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Committee on Foreign Affairs and International
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Chair

Mr. John Cannis

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• (1530)

[English]

The Chair (Mr. John Cannis (Scarborough Centre, Lib.)): I'll call the meeting to order.

We're all pressed for time. First of all, I'll begin by welcoming the witnesses. There's been a slight change. The Canadian Textiles Institute will speak first, I understand. We had it on the order paper that the Canadian Apparel Federation was going to go first, but we are just reversing the order.

I'll just go down the list and introduce our witnesses.

First of all, thank you for coming.

From the Canadian Apparel Federation, we have Elliot Lifson, president; Bob Kirke, executive director; and Richard Wagner, legal counsel.

From the Canadian Textiles Institute, we have Harvey Penner, chairman; Elizabeth Siwicki, president; and Lucie Brassard, director, government relations.

From International Trade Canada, we have Suzanne McKellips, director general, export and import controls bureau; and Louis Gionet, deputy director, trade controls policy division.

From the Department of Finance, we have Emmy Verdun, director, international trade policy division.

It's my understanding you're here basically to answer questions and you have no set presentation.

We also have Iain Stewart from Industry Canada.

Welcome.

Let me just ask those from the Canadian Textiles Institute if one speaker is to do the presentation.

Mr. Harvey Penner (Chairman, Canadian Textiles Institute): Yes.

The Chair: Okay, and that will be Elizabeth.

Mr. Harvey Penner: No, I'll be putting remarks.

The Chair: Okay, great.

So we'll start with a ten-minute presentation, if that's okay.

Mr. Harvey Penner: Mr. Chair and members of the subcommittee, my name is Harvey Penner. I am chairman of the Canadian Textiles Institute and president and CEO of Tricote Richelieu Inc.

I am here with Lucie Brassard, director, government relations, Consoltex; and Elizabeth Siwicki, president of the Canadian Textiles Institute and chairman of the Textiles, Fur and Leather SAGIT.

We're pleased to have this opportunity to appear before you to tell you about our industry and our concerns for the post-2004 world. The Canadian textile industry is modern, dynamic, creative, entrepreneurial, and innovative. It provides interesting and rewarding direct employment for almost 50,000 Canadians and indirect jobs for many thousands more in communities where the industry is a major or the sole employer.

It's a substantial contributor to the nation's economy and one of Canada's major exporting sectors, with exports accounting for over a half of the total textile industry shipments of \$6.5 billion.

The industry has invested over \$4 billion in plants and equipment over the past decade. It has a highly skilled and motivated workforce and includes some of the finest examples of technology and processes in the world. It is one of only six Canadian manufacturing sectors where R and D outpaces R and D done by U.S. firms, as reported in a recent study released by Statistics Canada.

So with all this going for us, what does the post-2004 environment hold for our industry? In many respects, 2005 is already upon us and the impacts are already being felt. China has been gearing up production in anticipation of the quotas ending at the end of this year and it has increased its share of the Canadian market in many product areas. Textile imports from China rose almost 10% in 2003 over 2002 and are up another 18% so far in 2004.

Both our customers in the U.S. and their customers in the retail trade have already made their sourcing decisions for the coming season with the end of the current regime in mind. It's a little more complicated in the U.S., where there have been a number of safeguard petitions launched against China, which is making placing orders more of a challenge, but the bottom line is that our industry is already being affected by a quota-free world.

At the same time, we have to adjust to the new international trading environment. We also face other significant challenges, some of them 100% homegrown. For example, last year the government implemented the LDCs initiative, which provided duty-free and quota-free entry for imports from 48 least developed countries. Our industry was not opposed to Canada helping the truly poorest countries of the world, but raised the alarm bells on the way it was proposing to do this.

Our concerns, which were put forward jointly with the apparel industry, were totally ignored. The result has been a surge of imports from the LDCs and lost sales and opportunities for Canadian manufacturers. Clothing imports from the LDCs more than doubled in the first year the program was in place. The LDCs have gone from 2% of apparel market share in 2000 to 6.1% in 2004, surpassing both the U.S. and Mexico's market share, which are 5.4% and 3.3% respectively.

But who is really benefiting from this initiative? The rules of origin that determine which products qualify for preferential treatment negate any real benefits to the LDCs by allowing up to 75% of the value of the garments eligible for preference to be from non-LDC countries. This relegates the LDCs to marginal value-added activity, where the bulk of the benefit goes to other countries. In fact, and this is to be noted, the greatest beneficiaries will be the non-LDC countries like China, India, Pakistan, Brazil, and others that are established and experienced textile producers and exporters. At the same time, Canadian manufacturers are losing business, and any opportunities we might have to sell our yarns and fabrics to the LDCs to mitigate some of the negative impact are lost.

Changes can and must be made to the rules of origin if these are well-intentioned initiatives to meet our long-term objective of helping the poorest of the poor and to prevent further damage to Canadian production and employment. Another challenge is the erosion of NAFTA, perpetrated by increasing bilateralism, particularly in the U.S. The Canadian textile industry is a free-trade success story, or it was until the U.S. government abandoned one of the key principles of our NAFTA partnership and began implementing bilateral arrangements that excluded the NAFTA partners.

The U.S.-Caribbean Basin Trade Partnership Act, which provides duty-free and quota-free entry for apparel made in the Caribbean from U.S. fabrics and yarn, has had a devastating impact on Canadian textile exporters. Companies that flourished under the Canada-U.S. FTA and subsequently NAFTA by establishing and growing their U.S. export business have closed, filed for bankruptcy protection, or lost orders as a result of this legislation.

● (1535)

Canadian textile export growth between 1989, when the FTA was first implemented, and 2000 was 308%. Between 2000, when the legislation was implemented, and 2003, exports declined by 3.1%, and they're going down in 2004.

The U.S. is continuing on the same dangerous legislative track with similar arrangements with sub-Saharan Africa and the Andean countries and a free trade deal with Central America that also largely excludes Canadian inputs. Our industry has pinned its hope on the early implementation of the FTAA to provide for the seamless movement of goods within this hemisphere. It is the best prospect for

resolving the inequities we now face vis-à-vis the United States' competitors because of creeping bilateralism.

We're very discouraged that the January 1, 2005, deadline for the completion of negotiations is going to slip. We recognize that negotiating with 33 other countries isn't simple, but we need more than the good efforts of our Canadian negotiators to make progress. We need strong political will from the top all the way down to pursue and achieve a beneficial agreement in the fastest time possible. Every day that passes without an FTAA means more lost business for Canadian textile firms.

There are other measures the government could take to help Canadian textile producers tackle the post-2004 challenge. Canada already provides duty-free entry for many fabrics used in garments made in Canada and duty-free entry for some garments that are 100% made outside of Canada. But garments made in other countries from Canadian fabrics are fully dutiable. We believe this is a missing link in the textile tariff policy.

The Americans and Europeans both have outward processing programs that provide a preference for foreign garments incorporating the domestic textiles. Canada does not. We need a Canadian outward processing plan for textile producers, and we need it quickly if it's going to do any good.

We also need the government to understand that removing tariffs on textiles that compete with what we make in Canada will result in a loss of business and jobs in our industry. My colleagues from Consoltex are living proof that the government's approach to textile tariff policy is damaging, and we are extremely concerned that the Minister of Finance is about to inflict further damage on textile producers.

We realize that the intent of the proposed tariff reductions announced last February is to help the apparel industry, but help for one of us should not be at the expense of another. We have encouraged the minister to revisit the approach and find an alternative solution that would be positive for both industries. We are more than willing to participate in finding this solution.

Finally, Mr. Chairman and members, we are very concerned that the government believes it has addressed 2005 and solved the problems of our industry through CATIP and CANTex, but nothing could be further from the truth. These programs may help some firms but are very limited in the type and amount of assistance they can provide. Canada needs sensible industrial and trade policies if industries such as ours are to remain significant investors, employers, and generators of wealth in this country, and it currently has neither.

Where is the logic in creating system programs to help our industry become more efficient if the government is giving our markets away to imports, forcing our customers out of the country, and encouraging those who remain to source duty-free imported textiles? Why export Canadian jobs to Africa, Bangladesh, China, Korea, India, and other countries, only to pay unemployment benefits to workers in our own communities? What is the point in urging Canadian manufacturers to develop marketing plans to penetrate the U.S. market when the access we require under the free trade agreement is being undermined by U.S. trade legislation and our government appears powerless to do anything about it?

