THE POLITICS OF INDUSTRIAL ADJUSTMENT IN CANADA:
THE CASE OF THE FOOTWEAR INDUSTRY

By

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Date Aug 27, 1988
ABSTRACT

The purpose of this study is, first, to describe the Canadian government's policy for the domestic footwear industry during the 1970-1985 period, and second, to account for the forces that shaped it. The analysis is conducted within an "organizational" framework, which is based on the approach developed by Peter Hall. The framework postulates that the relationships within and among state, societal, and international political-economic institutions are the key determinants of economic policy.

The study argues that it is the conflicts within and among the state, manufacturing interests (business and labour in the footwear industry, and those in the supplying industries), and trading interests (importers and retailers dealing in footwear), conditioned by international political economy, that shaped the government's policy.

It is concluded that the state and manufacturing interests formed internally united organizations and pursued well defined objectives. The state's objective was to assist the industry through high tariffs and financial aid for modernization. In contrast, the manufacturing interests' objective was to secure quotas on imports. While the two sides were internally united, neither were sufficiently strong to impose their objectives on the other. The international political economy favoured the use of tariffs
and financial assistance. At the same time, circumstances arose --resulting from economic recession, appreciation of the Canadian dollar, and the threat of Quebec separatism--that made it difficult for the state to resist the manufacturing interests' demands. In such circumstances, the industry succeeded, if only temporarily, in securing quotas in addition to tariffs and financial assistance. The trading interests were somewhat divided among themselves, which restricted their capacity to participate effectively in the policy process. Their positions were relevant only to the extent they could be selectively used by the state to resist the manufacturing interests' demands.

A theme of major theoretical significance that emerges from this study is the importance of international political economy in the making of domestic policies. The second theoretical implication of the study is the need to view the state and societal actors in a policy process not just as players, but also as structures. They form an organized relationship, both within and in relation to each other, which facilitates the pursuit of some objectives and impedes the accomplishment of others.
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<td>AAB</td>
<td>Adjustment Assistance Benefits Programme</td>
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<td>ACM</td>
<td>Apparent Canadian Market</td>
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<tr>
<td>CAC</td>
<td>The Consumers' Association of Canada</td>
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<td>CCAC</td>
<td>The Department of Consumers and Corporate Affairs</td>
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<tr>
<td>CEIC</td>
<td>Department/Commission of Employment and Immigration</td>
</tr>
<tr>
<td>CIRB</td>
<td>The Canadian Industrial Renewal Board</td>
</tr>
<tr>
<td>CIRP</td>
<td>Canadian Industrial Renewal Board</td>
</tr>
<tr>
<td>CSD</td>
<td>Centrale Societiques Democratiques</td>
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<tr>
<td>CSRA</td>
<td>The Canadian Shoe Retailers' Association</td>
</tr>
<tr>
<td>CTTC</td>
<td>The Canadian Trade and Tariffs Committee</td>
</tr>
<tr>
<td>DREE</td>
<td>The Department of Regional Economic Expansion</td>
</tr>
<tr>
<td>DRIE</td>
<td>The Department of Regional Industrial Expansion</td>
</tr>
<tr>
<td>EEC</td>
<td>The European Economic Community</td>
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<tr>
<td>FIC</td>
<td>Footwear Import Committee</td>
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<td>FTIAP</td>
<td>Footwear and Tanning Industries Adjustment Program</td>
</tr>
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<td>GAAP</td>
<td>General Adjustment Assistance Programme</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>ILAP</td>
<td>Industry and Labour Adjustment Programme</td>
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<tr>
<td>ITC</td>
<td>The Department of Industry, Trade and Commerce</td>
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<tr>
<td>LAB</td>
<td>Labour Adjustment Benefits Programme</td>
</tr>
<tr>
<td>LAP</td>
<td>Labour Adjustment Programme</td>
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<tr>
<td>LCIC</td>
<td>Low Cost Imports Committee</td>
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<td>MFA</td>
<td>Multi-Fibre Agreement</td>
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<td>NFCC</td>
<td>The National Footwear Conference of Canada</td>
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<td>NIC</td>
<td>Newly Industrializing Country</td>
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<tr>
<td>OGR</td>
<td>Office of General Relations (ITC)</td>
</tr>
<tr>
<td>OIP</td>
<td>Office of Industrial Policy (ITC)</td>
</tr>
<tr>
<td>OMA</td>
<td>Orderly Marketing Agreement</td>
</tr>
<tr>
<td>OSIP</td>
<td>Office of Special Import Policy (ITC)</td>
</tr>
<tr>
<td>OSTR</td>
<td>Office of Special Trade Relations (formerly OSIP)</td>
</tr>
<tr>
<td>PEP</td>
<td>Productivity Enhancement Programme</td>
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<tr>
<td>RCC</td>
<td>Retail Council of Canada</td>
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<td>SFP</td>
<td>Sector Firms Programme</td>
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<td>SISAC</td>
<td>Shoe Industry Suppliers' Association of Canada</td>
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<td>SMAC</td>
<td>Shoe Manufacturers Association of Canada</td>
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<tr>
<td>STRB</td>
<td>Special Trade Relations Bureau (formerly OSTR)</td>
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<tr>
<td>TAC</td>
<td>Tanners' Association of Canada</td>
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<tr>
<td>TCFT</td>
<td>Textiles, Clothing, Footwear, and Tanning</td>
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<tr>
<td>UFCW</td>
<td>The United Food and Commercial Workers Union</td>
</tr>
<tr>
<td>USITC</td>
<td>The United States International Trade Commission</td>
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<tr>
<td>VERA</td>
<td>Voluntary Exports Restraint Agreement</td>
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This thesis is dedicated to my mother. She is the one who wanted me to be a doctor!
Chapter One

INTRODUCTION

Change is the essence of economic development. The birth and demise of industries is a constant feature of the economy. The pace of such changes has been particularly brisk in the post-War period. Shifts in demands and rapid advancement and diffusion of technology have no doubt played, as in the past, a critical role in the process. The liberalization of international trade after the Second World War only hastened the process and forced many domestic industries to adjust to new international competition. While changes in demand, technology, and liberalized trade are important in determining the rise and decline of industries, one cannot underestimate the government's role in the process. At a time when the government is deeply involved in the affairs of the society and economy, its policies often determine which industries will be born, which will decline, the pace at which they will decline, and the form in which they will survive. The government's policies, however, are not created in a vacuum and are themselves conditioned by political and economic factors, both domestic and international.

The extent and form of government involvement in the adjustment process is not, of course, the same for all domestic industries. Some industries, faced with pressures
for adjustment, are able to manage the process more on their own than are others. Insofar as an industry is able to manage adjustment independently, market forces determine the outcome and, as such, the government's role is correspondingly low. Whether an industry manages adjustment on its own or requires government assistance will depend on the options available to it: for new or specialized products, for multinational investment, or for new technology with different production methods.\textsuperscript{1} In addition, it will depend on an industry's capacity to utilize existing options. For some industries, this capacity may be low: "the firms may be small and have limited financial resources; the work-force may be concentrated in a high unemployment area and resist change; or management may be highly specialized and conservative."\textsuperscript{2} In such cases, an industry will undoubtedly seek government assistance, usually in the form of controls on imports. However, no generalization with regard to the actual form of adjustment across industries is possible. As Cable has noted, "...a substantial part of the dynamics of adjustment or protectionist behaviour is industry-specific and can be properly understood only through the detailed study of individual industries and the firms within them."\textsuperscript{3}


\textsuperscript{2}Ibid.

