 establishments.

The concentration of production within each subsector among the largest four and largest eight firms is presented in Table 3. The size distribution of all establishments in the various subsectors is indicated in Appendix A.

The relatively high concentration of production within certain subsectors reflects, to a large extent, the importance of scale economies in this industry (particularly in man-made fibre production) and the limited size of the Canadian market. The specialization required for economies of scale is undermined in certain subsectors (such as woven and knit apparel fabrics) where it is important to offer a sufficiently wide variety, although attainment of an increased share of the domestic market supplied by Canadian producers would markedly improve site or plant scale economics.

TABLE 3

PERCENTAGE OF VALUE OF SHIPMENTS ACCOUNTED FOR BY THE LARGEST FOUR, AND LARGEST EIGHT FIRMS TEXTILE INDUSTRY SUBSECTORS, 1974

| | *Per cent of Industry Value of Shipments* | |
|---|---|---|
| *Subsector* | *Four Largest Firms (per cent)* | *Eight Largest Firms (per cent)* |
| Man-made yarns and fabrics | 39.3 | 56.5 |
| Cotton yarn and cloth | — | 100.0 |
| Wool yarn and cloth | 40.2 | 60.4 |
| Man-made fibres | 93.4 | 100.0 |
| Carpet, mat and rug | 39.3 | 61.4 |
| Knitted fabric | 27.9 | 43.2 |
| Auto, fab. and accessories | — | — |
| Lino. and coated fabric | 58.2 | 90.5 |
| Dye and finish | — | 67.4 |
| Narrow fabrics | 48.8 | 67.7 |
| Canvas products | — | — |
| Fibre and felt: | | |
| fibre mills | 59.7 | 83.5 |
| felt mills | 71.6 | 90.3 |
| Cotton and jute bags | — | 90.5 |
| Thread mills | — | — |
| Cordage and twine | 76.9 | 93.3 |
| Embroidery, etc. | 30.0 | 46.3 |
| Miscellaneous textile industry n.e.s. | 33.2 | 45.2 |

*Source: Statistics Canada, Manufacturing and Primary Industries Division*
*Some figures not disclosed due to confidentiality.*

Although many of the larger establishments in the Canadian industry are of efficient scale in terms of world production standards, in certain subsectors such as man-made fabrics with a much larger product mix, the limited size of the Canadian market combined with the lack of price competitiveness in export markets has resulted in reduced efficiency. Establishments in these subsectors generally have shorter production runs than establishments of equal size in developed countries with larger domestic markets and higher market shares or in export-oriented, low-cost countries.

The industry maintains that in the man-made fibre sector, Canadian plants are similar in size and generally higher in productivity than the typical man-made fibre plants of Europe and most other countries. On the other hand, they appear small in comparison with a small number of "super-scale" plants located in the U.S., Western Europe and Japan.

### Vertical Integration and Barriers to Entry

The inter-relationship between important scale economies in certain subsectors and the limited size of the Canadian market is a significant barrier to entry of new firms. For example, the newest man-made fibre installations have required investments of about $300,000 per employee. Another important factor is the vertical integration, and therefore the relatively high cost (often in excess of $100,000 per employee) required to establish an efficient operation in the cotton or wool-worsted subsectors.

Virtually all existing cotton and wool fabric manufacturers are fully integrated firms from yarn-making to fabric dyeing and finishing. The major sales yarn establishments are owned by the manufacturers and their output goes to other industry subsectors, mainly to the knitters and to non-apparel heavy fabric manufacturers. Generally knitters of underwear and hosiery using natural fibres and blends also spin most of their yarn.

In the man-made fabric sector, all manufacturers of fabrics using predominantly spun yarns are also integrated. Those using mainly filament yarns are not integrated, except for Celanese Canada Ltd., and buy their yarns directly from man-made fibre manufacturers or from independent filament yarn throwsters. Because of the nature of textile and man-made fibre manufacturing, which are each quite different from the other, there is little integration between them anywhere in the world. The Canadian industry is no exception.

Certain other subsectors have lower barriers to entry and as a result, a larger number of small firms. In the knit goods sector for example, the comparatively lower capital costs of establishing a relatively efficient plant, the higher tariff on the output, and the need to specialize in a narrow product range for a specific market niche are believed to be among the reasons why 65 per cent of knit fabric establishments, 40 per cent of underwear and 56 per cent of hosiery establishments have fewer than 50 employees.

In the carpet subsector, two-thirds of the shipments are made by companies that have integrated yarn spinning and heat setting facilities for most of their production. Most carpet manufacturers are also equipped to fully finish their products.

## REGIONAL DISTRIBUTION

As shown in Table 4, the bulk of the industry's production takes place in central Canada, with Quebec and Ontario accounting for 94 per cent of the industry's total employment. This represents little change in distribution from 1974.

TABLE 4

REGIONAL DISTRIBUTION OF PRODUCTION
TEXTILE INDUSTRY, 1976

| | *Establishments* | | *Employment* | |
|---|---|---|---|---|
| | *No.* | *Per cent* | *No.* | *Per cent* |
| Quebec | 434 | 44 | 39,570 | 52 |
| Ontario | 385 | 39 | 31,960 | 42 |
| Western provinces | 138 | 14 | 3,044 | 4 |
| Atlantic provinces | 30 | 3 | 1,522 | 2 |
| | 987 | 100 | 76,096 | 100 |

*Source: ITC estimates*

Within the individual subsectors, there are some notable exceptions to this pattern of regional distribution. In Ontario, for example, there is more concentration of man-made fibre and yarn mills, cordage and twine mills and auto fabrics and accessories. In Quebec, there is a greater concentration of woven fabric mills, knitted fabric mills and custom dyeing and finishing mills that process these fabrics. The regional distribution of production within subsectors is presented in Appendix B.

The existing pattern of regional distribution is partly a reflection of historical developments when the traditional textile industry, which was based on natural fibres, needed readily-available sources of water for power and processing and a pool of unskilled labour. As this combination was most often found in rural townships, the industry established in these areas, taking advantage of the fact that raw materials and finished goods could be readily transported to and from markets.

About 47 per cent of the establishments in 1972 were located in non-metropolitan areas with populations of less than 100,000. The establishments in the non-metropolitan areas were larger than average, however, accounting for 65 per cent of the industry's total employment.

## FOREIGN OWNERSHIP

In 1974, the latest year for which data are available, 42 per cent of textile shipments were made by foreign-controlled companies which operated 10 per cent of the industry's total establishments.

Foreign-owned establishments accounted for more than 60 per cent of shipments in four sectors; man-made fibres (98 per cent), linoleum and coated fabric (86 per cent), auto fabrics and accessories (66 per cent), and carpet, mat and rugs (64 per cent).

## BUSINESS FUNCTIONS

The production processes in the textile industry are numerous and complex. The production of man-made fibres starts with what is essentially a chemical process, the conversion of dissolving wood pulp or certain petrochemicals into a sticky mass of required specifications. This sticky mass is then forced through tiny holes in spinnerets and immediately hardens into numerous filaments. These filaments are gathered together to form tow. The tow may be sold as such or cut into short pieces to form staple fibre. To produce a filament yarn, a different spinneret is used. Staple fibres can be spun into a yarn by a number of systems in 100 per cent pure state or in blends. Filament yarns supplied by the man-made fibre industry can be used as is or further processed by a texturizing operation which changes its physical properties to resemble spun yarns. Texturizing operations are less labour-intensive than spinning, and require a greater continuity of operation to ensure that they are viable.

The spun, textured or flat filament yarns can be either woven or knitted on a variety of machines to obtain a wide range of fabrics of different widths and patterns which are normally dyed and/or printed depending on the needs of customers. The fact that most knitting machines can be set up more quickly than most weaving machines and require relatively small amounts of capital and labour, coupled with improved technology, have permitted the knits to make major inroads into the woven fabric market in recent years. This trend now appears to have been halted. Textiles known as non-wovens can also be obtained directly from the arrangement of fibres in a thin layer which can be used in disposable or durable products. Although carpets can be produced by weaving or needlepunching, the tufting process accounts for more than 90 per cent of the domestic production. Following the tufting operation carpets can be dyed or printed increasingly with high speed computer-controlled processes and subsequently backed with a jute, fibre or rubber latex backing.

Although there has been a trend toward more capital-intensive production in certain segments of the industry, overall textile production in Canada, as in other countries, continues to be relatively labour intensive. In 1974, the latest year for which such statistics are available, the mid-year net fixed investment per production employee (in 1961 dollars) was $14,912 in the Canadian textile industry, compared with $18,123 for all manufacturing. Within the industry, the more capital-intensive man-made fibre producers had a net fixed investment per production worker (in 1961 dollars) of about $22,000. As previously indicated, however, the newest man-made fibre installations have required investments of about $300,000 per employee (in current dollars).

The industry worldwide has relied to a large extent on technological advances developed by textile machinery manufacturers. Accordingly, technological advances in the industry are available to all purchasers of new equipment, including Canadian manufacturers.

## FINANCE

The most recently available statistics show that the return on capital employed in the Canadian textile industry has been consistently below the average for all Canadian manufacturing industries since 1970 (Table 5), although, as with many averages, the figures conceal the considerable variation between subsectors.

Over the period 1970-75, the after-tax income on sales averaged 3.2 per cent for the textile industry, compared with 5.2 per cent for all manufacturing. These relatively low rates of return have undermined both the industry's ability to generate sufficient funds internally for investment and its potential for attracting capital from outside sources.

In terms of company size, 1975 statistics for the industry suggest that after-tax return on equity is generally lowest for firms with assets of $25 million to $100 million (Table 6).

TABLE 5

AFTER-TAX PROFIT ON CAPITAL EMPLOYED
TEXTILE INDUSTRY AND ALL MANUFACTURING, CANADA, 1970-1976

| | *Textile* per cent | *All Manufacturing* per cent |
|---|---|---|
| 1970 | 4.1 | 6.2 |
| 1971 | 5.5 | 6.7 |
| 1972 | 4.4 | 9.2 |
| 1973 | 9.0 | 12.4 |
| 1974 | 10.3 | 14.9 |
| 1975 | 4.4 | 12.3 |
| 1976 | 4.6 | 11.1 |
| Average 1970-76 | 6.0 | 10.4 |

*Source: Statistics Canada, Business Finance Division Cat. No. 61-003*

*TABLE 6*

*AFTER-TAX PROFIT ON SALES AND EQUITY, BY SIZE OF FIRM*
*TEXTILE INDUSTRY, CANADA, 1975*

| *Asset Size* ($ million) | No. of Companies | *After-Tax Profit on Sales* per cent | *After-Tax Profit on Equity*[1] per cent |
|---|---|---|---|
| Less than 1 | 583 | 2.5 | 9.6 |
| 1-5 | 143 | 1.4 | 4.1 |
| 5-10 | 37 | 2.7 | 7.2 |
| 10-25 | 28 | 2.7 | 6.5 |
| 25-100 | 11 | 1.5 | 3.6 |

[1]*Based on amounts due shareholders or affiliates and total equity.*
*Sources: Based on unpublished data from Statistics Canada, Business Finance Division*

Within the textile industry, 1974 statistics indicate cotton and woollen mills were the most profitable, followed by "other textile products". Synthetic textiles, which include man-made fibre production as well as the production of man-made fabrics, were the least profitable operations.

## LABOUR-MANAGEMENT RELATIONS

The Canadian textile industry is highly organized. Estimates based on figures of union membership and influence indicate that about 50,000, or 70 per cent, of the employees in the sector work in bargaining-unit establishments, compared with 50 per cent in all manufacturing. The degree of labour organization is high among the larger establishments, and rather weak among the numerous smaller units, especially in the metropolitan areas. There are large firms which are not organized while, at the same time, many establishments which are not formally organized fall under the influence of "parity committees." Within the man-made fibre segments of the industry, labour is highly unionized.

The main labour organizations involved in the textile sector are the United Textile Workers of America, the Canadian Federation of Textile Workers, the Amalgamated Clothing and Textile Workers' Union, and the Confederation of National Trade Unions. In addition, there are several independent or loosely affiliated associations.

Historically, between 1956 and 1970, time lost in the textile industry due to work stoppages (strikes and lockouts) involving 100 or more persons accounted for an average of six per cent of the total time lost in all manufacturing industries in Canada. This share of time lost contributed by the textile industry is relatively high compared to its share of total manufacturing employment which averaged 4.8 per cent in the same period. However, the textile industry's average share of time lost is exaggerated by infrequent but large disputes, particularly in 1956, 1959 and 1966. In fact, the share of total time lost was equal to or less than the sector's share of manufacturing employment in 10 of the years between 1956 and 1970.

This comparatively low rate of serious conflict is also reflected in the period to 1976. The share of total time lost accounted for by textiles was less than two per cent between 1970 and 1972, and less than the textile sector's share of manufacturing employment in each of the years between 1970 and 1975. In 1976, the share increased to 5.6 per cent. It should be noted that much of this time lost, which exceeded 299,000 man-days, is attributed to one six-month stoppage involving 1,500 workers.

The Canadian Textile Labour-Management Committee was established about 10 years ago. This committee is composed of senior executives of seven firms and representatives of the labour organizations involved. It meets five times a year with an independent moderator. The group considers matters of mutual interest, such as conditions in the industry, worker alienation, and communications. It seeks to resolve issues related to the industry as a whole (rather than matters of local concern) and has made joint labour-industry presentations to various government bodies and provided information for industry studies.

## PERFORMANCE

### PRINCIPAL STATISTICS

TABLE 7

PRINCIPAL STATISTICS, CANADIAN INDUSTRY 1970-76

| | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* |
|---|---|---|---|---|---|---|---|
| Establishments (No.) | 1008 | 1003 | 1000 | 999 | 1037 | 1029 | 987 |
| Employment (000's) | 76.7 | 77.2 | 83.4 | 86.1 | 85.1 | 79.8 | 76.1 |
| Industry selling price (1971=100) | — | 100 | 98.8 | 108.3 | 129.5 | 130.2 | 139.8 |
| Shipments ($ million) | 1813 | 1977 | 2226 | 2551 | 2878 | 2803 | 3076 |
| Exports ($ million) | 101 | 116 | 120 | 157 | 187 | 140 | 160 |
| Imports ($ million) F.O.B. | 528 | 613 | 744 | 862 | 1057 | 978 | 1119 |
| Apparent Cdn. market ($ million) | 2240 | 2474 | 2850 | 3256 | 3748 | 3641 | 4035 |
| Imports as percentage of ACM ($)[1] | 23.6 | 24.8 | 26.1 | 26.5 | 28.2 | 26.9 | 27.7 |
| Exports as per cent of shipments ($) | 5.6 | 5.9 | 5.4 | 6.2 | 6.5 | 5.0 | 5.0 |

*Source: Statistics Canada Census of Manufacturers*

*[1] note following text for discussion of measurement of import penetration.*

### IMPORT PENETRATION

#### Measurement

It is important to note that the nature of textile production makes it difficult to quantify the degree of import competition in the industry. Basically the problem arises because, as previously indicated, the textile "industry" really comprises a number of industries which are vertically inter-related. Adding up shipments at each stage of production to the shipments of the previous stage results therefore, in a great deal of double counting. Fibre industry shipments, for example, are inputs used by the yarn industry and similarly, yarn is used as input in the knitting and fabric industries. Fabrics in turn are used in clothing and other products.

The objective of examining import penetration, therefore, should be to determine the actual level of domestic production displaced by imports, including those at the clothing level, which increased rapidly in recent years. In other words, what must be examined is the total manufacturing activity displaced at each stage of production.

The two most commonly used methods of measuring import competition in the Canadian textile market are in terms of value of shipments and by fibre weight equivalents. By the first method (Table 7), not taking into account price increases, the Canadian market for textile products almost doubled over the period 1970-76, increasing from $2.2 billion to $4 billion. During this same period, F.O.B. imports increased from $528 million to $1.1 billion, and the import share of the Canadian market, by this measure, increased from 23.6 to 27.7 per cent. These figures, however, obviously underestimate the effect of imports because of the multiple counting of dollar shipments to arrive at a measure of Canadian market size.[1]

---

[1] *These figures also underestimate import penetration because imports are valued F.O.B.*

The second method, measuring in pounds, eliminates multiple counting by showing the share of the Apparent Canadian Market (A.C.M.) held by domestic producers of cotton and wool yarns and man-made fibres and filaments if all imports of textiles (excluding natural fibres) and apparel are converted back to fibre weight equivalent. This method however, reflects neither the total or average activity in the textile industry nor its total or average market share; it merely represents the share of the A.C.M. held by domestic manufacturers at the first stage of manufacturing only, and thus underestimates the actual level of production activity which takes place in the whole Canadian industry. This method is used by the industry and is shown in Table 8.

TABLE 8

THE CANADIAN TEXTILE INSTITUTE METHOD OF CALCULATING
THE APPARENT CANADIAN TEXTILE* MARKET
COTTON, MAN-MADE AND WOOL

| | *MILLION LBS.*[1] | | | | | | |
|---|---|---|---|---|---|---|---|
| *DOMESTIC SHIPMENTS* | 1964 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 |
| Cotton | 179 | 146 | 161 | 138 | 128 | 123 | 125 |
| Man-made | 153 | 248 | 268 | 332 | 325 | 330 | 327 |
| Wool | 43 | 35 | 35 | 37 | 37 | 37 | 40 |
| Sub-total | 375 | 429 | 464 | 507 | 490 | 490[2] | 492[2] |
| *IMPORTS*[3] | | | | | | | |
| Cotton | 113 | 148 | 198 | 187 | 182 | 182 | 254 |
| Man-made | 75 | 268 | 337 | 380 | 396 | 378 | 453 |
| Wool | 26 | 22 | 27 | 30 | 24 | 18 | 23 |
| Sub-total | 214 | 438 | 562 | 597 | 602 | 578 | 730 |
| APPARENT CANADIAN MARKET[3] | 589 | 867 | 1026 | 1104 | 1092 | 1068 | 1222 |
| % Domestic | 64 | 49 | 45 | 46 | 45 | 46 | 40 |

**Includes apparel imports*

*Notes:* [1] *Fibre Weight equivalent*

[2] *Preliminary*

[3] *Imports and ACM include clothing imports.*

A modification of this method which analyzes import penetration at each stage of manufacturing and provides the average domestic share of the market has been developed by the Textiles and Consumer Products Branch, ITC and is explained in Appendix C. As noted in that Appendix, since some of the figures are only estimates, the intent is to present and explain the concept rather than to arrive at accurate market shares.

A third method, which is used by the U.S. Department of Commerce, starts with domestic production (measured in terms of mill consumption), which is the sum of domestic shipments of fibres plus imports of fibres, as the input to the textiles and apparel industries. This then treats as "imports for consumption" imports of downstream products only, then divides these imports by the total apparent domestic market. Using this method, the 1976 import penetration in Canada would be about 46.5 per cent compared to 11.2 per cent in the U.S.

By any of the three methods of measurement, imports have increased their share of the Canadian market. Moreover, between 1973 and 1976, while the market increased, shipments in real terms, taking inflation into account, did not increase and this was an important factor in the reduction in industry employment. An indication of the relative import competition within the individual subsectors using value of shipments is given in Table 9.

The following analysis of market share in volume terms concentrates on the major subsectors of the textile industry which have been subjected to substantial import competition, i.e., man-made fabrics, cotton yarn and cloth, and knitted fabrics.

## HISTORICAL PATTERN

During the 1960s and prior to the introduction of the Textile Policy, the volume of imports of all fabrics and related products reached 38 per cent of the apparent Canadian market in terms of square

TABLE 9

MARKET SHARE, TEXTILE INDUSTRY — SUBSECTORS, 1976

| Subsector | Shipments ($000,000) | F.O.B. Imports ($000,000) | Exports ($000,000) | Apparent Canadian Market (ACM) ($000,000) | Market Imports per cent ACM | Exports per cent Shipments |
|---|---|---|---|---|---|---|
| Man-made yarn and fabric | 480 | 228 | 42 | 666 | 34 | 9 |
| Cotton yarn and cloth | 364 | 224 | 15 | 573 | 39 | 4 |
| Wool yarn and cloth | 170 | 62 | 12 | 220 | 28 | 7 |
| Yarn and woven cloth | 1,014 | 514 | 69 | 1,459 | 35 | 7 |
| Man-made fibres | 270 | 181 | 31 | 420 | 43 | 11 |
| Carpet, mat and rug | 384 | 69 | 11 | 442 | 16 | 3 |
| Knitted fabric (P) | 217 | 69 | 6 | 280 | 25 | 3 |
| Auto fab. and access. | 305 | — | — | 305 | — | — |
| Lino. and coated fabric (P) | 158 | 102 | 20 | 240 | 43 | 13 |
| Dye and finish (P) | 75 | — | — | 95 | — | — |
| Narrow fabrics (P) | 55 | 29 | 1 | 83 | 35 | 2 |
| Canvas products (P) | 60 | — | — | 60 | — | — |
| Fibre and felt | 39 | 3 | — | 42 | 7 | — |
| Cotton and jute bags (P) | 31 | 6 | — | 37 | 16 | — |
| Thread mills (P) | 34 | 12 | — | 46 | 26 | — |
| Cordage and twine | 18 | 28 | 1 | 45 | 62 | 6 |
| Embroidery, etc. (P) | 22 | 5 | — | 27 | 19 | — |
| Misc. textile industries (P) | 374 | 101 | 20 | 455 | 22 | 5 |
| Total | 3,076 | 1,119 | 160 | 4,035 | 28 | 5 |

*Source: Statistics Canada Census of Manufacturers*
*(P) Preliminary*
*May not add due to rounding*

yards. By 1976, the share of the apparent Canadian market supplied by imports had risen to 50 per cent which indicates, as shown in Table 10, that Canadian production had not kept pace with the growth of the domestic market, although in many products capacity existed to do so.

*TABLE 10*

*SHARE OF THE CANADIAN TEXTILE FABRIC MARKET SUPPLIED BY THE DOMESTIC INDUSTRY AND IMPORTS 1970-76 (IN SQUARE YARDS EQUIVALENT)*

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 |
|---|---|---|---|---|---|---|---|
| Apparent Canadian market (million sq. yd.) | 1,202.0 | 1,379.3 | 1,523.0 | 1,497.4 | 1,486.2 | 1,341.3 | 1,403.6 |
| Domestic shipments as percentage of ACM | 63 | 60 | 53 | 54 | 52 | 55 | 50 |
| Imports as percentage of ACM | 37 | 40 | 47 | 46 | 48 | 45 | 50 |

*Source: Textiles and Consumer Products Branch, ITC.*

Further analysis in Table 11 by type of fabric shows that the decline in the Canadian industry's participation in the market has taken place in the two largest and most important subsegments of this market — man-made fabrics and cotton fabrics.

Although the domestic share of both the man-made and cotton fabrics markets decreased over this period, the two markets performed quite differently. While the man-made fabric market increased by 38 per cent over this period, the market for cotton fabrics declined by 26 per cent. These changes in the relative volumes of the different types of fabric represent a fundamental, well-recognized change in the marketplace away from fabrics made of natural fibres to those of man-made fibres. In the case of

TABLE 11

SUBSECTOR MARKET SHARES HELD BY DOMESTIC MANUFACTURERS AND IMPORTS 1970-75

| | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* |
|---|---|---|---|---|---|---|
| *Man-made fabrics*[1] | | | | | | |
| Domestic | 66 | 68 | 63 | 66 | 60 | 60 |
| Imports | 34 | 32 | 27 | 34 | 40 | 40 |
| *Cotton fabrics*[1] | | | | | | |
| Domestic | 56 | 50 | 40 | 42 | 37 | 40 |
| Imports | 44 | 50 | 60 | 58 | 63 | 60 |
| *Wool fabrics*[1] | | | | | | |
| Domestic | 64 | 68 | 61 | 56 | 64 | 65 |
| Imports | 36 | 32 | 39 | 44 | 36 | 35 |
| *Knitted fabrics*[2] | | | | | | |
| Domestic | 76 | 68 | 68 | 81 | 79 | 75 |
| Imports | 24 | 32 | 32 | 19 | 21 | 25 |

[1] *Square yards*
[2] *Pounds*
*Source: Textiles and Consumer Products Branch, ITC*

man-made fabrics, therefore, the share of the domestic market supplied by the Canadian manufacturers has declined as they were unable to take advantage of the growing market. In the case of cotton fabrics domestic producers have been unable to maintain or increase their share of a diminishing market. For a further breakdown of Table 11 see appendices D and E.

Appendices F and G illustrate the changes in the import situation between the periods 1967-68 and 1973-76. In 1967-68, about 60 per cent of all imports of yarns and fabrics were accounted for by cotton, while in the 1973-76 period these imports accounted for only 36.8 per cent of all imports (although they increased significantly in absolute terms). In the earlier period 48 per cent of these imports originated from low-cost sources as opposed to 50 per cent in the later period.

The other important change between these two periods is in man-made yarns, which accounted for 13 per cent of all yarns and fabrics imports in 1967-68 and increased to more than 33 per cent in 1973-76. Eighty-nine per cent of these yarns originated from developed countries. Between these two periods the low-cost countries' share of total yarn and fabric imports decreased from 31.6 to 24.5 per cent, as these countries concentrated on exporting their more labour-intensive garment products.

Table 12 shows the change in the volume of imports between the two periods for fabrics only. Imports from low-cost countries represented 30.8 per cent of the total and this was concentrated mostly in cotton. On the other hand, 63.7 per cent of the increase in imports was accounted for by developed countries and the bulk of these imports were of man-made fabrics. For example, 35.8 per cent of the total increase in imports of these fabrics were man-made fabrics from developed countries. These figures, however, are aggregates and do not reflect the fact that low-cost imports are normally highly concentrated in certain staple products which are "bread and butter" lines for domestic manufacturers. The bulk (about 70 per cent in 1976) of fabric imports from developed countries originated from the U.S. These U.S. exports benefit from reduced taxation available through the operation of Western Hemisphere Trading Corporations. In addition, the latest available statistics indicate that 53 per cent of total Canadian fabric imports from the U.S. benefited from the DISC program.

TABLE 12

PERCENTAGE INCREASE (DECREASE) IN SELECTED FABRIC IMPORTS BETWEEN THE AVERAGE FOR THE PERIODS 1967-68 AND 1973-76
(BASED ON WEIGHT)

| | *Countries* | | | |
|---|---|---|---|---|
| *Fabric Type/Source* | *Developed* | *Japan* | *Low-cost* | *Total* |
| Cotton fabrics | 14.4 | (4.4) | 18.5 | 28.5 |
| Man-made fabrics | 35.8 | 3.3 | 9.9 | 49.0 |
| Double-knit and tricot | 13.5 | 6.5 | 2.4 | 22.4 |
| Total | 63.7 | 5.5 | 30.8 | 100.0 |

*Source: Statistics Canada Cat. No. 65-007*

The most recent situation for 1975 and 1976 is shown in Appendix H, and can be compared with the situation represented in Appendices F and G. Appendix I illustrates the same trend and is derived from data provided by the Canadian Textiles Institute.

Although not shown in Appendices, the domestic share of the market for man-made fibres (which includes staple fibres, filament yarns and imports of spun yarns) had declined from 68 per cent in 1970 to 60 per cent in 1975, despite a market growth of 52 per cent. That decline in domestic share was the result of a large increase in imports from developed countries (particularly the U.S.) whose share climbed from 28 per cent to 37 per cent as contrasted with a decrease in the small shares of Japan and low-cost countries.

Table 13 indicates sources of textiles at each level of fabrication in 1977, without distinction as to fibre type, (from 1977 pounds imports).

TABLE 13

SOURCES OF IMPORTS, 1975-77
('000 LBS.)

| | *Developed Sources*[1] | | | *Low-cost Sources* | | |
|---|---|---|---|---|---|---|
| | *1975* | *1976* | *1977* | *1975* | *1976* | *1977* |
| Staple and tow | 88,544 | 115,003 | 91,813 | 713 | 1,674 | 753 |
| Textile yarn | 92,590 | 91,393 | 88,022 | 10,187 | 15,385 | 16,944 |
| Fabric | 142,724 | 159,841 | 150,011 | 38,333 | 64,198 | 48,340 |
| Household textiles | 45,543 | 46,749 | 36,548 | 14,419 | 28,196 | 19,677 |
| Industrial textiles | 28,159 | 31,101 | 34,772 | 4,410 | 5,208 | 6,146 |
| Not further identified | 6,073 | 5,488 | 4,377 | 741 | 1,383 | 1,485 |
| Total textiles | 403,634 | 449,576 | 405,542 | 68,803 | 116,044 | 93,345 |
| Apparel | 21,048 | 26,641 | 21,545 | 100,415 | 159,293 | 106,949 |
| Total textiles and apparel | 424,682 | 476,217 | 427,087 | 169,218 | 275,337 | 200,294 |

[1] *Includes Japan*
*Source: Canadian Textiles Institute — Estimated Poundage Equivalents*

Finally, Table 14 makes an international comparison of per capita textile and clothing imports.

TABLE 14

PER CAPITA IMPORTS OF TEXTILES[1] AND CLOTHING
BY SELECTED COUNTRIES
1975

| | *All Countries* | *Low-cost Countries* | *Developed*[2] *Countires* |
|---|---|---|---|
| Canada | | | |
| Imports ($000 U.S.) | 1,486,041 | 433,494 | 1,052,547 |
| Imports per capita ($U.S.) | 65.08 | 18.99 | 46.10 |
| United States | | | |
| Imports ($000 U.S.) | 3,959,146 | 2,843,582 | 1,182,100 |
| Imports per capita ($U.S.) | 18.53 | 13.31 | 5.53 |
| EEC (except intra trade) | | | |
| Imports ($000 U.S.) | 9,797,384 | 7,029,859 | 2,767,525 |
| Imports per capita ($U.S.) | 37.90 | 27.19 | 10.71 |
| Sweden | | | |
| Imports ($000 U.S.) | 1,356,129 | 318,865 | 1,037,264 |
| Imports per capita ($U.S.) | 165.38 | 38.89 | 126.50 |

TABLE 14

PER CAPITA IMPORTS OF TEXTILES[1] AND CLOTHING
BY SELECTED COUNTRIES
1975

| | *All Countries* | *Low-cost Countries* | *Developed*[2] *Countires* |
|---|---|---|---|
| F.R.O. Germany (except intra trade) | | | |
| Imports ($000 U.S.) | 3,604,632 | 2,912,444 | 692,188 |
| Imports per capita ($U.S.) | 58.30 | 47.10 | 11.20 |
| Japan | | | |
| Imports ($000 U.S.) | 2,835,949 | 1,620,773 | 1,215,176 |
| Imports per capita ($U.S.) | 25.56 | 14.60 | 10.95 |
| France (except intra trade) | | | |
| Imports ($000 U.S.) | 1,345,446 | 881,731 | 463,715 |
| Imports per capita ($U.S.) | 25.43 | 16.66 | 8.76 |

**Note that Canada and U.S. are F.O.B. while all others are C.I.F.*

[1] *includes all fibres and leather clothing, as well as fur garments.*

[2] *includes Japan*

*Sources: — OECD Statistics of Foreign Trade, Series C, Trade by Commodities, Jan.-Dec. 1975, Vol. 1, SITC 26, 65 and 84.*

*— United National Monthly Bulletin of Statistics — Year End, 1975 Population.*

The table shows that while Canada has higher imports per capita than the EEC or the U.S., Canada is different in that most of its imports are from developed countries rather than low-cost countries.

Import penetration took place despite a tariff protection in Canada which ranged up to 30 per cent. The average tariff rates for textile imports for selected developed countries (using 1971 imports as weights) are presented in Appendices K and L. In addition, there were non-tariff barriers in the form of quantitative arrangements on a number of textile products in 1977 (Appendix J).

## COST COMPETITIVENESS

### Wages and Industry Selling Price

Production wages in the Canadian textile industry increased by 111 per cent between 1970 and 1977, to the point where they were 12 per cent higher than in the U.S. industry, the Canadian industry's

TABLE 15
AVERAGE HOURLY EARNINGS
TEXTILE INDUSTRIES
($ Canadian)

| | *Canada* | *U.S.* | *Ratio* $\frac{Canada}{U.S.}$ |
|---|---|---|---|
| 1970 | 2.37 | 2.66 | .89 |
| 1971 | 2.57 | 2.71 | .95 |
| 1972 | 2.76 | 2.85 | .97 |
| 1973 | 2.97 | 3.09 | .96 |
| 1974 | 3.39 | 3.27 | 1.03 |
| 1975 | 3.95 | 3.66 | 1.07 |
| 1976 | 4.50 | 3.85 | 1.17 |
| 1977 | 5.00 | 4.45 | 1.12 |

*Note: U.S. rates are weighted averages of synthetic fibre and the textile industries excluding knitting.*

*Sources: (1) Statistics Canada Cat. 72-002.*

*(2) Bank of Canada Annual Conversion Rates.*

*(3) U.S. Department of Labour, Employment and Earnings 1909-75 Bulletin 1312-10.*

*(4) U.S. Department of Labour, Employment and Earnings March 1976 and 1977.*

major competition in the domestic and export markets (Table 15). The comparatively large increases in the Canadian industry reflect both competition for employees and higher levels of union activity.

The labour costs of the Canadian industry are much greater than those of the EEC and Japan, and the wages are many times the levels in developing countries such as Korea and the Philippines. Table 16 illustrates the textile industry wage difference between Canada and selected other countries for 1976, the latest year for which such information is available.

TABLE 16
HOURLY WAGES, TEXTILES
CANADA AND SELECTED COUNTRIES, 1976
(U.S. dollars)

| *Country* | *Hourly Wages* | *Remarks* |
|---|---|---|
| Canada | 4.56 | Includes man-made fibre |
| United States | 3.67 | Does not include man-made fibre |
| Korea | .44 | Includes family allowance and value of payment in kind |
| Japan | 2.70 | Includes family allowance and bonuses |
| France | 2.51 | Includes man-made fibre |
| Italy | 2.90 | Includes goods in kind |
| Philippines | .15 (1975) | $7.50 a week at 50 hours/week |

*Source: International Labour Office, Geneva, Yearbook of Labour Statistics.*

Yet, despite the relatively rapid increase in wages in the Canadian industry, and probably because of mounting import pressures, the industry selling price in Canada over this six-year period increased more slowly than that in the U.S. (Table 17). As compared to all manufacturing in Canada, over the period 1971-77, the textile average annual price increase was 8.1 per cent while the former averaged 12.3 per cent.