Where is the policy framework that signals to textile manufacturers that they should continue investing in Canada because the government recognizes the value of our industry to the economy, to Canada's knowledge base, to our workers and their families, and to our communities? We can adjust to a quota-free world, but we need our government as a partner in the process and to be proactive in levelling the playing field so that we are not at a disadvantage vis-à-vis our competitors.

As an industry, we have been taking the steps necessary to build on our strengths, our past successes, and the opportunities that are available to us, but we can't be successful if the government throws unnecessary obstacles in our path and fails to address the key issues through sound policy.

Thank you.

• (1540)

The Chair: Thank you.

We'll go to Mr. Lifson, please.

Mr. Elliot Lifson (President, Canadian Apparel Federation): Mr. Chairman, I would like to thank you for this opportunity to appear before your committee to outline the views of the Canadian Apparel Federation with respect to elimination of quotas and imports of apparel, and January 1, 2005, is right around the corner.

[*Translation*]

I will be making my presentation in English, but I can answer all of your questions in French.

[*English*]

A written brief has been distributed, and I will make reference to several articles attached to it.

I would like to introduce myself. My name is Elliot Lifson. I am president of the Canadian Apparel Federation. I am also vice-chairman of Peerless Clothing Inc., the largest Canadian apparel manufacturer and the largest single facility in the world for the manufacturing of men's suits, right in Montreal. We employ over 3,000 people in our Montreal facility.

I am joined by Bob Kirke, executive director of the Canadian Apparel Federation, and Richard Wagner, our counsel.

As of 2002, over 94,000 Canadians were employed in the apparel industry, with an annual payroll of \$2.3 billion. The apparel industry is the tenth-largest manufacturing sector in Canada and the second largest in the province of Quebec. Today your committee has invited

us to provide guidance to you concerning the elimination of import quotas.

As you are aware, Canada is set to complete the final round of quota elimination, bringing to an end a ten-year phase-out of quotas. As a result, the renewal of the LDC and GPT tariffs must be accompanied by other measures to ensure that there remains a viable and strong apparel industry in Canada.

We can succeed with fashion. There are really only three ways to compete. There's price. We cannot be the lowest-cost producer, but there certainly has to be a price-value relationship, which I will refer to again. There's innovation, which means fashion. We have great talent, certainly in Montreal and Toronto. Montreal is the second-largest manufacturing sector in North America after Los Angeles and larger than New York. The other way to compete is service. Service, service, service your customer. Our big, unique, competitive advantage is our proximity to the U.S. marketplace. That's it, and that's how we have to service it.

I would like to take a moment to provide background on our industry. Our industry serves two purposes. One is economic. It obviously provides jobs for both entry-level and higher-skilled technical and management personnel.

Entry-level means qualified immigrants. I always question government at committees on what the definition of a qualified immigrant is. It's not the PhDs and doctors and engineers, because they can't find jobs when they come here; the associations don't allow them in.

We employ qualified immigrants. They are entry-level people whom we train. We don't get paid for training them. They're unionized. We teach them French four afternoons a week. We give them a full medical plan after three months. That's what I call servicing, not only economically but socially.

This year, on September 23, 2004, right in our premises we had a court of Canadian citizenship—the first time in a private company. Twenty-two of our employees were sworn in. That's full service to an employee. We play an important role in socializing new immigrants.

Keep in mind, we also have ERP or enterprise resource planning systems. Our software is SAP. We invested in it. We didn't get a penny from the government; we didn't ask for a penny. We have EDI or electronic data interchange for an in-stock replenishment program. That's our biggest advantage, going back to what I said before: proximity to the U.S. market.

These contributions to the economy were underlined in an opinion piece I wrote—the first time I ever wrote an op-ed—of March 24, 2004, in the *National Post*. I'm really very proud of that one. I'm not a journalist, but it was my first attempt, so it was a good shot.

• (1545)

The Chair: I hope you framed it.

Mr. Elliot Lifson: You can bet your boots I did.

Many Canadian firms have become market leaders and successful exporters over the past decade, making major inroads into the U.S. market in particular. The industry currently exports over \$2.5 billion in apparel per year to the United States alone.

Despite our successes, the Canadian apparel industry faces immense pressure and challenges. Some of the pressures and challenges faced by the industry are driven by competition in the marketplace, while others are matters of governed policy.

Last year the Government of Canada, on January 1, 2003, amended the LDC tariff, reducing duties on apparel imported from LDC, meaning the least developed countries, from approximately 18.5% to zero. Canada also removed quota restrictions on garments made in these countries. Therefore, zero quota, zero tariffs; enter full garment, such as from Bangladesh.

The effect of the complete duty and quota removal was immediate and significant. Apparel imports from major LDCs grew rapidly in 2003. Imports from Cambodia increased 328%; imports from Bangladesh, 115%.

By the way, when the government made the proposal, our industry was not against African-only. Our industry warned the committees that if you include other countries such as Bangladesh, which has an infrastructure, where is everybody going to go? Bangladesh. No question about it. Why build an infrastructure that doesn't exist when one does exist?

If everybody remembers their geography, Bangladesh has China on one side and India on the other side.

The effect on Canadian apparel manufacturers was also clear and was underlined in an article in the April 16, 2004, edition of *The Globe and Mail's Report on Business*, a copy of which is attached as schedule 4.

Companies closed or moved their production offshore in a dramatic fashion during 2003. The reason is very simple: under the provisions of the LDC tariff, manufacturers based in Bangladesh or another LDC can purchase fabric in China, cut and sew the garment in Bangladesh, and ship the finished goods to Canada duty- and quota-free.

However—listen to this—the Canadian manufacturer willing to make the same garment in Canada has to pay between 12% and 16% duty on the input fabric he brings in. We're doing it now. We at Peerless are importing men's trousers from Bangladesh duty-free, quota-free.

The mill is in China because Bangladesh does not have the infrastructure. Follow this: China to Bangladesh, tariff-free, finished garment into Canada. We use the same mill to produce the same trousers in Canada, using Canadian employees, and we pay 14% duty on that fabric. It does not make sense, keeping in mind that fabric is our biggest cost factor. Twenty per cent of our cost is labour. The rest, the biggest part, is fabric.

Keep in mind that we are talking about fabric of more than \$10 a metre. For a suit, you require close to four metres. So it's easy to calculate. Give us the tools.

On an annual basis, our total industry pays over \$110 million in duties on raw materials.

In terms of our company, we are now beginning import programs we would never have considered two years ago, because we can now import these trousers duty free.

This will have an impact certainly on our domestic employment. The elimination of import quotas and measures such as the LDC market access concession cannot be done without making significant changes to other policies.

I will focus on one simple and straightforward measure that the federation urges the committee to recommend to the government for immediate implementation: the immediate elimination of duties on fabric inputs used by the Canadian apparel industry to manufacture apparel in Canada. We need a level playing field.

The reason we stress the issue of tariffs on raw materials is very simple. The single most important determinant of a garment's fashionability and market acceptance is the fabric from which it is made, what makes the fabric and what makes the final garment.

• (1550)

The elimination of duties on imported fabrics allows Canadian apparel producers to be competitive domestically and in export markets. Where duties have been eliminated, Canadian companies have taken full advantage of these opportunities and expanded production, employment, and exports.

Tariff relief is also easy to implement. No legislation or regulatory amendment is needed to implement reductions in duties. At any time, the Minister of Finance can amend the customs tariff as appropriate. Just as the government took decisive action to reduce duties on the LDC imports in 2002, it can do the same for this industry now.

Domestic production of textiles used by the apparel industry is limited in many cases. Many Canadian apparel manufacturers cannot source their fabric and other raw materials domestically. The high level of imported raw materials used by our industry demonstrates this. Where there is a source of supply in this country, it is certainly utilized, because it's easy to utilize what you have next door. But we're in a global marketplace. We are in the fashion business, and we have to have world access.

By the way, to give you the best example in the world, China is a larger importer of textiles than they are an exporter, which means they import it to make finished garments.