\textsuperscript{3}Ibid.
Faced with a situation in which a domestic industry is unable to compete or affect adjustment that would make it competitive, the government has three options. It may refuse to do anything, letting the industry atrophy if it must against competition. This is the preferred solution for most economists who would see the outcome as merely a more efficient allocation of resources, whereby the capital and labour employed in the uncompetitive industry is freed to be more gainfully employed in other more competitive sectors. The second option for the government is to shield the industry from imports. For the economists, this is the least preferred course because of the inefficiencies it causes in the economy by erecting barriers to the operation of market forces. In contrast, most declining industries prefer the government to follow this route, because it requires the least amount of adjustment on their part. The third option is to use the first two in some combination, while at the same time providing financial and/or technical assistance toward making the industry competitive.

Most governments in industrialized countries understandably profess to be following the third option, because it partly meets the demands of both supporters and opponents of government intervention in industrial adjustment. Since such adjustment policies consist of three separate elements—market pressures, protection from imports, and financial/technical assistance—the precise
nature of the government policy is often unclear. Consequently, it falls upon the researcher to clarify the extent to which each of the three components are present in a government's adjustment policy for a particular industry.

The extent to which a government relies on any of the three instruments depends on numerous endogenous and exogenous factors. On the one hand, in the case of an industry lacking internal resources to adjust, it depends on that industry's capacity to exert pressure on the government to provide financial assistance or accord protection from imports. It also, on the other hand, depends on the state's capacity to resist the industry's demands and impose its own definition of what it regards as being best for the industry. Thus, the choice of instruments to assist an industry is based as much on political as on economic-technical grounds.

This dissertation is a study of the Canadian government's adjustment policy for the domestic footwear industry during the 1970-1985 period. It examines the industry's adjustment experience and the demands it placed upon the government, and the latter's policy response. The main task of the thesis, however, is to study the factors that shaped the government's policy. But before proceeding with addressing these questions, this chapter lays out the theoretical framework within which the analysis will be conducted in the subsequent chapters.

The footwear industry offers an excellent case
study for the understanding of industrial adjustment policies in Canada. In many ways it is a typical 'declining' industry. Over the last few decades, it has witnessed decline in terms of production, employment, and share of domestic market vis à vis imports. The trends have continued despite its protection by one of the highest barriers among manufacturing industries. While the signs of decline have been pervasive, the existence of thriving, export-oriented footwear industries in Italy, and to a lesser extent in West Germany, offered genuine hopes to other high wage countries that the industry could be saved from total disappearance through appropriate public assistance. Consequently, this was an industry which the Canadian government felt could benefit from public assistance and did not simply allow the market to take its course. The government's efforts were broad enough and carried over a sufficiently long time to lends themselves to a systematic analysis. Another reason that warrants its study is simply the fact that it has not been undertaken before.

Andre Blais reports that in the OECD, footwear is protected by second highest levels of tariff, next only to clothing. See his, *A Political Sociology of Public Aid to Industry* (Toronto: University of Toronto Press, 1986), pp. 19 and 154.

The only available study on the Canadian footwear industry in a Master's research essay by Neil Buhne, *The Political Economy of the New Protectionism: The Canadian Footwear Industry*, Unpublished Master's Essay (Carleton University, 1984). It examines the forces that led the Canadian government to re-impose quotas on leather footwear in July, 1982, nine months after they were removed.
The footwear industry in Canada was one of the earliest manufacturing industries to develop and occupied a crucial position in the central Canadian economy until the First World War. Its decline to a position of one of the smaller industries over this century itself makes for an interesting case for the study of industrial adjustment policy.

The industry is the only one in Canada (outside the agricultural and textiles sectors, which enjoy special status under international trade laws) to have been protected by import quotas under the provisions of GATT. It has also received one of the highest, in relation to its size, levels of financial assistance from the government. Indeed, only the pulp and paper, ship-building, defence and automobile industries have received higher levels of assistance; but all these are much larger than the footwear industry.  

FRAMEWORK FOR ANALYSIS:  
AN ORGANIZATIONAL APPROACH

Economic policy-making is about allocation of scarce resources. This is so because of the limits to the resources at the state's disposal to meet the demands of its...
societal constituents. The political and economic constraints on the state's capacity to raise financial resources make it virtually impossible for it to fulfill all societal demands. Consequently, the state must decide which demands will be met and which will be denied. In this sense, economic policy-making is an explicitly political act. What is puzzling is the neglect economic policies, especially those of micro-economic nature, have received in the hands of political scientists.  

To avoid the pitfall of a study degenerating into a series of unrelated observations, an analysis of policy-making must be conducted within an analytical framework. At the same time, it is almost impossible to develop precise hypotheses with respect to factors that shape policies across time, nations, and problems. A policy is conditioned by the peculiarities of the time period in question, the characteristics of the nation's economy and politics, and the nature of the problems being confronted. It is also shaped by the unique constellation of interests involved in the making of each policy. Given the variations in the interests, processes, and circumstances surrounding different policies, it is virtually impossible to develop a common analytical framework for the study of all public policies.

Indeed the only study of policy for a specific Canadian manufacturing industry by a political scientists is Rianne Mahon, *The Politics of Industrial Restructuring: Canadian Textiles* (Toronto: Toronto University Press, 1984).
What is instead required is separate frameworks for the study of similar policies. Even then, the frameworks must be sufficiently flexible to take into account the subtle differences among closely-related policies.

The making of adjustment policy for an import-competing industry lacking internal capacity to adjust to changed business conditions involves three separate actors: state, manufacturing interests, and trading interests. State in federal polities consists of two levels of government, both of which are governed by separate sets of bureaucrats and politicians. The concept refers not only to officials who staff the positions but to the structural locations of the positions as well. The role of the state in industrial adjustment policy, indeed any economic policy, arises from the imperatives of the workings of markets. The operations of the market is predicated upon the existence of rules of conduct, and the authority to enforce them. It is the state that formulates and enforces such rules, which makes it an integral part of the market.

The state is not, however, to be understood as an actor like others in the market. It alone in the society possesses legitimate right to use force, which gives it a unique capacity to impose its will on others. In fact, it is the state's formally expressed preferences that are known as public policies. Moreover, unlike those of other actors, the state's interests in policy-making are not related to gains
in terms of profits or wages. Its interests rather arise from its general commitment to promoting economic prosperity of the nation through maintaining adequate profitability and an acceptable level of employment in the overall economy. In this sense, its interests are larger than those of the capital or labour in any particular sector of the economy.

The manufacturing interests consist of workers and owners in the industry in question. Since it is their problems that a policy is intended to address, their interests critically affect the outcomes of the process. Undoubtedly, capital's interest in profits and labour's interests in wages bring them into conflict on numerous key issues affecting them. In the case of weak industries suffering from imports, however, profits and wages are closely tied to the health of the industry, which leads business and labour to forge a common position with regard to government assistance. The capital in such industries is usually supported by labour in its demand for protection from imports, which are seen by both as impairing their interests. Neither is favourable to financial assistance for "rationalization", which causes redundancies in both invested capital and employment. Considering the congruence in the interests of capital and labour in declining industries suffering from imports, it is appropriate to group them together as constituting 'manufacturing interests'.

