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NEW TEXTILE AND CLOTHING IMPORT POLICY

The Minister for Regional Industrial Expansion, the Honourable Michel Côté, and the Solicitor General of Canada, the Honourable James Kelleher, jointly announced today, on behalf of the Minister for International Trade, the Honourable Pat Carney, the Government's intention to negotiate a new framework for the management of clothing and textile imports.

As recommended in a 1985 report by the Textile and Clothing Board, Canada is pursuing international negotiations for renewal of the Multi-Fibre Arrangement beyond its July 31, 1986 expiry. The Government also intends to renegotiate and extend the bilateral restraint arrangements which are in place in these sectors with 25 low-cost supplying countries.

In outlining Canadian objectives for these negotiations, Mr. Côté noted that the policies in force for the past five years had been inadequate and that low-cost clothing imports had been increasing at a rate of 11% a year as compared to annual market growth of only 2.3%.

"We cannot hide from the realities of international competition in these or any other sectors", the Minister said. "But we must ensure a more moderate pace of import growth which is consistent with an orderly adjustment process."

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The Minister noted that, during 1983 and 1984, the growth in imports of low-cost clothing was 26% and 15% respectively. "This has confounded the adjustment process," he said. "The industry must be provided a more stable climate in which to plan and invest for the future."

While ensuring a more effective control over imports, the new Government policy will also take account of the special economic problems of the less developed countries. "Many of the world's poorest nations look toward the clothing industry as a major stepping-stone to development," Miss Carney said. "It would be morally wrong to deny them continued access to our market". While imports from such countries have increased rapidly in recent years, more than half of Canada's clothing imports still come from only three sources - Hong Kong, Korea and Taiwan.

Included in the Government's new policy is a duty remission program designed to increase the competitiveness of domestic shirt manufacturers. Miss Carney noted that this is an innovative pilot project: "It recognizes that quotas can not be the only answer and that we must strike out in new directions if longer term solutions are to be found".

The Government also intends to upgrade inspection procedures on the fibre content of imports, to initiate a full review of country-of-origin labelling regulations, and to seek controls on imports of garments made from vegetable fibres, such as ramie, which are not covered by Canada's current bilateral agreements.

Mr. Côté said the Government's new policy reflects the principles outlined by Prime Minister Brian Mulroney in Sherbrooke, Quebec on July 26, 1984. "Our Sherbrooke statement made clear our commitment to these vital industries", he said. "I am confident that the measures we have announced today will ensure the maintenance of a viable level of textile and clothing production in Canada."

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BACKGROUNDER

Textiles and Clothing: Two Vital Industries

The textile and clothing industries together account for almost 10% of Canada's manufacturing workforce. Their net domestic shipments in 1985 totalled $10 billion.

About 80% of employment in the industries is concentrated in Quebec and Ontario. The clothing industry tends to be centred in large urban areas. About 72% of clothing jobs in the province of Quebec are in Montreal, with about 73% of the Ontario jobs in Toronto, Kitchener, Hamilton and London. The Winnipeg area also contributes nearly 7% of total clothing employment. The textile industry is a major employer in many smaller communities in Quebec and Ontario, as well as in other provinces such as Nova Scotia.

The two industries are fundamentally different. In the capital-intensive textile sector, low-cost imports do not generally hold a major market position and only about 7% of all textile imports are subject to bilateral import restraints. In the clothing sector, however, the high labour component gives an inherent advantage to low-wage countries, and this has been the primary focus of Canada's import control regime.

Since the clothing sector is the single largest customer for Canadian textile producers, both sectors have a stake in maintaining a strong domestic clothing industry. About 40% of total textile output is apparel-related.

The 1981-85 Experience: A Declining Market Share

In recent years, the clothing industry has been losing market share to imports. These imports have captured almost all of the market recovery since the 1982 recession, while domestic shipments have remained significantly below their 1981 levels.

As a result, the Canadian clothing industry has seen its share of the domestic market decline, on a unit volume basis, from 69% in 1981 to 57% in 1985.

While accurate employment statistics in these sectors are elusive, the Textile and Clothing Board has estimated that the import growth may have cost as many as 15,000 Canadian jobs since 1981.

The average growth rate for low-cost imports, on a unit volume basis, has been 11% a year since 1981. This compares with an estimated annual market growth of only 2.3%.

The import pattern has also been highly erratic, with dramatic surges in low-cost imports of 26% in 1983 and 15% in 1984. Although the growth rate in 1985 moderated to less than 2%, this was added to the large import volumes which had been built up in the two preceding years.

Government Support for the Industries

The industries' problems have occurred in spite of considerable government support, including financial assistance, high tariffs and the quota regime.

Under the Canadian Industrial Renewal Board (CIRB), some $250 million has been committed in direct **industry modernization assistance.** This will help to support more than $1 billion in industry investment. About $300 million has also been devoted since 1981 to various **labour and community adjustment programs** in these sectors.