We are not asking for a handout here. We are not asking for a subsidy. The Canadian apparel industry is simply asking the Canadian government to stop taxing the industry on the raw materials it needs.

It is clear: the single most important determinant of a garment's fashionability and market acceptance is the fabric from which it is made. The cost of the fabric can represent up to 75% of the total input costs of an apparel manufacturer. The elimination of duties on imported fabrics allows Canadian apparel producers to be competitive domestically and in export markets.

The benefits of lower import duties are clear. Where duties have been eliminated, Canadian companies have taken full advantage of these opportunities and expanded production employment in exports. I work for such a company. Since 1994, our volume has increased tenfold.

We have a number of recommendations for this committee. First, the committee should urge the government to make industrial policy adjustments needed to allow the apparel industry to prosper in conjunction with the removal of import quotas. The committee should endorse the House finance committee report tabled in March of this year, and specifically its recommendations concerning import tariff relief and duty remission extension. The committee should ask International Trade Canada to monitor Canadian access to the U.S. market, to ensure that U.S. customs activities do not diminish our access to the U.S. market.

The apparel industry has been and remains an important contributor to the Canadian economy. The industry's ability to do so in the future will depend on the actions of the government and on the positive advice and recommendations your committee can provide.

Do we want to keep a domestic apparel industry? As set out in the *Financial Post* opinion piece, and by Mr. Bob Silver of Western Glove Works in Winnipeg before the House finance committee, the Canadian apparel industry produces more than just garments; it produces people. The industry's ability to do so into the future will depend on your recommendations.

I thank you very much for your attention.

• (1555)

The Chair: Thank you, Mr. Lifson, and thank you, Mr. Penner, for two very thorough presentations.

We will begin questions with Mr. Menzies, ten minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you. That was most interesting. I must admit, I haven't followed the textile industry very closely, but at times it's nice to have you close by. We're all supporters of your industry.

I've been very involved in agricultural trade negotiations, and I'm looking at what I'm seeing and hearing here as—pardon the partisanship—another example of our government's inconsistency in its trade positions. I'm not too sure what questions to pose to you, but perhaps you can tell me, do you feel this government has failed you at the WTO? Is this WTO-based? Is it NAFTA-based? Is it both? Is it a fact that we haven't pushed hard enough for market access?

I look at your description of the 12% duty on raw material, and yet you can bring the whole thing in duty-free. We have issues in agriculture that the finished product has a higher tariff than the raw product going into a country. We call that tariff escalation. This would appear to be reverse tariff escalation, if there is indeed such a term.

Can you enlighten us a bit? Has the government failed you at the WTO? Have there been opportunities?

Mr. Harvey Penner: I don't know if it's addressed to Elliot or to the textiles institute, but—

Mr. Ted Menzies: It's for whoever would like to address it.

Mr. Harvey Penner: Without being biased or political, you have to look at the history of what's happened. When Elliot expresses that he has to pay 12% or 14% duty on fabric and Bangladesh comes in duty-free, and the goods come from China.... They exploit the worker in Africa who has no infrastructure. He doesn't have to have an infrastructure, because the goods come from China and they don't have the infrastructure.

You have an LDC, which we went to the government with. We worked very hard to explain it, and the Canadian government decided, against all the advice of the apparel and textiles industries, to put that into place. It's not like America or Europe, where there was a phase-in period or some limits on what they could do, so they could establish in the LDC countries an infrastructure of knitting, dyeing, finishing, weaving. It let this thing go through, allowing third countries that were producing fabrics to ship to those countries and then ship back into Canada quota- and duty-free.

It destroyed jobs in Canada. It did it against all the advice we gave them. And the government still has a possibility—and we've recommended a number of times that it look at it again, like the Americans did—to put a limit, a timeframe.

It destroyed the incentive of any entrepreneur I know of, both in apparels and textiles, to reinvest in this country. It drove down the average prices dramatically. I can quote you prices from Bangladesh on a T-shirt that is \$2.02 duty-free, and the same T-shirt from China is \$3.68 plus duty, which will bring it up to \$5. It's twice or three times his price.

What does this do to the Canadian manufacturer? It creates tremendous pressure on him to reduce his prices to even stay in the game. The Canadian government destroyed jobs. It has taken an attitude that is despicable, and we've protested and protested and protested and we are getting nowhere.

If you want to do something positive for this industry, then you go out and you petition the Canadian government to put in some limits, to put some of the American rules in, to put in an opportunity for Africans to build their countries, not to use their cheap labour as they move from country to country. Why would people have to import from China and pay 8% or 14%? They can take the goods, move them into Bangladesh, make the suit, and ship it in here duty-free. That is the biggest blow we've had in the last 24 months.

The second blow is the fact that on NAFTA it let the Americans set up bilaterals, it let the Americans set up CBI and the Andean Trade Preference Act. The Americans set it up with goods inputs forward from the U.S., not from those countries. Canada does nothing. Our government sits and tells us to get together and talk it over.

China—the Americans are moving on China. I'm sure our government friends will tell us that nobody told them anything about China, so why should they do anything? We don't have the time. We're too busy trying to run our businesses to go after every case that we can do.

If you have free trade of the Americas, that's our hope. Then you have a seamless movement of goods through 34 countries. Then we could produce the goods here, sew them in Honduras, and ship them back to the United States. That's what the Americans are doing, and that will be the best method you can use to fight China by going that route. You're close to market, you can move fast, you can service, and you can be responsible to the buyers. And a chain store in New York that's buying pink in January can't wait for a repeat to come from China in July. If you can utilize the free trade of the Americas and use labour in these countries as well, coordinating with what we have here, you're going to have a perfect world for the Canadian apparel and textile business.

The problem is, the Canadian government has done everything in its power to hurt us. It hasn't done anything positive. It's ruined jobs, closed plants everywhere in this country, plants in small towns, with people making \$35,000 or \$40,000 a year in salary who are then going to go on and work in a depanneur for \$6 an hour, with no holidays, no vacation, no nothing.

This is continuing without anyone making any protest. There is no industrial policy on secondary manufacturing in this country. It's destroying not only the apparel and the textiles, but furniture and every other commodity. There will be no secondary manufacturing left in ten years. And then when China decides to revalue its currency and push in higher prices, there will be nowhere to buy the goods, because the Canadian industry will be destroyed. We cannot survive without the U.S., and we need the NAFTA.

So there it is, in a nutshell. The Canadian government is responsible. Let it do something about this. Let it put pressure on the Americans under NAFTA, revoke the LDC or change it, and set up an outward processing possibility. Then you'll have a return to 300% growth, because the textile industry has the equipment, the textile industry is capital-intensive, the textile industry is low labour as a percentage of the product, and the textile industry is the foundation of the apparel business. If you don't have a textile industry, you won't have an apparel business, and if you don't have an apparel business that has inputs from Canada, you can't take part in NAFTA. You can't bring from China and ship to the United States. And you can't survive in this country. There are only 30 million people here; there are 300 million there. That is where we can do business. The American textile and apparel business is destroyed. We still have an infrastructure and we can survive and prosper.

• (1600)

We're not against the idea of the government partaking in this and helping the apparel business, but look at it from a point of view that

doesn't destroy the textile business. Look at the percentages they want to take off on products we don't make, but don't just come *carte blanche*.

We have a big producer of yarn called Atlantic Yarns that set up in New Brunswick a couple of years ago. It's huge. If we don't have sources of fibre for yarn—

The Chair: Hasn't it gone bankrupt?

Mr. Harvey Penner: No, it didn't go bankrupt. It's a very successful company. I think there must be another one. Atlantic Yarns is huge. If we have to go to the United States, we can only live off yarn when it wants to sell it to us. But we have NAFTA here.

So it's a very simple process. The results of NAFTA are there. The LDC is a scorched earth policy by the Canadian government. I'm so livid over what it did with the apparel and textiles industries. If you want to do something, go back and copy the American model, or go down there and do something about it so that limits can be put in.

We introduced it. It's a Canadian-driven plan; it can be a Canadian-driven adjustment.

Mr. Ted Menzies: I sense I touched a nerve there.

Mr. Harvey Penner: Yes.

Mr. Ted Menzies: I'm glad I did. That was the point of my question.