Manufacturing is, of course, only a part of the
market process. The manufactured product must be sold, and bought. This function generates another category of organized interests, traders. These include exporters, importers and retailers. They are the intermediaries linking producers with consumers. Their interests are likely to be different from producers in a competitive economy because their relentless search for profits creates imperatives to buy cheap and sell dear. This means if they can buy more cheaply abroad, they would do so, thus damaging the interests of the domestic producers. Consequently, there is a considerable difference between the interests of producers and those of traders, which shapes the conflicting objectives they pursue in the policy arena. It is therefore useful to treat them separately as "trading interests".

In addition to state, producers, and traders --all of which exist within a nation-- adjustment policy-making is also conditioned by the nation's position in the structure of the international political economy. All modern nations trade with each other, and this affects their domestic economies. While the levels and content of their trade are

in constant flux, the relationships they engender display a modicum of continuity and stability. There are international treaties, such as GATT, which regulate the conduct of trade. Then there are historical patterns of trade which are not easy for nations to break. These establish a structure of relationships which impose constraints and provide opportunities to the domestic policy-makers on an enduring basis. Therefore, in order to understand policy-making in the domestic arena, one must also study the impact of the structure of the international political economy.

The concept of international political economy is, however, broader than those used for analyses of the domestic institutions. State, manufacturing interests and trading interests are both structures and actors. As actors, they have interests which they constantly seek to accomplish. As structures, they form an organized relationship which conditions the pursuit of their interests. In contrast, while individual nations are actors to the extent they have interests they constantly pursue, the international political economy itself has no interest, and hence cannot be regarded as an actor. It is a structure alone which conditions the realization of the nations' interests and the interests within each of them.

While state, manufacturing interests, trading interests, and international political economy are distinctive structures, they are far from being monolithic.
The state consists of bureaucratic and political institutions, which are themselves split along numerous cross-cutting divisions. The interests of the various components of the state may or may not converge on a particular issue. The configuration of conflict or cooperation among them has a critical impact on the making of public policies. Similarly, manufacturing and trading interests contain cleavages along regional, sectoral, organized-nonorganized, and national-international lines. Usually, there is no super-ordinating body to authoritatively aggregate the conflicting objectives of the various fractions that exist within each. This is in contrast to the state which at least has a political executive at the apex with the authority to control the various components. The structure of the international political economy is even more loose than those in the domestic arena. It does not contain a body, such as state, with the authority to impose its decisions on conflicting parties. There is also no basic law such as constitution which binds the behaviour of the international actors. International agreements are indeed weak substitutes for constitutions because of their voluntary nature.

As argued by Peter Hall, the aspect of the institutions that is particularly critical in policy-making is their organization. The term organization is used here to
describe a structured relationship. According to Hall, the concept refers to

the institutional relationships, both formal and conventional, that bind the components of the state together and structure its relations with society.

The structures of the relationships within and among the state, manufacturing interests, trading interests, and international political economy have a critical impact on policy-making for several reasons. A given organization facilitates some interests and impedes others, which affects the way actors define their objectives. Actors adjust their objectives to take advantage of the existing organizational structures and to avoid the constraints imposed by them. Moreover, the process of transforming individual members' preferences into the organization's position imbues the latter with the peculiarities of the organization in which it takes place. Finally, by defining the power of each actor in relation to others, organization determines the force with which an interest can press its objectives on others.

What is being argued here is that the organization of the governmental, societal, and international institutions do matter in policy-making. It affects what demands will be made, how they will be made, which will be listened to, and


\[10\] Ibid., p. 19.
the form in which they will be met. Leon Lindberg has made this point rather well:

[institutions] are not merely aggregates of individual preferences or passive mechanisms for the transmission of economic [or political] impulses, but constitute a historically specific constraint and opportunity structure that implies an enduring division of labour and rules of play, that establishes distinctive capacities and incapacities, and that the strategies any individual, economic agent, or political authority can adopt to achieve its aims.

In addition to organizational factors, the predominant ideas or ideology in state, business, labour, and international political economy must also be taken into account. Individual actors hold particular ideas which lead them to define their objectives in a particular way and restrict their perception of alternatives. However, the role of ideas in policy-making must not be exaggerated, as some analysts have done. While ideas do influence actors' choices, they are always mediated by the institutional structures in which they operate. More importantly, in order to be realized, ideas need an institutional structure for their dissemination. Consequently, research into industrial adjustment policy, while not ignoring ideology, must always


view it within the particular institutional structure in which it exists.\textsuperscript{13}

The organizational framework for the study of adjustment policy developed here is not, however, a novel invention. It rather reformulates and builds upon concepts and categories present in several existing analytical approaches. The following review of the literature will reveal that each approach contains some useful elements, yet fails to provide a complete explanation of the policy.

\textbf{LITERATURE SURVEY}

\section*{ECONOMIC THEORIES}

Analysis of economic policies was once an almost exclusive preserve of economists, and even today continues to be dominated by them. The common thread that binds all economic analyses is their overwhelming belief in the efficacy of market forces in yielding an optimal allocation of resources. Welfare economists were the first in the profession to devote their attention to economic policies. However, their emphasis on economic rationales of policy\textsuperscript{14} to


the exclusion of all others makes for an inadequate analytical framework. Politicians are more often than not guided by rationales other than optimal allocation of resources. Unless one examines these non-economic rationales, it cannot be known why the government did what it did.

In recent years, public choice economists claim to have bridged the shortcomings of welfare economists by including political factors in their models. They accomplish that by employing the tools of neo-classical economic analysis to the study of politics. Public Choice theories, in the words of one of its practitioners, "...seek to analyze political processes and the interaction between the economy and the polity by using the tools of modern (neoclassical) [economic] analysis." Their unit of analysis is the individual, who is assumed to be rational, seeking to maximize his/her interests. In this view,

politics is a competition among individuals whose goals are access to power or scarce resources.... policies are best explained as the outcome of a game-like contest in which power-seeking individuals, and institutions acting like individuals, compete for resources and the support of electors who are also seeking to maximize their


15 Blais, Political Sociology, op. cit., p. 5.

According to the theory, individuals, typically through groups, 'demand' transfers from the government, which is willing to 'supply' them at a 'price', in the form of money, votes, or other benefits. Since transfers to one group are made at the expense of other groups, the politicians' and bureaucrats' ability to execute the 'transaction' is limited by the force of the opposition (actual or potential) from those who are denied benefits. The resulting government decisions are what constitute policies.

The public choice theorists have until now focussed their attention only upon certain areas. One such area for study is protection from imports. Most public choice analysts argue that there is a "political market" for protection in which certain business and labour groups demand, and the government supplies, protection. This occurs

17 Hall, op. cit., p. 10.

despite the opposition of other producer and consumer groups who are disadvantaged by such measures. In the contest between pro- and anti-free trade groups, each assumes resources used by the other group to influence the level of protection will be constant and then calculates its own optimal input of lobbying resources on this basis. Assuming that the process is stable, an equilibrium level and distribution of lobbying expenditures is reached. This equilibrium also determines the level of the tariff [or other forms of protection] resulting from the political struggle.

