House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** Canadian Apparel Federation

or

( ) **an individual** **Name:** _____

Topic: Business taxation and regulatory issues

*Recommendation 1: Please provide a short summary of your recommendation.

We recommend that the GoC review tariffs on imported apparel in a systematic fashion as recommended by the Senate Standing Committee on National Finance in its February 2013 report on the determinants of price differences between Canada and the United States. The apparel industry proposes a review of tariffs (specifically for apparel or across the board) similar in scope and approach to the review of tariffs on manufacturing inputs initiated in 2009, and implemented in the 2010 Budget. This would balance the interests of consumers, industry and government.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

≤$499,999

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Costs to the Canadian government are minimal. This study needs to form the basis for future policy, which could have significant potential impact on government revenues. Currently most apparel is subject to a rate of duty of 17-18 percent. Over $1.0 billion in import duties are collected annually on apparel, making it incumbent on the Department of Finance to develop a sound framework for addressing requests for changes to the Customs Tariff.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The intended beneficiaries are Canadian industry and consumers. The industry as a whole wants to see tariffs addressed in a systematic fashion. The same type of prudent tariff policy was instituted by the Canadian government when it reduced duties on manufacturing inputs. A systematic approach to tariffs on apparel will help identify priority products for tariff relief, and address competing claims made by different stakeholders. Jurisdictions such as Australia have successfully lowered duties on apparel, and implemented measures to help industry adjust. We believe Canada can do the same

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Currently the government has no mechanism to assess these impacts, and respond to calls for tariff relief on finished apparel and other sewn products. The only effort to date is a research project announced in the 2013 Budget which looks at whether tariff cuts on specific products are reflected in consumer prices. High duties on apparel (versus other consumer products) disadvantage the industry. Higher retail prices for apparel make consumers less able and willing to spend their disposable income on apparel versus other products. Redcing these taxes assists both industry and consumers.

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Recommendation 2: Please provide a short summary of your recommendation.

We recommend that the GoC amend the Custom Tariff by lowering the Most-Favoured Nation (MFN) rates of duty on apparel and sewn products impacted by changes to the General Preferential Tariff (GPT) announced in 2013. Changes to the GPT will limit the number of countries eligible for the GPT and these changes will disqualify most countries which produce leather, silk , linen and other garments from GPT eligibility. This will increase the effective rates of duty on a variety of apparel and sewn products, beginning on January 1, 2015. Duties will increase by as much as 8%.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

1 year

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

These measures represent a minimal expenditure on the part of the federal government, but they represent important costs to the business affected by changes to the GPT. Changes to MFN rates of duty can avert tariff increases slated for 2015. They would not reduce government revenue, they would only suspend tariff increases slated for 2015.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Consumers ultimately pay the price for higher duties on imports, and ultimately save when duties are reduced. In the case of changes to the GPT we are simply asking the federal government to apply measures at its disposal to ensure that specific items of apparel and sewn products are not made more expensive because of GPT reform efforts.

Industry will also benefit if the anticipated increase in duties can be averted. These higher duties will increase costs and increase the spread between Canadian and US duties on many products and place Canadian suppliers and retailers at a disadvantage.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

For decades a number of developing countries enjoyed preferred access to Canada under the GPT. Canadian importers and consumers benefitted from these tariff concessions. The GoC has pointed out that many of these countries no longer deserve such treatment, and that is undoubtedly true. However, in the case of apparel these countries are now the dominant global suppliers. Because they are essential sources of supply, there will be few options but to pass along price increases to consumers unless the government addresses MFN rates of duty on affected parties.

Topic: Business taxation and regulatory issues

Recommendation 3: Please provide a short summary of your recommendation.

The Canadian Apparel Federation recommends that the GoC revise the rule of origin for the Least Developed Country Tariff (LDCT) to remove restrictions on textile inputs. Currently the LDCT rule of origin requires that apparel produced in an LDC must be manufactured from fabrics and yarns produced in an LDC, Canada or a country eligible for General Preferential Tariff. Many key countries will no longer be eligible for GPT after 2014. We recommend that the government simplify the rule of origin to allow apparel manufactured from textile inputs sourced from any country to qualify for the LDCT.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

≤$499,999

1 year

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The cost to the GoC of this proposal is negligible. A marginal increase in LDCT imports might result, and this could potentially represent minor reduction in duties collected. At the same time simplification of these rules would greatly assist Canadian importers and the government. The costs of auditing LDCT compliance by Canada Border Services Agency (CBSA) would be reduced substantially by simplifying the rule origin, benefitting both importers and the government itself.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

This recommendation would benefit Canadian importers that source apparel from Least Developed Countries. Compliance costs incurred in gathering and maintaining documentation for origin claims are a significant burden on these firms, and the compliance cost would be reduced significantly if this recommendation were adopted. Another direct beneficiary is the Canada Border Services Agency (CBSA). By reducing or liberalizing the rule of origin for apparel, CBSA will have significantly reduced audit costs.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

This recommendation would benefit both Canadian importers and producers in Least Developed Countries. It would address the paperwork burden imposed by the current origin rule. Compliance costs incurred in gathering and maintaining documentation for origin claims are a significant burden on Canadian importers, and reducing these costs would be especially significantly for smaller Canadian importers.

Please use this page if you wish to provide more explanation about your recommendation(s).

The Canadian apparel industry has undergone significant changes over the last decade. In that period our industry has changed from a domestic manufacturer and exporter to an industry which relies on domestic and global manufacturing capabilities to supply customers in Canada and throughout the world. Canadian apparel manufacturers make leading-edge products in Canada and in production facilities around the world. Our tariff policies need to take account of these realities.

Our first recommendation asks for the government to establish a roadmap for tariffs. Such a mechanism must clearly articulate the most significant factors governing tariff policy, in a way that has not been done before. It must provide a framework for balancing the interests of different stakeholders. In our estimation any review of tariffs on imported apparel must include:

• the scope of domestic production and the protection (if any) afforded by tariffs
• differences in external duties between Canada and the United States
• the impact of duties on consumer prices
• the ability to focus any tariff cuts on consumer products, and not other categories of apparel
• the impact of import duties on government revenue
• and the degree to which imports are already able to benefit from other tariff concessions (FTAs and LDCT for example) and for which reductions in Most-Favoured Nation (MFN) rates of duty would be less significant.

In recommendation 1 we outline how the government should approach this issue. Recommendation 2 applies that logic to products such as leather, silk, linen and other types of garments which will be subject to higher duties because the main exporters of these products will no longer qualify for the GPT (as of January 1, 2015). We believe the government should lower duties on a number of apparel products covered by changes to the GPT. For historical reasons the products at issue are not generally made in Canada, and there are few if any alternative sources of supply which will continue to be dutiable at the lower GPT rates.

Similarly in Recommendation 3 we ask for simplification of rules governing the most significant tariff concession used by Canadian importers of apparel: the LDC Tariff.

Taken together, action these recommendations will help our industry continue to deliver value to Canadian consumers.

*Please note that at least one recommendation must be provided