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Mr. Brent St. Denis

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Monday, March 7, 2005

● (1530)

[*English*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): Good afternoon, colleagues. *Bonjour, tout le monde.*

I would like to call to order this March 7, 2005, meeting of the Standing Committee on Industry, Natural Resources, Science, and Technology.

Just before we start with the wonderful group of witnesses who will, within the general study of Canada's industrial strategy, help us in particular with the Canadian textiles industry, we'll deal with requests by Paul Crête and Michael Chong with respect to two issues.

If there's agreement, we could probably quickly dispense with Paul's right now. It's my understanding that they both involve or could involve estimates. Estimates are part of our mandate, and if there's no disagreement, we'll simply agree that we'll have the officials in on the estimates for the Canadian Tourism Commission and on the estimates for the Canadian Nuclear Safety Commission and AECL. If we agree to that, then we'll simply schedule it.

Is that okay, Michael and Paul?

Mr. Michael Chong (Wellington—Halton Hills, CPC): Yes.

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

The Chair: I'll go ahead and schedule a meeting on estimates at the same meeting for AECL and the Canadian Nuclear Safety Commission. Is that acceptable?

Mr. Michael Chong: Are you telling me that...?

The Chair: We're done. If you agree, we are just going to go ahead and I'm going to schedule meetings.

Mr. Michael Chong: So my motion passed then.

The Chair: Well, it's because estimates are part of our duty, basically. You're just bringing to our attention that you as a member want the estimates of that agency or department to be considered—likewise Paul—so I don't think there's really any discussion needed. If there's a consensus to do it, we just do it.

[*Translation*]

Mr. Paul Crête: When will we able to hear from the minister? Will he speak to the committee on the Estimates?

[*English*]

The Chair: Not for the department's estimates, but as a separate question, we could inquire as to the minister's availability for estimates.

Mr. Brian Masse (Windsor West, NDP): That's what I wanted to raise, because I thought the committee should have the minister on the main estimates.

The Chair: Even though there are lots of bills to do, estimates are part of the job of the committee as well. So if there's no disagreement, in consultation with the clerk and as best we can with witnesses, we'll inquire....

And Jae is over here. We'll talk to Jae about the availability of the minister to talk about the estimates of the department, and we will schedule something specific to the estimates of the Canadian Tourism Commission, as requested by Paul, and of the AECL and Canadian Nuclear Safety Commission at the same meeting, as requested by Michael.

Werner.

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Did we have a procedural motion before that whenever the minister appeared, we would try to have it televised? I think we did.

The Chair: I think that's routine.

Mr. Werner Schmidt: So he's going to arrange it so we can have it.

The Chair: Indeed. Thank you for reminding us, Werner. As part of working with the minister's office to pick a date, we'll work it to get a room with television coverage at the same time.

Mr. Werner Schmidt: Thank you very much.

The Chair: We'll just have to work it out according to the availability of witnesses, and with that so noted, that should take care of that.

Brian.

Mr. Brian Masse: Is it possible, if there is time on that day we're having tourism, to then have the Minister of State for Northern Development come in as well for FedNor? That's if there's time; we have two—or would three make it more difficult?

The Chair: Well, let me discuss that with you and Paul and see if we'd have to have separate meetings or if we could take two-thirds of the meeting, say, for the commission and one-third of the meeting for FedNor. But that's more a timing issue; it's management of our time. I think there's a willingness to do whatever estimates are deemed important by the committee. Is that okay?

● (1535)

Mr. Brian Masse: Absolutely.

The Chair: And we'll work with Jae on the minister's availability.

With that, we'll turn to our witnesses.

Thank you very much for being here today. Your presence is going to help us advance our study.

I think we'll follow, just as we always do, the order in which you appear on the orders of the day, which is first come, first served, basically, as I understand it.

From the Canadian Textiles Institute, will it be Mr. Penner or Ms. Siwicki who will be speaking?

Mr. Harvey Penner (Chairman, Canadian Textiles Institute): I'll be speaking.

The Chair: The clerk probably explained to you that we ask you to speak for five or seven minutes. We can be a little bit flexible, but the time we take in presentations is less time for questions and answers. If you miss a chance to make a point in your presentation, you can certainly work it into a response to a question at another time in the meeting.

We invite you to start.

Mr. Harvey Penner: Thank you.

My name is Harvey Penner, and I'm chairman of the Canadian Textiles Institute and president and CEO of Tricot Richelieu Inc. I am here with Liz Siwicki, president of the Canadian Textiles Institute. Also with us is Lucie Brassard, director, government relations, of Consoltex.

As requested, I will read a short opening statement, after which we're at your disposal to answer questions.

We're pleased to appear before you to tell you about our industry and to provide our views on Canada's industrial strategy framework. Personally, I've been waiting a long time to have a captive audience for my own theory and message that we're becoming “a nation of dry cleaners”, so thank you for the opportunity.

The Canadian textile industry is dynamic, creative, entrepreneurial, and innovative. It produces fibres, yarns, fabrics, and textile articles that are sold to over a hundred different end users. It's a substantial contributor to Canada's economy. Exports account for half of the total industry shipments of $6.4 billion in 2004.

It is capital intensive and must continually invest in new equipment, technology, and processes to survive in an increasingly competitive trading environment. Textile manufacturers have invested over $1 billion in plants and equipment over the last five years alone to achieve world-class production. We're one of only six Canadian manufacturing sectors recently identified in a Statistics Canada study as outperforming our U.S. counterparts in R and D intensity.

The textile industry provides rewarding direct employment for almost 50,000 Canadians and indirect jobs for many thousands more in communities where it is a major or sole employer. Award-winning skills development programs are used extensively to ensure our workforce remains up to date and is at the leading edge of workforce learning.

Our industry is not a sunset industry. It is an industry of the future, with a future in Canada if the proper framework for investment and job creation is in place.

Your study of Canada's industrial strategy framework is timely and important. My fear is that unless we as a country come to grips with the erosion of Canada's manufacturing base, which includes the textile industry, we'll become, as I said before, a nation of dry cleaners—and privy council clerks. I don't see any other way this can be handled unless there are policies put in place by this committee and the Government of Canada to change the direction things are currently following. Otherwise, the consequences for all Canadians would be devastating.

We do see some positive aspects of Canada's existing government policy framework. I'll give you a couple of specific examples.

Canadian textile manufacturers are effectively using the SR and ED tax credits, which is important for us because R and D is critical to our industry. The system isn't perfect; improvements can and should be made, but it's a good example of where our government is on the right track. The industry also welcomes the government's commitment to human resources and skills development through the establishment and ongoing support of sector councils such as the Textile Human Resources Council. Skills development models developed by THRC are now being emulated in a number of countries, including the U.K., Australia, and South Korea.

But innovative products generated by the industry's intensive R and D efforts and by skilled workers, who reflect the great value the industry places on its human resources, will not do us any good if we don't have customers and markets in which to sell and good government policy that creates a climate in which it makes sense for us to invest in Canada. It's here where we believe the Government of Canada's industrial strategy needs your attention. There is a disconnect between different aspects of Canadian government policy.

There are too many instances of one hand giving while the other hand takes away. For example, the decision to provide duty-free and quota-free entry for textiles and clothing from 48 least developed countries—LDCs—as of 2003 has had a profound negative effect and impact on our business, as our Canadian apparel customers switched to importing and as price points fell to impossible-to-sustain levels. All the R and D we do and the efforts of our talented employees to create the best and most innovative products become pointless if Canadian trade policy forces our customers out of business or to operate overseas.

There are specific things that can be done to make the LDCs initiative more effective and less destructive, and we can elaborate on these if you'd like.

● (1540)

Our market opportunities have also diminished in recent years with creeping U.S. bilateralism, which is eroding our access to the U. S. market. Our industry is a free trade success story, with textile exports growing from $0.8 billion in 1989 to over $3 billion in 2004, with most destined for the U.S. However, much of the growth preceded 2000 when the Americans introduced the Caribbean Basin Trade Partnership Act, CBTPA, followed by other bilateral agreements, which effectively cut Canadian yarn and fabric exports off from their U.S. customers.

An integrated North American market was sound policy. Canadian negotiators were proactive and enormously successful in bringing home a free trade agreement that was a launch pad for many textile industry success stories. But Canada seems to be unable to effectively defend the gains achieved under NAFTA. This has to be seriously addressed and rectified as soon as possible.

We appreciate that it isn't easy wrangling with the Americans, but unless we devise a plan to resolve the tensions and inequities that currently exist, Canadian industries such as ours will continue to pay the price. Too many Canadian textile firms have already succumbed to U.S. bilateralism. The fate of others depends on our government's will to take the Canada-U.S. relationship to the next level.

With a shrinking Canadian market for our goods and barriers to our exports to the U.S., how do we grow and prosper, and how can Canada's industrial strategy help us to do this?

Part of the answer is finding new customers at home and abroad, a process that is ongoing and at which textile manufacturers are working hard. It's expensive and time consuming, and there are few overnight successes. Both our traditional and newly acquired markets are eroding faster than we can develop new ones, and Canada's trade policy has played a significant role in this unfortunate situation.

The other part of the answer is government policy that actively defends and builds on what we already have—NAFTA, skilled manufacturing workers, world-class plants, industries that are able to compete on a level playing field. Our industry is too often written off by those who believe Canada's competitive strengths lie in high-tech industries or a knowledge-based economy. Mr. Chairman, most manufacturers in Canada, including textile manufacturers, fall into both these categories. You need us as much as we need you to move successfully forward in the future.

As individual firms we need to ensure that we have the best people, the best technology, the best practices, the best products, and the best of everything that it takes to be world-class players in an increasingly competitive world. Our investments, the knowledge of our employees, the R and D we perform, our creativity, and our innovative products are fundamental to achieving these objectives. 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 also need you as partners in the process. We can't be successful if the Government of Canada throws unnecessary obstacles in our path or writes us off as dinosaurs. The way the LDCs initiative we mentioned earlier was implemented is an example of how Canada's trade policy unnecessarily undermines Canadian manufacturers. Jobs have been lost, plants have been closed, and investment is going elsewhere instead of into our communities. Efforts that could have been directed to positive results have instead had to be focused on surviving the blow. This was a Canadian policy developed by Canadians that actually, in the inevitable facts of life, has reduced Canadian jobs.

Jobs and investment are also at stake as the government has launched yet another attack on textile tariffs. Removing the tariffs on textiles that compete with what we create and what we make in Canada will be damaging to our industry. We are no stranger to tariff cuts, with fibre, yarn, and fabric tariffs having been reduced substantially since the mid-1990s and a substantial portion of textile imports already coming in duty free. The problem lies with the Swiss-cheese approach to textile tariff policy now being considered, an approach that jeopardizes the very thing that makes textile manufacturers viable and successful—innovation, R and D, and product development. We realize that the intent of the CITT exercise announced last December is to help the apparel industry, but help for one industry should not be at the expense of another.