Mr. Harvey Penner: We're fighting for our lives.

The Chair: Mr. Kirke.

Mr. Bob Kirke (Executive Director, Canadian Apparel Federation): I think what Harvey is really touching on is that there are mammoth changes worldwide happening in this industry. Maybe if you step back a little bit, there are estimates that up to 30 million jobs will be moved, will be changed, as a result of quota elimination. This is what your committee is looking at, so maybe we could just start there.

Essentially what quotas do is force companies to source their goods where they don't necessarily want to. If the quota is full from China, they create industries in all sorts of secondary and tertiary countries that build up industries and capacity. We have a situation—and I'm not trying to credit or blame the government, but the fact is there is twice the capacity worldwide than we need. When the quotas all come off at the end of December, you will correct that.

There are members of Parliament who have operated businesses. You can understand that if capacity is twice the demand, there's a problem. This is a problem that has been created over a quota system over 40 years.

The backdrop is not good. There are real, substantial problems, and all governments are grappling to understand them. And of course we have the rise of China, with the currency being essentially tied to the U.S. dollar, and its prices have been dropping, even at a time when everything else is in its favour.

To start with, there are mammoth changes happening. And there is a real problem, I agree—we don't disagree—in terms of the LDC being a bad policy for the domestic producer. But at some point we have to address industrial policy issues as they are presented to us and try to move on.

I don't believe the Canadian government will change the LDC policy. It will not do that. I'm not saying there isn't some sympathy among our manufacturers for it, but it's not going to happen. I think we have to move forward. On January 1 the quotas will go, and whatever the Americans are doing with respect to special safeguards is going to mean a slight difference. It will interrupt things for a year, but long-term it's not there. We're entering a global market. We have to find ways to compete, and we have found ways to compete.

I just want to say that there are massive changes. To single out the Canadian government alone is not accurate. I mean, we have a situation where 30 million jobs will move over the next few years, and some of those are in Canada. Everyone is grappling with it.

To be honest with you, the LDC policy was an effort on the part of the government to give a certain stake of the market to LDC countries. Whether it's a good policy or a bad policy, it may have done so. But we're all facing heightened competition and we have to see where it all heads.

• (1605)

The Chair: Thank you. Sorry, your time's up. We'll save it for the next round.

Monsieur Paquette.

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chairman.

Thank you for your testimony. This is not the first time that we meet. I was in fact at the finance committee when you appeared and we were working on this report that was tabled today. Unfortunately, we felt that, on the government side, there was not enough will to adopt the report, which concerns us tremendously.

I would like to ask you a technical question before I turn to your requests. As of January 1, quotas will be eliminated pursuant to an agreement signed in 1995. However, there are no obligations with respect to tariffs. What does the government intend to do with respect to these tariffs? Are they to be maintained at the current level or gradually reduced?

I think this issue is closely tied to the request concerning the remission of customs duties, because if the companies that manufacture clothing, for example the import manufacturers, continue, in order to remain competitive...

I visited a company. That visit taught me a lot. Perhaps I will visit your firm. In order to bid and compete, often import manufacturers will produce part of the clothing here and import the rest. But if there is no remission of customs duties, they will no longer be competitive. However, this was somewhat like an acquired right. It seems to me that as long as our import manufacturers pay tax, the customs duties remission policy should remain in play. If tariffs are reduced, it is clear that, eventually, there will no longer be any remission of customs duties.

Could you provide me with a bit of information on the departments' plans with respect to tariffs.

• (1610)

Ms. Emmy Verdun (Director, International Trade Policy Division, Department of Finance): In February, we announced a program for the textile sector which adds another \$27 million over three years to the existing program in Industry Canada.

With respect to the apparel sector, the government announced that tariffs on imported textiles would be reduced by this same amount, namely, \$27 million over three years. It also announced that these reductions would continue at the end of this term. Unfortunately, we have not yet started reducing tariffs. We are waiting for a report from the Canadian International Trade Tribunal, which is currently studying which textiles are made in Canada and which are not. We are expecting the final report from the tribunal on January 30. The government will then implement these reductions.

You also referred to the finance committee report. We are in the process of reviewing the recommendations. We know that the government must respond to the report by March 18. The recommendations are, therefore, being studied.

Mr. Pierre Paquette: Does that mean, then, that as of January 1 or 2, customs duties on imported shirts will not, for instance, be lower?

Ms. Emmy Verdun: This program will not continue if the government does nothing. The minister is currently studying the matter. He is well aware of the recommendations made by the committee and advisors.

Mr. Pierre Paquette: It is being studied.

Ms. Emmy Verdun: Yes, that is right.

Mr. Pierre Paquette: There is no obligation to reduce tariffs in the agreement. Is there an obligation to eliminate or reduce customs remissions in the WTO agreement?

Ms. Emmy Verdun: No, this is exclusively a policy of the Government of Canada.

Mr. Pierre Paquette: Nothing would prevent us from maintaining them.

Ms. Emmy Verdun: No, that is correct.

Mr. Pierre Paquette: We have already made a bit of progress.

We are very sensitive to the problems facing the textile and apparel sectors. Many members and legislative assistants share my views because, in all of our regions, we have either textile or apparel businesses and we want to help you.

That being said, we are under the impression, and perhaps wrongly so, that the two industries may have divergent interests with respect to a certain number of issues, but at the same time, they do agree on other... For instance, there is this proposal with respect to the use of fabric, of Canadian textiles abroad before bringing in foreign products that are manufactured with Canadian fabrics or textiles, as the Americans do under bilateral agreements they have with some Caribbean countries. Would that be a possibility for the apparel industry?

Mr. Elliot Lifson: That is not going to do very much for us if we cannot use fabrics from any country. If that means that we can use Canadian fabrics mixed with fabrics from other countries, well then that is of interest to us. We have no objection to the textile industry resorting to such a solution to help it, but we need to discuss the possibility of using fabrics coming from other countries in addition to Canada.

Mr. Pierre Paquette: Have you thought about percentages, for example 25% or 75%?

Mr. Elliot Lifson: That depends on the company. Some companies use more Canadian textiles, whereas others don't because they are not able to get them. Linking the two as the other member did when he began was interesting for the textile industry. These are two distinct industries: the apparel industry and the textile industry. They are certainly able to live together, but it is clear that they have truly divergent purposes.

•(1615)

Mr. Pierre Paquette: If we agreed that clothing manufactured in China or Bangladesh with at least 50% Canadian fabric content—I do not know if this is possible—and fabric coming from China can be imported into Canada duty free, would that be a solution?

Mr. Richard Wagner (Legal Counsel, Ogilvy & Renault, Barristers and Solicitors, Canadian Apparel Federation): Although your example pertains to work done in Bangladesh or China, I don't think that the Canadian apparel sector has anything against that, as long as the Canadian textile industry can export its production.

Mr. Pierre Paquette: In my manufacturer's case, if he is unable to import 25% of his sales, he is not able to compete with the others. So in this context, it is clear that they will not be keeping all of our jobs, but they won't be losing them entirely either. That is more or less what my approach is. I would like a way to minimize the damage and ensure that our apparel and textile industries are able to survive for a very long time.

I would ask you the same question. In the case of the apparel sector, we are suggesting that the required textiles that are not produced in Canada—indeed, this is the recommendation made by the finance committee—be able to enter Canada duty free.

If these are products that are not manufactured here or that we expect will not be manufactured here, will that pose a problem to you?

Ms. Lucie Brassard (Director, Government Relations, Consoltext Inc., Canadian Textiles Institute): That would pose a problem because we cannot establish a list of what we will not be doing tomorrow. We can tell you what we did yesterday, we can tell you what we are doing today, but apparel manufacturers cannot forecast what clothing they will be producing tomorrow, nor can the textile industry say which fabric it will be producing tomorrow. We have to adjust to our clients' requirements.

