



# STATEMENT DISCOURS

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Statement by the  
Honourable James Kelleher,  
Minister for International  
Trade, on The Footwear  
Sector Import Policy

House of Commons  
November 20, 1985.

Mr. Speaker, a year ago this government announced an agenda for the economic renewal of Canada. In it, we recognized that Canada's economic well-being will be determined, in large part, by how successfully Canadians respond to the challenges of technological change and rising competition that are facts of life in today's world.

In the Agenda for Economic Renewal, we set ourselves four basic goals. To put our fiscal house in order. To make government less intrusive, reducing the compulsive regulation that has hamstrung business and sapped it of creative energy. To adopt policies that foster higher investment, greater innovation and increased international competitiveness. And to do all this in a climate of fairness and openness that is characteristic of Canadian society.

One of the basic tenets of the Agenda was that we must improve our export performance. Trade is our life-blood. Nearly one-third of our national income -- and more than three million jobs -- are directly dependent on our exports. And during the past year, promoting and improving our capacity to export has been one of this Government's main preoccupations. Securing our access to our biggest market, the United States, has of course been a major theme, but we have also launched an important trade initiative in the Pacific Rim, we have worked with the Provincial Governments to draw up a dynamic national trade strategy, and we have taken a leading role in promoting and preparing for a new round of multilateral trade negotiations that would lower more of the barriers to commerce throughout the world.

Trade is a two-way street. To export, we must also import. And the balance in our trade can only be de-

termined by our capacity to compete. Artificial barriers, such as quotas and high tariff walls, may provide temporary protection to specific industries, but experience has taught us that they are counterproductive in the long run. They can have the effect of isolating the industries they were intended to protect, of making them less able -- rather than more able -- to stand on their own.

Mr. Speaker, during the past year, this government has been engaged in a comprehensive policy review related to one of Canada's protected industries, footwear. Our producers of footwear have enjoyed the protection of import quotas for the past eight years.

In June of last year, the previous Government assigned the Canadian Import Tribunal to review the industry's position, with particular stress on determining two factors: the extent of injury the footwear sector would sustain if quotas were lifted, and the extent to which the industry had used the period of protection to become more competitive.

To carry out its mandate, the Canadian Import Tribunal spent one year conducting the most comprehensive review ever undertaken of our footwear industry. In addition to its own studies, the Tribunal heard 72 witnesses and received 39 written submissions representing virtually all interests -- manufacturers, importers, exporters, retailers, labour unions and consumers. It made its report this past June, and we see no reason to disagree with its findings.

Indeed, the tribunal found great cause for optimism. It found that, by and large, the Canadian footwear industry has, in recent years, matched, and at times out-performed, the economy as a whole and the manufacturing sector in particular.

We now have an industry which has undergone a process of adaptation, adjustment and change. It has made significant changes in product mix. It has strengthened its position in its most favourable market segments. It has sought out new methods of competing. It has improved the efficiency of its management and financial information systems. And it has continued to employ state-of-the-art technology and has moved upward in the quality scale in the market.

As a result, we now have an industry that, with one temporary and limited exception -- the makers of women's and girls' footwear -- is ready to stand up to the international challenge.

The Tribunal pointed out another relevant detail about the transformation of the footwear industry. The quota system had little effect on it. The changes were brought about primarily by the pressures of the marketplace rather than eight years of quota protection. A particular source of the industry's strength, for example, has been its ability to fill orders for short runs of new products on very short notice.

The government has therefore concluded that further granting of import relief to the whole industry would not be in the country's economic interest. Accordingly, effective December 1, 1985, import controls will be continued only on women's and girls' dress and casual footwear. This sector accounts for nearly half of the Canadian industry's sales, and it is the only sector which the Canadian Import Tribunal found would be injured by an immediate removal of quotas.

Moreover, in this sector of the industry, the Tribunal recommended -- and the government is committed to -- a phasing-out of quotas over the next three years. They will be increased by 6% the first year, 8% the second,

and 10% the third year. By then, the quotas will have been in force for eleven years.

In coming to this decision, the government was influenced by the actual effects that the footwear quotas have had. They have driven shoe prices up. Canadian consumers have paid somewhere between \$450 million and half a billion dollars more for footwear than they would have had there been no quotas. This increase has been felt most by lower-income Canadians, both because their budgets are lower and because low-cost imports have been restricted. And, because prices were higher, demand for footwear decreased. Judging by the figures produced by the Import Tribunal, Canadian consumers now buy roughly 12 percent fewer shoes than they would have if quotas had not been in force since 1978.

At the same time, the benefits accorded to the industry were minimal. In 1983, for example, consumers paid an extra \$85 million for their footwear, while the industry produced only \$29 million more than it would have without the protection of quotas.

Who gained from the quota system? The principal beneficiaries were not Canada's footwear producers. The ones who gained the most were the holders of footwear quotas -- mostly importers and large retail chains. Smaller outlets were adversely affected because they had allocations too small to take advantage of price reductions for bulk buying.

There is a broader consideration, as well, in the government decision to reduce and phase out footwear quotas. The fact is that continuation of the quotas would have seriously affected Canadian interests in other sectors of the economy.