A basic assumption of all these studies is that it is easier for the groups demanding protection to organize to lobby than those (mainly domestic exporters, importers, and consumers) opposing it, because of concentration of benefits among few in the case of the former and the dispersion of rewards among a large number of members in the case of the latter. Another area to have received much attention from public choice economists is bureaucracy. Like other actors, bureaucrats are viewed as constantly seeking to maximize "...prestige, power, and influence that they enjoy relative to the group of people they are officially designed to 'serve', their clientele." 20 They are seen as persistently working towards the expansion of the programmes and budgets under their control because of the additional power and

19 Frey, op. cit, p. 210
20 Ibid., 212.
prestige such expansions provide to them. For these same reasons, bureaucrats supposedly support protectionist demands from their client groups.

The public choice framework suffers from serious lacunae. The appropriateness of rational individuals maximizing their self-interest as the basic unit of analysis has been questioned by some critics of the theory. More serious, however, is the fact that the behaviour predicted by the theory does not always occur in practice. Application of the logic of this theory to the Canadian footwear policy, for example, would lead to the conclusion that the producer and labour groups in the footwear industry were increasingly demanding higher levels of protection and larger amounts of financial assistance. They were only nominally opposed by consumer groups, footwear importers, and the exporters in other sectors. Considering the weak opposition to the producers' demands, and their own proclivity towards expansion, both politicians and bureaucrats were by and large meeting the demands.

While there are elements of truth in such a


scenario, it is far from being completely true. Subsequent chapters will show that the Canadian government, despite opposition from the industry, made repeated attempts to reduce the level of quota protection afforded the industry. In 1985, even the financial assistance programmes for the industry were terminated. The premise that politicians and bureaucrats always seek to maximize the budgets and programmes under their control, and that they are willing to satisfy their client groups' demands, is a false start for research because such behaviour on the part of the state officials cannot be assumed *a priori*.

Nevertheless, the theory is useful insofar as it emphasizes the conflicts among societal groups for government's largesse and their resolution on the basis of political considerations. It also correctly groups actors in the policy process as consisting of state, protectionist interests (producers and workers), and anti-protectionist interests (exporters, importers, retailers, and consumers).

**NEO-MARXIST THEORIES**

The instrumentalist neo-marxists argue, echoing Karl Marx, that the state is an instrument, albeit an indirect one, in the hands of the ruling class for furthering its interests. In this view, in the words of Bob Jessop,

\[23\] Ralph Miliband is generally regarded as the chief proponent of this line of thought. See his, *The State in Capitalist Society* (New York: Basic Books, 1969), and *Marxism*
capital rules to just that extent that individual capitalists, particular firms, specific fractions or sectors of capital, or the capitalist class as a whole can employ the state as an instrument to promote their interests at the expense of other classes and social forces.24

While the state is allowed some autonomy, it is argued that the similarity in the class background of state officials and capitalists leads to policies favouring the latter. The capitalists are not only related to state officials in terms of career or personal ties, but also command enormous resources to exert pressure on the latter from outside the state arena. In Canada, Leo Panitch is a proponent of this point of view.25

The instrumentalist theory is not very helpful in understanding policy-making.26 The social and class backgrounds of the state officials and their position on economic issues are so varied it is not apparent how they would be able to promote the capitalists' interests,


26 For a general critique of the theory, see Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal", Politics and Society, X(2), 1980, pp. 160-169, and Jessop, op. cit., p. 140.
regardless of their personal and professional ties. Moreover, the capitalists themselves are often divided on the basis of their immediate interests to an extent that makes it improbable they would be able to apply concerted pressure on state officials on specific issues. The approach also underestimates the capacity of the state to initiate actions autonomous of the capitalist classes. It has been argued quite persuasively by some that states are capable of autonomous actions in specific circumstances. Finally, the theory ignores the importance of the organization of the state in shaping policies. As Jessop has noted:

This approach ignores the effects of state forms on the process of representation and the ways in which the interests of capital can be affected and redefined through changes in the state system and/or the balance of political forces within which capitalists must manoeuvre.

The structuralist theory, as originally formulated by Nicos Poulantzas, and later modified by others, represents a significant departure from earlier Marxist theories. The

27 See discussion on state autonomy in the sections on structuralist marxist and state-centric theories in this chapter.


theory argues that capitalists do not have to staff the state apparatus, or exert direct pressure on it, to secure policies favourable to their interests. Rather, such an outcome is ensured through the functioning of the capitalist system itself. The theory emphasizes the constraints capitalism imposes on the state which prevent the latter from pursuing policies contrary to the interests of capital. The state, for instance, will not take an action that will undermine the capitalists' interests because of the latter's control over the economy, the smooth functioning of which is essential for the survival of the state itself. Cognizant of the conflicts among various fractions of capital, the theory postulates that one of the critical functions of the state is to "organize" these conflicts. Structuralist marxists view the state as "relatively autonomous" of the capitalists class which makes it "capable of transcending the parochial, individualized interests of specific capitalists and capitalist class fractions." At the same time, it "also enforces whatever concessions the current struggle makes necessary if the dominated classes are to be kept in line." Rianne Mahon's study of the Canadian policy for the textiles industry follows this approach with some


30 Quoted in Skocpol, op. cit., p. 170.

31 Ibid., p. 171.
modifications. She views Canada's economic policies as "...the result of an unequal but largely positive-sum (ie., mutually beneficial) relationship within and between classes." She argues that in Canada the "hegemonic class domination" of the "staples capital" (which consisted of merchant-financiers in the nineteenth century and monopoly capital in the resource sector in this century) has ensured that the state's policies would be directed at promoting the staples capital's "core material interests". At the same time, the staple capital's:

political pre-eminence rests on its capacity to secure the consent of other fractions of the dominant class and of the subordinated classes.... The relative autonomy of the political under capitalism means that other forces can, and do, assert their presence by struggling to advance their interests. Accordingly, in order to maintain its hegemony, the leading fraction will have to make certain sacrifices, which allow other forces to realize certain of their interests.

The hegemonic fraction, however, is largely incapable of formulating and implementing such a strategy of compromises on its own. Rather, it is through the state that the series of compromises on which hegemony is founded is normally organized.

Mahon's approach allows her to take into account both societal and statist factors. On the one hand, she emphasizes the conflicts within and between hegemonic and subordinate classes, which determine their respective capacities to place demands on the state. She also, on the

32 Mahon, op. cit.
33 Ibid., p. 9.
34 Ibid., pp. 9-10.
other hand, takes the factors related to state into account by underscoring the importance of decision-making structures. In her words:

The state is not a simple transmitter, whose policy outputs are a direct function of political inputs. Embedded in the apparatus of the state is a structure that normally permits it to translate particular demands with policy compromises compatible with the maintenance of a particular pattern of hegemonic class domination. It is able to do so to the extent that this structure of representation exhibits a pattern of inequality that corresponds to the broader relation of forces in the society.  