Going back to the program for clothes manufactured abroad, first of all, the Canadian government is already providing, through the Canadian International Trade Tribunal, duty free entry of fabric not made in Canada to clothing manufacturers. In a foreign manufacturing program, if the Canadian textiles do not serve as a trigger to allow apparel made with Canadian fabric to enter Canada, that will

not give us anything. If it is also possible for clothing made with foreign-made fabric to enter Canada duty free, that will not give anything to Canadian textile manufacturers. As Mr. Lifson stated at the outset, if the fabric plays a very vital role in manufacturing a piece of clothing, if it constitutes 75% of the price of the clothing, the apparel manufacturer will look for the least expensive fabric. So how can we compete if we allow duty free entry, through the foreign manufacturing program, of inputs with a mixture of Canadian and imported fabrics? We cannot establish a percentage.

Mr. Pierre Paquette: So you are proposing 100% Canadian-made fabric.

Ms. Lucie Brassard: Some foreign fabric may be in it, but we cannot establish a percentage. We would have to check with the industry to ascertain what percentage would be allowed. The proposal that we made initially was to take a sectoral approach. We wanted to begin with an industry interested in manufacturing its apparel abroad using Canadian fabric because our fabric performs well and is leading-edge. We wanted to do a trial run. We were turned down initially but we are still working on it.

We wanted to verify the outside fabric of the clothing, because clothing can have a lining made of other textiles. So we wanted to do a test with the external fabric. The other components of the apparel could come from another country or Canada, but these are all things that we need to discuss with the apparel industry and with government officials, in order to determine what can be done.

[English]

The Chair: Thank you. That's all your time.

We'll go to Monsieur Julian.

[Translation]

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much. I am very pleased that you are here today and your presentations were excellent. Unfortunately, your documents were not circulated before the meeting, so we will have to read them later on, when we read the transcript of the committee testimony. I have taken down quite a few notes because what you have said is most interesting, but unfortunately I missed certain aspects.

Because of events occurring this evening and security measures, some of us will have to leave early. Unfortunately, I am one of those people. But before I leave, I would like to ask you a few questions.

•(1620)

[English]

As you may know, today in the House the NDP member for Winnipeg Centre, Pat Martin, raised an emergency motion on the issue of duty remission orders. The resolution was to immediately extend for a further seven years the duty remission orders covering the apparel sector that are set to expire on December 31, 2004.

I'm interested in knowing whether there has been any indication from the government on the extension of the duty remission, and what the cost will be in jobs if duty remission is not extended.

Mr. Elliot Lifson: I would like to mention one thing just to clarify it, because I listened to the whole session. Certainly it was unanimous by everybody on all three recommendations. Let's not get hung up on one issue only, because one issue does not affect the entire industry. Every member who spoke said, "Let's put into place the three recommendations that were made to both the House of Commons standing finance committee and the Senate." So there's no question about it.

Pat Martin is hung up on duty remission. That's great. I'm the national president of the industry. I have many members—2,000 members—and only 200 are affected by duty remission. So let's keep in mind that it's a total package. And there is no question about it. Certainly the importance of tariff relief applies to every single domestic manufacturer. I would like to clarify that.

So for certain people it will mean absolutely zero. One member of Parliament mentioned that one person will get \$4 million. Anybody can debate the equality of it. I don't think I'm going to do that because it could be one of my members—which it is—so I can't fight that issue. But if you want to do it for the entire industry, it's tariff relief. You have to take a look at the recommendations in total, because these committees worked and questioned us many times, and both came up with those issues.

I don't know if I answered your question with a question or a statement. I'm not a politician, but I wanted to clarify it, because I heard very clearly. I listened to every single word because I'm programmed already. My head is programmed. I've been here so many times I feel like I'm part of this building. That's not a bad idea actually—

Mr. Peter Julian: You did answer my question with a statement, but having lived through question period I'm used to that. I'll come back to my question.

Mr. Elliot Lifson: That's okay.

Mr. Peter Julian: My question is on what the impact would be. We can take duty remission, but we can take all three recommendations. What will the impact be if there isn't action?

Mr. Elliot Lifson: It's a level playing field. You've got to understand—

Mr. Peter Julian: I mean specifically in terms of jobs and the loss of opportunity.

Mr. Elliot Lifson: It's very simple. There are 94,000 jobs. This is not a threat or a menace. We're working in a global environment. All issues mean something to a company. We're not talking about handouts; we're talking about levelling the playing field. How can we compete in the global environment today?

I'll use one example that comes to mind. We have jeans makers who closed their doors. There are no denim makers in this country. Finally, after two years of going to the CITT and asking the finance ministers, we got it. By the way, in all fairness, we like to beat up on the government a little bit, but there are things that are done that are correct—or else the whole country would fall apart. Free trade was pretty good for us, and we're one company that was a great example.

Having a CITT and having the ability to sit here before a committee to raise the issues we have are critical. But how could you possibly pay tariff on denim when the denim wasn't produced in this

country? Finally, that was signed off on last week, so the jeans makers that are still left here can make the denim. There are jeans makers that make denim here. I have one friend in Montreal who started a company from his balcony, his basement—Sal Parasuco of Parasuco Jeans. He sells \$250 jeans to Milan. He's great.

We have talent in this country. We have an industry that you just can't let disappear.

Even my friend, Harvey—I have to agree with him sometimes. You can't allow it to disappear.

• (1625)

Mr. Peter Julian: No, I think your issue is very clear.

The Chair: Mr. Lifson, where does this gentleman get his raw material, his garments?

Mr. Elliot Lifson: He gets it from all around the world. He has to. He's in the fashion business.

The Chair: Can he not get it in Canada?

Mr. Elliot Lifson: He can't any more. There's no denim.

Ms. Lucie Brassard: He also buys Canadian stock.

Mr. Bob Kirke: But not denim. There's no denim.

Mr. Elliot Lifson: There's one issue here, and we're two industries sitting here—and keep in mind that Harvey and I are running businesses, so we don't fight on little issues. Let's keep this going, because we're both fighting for our survival and we're both fighting for jobs. There's a way of doing it.

Mr. Harvey Penner: I have to agree with Elliot, but I have to also bring into play that I wasn't in the House and I didn't know about the issues that were brought by Pat Martin today. You can't bring the three issues together. You can't destroy jobs in textiles to help the jobs in apparel. You have to have a balance.

If you take the duties, what the government has basically done is said we're going to give the textile industry \$26 million for CANtex, and in order to help the apparel industry we're going to reduce duties by \$26 million. There's no logic. There's no industrial policy there. And then they want to take the duties, and without looking at what can be taken off because it has no effect on Canada and what can't be taken off...you can't put a band-aid on this stuff.

You know, you talk about the LDCs being behind us. I don't agree. He talks about Bob Silver. Bob Silver doesn't manufacture. With all due respect to the apparels, probably about 5% of his business and going out of it—

Mr. Elliot Lifson: [*Inaudible—Editor*]

Mr. Harvey Penner: Yes, duty remissions are great for him because he has to ship into the United States. What about the other people who are members of the apparel—

A voice: Bob Silver doesn't get duty remissions.

Mr. Harvey Penner: Maybe he doesn't, but whatever it is, there are people getting duty remissions who obviously have an advantage.

I'm not against duty remissions. I'm all for duty remissions. I'm against a reduction of tariffs where they hurt the textile industry. I'm against the issue of using the LDCs as a reason to take off the tariffs or to accept the principle that because the LDCs can bring them in duty-free, therefore they should reduce the tariffs on goods that are coming into this country voluntarily, without the WTO issue, to give away more jobs.

Where are we selling our \$6.3 billion or \$3 billion? We're selling to the apparels, in many cases. We're selling it to apparel companies. The apparel companies have all gone offshore now. Elliot himself is going offshore. Many of these companies are buying in Bangladesh. They've been forced to buy in Bangladesh, and they're not coming back to Canada; they're gone.

You have to be very careful when you start to examine the employment in the apparel business and find out who's left and who's staying. The more you encourage these people to go offshore because they have no choice, the fewer jobs there are here. The textile industry is a different industry. We survive in North America. We survive in the United States. We ship how many millions to the United States?

Ms. Elizabeth Siwicki (President, Canadian Textiles Institute): It's \$3 billion.

Mr. Harvey Penner: Of our \$6 billion, \$3 billion is shipped to the United States. If you want to destroy us, you can by taking the policies that you've done up to now and continuing with them.