The imposition of quotas invariably

raises demands for compensation by countries whose exports are affected. These demands are neither unfair nor unrealistic. They are provided for by the rules of the international trading system which Canada supports. But they are very expensive.

Compensation can take many forms -- lower duties on other imports, for example, or higher duties for some of our own exports. Injured countries are even entitled to retaliate by imposing their own quotas on products we sell to them.

Some members of this house will recall that at the time that the present footwear quotas were extended to November 1985, the European Economic Community threatened to exercise their right to retaliate. They threatened to raise tariffs to prohibitive levels on Canadian petrochemicals, steel products, kraft paper, furs and other products. This could have cost us \$150 million in sales to Europe -- and in industries that had nothing to do with footwear. We managed to stave off this threat only by agreeing to forgo duties on a wide range of products imported from Europe, at a cost of \$12 million to the Canadian treasury. Had we not done so, a great many jobs would have been lost. This, somehow, does not seem fair.

This government does not subscribe to the gloom and doom predictions that the lifting of quota controls would result in the eventual demise of our footwear industry. The evidence suggests just the opposite -- that the footwear industry has regained its vitality and health. It should not be forgotten, moreover, that Canadian manufacturers will still be protected by a 23% tariff on imported footwear. 23% is a lot of protection. In the U.S., the average footwear tariff is 8%; in Western Europe it is 10%. Canada's average tariff on all manufactured goods is 9%.

The process of industry adjustment has been significant. It has, moreover, been speeded by a number of government assistance programs. We estimate that, by the time disbursements are finalized under the Canadian Industrial Renewal Board program, footwear companies accounting for more than 60% of industry sales will have received benefits -- benefits totaling \$22.5 million. This assistance has been directed to management, finance, marketing and production, with the bulk of planned investments directed to upgrade equipment.

Additionally, I am pleased to announce that the Minister of Finance will give consideration to any industry requests for temporary tariff or duty remission programs to help the Canadian footwear industry improve its competitive position. These measures, coupled with Canada's existing anti-dumping legislation and the industry's increased competitiveness -- not to mention the 23% tariff -- should allow Canadian manufacturers to compete successfully against foreign imports.

The government anticipates that the lifting of quotas will give rise to a moderate surge in imports. Some of this will be due to pent-up demand for lower priced shoes. Some of it will be due to the fact that there will be a number of new importers, and some will be caused by what we expect will be an inclination by retailers to experiment by importing new items.

Our view is that the surge will be short-lived, that it will stabilize within 12 to 18 months. Nevertheless, to mitigate any effects the surge may have, we will be conducting consultations with the countries that are Canada's principal footwear suppliers. We will put them on notice that their long-term interests in the Canadian

market would best be served by a prudent and gradual approach to sales.

As for Canadian importers, some of whom have been known to bring in footwear for the sole purpose of establishing a high base for the allocation of future quotas, I will make it abundantly clear to them that such practices will not be rewarded in the future.

Mr. Speaker, Canadians across the country will benefit as consumers from this decision. But the government also recognizes that a period of adjustment for workers in the industry may well result from the removal of quota controls. We are, therefore, adopting a pro-active approach to anticipated challenges. Rather than react with band-aid measures after the fact, we are proposing a strategy that recognizes the particular dynamics of the industry. Altogether, the footwear industry comprises approximately 175 companies and employs 15,000 workers. Most companies are fairly small, with the average work force 86 people.

To assist those affected, the government has planned a three-pronged attack. We will provide aid to companies, to communities and to individual workers in the footwear industry.

Companies anticipating human resource problems can go to the government's Industrial Adjustment Service, which can make available up to \$100,000, on a cost-shared basis, for a variety of purposes, including joint research into alternate business proposals and the adjustment needs of employees who may become vulnerable to market forces.

Employees are also eligible for the Government's skill investment and skill shortages programs for professional retraining, and we will bring into play the Labour Adjustment Bene-

fits program to assist older workers unable to take advantage of new job opportunities.

A further level of assistance will be applied when disruption in footwear employment might affect a whole community. Affected communities can take advantage of the Industrial Adjustment Service, on much the same terms as affected companies. In addition, the Community Futures Program will be well placed to provide direct assistance to communities that have been dependent on the footwear industry. This assistance would come in the form of program options designed to encourage new entrepreneurial activity and new employment, or, if necessary, helping workers to relocate.

These are programs with a high degree of flexibility. We are confident they will enable us to promote the Canadian footwear industry's growing ability to compete, both at home and in international markets, and to do so without causing great upheaval in the lives of Canadians employed in the footwear sector.

Mr. Speaker, if we have learned anything from the past decade, it is that the real source of our wealth is the ingenuity, the intelligence and the hard work of the Canadian people. But we have also learned that, if we are to preserve our wealth and increase it, we must be competitive at home and abroad, and that if we are to be competitive we cannot impede change -- we must embrace it.

One year ago, the Agenda for Economic Renewal summed up the challenge in one sentence. It said, "the art of progress is to preserve order amid change and to preserve change amid order."

That, Mr. Speaker, is the intention of the action I am announcing today.