Mahon's approach correctly emphasizes the organization of the state and societal actors and the relationships among them as the key determinants of policy. Yet her analysis entirely ignores the role of the international factors. An inquiry into these factors would have shown that the structure of the international political economy played a critical role in shaping the Canadian textiles policy. Textiles is the only manufacturing industry which can be legally protected from imports on a long-term basis under international trade laws. Moreover, a large percentage of clothing imports originate in developing countries which enables developed countries to restrict them with impunity. The policy of "contingent protection" followed for the textiles industry would be virtually impossible to maintain on any other product on a long-term basis, as Canada found out while dealing with quotas on

footwear imports. Consequently, a study of industrial policy must take the structure of international political economy into account.

Mahon's study also does not escape the tautology in which most structuralist theories find themselves. The assumption that whatever the state does is in the interest of the "hegemonic capital" makes the study of any policy somewhat uninteresting and even irrelevant. It precludes the possibility of autonomous actions inimical to the core interests of the hegemon. It is hard to see how, for example, Canada's National Energy Program favoured the staples capital.

The "dependency theorists", unlike other neo-marxists, do attribute central importance to international political economy in their analyses. Despite the divergences among the scholars working in this tradition, they all to a greater or lesser extent explain domestic


37 For an excellent brief review of the literature, see Henry Veltmeyer, "A Central Issue in Dependency Theory", Canadian Review of Sociology and Anthropology, XVIII(3), August, 1980, pp. 198-213. For a spirited defence of the theory, and examples of study on Canada adopting this approach, see the special issue on "Beyond Dependency", Canadian Journal of Political and Social Theory, VII(3), Fall, 1983. For a critical review of studies in Canada following this tradition, see Daniel Glenday, "The 'Dependencia' School in Canada: An Examination and Evaluation", Canadian Journal of Sociology and Anthropology, XX(3), August, 1983, pp. 346-358. For a marxist critique of the theories' relevance to Canada, see special issue on "Rethinking Canadian Political Economy", Studies in Political Economy, VI, Autumn, 1981.
economic developments in terms of the imperatives of the unequal economic relationships between the "core" and the "peripheral" economies. However, while there may be some merits to viewing the Canadian economy as a "satellite" of the American "metropolis", the analogy would be misplaced in the case of the footwear industry. This industry is for the most part Canadian-owned, and has been increasingly so since the 1960s. Indeed, the accelerated rate of the industry's Canadianization coincided with aggravation of its problems. It is doubtful if one will learn much by viewing these developments as being geared towards serving the material interests of the "metropolis", whose own footwear industries were suffering from problems similar to those being encountered by their counterparts in Canada.

GROUP THEORIES

In an original formulation of group theory, Arthur Bentley remarked: "The great task in the study of any form of social life is the analysis of ... groups. When the groups are adequately stated, everything is stated."38 While few analysts in recent times would go as far as Bentley, echoes of his statement can be heard even today. These theories regard policies as an outcome of constant competition among various interest groups within the society. The state is

38Quoted in Hall, op. cit., p. 14.
viewed as a neutral body, merely responding to the political pressures exerted upon it by groups, which are endowed with relatively equal political resources. The great virtue of this position is that it draws attention to some of the sources of pressure on the state to take a particular decision and to the fact that state must have some support among the populace for its policies. Beyond that, the theory says little.

There are no automatic ways in which interest representations by groups are transformed into policies. Each society and polity is structured in a particular form which affects what demands will be made, how they will be made, which will be listened to, and the form in which they will be met. It is also possible that the state will manipulate the interests of the groups, or will even formulate policies autonomously of group pressures. The group theory simply leaves too many questions unanswered. Not surprisingly, empirical tests of the hypothesis that groups are the critical determinants of policies have yielded negative or inconclusive findings. In any event, group theory has never been popular among Canadian political scientists studying public policies.

39 See Blais, Political Sociology, op. cit., pp. 77-80.
STATE-CENTRIC THEORIES

Recently, there has developed a body of literature which views policies as a result of factors related to the state. One of the earliest examples of emphasis on state for explaining policies can be found in the "bureaucratic politics" theory, originally formulated by Graham Allison, but subsequently adopted by others as well. Their main postulate is that each bureaucratic agency, and the officials staffing it, has its own goals, and varying degrees of capacity to accomplish them, and that policy is the outcome of conflict and co-operation among them. This interpretation lacks a comprehensive conception of the polity. While it is undoubtedly true that bureaucracy has an impact on policies, it would be simplistic to assume that other factors are irrelevant. The theory sheds no light on how interests of the bureaus originate, why they define their interests the way they do, how they represent their interests, and, most


42 For a critique of the bureaucratic politics model, see Atkinson, in Blais, op. cit., pp. 271-279.
importantly, how they implement their decisions on a populace which had no role in the formulation of the policy.

The line of inquiry emphasizing the "social learning" process among state officials as the primary determinant of policy also contains some useful elements. Undoubtedly, new policies are "...influenced by the procedural legacy and political lessons of older policies in related fields." However, to claim this to be a complete explanation is clearly an exaggeration.

While these analyses regard the state as a crucial determinant of policy, the development of a conscious framework claiming to be 'statist' is of much more recent origin. Works, for example, by Katzenstein, Krasner, Nordlinger, Skocpol and Zysman explicitly reject the

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43 The only consistent application of this approach is Hugh Heclo, Modern Social Politics in Britain and Sweden (New Haven: Yale University Press, 1974).

44 Hall, op. cit., p.16.


48 Peter Evans, Dietrich Rueschemeyer, Theda Skocpol (eds.), Bringing the State Back In (Cambridge: Cambridge University Press, 1985).
societal theories and instead underscore the importance of state as an actor. As Nordlinger puts it,

the democratic state is frequently autonomous in translating its own preferences into authoritative actions, and markedly autonomous in doing so even when they diverge from those held by the politically weightiest groups of civil society.

Similarly, according to Katzenstein,

The locus of decision in a state-centered model of policy lies in the public realm; in many ways states organize the society they control. The 'statist' interpretation of foreign economic policy discounts mass preferences, political parties, and elections, which are viewed as the effects rather than the causes of government policy. Interest groups are not autonomous agents exerting the pressure which shapes policy but subsidiary agents of the state.

The role of the state in independently formulating and implementing policies is, as represented in these quotations, indeed complete.

It does not take much to realize that attributing so much importance to the role of the state is an exaggeration. It is improbable that any state could enjoy such a degree of freedom in policy-making. Fortunately, the statist theorists themselves do not believe in the absolute autonomy of the state, as their statements quoted above suggest. In order to distinguish their approach from those emphasizing societal factors, they clearly overstated their


50 Nordlinger, op. cit., p. 203.

51 Katzenstein, op. cit., p. 18.
case. A closer reading of their works shows they were not, in fact, claiming the converse of societal theories. Unlike the latter, which assume the state to be dependent on society, the statist theories do not claim it is the society that is the subject of the state. They are merely proposing that state might act independently, depending on its relationship to the society. Thus, what they are essentially suggesting is that while explaining policies the role of the state must be examined as much as that of the society. 52

Nevertheless, there is an inherent tension in the state-centric literature. While it seeks to emphasize the central role of state actors, it finds it impossible to ignore the societal actors. Katzenstein's concept of "ruling coalition", consisting of dominant state and social actors, 53 and Zysman's "institutional arrangements" of the state and society 54 do not overcome this lacuna. What they lack is a precise theoretical framework which systematically takes state and societal actors into account and clearly delineates the aspects of both that are relevant to analyzing

52 Thus, Katzenstein at another place in the book asserts, "The actors in society and state influencing the definition of foreign economic policy objectives consist of the major interest groups and political action groups." Op. cit., p. 19. Similarly, according to Nordlinger, "...the preference of the state are at least as important as those of civil society in accounting for what the democratic state does and does not do." Op. cit.