We had tremendous growth. The apparel group had tremendous growth under free trade. Get us an FTA. Get us outward processing. Get us a chance. Revise the LDCs, because there's no reason.... You started them; change them. It's a Canadian initiative. It has every possibility to be changed. The only people it will hurt are the importers. It will hit Wal-Mart.

You're concerned about Canadian jobs; change the LDCs, give us outward processing, get FTAA, through the countries, through the pressure, and you have a textile and an apparel business that's viable and operable in North America and that will grow. Do that. Everything else will not work.

Mr. Elliot Lifson: Mr. Chairman, I just want to raise one issue here.

In February of 2004, Minister Robillard promised tariff relief to our industry for this year, for 2004. We're coming very close to the end of 2004. In order to be fair, the question was—and Harvey asked it very nicely—why don't you take the tariff off?

Now, obviously, we're businessmen on the apparel side. We are not going to take a tariff off a fabric that's available in this country, because that's ridiculous; you lose the value of that tariff relief. So we made a list of fabrics that we could not source in this country. The textile industry didn't want to participate in this study, which might have been a good strategy, because what happened is it was tossed back in our lap. So we made a list. We're presenting lists and

we're getting no answer. Now it's rolled into 2005, so we've already lost 2004.

I think there's a reality. There's a certain reality in life that certain things are not made in this country. Whether the question is that they could be made, or they can be made, or they will be made one day... they're not made today. Denim was a perfect example. At one time it was made, but it's not made any more. Can somebody open up and buy a denim mill next week? If that happens, they can go back and have a procedure; you can go back to the government and say, "We're now opening up a denim mill". But it doesn't exist. There's a reality. It's a fashion business. That's what has happened today. And China is the best example of importing more textiles than exporting.

We have to survive; we can't survive the way it is. We're not asking for a handout; we're asking to play the game. But industry doesn't want to play even that part of the game, just on a tariff reduction.

• (1630)

The Chair: Two responses have taken up all of your time, Mr. Julian.

But before we go to Mr. Crête, I just want to ask Mr. Penner a question. In your textile industry, where do you get your raw material, yarns, for example, to produce your textiles?

Mr. Harvey Penner: We have an apparel business as well. I have two companies, one that produces yarns, nylon and lycra, in Quebec City. We sell about 40% of our yarns into the United States and the rest to Canadian manufacturers of swimwear, socks, seamless wear. We're very competitive in the North American environment, and that works well for us.

In our apparel business, and we sell 95% to the United States, I buy my yarn both from Atlantic, which is a major producer, and offshore. I buy offshore what's not available here, and I pay the duties, which are 8%. I translate it into fabric, cut it, sew it, and ship it down to the United States, and I have built a very successful business up till now. The U.S. currency has obviously had a major effect.

So we're very comfortable.... If, by a reduction of tariffs...or if there's some kind of a situation where there's no longer a yarn company in this country, I'm going to have to supply it from a NAFTA source, which would be the U.S. But I don't have the same power down there; I don't have the same resources.

The Chair: I asked the question because this is a very complex industry—as we've heard various arguments back and forth.

I visited a plant in Scarborough called Spintex. You might be familiar with it. Their biggest concern is the impediment to being able to export. For example, they're saying that we, as a government, should be at the table in the CAFTA round, for example, so that we can have access to those markets as well—and of course there is the LDC issue as well. They're exporting to places like China, from what I understand, and they're very competitive.

I'm just trying to see how we can tie everything together—

Mr. Harvey Penner: You have to understand—

The Chair: From the yarn producers to the—

Mr. Harvey Penner: In the yarn business, the labour content is 7%, and our inputs are U.S. We can compete.

Our electricity in Canada is reliable; we have constant power. We're selling in the United States. We're very competitive. There are opportunities.

I guess I sound like a broken record to Iain Stewart and these people, but I just don't understand some of the things the Canadian government has done. You said it yourself; he's talking CAFTA. If you get free trade to the Americas, it's terrific for us, because then we have access to an area, a trading block, that is going to be required by the U.S. customer. You can bring in all you want, fabrics from all over the world, but if you want to really survive you have to have a North American philosophy on doing business. You have to be able to sell in the United States.

The Chair: What you're really saying is we have to be more aggressive to be at the table with the Americans—the model is there—and to be at the table with CAFTA.

Mr. Harvey Penner: Yes, and have FTAA and go back on the LDCs and do what the Americans say: in three years you have to put in a knitting mill; in four years you have to put in a dye house, or you lose the rights to bring in 75% of the product duty-free. Do you know that Canada, who gave the LDCs this right, has no right itself? We cannot send goods.... How would we explain that? We could not really send Canadian goods to Bangladesh and have them redone and shipped back into Canada, the way Marcel was talking about.

How does that work exactly?

•(1635)

Ms. Lucie Brassard: We have to use Canadian yarn.

Mr. Harvey Penner: Yes, that's right.

Ms. Lucie Brassard: The rule of origin for Canadian fabrics in the LDCs is that it's "yarn forward". That means you have to weave or knit your fabric from a Canadian yarn in order to ship the fabric to Bangladesh, make it into a garment, and come back duty-free. Right now, for Consoltex, about 90% of our yarn comes from North America. We need the U.S., because there are not too many spinners in Canada. We've built that because of free trade, so most of our yarn comes from the States; therefore, a lot of our fabrics are not eligible under the LDCs because they are not made from Canadian yarn. We do make fabric from some Canadian yarn, but the majority comes from the States.

Ms. Elizabeth Siwicki: That's what we're talking about when we say the government needs sensible industrial and trade policies. On the one hand, we got NAFTA and the Canada-U.S. FTA and we flourished and were able to all export to the United States. Then all of a sudden along comes U.S. bilateralism, and we seem unable to address that. There are reasons for this, but it basically undermines NAFTA and all the successes we've gained. There are Canadian textile companies that have gone bankrupt because of the CBTPA. You made reference to CAFTA. CAFTA is exactly the same problem. Once again the United States has a deal where U.S. inputs

qualify a garment, but Canadian or Mexican inputs don't. Why have NAFTA if you're going to have that kind of agreement?

Why doesn't the Canadian government hook up with the American government and say, look, we have NAFTA; now let's build on that? It's not all the Canadian government's fault.

Mr. Bush is in town, and I shouldn't speak too badly—

The Chair: We're sorting things out.

We'll go to Mr. Crête.

Thank you very much.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

Thank you for your presentations. I have done some analysis of the problem. I visited factories in my riding. These are textile and apparel factories that perhaps may not have modernized the way that yours have done, and they have not been able, despite all their goodwill, to survive the crisis.

The way I see it, the government has not implemented a comprehensive, concrete policy, because none of you have made proposals which collectively, would enable us to strike a balance for these two sectors. In other words, would it be possible to draft proposals coming from both of you, determine which ones intersect, which ones are acceptable or unacceptable, so that we can get the government moving.

And there may an ulterior motive in all of this. If this is not true, the government officials should say so. The ulterior motive is that these are sectors that are not top priorities in the international trade sector. Consequently, if it is possible for them to win other things in other sectors that are more rewarding, they are prepared to live with this issue for a short while and to allow these industries to die a slow death. As far as they are concerned, this would not be too serious.

Nevertheless, since there is no common approach nor political will, you are playing into the hands of the government. That being said, I will conclude my little sermon.

I would like to know whether we can put on the table, in addition to the three recommendations contained in this report, other recommendations that would be suitable to everyone, so that we can get things moving a bit. The witness said earlier that, with the elimination of these tariffs set to take place in less than a month, the government is still not able to tell us what its position is. And yet, we have known that this would occur for the past ten years. It is quite disastrous.

Would you be able to do this in a relatively short timeframe? Each party could put interesting proposals on the table, even if it means that you have to talk to each other in a type of conclave, if necessary, and that you wash your dirty laundry, so that you can put something together? If not, you are playing the game of those who do not want to do anything.

Mr. Richard Wagner: In actual fact, Mr. Crête, we did try to do this. I think that Ms. Verdun alluded to the Canadian International Trade Tribunal. A trial began in June to determine which textiles were manufactured in Canada. The Minister of Finance asked the tribunal to undertake a study and to submit a report by the end of October on fabrics manufactured in Canada and those that are not.