And I would add something here. If you do not have a textile industry in this country, you will not have an apparel industry. The apparel industry survives on shipping into the United States. If you don't have a NAFTA-based input and you utilize offshore fabrics and fibres, what you have is no access to the U.S. market, so it's self-defeating. We're partners in this. If you do not have a textile industry, you can write off the apparel industry.

Here's an example of a proposal that we see as contributing to this end.

● (1545)

In 2003, $5.6 billion worth of apparel was imported into Canada—$5.6 billion. It was made in other countries from foreign textiles. These imports represent about one billion square meters of fabric, a massive lost opportunity for Canadian textile manufacturers. If we were able to repatriate even a small portion of this foreign content, Canadian production and employment would benefit. A tariff program providing duty-free entry for imported apparel made from Canadian textiles would enable us to grow our export business with foreign customers, who would have an incentive to buy from us.

Canada already provides duty-free entry for many fabrics used in garments made in Canada and duty-free entry for some garments that are made outside of Canada. But garments made in other countries from Canadian fabrics are fully dutiable. We believe this is a missing link in textile tariff policy. The Americans and the Europeans both have outward processing programs that provide a preference for foreign garments incorporating their 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.

Finally, Mr. Chairman, we're concerned that the government believes it has a sound industrial policy when it comes to textiles because it implemented CATIP and CANtex to assist Canadian manufacturers to adjust to the changing international trade environment, including the LDCs initiative it unilaterally imposed. These programs may help some firms, but they are limited in the type and amount of assistance they can provide.

To reiterate our earlier point, increased efficiencies, enhanced productivity, and modern high-tech equipment will not do us any good if we have no customers. Canada needs sensible and coordinated industrial and trade policies if industries like ours are to remain significant investors, employers, and generators of wealth in this country.

We ask again, as we have asked your colleagues on the subcommittee on international trade, where is the logic in creating assistance programs to help our industry become more efficient if you are giving away our markets to imports, forcing our customers out of the country, and encouraging those that remain to source duty-free imported textiles? Why export Canadian jobs to Bangladesh, China, India, and other countries only to pay unemployment benefits to workers in our own communities? What's the point in urging Canadian manufacturers to develop marketing plans to penetrate the U.S. market when the access we acquired under NAFTA is being undermined by U.S. trade legislation and our government appears powerless to do anything about it? Where's 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?

Thank you.

The Chair: Thank you, Mr. Penner.

We'll move to the Canadian Apparel Federation.

Mr. Lifson, please proceed.

Mr. Elliot Lifson (President, Canadian Apparel Federation): Thank you very much, Mr. Chairman.

[*Translation*]

My presentation will be in English, but I will gladly answer your questions in French.

[*English*]

We thank you for our opportunity to present our views in regard to your study on Canada's industrial strategy, regulatory, and foreign investment frameworks.

My name is Elliot Lifson. I am president of the Canadian Apparel Federation and the vice-chairman of Peerless Clothing Inc., and I also lecture on business strategy at the Faculty of Management at McGill University. Your study on Canada's industrial strategy is therefore of double interest to me.

With me is Bob Kirke, the executive director of the federation.

The Canadian Apparel Federation represents the Canadian apparel industry at the national level. CAF has approximately 700 members across Canada, and we have regional chapters in six provinces. I will be followed by Randy Rotchin, representing one of our regional chapters, the Apparel Manufacturers Institute of Quebec, who will provide additional remarks.

I'm very pleased that your committee chose apparel and textiles as one of the three subsectors on which to focus for your study. I would note, however, that apparel and textiles are not one subsector, even though people often refer to them as one, as you have done. The reality is that the apparel sector is very different and distinct from the textile sector, and is becoming increasingly so, especially in Canada.

The Canadian apparel industry is fashion-driven and focused on consumer tastes and meeting the ever-increasing demands of retailers for quality apparel at the best price and delivered on time. The Canadian textile industry is increasingly focused on higher value-added industrial textiles for uses such as home furnishings, the automotive industry, and geotextiles used in industrial applications. So although the apparel industry does use textiles as its primary physical input, it is very different from the textile industry, and the Canadian textile industry no longer meets the needs of Canadian apparel manufacturers for all their uses.

The main point I would like to make today is that for the apparel sector, there needs to be a more cohesive and coordinated industrial strategy. This is a point we made in testimony before various parliamentary committees last year, where we argued that the manner in which Canada is currently developing industrial and trade policy for apparel lacks cohesion and coordination. For example, the trade policy changed in 2003 to eliminate all quotas and tariffs on imports from least-developed countries in order to increase imports of apparel from those countries, but there was no change to Canada's industrial policies to allow Canadian apparel manufacturers to meet the increased import competition from LDCs. We made the case that parliamentarians need to ensure that in the future we do a better job of combining industrial and trade policy and domestic regulations.

Before turning to our main point, I would like to first provide you with a brief overview of our industry. The Canadian apparel industry produces a broad range of women's, men's, and children's apparel. It is the tenth-largest manufacturing sector in Canada. The industry is recognized for its product development, fashion innovation, and production capabilities. Canadian firms have become successful exporters over the past decade, making major inroads into the U.S. market in particular. We currently export approximately $2.5 billion per year in apparel to the United States, representing over 40% of domestic production. In 2002, the industry employed 94,000 people, with a payroll totalling $2.3 billion. In both 2003 and 2004, employment declined somewhat as a result of increased imports and pressures on our exports, owing to the appreciation of the Canadian dollar.

It should be noted that the apparel industry draws on a range of skills. These skills include relatively low-skill and low-technology employment suitable for new entrants to the Canadian labour force, be they young Canadians or new immigrants to Canada. At Peerless Clothing Inc., we have some 60 nationalities among the 3,000 employees at our facility in Montreal. At the same time, and often in the same factories, apparel manufacturers apply the latest technologies and processes and employ highly trained personnel with graduate degrees in areas such as engineering, management, and information technologies to develop new products, manufacturing processes, and software to meet industry needs.

The Canadian apparel industry faces increasing pressures and challenges, owing to changing trade rules and market conditions. As members of this committee will be aware, on January 1, 2005, Canada, along with the United States and Europe, eliminated all quotas on imported apparel. These changes, on top of the government's 2003 market access concessions to LDCs, have profoundly changed the playing field. Apparel imports are rising in dollar and in unit figures, and this trend is likely to continue. To meet these challenges, Canadian apparel companies are increasingly focused on product development, marketing, and supply chain management in order to differentiate themselves and maintain their position in a very price-competitive marketplace in Canada and the U.S., our two primary markets.

● (1550)

Canadians can compete based on superior design and customer service and by meeting the needs of their retail customers throughout North America.

In regard to the production of apparel in Canada, all companies are increasing their efficiencies through technology and process innovation. It must be noted, however, that many firms are reconsidering where and how to produce clothing, and many are opting to produce some or all garments offshore.

This brings me back to my main point. If we are to ensure that the Canadian apparel industry remains a viable and competitive industry and does not become just the owners of brands and the importers and distributors of finished garments, our industrial strategy must be cohesive and coordinated.

In going forward, I believe the government will have to be proactive in supporting the companies that are here. We don't expect protection. We don't want a handout. We simply want policies of support to continue and enhance the competitiveness of domestic firms wherever possible.

To make an industrial strategy for apparel cohesive and coordinated, we need to ensure that all the ramifications of a policy change are fully understood before they are made and that appropriate adjustment measures will be put in place to deal with any adverse affects at the time that any policy change is implemented.

For example, Canada eliminated the quotas and tariffs on apparel for least-developed countries in January 2003. Under this trade liberalization policy, apparel produced in LDCs such as Bangladesh can be made with Chinese or Indian fabrics, imported without duty into the LDC, and a finished garment can be exported duty free to Canada. If we want to make the same product in Canada with Canadian employees, we pay 14% duty on the fabric alone. This prejudicial effect was serious for apparel producers and not addressed by any industrial policy at the time.

In our view, it was simply not reasonable to change trade rules on policy so dramatically while leaving in place the same tariff policy on inputs. This policy and balance was finally addressed when the government announced on December 14, 2004, that it would provide for the elimination of duties on textile inputs used by the apparel industry pending the completion of a review by the Canadian International Trade Tribunal. This review is currently under way.

The Canadian Apparel Federation strongly supported the government's announcement, and while this will prove useful, it is late in coming. It is worth remembering that tariff relief for our industry was promised over a year ago by Industry Minister Robillard and so far nothing has happened. We have not received any tariff relief on any issue to date. We await the policy and we await the implementation of the government announcement.

Therefore, on duty elimination, all customs duties should be removed on all imported textiles that are used to manufacture apparel in Canada and that are not made by the Canadian textile industry. A very large share of the fabric used to manufacture apparel in Canada is imported with duties as high as 14%. We pay over $100 million annually in customs duties on raw materials to allow Canadian apparel manufacturers to compete against duty-free imports for LDCs and quota-free goods from low-cost countries such as China. The tax on our very important textile inputs should be eliminated.

As I mentioned earlier, the Canadian government has in fact made a commitment to meet this first measure when it was announced last December that it would eliminate the duties. Minister of Finance Goodale asked the Canadian International Trade Tribunal to determine what fabrics are produced here and to report by June 2005. The removal of duties will be retroactive to January 1, 2005.

A second measure known as the apparel duty remission program should be used where appropriate. The government has also moved on this matter when in December it approved the extension of duty remission programs. These programs allow Canadian apparel companies in certain subsectors to complement their domestic production with duty-free imports of finished apparel.

Outward processing programs—which allow manufacturers to export components, have them sewn into garments in another country, and then re-import those garments duty free—should be looked into by the government. Canada has never created a formal outward processing program. Therefore, the United States and European countries, which do have such programs, benefit apparel manufacturers in those countries, as well as textile producers and workers in low-wage countries close to them.

● (1555)

Instead of outward processing, Canada adopted duty remission programs for specific sectors, as were renewed most recently at the end of last year. We believe it is time to review how outward processing and remission programs might operate in the future. Canadian firms increasingly need to blend domestic and foreign production, and these programs should assist and support these types of activities.

Education and training for innovation and management are critical for the industry—and these processes are in place. In addition, there is a rubric—

● (1600)

The Chair: If you could wind up, please....

Mr. Elliot Lifson: Yes, sir. I really appreciate it. I can tell you, driving in this snowstorm...and working 35 years in this industry, I ask for another two minutes of time; I ask everybody here. Believe me, we both drove in. We were both over a few minutes—

The Chair: Go ahead.

Mr. Elliot Lifson: I appreciate it. Thank you very much.

In addition to these four main areas, I would like to touch on matters that fall under the rubric of smart regulation, which is included in your terms of reference for this study.