53 Katzenstein, op. cit., p. 308

54 Zysman, Governments, op. cit., pp. 295-319
policies. They also need to include the role of international factors in their analyses of domestic economic policies.

Peter Hall's organizational approach to a large extent overcomes these shortcomings. However, his insistence on the organization of the state, capital, labour, international economy, and political system as the primary determinants of policy\textsuperscript{55} is misleading. As was stated earlier, the footwear policy process did not involve vertically-integrated business or labour interests. Rather, the interests cut across the two, depending on whether they belonged to the manufacturing or the trading sectors. The actors or structures that play a critical role in the policy process cannot be assumed \textit{a priori}. They instead vary by policy in question, and hence inferences can be drawn only through an inductive analysis. The modified organizational approach developed earlier in this chapter bridges the shortcomings in Hall's approach.

\textbf{APPLICATION OF THE ORGANIZATIONAL FRAMEWORK TO THE STUDY OF THE CANADIAN FOOTWEAR INDUSTRY}

The state in Canada consists of two levels of government: federal and provincial. Both levels consist of two components: bureaucratic and political. The bureaucracy

\textsuperscript{55}Hall, \textit{op. cit.}, p. 232.
consists of, as in other countries, myriad departments, agencies and the like, each of which has its own objectives and varying degrees of capacity to accomplish them. While the bureaucracy technically operates under the direct control of the political executive, in reality, its expertise and the lack of time on the part of the latter to supervise it makes it markedly autonomous. Depending on the issue, the members of parliament are somewhat divided on regional bases across party-lines. The provincial governments, which largely replicate the formal organization of the federal government, enjoy enormous financial and constitutional autonomy from Ottawa. This enables them to play a significant role even in areas exclusively under Ottawa's jurisdiction.\(^5^6\) The relationship among the provinces is often marked by conflicts, based on their varying regional interests.

Since the main instruments of industrial policy lie in the hands of the federal government, the study will concentrate mainly on Ottawa's role in the policy process. It enjoys exclusive control over two of the chief instruments of industrial policy, tariffs and quotas on imports. Similarly, more than two-thirds of the funds for financial assistance to industries come directly from the federal

government. While studying the federal government's involvement in policy-making, the bureaucratic and political arenas will be examined separately.

The manufacturing interests involved in the making of the policy for the footwear industry consisted of the producers and labour in the industry, and those in the supplying industries. All of them had an interest in ensuring the continued manufacturing of the product in Canada and shared a common opposition to imports. The trading interests consisted of footwear importers and retailers in Canada. Similar to the manufacturing interests, they also included business and labour. In fact, the size of the labour force employed in footwear manufacturing and trade was about the same. The workers in the importing or the retail sectors, however, were almost entirely non-unionized, which was reflected in their almost total lack of participation in the policy process. Therefore, while studying the role of trading interests, one can safely concentrate on business interests involved in importing and retailing.

In summary, the relevant categories for analyzing the domestic arena for making policy for the footwear industry are state (mainly the federal government), manufacturing interests (including business and labour), and trading interests (including importers and retailers). In line with the framework developed in the preceding section,

57 Blais, "Political Sociology", op. cit., p. 29.
the organization of the three will be examined separately. Each will be studied with regard to its interests, internal unity, ideological position, and the legal and circumstantial constraints on it. These factors together will explain each's objectives and its capacity to realize them. In addition, one must examine the structure of the relationship among them because it is possible an organization can overcome its lack of capacity to realize its interests by cooperating with others. Hence, the level of conflict and cooperation among state, business and trading interests will also be studied.

A study of Canada's position in the international political economy must include factors related to the nation's international legal commitments, its broad trade objectives, its international diplomatic and economic relations, and other international diplomatic and economic factors relevant to footwear trade. These factors, as stated earlier, facilitate the realization of some domestic actors' objectives and work against those of others. Consequently, the study will examine the differential impact the international political economy has had on the domestic actors, and the latter's response to it.

This introductory chapter, which forms Chapter One, reviewed various theories of policy-making and developed an analytical framework for the study of adjustment policy-making for the footwear industry. It proposed that to
ascertain a complete understanding of the making of policy for the domestic footwear industry in Canada, one must study the relationships within and among state, footwear manufacturing interests, footwear trading interests, and the international political economy as pertaining to footwear trade.

Chapter Two will draw a statistical profile of the industry. This will lead to the understanding of the nature of the problems that the policy-makers were trying to solve.

Chapter Three will analyze the domestic policy arena, with specific reference to the footwear industry. It will separately analyze the organization of the state, manufacturing interests, and trading interests. The purpose of the analysis will be to show the interests each was pursuing, and the opportunities and constraints the actors faced in their pursuits. Chapter Four will deal with the international political economy with reference to Canada. The emphasis will be on demonstrating that international factors favoured some domestic actors and worked against others.

Chapters Five, Six and Seven will provide a detailed study of the Canadian government's policies for the domestic footwear industry. Chapter Five will examine tariff policies. Chapter Six will study financial assistance programmes for the industry. Similarly, Chapter Seven will study the government's policy on quotas on footwear imports.
The conclusions drawn in the earlier chapters will be constantly related to specific policies. There are, of course, more instruments than tariff, financial assistance and quota that a government can employ as a part of its industrial policy. However, these were the only three instruments through which the Canadian government assisted the domestic footwear industry. Others were not at all used or were directed at the manufacturing industry in general.

Chapter Eight summarizes the arguments developed in this dissertation and presents them in the context of the existing literature on economic policy.

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58 Blais has developed the following taxonomy of instruments of industrial policy: government enterprise, direct financial or technical assistance, tax allowance, tariff, regulation of competition and foreign investment, government procurement, and special protection against imports (quotas), Blais, "Industrial Policy in Advanced Capitalist Democracies" in Blais (ed.), op. cit., pp. 1-54. All these instruments were examined by this researcher for their relevance to the footwear industry, but none except the three were found to have been used directly to assist this industry.
Chapter Two
PROFILE OF THE CANADIAN FOOTWEAR INDUSTRY

The history of shoe-making in Canada goes as far back as early French settlement in Lower Canada. In 1653, the official census showed three shoe makers in what is now known as Quebec. Their number had increased to twenty by 1667.¹ However, it was not until the late 1700s that a small-scale footwear industry in its truest sense was established in Quebec. In Ontario, or Upper Canada as it was then called, it developed much later, after the War of 1812-14.² The National Policy, which sought to develop indigenous manufacturing industries behind tariff barriers, was particularly beneficial to the growth of the industry.

