

Written Submission

for the

Pre-Budget Consultations  
in Advance of the 2019 Budget

By

The  
Canadian Apparel  
Federation

## Summary of Recommendations

- **Recommendation 1:**

That the government amend the Customs tariff to simplify zero-duty tariff lines and remove all end-use requires for input tariffs in chapters 50-60 of the Harmonized System.

- **Recommendation 2:**

That the government implement changes to rule of origin for the Least Developed Country Tariff to benefit Canadian importers and LDC exporters.

- **Recommendation 3:**

That the government provide funding to re-establish sectoral advisory groups for international trade and other policy areas, and

- **Recommendation 4:**

That the government commit to the review alternate delivery mechanisms for the CA number registry to improve service to industry and the public.

The Canadian Apparel Federation (CAF) welcomes the opportunity to participate in the 2019 pre-budget consultation. The submission includes our recommendations for consideration, particularly in regard to measures that help ensure Canadian competitiveness.

The Canadian Apparel Federation (CAF) is the national association for Canada's apparel industry. CAF brings together and provides services to over 300 firms from across the country. These firms source raw materials and production globally and combine this with the talent.

Our industry is highly global, with many Canadian firms of all sizes playing important roles in global supply chains. These roles are supported by an open and transparent trading system and Canada's domestic policy framework.

This submission is being presented at an important crossroads for the country. Seemingly on a daily basis Canada's commitment to an open and transparent set of multilateral trade rules is being challenged by other trading partners. We strongly urge the Canadian government to maintain its principles and support and reinforce policy measures that bolster open and free trade. We also make recommendations to improve domestic policy-making.

## **Recommendations**

Budget 2018 made the following commitment:

*The Government also proposes to introduce legislation to reduce the regulatory burden faced by businesses. This includes streamlining Canada's Customs Tariff legislation in order to simplify its structure and administration. This measure will reduce the overall complexity of the legislation, which will ease administrative burden and reduce compliance costs for Canadian businesses and government.*

We believe that there are two important ways that the government can meet these objectives.

### **Recommendation 1:**

That the government amend the Customs tariff to simplify zero-duty tariff lines and remove all end-use requires for input tariffs in chapters 50-60 of the Harmonized System.

Rationale:

In September 2009 the Government of Canada launched an ambitious effort to eliminate duties on inputs to Canadian manufacturing. The elimination of duties on manufacturing inputs (especially yarns and fabrics used in apparel manufacturing) was granted in the 2010 Budget. This measure allows Canadian firms to compete on a level playing field with firms from around the world. Previously, duties of up to 14% were levied on raw materials imported into Canada,

and these were a major impediment to Canadian competitiveness. These changes were introduced in 2010 and fully implemented by 2015.

Tariff relief enacted in Budget 2010 followed over a decade of specific tariff amendments resulting from recommendations made by Canadian International Trade Tribunal, in its Textile Tariff Reference. These tariff changes reflected the specific circumstances of the requests for tariff relief made by individual apparel and textile producers before the CITT. For example, tariffs on imported fabrics were eliminated in some cases for use in the manufacture of menswear, but not womenswear. In 2010 when broader input tariff elimination was introduced, it was necessary to leave these specific tariff lines in place. Now that input tariff relief has been fully implemented, it is appropriate that these tariff lines be rationalized. In addition, the Department of Finance should remove all **end-use requirements** in tariff descriptions. These requirements are no longer necessary.

### **Recommendation 2:**

That the government implement changes to rule of origin for the Least Developed Country Tariff to benefit Canadian importers and LDC exporters.

The LDCT is a substantial tariff preference program. Under this program, apparel made in many of the world's poorest countries qualifies for duty-free entry into Canada. Canadian apparel brands and retailers have used this program extensively.

In 2002 the Canadian government granted duty-free and quota free access to the Canadian market for goods produced in least developed countries (LDCs). In order to qualify for duty free treatment, goods must meet the LDCT rule of origin which requires that yarns and fibres originate in Canada, an LDC or from one of a number of qualifying countries. While initially considered as a means of focusing the benefits of the LDC on specific countries, in its current form the rules of origin are needlessly complex, and compliance enforcement efforts by CBSA are problematic.

