The Canadian Apparel Federation is pleased to provide comments for the 2016-17 Budget. Our association represents a wide range of firms that design, manufacture and retail apparel in Canada. Our comments relate to Canada's import tariff policy.

Tariff Policy – tariff relief on apparel imports

Over the past five years federal budgets have become the exclusive instrument for announcing significant tariff policy changes. Some of the initiatives were based on robust policy analysis while others were implemented with no advance notification, policy analysis or regard for their impacts. Successive budgets created expectations that changes to import tariff policy would be found in the budget - in part because the federal government collects well over $1 Billion in duties on imported apparel annually.

Our comments are intended to provide clear guidance for the Government as it considers new tariff policy measures in this and future budgets.

Between 2012 and 2014 the federal government used Canada's tariff policy as a mechanism to address consumer prices in Canada – in particular the apparent spread between US and Canadian consumer prices for apparel and other products. The government made numerous announcements concerning the high prices found in Canada, which remained despite the significant appreciation of the Canadian dollar in the same period.

The Minister of Finance referred the issue of a Canada-US price differential to the Senate Standing Committee on National Finance for review. CAF appeared before the committee in February 2012.

At the time we argued that the Government must make tariff policy based on a variety of factors and considerations – not only the impact on consumer prices relative to the US. In our view a singular focus on tariff policy as a mechanism to address this price differential was unwarranted. This advice was not heeded,

In the 2013 Budget duties on infants clothing were eliminated, bringing duties down from 18% to zero - immediately. Budget 2013 also announced the creation of a research study to verify that the tariff savings would be passed along to the consumer. As the Budget stated, tariff liberalization measures "come with an expectation that wholesalers, distributors and retailers will pass these savings on to consumers." This report, which was tabled at the end of 2014, confirmed that tariff reductions resulted in lower consumer prices.

Prior to this research there was ample evidence to demonstrate that apparel prices have reflected reductions in import costs relating to reduced duties and quota charges. Retail prices for clothing as measured by the Consumer Price Index (CPI), trail all other major commodities that make up the CPI basket of goods. With 2002 as the base year, prices for clothes declined by 10 per cent over the decade 2002-2012, even as prices for other commodities increased by 10 to 40 per cent during the same period.

As import quotas were eliminated and imports from countries such as Bangladesh and Cambodia were made duty-free, consumer prices declined. As a result the research undertaken by the Department of Finance simply confirmed what the CPI demonstrated: as import costs go down, consumer prices also trend downward.

Our industry remained concerned regarding federal policy making: the Department of Finance spent considerable resources to prove what was already manifest (that lower import prices lead to lower prices for the consumer) but the Department spent no time considering whether these tariff changes might impact domestic producers of equivalent products.

At the end of the day, the decision to eliminate duties on infants clothing has created a precedent for addressing tariffs on a case by case basis. Given the importance of this issue many companies have presented their views to government over the last three years, including:

Foundation Garments

Importers of foundation garments requested tariff liberalization for their products. Submissions were made to the Senate national finance committee in 2012, and subsequently with the Department of Finance. Annually there are $200 million in foundation imports and approximately $27 million in duties paid.

The entire market for brassieres is supplied by imports. Given their sophisticated structure and complex designs, their production is heavily concentrated among specialized producers based primarily in the Asia Pacific region. Foundation garments have not benefitted from tariff relief secured under various Free Trade Agreements or other tariff concessions. By CAF's calculations less than 10% of imported brassieres enter Canada at preferential rates of duty.

Denim Apparel

Importers of denim apparel testified before the Senate National Finance Committee in 2012 to request tariff liberalization for their products. Denim apparel is a clear-cut example of a product which was once manufactured in Canada, but is no longer. Annually there are $235 million in imports of women's jeans alone, and approximately $20 million in duties paid.

Recommendation:

The onus should be on the federal government to set the criteria for import tariff relief on apparel. Many companies have requested tariff relief, but there is no criteria for applications or ultimately government policy. In determining whether individual products are appropriate for tariff liberalization considerations should include the following:

1. Whether there is a substantial disparity in tariffs for specific products between Canada and the United States;

2. Whether imports of specific products already benefit from trade preferences (duty free imports under free trade agreements etc.);

3. Whether tariff relief would impact Canadian manufacturers of the products;

4. Whether tariff relief be focused on consumer products (as opposed to other end users) and

5. Whether products in question represent important expenditures for Canadian consumers.

We strongly believe a clear set of criteria for tariff relief will assist the government and industry adjust to the changes taking place in the global apparel industry.