At the turn of the century, the footwear industry was one of the largest in Canada. In the 1870s, the leather industry (the largest component of which is the footwear industry) ranked third in terms of employment and fourth in terms of value-added among manufacturing industries in Canada.³ Since in the early years the industry for the most part was located in Quebec, especially in and around Montreal and Quebec City, the economy of the province was critically

²Footwear Forum, May, 1985, p. 11.
dependent on its well-being. In fact, as late as the early 1950s, footwear was the largest industry in Montreal. 4

Despite its size and importance, the Canadian footwear industry was not known for innovation, and was largely content with supplying the home-market behind steep tariff barriers. It went through its greatest transformation in the late nineteenth century when sewing machines were first introduced. As a result of the introduction of this new technology, the more than 5000 shoe-making establishments that existed in the 1890s rapidly shrank to 179 by 1901. 5 In contrast to other manufacturing industries which constantly experience new product and production process technology, the footwear industry did not experience any radical change for most of this century. This was largely because of the nature of the main input material, leather, which does not lend itself easily to mechanized patterning, grading, cutting, or lasting.

The overall situation until the mid-1950s, however, was one of stable growth. 6 The calm was broken with the


5 Shoe Manufacturers Association of Canada (hereafter referred to as SMAC), "Submission to the Royal Commission on Canada's Economic Prospects", March 1, 1956.

emergence of the Far Eastern countries as aggressive exporters of rubber and canvas footwear. With modern plants and low wages, these countries could produce footwear, mainly non-leather footwear, at a price the domestic industry could not match. The condition of the domestic industry was deteriorating so rapidly the government hurriedly negotiated export restraint agreement with Japan in 1960, and subsequently with Taiwan and China. But the conditions continued to worsen, and so the agreements were allowed to lapse in the mid-1960s. However, the bulk of the industry, which was concentrated in the making of leather footwear, was still relatively immune from import competition.

The leather footwear industry's woes began around 1970 with the increase in imports from Europe, especially Italy, which was subsequently joined by other countries. The new wave of imports was more injurious than the previous ones because it consisted mostly of fashionable leather footwear, precisely the sector in which Canadian production was concentrated. The women's footwear sector, which was mainly located in Quebec, was particularly hard hit. The erratic increases in world leather prices and the general shift towards casual life-styles increased the popularity of non-leather footwear, which was mostly supplied by the Far Eastern countries. Thus, by the mid-1970s, the Canadian producers began to suffer from imports from both Europe and the Far East. The emergence of Brazil as a major exporter of
women's leather footwear further compounded the problem. To top it all, the generally poor economic conditions through much of the 1970s and the early 1980s, and the tremendous fluctuations in exchange rates in the mid-1970s and early 1980s, caused havoc for the already suffering domestic producers.

Canada, however, was not unique in this regard because leather footwear industries in other industrialized countries, except Italy, were experiencing similar problems. An OECD report published in 1976 noted:

The intensification of international competition, changes in sources of supply, and trends in consumer fashion have all left their mark on the industrial sector of footwear. The structure of the industry, the main feature of which is the preponderance of small firms with traditional and family methods of management and production, makes it particularly vulnerable to any changes in its environment, whereas its ability to adapt is limited.

It was under conditions of pervasive decline and market instability, compounded by the industry's low adaptive capacity, that the Canadian government became involved in assisting the domestic footwear industry.

The purpose of this chapter is to discuss the business conditions of the footwear industry during the 1970-1985 period. The economic indicators relevant to policy-making will be especially highlighted. The discussion will facilitate the understanding of the factors that precipitated

the need for a policy, or changes to it. However, it must be mentioned at the outset that the indicators were highly contradictory, allowing for different interpretations of the same trend.

The footwear industry, following Statistics Canada's 1970 Standard Industrial Classification (SIC) No. 1740, includes "those establishments primarily engaged in manufacturing boots, shoes, slippers, moccasins and similar footwear." Although the 1980 SIC includes rubber footwear as well, the analysis to follow will exclude them for all years in order to maintain conformity with the 1970-1982 data published by Statistics Canada and the 1970-1984 data compiled by the Anti Dumping Tribunal (since 1984 known as the Canadian Import Tribunal) in its four Reports on the industry.  

NUMBER OF ESTABLISHMENTS

Table I shows that between 1950 and 1984 the number of establishments in the Canadian footwear industry declined from 292 to 174, a decline of almost 40 per cent. Dramatic as the decline in the number of footwear establishments may be,

it does not accurately reflect the number of establishments which closed down each year. Because of the ease of entry into the industry, due to the small capital requirements, the establishments that cease operation are rapidly replaced by new entrants. The high turnover rate is not reflected in the aggregate figures in the table.

Table I

NUMBER OF FOOTWEAR ESTABLISHMENTS: 1945-1984

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CANADA</th>
<th>QUEBEC (%)</th>
<th>ONTARIO (%)</th>
<th>OTHER (%)</th>
</tr>
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<tbody>
<tr>
<td>1945</td>
<td>263</td>
<td>167 63</td>
<td>72 28</td>
<td>22 8</td>
</tr>
<tr>
<td>1950</td>
<td>292</td>
<td>184 63</td>
<td>87 30</td>
<td>21 7</td>
</tr>
<tr>
<td>1955</td>
<td>257</td>
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<td>1973</td>
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<td>84 51</td>
<td>69 42</td>
<td>11 7</td>
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<td>1974</td>
<td>167</td>
<td>85 51</td>
<td>71 43</td>
<td>11 6</td>
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<td>1975</td>
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<td>78 48</td>
<td>12 7</td>
</tr>
<tr>
<td>1983</td>
<td>176</td>
<td>80 45</td>
<td>84 47</td>
<td>12 7</td>
</tr>
<tr>
<td>1984</td>
<td>174</td>
<td>76 44</td>
<td>86 49</td>
<td>12 7</td>
</tr>
</tbody>
</table>

Source: Statistics Canada, Catalogue Nos. 33-203 and 33-207.

Between 1945 and 1965, about 60 per cent of the footwear establishments in Canada were located in Quebec. The province's share of the total number of establishments
declined constantly after the mid-1960s, and by 1977 it had less than 47 per cent of the total establishments. On the other hand, since 1945, Ontario has been constantly increasing its percentage share of the total establishments. In fact, since 1980, there have been more footwear establishments in Ontario than in Quebec.

**EMPLOYMENT**

An examination of Table II reveals that employment in the footwear industry during the 1945-1984 period fluctuated on a regular basis with a general tendency toward decline. Employment decreased from 20,232 in 1960 (it had remained at about this level since 1945) to 16,494 in 1981, and to 14,355 in 1982 (the lowest in this century), increasing to 17,399 in 1984. Thus, it declined by almost 14 per cent between 1960 and 1984. However, this drastic decline masks the great fluctuations in employment trends over the years. In many instances the annual decrease was less than 2 per cent, whereas in certain other years it was as high as 13 per cent.