TABLE 17
INDUSTRY SELLING PRICES
PRIMARY TEXTILES INDUSTRY AND ALL MANUFACTURING
CANADA AND U.S. 1971-77
1971 = 100

| | *Canada* | | *U.S.* | |
|---|---|---|---|---|
| | *Textiles** | *All Mfg.* | *Textiles* | *All Mfg.* |
| 1971 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1972 | 99.7 | 104.5 | 107.6 | 104.6 |
| 1973 | 108.8 | 116.2 | 124.0 | 118.3 |
| 1974 | 128.3 | 138.3 | 142.5 | 140.6 |
| 1975 | 130.1 | 153.7 | 137.2 | 153.6 |
| 1976 | 139.1 | 161.6 | 142.7 | 160.7 |
| 1977 | 148.6 | 173.7 | 148.4 | 170.5 |

**To be comparable with U.S., all knitting mills have been included in the Canadian textiles index and the man-made filament and fibre yarn have been removed.*

*Source: 1) Statistics Canada Prices Division and Cat. 62-001*

*2) U.S. Industrial Outlook 1976, 1977, 1978, U.S. Dept. of Commerce*

*3) Survey of Current Business, U.S. Dept. of Commerce*

*4) Business Statistics, U.S. Dept. of Commerce*

## PRODUCTIVITY

An attempt has been made to compare the productivity of the Canadian and U.S. textile industries. Value added per man-hour worked is perhaps the most commonly used measure of labour productivity.

Table 18 shows that over the period 1971-75 value added per man-hour worked in the Canadian textile industry averaged 101 per cent of that in the U.S. textile industry. However, in the capital-intensive man-made fibre subsector — where economies of scale are quite important — the Canadian figure was substantially lower, averaging only 68 per cent of that of the U.S. over the period 1971-76.

TABLE 18
VALUE ADDED PER MAN-HOUR WORKED
TEXTILE INDUSTRY AND SELECTED SUBSECTORS
CANADA AND U.S., 1971-76

| | Canada | | | | | | U.S. | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* |
| Yarn and woven fabrics | 5.63 | 6.21 | 6.88 | 8.58 | 8.72 | 10.18 | 5.3 | 5.84 | 7.50 | 7.45 | 7.35 | 8.50 |
| Man-made fibre non-cellulosics only [1] | | | 13.05 | 16.05 | 16.98 | 15.65 | | | 23.05 | 20.36 | 20.38 | 23.85 |
| Floor covering | 8.51 | 9.90 | 11.81 | 13.37 | 13.46 | 15.71 | 10.22 | 10.80 | 11.92 | 12.56 | 13.66 | 15.17 |
| Major group 5 | 6.79 | 7.46 | 8.48 | 9.89 | 10.06 | N/A | 7.19 | 7.63 | 8.99 | 9.54 | 9.79 | 10.99 |
| Total industry Major Group 5 and SIC 3993 | 6.69 | 7.57 | 8.65 | 10.19 | 10.27 | N/A | 7.19 | 7.63 | 8.99 | 9.54 | 9.79 | 10.99 |

| | *Ratio Canada/U.S.* | | | | | |
|---|---|---|---|---|---|---|
| | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* |
| Yarn and woven fabrics | 1.08 | 1.06 | .92 | 1.15 | 1.19 | 1.20 |
| Man-made fibre non-cellulosics only [2] | | | .57 | .79 | .83 | .66 |
| Floor covering | .83 | .92 | .99 | 1.06 | .99 | 1.04 |
| Major group 5 | .94 | .98 | .94 | 1.04 | 1.03 | |
| Total industry Major Group 5 and SIC 3993 | .97 | .99 | .96 | 1.07 | 1.05 | |

*Source: Canada; Statistics Canada Annual Census of Manufacturers. U.S.; U.S. Dept. of Commerce 1972 Census of Manufacturers and Annual Survey of Manufacturers Cat. No. M76 (AS)-1.*

*Notes: [1] Cellulosics have been excluded on the basis that accounting practices distort the comparability of data.*

*[2] Man-hours paid have been adjusted by (−9%) to approximate man-hours worked for comparability to U.S. data. For man-made fibres, actual man-hours worked have been used.*

*At Major Group level coated fabrics are not included in Canadian figures but are included in U.S. data. The addition of SIC 3993 adds in coated fabric but overstates by amount of floor tile contained in the SIC.*

While the statistics in Table 18 suggest that the overall labour productivity of the industries in the two countries has been similar over the recent period, studies have shown that differences emerge for total factor productivity (when capital as well as labour is taken into account). A recent study by the Conference Board, for example, found that total productivity has been significantly lower in the Canadian industry. The study utilized estimates of greater capital per production worker in the Canadian industry, and statistical information from the Annual Census of the U.S. Department of Commerce and Statistics Canada confirms that the value of plant, machinery and equipment per production worker is substantially higher in the Canadian industry.

Among the factors that may explain the comparatively lower total factor productivity in Canada vis-à-vis the U.S. are the more numerous machinery and process changeovers, and the somewhat lower levels of capacity untilization.

According to the Canadian Textile Institute[1], productivity from 1965-1974 measured on the basis of real value added per employee, increased at an average annual rate of 6.2 per cent for textiles compared to 4.1 per cent for all manufacturing.

Within the Canadian industry, value added per man-hour on a regional and urban-versus-rural basis is presented for selected areas in Appendix M.

In a draft discussion paper by the Policy Analysis Branch, ITC that used Real Domestic Product per Total Employment as a measure of labour productivity, it was concluded that "The textiles industry and knitting mills were sectors which have achieved an impressive rate of productivity growth, though they do not rank highly in terms of level of productivity measured in terms of labour and/or capital inputs. It is estimated that productivity in these industries is some 90 per cent of the U.S. level".

The percentage growth of labour productivity over the period 1970-75 was quoted in that same document as 3.3 and 2.3 for Textiles and Knitting Mills respectively (compared to 2.8 for Food and

[1] *derived from Statistic Canada data.*

Beverages, 2.6 for Clothing, −0.4 for Furniture and Fixtures, 4.3 for Machinery, 5.5 for Chemical *Products).*

## TARIFFS AND COST OF MATERIALS

Commodities such as raw cotton, scoured wool, sisal and manilla fibres, and yarns for use in the manufacture of velvets and ribbons, woven fabrics for use in the manufacture of printing blankets, neckties, scarves and fruit and vegetable bags which are imported from MFN countries are all exempt from duties. However, certain other items not produced in Canada are protected by tariffs because they represent relatively close substitutes for other products manufactured in Canada, or because certain products are subject to Bound Preferential Tariffs for Commonwealth suppliers.

Man-made yarns and fabrics that are produced in Canada are subject to tariff rates which are assessed on the value of the shipment plus the weight of the shipment. For example, at the present time, in value terms woven man-made fabrics incur a tariff of $22^1/_2$ per cent of the value plus 13 cents per pound. This works out to an ad valorem rate of 26.4 per cent. Also, there is some additional but incalculable indirect cost to users due to quotas on certain types of fabrics and yarn. Canadian rates of duty on materials used by the textile industry are compared with those of selected industrial countries in Appendices K and L.

## INVESTMENT

The Canadian textile industry's investment expenditures per employee since 1971 are compared with those of all Canadian manufacturing industries and with those of the U.S. industry in Table 19. The average annual investment expenditures in the Canadian industry over the period 1971-74 did not differ significantly from the U.S. industry, but were well below the average for Canadian manufacturing. The relatively low and sometimes volatile profit positions of textile industries in Canada and other industrial nations have presented difficulties in accumulating funds for investment expenditures.

TABLE 19
NEW CAPITAL EXPENDITURES PER EMPLOYEE
CANADA AND U.S. (1971-1976)
(1971 DOLLARS)

| | *Canada* | | *United States* |
|---|---|---|---|
| | *Textiles* | *All Manufacturing* | *Textiles* |
| 1971 | 1,078.6 | 1,838.9 | 1,118.8 |
| 1972 | 1,206.5 | 1,681.6 | 1,192.5 |
| 1973 | 1,299.9 | 1,847.2 | 1,298.6 |
| 1974 | 1,401.4 | 2,080.7 | 1,492.3 |
| 1975 | 1,011.3 | 2,091.1 | 1,412.9 |
| 1976 | 914.7 | 1,803.4 | 1,220.4 |

*Sources: 1. Statistics Canada Cat. 31-210, 61-007*
*2. Dept. of Finance, Economic Review, April 1978, Reference Table 42*
*3. U.S. Dept. of Commerce, Survey of Current Business*
*4. U.S. Dept. of Commerce, Annual Survey of Manufactures*
*5. U.S. Dept. of Commerce, Business Statistics*

Capital and repair expenditures for selected subsectors of the industry are presented in Table 20, which shows that in real terms the only subsector with increasing investment expenditures since 1971 is "Carpets, Mats and Rugs". Although man-made fibre, yarn and cloth mills had increasing investment expenditures to 1975, preliminary statistics indicate a significant decline in 1976.

### Exports

Table 21 shows that the share of textile exports going to the U.S. and EEC has fallen over the past few years whereas the export share going to other developed countries and, to a greater extent, developing countries, has increased. The table also shows that exports as a percentage of shipments have declined marginally.

TABLE 20
CAPITAL AND REPAIR EXPENDITURES
SELECTED SUBSECTORS, TEXTILE INDUSTRY
CANADA 1971-1977
(MILLIONS of 1971 DOLLARS)

| | *Wool, Yarn and Cloth Mills* | *Man-made Fibre Yarn and Cloth* | *Carpets, Mats and Rugs* | *Auto Fab. and Access.* | *Misc. Textiles* | *Other Textiles* |
|---|---|---|---|---|---|---|
| 1971 | 12.7 | 45.3 | 9.4 | N.A. | 13.9 | 34.6 |
| 1972 | 7.5 | 53.6 | 12.2 | 5.7 | 22.2 | 29.1 |
| 1973 | 10.9 | 53.6 | 18.4 | 5.3 | 23.7 | 28.5 |
| 1974 | 7.3 | 67.0 | 15.5 | 3.9 | 27.5 | 27.4 |
| 1975 | 4.4 | 80.7 | 10.7 | 1.8 | 25.1 | 24.9 |
| 1976(P) | 2.4 | 50.0 | 11.9 | 2.9 | 14.1 | 21.7 |
| 1977(I) | 4.3 | 33.5 | 8.8 | N.A.[1] | 9.9 | 23.7 |

*(P) preliminary actual*
*(I) intentions*
*[1] included in other textiles*
*Sources: (1) Statistics Canada Cat. 61-007*
*(2) Dept. of Finance, Economic Review, April 1978 Reference Table 42*

TABLE 21
EXPORTS, TEXTILE INDUSTRY
BY DESTINATION 1970-76

| | *Exports as a percentage of Shipments* | *Per cent of Industry* Exports to:* | | | |
|---|---|---|---|---|---|
| | | *U.S.* | *EEC* | *Other Developed* | *Low-cost* |
| 1970 | 5.5 | 42 | 29 | 14 | 15 |
| 1971 | 5.9 | 40 | 25 | 13 | 22 |
| 1972 | 5.4 | 41 | 28 | 11 | 20 |
| 1973 | 6.2 | 38 | 26 | 15 | 21 |
| 1974 | 6.5 | 39 | 22 | 19 | 20 |
| 1975 | 5.0 | 33 | 28 | 15 | 24 |
| 1976 | 5.0[1] | 33 | 23 | 19 | 25 |

**Excludes man-made fibre exports*
*[1] estimated*
*Source: Statistics Canada*

TABLE 22
IMPORTANT PRODUCTS OF EXPORT
TEXTILE INDUSTRY, CANADA, 1970-76
($ MILLION)

| *Product* | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* |
|---|---|---|---|---|---|---|---|
| Man-made fibres | 12 | 15 | 16 | 24 | 28 | 16 | 27 |
| Cotton fabrics | 12 | 14 | 17 | 24 | 20 | 14 | 13 |
| Fabrics — mixed fibres | 5 | 5 | 7 | 13 | 18 | 13 | 17 |
| Fabrics — IMM fibres | 2 | 2 | 3 | 5 | 6 | 6 | 7 |
| Fabrics — coated | 15 | 18 | 22 | 19 | 16 | 10 | 10 |
| Spec. construction fabrics | 3 | 4 | 3 | 4 | 17 | 10 | 9 |
| Rayon fabrics | 1 | 2 | 3 | 3 | 3 | 7 | 3 |
| Knit fabrics | 2 | 3 | 4 | 6 | 5 | 4 | 6 |
| Papermakers' felts | 10 | 8 | 9 | 10 | 13 | 11 | 10 |
| Carpets, mats, rugs | 3 | 3 | 3 | 5 | 7 | 8 | 11 |

*Source: Statistics Canada*

## INTERNATIONAL ENVIRONMENT

The current decade has been characterized by a number of significant changes in the international and domestic environment. The principal developments underlying these changes were as follows:

- Implementation of new technology during the 1950's and 1960's resulting in a rapid increase in the world production of man-made fibres, especially those derived from petrochemicals, at the expense of cotton. Particularly notable was the sudden surge in the popularity of double-knit fabrics which occurred in 1971/72, creating a heavy demand for new equipment and for the polyester yarn used in their production.
- Excessive expansion of production facilities in the early 1970's leading to worldwide overcapacity, especially in the capital-intensive areas of man-made fibres and yarns.
- Deterioration in the world's economic situation, accentuated by the effects of the oil supply crisis of 1973 and culminating in the worldwide recession of mid-1974.
- Conclusion of the Arrangement for International Trade in Textiles (ITA) and its implementation by member countries from January 1, 1974, to date which, on one hand, led to some liberalization of world's trade in textiles but, on the other, has not proved entirely adequate to deal with problems of international textile trade.

There have been resulting changes in international trading patterns. The most significant of those since 1970 was that, while in the earlier period developing or "low-cost" countries concentrated their export in cotton yarns and fabrics, their current exports concentrate heavily on clothing. At the same time, developed countries, notably the U.S. and the EEC, emerged as the major suppliers of man-made yarns and fabrics to world markets. Over the same period Japan has largely lost its competitive position as a low-cost producer due to an upward revaluation of its currency accompanied by a sharp increase in wages and other production costs, such as energy and raw materials. By 1975, industrialized countries accounted for about 61 per cent of the world's exports of fabrics and yarns of all fibres, in value terms and for more than 90 per cent of those produced from man-made fibres.

Domestic developments have generally reflected the international pattern. At the time of the introduction of Canada's textile policy the major threat to Canadian industry was the importation of fabrics from low-cost sources. The 1974 world recession resulted in the build-up of textile inventory levels and over-capacity in all the major textile producing nations. These developments increased the pressure of imports on the Canadian market thereby increasing the need for additional measures of protection.

## GOVERNMENT INVOLVEMENT

Government involvement in the industry can, for the purposes of this paper, be conveniently divided into two main time periods: before 1970, and 1970 and after.

## BEFORE 1970

Prior to 1970, the involvement of the Canadian government in the textile industry was limited in comparison with other importing countries. Taking into account the per capita imports and market penetration, Canada remained one of the most open countries in the world. As a result, the industry's long-term prospects were being gradually eroded by the large influx of imports, particularly from low-wage countries which depended on exports to absorb a major portion of their production. These imports entered Canada at substantially lower prices than comparable Canadian products, in certain cases below the domestic producer's average variable cost. Government involvement in the form of special measures of protection for the textiles sector began in the late 1950's when Japan voluntarily undertook to limit its exports to Canada for certain textile products. These export restraints were formalized through bilateral negotiations in 1960, at which time they covered bedsheets, pillowcases, bedspreads, cotton fabrics, nylon fabrics (1961), elastic braid and webbing, and certain garment items. In later years, other low-cost countries and products were made subject to such restraints. Some of these were renewed annually for extended periods of time. In certain instances, where unilateral action was required to deal with disruptive textiles imports, the government imposed surtaxes. This happened on six occasions, one of which had global application.

As more of the developing countries began exporting low-cost textile products to the Canadian market, the domestic industry claimed that the lack of a firm government policy to deal with these

problems created a climate of uncertainty in the industry resulting in disruption and dislocation. This uncertainty and disruption undermined the further investment in expansion, modernization or restructuring necessary to deal with the increasing import penetration.

**1970 AND AFTER**

In May, 1970, the Canadian government introduced a national textile policy "dealing not only with protection against disruptive competition, but just as importantly, providing positive inducements for adjustments, for restructuring and for the optimum use of new technology, creative research and design. It is intended to provide a sense of direction, a framework and conditions within which the textile and clothing industries can plan, invest and develop with a greater degree of confidence. The purpose of this policy is to create conditions in which the Canadian textile and clothing industries continue to move progressively towards viable lines of production on an increasingly competitive basis internationally".

The policy was composed of elements designed to foster development and efficiency in the Canadian industry and to accord special measures of protection against low-cost imports in cases of serious injury or threat thereof, subject to the submission of acceptable adjustment and restructuring plans by the affected companies. However, the policy precluded the use of such measures of protection to encourage the maintenance of lines of production which had no prospect of becoming viable in the years ahead. Specifically, the textile policy was composed of the following elements:

**1. COMMERCIAL POLICY MEASURES**

— rationalization of the textile tariff, including the removal of existing anomalies (whereby greater protection is given to some fabrics than to the garments from which they are made);
— improved methods of investigating dumped or subsidized textile imports to enable more effective use of the anti-dumping and countervail legislation;
— improved data-gathering capability through amendments to the Customs and Statistics Acts to obtain better and more current information on textile imports, employment and production;
— a "low-cost" import policy, embodying the establishment of the Textile and Clothing Board to make formal, non-appealable determinations of serious injury or the threat of injury, to assess the merit and acceptability of companies' plans for adjustment and restructuring to improve their competitive positions vis-à-vis low-cost imports, and to recommend to the federal government appropriate measures of special protection and their duration. Such measures would preferably be applied by means of voluntary restraint agreements. However, unilateral measures, such as global import quotas, could be applied in special circumstances under the Export and Import Permits Act.

**2. FINANCIAL SUPPORT MEASURES**

— broadening the coverage of the General Adjustment Assistance Program with respect to the textile and clothing industries to assist in the implementation of the approved restructuring plans and to provide special assistance in cases of injury;
— full utilization of the program of the Departments of Employment and Immigration, and Labour and, under certain conditions, additional financial assistance to the affected or dislocated workers.

**3. TECHNICAL AND PROMOTIONAL SUPPORT MEASURES**

— the establishment of Development and Productivity Centres for the textile and clothing industries;
— the establishment of a Fashion-Design Assistance Program;
— additional resources to promote textile and clothing exports by means of shows, fairs, displays, missions, etc.

The central feature of Canada's new textile policy was the establishment of the Textile and Clothing Board as an independent body responsible for enquiries into situations involving possible injury to Canadian companies and workers. The terms of reference of the Board in conducting injury investigations and the instruments designed to implement Board recommendations are consistent with the principles relating to serious injury and market disruption contained in the General Agreement on Tarrifs and Trade (GATT) and the Arrangement Regarding International Trade in Textiles (ITA), respectively. The Board's recommendations for any special measures of protection must be linked not only to proven serious injury or threat thereof, but also to evidence that domestic producers have

prospects of continued viability and competitiveness in the Canadian market. Following submission of a Board report, the Government decides what action, if any, is to be taken in respect to any recommendations which the Board has made.

Most of the elements of those measures have been, or are being implemented. The following is a summary of the more significant actions related to government involvement in the textile sector.

(1) An adjustment assistance program has been implemented in conjunction with the Department of Labour and the Unemployment Insurance Commission to provide early retirement and extended unemployment benefits to workers whose jobs are terminated as a result of a restructuring of a firm in line with basic objectives of the Textile Policy.

(2) The departmental programs, especially GAAP, were extended and expanded to encompass the textile sector. More than $12.5 million was disbursed or guaranteed in the sector under GAAP. The industry has also benefited from other programs available to all sectors, including DREE (more than $30 million in grants), and the training programs of the Department of Employment and Immigration. It should be noted that such departmental programs as GAAP and PEP have been subsumed by the EDP program.

(3) The low-cost import restrictive measures of the policy were invoked by the Government in numerous cases. Since 1970 the Textile and Clothing Board has carried out some 41 enquiries or reviews. The preferred option of the Government for implementing the recommendations of the board to limit disruptive imports has been negotiated bilateral export restraints, usually under the provisions of the ITA. This preference arose from the Policy, which attempted to selectively narrow the protection received by domestic producers to those specific products and sources which were determined to be injurious. However, with the rapidly-deteriorating position of the domestic industries in the face of disruptive competition from a large number of sources, including some industrialized countries, increasingly frequent use has been made of global import quotas under GATT Article XIX. In other cases, bilateral export restraints have been supported by selective or global monitoring of imports through the use of import permits. This enables the early identification of other potentially injurious sources and the policing of export restraints. Although bilateral restraint arrangements were most often of a one-year duration, they were usually renewed annually, resulting in extended periods of protection. Global import quotas were normally announced for three-year periods, but again these have often been extended. Canada has currently in place quantitative restrictions on a number of textile and clothing items. These are in the form of either global import quotas under GATT Article XIX, unilateral import quotas under Article 3(5) or 3(6) of the ITA or under the provisions of the Export and Import Permits Act, or bilaterally negotiated export restraints, mostly under the provisions of the ITA. In addition, seven textile product groups are subject to import surveillance under the provisions of the Export and Import Permits Act. Three major yarns (cotton, acrylic and textured polyester filament), five major fabrics (filament polyester, nylon, double-knit, warp-knit, and worsted) as well as elastic braid and webbing, cotton terry towels and washcloths, bedsheets, pillowcases and hosiery are covered by these measures.

At present acrylic yarns and double-knit fabrics are under global import quotas under GATT Article XIX, export restraint arrangements are in effect on eight products (polyester, nylon, and worsted fabrics, elastic braid and webbing, cotton terry towels and washcloths, bedsheets, pillowcases and hosiery) affecting seven countries (Japan, Taiwan, Korea, Poland, Romania, Czechoslovakia, and Uruguay). In addition, there are unilateral import quotas under ITA on three products (nylon fabrics from Korea and bedsheets and polyester fabrics from Hong Kong), as well as unilateral import quotas on two products under the Export and Import Permits Act (worsted fabrics and cotton terry towels from China).

In addition, there are currently anti-dumping duties on textured polyester filament yarn from nine countries (seven of which are developed countries), on acrylic fibre from one producer in the U.S., and on double-knit fabrics from Britain, and the Isle of Man.

## APPENDIX A

PROFILE OF ESTABLISHMENTS AND EMPLOYMENT — 1975

| Name of Sector | Establish-ments | Employees | 0-19 | 20-49 | 50-99 | 100-199 | 200-499 | 500-999 | 1,000 or more |
|---|---|---|---|---|---|---|---|---|---|
| Man-made fibres | 12 | 6,317 | 1 | — | 1 | 1 | 4 | 1 | 3 |
| Cotton, yarn and cloth | 25 | 10,265 | 3 | — | 3 | 1 | 13 | 3 | 2 |
| Wool, yarn and cloth | 43 | 5,747 | 8 | 10 | 9 | 5 | 11 | — | — |
| Man-made fabric | 88 | 13,746 | 16 | 15 | 18 | 19 | 15 | 5 | — |
| Cordage and twine | 18 | 700 | 10 | 5 | 2 | — | 1 | — | — |
| Fibre and felt | 32 | 1,031 | 18 | 5 | 8 | 1 | — | — | — |
| Carpet, mat and rug | 33 | 7,235 | 3 | 4 | 3 | 10 | 10 | 3 | — |
| Cotton and jute bags | 20 | 717 | 5 | 10 | 4 | 1 | — | — | — |
| Canvas products | 146 | 2,394 | 116 | 18 | 10 | 2 | — | — | — |
| Auto. fab. and access. | 19 | 4,843 | 8 | 3 | 1 | 1 | 1 | 4 | 1 |
| Thread mills | 17 | 1,015 | 12 | 2 | — | 1 | 2 | — | — |
| Narrow fabrics | 37 | 2,248 | 8 | 14 | 8 | 6 | 1 | — | — |
| Embroidery, etc. | 97 | 1,433 | 78 | 13 | 4 | 2 | — | — | — |
| Dye and finishing | 74 | 4,158 | 33 | 19 | 7 | 11 | 4 | — | — |
| Misc. textile ind. | 262 | 9,201 | 181 | 46 | 15 | 13 | 5 | 1 | 1 |
| Knitted fabrics | 82 | 5,629 | 28 | 26 | 12 | 10 | 5 | 1 | — |
| Lino. and coated fabrics | 17 | 3,133 | 1 | 4 | 4 | 3 | 4 | 1 | — |
| Total | 1,022 | 79,812 | 529 | 194 | 110 | 87 | 76 | 19 | 7 |

*Source: Statistics Canada Annual Census of Manufacturers, 1975*

## APPENDIX B

REGIONAL DISTRIBUTION OF PRODUCTION
BY SUBSECTOR, TEXTILE INDUSTRY, CANADA, 1975

| | Quebec | | Ontario | | Atlantic | | Western | |
|---|---|---|---|---|---|---|---|---|
| Subsector | Est. | Empl. | Est. | Empl. | Est. | Empl. | Est. | Empl. |
| Man-made fibres | 3 | 1,432 | 8 | 4,643 | — | — | 1 | 242 |
| Man-made fabric | 50 | 9,010 | 34 | 4,609 | 3 | 120 | 1 | 7 |
| Cotton, yarn and cloth | 14 | 7,157 | 9 | 2,904 | 1 | 200 | 1 | 4 |
| Carpet, mat, rug | 13 | 3,172 | 16 | 2,708 | 1 | 955 | 3 | 400 |
| Knitted fabrics | 65 | 3,393 | 15 | 1,978 | 1 | 158 | 1 | 100 |
| Auto fab. and access. | 2 | 18 | 13 | 4,750 | — | — | 4 | 75 |
| Wool, yarn and cloth | 18 | 3,208 | 16 | 2,354 | 6 | 90 | 3 | 95 |
| Coated fabrics | 9 | 1,581 | 8 | 1,545 | — | — | — | 7 |
| Dye and finishing | 49 | 3,443 | 21 | 681 | 1 | 9 | 3 | 25 |
| Narrow fabrics | 28 | 1,870 | 9 | 378 | — | — | — | — |
| Canvas products | 31 | 472 | 71 | 1,268 | 6 | 40 | 38 | 618 |
| Fibre and felt | 7 | 179 | 22 | 825 | — | — | 3 | 27 |
| Cotton and jute bags | 10 | 372 | 5 | 146 | 1 | 34 | 4 | 165 |
| Thread mills | 14 | 809 | 3 | 208 | — | — | — | — |
| Cordage and twine | 2 | 10 | 8 | 406 | 1 | 25 | 7 | 259 |
| Embroidery, etc. | 52 | 702 | 34 | 497 | — | — | 11 | 228 |
| Misc. textile industries | 83 | 4,473 | 116 | 3,923 | 5 | 30 | 58 | 775 |
| Total | 450 | 41,301 | 408 | 33,823 | 26 | 1,661 | 138 | 3,027 |
| Percentage of Total | 44 | 52 | 39 | 42 | 3 | 2 | 14 | 4 |

*Estimate by the Department of Industry, Trade and Commerce, based on Statistics Canada Census of Manufacturers and Cat. 31-203.*

## APPENDIX C

### CANADIAN TEXTILE, CLOTHING AND TEXTILE PRODUCT MARKETS
### (Millions Lbs. — 1976)
### THE TEXTILES AND CONSUMER PRODUCTS BRANCH'S (ITC) METHOD

| | Domestic Shipments | Imports at Each Stage of Manufacturing | Imports From Stage Downstream | A.C.M. At Stage of Mfg. | A.C.M. From Stage Downstream | Domestic Shipments as a % of A.C.M. At Stage of Mfg. | Domestic Shipments as a % of A.C.M. From Stage Downstream | Imports at Stage as a % of total Imports | Accumulation % of Imports at each stage |
|---|---|---|---|---|---|---|---|---|---|
| *Man-Made* | | | | | | | | | |
| Man-made Filaments | 190 | 45 | 210 | 235 | 400 | 80.9 | 47.5 | 9.9 | |
| Man-made Staple | 137 | 117 | 244 | 254 | 381 | 53.9 | 36.0 | 25.8 | |
| Total | 327 | 162 | 454 | 489 | 781 | 66.9 | 41.9 | 35.7 | 35.7 |
| Man-made Spun Yarns | 115 | 38 | 117 | 153 | 232 | 75.2 | 49.6 | 8.4 | 44.1 |
| Fabrics | 270 | 99 | 208 | 369 | 478 | 73.2 | 56.5 | 21.8 | 65.9 |
| Filament | 160 | 80 | 149 | 240 | 309 | 66.7 | 51.8 | 17.6 | |
| Spun | 110 | 19 | 59 | 129 | 169 | 85.3 | 65.1 | 4.2 | |
| Total Products | 274 | 67 | 67 | 341 | 341 | 80.3 | 80.3 | 14.8 | 80.7 |
| From filaments | 160 | 37 | 37 | 197 | 197 | 81.2 | 81.2 | 8.2 | |
| From staple | 114 | 30 | 30 | 144 | 144 | 79.2 | 79.2 | 6.6 | |
| Apparel | 269 | 88 | 88 | 357 | 357 | 75.4 | 75.4 | 19.4 | 100.0 |
| From filaments | 155 | 48 | 48 | 203 | 203 | 76.4 | 76.4 | 10.6 | |
| From staple | 114 | 40 | 40 | 154 | 154 | 74.0 | 74.0 | 8.8 | |
| | | | | | | 73.4 | 57.3 | 100.0 | |
| Cotton and Cotton Blends | | | | | | | | | |
| Yarns | 190 | 20 | 254 | 210 | 444 | 90.5 | 42.8 | 7.9 | 7.9 |
| Fabrics | 165 | 108 | 223 | 273 | 388 | 60.4 | 42.5 | 42.5 | 50.4 |
| Products | 150 | 42 | 42 | 192 | 192 | 78.1 | 78.1 | 16.5 | 66.9 |
| Apparel | 168 | 84 | 84 | 252 | 252 | 66.7 | 66.7 | 33.1 | 100. |
| | | | | | | 72.6 | 52.7 | 100. | |
| Wool and Wool Blends | | | | | | | | | |
| Yarns and products* | 57 | 2 | 23. | 59 | 80. | 96.6 | 71.3 | 8.7 | 8.7 |
| Yarns | 49 | 2 | 20.5 | 51 | 69.5 | 96.1 | 70.5 | 8.7 | |
| Products* | 8 | 0 | 2.5 | 8 | 10.5 | 100.0 | 76.2 | 0 | |
| Fabrics | 45 | 9 | 17.5 | 54 | 62.5 | 83.3 | 72.0 | 39.1 | 47.8 |
| Products and Industrial* | 28 | 3.0 | 3.0 | 31 | 31 | 90.3 | 90.3 | 13.0 | 60.8 |
| Apparel | 40 | 9 | 9 | 49 | 49 | 81.6 | 81.6 | 39.1 | 100. |
| | | | | | | 88.1 | 69.3 | 100.0 | |
| Summary (by fibre) | | | | | | | | | |
| Fibers and Filament | 327 | 327 | 896 | 654 | 1,223 | 50 | 26.7 | — | |
| Man-made | 268 | 138 | 430 | 406 | 698 | 66.0 | 38.4 | — | |
| Cotton and cotton blends | 45 | 145 | 399 | 190 | 444 | 23.7 | 10.1 | — | |
| Wool and wool blends | 14 | 44 | 67 | 58 | 81 | 24.1 | 17.3 | — | |
| Total man-made | 327 | 162 | 454 | 489 | 781 | 66.9 | 41.9 | 22.2 | 22.2 |
| Spun Yarns | 354 | 60 | 391.5 | 414 | 745.5 | 85.5 | 47.5 | 8.2 | 30.4 |
| (Man-made) | 115 | 38 | 117 | 153 | 232 | 75.2 | 49.6 | 5.2 | |
| (Cotton and blends) | 190 | 20 | 254 | 210 | 444 | 90.5 | 42.8 | 2.7 | |
| (Wool and blends) | 49 | 2 | 20.5 | 51 | 69.5 | 96.1 | 70.5 | 0.2 | |
| Fabrics | 480 | 216 | 448.5 | 696 | 928.5 | 69.0 | 51.7 | 29.5 | 59.9 |
| (Man-made) | 270 | 99 | 208 | 369 | 478 | 73.2 | 56.5 | 13.1 | |
| (Cotton and blends) | 165 | 108 | 223 | 273 | 388 | 60.4 | 42.5 | 14.8 | |
| (Wool and blends) | 45 | 9 | 17.5 | 54 | 62.5 | 83.3 | 72.0 | 1.2 | |
| Products | 460 | 112 | 112 | 572 | 572 | 80.4 | 80.4 | 15.3 | 75.2 |
| (Man-made) | 274 | 67 | 67 | 341 | 341 | 80.4 | 80.4 | 9.2 | |
| (Cotton and blends) | 150 | 42 | 42 | 192 | 192 | 78.1 | 78.1 | 5.7 | |
| (Wool and blends) | 36 | 3 | 3 | 39 | 39 | 92.3 | 92.3 | .4 | |
| Apparel | 477 | 181 | 181 | 658 | 658 | 72,0 | 72.0 | 24.8 | 100. |
| (Man-made) | 269 | 88 | 88 | 357 | 357 | 75.4 | 75.4 | 12.0 | |
| (Cotton and blends) | 168 | 84 | 84 | 252 | 252 | 66.7 | 66.7 | 11.5 | |
| (Wool and blends) | 40 | 9 | 9 | 49 | 49 | 81.6 | 81.6 | 1.2 | |
| All fibres | | | | | | 70.1 | 50.8 | | |
| Excluding imports of cotton and wool fibres | | | | | | 74.2 | 56.9 | 100. | |
| Man-made and primary textile (excluding apparel) | | | | | | 74.7 | 53.6 | 75.2 | |

*Non-woven*

*TEXTILES DIVISION ANALYSIS OF C.T.I. DATA AND ESTIMATES*

## Appendix C (CONT.)

## EXPLANATION OF METHODOLOGY AND TERMS

1. While the basic figures are compiled from published data by the Canadian Textile Institute, the breakdown of the volume among the various streams is based on preliminary estimates. Therefore, the purpose of this Appendix is to illustrate the concept rather than present accurate market data.