We believe the government should also look to reduce, or make cohesive with the industrial strategy, all the administrative policies that place burdens on the industry. Apparel companies encounter unnecessary administrative charges in many areas. For many years, the quota regime provided a measure of protection for domestic producers, but these measures are no longer in effect. However, the Canadian government still requires import permits when companies import textiles, and there is a charge for each importation. This is a remnant of the quota control system. On an annual basis, the Department of Foreign Affairs and International Trade collects millions of dollars in fees for import permits with no policy justification. Import permits are required when importing from NAFTA countries and other free trade partners. The committee should encourage the government to act quickly to eliminate what is now an entirely redundant administrative charge.

As for TPL permits, many of the apparel articles shipped from Canada to the United States incorporate imported textiles. This figure is likely to grow as the domestic supply of textiles becomes more limited. Tariff preference level, or TPL, permits are a major cost factor for Canadian firms. Every shipment requiring TPL requires a permit with an associated charge. This is totally unnecessary.

Consumer protection is another issue. The CA numbers and Health Canada conflict with one another; the regulations are not consistent. We must make them consistent and make our industry more competitive.

In summary, Mr. Chairman, what the Canadian apparel industry is on record as asking for is an industrial policy that is cohesive and coordinated and that takes into account a modern sourcing policy for the industry. The Canadian apparel industry is under no illusions concerning the nature of import protection available to it in the years to come—there is little or none. The Canadian apparel industry needs to have the tools to compete against producers from all over the world. It needs lower duties on inputs to lower costs of domestic production; and in some cases there is a need to supplement domestic production with goods manufactured abroad, which is precisely what duty remission programs have allowed companies in certain sectors to do.

I have one little paragraph at the end. I would like to thank you for allowing me to be here. If you want to drive me back to Montreal, I would appreciate it, but we're going to fight through the snow.

On a personal note, I would like to affirm in front of everybody here, because we're all together—and it's a great opportunity to be in a country where we can sit around the table like this—remember, our industry is going to survive and prosper. The only critical question for us is, where will we source our products? Only a proper industrial strategy will ensure that we continue to be able to make and source our products from Canadian production facilities, and we want to keep the 3,000 jobs we have in Montreal, plus the industries that support them.

I really thank you for your patience.

The Chair: Thank you, Mr. Lifson. Your passion, and that of Mr. Penner and the others, is evident. We appreciate the efforts you've made not only to be here but also to convey that message in strong terms.

Ms. Dagg, on behalf of UNITE HERE.

Mrs. Alex Dagg (Canadian Director, UNITE HERE Canada): Thank you very much. I appreciate the opportunity to speak to the committee members this afternoon. I came farther because I came from Toronto, so I should get even more time, right?

Some hon. members: Oh, oh!

The Chair: We're going to be as generous as we can.

Mrs. Alex Dagg: I'll be brief.

On behalf of the 40,000 members of UNITE HERE in Canada, I want to thank you for affording me the opportunity to present our views. UNITE HERE represents workers in the apparel, textile, laundry, distribution, hotel, and food service industries.

My remarks today will be focused on the apparel and textile sector. But I want to make it clear that UNITE HERE believes in a mixed economy. Canada needs a productive manufacturing sector, a well-funded public sector, and a diverse service sector. While I believe the market plays a key role in shaping our economy, government must make sure that the market produces jobs and rising living standards.

The apparel industry is Canada's sixth-largest manufacturing sector, with approximately 100,000 employees working in 3,900 establishments. The textile industry employs an additional 43,000 workers. Apparel is manufactured in all provinces and territories. In the province of Quebec, it accounts for 55% of the value of Canada's apparel production. Montreal is the third-largest apparel manufacturing centre in North America after Los Angeles and New York.

But these vital industries are now threatened. An industrial strategy for apparel and textiles must address two crucial issues. I'm going to have some different views on what I think the government should do.

First, the expiration of apparel and textile quotas means that the Canadian apparel industry will be hit with decreased exports to the United States—China is expected to capture about 70% of the U.S. market after quotas expire—and increased imports from China in the Canadian markets. Second, Canada's economy is more dependent on exports to the U.S. than any other country in the world. Therefore, our monetary authorities should be extremely concerned about the appreciation of the Canadian dollar against the U.S. dollar.

The beginning of this year was a watershed event in the history of the global apparel and textile industry. The 30-year-old system of quotas that regulated the global apparel and textile industries ended. For the first time in three decades, all countries will compete in an unregulated environment with China. Every country in the world with an apparel and textile industry is threatened by this development.

The radical nature of this threat can be seen by what happened to imports from China when import quotas were removed on several categories in January 2002. In the three years since quotas were lifted, Chinese imports in baby garments increased by 427%, and China's import share went from 14.7% to 54.1%. In women's and girl's knit shirts and blouses, China's imports increased by 406.3%, and China's share of imports went from 20.7% to 61.5%. Now that all quotas have expired, we can expect similar increases in Chinese imports in all products. Tens of thousands more jobs are threatened.

But the government can act to protect Canadian workers and Canadian companies sourced in Canada. As part of China's accession into the WTO, a special apparel and textile safeguard was included. The safeguard may be implemented if imports from China threaten to impede the orderly development of trade. The safeguard would allow the Canadian government to limit the growth of Chinese imports to Canada to a rate as low as 7.5%. Several countries—Peru, Argentina, and Turkey—have already implemented these safeguards.

In January this year, the Global Alliance for Fair Textile Trade, which is a grouping of 96 industry associations from 54 countries, met to consider the threat posed by China's apparel exports. Among the actions called for in their statements was the following:

> Governments, especially those of the United States, European Union, and Canada, should immediately and effectively implement the WTO special China textile safeguards to prevent China from monopolizing worldwide textile and apparel trade.

I believe Canada, on behalf of the members and the workers in this industry, should immediately implement the China apparel and textile safeguard.

The Canadian dollar has increased from 64¢ U.S. to well over 80¢, or by about one-third over the past two years. About one-third of that increase took place between June and December 2004. While the rise in the Canadian dollar is largely the flip side of the fall in the U.S. dollar, the fact is that the Canadian dollar has appreciated more against the U.S. dollar than the currency of any other major U.S. trading partner. While the Bank of Canada has not been primarily responsible for the rise of the dollar, the two interest rate hikes in late 2004 contributed to the rise in recent months.

● (1605)

The higher Canadian dollar makes it very difficult for Canadian companies to export to the U.S. market and compete in the Canadian market. The problem is not just sharpened competition with the U.S., but also a heightened competitive threat from China and other developing Asian currencies that are pegged to the U.S. dollar. The Bank of Canada should express their concern about the U.S. depreciation, keep interest rates low, and reverse the recent monetary tightening.

UNITE HERE respectfully submits that the following must be a part of any industry policy or strategy for the textile and apparel industries. First, this committee should recommend that the Canadian government implement the China apparel and textile safeguards. Second, this committee should urge the Bank of Canada to express their concern about the U.S. dollar depreciation. Third, this committee should recommend that the Bank of Canada keep interest rates low and reverse the recent monetary tightening.

Both the apparel and textile industries provide employment to thousands of Canadians. Although the industries are present across the country, nowhere is this more evident than in the province of Quebec. We have recently seen in that province that the economies of whole towns can be almost decimated by the shuttering of these industries. It's not too late to act to improve our apparel and textile industries across the country, especially for those who live in those towns and cities and truly depend on the industry for their livelihood.

The Chair: Thank you very much for that, Ms. Dagg.

We'll conclude with Randy Rotchin from the Apparel Manufacturers Institute of Quebec.

Mr. Randy Rotchin (Director, Board of Directors, Apparel Manufacturers Institute of Quebec): Thank you very much, Mr. Chairman, and thanks to the members of the committee for agreeing to see me today.

My name is Randy Rotchin. I'm here to express the views of the Apparel Manufacturers Institute of Quebec. I'm president of A&R Dress, one of the leading private label manufacturers of women's apparel in Canada.

For those of you who don't already know, the term “private label” refers to a segment of the industry that does not promote its own brand. To be more precise, private labellers like A&R sell their wares under customers' brands, remaining largely unknown to the end user. So we compete directly with countries like China and Bangladesh.

A&R was founded in 1947, five years before Sears opened its first Canadian store. I'm proud to say that I represent the firm's third generation of family ownership. I'm also proud to say that during the past 58 years, A&R has provided thousands of Canadians—many of them new arrivals—living wages and a respectable place to work. Thanks to them, our company has earned numerous awards for superior design and quality from nearly all of Canada's major department and chain stores.

I'm here representing not only A&R, but the 200 members of the Apparel Manufacturers Institute, who represent approximately 70% of all apparel industry jobs in Canada. Our members include a diverse array of organizations, including such global leaders as Peerless, represented by Mr. Lifson, Gildan and Canadelle, as well as local institutions, such as men's pant manufacturer, Ballin, Keystone Industries and the Algo group of companies.

I mention each of these companies specifically because they represent the fundamental fact about the so-called apparel industry. The Canadian apparel industry is not one homogeneous sector; rather it is comprised of dozens of subsectors, each of which has divergent interests and business models.

Take the two manufacturers sitting here before you today. Mr. Lifson's company is a large manufacturer of tailored men's suits; mine is a small producer of women's dresses and sportswear. Mr. Lifson can use the same range of fabrics over a longer period of time; we rarely use the same fabrics more than once a year. The men's tailored suit business is governed by two basic seasons, fall and spring; women's fashion is ruled by five rapidly evolving ten-week seasons. This means that our dresses and ensembles, like the proverbial bananas, which go brown just days after you bring them home from the grocery store, have absolutely no shelf life. I point these differences out because I feel it's important for this committee to appreciate that the apparel industry will need a variety of solutions to address the diverse needs of its many subsectors.

I would also like to mention that this is not the first time I've appeared before a parliamentary committee. About one year ago I testified before the House of Commons Standing Committee on Finance and the Senate Banking, Trade, and Commerce committee during their examinations of Bill C-21. I bring this up because my reasons for testifying are relevant to the mandate of this committee.

You may recall that Bill C-21 involved granting an extension of duty-free privileges to apparel manufacturers in certain low-wage countries according to the least developed countries initiative. Bill C-21's passage would surely disadvantage A&R, but I didn't oppose it. Instead, I used the opportunity to explain that a confluence of tariff-related events, combined with a general disinterest on the part of government bureaucrats and policy-makers, was creating a perfect storm that would strike on January 1, 2005.

My specific message was that the government had promised to replace the existing duty remission orders with a more equitable solution by January 2000. I appeared on the eve of their expiry to plead for an extension because no alternative solution had been delivered. Of course, my business would be negatively affected by the expiry of duty remission, but I was ultimately compelled to testify because it appeared that apparel industry jobs were being forsaken for shortsighted foreign policy reasons. It seemed unbelievable to me that as the federal government was delivering duty-free privileges to our competitors abroad, it was also raising duties on imported raw materials that domestic manufacturers such as myself rely on.