Mr. Paul Crête: How can this be so complicated? Indeed, I have been told that ascertaining the origin, colour, details, and special features of textiles is one way of not doing anything.

• (1640)

Mr. Richard Wagner: That's right. That is why we have asked a tribunal to undertake a study in this area. A study was produced in 1990, and a big report was published by the tribunal. It was a good report on what was occurring in the sector. This time, the government has asked the same thing to find out what the industry is doing. The textile industry boycotted this inquiry.

Mr. Paul Crête: My mother-in-law may not always be right, but at one point, I have to live with her: she is there and she exists.

Could we, starting today, stop discussing what was done or what should have been done and focus more on what we can and need to do? Would it be possible to have this type of debate in the short term? We must not sit down and do it in five years' time, when we will be focusing on why the industry died, but we have to do this now, so that the industry can stay alive.

Mr. Richard Wagner: On the other hand, the apparel industry has been calling for an end to tariffs for fifteen years, and the textile industry has been saying no for fifteen years.

Ms. Lucie Brassard: That's because you always want to have something on our backs. That's why you say no.

Mr. Richard Wagner: We are not asking for anything to be on your backs. As Mr. Lifson explained and Ms. Brassard said, they sell products to Canadian suppliers in the apparel industry, and that's good for the industry because it is in keeping with NAFTA. If the product is of Canadian origin, it can be exported to the United States, and Canadian companies buy products from Canadian textile companies.

The only thing that has happened to the textile industry and that has led to a renewal of industrial products other than textiles that aren't used in the manufacturing of apparel is the fact that there is no Canadian protection left for the apparel.

Mr. Paul Crête: If the answer to my question is that it's impossible to get there, I am going to ask the government when it's going to make up its mind to make the most appropriate choices based on that, for the benefit of one or the other, both or neither. Does Canada claim that it currently has a policy on textiles and apparel?

Mr. Richard Wagner: We're still pushing them, sir.

Mr. Paul Crête: My question isn't for you, but for the woman who, though not a minister, answers on behalf of the department. Perhaps the other gentleman might also be able to answer it.

Does the Government of Canada intend to go forward with concrete steps in response to the committee's recommendations and other things from the other side? In my opinion, the worst attitude is *laissez-faire*.

Ms. Emmy Verdun: Mr. Lifson and Mr. Wagner are right that the government asked both industries to reach a consensus over tariffs.

Mr. Paul Crête: There is no consensus. Once that is known, what next?

Ms. Emmy Verdun: That makes it very hard for the government to react. However, as I said, the government announced a \$27 million reduction in tariffs for textiles used in the apparel industry. That measure is late because the tribunal's report is late too, because of the difficulty it had in finding the right information to establish which textiles are made in Canada and which textiles are not made in Canada.

Mr. Paul Crête: CATIP and CANtex are two good short-term operations, but that doesn't look to me like the core of a textile and apparel policy. It's as if there were a fire in the kitchen and the extinguisher were brought out to at least put it out in that room, so that the entire house wouldn't be destroyed by flames. I am not blaming you, you're not a minister, but...

Ms. Emmy Verdun: No, I am not a minister. As I said, we received the report of the Standing Committee on Finance and we're studying it as well as its recommendations. We know that a reply must be provided to the committee by March 18.

Mr. Paul Crête: What I know is that if you want to get out of something, you have to take into account the committee's recommendations, the few recommendations that you have read, if the text could be made available, and some from you. Somewhere, someone should take responsibility and make choices. A determination will be made that one option would contribute to keeping a certain number of jobs at a certain hourly rate and that ultimately, that would make it possible to reach a certain goal, whereas the alternative would make it possible to preserve a certain type of job at a certain hourly rate, and that we would be better off collectively that way. Let's make choices based on that, because if we wait, both industries will continue to pay for the situation.

• (1645)

[English]

The Chair: Thank you, Monsieur—

[Translation]

Mr. Paul Crête: Recommendations have to be made quite quickly. If this is put off until February, March, or another year, another factory in my riding may go belly up.

Mr. Elliot Lifson: That's true.

Mr. Paul Crête: The Standing Committee on Industry, Natural Resources, Science and Technology did an overview of the issue. People from the department told us that things basically weren't so bad, that the economy was doing very well and that only a few industries were in trouble.

But specific communities are affected by that. Whether it's rural areas, where the municipality in question is near death, or a given industry in a big city where people don't necessarily have an easy time of finding another job quickly. That's political rhetoric, but something has to be done about it.

Mr. Harvey Penner: I'll answer in English. I speak French, but not well enough to express everything I want to say.

[English]

Let me put it on behalf of the textile industry. We're prepared to sit down with the apparel group, with the government there, but it cannot have just textile tariffs.

Let's deal with all the subjects we just brought up—the FTAA. Let's deal with LDC. Let's sit down and see if we can get a policy on all the subjects, not just textile tariff.

If you look at the mandate on the textile tariff reduction, it specifically says where it will not effectively hurt the textile industry, products that they make. So that is the mandate. That was a mandate. But we are prepared to sit down at any time with the apparel group and the government, because we have a lot of common interests, and deal with the four issues we brought up: LDC, FTAA, outward processing, and the tariff reduction.

The government should put together a committee that has teeth, that can move, that can make decisions, not the way we had it before where we went on and on and got nowhere. At the end of the day, all they did was give us one thing and give the other...and they said before the House every day, oh, we've taken care of them; we've given them \$26 million, and everything's fine.

That's nothing. That's a band-aid. We don't want that. That wasn't really valid. We want a policy.

[Translation]

Mr. Paul Crête: Could the technical textile industry, which we spoke about a bit and which in a way produces the textiles of the future, be a way for the textile industry to accept a certain number of things that aren't necessarily advantageous in terms of apparel but that would give it the chance to develop entirely new types of products? I've been told that it's an industry with a future.

Ms. Lucie Brassard: Technical textiles are also used in the making of apparel.

Mr. Paul Crête: Mainly?

Ms. Lucie Brassard: They are mainly used for protective apparel, security clothing.

In tariff lines, there's no fashion apparel, technical apparel or security apparel. That doesn't exist. So if the tariff is taken off fabric for apparel, that affects apparel at large.

Mr. Paul Crête: I am not talking about the tariff.

If the federal government said that its strategy would include assigning part of the Technology Partnerships Canada program, for example, to research and development in this industry, that it was putting significant funding into it and suggested a promising future to you, would that be something that you would see as a welcome addition or would it quite simply be meaningless?

Ms. Lucie Brassard: If it's not supported by a policy to protect...

Mr. Paul Crête: It would be in a policy.

Ms. Lucie Brassard: We've been doing research for a number of years. Money has been spent to come up with more technical fabrics that will add value to existing fabrics, because we know we can't be

competitive. Convenience apparel comes in at very low prices. The same thing goes for our fabrics used in convenience apparel. We're clearly not competitive there.

We have moved up a notch or two in recent years.

[English]

The Chair: I know the department officials, if Mr. Crête wants to intervene with—

Ms. Emmy Verdun: I was just going to mention, and Mr. Penner referred to it, that the government did set up a government, industry, textile, and apparel working group. That working group was unable to come to any consensus on the tariff issue, but it did come forward with some other recommendations. The government has responded to that.

The Chair: The government has—

Mr. Harvey Penner: The problem is they've not done anything about it, absolutely. They responded on LDCs in what manner? What did they respond?

•(1650)

Ms. Emmy Verdun: As the committee chairman said, I'm not the Minister of Finance, but the government heard your recommendation and made a decision.

Mr. Harvey Penner: “I hear your pain; next”—that's what I hear, as we drop—

The Chair: We have Department of Finance officials in the room, Mr. Penner.

[Translation]

Mr. Paul Crête: Could we get copies of the report? That would be interesting. The next step would be already taken and we can make suggestions.

[English]

The Chair: Send it to the clerk and the clerk will make sure it's distributed. All right, Paul?

Ted, do you have any follow-up at all?

Mr. Ted Menzies: This is maybe not focusing as much as we have been.... When I was at the APEC conference last week—you're talking about the FTAA—it looked and sounded a little to me like there wasn't the drive to continue those negotiations. We have a whole new acronym now, free trade area of the Asia Pacific. Could you comment on how that may have an impact—and I'm asking for a speculative answer on this—because those seem to be the countries that you're dealing with, the Asia Pacific countries. Just, I think it was yesterday morning, there was a new free trade agreement signed with the Association of Southeast Asian Nations, the ASEAN. It is the largest free trade agreement yet. What's the impact on...?