2. Since all natural fibres are imported, the first stage of domestic production in the cotton and wool categories is spun yarns. However, part of these spun yarns are man-made fibres which may be of domestic or imported origin. To illustrate this point, the 190 million lbs. that appear in the table as domestic shipments of yarns in the Cotton and Cotton Blends category, consist of 125 million lbs. of imported cotton fibres, 45 million of domestically produced man-made fibres and 20 million lbs, of imported man-made fibres.

3. For each stage of manufacturing, (e.g. yarns) two figures for imports are given; the first is imports at that stage of manufacturing (i.e. yarns); the second is imports from stages downstream (i.e. yarns, fabrics, apparel, products). The addition of domestic shipments at that stage (yarns) to either of these two import figures results in the corresponding ACM.

**Example:** The share of the domestic man-made fibre industry of the ACM, for man-made fibres is 66.9 per cent, while its share of the ACM for man-made fibres *and manufactures* (i.e. of man-made fibres and downstream products) is 41.9 per cent.

4. The last column gives the accumulated percentage of imports at each stage of manufacturing. For example, in the man-made category, 65.9 per cent of imports are in the form of fabrics, yarns and fibres.

**Summary section**

5. The data is first broken down by stages of manufacturing, then by the volume used in each of the three categories or types of fibres. To illustrate: total domestic shipments of fibres and filament yarn is 327 million lbs. (all of which is man-made), but only 268 million lbs. are used in the man-made stream (or category); the balance goes to the Cotton and Cotton Blends (45 million lbs.) and Wool and Wool Blends (14 million lbs.) streams.

**Examples:**
—The share of the domestic fibre and filament yarn producers of the ACM for fibres and filament yarn is 50 per cent; their share of the ACM for fibres, filament yarn and manufacturers is 26.7 per cent.
—The share of the domestic yarn spinners of the ACM for spun yarns is 85.5 per cent.
—The share of the domestic fabrics producers of the ACM for fabrics and manufactures is 51.7 per cent.

6. The last three rows in the table merit special attention:

6a. **Total, All Fibres**
By aggregating all the data in the summary section, we arrive at weighted average figures for the domestic shares of the ACM's at the individual stages (70.1 per cent) and from the stage downstream (50.8 per cent).

6b. **Total, excluding imports of cotton and wool fibres**
If we reason that imports of natural fibres should be removed from the data since they do not displace any Canadian production, then the two domestic shares noted above would increase to 74.2 per cent and 56.9 per cent respectively.

6c. **Man-made and textile (excluding apparel).**
Although the textile and apparel industries are closely interrelated, they are separate industries. By removing apparel data from the table, the domestic shares of 70.1 per cent and 50.8 per cent increase to 74.7 per cent and 53.6 per cent respectively.

## APPENDIX D

PERCENTAGE* SHARE OF MARKET HELD BY DOMESTIC MANUFACTURES AND OTHER SOURCES (1970-1975) SELECTED SUBSECTORS

| | | Countries | | |
|---|---|---|---|---|
| | *Domestic* | *Developed* | *Japan* | *Low-cost* |
| *Man-made fibres* | | | | |
| 1970 | 68 | 28 | 2 | 2 |
| 1971 | 64 | 31 | 3 | 2 |
| 1972 | 61 | 35 | 3 | 2 |
| 1973 | 60 | 36 | 2 | 2 |
| 1974 | 58 | 39 | 2 | 1 |
| 1975 | 60 | 37 | 1 | 1 |
| *Man-made fabrics*** | | | | |
| 1970 | 66 | 18 | 13 | 4 |
| 1971 | 68 | 18 | 10 | 4 |
| 1972 | 63 | 22 | 10 | 4 |
| 1973 | 66 | 22 | 7 | 5 |
| 1974 | 60 | 26 | 6 | 7 |
| 1975 | 60 | 28 | 8 | 5 |
| *Cotton fabrics*** | | | | |
| 1970 | 56 | 15 | 2 | 26 |
| 1971 | 50 | 23 | 3 | 24 |
| 1972 | 40 | 24 | 2 | 33 |
| 1973 | 42 | 19 | 1 | 38 |
| 1974 | 37 | 19 | 1 | 42 |
| 1975 | 40 | 27 | 3 | 31 |
| *Wool fabrics*** | | | | |
| 1970 | 64 | 23 | 7 | 6 |
| 1971 | 68 | 22 | 5 | 5 |
| 1972 | 61 | 30 | 4 | 6 |
| 1973 | 56 | 36 | 2 | 7 |
| 1974 | 64 | 27 | 2 | 7 |
| 1975 | 65 | 19 | 4 | 11 |
| *Knitted fabrics*** | | | | |
| 1970 | 76 | 20 | 4 | 1 |
| 1971 | 68 | 22 | 9 | 1 |
| 1972 | 68 | 18 | 12 | 2 |
| 1973 | 81 | 14 | 4 | 2 |
| 1974 | 79 | 15 | 5 | 2 |
| 1975 | 75 | 16 | 8 | 2 |
| *Double and warp-knit fabrics*** | | | | |
| 1970 | 68 | 25 | 6 | 1 |
| 1971 | 57 | 29 | 13 | 1 |
| 1972 | 60 | 21 | 18 | 2 |
| 1973 | 79 | 14 | 5 | 2 |
| 1974 | 78 | 13 | 7 | 2 |
| 1975 | 75 | 12 | 10 | 3 |

*Source: Textiles and Consumer Products Branch, ITC*

**Percentages may not add up due to rounding*

***Percentage shares are based on the volume units shown in Appendix E*

## APPENDIX E

APPARENT CANADIAN MARKET
BROADWOVEN FABRICS

| | (1) | (2) | (3) | (4) | (5) | (6) | Percentages | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Imports | Imports from Low-cost Countries | Imports from Japan | Imports from Developed Countries | Domestic Shipments | Apparent Canadian Markets | (1)/(6) | (2)/(6) | (3)/(6) | (4)/(6) | (5)/(6) | (4)+(5)/(6) | (3+4+5)/(6) |
| Total Broadwoven M.M. Fabrics (000 sq. yd.) | | | | | | | | | | | | | |
| 1970 | 139,160 | 15,237 | 51,874 | 72,049 | 270,198 | 409,358 | 34.0 | 3.7 | 12.7 | 17.6 | 66.0 | 83.6 | 96.3 |
| 1971 | 134,651 | 15,619 | 41,410 | 77,622 | 286,375 | 421,026 | 32.0 | 3.7 | 9.8 | 18.4 | 68.0 | 86.4 | 96.2 |
| 1972 | 187,043 | 22,518 | 51,294 | 113,232 | 320,001 | 507,044 | 36.9 | 4.4 | 10.1 | 22.3 | 63.1 | 85.4 | 95.5 |
| 1973 | 198,203 | 29,800 | 42,922 | 125,475 | 380,517 | 578,720 | 34.3 | 5.2 | 7.4 | 21.7 | 65.7 | 87.4 | 94.8 |
| 1974 | 231,251 | 40,317 | 37,330 | 153,623 | 352,367 | 583,618 | 39.6 | 6.9 | 6.4 | 26.3 | 60.4 | 86.7 | 93.1 |
| 1975 | 226,807 | 25,949 | 43,543 | 157,324 | 339,130 | 565,937 | 40.1 | 4.6 | 7.7 | 27.8 | 59.9 | 87.7 | 95.4 |
| *1975 | 239,587 | 27,410 | 45,995 | 166,182 | | | | | | | | | |
| *1976 | 312,876 | 40,373 | 49,139 | 223,365 | | | | | | | | | |
| *1977 | 312,226 | 40,613 | 70,997 | 200,616 | | | | | | | | | |
| Cotton Broadwoven Fabrics Net (000 sq. yd.) | | | | | | | | | | | | | |
| 1970 | 142,217 | 85,762 | 6,980 | 49,475 | 184,126 | 326,343 | 43.6 | 26.3 | 2.1 | 15.2 | 56.4 | 71.6 | 73.7 |
| 1971 | 187,513 | 90,162 | 10,006 | 87,345 | 189,357 | 376,870 | 49.8 | 23.9 | 2.7 | 23.2 | 50.2 | 73.4 | 76.1 |
| 1972 | 273,864 | 151,926 | 10,786 | 111,152 | 181,565 | 455,429 | 60.1 | 33.4 | 2.4 | 24.4 | 39.9 | 64.3 | 66.6 |
| 1973 | 221,452 | 144,294 | 5,077 | 72,126 | 160,394 | 381,846 | 58.0 | 37.8 | 1.3 | 18.9 | 42.0 | 60.9 | 62.2 |
| 1974 | 211,986 | 142,381 | 4,688 | 64,917 | 126,533 | 338,519 | 62.6 | 42.1 | 1.4 | 19.2 | 37.4 | 56.6 | 58.0 |
| 1975 | 145,416 | 74,044 | 6,313 | 65,059 | 96,373 | 241,789 | 60.1 | 30.6 | 2.6 | 26.9 | 39.9 | 66.8 | 69.4 |
| *1975 | 158,999 | 63,603 | 6,313 | 89,083 | | | | | | | | | |
| *1976 | 211,356 | 114,894 | 10,331 | 86,131 | | | | | | | | | |
| *1977 | 166,665 | 77,281 | 13,247 | 75,137 | | | | | | | | | |
| Total wool fabrics (A) (000 sq. yd.) | | | | | | | | | | | | | |
| 1970 | 18,951 | 2,979 | 3,781 | 12,191 | 34,115 | 53,066 | 35.7 | 5.6 | 7.1 | 23.0 | 64.3 | 87.3 | 94.4 |
| 1971 | 13,294 | 1,968 | 2,270 | 9,056 | 28,744 | 42,038 | 31.6 | 4.7 | 5.4 | 21.5 | 68.4 | 89.9 | 95.3 |
| 1972 | 18,742 | 2,762 | 1,702 | 14,278 | 29,719 | 48,461 | 38.7 | 5.7 | 3.5 | 29.5 | 61.3 | 90.8 | 94.3 |
| 1973 | 27,029 | 4,332 | 1,020 | 21,677 | 34,061 | 61,090 | 44.2 | 7.1 | 1.7 | 35.5 | 55.7 | 91.2 | 92.9 |
| 1974 | 16,480 | 3,258 | 707 | 12,515 | 29,180 | 45,660 | 36.1 | 7.1 | 1.6 | 27.4 | 63.9 | 91.3 | 92.9 |
| *1975 | 14,830 | 4,621 | 1,904 | 8,305 | 27,962 | 42,792 | 34.7 | 10.8 | 4.4 | 19.4 | 65.3 | 84.7 | 89.2 |
| *1976 | 19,381 | 4,818 | 2,088 | 12,476 | | | | | | | | | |
| 1977 | 17,581 | 4,421 | 1,100 | 12,060 | | | | | | | | | |
| Double and warp-knit fabrics combined (000 lb.) | | | | | | | | | | | | | |
| 1970(B) | 15,690 | 390 | 2,960 | 12,340 | 33,500 | 49,190 | 31.9 | 0.8 | 6.0 | 25.1 | 68.1 | 93.2 | 99.2 |
| 1971(B) | 31,980 | 658 | 9,745 | 21,577 | 42,600 | 74,580 | 42.9 | 0.9 | 13.1 | 28.9 | 57.1 | 86.0 | 99.1 |
| 1972(B) | 29,528 | 1,268 | 13,122 | 15,138 | 44,200 | 73,728 | 40.0 | 1.7 | 17.8 | 20.5 | 60.0 | 80.5 | 98.3 |
| 1973 | 14,078 | 1,573 | 3,452 | 9,053 | 53,123 | 67,201 | 20.9 | 2.3 | 5.1 | 13.5 | 79.1 | 92.6 | 97.7 |
| 1974 | 14,268 | 1,300 | 4,397 | 8,571 | 50,808 | 65,076 | 21.9 | 2.0 | 6.8 | 13.2 | 78.1 | 91.3 | 98.1 |
| 1975 | 15,938 | 1,597 | 6,570 | 7,771 | 47,727 | 63,665 | 25.0 | 2.5 | 10.3 | 12.2 | 75.0 | 87.2 | 97.5 |
| *1975 | 16,049 | 1,609 | 6,616 | 7,824 | | | | | | | | | |
| *1976 | 14,462 | 1,624 | 3,479 | 9,358 | | | | | | | | | |
| *1977 | 12,605 | 2,014 | 2,356 | 8,235 | | | | | | | | | |
| Total knitted fabrics (000 lb.) | | | | | | | | | | | | | |
| 1970 | 19,815 | 446 | 3,165 | 16,200 | 62,279 | 80,825 | 24.5 | 0.6 | 3.9 | 20.0 | 75.5 | 95.5 | 99.4 |
| 1971 | 36,876 | 741 | 10,337 | 25,797 | 80,024 | 115,022 | 32.1 | 0.7 | 9.0 | 22.4 | 67.9 | 90.3 | 99.3 |
| 1972 | 36,086 | 2,219 | 13,908 | 19,959 | 79,411 | 112,584 | 32.1 | 2.0 | 12.4 | 17.7 | 67.9 | 85.6 | 98.0 |
| 1973 | 21,949 | 2,348 | 4,163 | 15,436 | 94,269 | 112,618 | 19.5 | 2.1 | 3.7 | 13.7 | 80.5 | 94.2 | 97.9 |
| 1974 | 21,923 | 1,866 | 4,829 | 15,228 | 84,529 | 104,118 | 21.1 | 1.8 | 4.6 | 14.6 | 78.9 | 93.5 | 98.2 |
| 1975 | 25,115 | 1,827 | 7,749 | 15,539 | 76,764 | 99,941 | 25.1 | 1.8 | 7.8 | 15.6 | 74.9 | 90.5 | 98.2 |
| *1976 | 23,102 | 1,842 | 4,354 | 16,905 | | | | | | | | | |
| *1977 | 19,785 | 2,102 | 2,845 | 14,837 | | | | | | | | | |

Source: Textiles and Consumer Products Branch, ITC.
*Comparative data for 1975 and 1976 include producer imports.
Data for 1976 are converted into sq. yds. using the 1975 factor.
Note: (A) Includes worsted fabrics.
(B) Total imports as imports by manufacturers are not available.

## APPENDIX F

ANALYSIS OF SOURCES OF IMPORTS (AVERAGE 1967 and 1968)

| | (000 lb) | | | | Percentage Share of Imports by Type of Products | | | Percentage Share of Total Imports | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Developed Countries | Japan | Low-cost Countries | Total | Developed | Japan | Low-cost Countries | Developed | Japan | Low-cost Countries |
| Cotton yarns[1] | 8,022 | 94 | 9,272 | 17,388 | 46.1 | 0.5 | 53.3 | 5.6 | 0.1 | 6.5 |
| Cotton fabrics[2] | 30,576 | 5,467 | 31,280 | 67,323 | 45.4 | 8.1 | 46.5 | 21.6 | 3.8 | 22.1 |
| Total cotton | 38,598 | 5,561 | 40,552 | 84,711 | 45.6 | 6.5 | 47.9 | 27.2 | 3.9 | 28.6 |
| | (48.8) | (30.9) | (90.5) | (59.7) | | | | | | |
| Man-made yarns[3] | 15,282 | 2,307 | 1,139 | 18,728 | 81.6 | 12.3 | 6.1 | 10.8 | 1.6 | 0.8 |
| Man-made fabrics[4] | 21,302 | 7,396 | 2,671 | 31,369 | 67.9 | 23.6 | 8.5 | 15.0 | 5.2 | 1.9 |
| Total man-made | 36,584 | 9,703 | 3,810 | 50,097 | 73.0 | 19.4 | 7.6 | 25.8 | 6.8 | 2.7 |
| | (46.3) | (54.2) | (8.5) | (35.3) | | | | | | |
| Worsted fabrics[5] | 3,422 | 2,121 | 339 | 5,882 | 58.2 | 36.1 | 5.8 | 2.4 | 1.5 | 0.2 |
| | (4.3) | (11.8) | (0.8) | (4.1) | | | | | | |
| Double-knit and tricot fabrics[6] | 448 | 551 | 88 | 1,087 | 41.2 | 50.7 | 8.1 | 0.3 | 0.4 | 0.1 |
| | (0.6) | (3.1) | (0.2) | (0.8) | | | | | | |
| TOTAL | 79,052 | 17,896 | 44,788 | 141,736 | | | | 55.8 | 12.6 | 31.6 |
| | (100.0) | (100.0) | (100.0) | (100.0) | | | | | | |

Source: Statistics Canada Imports by Commodities Cat. No. 65-007
(1) to (6): same as in Appendix G.

## APPENDIX G

ANALYSIS OF SOURCES OF IMPORTS (AVERAGE 1973-1976)

| | | | | | Percentage Share of Imports by Type of Products | | | Percentage Share of Total Imports | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Developed Countries | Japan | Low-cost Countries | Total | Developed | Japan | Low-cost Countries | Developed | Japan | Low-cost Countries |
| ('000 Pounds) | | | | | | | | | | |
| Cotton yarns[1] | 8,513 | 172 | 7,114 | 15,799 | 53.8 | 1.1 | 45.0 | 3.1 | .06 | 2.6 |
| Cotton fabrics[2] | 39,683 | 2,704 | 43,004 | 85,391 | 46.5 | 3.2 | 50.3 | 14.4 | .9 | 15.7 |
| Total cotton | 48,196 | 2,876 | 50,118 | 101,190 | 47.6 | 2.8 | 49.5 | 17.5 | 1.0 | 18.3 |
| | (26.1) | (12.7) | (74.3) | (36.8) | | | | | | |
| Man-made yarns[3] | 81,569 | 4,711 | 5,382 | 91,662 | 89.0 | 5.1 | 5.8 | 29.7 | 1.7 | 1.9 |
| Man-made fabrics[4] | 43,963 | 9,503 | 8,949 | 62,415 | 70.4 | 15.2 | 14.3 | 16.0 | 3.4 | 3.2 |
| Total man-made | 125,532 | 14,214 | 14,331 | 154,077 | 81.4 | 9.2 | 9.3 | 45.7 | 5.2 | 5.2 |
| | (68.0) | (62.9) | (21.2) | (56.1) | | | | | | |
| Worsted fabrics[5] | 1,746 | 836 | 1,332 | 3,914 | 44.6 | 21.3 | 34.0 | .6 | .3 | .4 |
| | (0.9) | (3.7) | (1.9) | (1.4) | | | | | | |
| Double-knit and tricot fabrics[6] | 9,032 | 4,681 | 1,583 | 15,296 | 59.0 | 30.6 | 10.3 | 3.2 | 1.7 | .5 |
| | (4.9) | (20.7) | (2.3) | (5.6) | | | | | | |
| TOTAL | 184,506 | 22,607 | 67,364 | 274,477 | 67.2 | 8.2 | 24.5 | 67.2 | 8.2 | 24.5 |
| | (100.0) | (100.0) | (100.0) | (100.0) | | | | | | |

Source: Statistics Canada (1) Import classes 364-05,11,45,46,47,68,99, + 369-21
(2) Import classes 373-02 to 372-98 inclusive
(3) Import classes 366-16,19,30,39,45,48,99, + 367-70,89
(4) Import classes 375-09 to 99 and 377-59 to 99 inclusive
(5) Import classes 372-13,16,18,29 to 377-39
(6) Import classes 385-39,44,49

## APPENDIX H

PERCENTAGE OF TOTAL IMPORTS
(1975-1976)

| | 1975 | | | 1976 | | |
|---|---|---|---|---|---|---|
| | *Developed* | *Japan* | *Low-cost* | *Developed* | *Japan* | *Low-cost* |
| Man-made yarns and fabrics | 48.2 | 5.5 | 4.8 | 44.1 | 5.8 | 5.2 |
| Cotton yarns and fabrics | 18.8 | 1.2 | 13.4 | 15.5 | 1.6 | 21.2 |
| Worsted fabrics | 0.4 | 0.5 | 0.5 | 0.4 | 0.3 | 0.6 |
| Double and tricot knit fabrics | 3.2 | 2.7 | 0.7 | 3.3 | 1.3 | 0.6 |
| TOTAL | 70.6 | 10.0 | 19.4 | 63.3 | 9.1 | 27.6 |

PERCENTAGE INCREASE IN IMPORTS
(1975-1976)

| | *Developed* | *Japan* | *Low-cost* | *Total* |
|---|---|---|---|---|
| Man-made yarns and fabrics | 56.5 | 21.3 | 22.2 | 34.9 |
| Cotton yarns and fabrics | −5.3 | 5.6 | 99.7 | 67.1 |
| Worsted fabrics | 58.5 | −48.4 | 89.9 | 1.2 |
| Double and tricot knit fabrics | 115.6 | −216.7 | 1.1 | −3.2 |
| TOTAL | 20.6 | 3.6 | 75.8 | 100.0 |

Source: As per Appendix F and G

## APPENDIX I

PERCENTAGE SHARE OF TOTAL IMPORTS
(1975-1976-1977)

| | 1975 | | 1976 | | 1977 | |
|---|---|---|---|---|---|---|
| | *Developed* | *Low-cost* | *Developed* | *Low-cost* | *Developed* | *Low-cost* |
| Man-made | 65.2 | 4.0 | 62.1 | 4.2 | 63.1 | 5.0 |
| Cotton | 18.2 | 9.8 | 15.7 | 15.2 | 16.2 | 12.7 |
| Wool | 2.3 | 0.5 | 2.0 | 0.5 | 2.4 | 0.6 |
| TOTAL | 85.7 | 14.3 | 79.8 | 20.2 | 81.7 | 18.3 |

PERCENTAGE INCREASE (DECREASE) IN IMPORTS DUE TO:

| | 1976/75 | | | 1977/76 | | |
|---|---|---|---|---|---|---|
| | *Developed* | *Low-cost* | *Total* | *Developed* | *Low-cost* | *Total* |
| Man-made | 89.6 | 10.4 | 51.3 | (104.4) | 4.5 | ( 51.6) |
| Cotton | 5.7 | 94.3 | 47.3 | ( 24.6) | (75.4) | ( 49.1) |
| Wool | 40.2 | 59.8 | 1.4 | 76.5 | 23.5 | 0.7 |
| TOTAL | 49.2 | 50.7 | 100.0 | ( 65.4) | (34.6) | (100.0) |

*Source: Tabulated from CTI Statistics. Includes all textile products (from fibre to fabric and products in weight equivalent) but excludes apparel.*

## APPENDIX J

### TEXTILE AND CLOTHING IMPORTS, AND IMPORTS UNDER RESTRAINT OR QUOTA

($ M)

| | Dec. 1975 | | | Dec. 1976 | | | Dec. 1977 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Textiles | Clothing | Textiles and Clothing | Textiles | Clothing | Textiles and Clothing | Textiles | Clothing | Textiles and Clothing |
| *ALL COUNTRIES* | | | | | | | | | |
| Total[1] | 987.6 | 469.7 | 1,457.3 | 1,118.9 | 710.7 | 1,829.6 | 1,155.8 | 617.6 | 1,773.4 |
| Total under restraint or quota[2] | 64.2 | 41.2 | 105.4 | 69.3 | 630.0 | 699.3 | 82.0 | 539.1 | 621.1 |
| Total under restraint or[3] quota as a percentage of total | 6.5% | 8.9% | 7.2% | 6.2% | 88.6% | 38.2% | 7.1% | 87.3% | 35.0% |
| *LOW COST COUNTRIES* | | | | | | | | | |
| Total[1] | 221.1 | 312.1 | 533.2 | 197.6 | 494.9 | 692.5 | 186.9 | 422.7 | 609.6 |
| Total under restraint or quota[2] | 15.8 | 40.7 | 56.5 | 11.0 | 470.2 | 481.2 | 27.7 | 392.6 | 420.3 |
| Total under restraint or quota as a percentage of total | 7.2% | 13.0% | 10.6% | 5.6% | 95.0% | 69.5% | 14.8% | 92.9% | 69.0% |

[1]*Excludes raw cotton. Includes fibres, linters, yarns, waste and all manufactured goods.*
*Clothing includes leather and fur garments, hats, but does not include footwear, leather gloves, wigs, buttons, etc.*
[2]*Adjusted to account for inclusion of hosiery with clothing.*
[3]*According to the Canadian Textiles Institute the percentage under restraint by volume was 15.4 per cent in 1969 and 6.5 per cent in 1973.*
*Source: Totals; Textile and Consumer Products Branch, Research and Planning, ITC. Restraints: OSIP, based on import control regulations in effect December 31, 1975, 1976 and 1977.*
*June 20, 1978.*

### IMPORTS AND PERCENTAGES OF TEXTILES UNDER RESTRAINT IN SELECTED DEVELOPED COUNTRIES, 1973

(U.S. $'000)

| Country | Total Textile Imports | Under Restraint | |
|---|---|---|---|
| | | Imports | Percentage |
| Canada* | 1,554,352 | 105,101 | 7 |
| United States* | 3,518,241 | 2,497,951 | 71 |
| Japan | N.A. | N.A. | N.A. |
| EEC | 4,924,040 | 2,362,191 | 48 |
| Britain | 1,354,447 | 623,671 | 46 |
| Sweden | 899,501 | 96,529 | 11 |

**1974*
*Source: OECD Statistics of Foreign Trade, Jan.-Dec. 1973, as quoted in the Textile and Clothing Board's "Clothing Inquiry" of May 29, 1977.*

## APPENDIX K

COMPARATIVE AVERAGE NOMINAL TARIFF-DUTIABLE ITEMS 1971
(Per cent)

| | Cotton | | Wool | | Man-made | | | Clothing | Other made-up articles | Carpeting | Knitted fabrics |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Yarn 1971 | Fabrics 1971 | Yarn 1971 | Fabrics 1971 | Fibre 1971 | Yarn 1971 | Fabrics 1971 | 1971 | 1971 | 1971 | 1971 |
| Canada | 14.7 | 19.5 | 15.9 | 31.2 | 9.9 | 18.5 | 28.6 | 25.5 | 24.6 | 32.1 | 27.5 |
| United States | 8.7 | 11.9 | 30.9 | 46.5 | 7.7 | 15.9 | 26.1 | 31.4 | 15.5 | 12.4 | 29.0 |
| Japan* | 7.6 | 7.1 | 5.8 | 14.0 | 10.9 | 12.3 | 10.7 | 17.2 | 15.2 | 15.2 | 13.9 |
| EEC* | 7.1 | 13.7 | 5.7 | 13.9 | 8.7 | 9.4 | 15.2 | 16.6 | 13.7 | 19.9 | 13.0 |

*Source: GATT — Summary of BTN Headings, February 1974*
**Different systems of evaluation for duty purposes (i.e. C.I.F.) in Japan and the EEC result in understating the average tariffs for these areas by approximately three percentage points.*

## APPENDIX L

COMPARATIVE TARIFF AVERAGES 1971[1]

| Country | All Items | Dutiable Items Only |
|---|---|---|
| | 1971 | 1971 |
| Canada | 20.8 | 23.6 |
| U.S. | 23.2 | 25.7 |
| Japan | 4.0 | 12.3 |
| EEC | 9.2 | 14.1 |
| Australia | 19.7 | 33.2 |

[1]*Weighted by each countries MFN Imports*
*Source: GATT — Summary of BTN Headings.*

## APPENDIX M

TEXTILES INDUSTRY — 1974

| | Number of Establishments | Value Added ($000) | Man-Hours* (000) | Value-Added/ Man-Hours*($) |
|---|---|---|---|---|
| Atlantic Region | 29 | 14,918 | 2,817 | 5.30 |
| Nova Scotia | 11 | 12,921 | 2,450 | 5.27 |
| Quebec | 384 | 554,723 | 64,324 | 8.62 |
| Montreal Metro | 249 | 167,708 | 19,336 | 8.67 |
| Ontario | 381 | 519,020 | 53,936 | 9.62 |
| Toronto | 185 | 121,567 | 13,405 | 9.07 |
| Hamilton | 19 | 25,161 | 3,411 | 7.38 |
| Kitchener | 27 | 38,142 | 5,549 | 6.87 |
| St. Catharines/Niagara | 15 | 13,954 | 1,942 | 7.19 |
| Ottawa-Hull | 13 | 2,718 | 300 | 9.06 |
| Rest of province | 122 | 317,478 | 29,329 | 10.82 |
| Manitoba | 43 | 8,451 | 1,334 | 6.34 |
| Saskatchewan | 10 | 4,022 | 238 | 16.90 |
| Alberta | 31 | 10,317 | 1,087 | 9.49 |
| Edmonton | 18 | 7,562 | 667 | 11.34 |
| British Columbia | 58 | 22,096 | 2,248 | 9.83 |
| Canada | 936 | 1,133,547 | 125,983 | 9.00 |

*Man-hours paid
Source: Special tabulation, Statistics Canada

SECTOR PROFILE

# CANADIAN CLOTHING INDUSTRY

The following profile of the Canadian Clothing Industry which is based on a document prepared by the Federal Department of Industry, Trade and Commerce, has been revised and updated in consultation with the Sector Task Force on the Canadian Textile and Clothing Industries.

# CANADIAN CLOTHING INDUSTRY PROFILE

## INTRODUCTION

### Definition

The clothing manufacturing industry in Canada consists of firms that make apparel for consumers and industrial and institutional applications. The processes involved include cutting and sewing fabrics or knitting yarns into garments and finishing the products for sale.

The industry produces a broad range of apparel of virtually all types, mainly in the medium to high price range. The major manufacturing sub-sectors and their principal products are listed below and in Appendix A:

1. Men's Clothing – men's, youths' and boys' suits, coats, trousers, overcoats, shirts, underwear, work clothing, sportswear, leather clothing and furnishings;
2. Women's Clothing – women's, misses' and girls' suits, coats, dresses, skirts, blouses, sportswear, underwear, lingerie and household apparel;
3. Children's Clothing – clothing principally in sizes up to 6X;
4. Fur Goods – fur coats and other fur garments, accessories and trimmings;
5. Foundation Garments – corsets, girdles, brassieres, etc.;
6. Gloves – primarily fabric work gloves;
7. Hats and Caps – hats of straw, cloth, fur felt, wool felt, hat and cap materials and millinery;
8. Hosiery – all types.
9. Knitting Mills – knitted underwear, sweaters and other apparel made by a knitting process.

A producer normally specializes in just one of the nine major sub-sectors or even one product within a sub-sector, or the product line might involve a broader range of products across sub-sector lines (especially if the producer operates several establishments). Also, and in particular in the men's and women's clothing sub-sectors, there are private contractors who, using materials owned and supplied by the primary producers, carry out one or more of the manufacturing processes. These contractors are used to advantage during times of shortages of capacity, or in cases where specialized production capabilities are not available in the primary producer's facilities. It is not unusual for primary producers to fill out their own capacity by doing contract work for others.

The hosiery and knitted underwear sectors of the knitting industry are treated in this profile since these products are clothing. Data on some other portions of the knitting industry, mainly involving knitted fabrics, is included in the companion profile of the textile industry. These two profiles complement each other.

### Industry in Perspective

The Canadian clothing industry consists of close to 2,200 establishments of which about 400 are contractors. Altogether the industry employs about 120,000 workers shipping nearly $3 billion worth of goods annually. Contractors account for about six per cent of the shipments.

TABLE I

Canadian Clothing Industry
Principal Statistics by Sub-Sector, 1976[1]

| | *Establishments* | *Employment* | *Shipments* |
|---|---|---|---|
| | | (000's) | ($millions) |
| Men's clothing | 620 | 46.0 | 1082.6 |
| Women's clothing | 843 | 40.0 | 1000.5 |
| Children's clothing | 127 | 6.5 | 177.5 |
| Knitters | 148 | 14.1 | 305.2 |
| Other | 497 | 12.9 | 411.6 |
| | 2,235 | 119.5 | 2,977.4 |

*Source: Statistics Canada*
[1] *Preliminary.*

The men's and women's clothing sub-sectors are the two largest.

Regionally, clothing manufacturing is concentrated in Quebec, Ontario, Manitoba, Alberta and British Columbia, primarily in major metropolitan areas such as Montreal, Toronto, Winnipeg, Edmonton and Vancouver. The industry is relatively labour-intensive, with its labour force drawn mainly from unskilled and semi-skilled labour pools.

The industry exports about four per cent of its output, mainly in the fur goods and outdoor clothing. The United States is the principal market.

The industry is among the largest manufacturing employers. It accounts for more than six per cent of all manufacturing employment in Canada and as high as 25 per cent in certain regions. In addition, the industry's links to other industrial and commercial activities such as suppliers of raw materials and services are estimated to generate directly about 1.5 jobs for each employee in clothing; indeed one-third of the workers in textiles, about 25,000, are estimated to be involved in the supply of fabrics and other textile materials to garment manufacturing.

## STRUCTURAL CHARACTERISTICS

### Size Distribution

The clothing industry is characterized by a large number of producers. These tend to be small with the greatest number of establishments having less than 50 employees each.

TABLE 2

Canadian Clothing Industry
Distribution of Production by Size of Establishment
1975

| *Employees* | *Establishments* | | *Employment* | | *Shipments* | |
|---|---|---|---|---|---|---|
| | *No.* | % | *(000's)* | % | *($Millions)* | % |
| Less than 50 | 1,627 | 70 | 28.1 | 23 | 762.4 | 28 |
| 50-99 | 349 | 15 | 24.0 | 20 | 495.9 | 18 |
| 100-199 | 238 | 10 | 33.0 | 28 | 715.4 | 27 |
| 200 and more | 104 | 5 | 34.5 | 29 | 725.8 | 27 |
| TOTAL | 2,318 | 100 | 119.6 | 100 | 2,699.5 | 100 |

*Source: Statistics Canada*

In 1975, more than two-thirds of the establishments had less than 50 employees. On the other hand, the larger units with 100 or more employees, which accounted for only 15 per cent of the total establishments, provided 57 per cent of the jobs in the industry and 54 per cent of the value of shipments. This is contrasted with the 1,627 smaller units which provided 23 per cent of the jobs and 28 per cent of the shipments.

It should be noted, however, that the multiplicity of smaller establishments reflects some unique characteristics of the industry. First, a large proportion of these units are accounted for by the contract firms and fur goods manufacturers. In the latter case, the average size of establishment was seven-and-a-half employees each, and only one had 100 or more employees.

Furthermore, the large number of smaller units does not necessarily reflect inefficiencies. Some firms may, in fact, consist of a number of small manufacturing facilities, each specializing in a certain area but all benefiting from efficiencies of scale in management functions. Also, small units are more flexible and, therefore, more responsive to the vagaries of style and fashion in the market.