Thankfully, our message that domestic tariff policy and international trade policy discourage Canadian production was well and truly appreciated. The finance committee responded immediately, issuing a report containing three essential recommendations, which were later adopted by the Minister of Finance.

Needless to say, my visit to Parliament today is far less desperate but no less critical. Today I hope to provide the committee with a more hopeful perspective and to deliver the general message that in order for the apparel industry in Canada to prosper, it must have a foundation of strategic, innovative, comprehensive, and long-term industrial policy to build on.

Elliot has already done a superb job of addressing the overall importance of harmonizing trade and industrial policy, so I'll try to provide a few specific suggestions—more of a ground-level perspective, if you will.

While it's true that we can no longer rely on artificial barriers to protect our markets, the Canadian apparel industry still enjoys several competitive advantages over our competitors in low-wage countries, the most obvious being our proximity to the world's largest consumer market.

● (1610)

I believe it is in the interest of this committee to consider the negative impact that burdensome customs procedures, obsolete and costly trade management mechanisms such as import permits, and rigid and isolated TPL administration have had on apparel production in Canada. I'm here to tell you that they all serve to erode those competitive advantages.

I believe a recent OECD report entitled *A New World Map in Textiles and Clothing* speaks to some of the basic concerns of this committee. The report argues that as quantitative restrictions on clothing and textiles are lifted, countries whose regulatory framework is ill-equipped to deal with international competition stand to pay a very high price. The OECD specifically cites inefficient regulatory regimes, obsolete infrastructure in essential government services, cumbersome customs procedures, and other distorted market structures as areas of risk in the post-2005 world.

In Canada I believe we have ample evidence of all of these factors. In his remarks earlier, Elliot mentioned the direct cost associated with international trade. I would like to provide a current example of an indirect cost by a lack of consultation and coordination. Effective TPL management is critical to the success of the Canadian apparel industry as 90% of our exports and 40% of our total production goes to the United States.

The export and import control system was originally touted as a modern e-commerce solution for TPL administration. To its credit, EICS modernized EICB management systems, but to its detriment it does not address one of the key concerns of apparel industry stakeholders, namely historically inefficient and costly NAFTA TPL management. Despite numerous promises of a more efficient and more direct system, exporters must still query their account balances and effect transfers through one or more intermediaries.

The message here is that millions were spent extending the life of essentially a now obsolete permit management system for the benefit of agency and customs brokers, rather than creating an efficient and useful tool for apparel exporters.

Elliot also mentioned duty remission, which currently provides approximately $30 million of annual tariff relief to producers of women's coordinated sportswear, men's shirts, and outerwear. While I'm certainly grateful that my company qualifies for a portion of this amount, I wonder why other subsectors should not be able to benefit from similar remission programs, especially since it is, after all, an accepted policy instituted by the government.

Furthermore, expanding the scope of the remission programs would surely encourage other apparel subsectors to maintain at least a portion of their production here in Canada. In its most expansive form, duty remission could be broadened in conjunction with an incentive to use domestic textiles through outward processing. The suggestion, I believe, was put forward by Mr. Penner.

I would finally like to emphasize that in my experience, government attempts to assist the apparel industry through industrial and trade policy have generally lacked consistency, coordination, and commitment. In fact, I think it would not be unfair to characterize most of our government's initiatives thus far as reactive.

To find an excellent example of strategic planning, the committee should consider the Australian government's textile clothing and footwear strategic investment program. The Australians understood that their domestic industries would be imperilled by China's admission to the WTO and the expiry of the multi-fibre agreement. So in 1999 it enacted its multi-faceted strategic investment program, which provides a tactical plan for the TCF industries along with a variety of regulatory investment and trade policy measures through 2015. The program includes such initiatives as broad-based import tariff relief, long- and medium-term sectoral investment, and outward processing. The overall goal of the TCF SIP strategic investment program is to provide special assistance to those sectors of the industry that have the strongest prospects of becoming internationally competitive after 2005.

The point that special assistance should be provided to those sectors and companies that have the strongest prospects of succeeding in the post-MFA world is an important one. I mentioned earlier that the apparel industry is made up of dozens of subsectors. It is also important for this committee to appreciate that the vast majority of domestic manufacturing companies have adapted to changing times by becoming hybrid organizations.

While certain traditional processes such as design, marketing, and distribution remain local, some production has gone offshore. Like the Australian paradigm, any Canadian initiatives will have to be designed and supportive of the most promising business models.

I would like to conclude my remarks by re-emphasizing the message this committee has heard more than once today. In order for the Canadian apparel industry to prosper in a globally competitive environment, it will need consistent, coordinated, and committed support from all branches of government.

Thank you very much.

● (1615)

The Chair: Thank you, Mr. Rotchin.

Mr. Randy Rotchin: Thank you for pronouncing it correctly.

The Chair: We'll start with Mr. Duncan, I believe.

Mr. John Duncan (Vancouver Island North, CPC): Thank you very much. There was obviously a lot of information in a short period of time, and you're all very passionate about it.

You talked about Australia and how it has created a comprehensive strategy and done a lot of things right. It's not just in your sector that we have discovered this. We have discovered this in sector after sector, whether it be education or Pacific Rim trade policy, or any number of things. As a government, they seem to have a way of getting things right, and we are mired in Canadian quicksand. I don't know any other way to describe it.

I was very pleased to hear you have some strong suggestions. All of you have strong suggestions about what should be done. One of the focuses of this committee is not only textiles and apparel but the smart regulations. The bureaucracy and the cost associated with duties, with import permits, and with consumer regulations appeal to the committee as things we would like to deal with in the strongest way.

My question goes to the issue Elliot brought up on the duty you're paying on fabrics. I don't quite understand how that works. Was it different for fabrics that you were going to be re-exporting as manufactured items from what it was if you were selling into the domestic market?

● (1620)

Mr. Elliot Lifson: We pay duty on all fabrics that are imported into this country. The only question is that on January 1, 2005, there was an announcement that was made by the minister that duties would be removed retroactive to January 1, 2005, on all fabrics used by a manufacturer here in Canada not made in Canada by the textile industry. That's the issue at hand.

Right now the industry, even to this day, is paying over $100 million on tariff.

Mr. John Duncan: Rather than not paying it, you're paying it in this duty remission program—

Mr. Elliot Lifson: Duty remission is a completely different program. One is not tied to the other. The tariff on fabrics is one issue, and the duty remission program was placed.... In fact, Randy is an expert on it and he could relate that, but the tariff item on fabric is not related to the duty remission program. One is not tied to the other.

Mr. Randy Rotchin: If I may, duty remission essentially is a privilege that's afforded to certain subsectors to import for every garment that's manufactured domestically a complementary or similar garment from a non-NAFTA country presumably duty free. That's essentially it. If I can offer an example, for every two-piece coordinated sportswear that we manufacture, we can import one blouse to complement that set duty free.

Mr. John Duncan: When you started your presentation, Elliot, you made a strong attempt to definitely separate the apparel industry from the textile industry. It struck me that no one talked about that again. Is part of the reason perhaps that the apparel industry feels that some of the government regulation is actually designed to address the textile industry at the expense of the apparel industry? Would it be fair to say that?

Mr. Elliot Lifson: I'm not a political person, so I don't want to get into a match of one industry against the other. Every industry is focused on its own.

With all due respect to our chairman, when he started his remarks, he said that we're now going to address the textile sector. There is always the perceived image that it's textiles. They are two separate industries. The importance of keeping that in mind is that one industry has to survive on its own. You can't have one dependent on the other, because then you have to close all our borders and say the only thing a Canadian manufacturer can manufacture is only textiles that are made in this country. That is completely ridiculous. We're in the fashion business. We have to be able to use inputs from everywhere in the country.

Yet, at the same time, you don't want to destroy your textile industry if they're making that fabric in this country. Keep in mind, only 20% of the production of the Canadian textile industry goes to the apparel industry. They have the furniture industry. They have automotive. They have all sorts of different areas. It's not 100% to our industry, so we can't be dependent.

Keep in mind, 90% of Peerless Clothing, for example, and 90% of the industry—it's the same, practically—goes to the United States. When we're shipping to the United States, we're not competing against other Canadian manufacturers. We're not fighting our own Canadian textile industry. We're playing in the toughest market in the world on a level playing field. Everybody ships to that market. Can we possibly survive if we can't have the right fashion item delivered at the right time? That's the only way we can compete. Our proximity to the U.S. is critical.

● (1625)

The Chair: Let Mr. Penner jump in.

Mr. Harvey Penner: I think there's a misunderstanding here. I believe firmly, with all due respect to Elliot, that the textiles and apparel are interdependent. One will not survive without the other.

Everyone who has spoken this morning has talked about the importance of the United States—that everybody ships to the United States; that Canada has as many people in it as California; that if we cannot sell to the United States, we do not survive. Therefore, if you take that as an example, how are any of these apparel companies going to bring in fabric duty free from China or India or wherever else, manufacture it, and ship it into the United States? It doesn't have NAFTA input.

They have a TPL, which is a curse and a blessing. TPL is something....

Liz, why don't you do the TPL segment?

The Chair: Really quickly.

Ms. Elizabeth Siwicki (President, Canadian Textiles Institute): A TPL is a tariff preference level. It's an exception to the NAFTA rules of origin that require that essentially for a garment to be shipped to the United States duty free, it has to be made in Canada from NAFTA fabrics, from NAFTA yarns. So the TPL offers a limited exception, but it is limited, and that's what Harvey's referring to.

The Chair: That was for the transcript, so we had an explanation. Good. Thank you.

Mr. Penner.

Mr. Harvey Penner: I'll just continue for a minute.

If we take Elliot's example from Peerless, which is a phenomenal firm with a great success story, they don't buy one yard of fabric, and haven't bought one yard of fabric, from Canada in 20 years or 10 years or 15 years. They use TPLs. So they have an advantage. They can use third-country input. They can ship into the United States. It gave them a major step up against the Americans, who did not have that advantage in their own woollen spinning operations in the United States.

I don't know what the duty is. I doubt it's 14% for wool. I think it's 3% or 4%. I think most of the wool is probably even duty free at this point. I think when he speaks of the industry, it's one thing. When he speaks of Peerless, it's another. It's important to define the two.

If you do not have a textile business, where are you going to source your...? You're going to source from the States or Mexico. Fine. If you don't have NAFTA inputs, you have no U.S. market. The TPLs are limited. The Americans aren't going to renew them. They're going to be maximized.

Now everybody sits around this table and says we're fine, there are still some TPLs available. But there won't be TPLs available. They're going to pay 20% duty going into the United States. I don't understand it. I really don't understand it.

Mr. Elliot Lifson: May I just correct one issue? It's an important issue. We don't have to sell TPL for our use. We pay tariffs into the States. We're not on a free ride.

The Chair: It's an interesting debate. I'm sure we'll hear more about it. We're going to continue.

Paul, are you going to...? Okay.