Changes to the General Preferential Tariff

The 2013 Budget made substantial changes to the General Preferential Tariff (GPT), removing a number of countries from GPT eligibility, among them China and India. Changes to the GPT were undertaken to refocus the benefits of tariff preferences on less affluent developing countries. These changes will have a significant impact on companies that source certain garments from these countries. The product categories most affected by these changes include silk and leather garments, classified under the following tariff numbers:

• HS 6204.49 - Womens/Girls Dresses - Woven - Textile not elsewhere specified
• HS 6206.10 - Womens/Girls Blouses, Shirts and Shirt-Blouses - Woven – Silk
• HS 4203.10 - Articles of apparel and clothing accessories, of leather

These changes implemented on January 1, 2015 increased duties payable on imports of garments that are either not produced in Canada (silk) or produced in very limited quantities (leather). Countries removed from GPT eligibility (China in particular) are the dominant international sources of supply for these products. China and other countries which are longer eligible for GPT treatment supply well over 50% of the Canadian market for each of these products. As an example 90% of all silk blouses imported into Canada are sourced from China alone.

The countries that remain eligible for the GPT will not replace China and India as suppliers of these products. For silk garments there are substantial production issues that make it very difficult to shift production out of China. For leather goods production is heavily reliant on the the tannery infrastructure in China and India. Similarly these products are not manufactured in countries that benefit from other tariff relief programs (i.e. the Least Developed Countries Tariff (LDCT).

• In simple terms with the changes to the GPT the effective rate of duty on silk garments rose from 10% (the GPT rate) to 16% (the MFN rate) whereas the U.S. tariff rate on those products remain at 6.9%. The spread between Canadian and U.S. duty rates has increased from 3.1% to 9.1 %
• For leather apparel the effective rate of duty rose from 8% (the GPT rate) to 13% (the MFN rate). The spread between Canadian and U.S. duty rates has increased from 3.1% to 9.1

It is not surprising that the largest importer of leather apparel in Canada has recently sought protection from its creditors under the Companies' Creditors Arrangement Act (CCAA) - in part because of millions of dollars of additional duties paid in 2015 since these measures were implemented.

Recommendation

We recommend the following:

- Lower the MFN rate of duty on silk and leather apparel to the existing GPT rate.

Changes to Least Developed Countries Tariff (LDCT)

In 2002 the Canadian government granted duty-free and quota free access to the Canadian market for goods produced in least developed countries (LDCs). In order to qualify goods must meet the LDCT rule of origin which requires that yarns and fibres used in the production of apparel originate in Canada, an LDC or a GPT country.

In reality the vast majority of apparel manufactured in LDC's is made from GPT inputs. In 2013 following the changes announced in the federal budget the Canadian government amended regulations to add an additional category of qualifying inputs - namely the 72 countries previously eligible for the GPT which had lost their eligibility.

In its current form the rule of origin serves no purpose other than to create a paper burden for Canadian importers. In simple terms importers must work through their entire supply chain and continually monitor the origin of raw materials where the sole purpose seems to be to ensure that no raw material from Europe the United States or Taiwan factor into the production.

Our recommendation is that LDCs should be able to use textile inputs from any country in their apparel production – and qualify for duty entry into Canada. The benefits of these proposed changes would be:

- Significant reduction in compliance costs (and risks associated with compliance - especiallysmaller importers;

- It would reinforce LDC production, as it would allow for a wider range of textile inputs to be used in qualifying LDC apparel;

- It would align the Rule of Origin with those found in recent Free Trade Agreements –(i.e. Canada-Jordan and the Canada-Korea FTA

- It would align our program with other trading partners: bringing Canada's LDC Program into line with the revised rules under the European Union's Everything But Arms initiative.

Recommendation

We recommend the adoption of a single transformation rule of origin for LDC's, allowing textile inputs from all sources. This would bring Canada's LDC Program into line with the European Union's LDC initiative, which allows all fabric inputs regardless of origin to be used in qualifying LDC production.

The simplest mechanism to address this is to revise section 2.4 of the General Preferential Tariff and Least Developed Country Tariff Rules of Origin Regulations (SOR-98-34) by eliminating all restrictions in terms of raw material source.

We would welcome the opportunity to review these recommendations with the Committee, as required.