Over the past 10 years there has been, nevertheless, a trend toward larger establishments. Between 1965 and 1975 the number of establishments with more than 100 employees increased by 20 per cent, while the number in the less than 50 category decreased by 16 per cent.

TABLE 3

Size Distribution of Establishments
1965 and 1975

| | *1965* | *1975* | *Change* |
|---|---|---|---|
| Less than 50 | 1,943 | 1,627 | −16% |
| 50-99 | 378 | 349 | − 8% |
| 100 and more | 286 | 342 | +20% |

*Source: Statistics Canada*

The increases in the number of larger establishments are concentrated in men's and women's apparel and knitwear.

## Production Concentration

Despite the advantages available to smaller establishments, the larger units tend to account for a more than proportionate share of employment and shipments.

TABLE 4

Canadian Clothing Industry Selected Sub-Sectors
Production Share of Establishments with 100 or More Employees, 1975

| | *Establishments* | | *Employment* | | *Shipments* | |
|---|---|---|---|---|---|---|
| | *No.* | *% of Sub-Sector* | *(000's)* | *% of Sub-Sector* | *($Million)* | *% of Sub-Sector* |
| Men's clothing* | 140 | 22 | 22.4 | 50 | 611.4 | 65 |
| Women's clothing* | 98 | 11 | 16.2 | 41 | 377.3 | 41 |
| Children's clothing | 22 | 16 | 3.3 | 49 | 77.0 | 45 |
| Fur goods | 4 | 1 | 0.7 | 25 | 36.7 | 26 |
| Knitters | 54 | 34 | 10.2 | 72 | 209.2 | 73 |
| Foundation garments | 11 | 34 | 2.7 | 71 | 49.7 | 72 |

*Includes contractors
Source: Statistics Canada: Census of Manufacturers

To some extent, the larger establishments are specialized and can take advantage of the scale effects of standardized continuous production and more specialized operators. These benefits result in relatively lower cost, higher volumes (of standard products) and, therefore, potential for a relatively larger share of the market. Segments of the women's clothing and the children's clothing sub-sectors have shown little tendency for concentration. However, as noted earlier, there are some advantages to smaller units. Similarly, a broader product mix can be an advantage in this dynamic, constantly changing, fashion-led market. Many of the more specialized units have expanded their production to include related goods, such as the pant manufacturers producing leisure suits and jackets and the shirt industry making T-shirts and sweatshirts.

With the large number of producers, the broad size distribution and the trend to diversification among large firms, no single company tends to dominate any particular section of the clothing market in

Canada. Under these circumstances competition among domestic producers, and between these and importers is keen and is reflected in lower price inflation than is generally recognized.

## Regional Distribution

There are clothing manufacturing firms in all regions of Canada. However, activity is concentrated in Quebec, Ontario and Manitoba.

TABLE 5

Regional Distribution of Establishments, 1975

| | Number | % | Employment | % |
|---|---|---|---|---|
| | | | (000) | |
| Quebec | 1,610 | 69.5 | 77.6 | 64.9 |
| Ontario | 504 | 21.7 | 27.7 | 23.2 |
| Manitoba | 100 | 4.3 | 6.9 | 5.8 |
| Other Provinces | 104 | 4.5 | 7.4 | 6.1 |
| Canada | 2,318 | 100.0 | 119.6 | 100.0 |

*Source: Statistics Canada.*

Quebec, the major centre, in 1975 accounted for nearly 70 per cent of establishments and 65 per cent of employment. Also, in Quebec the clothing industry is the major manufacturing employer and in Manitoba the second largest manufacturing employer, the shares of total employment in manufacturing being 12 per cent and 14 per cent respectively.

Generally, the overall industry in Quebec and Ontario has a relatively broad product mix in comparison to the other provinces. Nevertheless, in Manitoba and Alberta there are relatively large companies that specialize in outerwear and casual wear.

An estimated 75 per cent of production is carried out in the urban areas, primarily Montreal, Toronto and Winnipeg, which also constitute the major product markets. Coupled with the large labour pools available, this results in distinct advantages to locating in these centres. It should be noted, however, that some firms have established plants in smaller centres which are reasonably close to major markets. This is not a distinct trend, rather it may be a reflection of the shift of the residential communities, which supply much of secondary-worker labour force employed in the industry, to suburban and rural locations.

## Employment Characteristics

The apparel industry employs almost 120,000 workers, 90 per cent of whom are engaged in production and related activities. The industry has traditionally relied on new Canadians as a major source of labour. Nevertheless, a recent study by a sector of the industry revealed that more than 40 per cent of the employees are native-born Canadians. To some extent this may be a result of slowing immigration as well as improved opportunities within the industry providing a greater attraction for the indigenous population.

A large proportion of the work force is female – 75 per cent – a large number of whom are secondary workers. The clothing industry is the single largest employer of females among manufacturing industries, accounting for 20 per cent of female employment.

Skill requirements for some jobs are low at the entry level. However, through training and experience, operators become relatively skilled. Training is a significant labour-relations factor and the industry is able to absorb relatively unskilled and/or secondary workers and to provide career opportunities for those who might not otherwise find alternate employment because of mobility restrictions. While turnover of employees has been reported as high as 100 per cent, it is believed that much of this is related to intra-industry moves, thus minimizing the impact on the overall industry skill level.

Since 1973, a relative peak activity year, employment has declined by 5,200, or four per cent. This decline is believed to be a result principally of increased import penetration of markets and to a lesser degree productivity improvements.

## PRICES AND DISPOSABLE INCOME

In general, the consumer has benefited from a relatively lower rate of price increases and this, coupled with increasing disposable income, has resulted in a lower share of income going to clothing.

### Prices

From 1971 to 1976 the industry's selling price index (based on the men's clothing industry) increased by 54 per cent compared to almost 62 per cent for all manufacturing. Much of the increase took place prior to 1974, the rate of escalation having decreased more recently.

The industry selling price increases are attributable in large part to increases in input costs. Labour costs, a major component of overall cost, increased 80 per cent between 1971 and 1976. Similarly, material costs increased by 40 per cent. However, it should be noted that the rate of inflation of material inputs from the primary textile industry decreased after 1974 and this, coupled with increased import competition in clothing and primary textiles as well as the increasingly competitive nature of the 2,200 or so firms in the industry, has resulted in a reduced rate of price increase at the industry selling level.

At the retail (consumer) level, increases in the clothing component of the Consumer Price Index since 1961 have been less than those for the overall index. Not only has the clothing component of the index stayed below that for non-durables and all items excluding food but the garment-only portion of the clothing component has registered an even smaller increase of 37 per cent since 1971.

TABLE 6

Consumer Price Index — April 1977
(1971 = 100)

| | |
|---|---|
| All items | 171.2 |
| Food | 200.4 |
| All items excluding food | 161.2 |
| Non-durable items | 168.2 |
| Clothing | 143.2 |
| — Men's | 140.2 |
| — Women's | 135.4 |
| — Children's | 136.8 |
| — Infants' | 154.7 |
| Clothing — Garments only | 137.3 |

It is impossible to segregate the domestic manufactured and import components of these indices. However, the import price index for apparel has risen by 87.6 per cent since 1971.

### Clothing Expenditures

Since 1970 the share of disposable income allocated to clothing expenditures has decreased.

TABLE 7

Clothing Expenditures

| | *Consumer Expenditures* | | *Per cent of Disposable Income* |
|---|---|---|---|
| | *Total*[1] | *Per Capita* | |
| | *($Million current)* | | |
| 1970 | 3,381 | $158 | 6.2 |
| 1971 | 3,669 | 170 | 6.1 |
| 1972 | 4,078 | 187 | 6.0 |
| 1973 | 4,743 | 215 | 6.0 |
| 1974 | 5,586 | 249 | 6.0 |
| 1975 | 6,362 | 279 | 5.9 |

[1] *in $Millions*
*Source: Statistics Canada*

The decline, based on current dollars, may be attributed to a number of factors, some of which are:

1. Clothing is a basic necessity which, once filled at the minimum level, no longer commands as important a position in additional expenditures out of an increasing disposable income;
2. Relative price stability in this sector, the costs of other basic necessities having increased more rapidly.

## EXPORTS

Despite efforts by the industry to establish markets outside Canada, to date the share of production exported has not exceeded about five per cent. Nevertheless, the dollar value involved is significant, having exceeded $100 million in each of the years from 1973 through 1977.

### Background

The Canadian apparel industry has not been a major exporter. In 1976 it exported only 2.3 per cent of its non-fur shipments. Until 1975 the industry had been fairly successful in developing world markets and increased its non-fur exports by 23 per cent over the 1970 level. Between 1974 to 1976 non-fur exports declined by 26 per cent due, in part, to increasing production costs relative to other world producers, reducing the relative competitiveness of Canadian goods. However in 1977 exports (non-fur) increased by 15 per cent over 1976 levels to $76.1 million. Domestic producers seeking to penetrate the United States market have been hampered by complicated import requirements and somewhat different American buying practices. Those manufacturers developing European markets have been faced with changing import restrictions under the expanded EEC.

TABLE 8

Clothing Exports ($Millions)

| | *Fur Clothing* | | *Other Clothing* | | *Total Clothing* | |
|---|---|---|---|---|---|---|
| | *Am't* | *% of Shipments* | *Am't* | *% of Shipments* | *Am't* | *% of Shipments* |
| 1970 | 19.4 | 29 | 55.7 | 2.8 | 75.1 | 4.6 |
| 1971 | 17.4 | 25 | 65.9 | 4.1 | 83.3 | 4.7 |
| 1972 | 20.2 | 25 | 72.5 | 3.9 | 92.7 | 4.8 |
| 1973 | 29.6 | 20 | 86.9 | 4.2 | 116.5 | 5.4 |
| 1974 | 34.9 | 20 | 89.7 | 3.9 | 124.6 | 5.1 |
| 1975 | 36.5 | 26 | 68.6 | 2.9 | 105.1 | 3.9 |
| 1976 | 40.7 | 25 | 66.0 | 2.3 | 106.7 | 3.6 |
| 1977 | 48.0 | n.a. | 76.1 | n.a. | 124.1 | 3.9(e) |

(e) *ITC Estimate.*

*Source: Statistics Canada: Export by Commodity.*

### Principal Exported Products

The industry's principal exports are concentrated in furs and outerwear, which in 1977 accounted for 39 per cent and 26 per cent of total exports respectively (Table 9).

TABLE 9

Principal Clothing Exports ($Millions) 1977

| | *Amount* | *% of Total* |
|---|---|---|
| Fur goods | $ 48.0 | 39 |
| Overcoats | 17.8 | 14 |
| Outdoor jackets | 15.1 | 12 |
| Suits, men's | 7.0 | 6 |
| Other | 36.2 | 29 |
| Total | $124.1 | 100 |

*Source: Statistics Canada*

### Major Export Markets

The United States is the main export market for Canadian-made clothing. In recent years inroads have been made into Europe. Nevertheless, the United States remains the most promising market because of proximity, similarity of tastes and high standard of living. In 1977, $69.0 million, or 56 per cent of apparel exports were to the United States.

## FOREIGN OWNERSHIP

The industry is predominantly Canadian-owned, with an estimated 35 foreign-owned companies (0.2 per cent). The foreign-owned firms tend to be larger than average and account for an estimated 10 per cent of total industry shipments. Although there have been some takeovers of established Canadian companies, many of the foreign-owned companies are part of multinational firms which have established their own production facilities in Canada. These firms tend to be concentrated in, and dominate the jeans, foundation garments and work gloves sub-sectors.

In 1973, the ratio of assets under Canadian control for the clothing industry was 82.8 per cent, ranging from 23.5 per cent of the assets in the foundation garment industry to 100 per cent in the fur goods industry.

## VERTICAL INTEGRATION

By its very nature the industry is not highly integrated. Most of the firms purchase their materials (fabrics, yarns and other supplies) from other manufacturers rather than make their own, and sell their goods to retailers rather than operating in this downstream function. To some extent this lack of integration is because of the broad range of inputs necessary which are better satisfied by having access to numerous primary producers, and because of the style, variety and different management expertise involved in retail operations.

Nevertheless, some integration is apparent. For example, there are some retailers involved in domestic manufacturing facilities. Moreover, knitwear manufacturers are integrated from the yarn stage (rather than from fabric as in the case of the other clothing producers) and one firm is spinning some of its own yarns.

## THE NATURE OF FINANCE IN THE APPAREL INDUSTRY

Based on selected financial criteria, the industry maintained its profit position between 1972 and 1975. To some extent this performance may be attributable to the general economic improvement which took place during that time. However, more recently and in particular in 1976, the industry has reported a deteriorating profit situation as a result of intensified import competition from low-cost sources. This led to underutilized production capacity, increased overhead costs and inventory write-downs.

TABLE 10

Clothing and Industry and All Manufacturing
Financial Ratios, Canada, 1972-75

| | *1972* | | *1973* | | *1974* | | *1975* | |
|---|---|---|---|---|---|---|---|---|
| | *Clo.* | *Mfg.* | *Clo.* | *Mfg.* | *Clo.* | *Mfg.* | *Clo.* | *Mfg.* |
| Working capital ratio | 1.6 | 1.7 | 1.6 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Debt/equity | 9.6 | 22.6 | 11.1 | 20.5 | 11.0 | 21.2 | 9.5 | 22.2 |
| Cost of sales/sales | 79.4 | 78.8 | 78.4 | 78.2 | 74.8 | 77.6 | 80.7 | 78.2 |
| Profit/sales* | 2.4 | 3.9 | 2.8 | 5.3 | 2.5 | 5.3 | 2.5 | 4.3 |
| Profit/equity | 9.9 | 8.7 | 11.4 | 12.7 | 11.4 | 14.2 | 10.7 | 11.0 |
| Profit/capital employed | 9.0 | 6.6 | 10.3 | 9.8 | 10.3 | 10.8 | 9.5 | 8.2 |

*Source: Statistics Canada*
**After tax*

The industry debt/equity ratio in 1975 ranged from 2.7 to 14.1, and on average is significantly lower than that of all secondary manufacturing.

TABLE 11

Canadian Clothing Industry
Financial Ratios by Product Group, 1975

| | *Men's Clothing* | *Women's Clothing* | *Fur Goods* | *Foundation Garments* | *Other Clothing* | *Hosiery* | *Other Knitting*[1] |
|---|---|---|---|---|---|---|---|
| Working capital ratio | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 2.0 | 1.5 |
| Debt/equity | 8.7 | 7.1 | 13.5 | 2.7 | 14.1 | 7.0 | 13.4 |
| Cost of sales/sales | 79.9 | 81.2 | 83.2 | 70.8 | 81.0 | 83.2 | 81.8 |
| Profit/sales[2] | 2.1 | 2.9 | 3.1 | 3.2 | 2.9 | 3.5 | 1.4 |
| Profit/equity[2] | 9.1 | 17.2 | 16.1 | 8.0 | 14.0 | 10.3 | 4.4 |
| Profit/capital employed[2] | 8.2 | 15.8 | 14.1 | 7.6 | 12.2 | 9.4 | 3.7 |

*Source: Statistics Canada*
[1] *Includes knit fabric manufacturers*
[2] *After tax*

The financial ratios of fixed assets, current debt and total debt, each in relation to tangible net worth, show significant differences from secondary manufacturing; the first being lower for the clothing industry, the latter two significantly higher. These figures indicate significantly lower fixed assets held by the clothing industry and greater utilization of short-term credit. They also reflect the higher risk assessment of the industry by lenders and investors which in turn seriously affects its ability to attract the long-term capital required for expansion, modernization and productivity improvement.

## THE NATURE OF AN APPAREL PRODUCT

In order to meet the demands caused by rapidly changing fashions, manufacturers must frequently adapt their products. In the women's clothing sub-sector, product lines are changed up to four times a year.

Products from the apparel industry are highly differentiated by fashion, style, quality, brand or designer names and services. Standardization is not as prevalent as it is in many other secondary manufacturing industries.

Within a given price range consumers judge garments on a number of bases which determine the acceptability of the product. Among these are styling, durability, fit, quality, fibre content and brand name.

## FACTORS AFFECTING CANADIAN APPAREL COMPETITIVENESS

Various factors, such as material and labour costs, management capability and industry productivity, have a significant influence on the ability of the industry to compete with goods from foreign suppliers.

### Cost of Materials

Raw material costs, of which fabrics are the main component, account for 40 to 50 per cent of the Canadian industry's selling price. It is estimated that in 1974 more than 400 million square yards of fabric worth about one billion dollars were used by the industry. At least half of this was imported, and of these imports most were from developed sources. Imports are obviously an important supply factor.

The producers would normally prefer to obtain fabrics from domestic sources because this would enable them to be closer to their source of supply and would eliminate the need for long-term commitments to foreign suppliers.

Nevertheless, the apparel industry must have ready access to a broad range of fabrics and styles in order to meet market demand. Domestic fabric producers are rather limited in number (see Appendix B) and, in order to produce on the most economical basis possible, do not manufacture the range of styles and qualities required by the clothing sectors. Moreover, where there is fabric production in Canada, the prices reflect the higher costs associated with relatively short production runs.

Tariffs also play a role in material costs. Imported material costs are raised above world levels by the amount of the tariff, and domestic material, when available, is often priced to the landed cost of similar foreign goods (Appendix C, Appendix D).

The limited fabric availability in Canada, higher prices and the impact of tariffs all combine to increase the material costs for Canadian clothing producers relative to those elsewhere.

## Labour

### *Labour Costs*

Labour costs, which vary widely according to the product, represent approximately 25 per cent of production costs on average. Aggregate wages in the apparel industry historically have been lower than those of secondary manufacturing. This pattern is also prevalent in most other industrialized countries (Table 12, Appendix E).

TABLE 12

Average Hourly Earnings ($)

| | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* | *1977*[(r)] |
|---|---|---|---|---|---|---|---|---|
| Clothing | 2.00 | 2.18 | 2.35 | 2.54 | 2.90 | 3.40 | 3.86 | 4.23 |
| Non-durable | 2.77 | 3.02 | 3.25 | 3.52 | 4.03 | 4.68 | 5.36 | 5.94 |
| Durable | 3.25 | 3.55 | 3.82 | 4.17 | 4.69 | 5.41 | 6.13 | 6.80 |
| All manufacturing | 3.01 | 3.28 | 3.54 | 3.85 | 4.37 | 5.06 | 5.75 | 6.38 |

[(r)] *ITC Estimate.*
*Source: Statistics Canada — Canadian Statistical Review*

### *Labour-Management Relations*

The majority of workers in the industry have union affiliation and the principal union demands in recent years have been for increased wages, a shorter work week and greater job security. In the last few years there have been few extended disruptions or other major confrontations between labour and management.

## Management Capability

The larger companies in the industry generally have specialized senior management and thereby benefit from the advantages related to division of work. Smaller firms have not, to any great extent, attracted specialists, but their size and the generalist nature of their managements enable them to compensate, to a degree, by their flexibility. The industry as a whole could, nevertheless, benefit from use of more highly trained managers at the middle level. One area in which use of professionals has increased is design and the industry now employs a significant number of designers.

## Productivity (Output Per Man-Hour)

### *Productivity Comparison (Based on Value Added per Man-Hour) Between Canadian Manufacturing and Clothing Industry*

In the period 1969-73, the Canadian clothing industry increased its value added per man-hour by 39.1 per cent as compared to 37 per cent for secondary manufacturing in Canada. The productivity of the U.S. apparel industry, with which the Canadian industry should be able to compete, is higher than that of the Canadian apparel industry but the productivity gap narrowed between 1969-73 (Table 13).

TABLE 13

Labour Productivity*

| | Clothing | | | Manufacturing | | | % Clothing /Mfg. | |
|---|---|---|---|---|---|---|---|---|
| | U.S. | Can. | U.S. % Can. | U.S. | Can. | U.S. % Can. | U.S. | Can. |
| 1969 | $5.15 | $3.86 | 133.4 | $10.65 | $ 9.11 | 116.9 | 48.35 | 42.4 |
| 1973 | $6.49 | $5.37 | 120.9 | $14.42 | $12.48 | 115.5 | 45 | 43 |
| Growth | 26% | 39.1% | — | 35.4% | 37% | | | |

*Source: Yearbook of Industrial Statistics (1974) United Nations*
**Value added per production man-hour in U.S. $*

*Productivity Comparisons (1971-76)*

Since 1971 (to 1976) productivity, based on output per man-hour, has increased by an estimated 11.5 per cent and 9.4 per cent for the clothing and knitting industries respectively.

TABLE 14

Canadian Labour Productivity
(Output per Man-hour)
(1971 = 100)

| | Clothing | Knitting |
|---|---|---|
| 1971 | 100.0 | 100.0 |
| 1972 | 102.1 | 103.3 |
| 1973 | 108.0 | 106.2 |
| 1974 | 110.0 | 103.7 |
| 1975 | 108.7 | 104.1(e) |
| 1976 | 111.5(e) | 109.4(e) |

(e) Estimates of ITC computed from an annual index of real domestic product, by annual index of man-hours paid.
*Source: Statistics Canada*

The increases in productivity have been, in large measure, attributable to improvements in basic engineering, the restructuring initiatives assumed by many of the larger and more progressive companies, and the shift to products requiring less labour content (jeans, unstructured suits, T-shirts, etc.).

*Productivity by Size of Firm*

Although statistics indicate that the value added per man-hour is higher among establishments with less than 50 employees, this indicator of productivity performance must be considered with caution. The higher value added of this segment of the industry may be due to the tendency of smaller companies to concentrate on the production of more distinctive, higher-priced apparel and, as a result, to obtain a higher mark-up.

*Non-Quantifiable Factors Affecting Productivity*

A large number of factors, both quantitative and qualitative, interrelate to affect productivity. The industry's low level of productivity, in relation to secondary manufacturing generally, is attributable to the nature of the industry's operations, its structure and its ownership. These non-quantifiable elements are characterized by:

(i) The manufacture of a vast variety of products involving multiple operations, e.g. an entire line of dresses, composed of 25 dresses in six colours and eight sizes, amounts to 1,200 different articles;
(ii) The need to change product lines in order to respond to the seasonal nature of demand and fashion changes;
(iii) The nature of the equipment which centres principally around the basic sewing machine;
(iv) Production processes which involve extensive material handling;
(v) Shortages of key personnel and skilled workers, employee turnover, and the continued need for in-house training.

*Productivity Initiatives*

Private consultant studies have identified significant opportunities to improve productivity by modernizing production facilities, improving production systems and processes, upgrading conventional equipment by use of work aides and attachments, and better material handling. Where companies have assumed initiatives in this direction they have achieved labour savings of as high as 30 per cent.

Since 1971, 91 firms have utilized the federal government Program to Enhance Productivity (PEP). However, many applicants have not implemented the consultants' recommendations, possibly because of uncertain markets or long pay-back periods for the required investment.

On the other hand, numerous large companies have restructured their operations independent of government assistance, and this has enabled them to achieve significant productivity gains.

*Productivity Trends*

Apparel manufacturing consists of the cutting, sewing and finishing of fabric and the knitting of fabrics used in the making of garments. Generally, the cutting and sewing of apparel has a high labour content and is expected to remain labour-intensive. However, knitting is a more highly automated process and is relatively more capital-intensive than cut and sew production.

Productivity improvements in the context of substituting capital for labour is limited by the production process, the handling of limp fabrics, the lack of continuity in garment styles, and the limited flexibility of advanced technology. In addition, for the foreseeable future the industry is expected to rely primarily on conventional equipment since most of the mechanized technology is generally geared to staple product areas where there is large volume production. Also, most firms cannot economically justify the use of high-cost advanced equipment, e.g. computerized marking and grading and robot sewing.

## INVESTMENT

Due to the relatively labour-intensive nature of production in the industry (in Canada and throughout the world) capital costs are neither a barrier to the entry of new firms nor to the expansion of existing facilities. Between 1970-76, the industry invested more than $180 million in machinery and equipment. About 50 per cent of the aggregate investment was for knitting machinery due to the market growth in this product area which occurred during the early 1970s. Keeping in mind that about 85 per cent of the industry's premises are leased, the average investment per employee in Canada, between 1970-73, was $151, as compared to $158 in Britain, $187 in the U.S., $272 in Sweden, $301 in Germany and $606 in Japan. It is estimated that about $1,500 to $2,000 are required to modernize a work station, implying that an investment of $75,000 to $100,000 is required for a viable operation of 50 employees.

The relatively low level of investment in the industry is due to a number of factors. First, the uncertainty caused by increasing imports has inhibited the the initiation of long-term planning procedures required in order to revitalize and restructure operations. Second, the greater number of apparel firms in developed countries having larger markets are better able to utilize technology geared to large-scale operations.

In the past, investment was financed from internally generated funds and capital cost allowances. Although profits in the early 1970s were higher in relation to previous years, the industry still did not reinvest to the extent of clothing industries in other developed countries. It appears that investment confidence declined due to economic uncertainty and producers tended to extend the life of existing equipment rather than to upgrade machinery.

## RETAIL STRUCTURE

Although there are 17,000 retail establishments, the major chain and department stores account for 58 per cent of apparel retail sales (Table 15). Department and chain stores can buy directly from the manufacturer, the importer, or they can import for themselves. Although the department and chain

stores represent less than one per cent of all importers, they account for 15 per cent of imports. Their relatively high concentration of buying power in relation to the number of apparel firms leaves the latter more vulnerable to any shift in the buying or marketing practices of the buyers.

Since most retailers prefer to maintain continuity in their sources of supply, they will normally buy from a manufacturer who can meet their requirements and standards in quality, delivery, quantities, price and after-sales service. Historically, the major exporting foreign companies have been oriented primarily to producing large quantities of staple items but recently these foreign manufacturers have become more fashion oriented and are exporting better styled garments in the medium price range. Accordingly, competition for retail exposure of Canadian manufactured apparel in its principal market area has increased significantly.

TABLE 15

Estimated Clothing Market Share (%)

| | *1970* | *1972* | *1974* | *1976* | *1977* |
|---|---|---|---|---|---|
| Clothing chain stores | 11.6 | 15.6 | 16.7 | 19.9 | 20.6 |
| Clothing independents | 35.3 | 30.8 | 27.4 | 25.8 | 24.5 |
| Department | 31.7 | 33.7 | 34.1 | 34.1 | 37.6 |
| All other[1] | 21.6 | 19.8 | 21.9 | 20.3 | 17.3 |
| Department and chain | 43.3 | 49.3 | 50.8 | 54.0 | 58.2 |
| TOTAL MARKET ($billion) | 3.0 | 3.5 | 4.5 | 5.7 | 6.0 |

[1] *Includes: general merchandise and variety stores (includes mail order)*
*Source: ITC estimates based on Statistics Canada Catalogues 63-005, 63-002, 63-526.*

## PRINCIPAL MARKET STATISTICS

TABLE 16

Principal Market Statistics
Clothing Industry

| | *1970* | *1971* | *1972* | *1973* | *1974* | *1975* | *1976* |
|---|---|---|---|---|---|---|---|
| Establishments | 2,450 | 2,417 | 2,393 | 2,355 | 2,408 | 2,318 | 2,235 [p] |
| Employment (000's) | 117.8 | 118.5 | 122.1 | 124.7 | 121.4 | 119.6 | 119.5[p] |
| Shipments ($Millions) | 1,651.5 | 1,777.5 | 1,948.1 | 2,159.4 | 2,433.6 | 2,699.5 | 2,977.4[p] |
| Exports ($Millions) | 75.1 | 83.3 | 92.7 | 116.5 | 124.6 | 105.1 | 106.7 |
| Imports[1] ($Millions) | 204.3 | 237.7 | 330.8 | 405.8 | 511.7 | 616.6 | 881.4 |
| Apparent Canadian Market ($Millions) | 1,780.7 | 1,931.9 | 2,186.3 | 2,448.7 | 2,820.6 | 3,211.0 | 3,752.1 |
| Imports as a percentage of apparent Canadian market (value) | 11.5% | 12.3% | 15.1% | 16.6% | 18.1% | 19.2% | 23.5% |
| Exports as a percentage of shipments | 4.5% | 4.7% | 4.8% | 5.4% | 5.1% | 3.9% | 3.6% |
| Industry selling price (1971-100) | | | | | | | |
| Clothing[2] | 96.4 | 100.0 | 102.6 | 110.4 | 128.6 | 142.1 | 154.1 |
| Knitting | 98.0 | 100.0 | 102.1 | 108.6 | 129.9 | 135.7 | 143.0 |

[1] *F.O.B.value and duty*
[2] *Based on men's clothing*
[p] *Preliminary: Statistics Canada*

*This table should be treated with caution since some manufacturers may have included resale of imports in their domestic shipments.*

## IMPORT PENETRATION

### Market Structure: Import Market Share

Canadian clothing imports originate from at least 80 countries. Since 1974, despite tariff protection of 22½ per cent to 27½ per cent and the imposition of certain import restrictions, domestic producers

have been losing a growing share of the domestic market to imports. In 1976, imports had an estimated 43 per cent of the market (in units) compared to 25 per cent in 1971. However, the extent of the import disruption has been particularly high in certain product areas, particularly in sweaters, shirts and sweatshirts. Although imports were distributed over a broad range of products in 1976, 70 per cent was concentrated in the following areas:

TABLE 17

Principal Imports (1976)

| | *Millions (Units)* | *Market Share** |
|---|---|---|
| Sweaters | 42.5 | 58% |
| Pants | 41.8 | 41% |
| Hosiery | 40.8 | NA |
| Gloves | 39.4 | 53% |
| Shirts and sweatshirts (knit) | 35.1 | 74% |
| Blouses | 23.9 | 49% |
| T-shirts | 23.0 | 59% |
| Shirts (ex. knit) | 18.9 | 55% |

**Clothing imports as a percentage of Canadian market (units)*
*Source: ITC estimates*

## Import Trends

As import pressures increased, the domestic industry responded by broadening its product mix, vacating low-end markets, improving styling capability and, to a lesser extent, developing export markets. In 1976, 389.4 million units of apparel were imported into Canada as compared to 242.2 million in 1972. Seventy-eight per cent of this growth or 115.5 million units occurred in 1976, during which imports rose by 42 per cent.

However the introduction of global quotas in November 1976 helped contain the import growth that had occurred steadily during the period 1973-6. In 1977 imports declined by 85.9 million units — or 22 per cent - to 303.5 million units.

TABLE 18

Apparel Imports into Canada
(in Millions of Units), 1972-7

| | *LOW COST* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Taiwan* | *Hong Kong* | *South Korea* | *Rep. of China* | *Other* | *Total* | *Developed Countries* | *Total Imports* |
| 1972 | 56.6 | 48.1 | 22.4 | 23.0 | 27.7 | 177.8 | 64.4 | 242.2 |
| 1973 | 56.4 | 38.0 | 30.7 | 24.4 | 31.3 | 180.8 | 53.7 | 234.5 |
| 1974 | 47.8 | 39.7 | 33.3 | 22.7 | 45.4 | 188.9 | 58.3 | 247.2 |
| 1975 | 58.8 | 51.3 | 38.4 | 20.2 | 44.9 | 213.6 | 60.3 | 273.9 |
| 1976 | 80.5 | 73.3 | 65.1 | 41.8 | 51.8 | 312.5 | 76.9 | 389.4 |
| 1977 | 55.5 | 54.8 | 54.5 | 32.3 | 40.2 | 237.7 | 65.8 | 303.5 |

*Source: Statistics Canada — Imports by Commodities*

## Factors Affecting the Acceleration of Imports

The dynamics that have contributed to the import growth include:

(1) The increase in the number of low-cost exporting countries (e.g. the Philippines, Singapore, Macao).
(2) The increased importing activity by retailers.
(3) The upgrading of the design and quality of imports.
(4) Brand names and "Paris" labels produced for the volume market are becoming more in vogue, domestically, and are affording developed countries increasing export opportunities.
(5) Domestic apparel manufacturers import certain finished articles in order to maintain a competitive position.

### Low-Cost Import Penetration in Major Developed Countries

On a per capita basis, import penetration is equal to or higher than in many developed countries with an important textile and clothing industry, such as France, Britain, Italy and the United States. Also a large proportion of Canada's total imports originate in low-cost countries.

TABLE 19
PER CAPITA LOW-COST APPAREL IMPORTS [1]
1975

| | *U.S.* | *Low-cost as % Imports* |
|---|---|---|
| West Germany | 27.59 | 49 |
| The Netherlands | 27.47 | 29 |
| Sweden | 24.43 | 31 |
| Denmark | 17.73 | 39 |
| Britain | 12.27 | 62 |
| Canada | 12.07 | 61 |
| Belgium-Luxembourg | 10.08 | 13 |
| United States | 9.75 | 82 |
| France | 5.70 | 34 |
| Italy | 1.73 | 44 |

[1] *excluding furs (SITC 842).*

*Note that Canada and U.S. are F.O.B. while all others are C.I.F.*

*Source: 1) OECD Statistics of Foreign Trade, Series C, Trade By Commodities Jan.-Dec. 1975, Vol. 1, SITC 84 and 842.*

*2) United Nations Monthly Bulletin of Statistics — Year End, 1975 Population.*

## INTERNATIONAL ENVIRONMENT

Throughout the world, production of clothing accounts for about four per cent of all manufacturing activity. This share has been declining since 1963 despite an increase of 58 per cent in the output between 1963 and 1974, as total world manufacturing activity rose even faster under the influence of new technology in products and processes.

Nevertheless, a distinct underlying trend is behind the growth in activity, this trend being the explosive increase in the significance of the developing nations. In 1963, developing and state-trading countries accounted for about 38 per cent of value-added in clothing manufacture in the world. By 1974, the share of value-added in these countries had increased to 51 per cent.

It is important to note that the growth in importance of the developing countries as clothing producers has not been accompanied by a similar growth in their consumption. In other words, the developing countries are net exporters of clothing. Moreover, the growth in their positive balance of trade in clothing has increased substantially. For example, between 1970 and 1974 two of the chief exporters, Hong Kong and Korea, increased their positive trade balances 142 per cent ($932 million) and 350 per cent ($736 million) respectively, while the European Community, the United States, Canada, Japan and the Soviet Union all experienced large increases in their clothing trade deficits. Between 1963 and 1974, the developing and state-trading countries increased their share of the world clothing exports from about 25 per cent to 67 per cent.