Then I have Jerry and then Brian.

[*Translation*]

Mr. Paul Crête: Thank you very much to the presenters.

As you know, on February 9, the House of Commons passed by a margin of 157 to 108 votes a motion condemning the inadequate level of assistance provided to the apparel and textile industries. Therefore, we still hold out hope that one day, we'll have a genuine response strategy in place.

First of all, should any of the measures announced in December be in place and in fact are not, or do some present problems?

Secondly, what elements need to be added to the current plan to make it a true intervention strategy?

● (1630)

Mr. Elliot Lifson: First of all, the elimination of duties was announced in early January. That's an important step.

The other measure is not yet in place. We're awaiting the tribunal's report which is expected to be tabled in June 2005.

Mr. Paul Crête: Is that a realistic expectation? Do you really think the report will be ready in June 2005?

Mr. Elliot Lifson: I hope so. I would like to issue a challenge to the government. The report should be ready for June 1, 2005 and we're waiting for it. I don't really have a answer to your question.

Mr. Harvey Penner: I cannot compete with Voltaire or Rousseau when it comes to the French language, so I will answer your question in English.

[*English*]

I think what the government did in giving us the ability to modernize and utilize the funds that were made available is a positive, but it is so far from the solution. It's a band-aid. What is still missing is, what are we doing about LDCs? Why is it that the Canadian government doesn't understand that they can still have LDCs and help the poor countries of the world by putting in either an American or European policy, by setting up either a surge mechanism or some kind of plan where over five or ten years they have to set up an infrastructure? Why are we facing China, India, Pakistan, South Korea? These are economic giants in textiles and apparel. Why are they getting duty-free access to the Canadian economy and utilizing the slave labour they've been able to exploit in these countries? And as soon as the country's wages go up, they move to another country.

I'll give you an example. I just saw this the other day. It said Chinese T-shirts, for shipping to Europe, are now 35% cheaper than they were a year ago, but they are still twice the price of T-shirts from Bangladesh. Bangladesh is flowing in here like mad. China has not had the increases that everyone said they would have. It's the LDCs. It's Bangladesh that has taken the biggest part and has driven the prices way down.

So why doesn't the Canadian government, which set up this Canadian policy, do something about LDCs? How are we going to have market access to the U.S.? That's our market. Why are they not dealing with the bilaterals? Why are they not pushing an FTA? Why are they not going to the American government and saying, “You want our oil and water? Give us access under NAFTA.” The spirit of NAFTA...allow the input of Canada and Mexico. I think Elliot mentioned outward processing. Why aren't they setting up outward processing?

Finally, the CITT has to bring an intelligent, planned approach to the reduction of tariffs. The textile industry, if it doesn't produce the actual product or has no plans or production capacity to produce it, has no reason in the world to disallow the reduction of the tariffs. But they have to understand the substitution of the goods. They have to understand all the nuances. They have to understand if there's something we can make in the future that becomes popular, we can get into it.

And fourthly, with all due respect, apparel is still the major part of the textile industry. Don't be fooled by this high-tech nanotechnology. We do all that, but that's not where the volume is. If you want to sell a quarter of a pound of goods, you do some esoteric product. The bulk of our business is done in commodity-basic, traditional, and innovative product. So we must continue in that. And we don't sell to the home furnishings; we sell to the apparel group.

I'm on both sides. I have an apparel company and I have a textile company. I know that I ship 95% of my apparel to the United States. My yarn and my manufacturing is here, but it's out of a knitting operation, which is textiles.

So literally, these are the issues. And when you look at our success, both in apparel and textiles, look at the growth. We went from $0.8 billion to $3 billion. They went to some $2.3 billion. That wasn't on luck. That wasn't on chance. It was on investment; it was on plant production; it was on all the things we did right.

The Canadian government just doesn't understand it. They just don't understand that we can survive and grow. We have a language. We are geographically well located. We have access to all the American chains. Their offices are here as well. Hey, we have an advantage. And the American textile and apparel business is decimated; there's nobody left.

The Chinese are the brand of the day. Everything is Chinese. The Chinese will re-evaluate their currency. Their domestic market is growing. They will raise the prices in the United States in the next two or three years. And then the Americans will say they won't pay, but they're going to turn around and see they have no industry.

We still have an infrastructure. We have dye houses. We have weaving plants. We have knitters. We have all that. If they don't destroy it over the next two or three years, we're going to prosper again. And that's what I don't understand. That's why I don't understand the apparel people, because they have to buy NAFTA product or they're dead. They're not going to sell Chinese fabric, cut here into the night, and pay 20% duty. It's over.

● (1635)

[*Translation*]

Mr. Paul Crête: Mr. Penner, I also have a question about the current program. Is CANtex running?

Mr. Harvey Penner: Yes, I believe so.

Mr. Paul Crête: Is the money coming out of the government's coffers? Is it flowing to the companies?

Mr. Harvey Penner: In the case of CANtex 1, yes, but CANtex 2 has not yet been approved.

Mr. Paul Crête: What is the status of CANtex 2?

Mr. Harvey Penner: We're still waiting for it.

[*English*]

Ms. Elizabeth Siwicki: The problem with CANtex 2 is that, theoretically, it is supposed to start on April 1, but it still hasn't been formally approved. The criteria aren't yet available. Nobody can make an application yet. It may well be that it will be delayed beyond the April 1 date. CANtex 1 is running. Companies have received funding. But for CANtex 2, it looks like there is going to be a delay.

The Chair: Mr. Rotchin.

Mr. Randy Rotchin: To address your original question, the announcement on tariffs in late December was certainly the best we could hope for. It was the tonic this industry really needed. The problem we face now is implementation. We don't even know what commodities will receive this treatment. We're not really sure. As Elliot mentioned, there is a target date and we're hopeful that target date will be met. But we're still waiting.

[*Translation*]

Mr. Paul Crête: What criteria?

[*English*]

Mr. Randy Rotchin: The reference that was given by the Minister of Finance to the CITT.

This also speaks to your committee about smart regulations. There's the question of implementation. A policy decision was made and a program was created, and it was years in the offing. A lot of effort went into it, but we're still waiting to understand what it actually is.

The Chair: Do you have a final comment, Mr. Lifson?

Mr. Elliot Lifson: John mentioned that there are two industries. Harvey is a knitter. For everybody around the table, there are two types of fabrics: knits and wovens. In our company we don't buy one-half centimetre of a knit. All our fabrics are wovens. We have no problem with the knitters. His is a vertical operation. We don't use any knits. Nobody in this country makes one centimetre of these goods. What are we supposed to do? We have to buy it offshore. That's an important issue. You have to understand the industry. That's why we're all sitting around here. When you're talking knits, that's one issue. I have no problem with Harvey on that. But when you're talking wovens, you're talking about a different issue.

The Chair: Thank you, Mr. Lifson.

We'll go to Jerry and then Brian.

Hon. Jerry Pickard (Chatham-Kent—Essex, Lib.): Thank you very much, Mr. Chairman.

Like your industry, where textile and apparel have very different roles and needs, the federal government is basically looking at this problem from two separate departments as well. The finance department implemented the steps in December. I hear from Mr. Rotchin that those steps were good for his section of the apparel industry. I see his section of the apparel industry as being very different from Mr. Lifson's section because they have to import offshore materials. Hopefully, what the finance department did helped both sides of the apparel industry. How does it affect the textile industry? Is the textile industry under more pressure because of the December announcement? Could you give me your take on that?

Mr. Harvey Penner: It remains to be seen on the CITT. They're just working on that now. I'm not sure when the initial report will be issued. It's supposed to be out in March.

If the mandate from the Canadian government was that duties will not be removed from anything that can be substituted or produced on our current equipment in the future, they should remove duties on things we don't have any interest in maintaining duties on because we are not producing it any more in Canada and have no interest in producing it.

It depends on what they say in their final report, what they actually remove the duties on. If, for example, they decide to remove the duties on cotton yarn, obviously that's a disaster, but if they decide to remove the duties on Rubbermaid plastic, I have no problem as long as there's nobody in the industry currently who has equipment and is producing it or could substitute it for something else. In reality, I think we're on the same wavelength.

They tried to cut the baby in half. They gave us CANtex and they gave them the money on the duties. It was done at both ends to keep us quiet. The problem with the plan is it doesn't address markets, and markets are what we need.

● (1640)

Hon. Jerry Pickard: I don't mean to challenge you, but "feed both ends to keep us quiet"...was it not an initiative to try to help the textile industry, in your mind?

Mr. Harvey Penner: Yes, it was, but it wasn't what we wanted. It wasn't what we asked for. Obviously we're not stupid. When it's available, we're going to utilize it. We're going to take the money and invest, etc. But it's a band-aid on a major wound. We would have much preferred a better industrial policy. We would have much preferred an understanding on LDCs, on consultation, that we went over and over and over together on it.

The LDCs have driven down the average price dramatically in this country. Wal-Mart is paying $3, and all of a sudden you can get it from $1.25. What does he do with the rest of his Canadian production? He demands the same thing. He drives down the whole price structure. It's absolutely crazy. And that was what we wanted. We didn't ask for money, but they said take the money and shut up. Well, that's not going to be the answer. We can use the money, but we're not shutting up.

Ms. Elizabeth Siwicki: If I can add to that, the textile industry is looking for good government policy. Something like NAFTA, for example, was good government policy. It wasn't money thrown at the textile industry. It was good policy that allowed us to become successful in the U.S. marketplace. What we're looking for now is more government policy like that, that doesn't necessarily give us money to solve problems the government created, like the LDCs problem, but rather to be able to build on what we're good at, and that's doing business.

We were great at servicing the U.S. market until U.S. trade legislation put a stop to our ability to access the U.S. market.

Hon. Jerry Pickard: I think Mr. Kirke wanted to answer, but to come back to the issue you raise, I know that what you may perceive as good industrial policy probably could conflict with what the apparel industry might suggest is good industrial policy.

Would it be wise, at this point in time, for this committee to receive from you what you perceive as good industrial policy and from the apparel group what they perceive as good industrial policy, so we can examine them and come up with some consistencies that may exist, first? I think that's critical for us as a committee to deal with.

Ms. Elizabeth Siwicki: There are a lot of commonalties in what the textile and clothing industries are looking for. Elliot referred to a coordinated approach to policy, and we certainly agree with that. I think the most contentious issue between our two industries is the issue of textile tariffs. I think that's where you'll probably find most of the differences.

From our perspective as an industry that produces yarns and fabrics, the issue is not as simple as it might initially appear, where Elliot and others have said if it's not made in Canada, then it ought to be duty free. We agree. We have no issue with that. The problem is defining what's made and what isn't and how goods compete in the marketplace.