The CIRB completed its five-year mandate at the end of March, 1986 after reaching almost all viable firms in the sectors. Industry assistance continues to be available under the Industrial and Regional Development (IRDP) program. The $4 billion Canadian Jobs Strategy Program also provides a new thrust to labour and community adjustment in these and other sectors.

Textile and clothing **tariff rates** in Canada are nearly triple those for the entire manufacturing sector. Average rates are about 13% on yarns, 21.5% on fabrics and 24% on clothing, compared with 8.5% for manufactured goods as a whole.

Quota protection for these sectors has been in place in various forms for more than two decades. Under the international Multi-Fibre Arrangement (MFA), Canada currently has restraint arrangements with 25 countries covering 82% of all clothing imports. Unrestrained low-cost imports (8% of the total), are also closely monitored through an import permit system, and new restraints are negotiated when such imports cause disruption in the market. Developed countries, which are not restrained, account for only 10% of total imports.

Factors in Recent Import Growth

The recent low-cost import growth has occurred in spite of the extensive network of bilateral restraints. It has come from several directions:

- from the three dominant suppliers - Hong Kong, Korea and Taiwan - who account for 51% of total imports;
- from China, which has moved to a close fourth position with 12% of total imports;
- from other established exporters such as India and the ASEAN countries; and
- from newer entrants such as Indonesia, Bangladesh and Brazil.

The reasons that such high import growth has been possible under the existing regime lie in the nature of the bilateral arrangements negotiated in 1981.

Import quotas under these arrangements were underutilized in the 1982 recession but were rapidly filled in 1983 -- the so-called "overhang" problem. This was compounded by the intrinsic growth rates and by flexibility provisions which allow quotas to be borrowed from one year to another.

A range of new supplying countries has also emerged since 1981. As new restraints were negotiated with these countries, new imports were added to those from established sources.

Finally, there has been import growth in clothing items not covered by the MFA, particularly those made from a vegetable fibre known as ramie. While non-MFA clothing (including handicraft) accounted for only 4% of total 1985 imports, there has been a fivefold increase since 1981.

We Are At A Policy Crossroads

Both the MFA and Canada's existing bilateral agreements are up for renewal this year, presenting an ideal opportunity to address the problems of the 1981 regime.

Canada is not alone in seeking improvements to the MFA. The U.S. has witnessed even higher import growth than Canada and also intends to address this problem through international negotiations. The EC has experienced significantly lower import growth rates than Canada or the U.S. during the 1980s. However, it is also determined to maintain an effective restraint regime in these sectors.

In looking for an international solution, **the Government has rejected the unilateral approach of imposing global quotas** in order to freeze or roll back the level of imports. Such quotas can be applied as temporary emergency measures under Article XIX of the GATT. However, this would require that Canada withdraw from the accepted international framework for textile and clothing trade under the MFA. It would expose Canada, under the rules of the GATT, to demands for compensation or to possible retaliation by our trading partners. It would also increase the burden on Canadian consumers and represent a backward step in terms of fostering industry adjustment to international competition.

In its interim report published in June 1985, the Textile and Clothing Board (TCB) had recommended that Canada impose a global quota on clothing imports. On completing its full inquiry, however, the Board recognized the serious disadvantages of this approach and that it would, in any event, offer only a temporary solution. In its final report, published in December 1985, the TCB focussed on finding longer term solutions through renewal of the MFA and renegotiation of Canada's bilateral restraint agreements.

Negotiating A More Effective Restraint Regime

In pursuing these international negotiations, the Government has identified three main objectives:

- **a substantial moderation in the import growth rate.** The 11% annual growth experienced under the 1981 policy can not be sustained in a market growing by only 2% per year.

- **a better control over import surges.** The experience of 1983 and 1984 was particularly disruptive and was not conducive to an orderly adjustment process.

- **a differentiation between the dominant, newly industrialized suppliers and the smaller, newer entrants.** It is essential that those in the latter group, many of whom are among the world's poorest countries, be allowed continued expansion in their market access.

Duty Remission

Based on proposals put forward by the industry, the Government is also implementing a duty remission program for tailored collar shirts. The program will enable domestic shirt manufacturers to import, duty-free, product lines which will complement their own domestic output. This will enable them to rationalize their operations and become more competitive.

To qualify, a manufacturer must maintain the value and volume of production attained in 1984. The duty remission formula also includes an incentive to use domestic fabrics:

- one shirt can be imported duty-free for each shirt made in Canada with domestic fabrics.

- remission of three-quarters of the duty will be granted for each shirt made from imported unfinished fabrics.

- duty remission will be reduced to one-half for each shirt produced from imported finished fabrics.

Additional Policy Measures

A number of other steps are also being taken:

- a prompt response when new unrestrained imports disrupt the market. More than 30 new restraints have already been negotiated since September 1984.

- tighter border controls through increased laboratory testing of the fibre content in imports. This will ensure that goods are not falsely declared in an effort to evade quotas, tariffs or labelling regulations.