There are a number of factors contributing to the growth in significance of developing countries as major clothing exporters. One of these is the trend to man-made fibres. Production of man-made fibres is essentially a high-technology, highly capital-intensive process. Development of man-made fibres in the early post-World War II period was concentrated in industrial centres such as the United States. The developing countries did not have, and to some extent still do not have, the industrial infrastructure to establish such industries. However their burgeoning populations, especially in the Pacific Rim countries, could be easily adapted to the more labour-intensive "cut and sew" operations of apparel manufacturing and the relative surplus of labour would keep wages at low levels, providing a strong relative cost advantage vis-à-vis the more advanced nations. In this regard it is interesting also to note

that most of the major developing countries with net positive export balances in clothing have trade deficits in textile products. In other words, they tend to import textile materials for manufacture into clothing.

The developing countries have been establishing man-made fibre industries. However, the early lead gained by the industrialized nations coupled with various measures introduced by them to protect the industries have reduced the opportunities of the developing countries to export textile goods. Instead the latter have taken the initiative to fully upgrade their textile production to the apparel level and to thereby skirt existing textile restrictions.

The predominance of developing and state-trading countries among the main sources of clothing in the world has led developed countries with apparel industries to react sharply. The reaction has been particularly marked by the fact that, while in the immediate postwar period imports of clothing from low-cost countries were chiefly of natural fibres, a field which the developed countries were tending to divest themselves of because of rising costs, later on clothing imports increasingly were of man-made origin, thus infringing on a secondary manufacturing sector which had been relatively protected. The reactions to this have ranged from negotiation of restraint arrangements to imposition of unilateral quotas against the exporting countries. More recently, renewal of the Arrangement Regarding International Trade in Textiles has been predicated on the developed countries obtaining concessions enabling them to restrict entry or the growth of low-cost imports into their areas.

## GOVERNMENT INVOLVEMENT

Government involvement in the industry can, for the purposes of this paper, be conveniently divided in to two main time periods: before 1970, and 1970 and after.

### Before 1970

Prior to 1970, the involvement of the Canadian government in the textile and clothing industries was very limited in comparison with other importing countries. Taking into account the per capita imports and market penetration, Canada remained one of the most open countries in the world. The textile industry's long-term prospects were being gradually eroded by the influx of imports, particularly from low-wage countries which depended on exports to absorb a major portion of their production. These imports entered Canada at substantially lower prices than comparable Canadian products. Government involvement in the form of special measures of protection primarily for the textiles sector commenced in the late 1950s, when Japan voluntarily undertook to limit its exports to Canada for certain products. These export restraints were formalized through bilateral negotiations in 1960 at which time they covered bedsheets, pillowcases, bedspreads, cotton fabrics, nylon fabrics (1961), elastic braid and webbing. Also, a number of garment items were placed under restraint at that time. In later years, other low-cost countries and products were made subject to such restraints, some of which were renewed annually for extended periods of time. In certain instances, where unilateral action was required to deal with disruptive textiles imports, the government imposed surtaxes. This was used on six occasions, one of which had global application.

As more of the developing countries began exporting low-cost textile and clothing products to the Canadian market, the domestic industry claimed that the lack of a firm government policy to deal with these problems created a climate of uncertainty in the industry resulting in disruption and dislocation. This uncertainty and disruption undermined the further investment in expansion, modernization or restructuring necessary to deal with the increasing import penetration.

### 1970 and After

The Government introduced a national Textile Policy in May 1970. The purpose of this policy was to create conditions in which the Canadian textile and clothing industries could continue to move progressively towards viable lines of production on an increasingly competitive basis internationally. The policy comprised elements designed to foster development and efficiency in the Canadian industry and to accord special measures of protection against low-cost imports in cases of serious injury or threat thereof, subject to the submission of acceptable adjustment and restructuring plans by the affected companies. However, the policy precluded the use of such measures of protection to

encourage the maintenance of lines of production which had no prospect of becoming viable in the years ahead. Specifically, the Textile Policy comprised the following elements:

**(1) Commercial Policy Measures:**

- — rationalization of the textile tariff, including the removal of existing anomalies (whereby greater protection is given to some fabrics than to the garments from which they are made);
- — improved methods of investigating dumped or subsidized textile imports to enable more effective use of the anti-dumping and countervail legislation;
- — improved data-gathering capability through amendments to the Customs and Statistics Acts to obtain better and more current information on textile imports, employment and production;
- — a "low-cost" import policy, embodying the establishment of the Textile and Clothing Board to make formal, non-appealable determinations of serious injury or the threat of injury, to assess the merit and acceptability of companies' plans for adjustment and restructuring to improve their competitive position vis-à-vis low-cost imports, and to recommend to government appropriate measures of special protection and their duration. Such measures would preferably be applied by means of voluntary restraint agreements. However, unilateral measures, such as global import quotas, could be applied in special circumstances under the Export and Import Permits Act.

**(2) Financial Support Measures:**

- — broadening the coverage of the General Adjustment Assistance Program (GAAP) with respect to the textile and clothing industries to assist in the implementation of the approved restructuring plans and to provide special assistance in cases of injury;
- — full utilization of the programs of the Department of Employment and Immigration, and Labour and, under certain conditions, additional financial assistance to the affected or dislocated workers.

**(3) Technical and Promotional Support Measures:**

- — the establishment of Development and Productivity Centres for the textile and clothing industries;
- — the establishment of a Fashion-Design Assistance Program;
- — additional resources to promote textile and clothing exports by means of shows, fairs, displays, missions, etc.

The central feature of Canada's new textile policy was the establishment of the Textile and Clothing Board as an independent body responsible for enquiries into situations involving possible injury to Canadian companies and workers. The terms of reference of the Board in conducting injury investigations and the instruments designed to implement board recommendations are consistent with the principles relating to serious injury and market disruption contained in the General Agreement on Tariffs and Trade (GATT) and the Arrangement Regarding International Trade in Textiles (ITA), respectively. The Board's recommendations for any special measures of protection must be linked not only to proven serious injury or threat thereof, but also to evidence that domestic producers have prospects of continued viability and competitiveness in the Canadian market. Following submission of a Board report, the Government decides what action, if any, is to be taken in respect to any recommendations the Board has made.

Most of the elements of these measures have been, or are being, implemented. The following is a summary of the more significant actions related to government involvement in the clothing sector.

(1) An adjustment assistance program has been implemented in conjunction with the Department of Labour and the Unemployment Insurance Commission to provide early retirement and extended unemployment benefits to workers whose jobs are terminated as a result of a restructuring of a firm in line with basic objectives of the Textile Policy.

(2) The departmental programs, especially GAAP, were extended and expanded to encompass the clothing sector; $9.8 million was disbursed or guaranteed in the sector under GAAP. The industry has also benefited from other programs, including PEP ($629,000 in grants) and the training programs of the Department of Employment and Immigration. These programs have been subsumed by the Enterprise Development Program.

(3) The Government has made use of low-cost restrictive measures provided for in the Policy. Since 1970 the Textile and Clothing Board has carried out 58 inquiries or review of textile and clothing items. During the first five years or so, textiles exported by low-cost sources still posed the major threat to Canadian industries and therefore the Board's attention and Government actions were focused on this sector. Since 1975, however, the low-cost exporters have undertaken major initiatives to export more highly upgraded products, that is, clothing. Correspondingly, the threat and the Board's work were more concentrated in this direction. Following a number of actions on work gloves, sweaters and hosiery, the Board carried out a major inquiry into the overall clothing situation. This inquiry culminated in November 1976 in a global import quota on virtually all clothing items, rolling back the quantity of imports in 1977 (and subsequently 1978) to the 1975 level.

(4) In December of 1977, the federal government announced an extension of global quotas on clothing to December 31, 1978, with a continuation of discussions on bilateral agreements with the aim of replacing the global quotas with three-year bilateral arrangements effective January 1979.

(5) Federal funding has also been provided for export development, manpower training, design development and a productivity centre.

# APPENDIX A

| *Sub-sector* | *Primary Products* |
|---|---|
| *Men's Clothing* | |
| Men's fine clothing | Suits, sport jackets, co-ordinates, overcoats and topcoats |
| Odd pants | Pants, shorts, jeans |
| Outerwear | Leather jackets and coats, raincoats, parkas, windbreakers, short coats, skiwear |
| Work clothing | Industrial clothing, uniforms, overalls, and work pants, work shirts |
| Shirts | Dress and sport shirts, T-shirts, pyjamas |
| Neckwear | Ties and scarves |
| *Women's Clothing* | |
| Cloak and suit industry | Suits, coats |
| Dresses | Dresses, co-ordinates |
| Sportswear | Blouses, tops, skirts, slacks, jeans, co-ordinates |
| Lingerie and sleepwear | Lingerie, pyjamas, nightgowns |
| Outerwear | Skiwear, leather jackets and coats |
| | Short coats, rainwear |
| *Children's Clothing* | Children's outerwear and innerwear |
| *Foundation Garments* | Girdles, bras |
| *Knitters* | Sweaters, T-shirts, underwear |
| *Fur Goods* | Furs |
| *Gloves* | Dress and work gloves |
| *Hosiery* | Socks and hosiery |

# APPENDIX B

Number of Major Canadian Apparel Fabric Producers

| *Fabric type* | *Number of Major Producers* |
|---|---|
| All cotton woven (ex. denim) | 1 |
| Denim | 1 |
| Polyester/cotton woven | 1 |
| Rayon and/or acetate linings | 3 |
| Corduroy | 3 |
| Nylon, woven | 2 |
| Polyester, woven | 3 |
| Wool, woven | 9 |
| Worsted, woven | 6 |
| Knit (double and warp knits) | 71 |

## APPENDIX C

Principal Canadian Clothing Rates of Duty on Apparel

| *Tariff Item* | | *MFN* |
|---|---|---|
| 52305-1 | Made from woven fabrics wholly of cotton | 22 1/2% |
| 53305-1 | Made from woven fabrics.<br>Composed wholly or in part of wool or hair<br>Where the textile component thereof is not more than 50 per cent by weight of silk | 25% |
| 56300-1 | Made from woven fabrics, the textile component of which<br>is 50 per cent or more by weight of man-made fibres | 25% |
| 56805-1 | Knitted garments | 27 1/2% |
| 61120-1 | Leather garments | 22 1/2% |

Rates of Duty for Selected Countries

| *Country* | *Men's and Boys' Outer Garments* | *Women's, Girls' and Infants' Outer Garments* |
|---|---|---|
| | *Average Tariffs* | |
| U.S. | 26.8 | 20.7 |
| Canada | 23.6 | 22.5 |
| Japan | 17.5 | 20.2 |
| EEC | 17.0 | 13.8 |
| Sweden | 13.0 | 15.0 |
| Switzerland | 10.8 | 9.0 |
| | *Range of Tariffs* | |
| U.S. | 7.5—42.5 | 7.5—42.5 |
| Canada | 10.0—25.0 | 15.0—25.0 |
| Japan | 17.5—28.0 | 17.5—28.0 |
| EEC | 17.0 | 10.5—17.0 |
| Sweden | 13.0—17.0 | 13.0—17.0 |
| Switzerland | 7.9—24.2 | 5.8—15.7 |

*Source: GATT summary by BTN positions*

## APPENDIX D

Principal Canadian Clothing Rates of Duty on Apparel Fabrics

| *Woven Fabrics* | | *MFN* |
|---|---|---|
| 52203 | Wholly of cotton, coloured | 20% |
| 53205 | Composed wholly or in part of yarns of wool or hair | 25% + 25¢ lb. |
| 56208* | Wholly or in part of man-made fibres or filaments, not containing<br>wool or hair not including fabrics more than 50 per cent by weight of silk | 22 1/2 + 13¢ lb. |
| 56805 | Knitted fabrics | 27 1/2% |

**From 3/8/73 to 31/12/80*

# APPENDIX E

Average Hourly Compensation of
Apparel Production Workers

| *Country* | *Currency* | *Fixed Commercial Exchange Rate in U.S. Dollars* | *In Local Currency* | *In U.S. Dollars* | *U.S. = 100* |
|---|---|---|---|---|---|
| NORTH AMERICA: | | | | | |
| United States | Dollar | 1.00 | 4.05 | 4.05 | 100 |
| Canada | Dollar | 1.03 | 4.28 | 4.40 | 106 |
| WESTERN EUROPE: | | | | | |
| Belgium | Franc | 0.025 | 162 | 4.05 | 100 |
| France | Franc | 0.21 | 14.8 | 3.12 | 77 |
| Germany | Mark | 0.388 | 9.0 | 3.50 | 86 |
| Italy | Lira | 0.0012 | 3,000 | 3.60 | 89 |
| Spain | Peseta | 0.015 | 157 | 2.35 | 58 |
| Sweden | Krona | 0.227 | 30 | 6.82 | 168 |
| Britain | Pound | 1.78 | 1.25 | 2.22 | 55 |
| EASTERN EUROPE: | | | | | |
| Finland | Zloty | 0.052 | 17 | .88 | 22 |
| Romania | Lei | 0.083 | 8.1 | .67 | 17 |
| Yugoslavia | Dinar | 0.055 | 25 | 1.38 | 34 |
| ASIA: | | | | | |
| India | Rupee | 0.114 | 3.5 | .40 | 10 |
| FAR EAST: | | | | | |
| Japan | Yen | 0.0034 | 472 | 1.60 | 39 |
| Korea | Won | 0.002 | 190 | .38 | 9 |
| Taiwan | Dollar | 0.026 | 18.2 | .48 | 12 |
| SOUTH AMERICA: | | | | | |
| Brazil | Cruzeiro | 0.094 | 8.4 | .80 | 20 |
| Colombia | Peso | 0.028 | 13 | .37 | 9 |

*Source: Men's Wear Magazine, August 27, 1976*

# APPENDIX F

Principal statistics
Clothing Industry

| | *Establishments* | *Man-Hours*[1] | *Employment* | *Wages and Salaries* | *Shipments* |
|---|---|---|---|---|---|
| | | *(Millions)* | *(000's)* | *— (Millions) —* | |
| 1970 | 2450 | 210.9 | 117.8 | 514.6 | 1651.5 |
| 1971 | 2417 | 211.6 | 118.5 | 554.6 | 1777.5 |
| 1972 | 2393 | 217.8 | 122.0 | 614.5 | 1948.1 |
| 1973 | 2355 | 218.6 | 124.7 | 678.1 | 2159.4 |
| 1974 | 2408 | 213.9 | 121.4 | 754.9 | 2433.6 |
| 1975 | 2318 | 212.8 | 119.6 | 858.5 | 2699.5 |
| 1976 | 2235 | 209.1 | 119.5 | 977.8 | 2977.4 |

[1] *Production workers only*
*Source: Statistics Canada*

# APPENDIX G

Canadian Clothing Industry Value Added per Man-Hour
(1974)

| | *Employees* | | | |
|---|---|---|---|---|
| | *0-49* | *50-199* | *200 and More* | *All Sizes* |
| Hosiery mills | 4.79 | 8.68 | 6.99 | 5.75 |
| Other knitting mills | 5.43 | 5.93 | 6.61 | 6.16 |
| Men's clothing factories | 6.45 | 3.99 | 6.20 | 6.27 |
| Men's clothing contractors | 4.04 | 3.92 | 4.01 | 3.96 |
| Women's clothing factories | 8.18 | 7.05 | 6.39 | 7.21 |
| Women's clothing contractors | 4.02 | 3.79 | — | 3.92 |
| Children's clothing | 7.37 | 5.49 | 7.39 | 6.14 |
| Fur goods industry | 9.29 | 13.21 | — | 10.34 |
| Foundation garments | 4.86 | 2.08 | 8.11 | 6.84 |
| Fabric glove manufacturers | 5.49 | 11.57 | — | 6.62 |
| Hat and cap industry | 6.85 | 6.05 | — | 6.46 |
| Misc. clothing n.e.s. | 7.62 | 5.72 | — | 8.64 |
| Total clothing industry | 6.40 | 5.17 | 6.34 | 6.21 |

*Source: Statistics Canada, Cat. 34-215 to 34-218, Clothing Industries.*

# THE ROLE OF THE TEXTILE AND APPAREL INDUSTRIES IN THE 1980'S

## PART I - EMPLOYMENT NEEDS

Employment is clearly the number one issue facing the Canadian people and their governments today. At the present time (April, 1978) the national rate of unemployment stands at 8.6%. In Quebec it is 11.2%, and in the Maritimes it averages more than 12.5%. One million Canadians are without work, and the economic burden and social tragedy involved is heavily concentrated in the Eastern sectors of the country.

Furthermore, this problem will remain for the decade of the 1980's. By 1985, for example, the Department of Finance predicts a national unemployment rate of 6.0%, which would imply rates of 7.6% and 9.3% in Quebec and the Maritimes respectively.

Even these sobering forecasts must be viewed as being the best performance possible. The Department of Finance projections for future economic growth are viewed by private economists and other observers as being unrealistically high, while the labour force projections are significantly lower than those produced by the private sector.

For example, if the Finance Department's optimistic economic projections are combined with the Labour Force growth rates published recently by the Toronto-Dominion Bank, Canada's national unemployment rate rises to 9.9% in 1985, which implies unemployment rates of 8.4%, 12.5% and 15.4% respectively in Ontario, Quebec and the Maritime Provinces.

Even though these latter forecasts are probably on the high side, the range of estimates of future unemployment are sobering: 750,000 Canadians using the Finance Department numbers, or 1,150,000 using the Toronto-Dominion Bank Labour Force projections.

Clearly, in a situation of endemically high unemployment, every job in every industrial sector must be considered critical, and it would be economic as well as social irresponsibility to suggest the phasing down or out of any Canadian industry until viable alternative employment opportunities are found for those concerned.

During the mid-eighties, then, Canada faces an employment shortfall of between 750,000 and 1,150,000 jobs, with the bulk of this shortfall being in Eastern Canada. Clearly, in such a situation, those thrown out of work, through a phasing down of Canada's textile and clothing industries, would not be able to find alternative employment or, if some of them did, this would mean fewer job openings for other Canadians.

At the present time Canada's textile and clothing industries employ, directly, some 185,000 Canadians and support, indirectly, some 305,000 jobs elsewhere in the economy. (This multiplier measurement comes from the Textile and Clothing Board.)

If the textile industries and the jobs they support did not exist, the impact on unemployment would, of course, be felt most dramatically in Quebec and Ontario. The rate of unemployment in Ontario would rise to between 8% and 11% by 1985, depending on labour force growth, while in Quebec unemployment would rise to an incredible 17%-21%. In terms of numbers, some 550,000-700,000 Quebecers would face unemployment, as would between 400,000 to 550,000 workers in Ontario. The national unemployment rate would range between 10% and 13%.

If the jobs provided by the textile and apparel manufacturing industries ceased to exist, the situation would be catastrophic for many of Canada's communities which rely heavily on these industries for local employment. For example, without the direct employment provided in these industries, we estimate (using admittedly very rough measuring techniques) that by the mid-1980's unemployment would exceed 20%-30% of the labour force in such communities as Sherbrooke, Trois Rivières, St. Jean, Victoriaville, Kingston, Cambridge, Truro and Cornwall. These estimates are, if anything, on the low side. In other communities, such as Granby, Magog, Valleyfield and Huntingdon, the unemployment rates would be even more disastrous, exceeding 50% of the local labour forces. (See Table 1.)

In view of the magnitude of these local problems, it seems inconceivable that any phasing out or phasing down of these industries would be even contemplated. Canada, quite clearly, urgently needs more not less jobs.

TABLE I

ESTIMATED UNEMPLOYMENT RATES IN
VARIOUS TEXTILE/APPAREL COMMUNITIES

| Community | 1978 Unemployment Rate Current (1) % | 1978 Unemployment Rate Without Textile/ Apparel Jobs % | 1985 Unemployment Rate Projected % | 1985 Unemployment Rate Without Textile/ Apparel Jobs % |
|---|---|---|---|---|
| **Maritimes** | | | | |
| Yarmouth | 9.5 | 10.5 | 6-10 | 7-11 |
| Truro | 16 | 20 | 10-13 | 19-21 |
| Edmunston | 13 | 14 | 8-13 | 10-15 |
| **Quebec** | | | | |
| Drummondville | 14.5 | 39 | 9-16 | 33-40 |
| Granby | 16 | 71 | 10-17 | 65-72 |
| Magog | 13.5 | 60 | 9-14 | 55-60 |
| Sherbrooke | 12 | 24 | 8-13 | 20-25 |
| Trois Rivières | 12.5 | 27 | 8-13 | 23-28 |
| St. Jean | 16 | 32 | 10-17 | 26-33 |
| Valleyfield | 16 | 37 | 10-17 | 31-38 |
| Huntingdon | 20 | 59 | 13-21 | 52-60 |
| Victoriaville | 12 | 29 | 8-13 | 25-30 |
| St. Hyacinthe | 14 | 29 | 8-13 | 24-27 |
| **Ontario** | | | | |
| Kingston | 8 | 20 | 5-8 | 17-21 |
| Cambridge | 8 | 22 | 5-8 | 19-22 |
| Cornwall | 12 | 26 | 8-13 | 21-26 |
| Kitchener | 11 | 12 | 7-11 | 9-14 |
| **Western Provinces** | | | | |
| Edmonton | 5 | 6 | 3-5 | 4-6 |
| Winnipeg | 8 | 13 | 5-8 | 10-13 |
| Vancouver | 7.5 | 8 | 6-10 | 6-10 |

PART II

a) TEXTILE/CLOTHING LABOUR FORCE IMMOBILITY

The importance of the textile and apparel industries as employers is even more important to certain localities and classes of employees than the more general numbers would imply. For example, nearly two-thirds of those working in textile production in Canada are women, and this ratio goes as high as 80% in the clothing sector. Immigrant women make up a substantial portion of the clothing sector's work force.

---

(1) April/May 1978. Note: These unemployment rates must be viewed as rough approximations only. The labour force numbers for each community are only for the official definition of the town or city in question and exclude the surrounding area. Thus, this would tend to understate the labour force size and overstate the resultant unemployment rates. On the other hand, the unemployment estimates based upon the assumption that the textile and clothing industries provided no jobs include only the direct jobs provided and makes no allowance for the significant local "multiplier" that undoubtedly exists.

In addition, the textile/apparel industries are characterized by a work force with only limited formal education. For example, data on scholarity show that in the apparel industry, 67% of the employees have a grade 7 or less education and 77% have grade 9 or less. For primary textiles 53% have a grade 9 education or less.

The fact that such a high proportion of the industries' labour force is female implies that a higher than average proportion of textile families are multiple income units. For these families mobility is very low, as the risk involved in giving up that second income in order to move when the textile spouse is laid off is clearly intolerable.

An ACTWU/ILGWU joint submission to the Textile and Clothing Board states that women's family ties prevent geographic mobility:

"The critical situation is further underlined by the fact that workers that normally find employment in the garment industry have very few alternative opportunities for employment. About 8 out of every 10 workers are women whose family ties prevent geographic mobility. In effect, the garment industry is the largest single employer of women seeking factory work. It provides jobs for many people throughout the country who would otherwise be unemployed or else would be forced out of the labour force."

As regards the higher degree of skills and education required for employment in other industries, the ACTWU/ILGWU joint submission notes:

"Experience clearly demonstrates that, even when business is booming and the gross national product advances rapidly, poverty and unemployment remain a problem for many citizens. That is why every technologically advanced society has to provide its people with a full spectrum of jobs, from the least skilled to the most advanced, in order to attain the fullest employment possible. Fitting people into jobs they can perform is a difficult, complex, and frequently disheartening task, as are attempts to move people from their regular line of employment into different operations. Occupational adaptability is far from common. If maximum employment opportunities are to be attained in Canada, it is essential that the country should seek to maintain a balanced job structure at all times, and that it should prevent the loss of the (garment) industry which contributes to the attainment of such a balance."

These views concerning mobility are generally supported by a 1970 study by the Department of Employment and Immigration which points out that employment alternatives for workers of this industry are limited because:

1. The average level of education is low;

2. The average age is over 40;

3. Workers are predominantly female and secondary wage earners;

4. Many workers have limited command of the English language.

Some very interesting, pertinent information emerged from a recent government study of the closing down of Associated Textiles Ltd., which operated a textile plant in Louiseville, Quebec, a town of 4,000 persons some 30 kilometres from Trois Rivières. Four hundred and thirty-seven people were laid off as a result of this plant closing in 1976. Thirty-four of these employees accepted early retirement under the adjustment assistance pension program. However, as of May, 1978, 200 were still unemployed, and a survey of those laid off concluded that 95% were not willing to move even if they were offered suitable employment.

b) THE SOCIAL COSTS OF UNEMPLOYMENT

Several studies have demonstrated that the social costs of unemployment are even more staggering than the direct financial costs. Clear correlations have been found between unemployment and suicide attempts, rape, mental hospital admissions, prison admissions, homicide, family breakdown, cirrhosis of the liver mortality, and cardiovascular-renal disease mortality.

These insidious aspects of the unemployment question are dealt with in greater detail in the attached addendum to this paper. This addendum was submitted to the Task Force by Mr. Sam Fox, Director, Clothing Division, Amalgamated Clothing and Textile Workers' Union of America, Vice-President of the Canadian Labour Congress, and President, Labour Council of Metropolitan Toronto.

PART III

## THE CONTRIBUTION OF THE TEXTILE/APPAREL INDUSTRIES TO CANADA'S BALANCE OF PAYMENTS

The textile and clothing industries also have a contribution to make in helping to maintain Canada's balance of international payments. By the mid-1980's, this country's current account deficit is expected to be deteriorating rapidly if for no other reason than our energy and interest accounts will be in large deficit positions. By 1985, for example, it is estimated that Canada's international payments deficit on all goods and services will be in the vicinity of $11 billion per annum.*

At the present time Canada's deficit on trade in fibres, textiles and clothing is running at about $1.6 billion annually, and if recent trends continue, this deficit will increase to about $3 billion by 1985, to over one-quarter of the nation's total international deficit. However, if textile and apparel production in Canada were to be phased out, and replaced entirely by imports, our annual import bill would rise very dramatically.

In view of Canada's already serious balance of payments problem, such an extreme increase in imports would put intolerable pressure on Canada's current account deficit and would lead to serious and inflationary downward pressure on the Canadian dollar.

PART IV

## SECURITY OF SUPPLY

Canada has become too heavily dependent on insecure sources of supply for its clothing needs. About 40% of Canadian apparel consumption is imported and about 90% of this comes from developing and state-trading countries. These countries, if they became involved in hostilities or internal unrest, would be unable to supply our needs. Since these same countries are also major suppliers of wearing apparel to Japan, the EEC and the U.S. these latter sources would be hard pressed to serve their own needs and could not be expected to come to our assistance.

This fact is usually overlooked by academic economists studying the industry. We need a viable clothing industry to meet the basic human need for clothing. We should avoid the Swedish experience and ensure that viable production levels are maintained and allowed to grow.

The Textile and Clothing Board has concluded in its Report: "The Board feels further that the Canadian public needs the assurance of a supply of clothing from Canadian sources, without drifting into dependence upon foreign sources for such a basic commodity".

Under GATT, Article XXI provides an exemption for National Security reasons. It says:

> "Nothing in this agreement shall be construed...
> (b) to prevent any contracting party from
> taking action which it considers necessary
> for the protection of its essential security
> interests..."

There are a number of provisions written in to provide guidance as to when this article should be evoked. It remains clear, however, that only the country affected can perceive what its National Security interests are and whether they are being threatened.

PART V

## THE INTERDEPENDENCE ISSUE

It is also critically important to remember that no Canadian industry operates in a vacuum. Each sector of the economy is inextricably linked to other sectors either through its purchases from upstream industries or sales to downstream industries.

---

* Data Resources of Canada, Inc. Canadian Review, February, 1978, page 58.

These linkages can be measured using inter-industry "Input/Output" tables developed by Statistics Canada. Using the latest table available, for 1971 and updating these numbers as accurately as possible to 1976, we get the following picture of the textile and clothing industries' purchases.(1) The numbers shown in Table 2 incorporate both direct purchases and indirect purchases (e.g. the apparel industry's purchases of fibres and fabrics have been translated backward into those producers' purchases of goods and services).

TABLE 2

PURCHASES BY THE TEXTILE AND CLOTHING INDUSTRIES FROM OTHER SECTORS - 1971, 1976
($ MILLION)

| | 1971 | 1976(est.) |
|---|---|---|
| Total shipments | 3702 | 6398 |
| Value added | 1388(2) | 2220 |
| Purchases inputs | 2314 | 4179 |
| from: | | |
| Primary industries | 44 | 97 |
| Leather industries | 35 | 62 |
| Pulp and Paper | 129 | 263 |
| Chemicals(3) | 388 | 716 |
| Other manufacturers | 230 | 412 |
| Communications | 33 | 46 |
| Utilities | 60 | 106 |
| Distribution services | 291 | 505 |
| Financial services | 161 | 297 |
| Advertising/promotion | 232 | 425 |
| Non-competitive imports | 120 | 206 |
| Indirect taxes | 74 | 131 |
| Other services | 495 | 908 |
| Balancing entry | 22 | 5 |

Thus it can be seen that Canada's textile and apparel industries are critical customers for many other sectors of the economy, particularly chemicals, other manufacturers and a wide range of services. Thus any increase in domestic textile and clothing production would have an impact on the economy far beyond the confines of the industry itself.

For example, Statistics Canada, at our request, estimated the impact of $1 billion increase in textile, knitting and apparel industry production. (This study assumed this was the result of increased demand, not import replacement.)

The results of this analysis are summarized in Table 3. On an annual basis this increase in the output of the textile industries would result in a $1.56 billion increase in industrial output, a $760 million increase in labour incomes, a $681 million increase in consumer markets, a 140,000 increase in Canadian employment, and a $414 million increase in government revenue.

Another approach to the linkage between the textile and apparel industries and the rest of the economy is measured through the use of employment multipliers - i.e. how many employees in supplier, customer and other industries are supported by each textile/apparel job.

---

(1) Purchases include both domestic and imported products.

(2) 73% of value added includes wages and salaries.

(3) Includes rubber and plastic.

The Textile and Clothing Board has estimated that each job in apparel supports 1.5 jobs elsewhere in the economy, and that for textiles this "multiplier" is 1.9. The weighted average for the two sectors is 1.65.

In other words, the 185,000 employees in Canada's textile and apparel industries support an estimated additional 305,000 elsewhere in the economy. Thus these key industries' contribution to income and employment is far greater than the direct jobs provided would imply, and further underscores the critical role these industries must play in helping Canada meet its future employment responsibilities.

TABLE 3

IMPACT ON THE CANADIAN ECONOMY OF A ONE BILLION DOLLAR INCREASE IN PRODUCTION BY THE TEXTILE, KNITTING AND CLOTHING INDUSTRIES

| | |
|---|---|
| Employment | |
| | 56,000 textile jobs |
| | 84,000 non-textile jobs |
| | 140,000 total new jobs |
| Wages, Salaries and Fringe Benefits | |
| | Increase of $760 million annually ($345 million in textiles and apparel, $415 million in other sectors of the economy). |
| Total Household Incomes(1) | |
| | Increase of $927 million annually. |
| Consumer Spending | |
| | Increase of $681 million annually. |
| Total Industrial Output | |
| | Increase of $1,560 million annually. |
| Government Revenue (All Levels)(2) | |
| | Increase of $414 million annually. |

Source: Statistics Canada, Structural Analysis Division

(1) Includes investment income and income of unincorporated businesses.

(2) Includes $127 million in higher personal income taxes, $51 million in corporate taxes, $78 million in sales taxes and $158 million in other revenues.

The federal government is currently participating in the multilateral trade negotiations that are being held in Geneva, Switzerland. The goal of the negotiations is to reach an agreement on substantial tariff reductions among the world's main trading nations in line with those achieved at the earlier "Kennedy Round" of negotiations. These talks are of crucial importance to the clothing and textile sector of our economy because their very existence is closely linked to the severity of the tariff reductions accepted by our negotiators. The Amalgamated Clothing and Textile Workers' Union, and indeed the Canadian Labour Congress itself, has gone on record as strongly opposing any further tariff cuts as well as other measures that would imperil the industry. In addition, there is a strong body of opinion in the federal government, and this seems to have been reflected in the "Briefing Notes for Consultative Task Forces", that some phasing out of these industries should be permitted. The reason for organized labour's stand on tariff policy is obvious.

Imports of textiles and clothing especially from low wage and state-trading nations have already grown to account for close to 60% by volume of Canadian textile and clothing consumption. Since 1971 more than 20,000 clothing and textile jobs have been lost as domestic producers surrendered even greater shares of the Canadian market. The decline in employment in the clothing and textile industries is clearly one of the factors responsible for the unconscionably high unemployment rate in Quebec with its many semi-rural textile towns, as well as in smaller Ontario centres such as Cornwall and Guelph.

Ironically, some prevailing thinking would further erode employment in this industry and in numerous small, one industry towns in Ontario and Quebec. This policy, which would sacrifice the textile and clothing industries in order to "maximize competitive advantages" in our resource-based industries, could eliminate up to 330,000 direct and spin-off jobs and seriously worsen our already disastrous employment picture. There is no real guarantee that alternate employment would or could be created to offset the loss of clothing and textile jobs. The proponents of this policy are fond of suggesting a cost-benefit analysis which calculates the cost of protecting the domestic clothing and textile industries. What they fail to bring forward, however, is a cost-benefit analysis of the cost of not protecting these jobs.

To start with, the supposed saving due to importing "cheap" foreign garments and textiles has been grossly exaggerated. Rarely are imported goods sold at a price reflecting their cost of production and distribution plus a reasonable level of profit. Rather, they are priced very close to domestically produced goods and of course the profit margin is much higher.

Assuming that the free trade theorists win their case, what would be the costs to the Canadian taxpayer of the additional hundreds of thousands of displaced workers? Clearly, the Unemployment Insurance burden would be increased substantially. Further, when U.I.C. benefits expired for many of these people they would then be forced to fall back on municipal welfare programs. Local mill rates would have to be increased substantially. Part of the government's argument for proposing to sacrifice this sector is that the workers should be shifted into other, more productive, sectors of the economy. They see the burden of dislocation being alleviated by comprehensive manpower retaining schemes. Assuming that this approach of "teaching old dogs new tricks" is practicable, which is by no means certain given the composition of the work force, any cost-benefit analysis would have to realize that the funds required would be enormous. In any case, would these people be given priority over the existing one million unemployed, many of whom are already highly skilled in the areas the dislocated of this sector would presumably be trained for?