Mr. Elliot Lifson: I would like to comment on one thing. Last week I had the privilege of being a speaker at the Conference Board of Canada on China, because you know China is the magic word today. I was asked whether we're starting to ship goods to China. Maybe in somebody's lifetime here, certainly not in mine, will I ever envision that we're going to make men's suits in Montreal and ship them to China. There's something about selling coal to Newcastle, or something like that; it's the same.

Mr. Ted Menzies: I think we heard that one, yes.

Mr. Elliot Lifson: Let's keep in mind the reality. The reality of life here today is the market next door, and that goes along with what I said before. The strategy is very simple, your proximity to your biggest marketplace.

Keep in mind one other issue. As an apparel sector we represent 1% of the total market in the United States, the Canadian \$2.5 billion. To do a little math, if you double it, could you imagine what would happen? So where are we running around the world? That's our market, and that's our strength, and we have to realize it.

We've done what we can. We've done these working groups. We've sat through these issues. There's no question, this gentleman is really...I'd love to be his friend. He's the type of guy you'd love to have in the family because you'd never have a fight. He'd figure out a way to solve it. But there is a reality. That's a family. Harvey and I speak to each other. He's president of CTI. We don't agree all the time. There are certain realities of life.

The one thing I do not envision, which I don't appreciate, is when the question was *sur le dos*.... It's not on the backs of the industry. There are certain realities that have to be envisioned. We are not looking to decimate the textile industry, and I don't think Harvey is looking at our industry thus. But there is a reality; we are in a global marketplace. When we go to the U.S. market, keep in mind it's not just Canadian companies that are going; we're fighting on the U.S. marketplace with everybody. And you know who our biggest competitor is? It's the retailer. That's our biggest competitor. It's not other worldwide producers. We have to be realistic. It's a reality of life. As they say, our industry is *l'un des piliers de notre économie*, but for how long? What do we do? There aren't very many tools.

I think we had those committee reports. We went before the House of Commons. We went before the Senate. It was unanimous. A decision has to be made. Will everybody be happy? Probably not, but you have to make a decision, because the worst thing in the world—and in this I'm wearing my teacher's hat; I have a little hobby, I teach at McGill in the MBA program, strategy, believe it or not—is to sit in the middle of the line, because if you sit in the middle of the white line on the highway, you can be sure you're going to get hit from both sides. At least make a choice. Pick the side that you're taking a shot with. You have to make a decision. A decision has to be made.

We've made the recommendations. I don't know what else I could possibly say.

•(1655)

The Chair: Thank you, Ted. I get the sense that the remission of the duty is not really the only solution here that's going to solve all the problems, and discussing it in debate today is not really the solution for everything.

Mr. Elliot Lifson: I think the solution is a threefold solution. It was certainly unanimous, and no one picked one over the other. Mr. Martin is hung up on one because he has somebody in his riding, needless to say.

Listen, I'm very realistic. Thank God, I'm not an elected official. I'm president of our association only because nobody else wants to do it. It takes up a lot of time.

I love to be with you guys here. I would rather be with Mr. Bush, having dinner with him, but I'm not; I'm here.

The Chair: You didn't get an invitation.

Mr. Elliot Lifson: I didn't even get an invitation. But I'm telling you there is one thing we have. Never mind the talent and the desire, we have the passion and the will to succeed. Keep in mind, we have 3,000 employees.

Come and visit our plant. You should have been there today when we had the citizenship court. I'm going to tell you something. There wasn't a dry eye in the place. That's what it's all about, and that's what being a Canadian is. It's not to decimate another industry; that's not what we're looking for. We're looking to survive.

The Chair: You said, and I'll quote, "You need to have a total solution," as you were responding earlier to Monsieur Crête. I noticed Mr. Penner was nodding his head in agreement with a good number of the points you were making. I sense there is room where the two or three various industries in front of me could find room to move forward.

I'll close with thanking each and every one of you, unless there are any other comments.

Monsieur Crête.

[*Translation*]

Mr. Paul Crête: I am not sure if I misunderstood the interpretation, but...

Mr. Elliot Lifson: We can repeat it in French.

Mr. Paul Crête: No, that's all right. What I want is for a decision to actually be made. I didn't say I thought we absolutely had to wait for a consensus, in fact I said the opposite. But some decisions have to be made. What's also necessary is for us, as parliamentarians, to have a full understanding of that. I think that the last report, which isn't public but which we will be getting, will help. The government also has to take responsibility in light of the assessment of the situation. There's probably no solution that will make everyone happy, but there's a certain number of solutions that may help both industries, if they remain competitive or continue to compete for certain things.

[*English*]

The Chair: Mr. Penner.

Mr. Harvey Penner: I have one last thing. We are very much in agreement on many things. Elliot summarized what I've tried to say over a long period of time. Forget about Canada in isolation, you have to think about North America. Forget Mexico, you have to think about the U.S.

Everyone's apparel business and textile business is geared to the U.S. It has been geared that way for the last 15 years, since free trade came in, and we've been extremely successful. If you don't have a textile business, you will eliminate a great many of the opportunities for an apparel business in the U.S. because you have to source fabrics, in most cases, from a North American environment. It's the case that there are suppliers in the U.S. or there are suppliers in Canada. If you don't maintain the suppliers, in many of the areas, you won't be able to sell to the U.S. because you won't have U.S. inputs. Then you'll have to pay duties and you won't be competitive.

Elliot says we have \$2.5 billion in the apparel end, which is an incredible amount of money. When you look at China, Wal-Mart will have \$18 billion worth of Chinese goods in its stores next year. That's only Wal-Mart. Wal-Mart is huge, but that's \$18 billion.

We are competing with the world in the U.S., but we have been hurt badly by the fact that we don't have the same advantages the U.S. has through bilaterals. It's ridiculous for Canada to go after bilaterals because Canada is too small. We don't need a bilateral with Honduras or Guatemala. It's meaningless in our Canadian market. We need a seamless distribution of goods through what was originally the free trade area of the Americas. That's what Canada should be concentrating on.

We need the apparel business because we have nobody to sell to, and we need the textile business because the textiles sell the apparel. We have a common interest, and we both need the United States. What are we arguing about?

• (1700)

Ms. Emmy Verdun: I only want to say that we're certainly aware of the interests of both industries in the FTAA. Certainly, it has been something that we actively participated in, but as you probably know, the negotiations have been suspended, so it really remains to be seen. The problems there are not only Canadian. It's really the two big players, the U.S. and Brazil, that were unable to bridge their large differences. It remains to be seen if the negotiations will be revived.

In terms of the issue of cumulation, which is the technical term for what Mr. Penner was referring to, allowing Canadian fabrics to be considered in the same way that American fabrics are in terms of their bilateral agreements is something we have been trying to get from the United States. Of course, for its own reasons, the U.S. is not

willing to extend that to us. We will continue to press that point, but I can't say I'm particularly optimistic.

The Chair: Thank you.

Are there any other closing comments?

Mr. Elliot Lifson: My only comment is that I thank you, again. Appearing before a committee...I'm getting to like Ottawa.

The Chair: We thank you, too, because it's been—

Mr. Elliot Lifson: We certainly appreciate it as an industry, because that's an advantage many people around the world don't have. So we thank you for that.

The Chair: Well, you probably noticed, as you followed the debate today, that there were several passionate presentations made.

Mr. Elliot Lifson: Yes, there were.

The Chair: It's an overall industry that has been discussed continuously since former Prime Minister Chrétien announced the LDC initiative. It's been front and centre, and I'm not saying just in Quebec, but from members from other parts of the country as well.

It's a very complex issue. It's not as simple as remission of duties. It goes beyond that. I think that's why we're trying to put our heads together.

I do agree with the official. Sometimes going to the table makes it difficult, and you just keep plugging away and you make some progress.

I do thank you for coming. I think the members here on the team really enjoyed it.

Voices: Thank you.

The Chair: The meeting is adjourned.

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