If you were to remove the duty on something, which the CITT is currently looking at, for example, and let's say it's a 50-50 cotton-polyester product, because it's deemed that that isn't produced domestically.... But what if a 65-35 product is produced domestically? Do those compete in the marketplace? Will there be switching in the marketplace? Will removing the duty on something that theoretically isn't produced in Canada affect the other product that competes with it? That's the type of thing we're...and that's the reason why the January 1 implementation date doesn't happen immediately; it'll be retroactive. That's why the tribunal has six months to look at this particular issue.

● (1645)

Hon. Jerry Pickard: That's why it's very difficult for a committee like this to try to deal with the technicalities you raise and deal with them in a reasoned way.

I think Mr. Kirke had a comment.

Mr. Bob Kirke (Executive Director, Canadian Apparel Federation): Yes, and I think our argument leading up to this announcement has been that we have to find a way for the facts to speak for themselves. I think we recognize that the government has probably done the best job possible to do that. The CITT process demands that people demonstrate that they produce it and sell it to people—not sell it to furniture companies or anyone else, but sell it to us. And on the basis of those facts, I think they will come to a fairly sound conclusion.

There may be some issues about defining product. Product definition is a very contentious issue, and even just correct classification is something that's difficult. But we're getting close to the facts; we will no longer be arguing about things, but the facts will speak for themselves. They will produce it, they sell it to us, they will have a record of that sale, and the government will make policy on that basis.

I guess the other thing I would say, though, is that you have to recognize how long it has taken, and that's why we have a degree of impatience, if you will. In June of 2002, just before Canada Day, the LDC was announced at the Kananaskis Summit. That's when the real problems started for us, with the commitment from the government to make those concessions to those countries. But on February 27 of last year, the industry minister, as Mr. Lifson has mentioned, indicated there would be tariff relief for our industry—and we still don't have it.

So if we're impatient, it's because we've been waiting two and a half years, but at the same time we recognize the way the government is approaching it now is correct, and we would say get on with it.

The Chair: Are there any other comments?

[*Translation*]

Mr. Paul Crête: On a point of order, Mr. Chairman.

Just to clarify matters, I want Mr. Pickard to know that their proposals were tabled to three separate committees in the course of one year. Last year, they were submitted to the Finance Committee. In either November or December, they were taken to the Foreign Affairs and International Trade Committee. Now, he's referring to them again this morning. The government has all of the proposals on recent record.

[*English*]

The Chair: Merci, Paul.

Okay, Jerry, a final question.

Hon. Jerry Pickard: When you realize that Finance took several of its proposals to the finance committee, which examined them, that the committee reported back, and that the government acted in December.... The problem is that the enactment does take time.

We are now just going through the budget process, which I think the industry certainly realizes. As a result of the outfall of the budget process, those announcements will be made, and I believe you know that.

The Chair: Okay, Jerry. Thank you very much.

We're going to Brian and then Werner.

Mr. Brian Masse: Thank you, Mr. Chair.

It's an interesting topic in terms of timing. Coming from the automotive sector, there are a lot of similarities happening here, as well as with the aerospace industry. It's amazing to see the overlap.

If I could start with Mr. Penner, I was just in Washington as part of an all-party delegation. I was sitting in a Republican congressman's office where it was interesting to hear him bring up that issue with a New Democrat and to talk about fair trade and actually talk about China and regret allowing them into the WTO. Those are the types of things we're witnessing across North America at the moment.

I'd like to ask for your opinion about what happened in terms of the existing U.S. industry. Did the textile industry there relocate to China or did it develop on its own there? What happened in terms of that scenario or in terms of vacating the market space there?

And if you can follow that up, how much time do you think we have in our industry here with the infrastructure that's currently in place?

Mr. Harvey Penner: I think when you take the U.S. and China, it's different from Canada and China.

I think in regard to Canada the quotas were never utilized 100% on certain commodities. There wasn't the same pressure on quota charges because the quotas between Canada and China were not always utilized to the same degree.

I am not familiar with the details of the United States' policy, but there was so much pressure, there was so little quota for so much demand, that the quota prices were very, very high. The moment the quota came off, it ballooned dramatically, whereas in Canada you don't see the same effect at this point because many of the categories did not have the same. Some of the quotas weren't used. So when the quota came off it didn't change anything.

How much more time do we have? It's a hard call. The issue really for us is more the LDCs and Bangladesh. Bangladesh has been a killer.

The growth out of Bangladesh is so dramatic. Elliot mentioned there are 700 firms. I think Randy said he represents 200 firms that are 70% of the manufacturing or 70% of the apparel business.

Most of the firms, as Elliot said, were hybrid importing and have now turned. Many of the major firms that were there before, when the LDCs closed out their manufacturing—Big Silver or...I'm not sure 100% Silver, but many other firms that were manufacturing—decided now that they just couldn't afford to manufacture.

So I don't think China will have the same immediate effect, although UNITE commented on a tremendous issue in the babies area, which was a big, wide commodity. But right now what we see initially is the LDCs and Bangladesh, because China doesn't have to ship directly. Why should they ship directly and pay duties?

They ship their fabrics. Seventy-five per cent of the value goes into Bangladesh. They sew it there and they ship it here duty free. Why manufacture in China and ship it here? China's prices are much higher than Bangladesh's and much higher than the LDCs'. So that is really the major issue we have.

China is a monster, but there is another issue with China. They need huge quantities, long runs. They are not interested in a thousand dozen or 500 dozen or 5,000 dozen.

You have to understand the apparel business, as Randy mentioned. We sell to the United States, to major retail chains. We make T-shirts. We make T-shirts that cost certainly more money than those from China and every other country and certainly Bangladesh. Why do they buy from us? Because in January and February when pink and yellow are selling, you can't go back to China because it takes six months.

Every major chain now in the United States has the funds. With what they have in warehouse and the timing of their money and the timing of the goods, we are able to turn something in three to four weeks. This is the foundation of what we're building here.

If the Canadian government had made it a level playing field, if they hadn't done the LDCs, which was not necessary, or had done them like the Americans and Europeans, if they had fought for more of the NAFTA spirit and kept NAFTA, do you think that Cleyn & Tinker and Cavalier and Huntingdon would have closed if they didn't have CBI? They would all be open. They were prosperous. They were growing. Yes, the American dollar has an effect, and there's no doubt about it. But that's not what closed those firms. It was the bilaterals and the CBI.

Put us on a level playing field. Take out the LDCs. Make some kind of a rule.

When I sat before a committee the government people told me, “Oh, we can't do that”. Well, you set it up, so change it.

That's the issue I see. I see China growing. China has a play. China will be there, but it's the brand of the day. Like every brand, it will change.

● (1650)

Mr. Brian Masse: That's actually happened in the automotive sector as well. It has bounced around from Mexico to Brazil to China, and now even to India in terms of what's happening with competition. It's quickly moving to the lowest denominator in terms of environmental standards and working rights and just finding the next spot.

Maybe I can get Ms. Dagg in on this conversation to ask for her recommendations. What type of benefit do you think it would have immediately if we actually enacted those recommendations? I would offer that then to the rest of the panel to suggest whether or not that's something that in the short term can be done, if it's realistic.

Mrs. Alex Dagg: I only want to make two comments.

I understand what people are saying about China, but I think we're underestimating the impact China will have in the future. I don't think we should ever think the implications aren't going to be hugely significant down the road. It's a huge economy.

With the expectation or prediction of what it's going to do to the U.S. market, where we're so heavily dependent on exporting to the U.S. market here in Canada, we shouldn't underestimate the role of China. That's why we've said our position is to implement the safeguards. I don't see why we wouldn't do that. To do that is just, I think, smart thinking in terms of trying to protect jobs in this country.

The other comment is this. I wanted to say a little more about the dollar. I understand this is an industrial committee. But when you have a monetary policy that very much affects the manufacturing base in this country, I don't think we should exclude it from the discussion, because it may not be particularly the issue you're looking at. When you have the implications of what has been happening with the Canadian dollar vis-à-vis the American dollar, to not look at it and understand its impact on manufacturing in Canada, we're limiting our discussion too much and the role this committee could take to look at improving and maintaining manufacturing jobs in this country. It's important that this committee has a voice on that issue.

When I'm out there talking with employers where we represent the workers, do you know what they're talking about all the time? It's the Canadian dollar and the American dollar. That's the only thing they say. Every time I sit across the bargaining table, trying to negotiate to improve wages and working conditions for workers in Canada, it's the Canadian dollar versus the American dollar. That's why they can't give an increase, and that's why our members and the employees in this sector have been hit very hard.

We need to look at the issue and we need to have a voice on that issue here at this committee.

● (1655)

Mr. Brian Masse: Can we hear whether exercising that right would be...?

Mr. Elliot Lifson: I can address the issue. One thing I've always learned is that you can't take your ball and glove and run off the field to go home.

Mr. Brian Masse: It's only exercising our right that has been negotiated, though.

Mr. Elliot Lifson: Yes, sure, we can negotiate. You can put up barriers and rights. But is it a reality in today's environment? Again, I don't think that putting up rights and barriers is the realistic way.

To me, one of the realistic ways of doing it is this. How can we as an industry, and both industries, be competitive in today's environment? What can we do to the management that exists here today? In the domestic industry that remains here, what are the things that the government can work on with the industry to make us competitive?

One thing is to teach management how to compete in today's global environment. It's a reality. We can't fool ourselves. We don't want to lose the jobs that are here.

A perfect example is this. If we talked about one issue that we both addressed, both textiles and apparel, it was a question of outward processing. If this is an issue that can help the textile industry, etc., then we'd certainly like to sit down and play. It's not in our playing field to make sure that my friend here, Harvey Penner, goes out of business. He's in the knitwear business. He said it. That's what he is. We're in the woven business. We don't have input in this country. We have to source worldwide.

How do you make us competitive? You can compete in three different ways. You can compete on price, but we'll never be the lowest-cost producer in the world. You can address all the economists who tell us to be more competitive. Can we be that much more competitive? There's always somebody cheaper.

There's one other thing. China's not the cheapest place in the world either. Innovation, design, service, and proximity to the U.S. marketplace are where we are. Our total domestic apparel industry represents 1% of the U.S. market; 1% is $2.5 billion. Imagine if we had 2% of the industry.

Let's be realistic. How do we protect what we have here? It's not by fighting with one another and it's not by putting oil on the fire. It's not going to work. How is it going to work? It's going to work if we can get the same rules in place so that we can do it and be competitive.

There are issues. We can't sit around and wait. Keep in mind, for every day that we wait, places close. Once they close and go offshore, believe me, they don't come back to this country.

Keep in mind that we make 30,000 suits and 40,000 trousers every week. Do you think the outsource in China is going to say we're going to ship hangers from here, we're going to ship thread from here, we're going to ship buttons from here, or whatever the case may be?

We have to protect what we have here. We're sitting around the table. Believe me, your sides are political. We're not political.

The Chair: Brian.

Mr. Elliot Lifson: We're saying that safeguards are not the issue.

Mr. Brian Masse: I want to hear from everybody.