These questions are rarely faced by government policymakers. However, the implications of deliberately creating unemployment goes far beyond these obvious direct financial costs. The indirect financial and social costs are even more staggering. A recent article from the Globe and Mail (24-5-78) shows that the direct costs of unemployment are indeed the tip of the iceberg. A report by the Metro Toronto Coroner's office showed that there were 370 suicides in Toronto in 1977, up from 325 in 1976. The biggest increases were for people in the 20-29 and 60-69 years groups, groups which also are strongly hit by unemployment. According to Chief Clerk, John Wagner, high unemployment and "a lot of university graduates coming out with no future" were factors.

---

(1) This paper was submitted to the Textile and Apparel Task Force, by Mr. Sam Fox, Director, Clothing Division, Amalgamated Clothing and Textile Workers of America and Vice-President of the Canadian Labour Congress.

This report is backed up by a study on suicide attempts done by psychologists at the Toronto General Hospital[1] which demonstrated that "only 26.3% of the sample had full time employment at the time of their suicide attempt. Over 42% were unemployed (men 44.3%, women 39.5%) and the rest of the sample were either students, retired, housewives, or had part time employment". Unemployment, feelings of low self-esteem and suicide thus seem to be closely linked.

A similar connection appears to be present in the case of rape. Here unemployment, frustration-aggression and rape are linked by the available data. For example, an urban police force in southern Ontario[2] showed that in the first 8 months of 1977, of 55 rape offences, 21 of the subjects arrested were unemployed. Similarly, a study by Clark and Lewis[3] showed that 24.1% of rapists in the study sampled were unemployed.

Unemployment has long been suspected as a source of family breakdown. Feelings of inadequacy and frustration on the part of an unemployed breadwinner have been known to translate themselves into child abuse and neglect. The Toronto Children's Aid Society has done a breakdown on its caseload which shows that 68.9% of its cases involved families where the head of the household was not working. Many other families have suffered breakdown due to not being able to meet mortgage or rent payments due to temporary or long-term unemployment. The York County Sheriff's Office reported in November, 1977[4] that there has been 1,681 evictions and foreclosures thus far in 1977 compared to 977 in 1976. Unemployment was seen as the chief cause.

Along with child abuse and loss of dwelling, delinquency and crime have been strongly linked to high unemployment. A study by Marvin Ross[5] has demonstrated by statistical analysis that total unemployment "can account for 63% of the variance in crimes of violence rates. The sign is positive -- thus as unemployment increases, crimes of violence will increase." This is surely a finding that policymakers and taxpayers cannot ignore!

Finally, there is one piece of U.S. research that attempts to measure the overall societal cost of unemployment. The report for the Joint Economic Committee of the U.S. Congress[6] found that sustained increase in unemployment of 1.4% in 1970 led to a direct, calculable increase in various indices of social breakdown 5 years later. The following composite table (page 26) presents the highlights of the study:

---

(1) A. Munro, et.al., Toronto General Hospital Self Harm Project - Six Month Report, 1978.

(2) Documentation supplied by M. Novick, Senior Program Director, Social Planning Council of Metropolitan Toronto.

(3) L. Clark, D. Lewis. Rape: The Price of Coercive Sexuality, 1977.

(4) Toronto Star, 26-11-77.

(5) M. Ross, Economics, Opportunity and Crime, 1977, p. 35.

(6) H. Brenner, Estimating the Social Cost of National Economic Implications for Mental and Physical Health and Criminal Aggression. October, 1967.

| Social Stress Indicator | Stress Incidence 1975 | Change due to 1.4% Increase in Unemployment | Increase in Stress Incidence | Economic Loss due to Increase (1970-75 Millions) |
|---|---|---|---|---|
| Suicide | 26,960 | 5.7% | 1,540 | $ 63 |
| State Mental Hospital Admission | 117,480 | 4.7% | 5,520 | 82 |
| State Prison Admission | 136,875 | 5.6% | 7,660 | 210 |
| Homicide | 21,730 | 8.0% | 1,740 | 434 |
| Cirrhosis of the Liver Mortality | 32,080 | 2.7% | 870 | No data |
| Cardiovascular - renal disease Mortality | 979,180 | 2.7% | 26,440 | 1,372 |
| Total mortality | 1,910,000 | 2.7% | 51,570 | 6,615 |

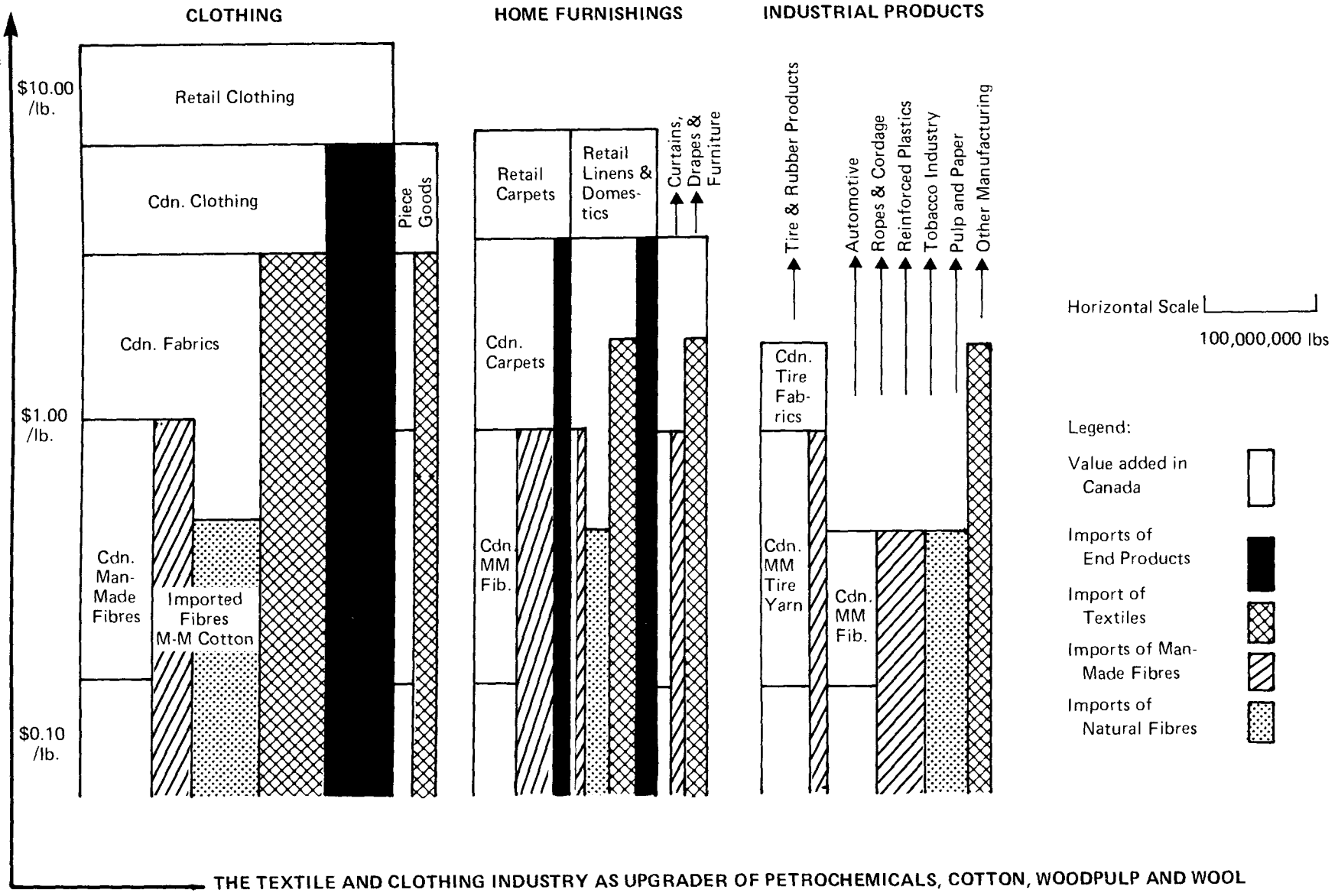


The late Senator Hubert Humphrey, commenting on the study, pointed out that:

The 1.4% rise in unemployment during 1970 has cost our society nearly $7 billion in lost income due to illness, mortality, and in added State prison and mental hospital outlays. To this must be added public outlays of some $2.8 billion annually over the 1970-75 period for jobless and welfare payments associated with the sustained 1.4% rise in unemployment. Additional outlays not included here are the costs of care in Federal institutions. Even excluding these latter outlays, the cost of the sustained 1.4% rise in unemployment during 1970 is at least $21 billion. As noted earlier, this entirely excludes the impact of the further increases in unemployment since 1970 as well.

These dollars represent resources lost or diverted from productive use. They represent wealth never to be realized, lost forever to our economy and society. They, in part, measure the human tragedy of unemployment. But most significantly, their loss could have been avoided.

A similar study to that described above has recently been completed in Canada by the Long Range Planning and Policy Analysis Branch of the Ministry of Health and Welfare in Ottawa. Although it has not been published yet, preliminary results show parallel high co-relations between increased unemployment and poorer mental health, increased suicides and morbidity. The essential point to be drawn from all of the examples presented is that in addition to the obvious direct costs of unemployment, there are other more far-reaching and insidious indirect costs. Unlike U.I.C. payouts these costs are relatively open-ended and span a period of years.


CLOTHING
HOME FURNISHINGS
INDUSTRIAL PRODUCTS
$10.00 /lb.
$1.00 /lb.
$0.10 /lb.
Retail Clothing
Cdn. Clothing
Cdn. Fabrics
Piece Goods
Cdn. Man-Made Fibres
Imported Fibres M-M Cotton
Retail Carpets
Retail Linens & Domes-tics
Curtains, Drapes & Furniture
Cdn. Carpets
Cdn. MM Fib.
Tire & Rubber Products
Automotive
Ropes & Cordage
Reinforced Plastics
Tobacco Industry
Pulp and Paper
Other Manufacturing
Cdn. Tire Fab-rics
Cdn. MM Tire Yarn
Cdn. MM Fib.
Horizontal Scale
100,000,000 lbs
Legend:
Value added in Canada
Imports of End Products
Import of Textiles
Imports of Man-Made Fibres
Imports of Natural Fibres
THE TEXTILE AND CLOTHING INDUSTRY AS UPGRADER OF PETROCHEMICALS, COTTON, WOODPULP AND WOOL

# PRODUCTIVITY IN THE APPAREL AND TEXTILE INDUSTRIES

## I. HISTORICAL PROGRESS

### (a) Textile Manufacturing

Productivity in the textile manufacturing industry (excluding knitting) increased in the period 1965-1976 at an average annual rate of 4.3% per annum, a real increase of 52% in 10 years. The average rate of productivity gains in knitting was somewhat lower at 3.4%, a real increase of 40% in 10 years. In each case, the basis of measurement was value added per man-hour paid. (Statistics Canada - Census of Manufacturing.)

The industry achieved the most spectacular productivity gains through the installation of new equipment. For many textile processes, the internationally-available machinery became increasingly productive as the decade progressed. The key questions for many textile firms were: (a) can the capital be raised? and (b) should it be risked?

### (b) Apparel Manufacturing

Technology has played a significant role in the manufacture of apparel. However, productivity will be greatly enhanced through programs to educate and upgrade middle management, and the training of production workers. This is where the greatest potential for improvement appears to lie in the near term. This does not preclude increased top management expertise.

Existing technology will continue to play a major role in apparel manufacturing in Canada and will likely become more flexible and less costly in the future. One factor retarding progress has been the incursion of imports which has been forcing manufacturers into greater product variety and shorter runs.

### (c) Productivity Comparisons Within the Industry

Productivity data are shown in Addendum A for the "textiles", "knitting" and "clothing" industries as defined by Statistics Canada. The "knitting" industry is a smaller group whose activities, as defined by industry, fall partly into the textile industry and partly into the apparel industry.

The productivity levels of 28 sub-sectors of the industry are compared in Addendum B, again in terms of manufacturing value added per production man-hour paid. There appears to be a strong positive correlation between productivity and capital intensity.

There is nothing inherently wrong with an industry which has low capital intensity. In fact, in an economy facing huge demands for capital for energy-related products, there is positive advantage in industries which can create jobs out of moderate capital commitments.

It must be recognized, however, that as time passes the value added amounts of $6 to $13 (1975) per man-hour will become increasingly inadequate to cover the actual production wage, benefits, plant supervision, depreciation, selling expense, administrative expenses and return on capital.

The industry must achieve substantial increases in productivity in the years ahead or be squeezed out of business for lack of employees, lack of profits or both.

### (d) Compared with Counterparts in the United States

Comparison of Canadian and U.S. productivity in these industries is complicated by the fact that the available American figures are for man-hours worked while the Canadian figures are for man-hours paid. Allowing 7.5% as the difference between man-hours paid and worked in the U.S., we find that the productivity of the Canadian apparel and textile industries was very close to the U.S. averages.

Value Added per Man-Hour Paid - 1975

| | United States ($U.S.) | Canada ($Cdn) |
|---|---|---|
| Apparel | $6.95 | $6.25 |
| Knitting | $8.30 | $6.52 |
| Textiles | $9.06 | $9.21 |

## II. TECHNOLOGY IN THE TEXTILE INDUSTRY

Productivity in the textile industry is strongly influenced by the technology employed in the highly diversified operations of textile firms.

This technology includes the "know-how" by which each firm makes increasingly productive use of its existing installations, new and old. For this, firms depend primarily on their own resources. In many instances, the internal know-how of the firm is supplemented by the services of consultants, suppliers and associated companies. Rationalization has proceeded to the point where there are often relatively few firms in each sub-sector of the industry and these sub-sectors differ greatly in the know-how they require.

The most dramatic gains in textile productivity come from the technology incorporated in new equipment. The rate of change in the productivity of available new equipment varies from one sub-sector of the industry to another, and in some instances the advance is spectacular.

The point is clearly illustrated using the U.S. data in Addendum C. It can be seen, for example, that the speed of texturing spindles increased from 40,000 rpm in the mid-1950's to 400,000 rpm in the early 1970's. Speeds of one million rpm are now in use. The rapid succession of increasingly productive machines was accompanied by a tremendous increase in productivity and a decline in the cost of texturing. The successful firms in this field, in Canada as in other countries, tended to be those which invested early in the right equipment.

It is not suggested that there is a quick technological "fix" for the difficulties of the textile industry, nor that aggressive investment in the newest equipment would be beneficial for all firms. In some sectors, where the pace of real machinery improvement is slow, it may be preferable to maintain older equipment than to purchase new. The fact remains, however, that the replacement of old equipment with new would enable many firms to achieve major gains in productivity.

Even though the average rate of real productivity improvement in textiles has exceeded 4% per annum, there are many instances where potential improvements remain unexploited. There appear to be two reasons for this. First, there is the difficulty of finding new capital. Net profit after taxes in the industry has been running at less than 2% of sales and less than 5% of capital employed. When pre-tax profitability was high in the shortage years of 1973 and 1974, the industry was heavily taxed on its illusory inventory profits. These factors have weakened the capacity of the industry to finance new projects. The industry in the United States is in a similar predicament as shown in the following excerpt from a report of the U.S. Department of the Treasury:

> "In testimony before the House Ways and Means Committee, ATMI stated that traditionally low profits and the impacts of continuing inflation, technological obsolescence, foreign competition, and proposed government regulations to reduce pollution and ensure worker safety, have jeopardized the ability of many textile companies to raise needed capital. They predict that the textile industry will experience a significant capital shortfall over the next decade unless future government fiscal and monetary policies complement the industries' effort to improve their capital position."

The second deterrent to intensive capital investment lies in the risk perceived by investors until such time as our long-term policy approaches that of our principal developed country trading partners.

## III. APPROACHES TO PRODUCTIVITY IMPROVEMENT: TEXTILES AND APPAREL

### (a) Introduction

The general approaches to improving productivity vary considerably between the primary textile and clothing industries. The primary textile industry is more heterogeneous and capital intensive. Extensive rationalization has occurred throughout the industry. New capital expenditures per employee have averaged $1,305 (1971-1974; U.S. $1,288) but have declined in recent years because of low profit figures, and the uncertainty created by the large and growing import problem. The critical factor preventing accelerated improvements in technology within this industry appears to be a worsening capital shortfall. New installations in the primary textile industry now require substantial capital outlays, ranging from more than $400,000 per job in new man-made fibre plants to $150,000 per job for a new spinning, weaving and finishing facility.

### (b) Potential for Improvement

There is potential for further improvement in productivity. This potential is addressed under the headings of modernization, scale and specialization.

(i) Modernization could lead to productivity gains in some, though not all parts, of the textile industry. The rate at which this is happening is retarded by shortage of capital and reluctance to commit it. A further deterrent has recently risen in terms of the devaluation of the Canadian dollar which has substantially increased the cost of textile machinery made in Europe, Japan and the U.S.

(ii) Scale has been recommended by persons outside the industry as a means to improve its competitiveness. However, to expand scale by exporting, for example, is non-productive if the average price of the expanded shipments falls by more than the average cost of producing them. The expansion of scale within the domestic market is also difficult because most sub-sectors of the industry have already been extensively rationalized, and market shares are strongly defended. The Task Force concludes that realistic possibilities of improving scale lie in the displacement of imports.

(iii) Specialization of production would appear on the surface to provide a third major potential for productivity improvement in textiles. The narrowing of product lines may indeed reduce the average cost of manufacturing the surviving products but this is false economy if the result is to provide an inferior level of service to customers who then turn to imports.

## IV. THE TRANSFER MECHANISMS

As noted, the rate of productivity improvement in the industries can be improved by the application of existing knowledge, existing techniques and existing equipment. The question of "delivery systems" or transfer mechanisms by which persons and organizations in the textile and apparel industries can obtain knowledge, technology and equipment from the persons who possess these skills has been addressed by the Task Force. It is clear that effective transfer mechanisms must be created if the productivity performance of these industries is to be accelerated. Our recommendations have been framed with a view to the achievement of practical results in the shortest space of time.

## V. HUMAN RESOURCE DEVELOPMENT

### (a) Textile Colleges and Universities

#### Quebec

The textile faculty at the CEGEP de Bourgchemin, St. Hyacinthe, Quebec, gives two post secondary school three-year courses in Textile Production and Dyeing and Finishing which the industry supports through bursaries of $2,000 per student, summer employment and eventual hiring of graduates. Some 1,000 persons have graduated from these two programs since 1945.

Ontario

The major Ontario textile faculty is at Mohawk College of Applied Arts and Technology. This college gives one three-year course to post secondary school graduates covering Production and Dyeing and Finishing. This program is also supported by the industry, some 500 persons having graduated since the college opened.

Both the St. Hyacinthe and Mohawk Textile faculties also offer night courses in surrounding communities for persons employed in the industry.

Other Colleges and Universities

The Faculty of Textiles at Guelph University offers post-graduate courses leading to a Masters' degree in textiles. Mount Allison University, the Universities of Alberta, Manitoba and others have Home Economics courses which include basic textile information.

We recommend that within the framework of these 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.

Deficiencies in Training

There is a growing shortage of mechanics needed to maintain the increasingly sophisticated machinery used in the industry and there is need for a program to upgrade the skills of mechanics currently employed. We recommend therefore that a training program for these mechanics be established.

APPAREL PRODUCTIVITY AND DEVELOPMENT PROGRAM

The essential first step to accelerate productivity improvement is the establishment of a Productivity and Development Program. This program would be the focus of human resource and infrastructure development in each of the major apparel centres. It would strengthen what currently is being done, and establish elements at present not available in Canada. It would provide the manufacturer, however small, with practical knowledge, advice and help. It might be equipped to offer services - methods engineering and work place design - which would otherwise be beyond the resources of the client.

When the Textile Policy was announced in May 1970, the Honourable Jean-Luc Pepin stated

> "The government will establish Development and Productivity Centres for the textile and for the clothing industries, to assist them in deriving the full benefits of new technology and new products. The Centres will be organized in close co-operation with Canadian universities and textile schools."

As a result, an Industry-Government Task Force was created and charged with carrying out a study of the government's proposal and recommending the most appropriate type of centre, the services it should provide and how it should be funded.

The industry consensus which has evolved since the Task Force reported in 1972 may be summarized as follows:

- there should not be a Productivity and Development Centre but a Productivity and Development Program;

- the program should be industry-operated and managed with the major initial funding provided by the federal government;

- funds should not be spent on "bricks and mortar" but to rent facilities, hire staff, establish programs and support extensive travel across the country;

- the program should be tailored to each of the needs of the apparel industry concentrations of Quebec, Ontario, Manitoba, Alberta and British Columbia;

- as much as possible, the program should supplement, not compete with, existing activity from research bodies, associations and colleges;

- each of the regional programs or services should develop a specialization, the results of which, like any regional service, would be made available on an equal cost basis to any clothing firm in Canada;

- the program should be designed to become self-supporting.

In 1972, the Apparel Manufacturers Association of Ontario developed a Productivity and Development Program for the Ontario Apparel Industry which was successful. It was, however, unable to secure federal Program and Development funds for a service bureau for the industry.

In 1975, the Ontario government published an exhaustive "Sector Analysis of the Textile and Apparel Industry" which identified as a major Ontario need, a Productivity and Development Program. In 1976, the Textile and Clothing Board in its report on clothing recommended the establishment of a Productivity and Development Program.

> "During the recent hearings of the Board in major cities across Canada, questions were regularly put to manufacturers with regard to contemporary production practices and procedures, and the degree of professional management which manufacturers employ in their operations. Some appeared to follow highly sophisticated methods and procedures indicating a high degree of efficiency; others appeared to employ varying lesser degrees of sophistication. But the fact clearly emerged that there is a very real need for a facility in Canada capable of providing technical aid and advice on equipment selection and production and management problems, and opportunities for formal training for management at virtually all levels."

In 1977, the Quebec and Manitoba governments endorsed the concept. (It was implemented in the footwear industry that year.) Manitoba has in 1978 started their initial program whereas in Ontario and Quebec, committees are working on the project, with a starting date still unknown. With the establishment of the Consultative Task Force on Textiles and Clothing, there is again unanimity on the need for this program in the apparel industry.

The elements of a Productivity and Development Program are addressed under three headings:

(a) human resource development

(b) infrastructure development

(c) productivity audits

(a) Human Resource Development

At present there are approximately 1,600 apparel companies employing less than 50 people, 350 from 50 to 100, and another 350 having over 100 employees. Firms are becoming larger, and as firms grow in size, and equally, in complexity, the need is not so much a supervisor who somewhat passively keeps things moving, but one who takes an active role in positive management. They hold the key to major productivity improvement.*

The needs of the apparel industry to facilitate productivity improvement may be summarized as follows:

---

* See Addenda D and E

(1) A productivity and development program (practical, effective, industry-concerned, industry-operated with initial funding from government).

(2) A certification program for middle managers to encourage supervisors to upgrade their skills to meet current needs under a single nation-wide standard. Programs of this type have been very successful in the United Kingdom and several Commonwealth countries, where supervisors study to obtain their "A.C.I." (Associate of Clothing Institute.)

(3) Well-trained mechanics and electronic technicians are required to repair and maintain the increasingly sophisticated machinery of the apparel and knitting industries. The scarcity of such mechanics is discouraging the installation of advanced technology. The training of mechanics should be established without delay at appropriate colleges and trade schools.

(b) Infrastructure Development

More permanent elements are needed to transfer current world technology into the 2,000 apparel firms across Canada. Now in place are several association and government programs as discussed previously. The Productivity and Development Program recommended in the previous section would be one of the vehicles to achieve this objective. Also required is a College program in Apparel Management wherever possible in other areas across Canada. There is already a School of Apparel Management at George Brown College.

(c) Productivity Audits

A productivity audit program as used in Ontario has become an integral part of the Footwear and Tanning Adjustment Program. This program, which we recommend be extended and adapted to meet the needs of the apparel industry calls for the provision of grants for the restructuring of all facets of a company's operations, including the preparation of marketing studies and the training of personnel in the manner of their execution. Industrial engineering studies, methods and machinery layouts are other important areas of concern. Management is also assisted in setting up budgets and the restructuring of the management team for better performance. The amounts available for any such undertaking depend upon approval of the validity of the proposed plan and can cover 80% of the cost, which includes the initial survey, up to a total amount of $100,000.

# P R O D U C T I V I T Y

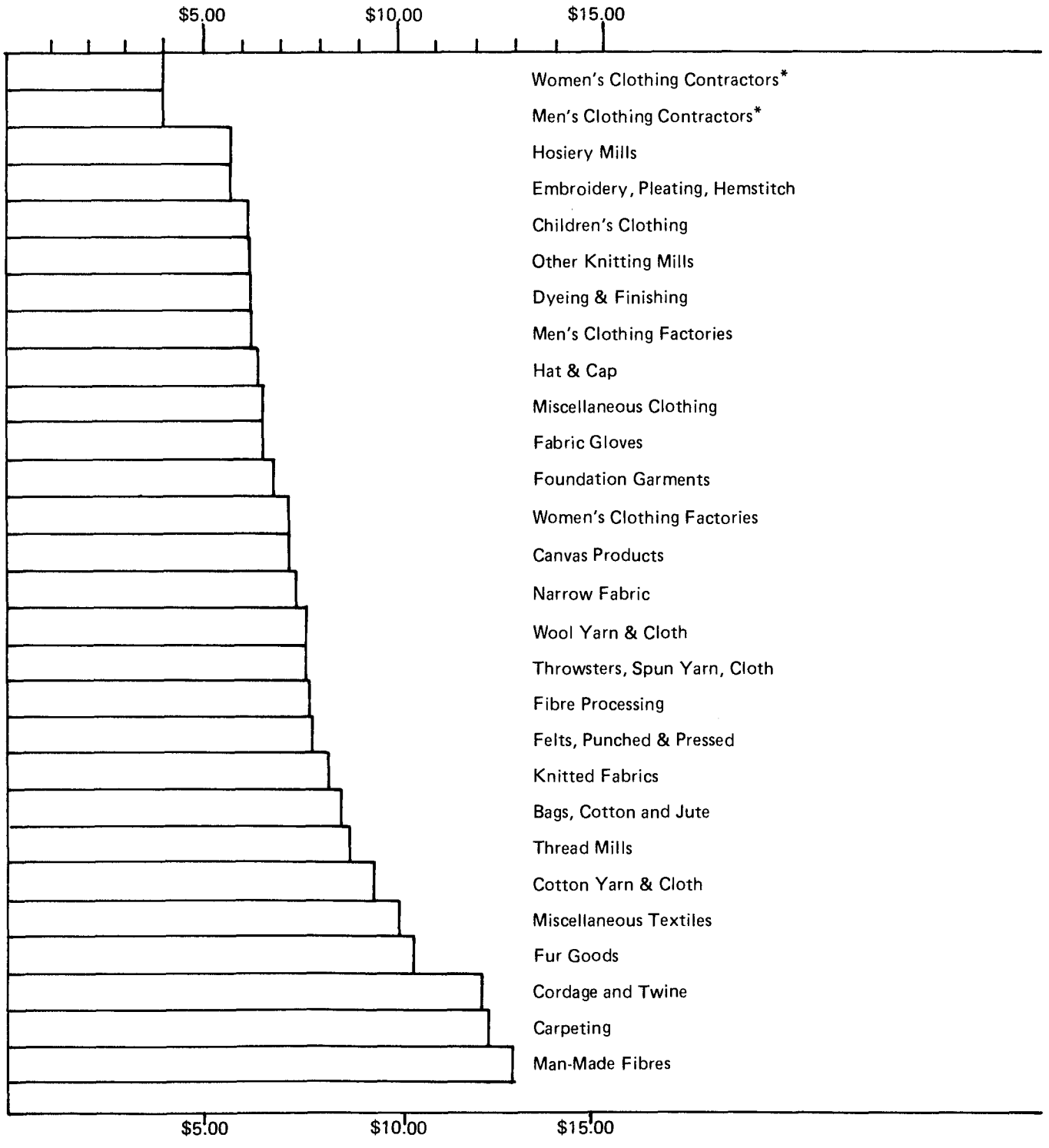
1965 - 1975

Value Added Per Man-Hour Paid
(constant 1971 values)

| | Textiles* | Knitting | Clothing |
|---|---|---|---|
| 1965 | $3.73 | $2.86 | $3.51 |
| 1966 | $3.80 | $3.02 | $3.43 |
| 1967 | $3.96 | $2.97 | $3.37 |
| 1968 | $4.50 | $3.31 | $3.50 |
| 1969 | $4.91 | $3.42 | $3.48 |
| 1970 | $4.89 | $3.69 | $3.46 |
| 1971 | $5.10 | $3.84 | $3.52 |
| 1972 | $5.40 | $3.96 | $3.60 |
| 1973 | $5.70 | $4.07 | $3.81 |
| 1974 | $5.75 | $3.99 | $3.87 |
| 1975 | $5.68 | $3.99 | $3.84 |
| Average Annual Rate of Increase | 4.3% | 3.4% | 0.9% |
| Total Increase | 52.0% | 40.0% | 10.0% |

*Excluding Knitting

**Manufacturing Value Added Per Production Man-Hour Paid in the Apparel and Textile Industries – 1975**




*Date is artificially depressed by statistical problems.

Table IX-5 - Annual Production of Women's Hosiery
(Million Dozen Pairs)

| | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 |
|---|---|---|---|---|---|---|---|---|---|---|
| Full Length (Seamless)..... | 16.99 | 27.22 | 35.84 | 68.11 | 103.88 | 117.81 | 102.18 | 87.97 | 76.90 | 65.48 |
| Panty Hose..... | 80.67 | 64.99 | 87.80 | 58.39 | 16.89 | - | - | - | - | - |
| Full-Fashioned..... | 0.14 | 0.15 | 0.37 | 0.37 | 0.69 | 1.34 | 2.87 | 4.35 | 6.99 | 10.49 |



Table IX-1 - Per Cent of Total Fibres Produced in the United States for Selected Years Between 1960 and 1973

| Year | % Cotton | % Man-made Fibre | % Wool Fibre |
|---|---|---|---|
| 1960 | 65 | 29 | 6 |
| 1965 | 53 | 43 | 4 |
| 1970 | 40 | 58 | 2 |
| 1973 | 29 | 70 | 1 |

Table IX-9 - Printing Machines in Place, U.S.* for Selected Years

| | 1963 | 1965 | 1973 |
|---|---|---|---|
| Roller Printing Machines | 460 | 450 | 394 |
| Screen Printing Machines | | | |
| Flat Bed, Screen..... | 310 | 300 | 211 |
| Flat Bed, Rotary Screen.... | - | 20 | 136 |
| Transfer Printing Machines.... | - | - | 77 |
| Stripe Printing Machines..... | - | - | 16 |

*does not include carpet equipment

Table IX-6 - Double Knit Yard Goods Machines in Place, U.S.

| Year | Number in Place | Change from Previous Year | No. of Feeds (% of Total) 24 | 36 | 48+ |
|---|---|---|---|---|---|
| 1962..... | 1,200 | | | | |
| 1963..... | 1,800 | 600 | 65 | 34 | 1 |
| 1964..... | 2,200 | 400 | | | |
| 1965..... | 2,700 | 500 | | | |
| 1966..... | 3,400 | 700 | 58 | 38 | 4 |
| 1967..... | 4,600 | 1,200 | | | |
| 1968..... | 5,300 | 700 | | | |
| 1969..... | 6,500 | 1,200 | | | |
| 1970..... | 10,000 | 3,500 | 50 | 35 | 15 |
| 1971..... | 16,000 | 6,000 | 33 | 45 | 22 |
| 1972..... | 22,000 | 6,000 | 25 | 45 | 30 |
| 1973..... | 24,000 | 2,000 | 20 | 45 | 35 |
| 1974..... | 23,000 | -1,000 | 18 | 45 | .37 |

Table IX-8 - Piece Goods Machines in Place*, U.S. (units)

| Year | Jet Dyeing Machs. | Pressure Dyeing Machs. | Atmospheric Dyeing Machs. | Jig Dyeing Machs. | Padder Dyeing Machs. | Continuous Dyeing Ranges |
|---|---|---|---|---|---|---|
| 1960 | | | | | | |
| 1963..... | 6 | 34 | 5000 | 3800 | 650 | |
| 1964..... | 7 | 56 | 4980 | 3680 | 648 | |
| 1965..... | 12 | 65 | 4902 | 3510 | 646 | 200(30)** |
| 1966..... | 33 | 98 | 4880 | 3480 | 644 | |
| 1967..... | 67 | 160 | 4790 | 3460 | 642 | |
| 1968..... | 117 | 230 | 4750 | 4208 | 640 | |
| 1969..... | 201 | 400 | 4602 | 2804 | 638 | |
| 1970..... | 374 | 650 | 4510 | 2440 | 636 | |
| 1971..... | 599 | 750 | 4350 | 2208 | 634 | |
| 1972..... | 758 | 810 | 4150 | 2110 | 632 | |
| 1973..... | 858 | 810 | 4048 | 1957 | 630 | 295(132)** |

*non-carpet machines
**(Thermosol-pad steam ranges)

Table IX-2 - Number Equivalent False Twist Spindles in Place by RPM, U.S.

| Mid Year | 40,000 RPM | 120,000 RPM | 240,000 RPM | 345,000 RPM | 400,000 (Single and Double Heater) |
|---|---|---|---|---|---|
| 1956..... | 20,000 | | | | |
| 1957..... | 25,000 | | | | |
| 1958..... | 28,000 | 2,000 | | | |
| 1959..... | 11,000 | 25,000 | | | |
| 1960..... | 11,000 | 27,000 | | | |
| 1961..... | 11,000 | 31,000 | | | |
| 1962..... | 11,000 | 36,000 | | | |
| 1963..... | 11,000 | 40,000 | | | |
| 1964..... | 11,000 | 42,000 | 10,000 | | |
| 1965..... | 11,000 | 52,000 | 32,000 | | |
| 1966..... | 9,000 | 53,000 | 52,000 | | |
| 1967..... | 8,000 | 53,000 | 60,000 | 13,000 | |
| 1968..... | 6,000 | 53,000 | 66,000 | 32,000 | |
| 1969..... | 4,000 | 53,000 | 66,000 | 102,000 | |
| 1970..... | -0- | 50,000 | 66,000 | 114,000 | 70,000 |
| 1971..... | -0- | 46,000 | 66,000 | 124,000 | 159,000 |
| 1972..... | -0- | 40,000 | 66,000 | 130,000 | 309,000 |
| 1973..... | -0- | 38,000 | 66,000 | 140,000 | 556,000 |

SENIOR MANAGEMENT

| | KNOWLEDGE | TRAINING | INFRASTRUCTURE |
|---|---|---|---|
| Current Situation | - trade shows<br>- suppliers<br>- consultants<br>- magazines<br>- visits | - merchandising orientated<br>- mostly on the job<br>- many professionals | - attend George Brown College<br>- attend university programs |
| Proposed Situation | - help to small companies in finance and costing<br>- help to all companies by access to R and D information | - technical seminars<br>- management courses | - need college program in apparel management in Quebec |
| Potential For P and D Program | - technical library<br>- access to world research through Ontario Research Foundation<br>- consultants report on company/ industry | - technical seminars<br>- visiting engineers from other countries reporting on their work | - staff of P and D can serve as guest lecturers to college and advisers to programs |

MIDDLE MANAGEMENT

| | | | |
|---|---|---|---|
| Current Situation | - mostly on the job knowledge, technically orientated | - periodic seminars | - attend college courses |
| Proposed Situation | - program for apparel management:<br>  - recruit new managers<br>  - retrain existing | - establish a certification program in apparel management across Canada | - need college program in apparel management in Quebec |
| Potential For P and D Program | - consult with staff<br>- obtain standard data rates<br>- personnel practices<br>- computer systems<br>- machinery evaluation<br>- product engineering<br>- technical analysis (fusing, fabrics, etc.)<br>- products newsletter | - seminars<br>- make an educational director as warranted<br>- visiting professors and engineers | - staff of P and D can serve as guest lecturers to college and advisers to programs |

Elements of productivity

| Element | Definition | Principal Influence | Source of control | Dominant factor | Deciding factors | Relevant productivity tools |
|---|---|---|---|---|---|---|
| Standard element | INTRINSIC WORK CONTENT | The product or design | DESIGN | THE MARKET | Customer requirements<br>Price<br>Styling<br>Fabric Selection<br>Quality | Tailoring techniques<br>Style rationalization<br>Quality specification<br>Value analysis |
| | PROCESS CONTROLLED WORK CONTENT | The process or engineering | PRODUCTION ENGINEERING | SCALE AND FLEXIBILITY | Scale of operation<br>Engineering investment<br>Equipment investment<br>Operation breakdown<br>Style variability<br>Fabric variability | Methods engineering<br>Workplace design<br>Attachments<br>Mechanization<br>Work measurement |
| Excess element | INTRINSIC EXCESS | Manufacturing conditions | EXTERNAL DEMANDS AND MERCHANDISE POLICY | CUSTOMER SERVICE | Throughput time<br>Style change<br>Fabric change<br>Size of unit<br>% Made-to-measure | System design<br>Scheduling<br>Order processing<br>Rationalized merchandising |
| | MANAGERIAL EXCESS | Line management | PRODUCTION PLANNING AND SHOP FLOOR CONTROL | MANAGEMENT SKILL | Labour turnover<br>Absenteeism<br>Degree of supervision<br>Part-time working<br>Seasonal change<br>Operator performance | Management objectives<br>Incentives<br>Production control<br>Balancing<br>Quality control<br>Training and placement<br>Management information<br>Supervisory development |

Source: Attainable Production Targets
A report by the Economic Development Committee
for the Clothing Industry
London, England, 1969

# FEDERAL GOVERNMENT INCENTIVE PROGRAMS

## Introduction

In this appendix we examine the operation of existing federal government incentive assistance programs and in particular, the suitability of the programs to meet the needs of the textile and apparel industries.