To verify the origin of raw materials used in apparel production, CBSA will conduct on-site "supplier confirmations" in LDC countries. In these audits, CBSA relies exclusively on information provided by the LDC exporter, not the Canadian importer. Frequently CBSA must go back further in the supply chain to verify origin of textile inputs, through second tier supplier confirmations. Once again, in these audits CBSA only accepts information from the textile supplier, not the Canadian importer. For example, CBSA may contact a yarn or fabric supplier in China to verify sales made several years earlier to an unrelated apparel manufacturer in Bangladesh or another LDC. And that textile supplier will have no knowledge of, or interest in, where apparel made from those textiles was sold. Where these suppliers cannot or will not provide confirmation to CBSA - the origin for the apparel goods can be denied, with substantial duties payable.<sup>1</sup>

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<sup>1</sup> WEBINAR: Update on the Least Developed Countries Program presented by *Germain LeBlanc*, CBSA - June 25, 2016  
SUPPLIER CONFIRMATIONS: "Origin of yarn is often difficult to trace; According to the regulations supporting

Our main points are as follows:

1. The current apparel rule of origin under the LDC Tariff is unnecessarily complex and serves no purpose;
2. The LDC Tariff rule of origin creates unnecessary burdens for LDC exporters and Canadian importers alike.
3. The establishment of a single transformation rule of origin would assist both parties and better align Canada's trade preference program with those of other developed countries;
4. The current list of textile sourcing countries excludes a small number of key textile producing countries (Taiwan, Japan) while allowing textile inputs from virtually every other country; these exclusions serve no real purpose and justify a complex and burdensome origin verification process.
5. Amendments to the rule of origin would not have a material impact on the overall tariff concessions represented by this program, but would substantially reduce customs compliance costs and risks for Canadian importers.

We recommend the adoption of a single transformation rule of origin for LDC's, allowing textile inputs from all sources to be used in the manufacture of qualifying apparel.

### **Recommendation 3:**

That the government provide funding to re-establish sectoral advisory groups for international trade and potentially other policy areas.

Rationale:

For many years the Sectoral Advisory Groups for International Trade (SAGIT) played a significant role in connecting various industry sectors and government on important trade issues. SAGITs were important mechanisms in securing industry support for and input into important trade initiatives such as the Canada-US FTA and NAFTA.

Given the number of trade negotiations under consideration and the wide range of Responsible Business Conduct issues being pursued by the government we recommend that the Canadian government re-establish the SAGIT system.

The apparel industry SAGIT allowed our sector to provide coherent feedback to government on a wide range of topics in a single venue. More importantly, the SAGIT provided a mechanism to connect trade issues to related domestic policy – they provided a unique

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documentation (invoices) must be provided for fabrics and yarns and without it CBSA may disqualify the goods under review; All supplier confirmations must be received directly from the supplier of fabrics and or yarns if CBSA receives the information from the exporter/producer it will be disregarded."

resource for industry and government at a time when Canadian trade relationships were undergoing substantial changes.

The same conditions prevail today: existing trade agreements are at risk, sweeping new agreements are being contemplated and the government is actively pursuing a wide range of Responsible Business Conduct issues directly linked to this industry.

Today, our association has a strong relationship with GAC and participates in numerous consultations, but there is no mechanism to manage the overall trade dialogue, and there needs to be one.

Over the long term there has been a significant decline in sectoral policy making. Many departments used to have dedicated staff that worked closely with specific sectors. While this may remain the case in extractives and agriculture, for the apparel sector there is virtually no sectoral knowledge and policy-making expertise.

In addition to the need for an International Trade SAGIT, we also believe a similar structure should be considered for product safety, competition policy (labelling and advertising) and other related regulatory areas. What we envisage is a policy network for apparel and consumer textiles. While not as urgent as our needs in international trade, this could assist the government in improving current regulations and addressing consumer expectations across a range of issues.

#### **Recommendation 4:**

That the government commit to the review alternate delivery mechanisms for the CA number Registry to improve service to industry and the public.

#### **Rationale:**

The Canadian government maintains a registry of apparel and textile dealers - companies that offer consumer textile articles for sale in the Canadian market. This CA Number registry charges a fee for registration, and most articles of clothing bear a CA number on their label. We see many practical benefits of operating this registry as an industry-government partnership. Such an arrangement could allow for the funds collected to be used for industry-specific purposes.

The fees collected from the CA number registration should be used to promote consumer (and industry) education in the area of textile labelling, product safety and broader competition issues (sustainability etc.). If the monies collected from CA number registrations were used to

support a policy network for apparel and consumer textiles - as outlined in recommendation 3 - this would greatly assist policy making, and industry compliance.

We request that the government consider alternative arrangements for the CA Registry.

Thank you for the opportunity to submit these recommendations.

Yours sincerely,

Bob Kirke  
Executive Director