- a review of country-of-origin labelling requirements. Canadian consumers have a right to be able to distinguish adequately between domestic and imported goods.

- the establishment of Sectoral Advisory Groups on International Trade (SAGITs) for both textiles and clothing. The Government is working closely with industry representatives on both the MFA negotiations and the renewal of Canada's bilateral agreements.

Balancing Interests

In acting to preserve textile and clothing jobs, we cannot lose sight of the fact that there is a significant cost involved for Canadian consumers. The Textile and Clothing Board estimates that the cost of quotas alone, not including tariffs, is between $300 and $350 million per year. That translates to a cost of about $60 each year for a family of four.

Nor can we forget that trade is a two-way street. Many countries that supply us with textiles and clothing are also important markets for Canadian exports.

The economic plight of the developing countries must also be considered. These countries have a right to improve their economic circumstances and, in many cases, the labour-intensive clothing sector offers one of the few opportunities to generate industrial jobs and to earn badly needed foreign exchange.

There are no simple or cost-free solutions, and many conflicting interests must be balanced. In doing so, however, this Government is committed to maintaining a viable level of textile and clothing production in Canada and to ensuring that these industries have a more stable and secure environment in which to plan their future.

APPENDIX A

COUNTRIES COVERED BY CANADA'S CURRENT TEXTILE AND CLOTHING RESTRAINT REGIME

1985 Clothing Imports

Country	Units (000's)	Value ($000's)
Hong Kong	46,231	293,627
Taiwan Textile Federation	43,600	231,432
Korea	33,958	254,717
P.R. China	31,766	131,244
India	10,560	61,652
Indonesia	8,307	24,026
Philippines	6,847	24,041
Thailand	6,324	27,115
Malaysia	5,038	20,891
Pakistan	3,613	8,170
Brazil	3,353	10,302
Bangladesh	2,990	8,258
Romania	2,498	17,108
Sri Lanka	2,280	8,206
Singapore	2,158	12,562
Mauritius	1,408	6,253
Macao	1,227	8,489
Poland	1,181	6,121
Turkey	1,176	5,793
Bulgaria	877	7,320
Maldives	514	1,826
Vietnam	400	1,289
Hungary	320	2,910
Czechoslovakia	166	1,686
Uruguay (worsted fabric only)	N/A	N/A

Product coverage under the existing bilateral restraint arrangements varies from relatively comprehensive coverage for the major suppliers such as Hong Kong, Taiwan, Korea and China, to only single-product coverage in a few instances (e.g. pants from Turkey, fine suits from Hungary).

An import permit requirement applies to clothing from all sources, restrained or unrestrained, and provides a basis for constant monitoring of import increases which might be disruptive to the Canadian market.

Since September 1984, Canada has negotiated new restraint arrangements with Bangladesh, Turkey and Maldives as well as unilaterally imposing a quota on imports of tailored-collar shirts from Vietnam. In addition, negotiations have been concluded to expand the product coverage of restraint arrangements with Bulgaria, China, Indonesia, Malaysia, Mauritius, Pakistan, Singapore, Sri Lanka and Thailand.

APPENDIX B

THE MULTI-FIBRE ARRANGEMENT

The Multi-Fibre Arrangement (MFA) is negotiated under the GATT and provides an international legal framework governing trade in the textile and clothing sectors. The MFA was originally negotiated in 1974 and replaced previous arrangements on cotton textiles which had been in effect since 1961.

Since 1974, the MFA has been renewed twice (in 1977 and 1981), with relatively minor adjustments. The Arrangement currently extends to July 31, 1986 and negotiations on its future are now underway in the GATT Textiles Committee.

Over 50 countries are signatories to the MFA, including almost all major textile exporting and importing nations.

The Arrangement provides a derogation from normal GATT rules, in particular by allowing quotas to be applied on a discriminatory basis against specific countries rather than in accordance with the GATT principle of non-discriminatory "most favoured nation" treatment.

The basic objectives of the MFA are to achieve the expansion and progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and the avoidance of disruptive effects in individual markets.

While allowing for the discriminatory application of restraints, the MFA sets out a number of criteria to protect the interests of developing countries and to ensure equitable treatment amongst MFA signatories. Formulae are included for minimum base-levels of restraints, as well as minimum growth and flexibility provisions. However, lower growth rates can be applied in exceptional circumstances.

Under the MFA, more favourable treatment is provided for new entrants, small suppliers and cotton producers. Flexibility in this area has been constrained, however, by the fact that restraint levels must also respect the established performance of the large traditional suppliers.

Negotiation of bilateral restraint arrangements under the MFA can be undertaken only where there is evidence that imports are causing or threatening disruption in the market of the importing country. All requests for consultations and the agreements reached, or unilateral actions taken, are reviewed by the Textiles Surveillance Body in Geneva.

The MFA applies only to textile and clothing products that consist wholly or mainly of cotton, wool or man-made fibres. The arrangement does not include handicraft items or those products consisting mainly of silk, linen or ramie.