A study of the Canadian Government Assistance Programs, Comparison of Industries, which is submitted herewith as Addendum A, demonstrates how little these programs have been used by the textile and apparel industries. The conclusions of this study are summarized in Table I.

TABLE I

CANADIAN GOVERNMENT ASSISTANCE PROGRAMS

| Sector | Grants/Employee/Year $ |
|---|---|
| Furniture | 15.27 |
| Textiles and Apparel | 26.99 |
| Forest Products | 123.40 |
| Electrical Products, Electronics | 236.77 |
| Machinery | 365.16 |
| Aerospace | 1099.49 |
| Shipbuilding | 1303.57 |

Source: Addendum 1

Only the furniture industry in Canada, of the industries studied, shows a total grant per year as a lower percentage of shipments than textiles and clothing. Put in another way, grants to textiles and clothing have amounted to less than $27.00 per employee per annum. When one compares the grants to textiles and apparel to those made to aerospace or shipbuilding by the federal government, amounting to more than 30 times on this basis, it is quite obvious that these programs have not helped the textile and clothing industries significantly. Granted the aerospace and shipbuilding are industries that the Government of Canada, for good reasons, intends to support despite the high cost, but even a comparison to electrical products and electronics shows how little these grants help the textile and apparel industries.

## Existing Programs

We have reviewed the major existing incentive and assistance programs available to Canadian industry. Some clearly have not been designed to assist textile and clothing manufacturers and hence have not been included in this paper (e.g. the Defence Industry Productivity Program and the Shipbuilding Industry Assistance Program).

Those programs of major importance to our industries include:

### DREE:

The textile and clothing industries have obtained most of their government funding from the Department of Regional Economic Expansion (DREE). This is not surprising when one considers the objectives of the DREE grants, to alleviate regional disparities which usually have been in those regions outside the main centres where textiles are normally located.

The textile, knitting and apparel industries received 11.6% of the total incentive paid out by DREE since its inception in 1969 on projects completed by the end of 1976 and accounted for 5.9% of the incentive disbursed to that date on still active net accepted offers. Through these grants the above three industries provided 17.4% of total new jobs created by the completed projects, while the still active, not yet completed, offers are expected to account for 13.8% of total new jobs in all industries resulting from the incentive grants offered by DREE.

Since these industries support approximately 13% of total manufacturing employment, DREE's treatment in apportioning grants appears to be quite equitable.

Nevertheless, there are several features of the DREE program which are significantly undermining the ability of the textile and apparel industries to make full and effective use of this incentive program. The first of these is the DREE discrimination against these industries in the Special Area of Montreal; the second is the low maximum grant provisions for apparel manufacturers in all designated areas; and the third are various other regulations regarding DREE grants in general.

In addition, certain DREE officials have indicated that the Department has recently adopted a policy of refusing to offer RDIA grants for textiles and clothing, until such time as the Task Force report, and its implications for trade policy, is published. Other officials deny this policy shift, and no written confirmation one way or the other can be obtained. This situation is intolerable to these industries, as they may, in ignorance of the policy, be developing plans at considerable expense, for submission to the Department to no avail.

(i) - DREE Discrimination in the Special Area of Montreal

The new Program for the Special Area of Montreal introduced in mid-1977 created an unjust bias against the textile industries. Only the so-called "most dynamic sectors" operating in specific fields are eligible under this program.

There is an inequity resulting from the new regulation that although this program geographically extends the DREE area to greater Montreal, which formerly was not eligible for grants, the new Special Area with only selected product eligibility now also includes several counties in the Eastern Townships and to the North of Montreal which were previously designated areas without restriction. Thus these areas which until July 1977 could have benefited from DREE grants to all industries lost the unrestricted status and are now eligible to apply for grants only in selected industries.

(ii) - DREE Discrimination Against the Apparel Industry

In a DREE publication entitled "Opportunities for Industry and Business in Canada" there is a policy statement that is discriminatory against the apparel industry. It states that the (RDIA) ceiling for development incentives is 80% of the approved capital costs for most incentives, determined by standard formulas. (In the case of the garment industry the maximum is 40%.)[1]

(iii) - Other DREE Regulations

As in the case of the Investment Tax Credit, DREE capital grants reduce the depreciable value of the assets put in place, and this significantly dilutes the value of the program. In addition, grants for an expansion of an existing facility are lower than for a new one. Within the apparel industry, the expenditures incurred in acquiring new facilities for new product lines are classified as expansion rather than new investment. Thus the DREE grant is at a lower level and does not include the labour component of the costs incurred.

(iv) - Modernization of Existing Plants Within Designated Areas Across Canada

According to Article 9(4) of the present RDIA Act, a plant which was originally built with the help of a DREE grant is not eligible for a grant for the modernization of the facility.

We believe that this Article should be repealed as it affects all manufacturing industry, including our own.

(v) - The Textile and Apparel Industries and Regional Economic Disparities

The apparel industry and to a lesser extent some of the sectors of the textile industry, may be able to make a special contribution to the diminution of regional economic disparities and regional unemployment through decentralization of their production into regions of high unemployment.

---

[1] Government of Canada - Regional Economic Expansion, "Opportunities for Industry and Business in Canada".

The scale required in the industry, the type of skills needed, the relative unimportance of freight as an element of cost and the growing expertise in the management of satellite plants, resident in the industry, all support this rationale.

Research and Development

This program has changed over the past 15 years from a tax deduction incentive, to a grant program, and back to a tax deduction incentive. Approximately the same amount of incentive has been available under each approach. The program has always incorporated the concept of contributions only on increased research activity, measured in value. An analysis of pay-out reveals that by far the most assistance has gone to the electronics industry with lesser amounts being used by mineral processors and metal working companies. It is felt that the program has placed the emphasis on pure research and minimized the development aspects.

This has prevented the textile and clothing industries from enjoying the results of the incentives to any significant extent, since neither of these industries do very much pure research, but both industries do a great deal of development of new products.

Recently, the federal government extended the 5% investment tax credit to include R and D outlays. Such a credit is clearly inadequate in such a high risk undertaking as research and development, where, for example, not more than one in 20 new projects ever reaches commercialization. Thus the Task Force recommends that the research and development tax credit be increased to 25%. Such a more generous tax credit would, in our opinion, give Canada a real edge in research and development.

Recommendations

(1) The current research and development investment tax credit be increased to 25%, and be made permanent. Furthermore, the credit should not be available only on incremental expenditures but rather on the total outlays of the corporation. If the cost of such a move is deemed to be excessive, given the current financial predicament facing the federal government, it could be phased in over a five-year period.

(2) In defining qualified research and development expenditures for grant and credit purposes, the former IRDIA definition should be re-introduced. However, this definition should be modified to allow companies to include in their research and development expenditures legitimate outlays for new product and style development.

(3) A clearly understood definition of allowable research and development expenses be made available to the textile and apparel industries. These definitions would clearly be different for each segment of the industries.

Incentives Regarding Environmental Expenditures

It is becoming a matter of increasing importance to the textile industry to deal with problems relating to the environment. Various levels of government have imposed certain standards of quality for air, water and sound for which there are no simple solutions at present. Research on these matters has been done in Canada and the United States and elsewhere, and it is felt now that this research should be co-ordinated by the Government of Canada so as to provide Canadian industry with the best information to resolve these problems.

It is also felt that when the application of the research is being made, industry will need assistance in the form of low cost loans over a considerable term if the cost of these programs is not to be excessively oppressive on the corporations involved. Many industries are being burdened with the cost of purifying their liquid effluents at this time but none are confronted with three separate environmental concerns that now face the textile industry. This situation is not uniquely Canadian, it applies in the U.S. and other developed countries as well, and the industries in those countries are also appalled at the enormity of the problem.

Footwear and Tanning Industries Adjustment Program

This Program will provide financial assistance to encourage firms within these industries to accelerate necessary adjustments in their operations, in the short and medium term, to enable them to effectively meet international competition.

To provide the firms with the appropriate incentive to study their operations and formulate their restructuring plans, the government will pay up to 80% of the cost of consultants' services. In order to implement approved restructuring plans, firms may require additional management expertise on a short-term basis. For this purpose, the government will also pay up to 80% of the cost of consultants' services. And if, during the comprehensive analysis of their operations, an opportunity is identified or an adjustment is found to be necessary, the government will provide direct loans to these firms - these loans to be provided at interest rates ranging from the rate charged by the Government of Canada to Crown corporations for loans of a similar term to not higher than two and one-quarter per cent above that rate.

Recommendation

A program similar to the Footwear and Tanning Industries Adjustment Program be adapted to the needs of the textile and apparel industries. Loan limits available under the program should be appropriate to the industries' financial needs.

Other Incentives

In the garment industry manufacturers find the application of computers to be very important not only for the analysis of data and the processing of accounting routines, but also in managing their manufacturing operations on the factory floor. It is felt that a great deal could be accomplished if the Department of Industry, Trade and Commerce were to make a study of a number of garment operations with the object of setting up central computer facilities in various centres to service the industry. The cost of this type of service developed independently by each company would be prohibitive but developed co-operatively should not be too great.

Enterprise Development Program (EDP)

The PAIT and PEP programs which in 1974/75 provided approximately $26 million in grants have been used by textiles and clothing companies to some extent, but the percentage of assistance directed to our industries has been small when compared to other industries whose research involvement has usually been much greater. It is hoped that with the establishment of the Enterprise Development Program (EDP) into which the operations of PAIT, IDAP, PIDA, PEP and FTIAP have been incorporated on a regional basis, the many smaller manufacturers who previously were not drawn to the use of these "bureaucratic" programs will become more familiar with them and will make better use of them.

Recommendations

(1) A concerted effort should be made within the Enterprise Development Program to inform small and medium sized companies of the assistance programs available, and to evaluate where each firm could make best use of EDP facilities.

(2) While the principle involved in the EDP program is good, in practice it is so incredibly complicated and slow that it is of only limited value to individual companies, particularly smaller enterprises. The process of applying for and investigation of an EDP grant must be made easier, faster and cheaper.

(3) At the present time, all EDP grant applications are handled by regional offices. While there are many persuasive reasons for this, it must be admitted that in many cases, civil servants with in-depth knowledge of the industry involved are found only in Ottawa.

The apparel manufacturers on the Task Force feel strongly that they wish to work centrally with the Ottawa-based authorities and request that EDP regulations be amended to provide this flexibility.

## CANADIAN GOVERNMENT ASSISTANCE PROGRAMS

### COMPARISON OF INDUSTRIES

$ Millions

| Sector | Primary Textile | Clothing & Knitting | Aero Space | Canadian Forest Products: Wood Prods. | Canadian Forest Products: Pulp & Paper | Electrical Products | Electronics | Ship-Building | Machinery Industry | Furniture |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Shipments | | | | | | | | | | |
| $ 1976 | 3,205 | 3,172 | 800 | 4,218 | 8,144 | 3,208 | 2,598 | 575 | 5,000 | 1,458 |
| Domestic | 3,077 | 3,106 | 180 | 2,725 | 4,167 | 2,942 | 1,757 | 429 | 3,300 | 1,393 |
| Export | 128 | 66 | 620 | 1,493 | 3,977 | 266 | 841 | 146 | 1,700 | 65 |
| Balance of Trade | -960 | -627 | +178 | +1,217 | +1,038 | -877 | -1,267 | +96 | -3,783 | -129 |
| No Employees | 78,489 | 119,600 | 25,300 | 298,000 | | 74,155 | 64,792 | 14,000 | | 48,000 |
| Value Added/ Employee | 15,512 | 10,282 | | 15,065 | 27,485 | 14,701 | | | 20,276 | 13,588 |
| DREE Grants from 1969 to 1976 (7½ Years) | | | | | $ Thousands | | | | | |
| Paid out | 18,033 | 13,217 | nil | 73,164 | 32,633 | 16,624 | | | 13,736 | 3,550 |
| Av. per year | 2,404 | 1,762 | nil | 9,755 | 4,351 | 1,816 | | | 1,831 | 733 |
| I.T.C. Grants 1970 to 1975 (6 Years) | | | | | | | | | | |
| $000 | 7,089 (1) | | 166,900 | 136,000 | | 186,498 | | 109,500 | 33,437 | (2) |
| Av. per year | 1,182 (1) | | 27,817 | 22,666 | | 31,083 | | 18,250 | 5,573 | (2) |
| % of Total | 1.10 (1) | | 26.1 | 21.27 | | 29.16 | | 17.12 | 5.23 | (2) |
| Total Grants/Year | 5,348 | | 27,817 | 36,772 | | 32,899 | | 18,250 | 7.404 | 733 |
| % of Shipments | 0.084 | | 3.477 | 0.297 | | 0.567 | | 3.174 | 0.148 | 0.050 |
| Grants/Employee/ Year | $26.99 | | $1,099.49 | $123.40 | | $236.77 | | $1,303.57 | $365.16 | $15.27 |

Source of Information: Sector Profiles of Industries: Department of Industry, Trade and Commerce.
Industrial Assistance Programs in Canada: CCH Canadian Ltd.
Evaluation of Industrial Support Programs: Department of Industry, Trade and Commerce.
Manufacturing Performance: Canadian Government.

(1) Includes grants to all sectors for which the Textile and Consumer Products Branch is responsible such as footwear, furniture and printing and publishing etc.

(2) Included in Primary Textile, Clothing and Knitting.

HIGHLIGHTS OF GENERAL INCENTIVE PROGRAMS



| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| Canada Manpower Industrial Training Program | To increase productivity and reduce unemployment | Department of Employment and Immigration | Employers and Employee Associations | Direct training costs are normally reimbursed for off-the-job training. A negotiable percentage of trainees' wages are reimbursed | |
| Export Development Corp. EDC | To insure foreign trade receivables and foreign investment | Export Development Corporation | All corporations carrying on business in Canada | (1) Insurance for export receivables<br>(2) Long-term export financing by purchase of long-term receivable from export<br>(3) Insurance for Canadian investment abroad<br>(4) Surety and performance guarantees | |
| Program for Export Market Development (PEMD) | To enhance the export of Canadian products | Department of Industry, Trade and Commerce | Canadian corporations with potential for competitive performance in foreign markets | 50-50 sharing of costs of soliciting export orders, repayable only if exports are arranged as a result | No repayment if project is unsuccessful - Export Consortia eligible for special assistance |
| Promotional Projects Program | To promote the export of Canadian products and services | Office of Export Programs & Services, Department of Industry, Trade & Commerce | Canadian companies with export capabilities | Variety of sponsored promotions and cost-sharing assistance for trade fair participants | |
| Contracting out Policy | To promote industrial capability for Research and Development in Canada | Dept. of Supplies and Services & Ministry of State for Science and Technology | Canadian companies with sophisticated R & D capabilities | Purchase of service | |

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| Footwear & Tanning Industries Adjustment Program | To encourage firms in the footwear and tanning industries to accelerate necessary adjustments in their operations to enable them to meet international competition | General Adjustment Assistance Board (Department of Industry, Trade and Commerce) | Canadian footwear and tanning firms in existence on Jan. 1/74 | Sharing of up to 80% of outside consultants' fees. Direct loan from the Department. | Program scheduled to expire at end of 1978 |
| Machinery Program | To simplify tariff treatment of imported machinery | Department of Industry, Trade and Commerce | Canadian importers and manufacturers of machinery | (1) Tariff protection to Canadian machinery manufacturers<br>(2) Remission of tariff if like machinery is not manufactured in Canada. | Canadian manufacturers should advise the Department of their manufactures |
| Program to stimulate the development and demonstration of pollution abatement technology (DPAT) | To stimulate the development of pollution abatement technology which will have wide application in Canada | Environment Canada | Canadian companies developing and demonstrating abatement or technology | Negotiable level of cost-sharing | DPAT contacts require that any technology development must be available to other Canadian businesses |

# PROPOSALS FOR CHANGES IN FISCAL POLICY

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| Enterprise Development Program | To promote innovation of products and processes, and provide assistance for adjustment of business | Program Office Department of Industry, Trade and Commerce | Canadian companies demonstrating need for assistance and resources to pursue successful projects | Variety of cost-sharing assistance, loans and loans guarantees, grants, insurance on surety bonds | Replaces automotive Adjustment Assistance PAIT, GAAP, IDAP PIDA, PEP, FTIAP |
| Industrial Research Association Program | To promote industry collaboration in maintenance of R & D facilities | Department of Industry, Trade and Commerce | Technological industry groups or institutes | Grants during facility start-up and early operations | Assistance is not ongoing - limited to maximum of seven years |
| Regional Development Incentives Act (RDIA) | To establish, expand or modernize manufacturing or processing in slow growth areas | Department of Regional Economic Expansion | Anyone establishing or expanding a manufacturing or processing facility in a designated area | Grant for a percentage of approved capital costs and jobs directly created. Loan guarantees are also available. | Grants are not taxable but to the extent they relate to capital costs - the capital cost is reduced for Income Tax purposes. Prior approval of all expenditures is absolutely mandatory |
| Canadian International Development Agency (CIDA) (Pre-Investment Incentive Prog.) | To encourage Canadian business to establish or expand operations in developing countries of the world | Canadian International Development Agency | All Canadian businesses | Reimbursement of costs investigatory studies. Cost-sharing on feasibility studies | Particular encouragement is given to joint venture proposals |
| Defence Industry Productivity Program (DIP) | To sustain technological capability of Canadian defence industry | Department of Industry, Trade and Commerce | Companies incorporated in Canada | Cost-sharing of up to 50% of current capital R & D expenditures for defence oriented R & D | Income tax treatment is not clearly defined |

The Toronto-Dominion Bank, in its recent study entitled "Nearly One Million New Jobs - What Ottawa Can Do!" concluded that an industrial strategy for Canada is urgently needed in order to come to grips with the employment and growth challenges of the 1980's and that at the core of this strategy should be " ... a fiscal policy with highly stimulative incentives directed at the manufacturing sector ... ".

This Task Force is in complete agreement. Certainly several constructive steps have been taken in recent federal budgets to improve the business environment for manufacturers. We welcome the temporary reduction in the retail sales tax, the 40% tax rate on manufacturing profits, the increased dividend tax credit, the two-year write-off for new machinery and equipment, the modest investment tax credit, and the 3% inventory allowance.

But action to-date does not go nearly far enough to provide the supportive environment needed and a fiscal framework which, at a minimum, would be equal to that which exists in the United States, our major external customer and competitor.

We respectfully submit the following proposals which, in our opinion, would significantly improve the operating environment of the Canadian manufacturing sector in general and in particular that of the textile and apparel industries.

## Investment Tax Credit

Since the objective of the investment tax credit (ITC) is to stimulate investment, we believe that several amendments should be made to the ITC in order to ensure that this objective is achieved. Specifically, we recommend:

1) The present 1980 expiry date be eliminated or at least extended to 1990.

2) That the administration of the credit be the same as in the U.S., i.e. the credit not be diluted by a corresponding reduction in the available capital cost allowance. To illustrate the present situation, a corporation subject to a combined federal and provincial tax rate of 42% would "lose" 42% of the investment tax credit. U.S. firms can claim c.c.a. for the full value of their investments; Canada should follow suit.

3) At present, the credit is 5% in Canada, and increases to 7.5% and 10% in the highest unemployment regions. The U.S. rate is 10%. We believe that as a minimum Canada's ITC should be at least 10%, although in order to continue to encourage more regionally balanced economic development, we believe that the currently differentiated rates should be doubled.

## Inventory Allowance

The recent 3% inventory deduction provided in the federal and Ontario budgets will provide some relief against the effects of inflation on the higher costs of inventories. However, as the Ontario Committee on Inflation Accounting pointed out, it is not a comprehensive response to the problem.

The present credit provides compensation for an estimated 39% of the taxes paid by Canadian corporations on the illusory inflation gains in inventories. Furthermore, since the 3% inventory adjustment does not take into account cost increases which are experienced by different industries the extent of the relief varies widely between industries.

Thus, it is our view that, as a minimum, Canadian corporations should be allowed the option of claiming either the 3% allowance or using LIFO in determining the cost of goods sold for tax purposes.

## Capital Cost Allowances

Replacement of older fixed assets at higher current costs is a serious problem. The class 29 fast write-off of manufacturing and processing equipment alleviates this problem to a limited extent, but there is no similar provision concerning buildings.

It is recommended, therefore, that accelerated depreciation should be deductible for tax purposes on new industrial buildings for the first five years.

Carry Forward Provisions

Many of Canada's existing tax credits and allowances are only useful if a company is profitable, and only limited carry-forward provisions are allowed for. We recommend that the existing five-year carry-forward limitation be eliminated.

Reserve for Unrealized Foreign Exchange Loss

At present, exchange losses on capital accounts (investment, long-term loans or long-term debts, etc.) due to foreign currency fluctuations are only deductible for tax purposes at the time the loss is actually realized.

In view of the current world-wide monetary situation and of the widely fluctuating foreign exchange rates, it is suggested that an immediate tax relief be provided for any exchange losses accrued on capital accounts. This proposed tax measure, combined with the already existing provision exempting from withholding tax interest payments to non-residents on long-term loans, will greatly benefit the Canadian money market by providing the further needed protection against monetary fluctuations.

Federal Sales Tax

To improve the position of Canadian products vis-à-vis imports it is recommended that federal sales taxes be levied at the wholesale level.

In the event it proves impossible to implement such a tax, the Task Force supports the recommendation of the Canadian Manufacturers Association, "subject to a de minimis exclusion, all importers of goods for resale be deemed to be manufacturers for the purpose of sales and excise taxes. In this way all costs otherwise excluded in the tax base would be caught".

Other Fiscal Measures to Improve the Environment for Canadian Manufacturing

Other, more basic changes are also required in order to improve the competitiveness of Canada's manufacturing industry prior to the coming into effect of the new MTN regime.

Several possible changes could be made to our present system of corporation taxation - some relatively simple in concept, some more complex and far-reaching.

We would like to put forward in this paper several possible courses of action. It must be stressed, however, that given the very limited time provided for the preparation of this report, we have been unable to research the possible impacts of these changes either on Canada's manufacturing community in general, or on the textile and clothing industries in particular.

These suggestions are, therefore, put forward as examples of the kind of fundamental and innovative changes that are required if Canada's tax system is to encourage rather than impede the development of more competitive manufacturing sectors. Furthermore, we strongly recommend that the federal government undertake a major study of these, and perhaps other proposals that may emanate from other Task Forces, and publish a green paper on tax reform within 12 months. This paper should then be the subject of extensive study and consultation between the various groups within Canadian society.

Within this context, the Textiles and Clothing Task Force puts forward the following proposals for serious study:

1) The Toronto-Dominion Bank has recommended a major new orientation in corporation taxation, involving the elimination of the present income-based system and its replacement by a value-added type system called the Manufacturer's Inverse Tax Rate System (MITRS).

While we withhold comment on the specific MITRS proposed, we do believe that the basic concept of moving towards a value-added type system to be highly attractive. Of particular importance, under the rules of the GATT, income taxes cannot be rebated on exports nor can an equivalent levy be applied to imports. On the other hand, a value-added type tax can be rebated on exports and imposed as a border tax on imports. Thus, a tax system based on a value-added levy does not penalize countries (such as Canada) which rely heavily on direct taxes compared to those nations (such as Europe) which rely heavily on indirect taxes such as the VAT.

2) A related proposal would be a tax incentive program, the object of which would be to increase the domestic manufactured content of exports. What is proposed here is that a portion of income taxes relating to export sales be deferred and used to serve as investment capital to the Canadian manufacturer. The amount of the tax deferred should be in proportion to the Canadian value-added content and could be calculated as shown in Footnote 1. The higher the value-added the higher would be the possible tax deferment.

3) Perhaps the simplest proposal for tax reform has been made by the Royal Commission on Corporate Concentration. On page 277 of their final report they favour the complete exemption of all corporate income from taxation so long as it is employed in the business. Taxes would only be levied when profits are paid out as dividends. Under this proposal, the amount of funds freed-up for re-investment in productive investments would be substantial.

To recapitulate, these last three proposals are put forward for serious further study. However, some innovative basic changes of this nature, combined with the other specific fiscal measures put forward, would, in our opinion, result in a supportive and positive tax climate in Canada.

Such a climate is urgently needed in the textile and apparel industry. This need was underscored by the Ontario Committee cited earlier which concluded that, when inflation is taken into account, Canada's effective tax rate on the textile and apparel industries was an incredible 142%. No industry can survive for long with such an onerous tax burden.

---

Footnote 1

$$\text{Tax deferment} = \frac{\text{Export Sales}}{\text{Total Sales}} \times \text{Income Taxes payable} \times \text{\% of Value-added}$$

$$\text{\% of Value-added} = \frac{\text{MC - ML}}{\text{Total Mfg. Cost of Sales}}$$

Where MC = Cost of Manufacturing and Processing Capital (Depreciation and Rent)

ML = Cost of Manufacturing and Processing Labour

# CANADIAN TRADE POLICY FOR TEXTILES AND APPAREL

# CANADIAN TRADE POLICY FOR TEXTILES AND APPAREL

## TABLE OF CONTENTS

## A. TEXTILE TRADE IN CANADA

### 1. Historical

The difficult position in which the Canadian textile and apparel industries now find themselves is for the most part the cumulative result of the events of the past three decades. The serious impact of imported textile and apparel products from countries with very low wage rates began in the 1950's. To this was added the effect of the predatory export drives of state-trading countries, often involving prices unrelated to cost and finally a large-scale campaign by many developed countries to dispose of surplus production.

By 1970 the government, in response to urgent appeals from these Canadian industries, and their labour unions, had announced a Canadian Textile Policy and pursuant to it, had established the Textile and Clothing Board. The pattern of trade in Canada had by that time been severely disrupted for several years and the overall share of the Canadian market supplied by domestic apparel and primary textile plants had dropped to 54% by 1970.

Despite the implementation of the new policy, the positions of the Canadian industries continued to deteriorate except for a brief period in 1973, when an artificial and temporary world shortage of textiles led to the abrupt withdrawal of many textile exporters from the Canadian market.

By 1973 only 6% of Canadian textile and apparel imports were included in restraint arrangements and by 1976 this percentage had dropped to only 3.3%. By comparison the level in 1969 had been 15%. In 1977, with temporary global quotas in place on apparel imports, the percentage of total textile and apparel imports under restraint had reached 24.6%. This compares with the restraint of some 75% of total textile and apparel imports into the United States in that year.

In 1974 the Canadian Textile Policy was linked to the newly established Arrangement Regarding International Trade in Textiles (MFA) and new types of bilateral restraint agreements with developing countries became possible. Canada did not take action to protect itself against the massive influx of imports from low wage countries as provided in Article 4 of the MFA with the result that "the Canadian trade situation continued to worsen. Investment in both the textile and the apparel industries came to a near halt and mill closures and unemployment continued to rise alarmingly."

Trade figures continued to bear out the record of disproportionate acceptance of imported textiles and apparel into the Canadian market, as compared with other developed countries. Per capita imports into Canada in 1975, originating in low-wage countries, reached $16 (U.S.) compared with $12 (U.S.) into the U.S. in the same year. Also in 1975 imports of textiles and apparel per capita from all countries were $59 - three times as much as similar imports into U.S., and twice the imports into the EEC.* In volume terms total imports of textiles and apparel were 594 million pounds in 1975 increasing to 750 million pounds in 1976.

By 1976, in response to a then critical situation in the Canadian industry and following repeated appeals from unions, provincial governments, and the industries, the government introduced a series of more restrictive restraint measures, culminating in global quotas on most apparel products.

### 2. The Current Situation

By 1977 the share of market held by Canadian producers had dropped from the 60-65% level of the mid-60's to some 40% in volume terms. Lay-offs in the primary and apparel industries combined had reached a total of 35,000 - 40,000 persons between 1975-77. Investment, except for essential maintenance, had ceased, and permanent mill closures were widespread. The Canadian trade deficit in textiles and apparel had been rising rapidly for a number of years and by 1977 was in excess of $1.6 billion.

---

* Source: GATT Com. Tex/W/35 1976. Note: International comparative figures on per capita imports are available only in dollar terms.

In 1977 the government, for the first time, authorized the negotiation of comprehensive bilateral agreements with major developing countries exporting to Canada. Although they will likely cover a range of products from yarn to garments they will not be as extensive in scope as the restraint arrangements established in recent years by most other developed countries, notably the U.S. and the EEC. The first seven of these Canadian comprehensives are expected to come into effect January 1, 1979 for a period of three years.

The more restrictive quota actions have begun to have some effect and by mid-1978 the decline of most sectors of the Canadian apparel and primary industries has been checked. Some recovery of position had also become evident.

3. The Period 1979-1981

The pattern of Canadian textile and apparel trade during these years will be established in large measure by the way in which the government manages the program of comprehensive bilateral restraint arrangements on Canadian imported textiles and apparel. A rigorous monitoring of the agreements already in place, early negotiations of bilateral arrangements with the additional low wage countries recommended by the Textile and Clothing Board, and prompt action against similar exporting countries entering the Canadian market with disruptive imports in the future, are essential if the injurious growth in the trade with state-trading and developing countries is to be halted and the Canadian market stabilized.

These restraints must, however, be supplemented by vigorous action to bring under control the unfair trading practices of developed country exporters who are disrupting world trade by such disposal tactics as dumping and/or selling below costs.

4. The Period Beyond 1981

Two significant events will have a major bearing on Canadian textile trade in the decade of the 1980's. Firstly, the seven Canadian comprehensive bilateral agreements now awaiting formal signing are expected to expire on December 31, 1981. Secondly, the GATT Multifibre Agreement will be renegotiated before the end of 1981.

Both government policy and industry planning must be directed toward developing appropriate responses to each at the earliest practicable time.

B. WORLD TRADE IN TEXTILES

World trade in textiles more than doubled in the period from 1963 to 1975. In that period, the Eastern Bloc countries increased their textile output by 133% and their clothing output by 171%. In the developing countries clothing production rose by 141% and in the Asian developing countries by 202%. The developed countries, including Europe, increased production by 87% in textiles and only 53% in clothing.

Overcapacity has been built in many countries for many reasons and surplus disposals as a result of such overcapacity dominate much of world trade. Developed countries have consistently over-estimated world markets, developing countries have pushed expansion to achieve growth in their economies and for balance of payments reasons the state-trading countries have expanded to improve their foreign exchange positions. In almost all countries governments have sought to improve their employment prospects by provision of subsidies for many industries, including, in particular, textiles.

Developing countries look to textiles as the first step on the way to industrialization, despite the world oversupply situation, and as a result new exporters appear regularly offering products produced at wages far below developed country levels.

Technology is no barrier to the production of even the most sophisticated goods by developing countries and specialization or new product development alone are no longer sound bases on which to justify investment.

Virtually all countries with textile industries operate systems of restraint on imports. By this means the U.S. maintains control of almost 90% of its domestic market, the EEC of more than 75% and Japan of more than 80%. State-trading countries admit only those products they need and developing countries import only what they can afford.