So you're saying no to invoking that.

Mr. Elliot Lifson: That's right.

Mr. Brian Masse: I will get everybody else to respond.

Mr. Randy Rotchin: Safeguards are really a temporary measure. What we're looking for is something much more substantial, much more long term, committed, and strategic.

The U.S. is using safeguards in some cases, and other countries are using them in some cases, but they don't last. It offers a false sense of security. It prolongs the inevitable.

The Chair: Did you want to make a quick comment?

Ms. Elizabeth Siwicki: I have just a quick comment, following up on that. Any safeguard that's imposed is valid for a year only. It has to be renewed after that. It's difficult to renew, as the Americans have just found out.

The other thing is that the formula for setting the level basically embeds the increase in imports. You take 12 of the last 14 months and add 7%. So you take the damage, you add 7% to it, and then you have a level at which you have set the marker. There are limitations to the safeguards.

● (1700)

The Chair: Thank you, Brian. Excellent.

Werner, please.

Mr. Werner Schmidt: Thank you, Mr. Chair.

Thank you very much, folks, for the information you have given us. It has been a real education from two points of view. Number one, there's a real competition among the representatives here, and I think that's great. And I thoroughly agree with Elliot's position and also the point that was just made by Ms. Siwicki that protection—and that is really the word—really doesn't work. It's very temporary.

I would like to follow up on what Mr. Penner said, that the world will change and policy will probably have to change. But I really would like to go beyond all of those protection measures and say, look, there has to be a framework, a strategy within which both the textile people and the apparel people can work together and compete with the rest of the world, because ultimately that's what's going to happen. So it seems to me that we have to have a strategy.

There are two parts that we have to consider: the strategy, the overall framework in which we are going to work; and then the tactics. I think you can work out the tactics as an industry once you have the overall strategy in place.

I really want to challenge Randy, who I think presented the position of Australia apparently having gotten it right. I would like to know what Australia did that made it right. Clearly it is dealing with change. It is dealing with industries that are competing with one another. It is competing with countries that are competing with one another. So what did Australia do? It's not something that is for one year; it's not for two years. It's probably a ten-year proposal that Australia is working on.

What can we do here in Canada to protect the industries we have, the protection being to give them the tools to get out there and become competitive? Can you help us in that regard?

Mr. Randy Rotchin: The very first thing Australia got right was that it started thinking about this problem 15 years ago.

Mr. Werner Schmidt: That doesn't help. We are here today. We have to go 15 years from now. What is it going to be 15 years from today?

Mr. Randy Rotchin: That's my point exactly. We have to be thinking about what the landscape is going to look like 15 years from today.

Mr. Werner Schmidt: Surely you gentlemen and ladies here must have some idea as to what the world is going to look like in 15 years. You have told us a couple of times what China is going to be doing. So come on, let's have it.

Mr. Bob Kirke: I think you have tried to figure out what the companies are going to look like in 15 years.

Mr. Werner Schmidt: Of course.

Mr. Bob Kirke: They are going to be marketing-driven, design-driven, product development-driven companies, and they will produce some of their goods here. That's what Australia has done. It has figured out what the companies are going to look like and it has built the policy.

The policy includes tax credits around marketing. We tried to get that out of the Canadian government and it said, "Oh, my God, tax credits on marketing cost," but that's actually what the companies need to invest in. Why is that inappropriate?

The Quebec government has an innovation tax credit. We have been asking for about ten years to see that reflected in federal government policy, and it's not. So we know what the companies are going to look like in some respects. How much they produce here is the question mark, but we know what they're going to do. They're going to be innovative companies. In our industry, marketing and product development are what innovation is.

Again, you take the company that's going to exist and then you build the circumstances that will allow them to be here. I think Australia has done a pretty good job of that.

The other thing I would say is that the LDC policy came in and there was a program of adjustment measures for the apparel industry, as well as the textile industry, but we burned through our money. It was a successful program. It was so successful that it ran out of money a year and a half early. Was there more assistance—

Mr. Werner Schmidt: It's easy to look back. We are all so smart in looking backwards.

Mr. Bob Kirke: All I'm saying is that it was a successful policy. It did exactly what it was intended to do, and then it stopped.

The Chair: Mr. Penner.

Mr. Harvey Penner: Let's understand what we have here. We have Australia with 15 million people, isolated. We are in the North American environment of the U.S. and Canada with about 350 million. It's a different scenario.

What happened with NAFTA was a success story. Everybody grew; everybody prospered. When NAFTA came in, everybody said it was over, it was a ball game, the Americans would bury us. It didn't happen. We grew dramatically. You have a North American environment. You have a clothing and textile business. We have distances and logistics.

We have an unstable situation to some degree in China because most of the stuff is promoted by either a non-profit environment or a banking system that's non-existent, or with export credits. It's there for employment only. If you talk of the long term to me, eventually China will have a tremendous domestic market. They will increase their prices, increase their products, increase their domestic market, and their prices will change in the world community.

We here can do what I think Randy said, a combination. The issue is that we need market access. When you set up NAFTA, you gave us market access. When they made the bilaterals and took away the access for Canada to the U.S. market...when we can't sell a fabric to the United States because they won't allow it because it's not American input, and they sew it in the CBI, we're out of it.

There's a policy in place to go to free trade in an FTAA. FTAA will have a seamless movement throughout North America, South America, and the Caribbean. Eventually you'll see most of the sewing in this country go offshore, but the knitting, the dyeing...? These are very price-competitive, low-labour-input types of operations. If we have the know-how and the production capacities, we will be able to sell fabric in the United States and all over the world, because it has a 6% or 7% labour input, whereas sewing is 40% or 50%.

● (1705)

Mr. Werner Schmidt: I'd like this discussion to go a little beyond the one sector.

Mr. Elliot Lifson: You asked a very good question: what's going to happen 15 years from today? Keep in mind we're in the fashion business. Usually, in the old days, you worried about the next season and that was it. That was the nature of the industry; that's what it is. That's what we're asking, and it's a very good question. What we're asking is, how do we take what we have now and teach management that we're competing in a new global environment? Fifteen years is a long time, but it's okay to exaggerate that way, because it's the right way. What do you see down the road?

Keep in mind, when everybody talks about a free trade agreement...we didn't have a free trade agreement. Free trade? The fabric and the finished garment had to come from a NAFTA country or else it wasn't free trade. Then five years later they put on NAFTA. They wanted a triple transformation: the fibre, the fabric, and the finished garment have to come.... So we don't have a free trade agreement. Who are we joking? Everybody talks about free trade.

You know what happened? The psyche of the management changed, and they said, “Hey, you know what? The border has opened up.” What do you mean, the border has opened up? If you used fabric that wasn't NAFTA, or the fibre didn't come....

We're shipping goods. The men's wear industry is one sector that has done extremely well. It's not one fabric. We don't own all the TPL, and we pay plenty of duties across the border. In the men's wear industry they are all successful in the U.S. market because their psyche changed, and they said, “Hey, if we're innovative, if we have a proximity to the U.S. market, and if we can service that market, then we're great.”

I'm going to give you a secret. Do you know what the strength of our company is? It's not the product we make.... Sure, it's the product, but not the so-called booking orders, where Macey's comes in and says “I want this striped suit on April 1 in this colour.” No, the biggest product we own, our biggest competitive advantage—keep it in this room—is the in-stock replenishment program. We work a program, because the best thing you can do for a retailer is turn their inventory, because it doesn't turn fast enough. We can get 10,000 to 15,000 units on a Monday morning and ship them from our warehouse in Vermont in the afternoon on Tuesday.

That's a competitive advantage you have, and that's how you're going to compete 10 or 15 years down the road. That's in the woven business.

Harvey is talking about knits. Knits is a different business. You don't have the same labour. You have the factories, you have the machinery in place, and you can turn. He's talking about the same thing. He's talking about turns.

There are two different industries. I appreciate the fact that we have to work together in peace and harmony around the world, but you can only work if you're supplying one another. If I was a knit producer, I'd love Harvey. I would have driven to Ottawa with him. Why? Because he's a great supplier, and he's next door, and I don't have to carry inventory. I can say, “Harvey, I need pink knit tomorrow. Get it for me, or else I'm going to cut you off.” I'm going to tell him worse than that.

But that's important. You have to keep in mind that you have to understand the business. So your question is excellent.

Thank you.

The Chair: Thank you, Mr. Lifson.

Werner, please, go ahead.

• (1710)

Mr. Werner Schmidt: In the real question there, three key words were used. One was “consistency”, the second one was “coordination”, and the third one was “commitment”. That's part of that psyche, I think, that Elliot is talking about. You have illustrated very clearly how there was a lack of coordination in terms of our industrial policy, our trade policy, and our finance policy. These are different departments, but there has to be coordination there.

I think the commitment one is pretty clear, but on the consistency part, could you explore or explain that perhaps a little bit? Just what do you mean by that?

Mr. Randy Rotchin: Consistency essentially is sticking to a policy that is longish—meaning medium-term to long-term in nature—and essentially living up to the commitments of that policy. I could just say that in our industry, as I mentioned earlier, we have five 10-week seasons a year, and looking out 15 years is a challenge for us. If we're starting to do that now, I think government should be able to support that.

We certainly couldn't have imagined in 1947 what our company would look like today, but as Bob mentioned earlier, we are a hybrid organization. We manufacture some domestically and we import, which was something we didn't do years ago. All of our design, all of our product development, all of our distribution, and all the service we provide to our customers is done domestically, and I don't see that changing.

Mr. Werner Schmidt: Thank you, Mr. Chairman.

The Chair: Ms. Siwicki.

Ms. Elizabeth Siwicki: Just as a short comment in terms of consistency and tariff policy, the government allows duty-free fabrics to be used in apparel and other end uses. The government allows apparel to come in from countries like Bangladesh and others duty free. But apparel made from Canadian fabrics in other countries is fully dutiable when it comes back. That makes no sense at all. So that was one of our recommendations on outward processing. We need it.

Mr. Randy Rotchin: And if I may also add something on consistency, we could point to CITT decisions on certain fabrics. If Elliot achieves tariff relief on wool for use in men's suits, for example, presumably that same wool is not available domestically for use in women's suits. Why don't we get the same benefit?

Mr. Harvey Penner: Can I just add something here?

The Chair: Very briefly, Mr. Penner.

Mr. Harvey Penner: There seems to be an idea here that we're in conflict, but from all this conversation, I think we're not in conflict.

A voice: We just sound that way.

Mr. Harvey Penner: Right, we just sound that way.

We agree upon LDCs. We agree upon access to the U.S. market. On outward processing, there's no argument. The CITT is the only thing, and that's out of our hands.

Mr. Werner Schmidt: What does that acronym mean?

Mr. Harvey Penner: Canadian International Trade Tribunal.

