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Re: 2014 Pre-Budget Consultations

Thank you for the opportunity to submit Aritzia's comments as part of your committee's pre-Budget consultations. Our comments relate to the theme of *Improving Canada's taxation and regulatory regimes*. Our recommendations concern the Customs Tariff and General Preferential Tariff (GPT).

Executive Summary

In the 2013 Budget the Canadian Government made substantial changes to its tariff preferences for developing countries. The General Preferential Tariff (GPT) was established in the 1970s to provide preferential access to the Canadian market for producers in developing countries. Products from these countries are subject to lower rates of duty. Changes announced in 2013 will eliminate 72 countries from the list of eligible GPT countries. Our company imports silk apparel from suppliers in countries that will no longer be eligible for the GPT, and as a result our import duties will increase substantially. These changes take effect on January 1, 2015.

Our company believes strongly that increasing duties on products not manufactured in Canada is unacceptable in the current marketplace. We urge the committee to recommend to the Government that the tariff on silk garments be either reduced or eliminated for reasons that are explained in our submission.

Background - Aritzia

Aritzia LP is a fashion boutique for young women based in Vancouver. Aritzia is one of the most successful Canadian fashion retailers, owing to our strength in developing a number of our own brands combined with our ability to merchandise these with complementary national brands.



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Aritzia is an innovative women's fashion boutique that cherishes excellent design and quality, offering beautiful clothes and accessories that no one can match at its price point. Providing unparalleled customer service and a personal shopping experience both in store and online, Aritzia provides guests with a unique vision of what's best every season.

Founded by CEO Brian Hill in 1984 and launched as a single boutique in Vancouver, Aritzia is a 30-year-old privately owned company that has been a retail leader in North America since its inception. Aritzia has grown to include more than 60 boutiques located in select cities across North America, including Vancouver, San Francisco, Toronto, Chicago and New York, the majority of which are in Canada. Our dedicated staff of over 2300 people manages our product development, sourcing and logistics from our Vancouver office.

2013 Changes to the General Preferential Tariff

In the 2013 Budget the Canadian Government made substantial changes to the General Preferential Tariff (GPT), removing a number of countries from GPT eligibility, among them China. This submission outlines our company's concerns regarding these changes which come into force January 1, 2015.

Changes to the GPT were undertaken to refocus the benefits of tariff preferences on less affluent developing countries. We acknowledge the significant changes in income and trade competitiveness among the countries set to be removed from the GPT (China, India etc.), and support the government's intention to modernize the Customs Tariff. However, we remain concerned that these changes will have a very negative impact on our company and our customers. We also believe that the Government can easily remedy the situation.

The proposed changes will increase duties payable on imports of garments that are not produced in Canada. The goods in question are silk blouses and dresses, identified under the following tariff classifications:

1. HS 620449 - Womens/Girls Dresses - Woven - Textile not elsewhere specified
2. HS 620610 - Womens/Girls Blouses, Shirts and Shirt-Blouses - Woven – Silk

By way of background, the countries that will be removed from GPT eligibility (China in particular) are the dominant international sources of supply for the silk garments we import. As an example 90% of all silk blouses imported into Canada are sourced from China.

The countries that remain eligible for the GPT will not replace China as a supplier of these products. Similarly these products are not manufactured in countries that benefit from other tariff relief programs (i.e. the Least Developed Countries Tariff (LDCT), nor is that likely to change. Removing China from the GPT will not harm China - it will simply increase taxes we pay on our imports from China.

Impact on Aritzia

For our company, and all other firms which import these garments, the changes will mean increases in the duties we pay. For the two products identified above, total duties payable will increase by approximately \$800,000.00 (HS 6204.49) and \$1,100,000 (HS 6206.10) on an annual basis. These figures represent total annual imports into Canada. As a point of reference, our firm is one of the largest, if not the largest importers of these products, and our duties will increase by over \$500,000 annually for these two products.



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In simple terms the effective rate of duty on the vast majority of silk garments imported will rise from 10% (the current GPT rate) to 16% (the MFN rate) whereas the U.S. tariff rate on those products will remain at 6.9%.

Put another way, the difference between Canadian and U.S. duty rates will go from 3.1% to 9.1%. The Canada-U.S. price gap will increase, as goods sold in the Canada will be subject to substantially higher duties than in the U.S, which is particularly important given the significance of cross border shopping.

The garments we import are among the items that will be most impacted by GPT amendments. For most products the different in the GPT and MFN rates of duty are negligible, and there are other sourcing alternatives for Canadian importers(reduced duties under free trade agreements, LDCT etc.). Those options do not exist for us. Nor can we replace these imports with domestic production.

Tariff relief on imported apparel

Aritzia supports the efforts by the Canadian government to review duties paid on imported apparel. We know that in the 2013 Budget the Canadian government removed duties (previously 18%) on infants clothing and established a research project to verify that these tariff reductions result in lower prices for Canadian consumers.

As well, the 2013 Budget indicated that “The Government will continue working with Canadians, including consumers, retailers and manufacturers, to identify areas where further tariff liberalization can benefit Canadians.” We are encouraged by this commitment and we believe that this research project will confirm that lower duties lead to lower consumer prices, and set the stage for further tariff relief.

At the same time it is a virtual certainty that higher duties (resulting from changes to the GPT) will result in higher prices for consumers – or lower operating margins for Canadian brands and retailers. Unfortunately this has not been reflected in government policy.

Conclusion and Recommendations

We encourage the committee to take into account the basic facts:

Increased duties resulting from the GPT changes hurt Canadian firms such as Aritzia and will lead to higher prices for Canadian consumers. Aritzia is therefore asking the Committee to recommend reducing or eliminating duties on silk apparel.

We recommend consideration of two options.

1. Lower the MFN rate of duty to 10%. This would bring the MFN rate down to the current GPT rate, or
2. Eliminate duties on silk apparel. Silk apparel, similar to infants garment, is simply not manufactured in Canada. There are no domestic manufacturers and there would be no impact on Canadian industry.



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It is our view that the government needs to balance its effort to refocus GPT preferences with the need to protect the interests of Canadian companies and Canadian consumers. The Minister of Finance can at any time adjust the MFN rate of duty for any given product, and this was demonstrated in the 2013 Budget.

Our firm is a member of the Canadian Apparel Federation, which supports our efforts and the efforts of many other companies to mitigate the impacts of these changes. We would be happy to testify before the committee to explain any of the points raised in this submission.

Please do not hesitate to contact me if you need further information.

Thanks

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