The following table summarizes the development of imports into the four largest industrialized zones in the world:

| Periods | EEC | | | U.S. | | | JAPAN | | | CANADA | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Text. | Cloth-ing | Total | Text. | Cloth-ing | Total | Text. | Cloth-ing | Total | Text. | Cloth-ing | Total |
| 1st period | | | | | | | | | | | | |
| 1968 | 977 | 508 | 1,485 | 963 | 850 | 1,813 | 137 | 25 | 162 | 349 | 104 | 453 |
| 1969 | 1,108 | 707 | 1,815 | 1,019 | 1,094 | 2,113 | 159 | 41 | 200 | 543 | 163 | 706 |
| 1970 | 1,268 | 806 | 2,074 | 1,135 | 1,269 | 2,404 | 224 | 91 | 315 | 471 | 170 | 641 |
| 1971* | 1,459 | 1,127 | 2,586 | 1,392 | 1,521 | 2,913 | 259 | 122 | 381 | 658 | 202 | 860 |
| 2nd period | | | | | | | | | | | | |
| 1972 | 1,936 | 1,638 | 3,574 | 1,527 | 1,883 | 3,410 | 390 | 158 | 548 | 684 | 279 | 963 |
| 1973 | 2,733 | 2,510 | 5,243 | 1,580 | 2,168 | 3,748 | 1,133 | 574 | 1,707 | 777 | 334 | 1,111 |
| 3rd period | | | | | | | | | | | | |
| 1974 | 3,439 | 3,302 | 6,741 | 1,629 | 2,323 | 3,952 | 999 | 826 | 1,825 | 991 | 412 | 1,403 |
| 1975 | 3,395 | 4,039 | 7,434 | 1,234 | 2,551 | 3,785 | 773 | 540 | 1,313 | 873 | 472 | 1,345 |
| 4th period | | | | | | | | | | | | |
| 1st half 1975 | 1,768 | 2,014 | 3,782 | 566 | 1,037 | 1,603 | 358 | 211 | 569 | 436 | 223 | 659 |
| 1st half 1976 | 2,096 | 2,422 | 4,518 | 825 | 1,624 | 2,449 | 427 | 309 | 736 | 518 | 334 | 852 |

Source: GATT Secretariat

*Excluding Ireland

The four periods to which the table relates correspond to what might be considered as four eras in the history of textile imports into the industrialized countries.

During the first period, from 1968 to 1971 imports to the four zones concerned developed in almost exactly the same way. In 1971 the United States concluded a series of voluntary restraint agreements with the principal countries of South-East Asia, which severely reduced the possibilities for these countries to expand their exports to the American market.

In the second period, between 1971 and 1973 as a result of this U.S. policy, imports into the Community increased by 103%, into Japan by 358% - (this growth rate must however be compared with the previously low volume of imports into Japan) and to each of Canada and United States by only 29%. This sharp increase led the EEC to review its foreign textile policy and eventually resulted in the signing of the GATT Multifibre Agreement (MFA) in 1973.

The third period covers the first two years of the application of the MFA. During this time, there was an increase of 70% in imports to the Community, an increase of 21% to Canada, virtually no change for the United States, and a fall of 23% to Japan. This was due in large measure to the fact that the main measures introduced by the EEC under the MFA did not enter into force until January 1, 1976, although some partial measures were implemented in 1975. The exporting countries anticipated these measures and concentrated their exports on the EEC market to improve their quota bases.

Initial provisional figures available for the fourth period, i.e. the first half of 1976, reveal a more rapid increase in imports to both Canada and the United States than to the EEC (U.S. plus 40%, Canada plus 30%, EEC plus 20%). This is explained by the fact that having neglected the American market for two years, exporters exploited its potential more fully.

Developments on the Canadian market during the last two periods are of particular interest. During the initial period of application of the MFA Canada did not introduce any significant restrictive measures under Article IV. As soon as the EEC measures entered into force on January 1, 1976, thus slightly reducing the pressure on the Community, the exporting countries launched an attack on the Canadian market. Canada was thus obliged to introduce more severe restrictive measures under Article XIX of GATT. This policy was essential to ensure the survival of certain sectors of Canadian industry.

The review of these four periods highlights, firstly, the interdependence of the major world economic zones where disruptions in one textile market have immediate repercussions on others, and secondly, that the countries of South-East Asia are able to adapt their marketing strategies so that when necessary, textile exports can be concentrated rapidly on a particular country. Such practices are capable of destroying an importing market within a few months. Potential competition from the state-trading countries should also not be underestimated. Poland, for example, is already the world's fifth largest exporter of apparel.

## C. TRADE IN TEXTILE RAW MATERIALS

Canada, like most countries with primary textile industries, purchases on the world market virtually its entire supply of natural fibre. Canadian production of man-made fibres is, however, an important Canadian industry and consumption of man-made fibres, in Canada as elsewhere, has grown to the point where they are essential for the supplying of the needs of the apparel, household and industrial goods producing sectors.

Most man-made fibres depend almost completely on the petrochemical industry for their raw materials and thus the future supply of textile products made from man-mades is tied directly to the availability of petrochemicals to Canadian fibre producers or to exporters of man-made fibres in other countries.

Assurance of an adequate guaranteed future supply of petrochemicals is a major uncertainty on the world scene today, being tied to the availability of crude oil and natural gas. Although supply problems are not yet critical most countries, including Canada, expect shortages and resultant rapid increases in the price of petroleum products before the end of the next decade. If this prediction proves accurate, the situation of countries highly dependent on imports of petrochemical raw materials for man-made fibres, the fibres themselves, or textile products made from them, could become precarious. The world-wide petroleum shortage in 1973 and its effect on reducing the supply of fibre exported to Canada should be an indication of the problems to be expected. In 1973 fibre raw materials were in short supply and availability of fibre for export tightened very quickly. Prices on the export markets rose precipitously as producing nations looked to their own needs first.

For the future, it is essential that the Canadian government make provision for a guaranteed supply of petrochemical raw materials for Canadian man-made fibres and textiles.

## D. GATT INTERNATIONAL TRADING SAFEGUARDS

The GATT articles of particular interest from the point of view of instituting safeguard measures against damaging imports are, Article VI dealing with the application of anti-dumping and countervailing duties and Article XIX dealing with emergency action on imports of particular products which are causing or threaten to cause injury to domestic producers.

1. Article VI - Anti-dumping and Countervailing Duties

Article VI provides the remedy for "material" injury caused by so-called "unfair" competition; that is, the products imported are being dumped (sold below normal value in the home market) or have benefited from a bounty or subsidy bestowed by the government of the country exporting the product. The remedy in these cases is restricted to the application of a special duty not greater than the margin of dump for the products being dumped or the financial benefit received by the product by way of a bounty or a subsidy. The Article is administered by various countries in different ways.

(a) Anti-dumping

The EEC employs price undertakings in dumping cases as an alternative to the application of a dumping duty. The U.S. is even more flexible, in part because of the presence of a "Grandfather Clause" in the GATT which permits the retention of domestic legislation in place prior to the signing of the GATT. U.S. options include price undertakings, a "de minimis" rule with respect to injury criteria and more recently the option of equating sales below cost of production with a dump price (Trade Bill 1974). Canada's anti-dumping legislation is more restrictive than that of either the EEC or the U.S. Canada has chosen to employ the constraint of public hearings in all cases and does not provide the option of price undertakings.

The major weaknesses of the Canadian anti-dump procedure as viewed by apparel and primary textile producers (a) the length of the process, from the first appeal to National Revenue to the final imposition of dumping duty, (b) the high cost of such an action and (c) because of the Canadian legislation the inability to investigate certain types of dumping which are particularly serious in the textile area.

A commitment has recently been made by the government to shorten the time taken to arrive at the decision as to whether or not dump duty is to be imposed, and new regulations have been issued. Even under the best of these new conditions, however, the elapsed time between the arrival on the market of the dumped goods and the imposition of dump duty can result in irreparable damage to Canadian producers.

The costs of an action under the Canadian system can be prohibitively high for small producers. Even relatively uncomplicated cases may run up expenses in the $50,000 - $100,000 range. A major part of the cost is due to the time required to prepare a case which will satisfy the complexities of the legislation and the requirement for public adversary proceedings. Dispensing with the strict requirement of public hearings and placing these on an optional basis could reduce significantly the cost to all the parties concerned.

A particularly serious problem for textile producers involves dumping where the real problem is the price of the raw materials going into but not produced by the manufacturer of the exported product. Present Canadian legislation does not permit investigation beyond the operations of the exporter and hense a finding of dump is precluded in these cases.

The system of price undertakings previously referred to has major advantages in that discussions with the exporter accused of dumping can begin as soon as the complaint is filed. If the importer agrees to stop dumping, i.e. commit to a minimum price level, the action can be terminated immediately, the price relief in the market place is simultaneous and the domestic producer is spared most of the cost of the action. The problem of acting against dumping where the real problem is the price of the raw materials going into the imported goods can also be solved by price undertakings in many cases.

Canadian legislation should be amended to permit price undertakings as an alternative to the imposition of dumping duties. Further the protection against injury would be strengthened by adopting the U.S. rule of equating sales below the cost of production with a dumping price.

(b) Countervail

Countervail duties can be imposed on imported goods when it is established that a subsidy or bounty has been received by the exporter (usually from some level of government) and that this benefit has been reflected in the selling price. In Canada, in order to adhere strictly to the obligations of the GATT Article on countervail it is also necessary to establish that the imports have resulted in material injury to the domestic industry.

While Canadian legislation on countervail has been on the statute books for many years the necessary regulations were issued for the first time in 1977. No countervail action has therefore ever been taken in Canada, with the result that definitions of the key criteria have never been tested. The length of time to conclude a case and the costs of the required adversary hearings are unknown but are likely to be of the same order as those encountered in anti-dump cases.

2. Article XIX - Emergency Action on Imports

This article provides for remedial action where exports are entering a country under conditions of fair competition, but are, nevertheless, causing serious injury to a domestic producer. There is also an obligation on the part of the injured contracting party on request to negotiate to offset the action taken by providing compensation in other areas. Thus, the country invoking the terms of the article risks having to give offsetting concessions which may turn out to be more damaging than the injury it sought to correct or face retaliation by the exporting country. For these reasons countries have frequently taken protective measures outside the terms of the GATT. Canada has invoked Article XIX in respect of textile importations on several occasions and has been required in some cases to give compensation. This has resulted in disruption in markets not related to those of the imports. The Task Force believes that this double jeopardy situation is unwarranted and that if a determination of injury has been made no compensation should be required.

Article XIX also requires that any action taken under it be on a non-discriminatory basis, i.e. regardless of which country or countries are causing the problem. In addition, there are no uniform requirements country to country for the criteria which determine serious injury.

Consideration is being given in the Tokyo Round to two questions with respect to this Article:

(a) The need for a definition, code or contract which would control the criteria for determining "serious injury"; and

(b) Whether the safeguard action should remain on a non-discriminatory basis or should be a selective action against those countries causing the injury.

The proposal for a change to the Article permitting selective action is strongly endorsed by the Canadian Labour Congress in its 1978 position paper on Trade and Tariffs. It is understood, however, that despite strong union and industry support for this proposition the Canadian government is opposing the idea in the Geneva negotiations. It is the view of this Task Force that the ability to act only against offending exporters would provide a useful and flexible alternative, in many cases, to restraints imposed under the MFA and that the Article should be so modified.

Under Article XIX surcharges are also permitted against disruptive imports and in Canada these are implemented by Section 8 (2) of the Customs Tariff Act. The Governor-in-Council, on the recommendation of the Minister of Finance, may apply a surtax on imports of any kind from any country which are being imported into Canada under such conditions as to cause or threaten serious injury to Canadian producers. The rate of surtax is not to exceed the rate which is sufficient to prevent further injury or threat thereof - usually at 50 - 100% of the value for duty or at a level representing the difference between an established floor price and the export selling price.

Prior to the passage of legislation in 1971 under the national textile policy, surtax and anti-dump actions were the only unilateral measures available to the government to deal with disruptive textile imports. In this regard, surtax was imposed on six occasions, only one of which had global application.

The major drawbacks involved in surtax action are as follows:

- Surtax orders are short-term measures limited to a maximum period of 180 days unless extended by Act of Parliament;

- Rates of surtax are often prohibitive and can provoke retaliation. In the only such recorded case in the textile sector, Mexico took counter-action in 1969 against Canadian newsprint and automotive exports following imposition of a surtax by Canada against imports of cotton yarn.

## E. SALES BELOW COST

Selling goods at less than the cost of manufacture is not an unusual practice in the export market. The usual objective is disposal of surplus production but a need for foreign exchange or in the case of state-trading countries a need for hard currencies can also be motivations.

The recession which followed the oil crisis in 1973 and which still affects many textile producing countries added substantially to an already sizeable surplus capacity in many textile and apparel products. The result has been a marked increase in the incidence of below-cost selling in an attempt to either dispose of inventories or keep plants running or both.

The problems which are the most difficult to deal with arise with exports from developed countries, where quota action is not a solution. The disruption to home markets is usually substantial in these cases because of the large production capacity usually involved. This is particularly serious for a small market such as that in Canada. Another feature of sales from some of these countries is that the producers can afford to offer these prices over very long periods because of massive cash subsidization by their home governments.

If the below-cost selling is practised in the international marketplace but not in the home market of the exporter, it is now being regarded as a dump situation and the Canadian anti-dump legislation can deal with it - subject of course to the time needed for investigation and to the costs, as previously discussed. This type of dumping is one of the most damaging to a Canadian domestic producer. However, there is often no bottom to the price offerings and in many cases the resultant financial burden forces mill closures before relief is available.

If the below-cost selling is practised in both the international marketplace and the exporter's home market it is generally not considered dumping and the problem becomes more complex. The investigation of below-cost selling is often further complicated by the same factor discussed above in the anti-dumping section, namely that the problem is the result of below-cost pricing of raw materials rather than of the exported article per se.

The U.S. provided legislation to deal with this situation in the Trade Reform Act of 1974 which declares all below-cost selling to be dumping. The Ad Hoc Committee on Textiles and Clothing of the Minister of Industry, Trade and Commerce recommended action on sales below cost in its June 1976 report as did the Minister's Panel on Textiles and Clothing in 1977. This Task Force fully supports these recommendations and urges the government to put measures in place at the earliest possible moment to control these disruptive practices.

## F. ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES (MFA)

In 1973 the textile exporting and importing members of the GATT agreed on a procedure designed to provide guidelines for international trade in textiles. It is generally referred to as the Multifibre Arrangement (MFA) as it replaced a previous GATT agreement covering cotton alone.

This instrument permits a nation to take a safeguard action of two general types against imports:

(a) It can negotiate bilateral restraint arrangements with exporting countries on a product by product basis after having established that the imports concerned have resulted in injury to the domestic industry.

(b) It can negotiate comprehensive bilateral arrangements with exporting countries, with a wide range of products included from yarn to garments, without the need to prove injury.

Under (a) the restraint can be applied unilaterally if an exporter refuses to negotiate while under (b) restraints are permitted only if both countries agree. Canada has followed the course of arrangements under (a) and the results have usually been unsatisfactory. Injury could be established only after imports had grown to an intolerable level and lengthy procedures were then necessary to get the restraints in place - often too late to save the home industries from virtual extinction. Other provisions of the MFA were also totally unsuited to the reality of the Canadian marketplace, including such items as the minimum annual growth rate for restrained imports at 6% or greater and the rules for establishment of a base period from which restraint levels could be calculated.

Canada was not the only country signatory to the MFA to experience difficulty with it and when the Arrangement came up for renewal in 1977, major changes were proposed. The Canadian position as presented by the Canadian delegation in March 1977 is attached as an Addendum. At the conclusion of negotiations, however, a majority of the participants agreed to renew the MFA unchanged for a further four years (until December 31, 1981). This was accomplished by opening a Protocol to the 1973 Arrangement.

However, accompanying the Protocol were informal notes of the negotiating group. These are considered in fact almost as binding as the Arrangement itself. In the notes the EEC is given the right to obtain in its bilateral negotiations with exporting countries "reasonable departures" from the terms of the MFA, particularly annual growth rate and base periods. The notes also underline the right of countries with small markets and high import penetrations to take import restraint action more severe than that permitted by the MFA. It is understood by many of the participants in the MFA discussions, however, that this applies to the Nordic countries alone. Many countries, including Canada, refused to sign the Protocol unless the same privileges of "reasonable departures" were available to them.

Canada has nevertheless begun the negotiating of comprehensive bilateral agreements with the major low wage countries exporting textiles to our markets on the assumption that the "reasonable departures" clause does apply. It is expected that as of January 1, 1979 restraints of this type with seven countries will come into force. Restraint arrangements with a further 14 countries were recommended by the Textile and Clothing Board. The industries feel that it is essential that the government move to implement this recommendation promptly on a country-by-country basis.

The industries are in general agreement with the government on its position opposite the MFA and support the proposition that the Protocol should not be signed until and unless Canada's right to significant and necessary departures is adequately recognized.

## G. THE CANADIAN TARIFF AND THE MULTINATIONAL TRADE NEGOTIATIONS (MTN)

The Canadian tariff on textiles is lower than that of the U.S. and is perhaps the most important element of a Canadian trade policy opposite imports from developed countries. Except where dumping is involved it is in fact the only barrier Canada has against imports from developed countries. Unlike many importing countries Canada makes little or no use of non-tariff barriers to control import levels except for bilateral arrangements which are negotiated only with developing countries.

The importance of the textile tariff is spelled out in detail in the submissions of the textile and apparel industries to the Canadian Trade and Tariffs Committee in December 1977. These briefs requested exemption for Canadian apparel and textiles from the tariff cuts now being negotiated in the Tokyo Round of the MTN. The industries are fully supported by the textile unions and by the governments of provinces most directly concerned.

In addition to possible tariff adjustments there are other changes that may be considered such as metrication, the binding of temporary tariff items, etc. It is impossible to evaluate these changes in terms of their effect on individual duty rates as we do not have access to the actual terms and conditions.

Seeking benefits from the Tokyo Round is, for the textile and apparel industries, singularly unrewarding. The Canadian Labour Congress Council in its 1978 position paper on Trade and Tariffs makes an analysis of the results over the years of the GATT 'Kennedy Round' and concludes that these "might lead to the conclusion that Canada has little to gain from more liberalized trade".

### Customs Valuation

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.

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.

The Brussels Definition of Value (BDV) concept is particularly inappropriate in the Canadian context where such a large proportion of transactions across the border are not arms-length transactions in respect of finished goods. What was for the original signatories to the Brussels Convention a relatively small exception to the general rule would, in the Canadian context, apply to a large proportion of imports. Quite aside from any question of the level of protection this would involve, for the administration of the Canadian Customs Tariff, a degree of exercise of administrative discretions, without any factual reference points, which would be highly undesirable and would, in fact, create the opposite effect to the principles expressed as the intent of the Brussels Definition of Value.

Another feature of great importance in the Canadian context is the application of federal sales tax to goods manufactured in Canada and to goods imported into Canada. We are aware that there have been proposals to change the basis for calculation of the federal sales tax but there is no assurance that this will be done, or if done, when it will be done. Reduction of the valuation basis for calculating federal sales tax in respect of imported goods which are not tax exempt would be highly discriminatory against competitive Canadian goods.

## H. THE CANADIAN TEXTILE POLICY

In the view of the Task Force, the broad objectives of the Policy as set out in 1970 remain valid: to preserve for the domestic industries a reasonable share of the Canadian market growth; to build a long-term climate for renewed capital investment; to permit the industry to plan for an improved market share; to encourage the rationalization, restructuring and productivity improvement necessary for long-term viability.

If the serious unemployment in these industries is to be alleviated and reasonable job security achieved it is now more important than ever that there be a clear reaffirmation of intent on the part of government to assist in achieving these objectives. It is the view of the Task Force that the climate for these industries in Canada should be no less favourable than exists in many other developed countries, in particular the U.S. and the EEC.

A beginning has recently been made by the government to realign its policies in this direction and it is the position of the Task Force that this should receive formal recognition in an updating and re-statement of the Canadian Policy with particular emphasis on the special problems the industries and the country face in the next 5 - 10 years. It is recommended that in so doing, the government solicit the views of and work closely with the Advisory Panel on Textiles and Clothing of the Minister of Industry, Trade and Commerce.

When the present Policy was announced in 1970 a number of changes were introduced in the procedures for handling restraints on imported textiles and apparel. Before restraint arrangements could be negotiated the industry was not required to demonstrate injury or threat of injury to domestic production and employment and to present acceptable plans for restructuring. The Textile and Clothing Board was constituted to assess these and make recommendations to the government on a product-by-product basis.

The approval of comprehensive bilateral arrangements now calls for a realignment of these Board procedures and the Task Force urges that this be undertaken in consultation with the industries at the earliest possible date.

Another change brought about by the Policy was the amendment of legislation to deal with injurious imports. Section 5 of the Export and Import Permits Act was broadened by the addition of sub-section (2) which allows the government to include such goods on the Import Control List pursuant to a serious injury determination.

The statistical reporting system on products so classified has been highly unreliable. However, upgrading and computerization has been started and the Task Force wishes to underline the urgent need to have this work completed and a reliable system functioning well in advance of January 1, 1979, the expected date of the first comprehensive bilateral restraint arrangements.

## RENEWAL OF THE MFA

## STATEMENTS MADE BY CANADA AT MEETINGS OF THE TEXTILES COMMITTEE OF GATT IN GENEVA

A. March 1977

59. The representative of Canada stated that while the Arrangement was a useful instrument for dealing with textile trade problems, in its present form it had proved to be inadequate to meet the problems of his country. Not only had it failed, generally, to provide a better balance of advantages between importing and exporting countries, but serious difficulties had also been experienced with the implementation of specific provisions of the Arrangement. He recalled that Canada was the world's third largest importer of textiles, with 1975 imports per capita from all countries more than twice those of the EEC, approximately three-and-a-half times those of the United States, and more than five times those of Japan. In 1975, Canada's deficit in textiles trade exceeded $1 billion. His Government attached considerable importance to the maintenance of a viable industry which, at present, provided more than 12 per cent of the employment opportunities in Canada's manufacturing sector.

60. Real difficulties now faced Canada's clothing industry due to disruptive factors. Among the options open to it was the conclusion of bilateral agreements with those partners determined to be causing serious injury. The current provisions of the MFA made it difficult to do so, and this emphasized the need for an amended and more flexible Arrangement. Noting that Canada and the Community had a number of problems in common, his delegation's view was that solutions that were available to deal with such problems must be available to all. If this situation did not prevail, it would be difficult to forecast where developments might lead. As regards the changes that should be made to the Arrangement, he mentioned that the base period provisions of Annex B were not responsive to the problems of Canda with high levels of imports penetration and frequent sharp increases in imports in spite of a fall in domestic demand. He drew attention to the statutory procedure in Canada whereby application of restrictions was preceded by a public enquiry to determine injury; this had often led to sharp increases in imports during the base period designated under Annex B as exporters increased exports in anticipation of restraints. His delegation therefore saw the need for more flexible and representative base period provisions. Greater balance and flexibility in the provisions of Annex B:1(a) or (c) could also reduce the practice of introducing restraints prematurely in an effort to head off potentially disruptive increases in import levels.

61. There was also a need for greater flexibility in the application of the rules relating to growth rates. The interpretation that a minimum of 6 per cent growth was required in bilateral agreements, regardless of the level of import penetration or the capacity of the market to absorb further imports, had frequently caused unnecessary conflicts. Moreover, there was a need to improve growth opportunities for smaller exporters and new entrants with only nominal shares of the import market. In the Canadian view, changes in the provisions of Annex B which would encourage the application of differential growth rates deserved close attention. He suggested a sliding scale formula or a differential growth rate base on inverse relationship to levels of import penetration, which would also entail larger growth rates to smaller exporters and lower rates to large ones. Similarly, it appeared incongruous to be required to grant generous swing and carry-over/carry-forward in those circumstances where substantial growth rates could not reasonably be envisaged.

62. Referring to the question of cumulative market disruption, he suggested that the problem could be solved by rewording Article 3:2 so as to clearly spell out the injurious effects of cumulative disruption, or by clearly recognizing this in Article 1:2, or in Annex A. He suggested that the opportunity be taken to clarify any ambiguous language in the Arrangement that had given rise to difficulties during its term. For example, difficulties arising from the first and last sentences of Article 3:8, which contradicted each other, might be avoided by inserting the word "unilateral" at the beginning of the first sentence. He further recalled that Canada's experience with the TSB had reinforced its view that in a reviewed MFA there must be some basic changes in the way in which it functioned and was composed. Departures should not be made from the normal GATT rules of consensus and the MFA should continue to respect GATT rights and obligations of all contracting parties which were also members of the MFA. Canada saw the MFA as a derogation from the GATT to be used only sparingly, while GATT, embodying Articles XIX and XIII which provided safeguard measures on a non-discriminatory basis, remained the basic instrument for dealing with all problems of trade. As the MFA was designed to deal especially with situations where market disruption is being caused by a limited number of sources, Canada had made use of it sparingly and only in cases where real market disruption and serious injury to the domestic industry had been determined. In this sense, additional trade measures referred to in Article 9:1 of the Arrangement did not include measures taken under the GATT and could not therefore appropriately be discussed by the TSB. Article 11:1 required balanced and broadly representative membership in the Textiles Surveillance Body, but due to lack of rotation and allocation of permanent seats to larger countries, there was no such balance. In concluding his remarks, he joined the view that the Arrangement should be as equitable as possible. He therefore hoped that the deliberations would result in an Arrangement sufficiently flexible to allow Canada to deal with the problems encountered by its textile and clothing industry.

JULY - 1977

106. The representatives of Australia and Canada recalled, and reiterated, their positions and preferences as presented earlier to the Committee, to the effect that changes either in the text or in the function of the Arrangement were required to make it more responsive to their particular difficulties. In their opinion insufficient attempts had been made to bring about a better balance between the different interests involved. Instead efforts had been directed essentially towards accommodating the interests of one participant. They continued to believe that solutions available to one participant should be available to all and, secondly, that recourse to GATT provisions should not be impaired. They therefore reserved their positions with regard to both texts before the Committee.

DECEMBER - 1977

114. The representative of Canada said that in its proposals introduced last March, his Government had expressed its concerns with regard to the renewal of the Arrangement. Since his Government had not had an opportunity to examine the Protocol closely he could not state the extent to which it met such concerns, though he presumed it was safe to assume that they were implicitly covered. He was not in a position to state whether Canada could consider itself to be part of the consensus which had favoured the opening of the Protocol; its views would be made known to the Textiles Committee as soon as possible.

ANNEX

## PROTOCOL EXTENDING THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES

THE PARTIES to the Arrangement Regarding International Trade in Textiles (hereinafter referred to as "the Arrangement"),

ACTING pursuant to paragraph 5 of Article 10 of the Arrangement, and

REAFFIRMING that the terms of the Arrangement regarding the competence of the Textiles Committee and the Textiles Surveillance Body are maintained, and

CONFIRMING the understandings set forth in the Conclusions to the Textiles Committee adopted on 14 December 1977, copy of which is attached herewith,

HEREBY AGREE as follows:

1. The period of validity of the Arrangement, set out in Article 16, shall be extended for a period of four years until 31 December 1981.

2. This Protocol shall be deposited with the Director-General to the CONTRACTING PARTIES to the GATT. It shall be open for acceptance, by signature or otherwise, by the parties to the Arrangement, by other governments accepting or acceding to the Arrangement pursuant to the provisions of Article 13 thereof and by the European Economic Community.

3. This Protocol shall enter into force on 1 January 1978 for the countries which have accepted it by that date. It shall enter into force for a country which accepts it on a later date as of the date of such acceptance.

Done at Geneva this fourteenth day of December one thousand nine hundred and seventy-seven in a single copy in the English, French and Spanish languages, each text being authentic.

Conclusions of the Textiles Committee adopted on 14 December 1977

1. The participants in the Arrangement exchanged views regarding the future of the Multifibre Arrangement (MFA).

2. It is clear from the annual and major reviews of the MFA undertaken by the Textiles Committee that certain importing and several exporting countries have encountered practical difficulties in the implementation of the provisions of the MFA. Discussions in this respect covered a wide range of areas of satisfaction as well as dissatisfaction. These difficulties, some of which are of a long-standing nature, affect seriously the trade and economic development of developing countries.

3. Members of the Textiles Committee recognized that there continued to be a tendency for an unsatisfactory situation to exist in world trade in textile products, and that such a situation, if not satisfactorily dealt with, could work to the detriment of countries participating in international trade in textile products, whether as importers or exporters or both. It could adversely affect prospects for international co-operation in the trade field and could have unfortunate repercussions on trade relations in general, and the trade of developing countries in particular.

4. Some participating countries, importing as well as exporting, felt that there was a need for modifications to be made to the text of the MFA. Others were of the opinion that any difficulties that may have arisen were due to problems of implementation, and that the provisions of the MFA are adequate to deal with such difficulties. It was agreed that any serious problems of textile trade should be resolved through consultations and negotiations.

5.1 As regards what was described by one major importing participant in its statement to this Committee as its pressing import problems, the Textiles Committee recognized that such problems should be resolved bilaterally under the provisions of Article 4 or Article 3, paragraphs 3 and 4.

5.2 The Committee noted one major importing participant's statement concerning the basis upon which it intended to achieve its stated objectives by bilateral consultations and negotiations and noted the expression of goodwill and flexibility made by certain exporting participants now predominant in the exporting of textile products of all the three fibres covered by the Arrangement.

5.3 The Committee agreed that, within the framework of the MFA, any such consultations and negotiations should be conducted in a spirit of equity and flexibility with a view to reaching a mutually acceptable solution under Article 4, paragraph 3, or Article 3, paragraphs 3 and 4, which does include the possibility of jointly agreed reasonable departures from particular elements in particular cases.

5.4 It was agreed that any such departures as mentioned in sub-paragraph 3 above would be temporary and that participants concerned shall return in the shortest possible time to the framework of the Arrangement.

5.5 The Committee also urged all participants concerned to move promptly to negotiate mutually acceptable solutions in the spirit of the MFA.

5.6 The Committee affirmed that, in seeking such solutions, the interests of the developing countries, new entrants, and small suppliers shall be recognized, and the provisions of Article 1, paragraph 4, would be fully kept in view.

6. The Committee recognized that countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production are particularly exposed to the trade problems mentioned in the preceding paragraphs, and that their problems should be resolved in a spirit of equity and flexibility. In the case of those countries, the provisions of Article 1, paragraph 2, should be fully implemented.

7. The Committee reaffirmed that the two organs of the Arrangement, the Textiles Committee and the Textiles Surveillance Body, should continue to function effectively in their respective areas of competence.

8. It was reiterated that in the future implementation of the MFA, the special problems of developing countries shall be fully taken into account in a manner consistent with the provisions of the MFA, in particular Articles 1, paragraph 3, and 6 thereof.

9. All participants saw mutual co-operation as the foundation of the Arrangement and as the basis for dealing with problems in a way which would promote the objectives and aims of the MFA. Participants emphasized that the primary aims of the MFA are to ensure the expansion of trade in textile products particularly for the developing countries, and progressively to achieve the reduction of trade barriers and the liberalization of world trade in textile products while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries. In this context, it was felt that in order to ensure the proper functioning of the MFA, all participants would refrain from taking measures on textiles covered by the MFA outside the provisions therein before exhausting all the relief measures provided in the MFA.

10. Taking into account the evolutionary and cyclical nature of trade in textiles and the importance to both importing and exporting countries of prior resolution of problems in a constructive and equitable manner for the interest of all concerned, and on the basis of the elements mentioned in paragraphs 1 through 9 above, the Textiles Committee considered that the MFA in its present form should be extended for a period of four years subject to confirmation by signature as from 15 December 1977 of a Protocol for this purpose.

# BIBLIOGRAPHY

(Government or Joint Industry-Government, or Independent Reports)


1. Regard sur l'Industrie Québécoise Textile - Québec Ministère de l'industrie et du Commerce - 1968.

2. The Canadian Textile and Clothing Industries. Department of Industry, Trade and Commerce - 1969.

3. Manpower in the Primary Textiles and Garment Industries. Department of Employment and Immigration - 1969.

4. The Man-Made Fibre Study. Canadian Textiles Institute and Department of Industry, Trade and Commerce - Joint Study - 1973.

5. Report of the Productivity and Development Task Force - Joint Study - Department of Industry, Trade and Commerce and the Canadian Textiles Institute - 1974.

6. Textiles and Clothing - National Economic Conference Document - Economic Council of Canada - 1974.

7. Sector Analysis - The Textile and Apparel Industries. Ontario Department of Industry and Tourism - 1975.

8. Apparel, Textiles and Other Soft Goods. Government of Manitoba - Chapter 4 of the Report of the Committee on Manitoba's Economic Future - 1975.

9. Apparel and Textiles - Apparel and Textiles Committee of the National Economic Conference - Economic Council of Canada - 1975.

10. The Canadian Textile Policy: A Sectoral Trade Adjustment Strategy - C.D. Howe Research Institute - 1976.

11. Report of the Standing Senate Committee on Banking, Trade and Commerce - "Canadian Textile Problems" - 1976.

12. Report of the Ad Hoc Textile and Clothing Advisory Committee - 1976.

13. L'industrie Québécoise du Textile - Evolution de l'Industrie et Evaluation de la Politique Canadienne. Québec - Ministère de l'Industrie et du Commerce - 1976.

14. Textile Primaire, Vêtement et Bonneterie. Gouvernement du Québec - 1977.

15. Report of the 1977 Ontario Committee on Inflation Accounting.

16. Reports of the Minister's Advisory Panel on Textiles and Clothing - 1977 and 1978.

17. Opportunities for Industry and Business in Canada. Department of Regional Economic Expansion - 1977.

18. Textile and Clothing Board Reports (covering 50 Inquiries and Reviews) - 1970 - 1977.

19. The Canadian Primary Textiles Industry - Sector Profile - Department of Industry, Trade and Commerce - 1978.

20. The Canadian Clothing Industry - Sector Profile - Department of Industry, Trade and Commerce - 1978.

ADDITIONAL COPIES AVAILABLE FROM:
OFFICE OF INFORMATION AND PUBLIC RELATIONS
PRINTING AND DISTRIBUTION UNIT (2E)
DEPARTMENT OF INDUSTRY TRADE AND COMMERCE
OTTAWA, CANADA, K1A 0H5

AUSSI PUBLIÉ EN FRANÇAIS