At the end of the day, they're going to make their decisions based on the inputs, so we agree. We've agreed for a long time on these things. In essence, we're not in conflict. The only differentiation that I keep coming back to is that you will not have an apparel business here unless you have a textile input; you will have importers or they'll have to go to the United States. We lost jobs in towns with salaries of $35,000 to $45,000 that didn't have to go, but they went.

Mr. Werner Schmidt: Sir, we don't have to be convinced of how important it is. What we have to be convinced about is what the best solution is.

The Chair: Very good. Let's conclude with that. If we have a chance to come back to it, we will.

Paul, then Jerry.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman. I have two questions.

When Canadian parliamentarians travelled to Washington last Tuesday, they presented their hosts with a small kit containing a T-shirt inscribed with the following words:

[*English*]

“T-shirt made in Mexico, printed and packaged in the United States”.

[*Translation*]

Nothing is made in Canada and these T-shirts were presented to the Americans to underscore Canada's contribution. The only thing that wasn't mentioned is that Canada paid for this. That's all we did. I'd just like to know if in your view, this kind of message was appropriate. However, I don't want you to answer right away.

It was a strange message indeed to convey. The Canadian government feels that no Canadian-made products are worthy of being presented as gifts to the Americans. Instead, it gave an item of clothing made in Mexico. It's not as if someone decides to buy a T-shirt somewhere in the world. We're talking about the Government of Canada presenting a gift to US parliamentarians.

That being said, if you had an opportunity to speak with Paul Martin prior to the summit with Mr. Fox and Mr. Bush scheduled for March 23 and to discuss the relevance of having a NAFTA-plus or some such thing, what areas would you ask him to defend or include in the current arrangement?

• (1715)

[*English*]

The Chair: Any takers on that?

Mr. Harvey Penner: I think we have a letter to Paul Martin. I don't know if you've seen it. That would be the four points that I brought forward to Mr. Martin in the letter I received a response to, saying that we feel your pain, we're concerned, I'll send it to my other ministers, thank you very much, signed Paul Martin. We asked for a meeting, we asked for some consultation, and we didn't get it.

I'm sure that with the demise of secondary manufacturing in this country, because you don't have to look at textiles and apparel, you can look at furniture, you can look at metalworks, you can go across the board, Canada is at a real crossroads. If they don't do something about secondary manufacturing, you're going to have, as I said, a nation of dry cleaners. There's not going to be anybody. Therefore, that's the policy that has to be implemented for all the secondary manufacturing industries represented in Canada that want access to the U.S. market.

[*Translation*]

Mr. Paul Crête: That's what you would request in so far as NAFTA-plus is concerned.

Mr. Harvey Penner: Yes. Ultimately we would ask him to give us access to the United States, as was the case 10 or 15 years ago under the old free trade agreement. That arrangement worked.

[*English*]

Ms. Elizabeth Siwicki: We would say to Mr. Martin that NAFTA was a good thing, that we need to build on NAFTA. We can't tear NAFTA apart, as is currently happening. We need NAFTA to evolve into the FTAA so that we have the seamless movement of goods in the hemisphere that the FTAA envisages. That will solve some of our key problems. If it had happened last year, it would have kept at least five textile firms that I know of in business.

The Chair: Are there any other comments on that question?

[*Translation*]

Mr. Elliot Lifson: I wouldn't have anything to say to Mr. Martin, apart from seeking his assurances to implement everything we've asked for.

Mr. Paul Crête: It's more a case of your wanting him to implement the program's existing provisions. You don't know if action will be taken quickly enough on this front.

Mr. Elliot Lifson: Precisely. We would be making a mistake to ask for more.

Mr. Paul Crête: Therefore, you see no need for improvements to NAFTA.

Mr. Elliot Lifson: We could discuss rules of origin, but that's another overly complex issue. Just implement...

Mr. Paul Crête: Mr. Martin is a highly intelligent man and he is capable of understanding.

Mr. Elliot Lifson: It's not a matter of intelligence. All we're saying is that provisions already agreed to should be implemented. That's the most important thing to us.

[*English*]

The Chair: Monsieur Rotchin.

Mr. Randy Rotchin: I would say to the Prime Minister: don't stand still while our NAFTA partners seem to be moving forward. That's it.

The Chair: Merci.

Jerry, and then Brad.

Hon. Jerry Pickard: I guess it goes back to exactly what you're saying. I want a little clarification on LDCs as well. Why are we in the business of LDCs? What was the response back to you over lower economic countries doing business in Canada?

Anyone can tackle that one.

Mr. Harvey Penner: I can tell you I sat up, and we hired a firm so we could get access to the government people. We went up to the Liberal caucus at the time, in Chicoutimi, took a plane, and we sat with five of the ministers. We consulted with our group, the SAGIT, and we kept repeating the same theme: if you're going to put in the LDCs, we're supporting the people in Africa; do not put Bangladesh in because it's the fourth-largest country exporting to the United States. I think the apparel industry people were on our side throughout.

The argument—from the bureaucrats I think more than from some of the cabinet ministers—was that we were wrong and didn't know what we were talking about; that it wouldn't affect us, it was nothing, it was irrelevant, and that we should forget about it because it wasn't going to be changed. And Mr. Chrétien I think at the time was really supporting it. He wanted it, and he didn't want to hear any other information.

We made a concentrated effort to explain to them that they could do what the Americans had done under CBI. They could do that, or they could put in a surge mechanism, or they could keep out of Bangladesh...to help the economies grow.

● (1720)

Hon. Jerry Pickard: Okay. Here's my second question. Is it, in your opinion, open at this time for us to put restrictions in without dealing with another nation?

Mr. Harvey Penner: I think what we did as Canadians can be done. I think it has to be refined. I don't think it has to be dramatically changed. It has to be refined so there's a surge mechanism, or some way of initiating, so that they have to set up knitting or weaving or some other form of secondary manufacturing in these countries.

Hon. Jerry Pickard: To me that makes a lot of sense. I don't know why it wasn't there, but I'll ask the officials later.

When it comes to the regulatory regime, I guess that's where much of your problem is. On access to the United States, though, what's limiting our access? You've talked about that continuously. What is limiting our access now?

Mr. Elliot Lifson: I think this is an issue that possibly the members around this table don't understand. It's an issue related to the textile industry. I think the textile industry representatives have to explain basically what they had before and then what the United States did to limit their access—and it's a really critical issue. I think they should address that issue.

The one thing I do want to mention to your first question about Bangladesh is that both the textile and apparel industries had no objection to African countries only. The only objection was to Bangladesh because it had an infrastructure in place. As a business person, where are you going to invest money? The purpose was to help the African nations. If you're going to invest money to help the African nations, that's fine. But if a country such as Bangladesh has access for duty-free finished product, you're going to go where that infrastructure exists. You don't have to invest anything; it already exists.

Keep in mind that on the map Bangladesh has India on one side and China on the other side—very easy.

Hon. Jerry Pickard: A question popped into my mind as soon as that was suggested. Why wouldn't they use African countries or other countries in the same way? Is there any reasoning there?

Ms. Elizabeth Siwicki: For the most part, the African countries don't produce textiles; they produce apparel. It's cut and sew. So what you have is a situation where, if the rules of origin that we were proposing were put into place, the African countries would be given an incentive to develop their own textile industries, not just cut and sew. Then the benefit to them wouldn't just exist only so long as they remain the cheapest source of labour in the world. They would also be able to develop the infrastructure that Harvey was talking about.

Hon. Jerry Pickard: You can just keep going and explain the U. S. side too, please.

Ms. Elizabeth Siwicki: Okay. On the U.S. side, under NAFTA, our exports grew exponentially. We were extremely successful.

In the year 2000 the U.S. introduced legislation that for the purposes of goods produced in the Caribbean, where a lot of apparel manufacturing is done for the U.S. market, U.S. fabrics and U.S. yarns had to be used. So all the business we developed with customers in the United States who were cutting and sewing in the Caribbean was lost. They no longer could buy Canadian yarns and fabrics because to do so would mean they were disqualified from benefits under this new trade legislation. This was a big factor for us.

Mr. Elliot Lifson: I don't want to speak for the textile industry, but I just want to say that I know the issue is not clear. Before, you were able to use Canadian textiles and benefit from the Americans' use of the CBI, the Caribbean basin initiative. When the Americans saw what was happening, they yelled and screamed and said block Canadian textiles. So the Canadians were out in left field, and only American textiles could be used for that CBI initiative.

Mr. Harvey Penner: Elliot, do join our association.

Mr. Elliot Lifson: Listen, I'm a Canadian, so....

The Chair: Thank you very much, Jerry.

Brad, I think, wants the last word.

Mr. Bradley Trost (Saskatoon—Humboldt, CPC): I'll get the last word for once here.

Just an overall general comment here. For a lot of us here this is the first time—maybe not for Paul or some others who have the industry in their riding.... I'm from Saskatchewan. This is a completely foreign industry to me; I'm a mining geophysicist by trade.

● (1725)

Ms. Elizabeth Siwicki: Please don't say "foreign".

Mr. Bradley Trost: In western Canada we sometimes wonder which country we're a part of, but I'll leave it at that.

It would be very helpful and appreciated.... The briefing notes by the industry committee, the staff here, were very useful. That was really the first some of us had for background on this. So a lot of this insider baseball here—and as I said, I have two university degrees; I don't think I'm too dumb. But it would be very helpful, if you wanted us to do this, to get some detailed briefing background notes for myself, my staff—and I have a feeling some of the other members here would appreciate a bit more of the background on it—because the devil is in the details on a lot of this back and forth here. It would be appreciated.

I was beginning to grapple with the NAFTA a little bit better, on how it had impacted it, but I'm still not 100% sure how NAFTA benefited, and bilaterals versus free trade versus other things, so I for one would appreciate any background or briefing notes.

Mr. Elliot Lifson: I'm 35 years in the industry and I'm still trying to get it, so I appreciate in one lesson it's very difficult.

Mr. Bradley Trost: And for some reason I'm going to have to help make some of the decisions on this, so I'd like—

Mr. Elliot Lifson: We'll definitely figure on that, and we appreciate you asking. Thank you.

The Chair: That's a good point, Brad, and if you have some materials, obviously we'd be glad to receive them. If you have them in both languages for distribution generally....

With that, I think we can thank our witnesses very much for the time taken this afternoon. We appreciate the efforts you made to get here.

Paul, did you have a comment?

[*Translation*]

Mr. Paul Crête: This one time, if the witnesses could submit the text of their presentation in English to the committee, which could arrange to have it translated, everyone would have copies in both languages once the translation was available.

Mr. Elliot Lifson: We'll present the document in both English and French.

[*English*]

The Chair: Any documents that are among the presentations that were missing.... I think most of them were presented in both languages? Just one. Okay. Well, we'll do our best with that, Paul. Thank you.

With that, we'll thank you. Safe journey home, and we appreciate your efforts.

Mr. Elliot Lifson: Thank you very much.

The Chair: With that, we're adjourned.

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