Employment, of course, decreases both with decline in production and with increase in productivity. Indeed the latter scenario seems to have been the case with the footwear industry until 1970. Over the twenty-five year period after 1945, production increased by more than six million pairs but employment decreased by over 2,200 workers, a pattern which
**Table II**

FOOTWEAR EMPLOYMENT, BY REGION: 1945-1984

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CANADA</th>
<th>QUEBEC (%)</th>
<th>ONTARIO (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>20096</td>
<td>13401 67</td>
<td>5836 29</td>
</tr>
<tr>
<td>1950</td>
<td>20785</td>
<td>12917 62</td>
<td>7041 34</td>
</tr>
<tr>
<td>1955</td>
<td>19829</td>
<td>11896 60</td>
<td>6950 35</td>
</tr>
<tr>
<td>1960</td>
<td>20232</td>
<td>11668 58</td>
<td>7973 39</td>
</tr>
<tr>
<td>1965</td>
<td>20434</td>
<td>10895 53</td>
<td>8663 42</td>
</tr>
<tr>
<td>1970</td>
<td>17845</td>
<td>9391 53</td>
<td>7883 44</td>
</tr>
<tr>
<td>1971</td>
<td>17605</td>
<td>8856 50</td>
<td>8192 46</td>
</tr>
<tr>
<td>1972</td>
<td>17045</td>
<td>8746 51</td>
<td>7740 45</td>
</tr>
<tr>
<td>1973</td>
<td>16829</td>
<td>8403 50</td>
<td>7842 47</td>
</tr>
<tr>
<td>1974</td>
<td>16421</td>
<td>8077 49</td>
<td>7781 47</td>
</tr>
<tr>
<td>1975</td>
<td>16860</td>
<td>8312 49</td>
<td>8054 48</td>
</tr>
<tr>
<td>1976</td>
<td>16486</td>
<td>7647 46</td>
<td>8311 50</td>
</tr>
<tr>
<td>1977</td>
<td>14498</td>
<td>6576 45</td>
<td>7512 52</td>
</tr>
<tr>
<td>1978</td>
<td>15169</td>
<td>6518 43</td>
<td>8269 54</td>
</tr>
<tr>
<td>1979</td>
<td>16194</td>
<td>7035 43</td>
<td>8750 54</td>
</tr>
<tr>
<td>1980</td>
<td>15496</td>
<td>6351 41</td>
<td>8686 56</td>
</tr>
<tr>
<td>1981</td>
<td>16494</td>
<td>6726 43</td>
<td>9217 56</td>
</tr>
<tr>
<td>1982</td>
<td>14355</td>
<td>6153 41</td>
<td>7744 54</td>
</tr>
<tr>
<td>1983</td>
<td>16833</td>
<td>6536 38</td>
<td>9803 58</td>
</tr>
<tr>
<td>1984</td>
<td>17399</td>
<td>6555 38</td>
<td>12287 59</td>
</tr>
</tbody>
</table>


can only be explained by increased productivity in the industry, that is to say, the displacement of labour by more efficient machines, production processes, and management techniques. Since the early 1970s, however, it seems that the decrease in employment has been occasioned more by the general decrease in the volume of production. At the same time, as will be seen later, employment did not decline as much as overall production, indicating the trend towards
production of more labour-intensive, more value-added footwear in Canada. This shift in production toward footwear with a higher labour content offset employment losses due to the decline in production.

The annual increases/decreases depicted in Table II, also do not show the fluctuations in weekly hours for which production workers were employed. At times of low production, it is common among footwear plants to reduce the working hours of the employees, without laying them off. For instance, during the 1960s, production workers in the footwear industry on average worked 2000 hours per year, which was considerably lower than the average for all manufacturing.9

With regard to regional distribution, Quebec's share of total employment in the industry has been declining constantly in almost every year, decreasing from 67 per cent of the total in 1945 to 38 per cent in 1984. In contrast, Ontario's share has been increasing correspondingly, rising from 29 per cent of the total in 1945 to 59 per cent of the total in 1984. As a result, since 1976, more than half the total footwear workers have been located in Ontario. It is also evident from Table II that the decline in employment was proportionately higher in Quebec, whereas in Ontario the overall decrease was only marginal.

Female employment in the Canadian footwear industry

9Tribunal, Report, 1973, op. cit., p. 29
increased constantly during the period under consideration, rising from 50 per cent of the total in 1962 to 66 per cent of the total in 1976.¹⁰ In Quebec, it increased from 48 per cent to 60 per cent of the total between 1962 and 1976. The increase was even more evident in Ontario, where it increased from 55 per cent to 72 per cent of the total during the same period.

The higher male employment in Quebec reflects the fact that proportionately larger number of footwear establishments in the province have been in smaller communities where alternate employment opportunities are few and male workers in the industry continue to be the primary income-earners in the family. Conversely, the location of larger number of footwear plants in the urban centres in Ontario has meant that men work in more lucrative industries outside footwear, whereas women work in the footwear plants for supplementary income to the family.

In terms of regional distribution of employment in the industry by sector, approximately 63 per cent of those employed in the men's/boys' sector, and about 44 per cent of those employed in the women's/girls' sector, were located in Ontario.¹¹ In contrast, 55 per cent of the total in the women's/girls' sector and 31 per cent of the total employed

¹¹ 1982 is the only year for which data is available in this form. See Tribunal, 1985, op. cit., p. 106.
in the men'/boys' sector were located in Quebec. At the same time, 54 per cent of the total footwear employment in Quebec was in women's/girls' sector, whereas only 42 per cent of the footwear employment in Ontario is in the men's/boys' sector. This break-down in sectoral employment clearly shows that the Quebec industry was far more dependent on the women's/girls' sector than the Ontario industry was on any particular sector.

**PRODUCTION**

Table III shows that total footwear production, in terms of pairs, after reaching its peak in 1968, declined until 1971, when it began to rise again, reaching an all-time (except for 1968) high in 1974. Then began a period of three year decline which in 1977 ended up in the lowest volume of production since at least 1960. Production in 1977 was 23 per cent lower than the level in 1974. This massive decline was occasioned by the general recessionary conditions of 1975, which reduced footwear consumption, and the influx of imports in 1976 and 1977. Following the introduction of quotas on imports in December 1977, production rose at a healthy rate in 1978 and 1979. It again began to decrease in the following years, steeply in 1980, moderately in 1981, and steeply again in 1982. The magnitude of this latest decline would be better appreciated if it is realized that production in 1982 was at the lowest point since 1950. The 1982 dip in
### Table III

**FOOTWEAR PRODUCTION, IN PAIRS: 1945-1984**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PAIRS (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>38.95</td>
</tr>
<tr>
<td>1950</td>
<td>33.03</td>
</tr>
<tr>
<td>1955</td>
<td>38.78</td>
</tr>
<tr>
<td>1960</td>
<td>43.83</td>
</tr>
<tr>
<td>1965</td>
<td>47.47</td>
</tr>
<tr>
<td>1970</td>
<td>45.18</td>
</tr>
<tr>
<td>1971</td>
<td>45.11</td>
</tr>
<tr>
<td>1972</td>
<td>46.45</td>
</tr>
<tr>
<td>1973</td>
<td>46.23</td>
</tr>
<tr>
<td>1974</td>
<td>50.07</td>
</tr>
<tr>
<td>1975</td>
<td>42.26</td>
</tr>
<tr>
<td>1976</td>
<td>40.84</td>
</tr>
<tr>
<td>1977</td>
<td>38.27</td>
</tr>
<tr>
<td>1978</td>
<td>43.59</td>
</tr>
<tr>
<td>1979</td>
<td>44.91</td>
</tr>
<tr>
<td>1980</td>
<td>37.66</td>
</tr>
<tr>
<td>1981</td>
<td>38.48</td>
</tr>
<tr>
<td>1982</td>
<td>33.08</td>
</tr>
<tr>
<td>1983</td>
<td>35.11</td>
</tr>
<tr>
<td>1984</td>
<td>40.70</td>
</tr>
</tbody>
</table>

Note: Figures for 1945-1973 exclude canvas footwear.


Production was no doubt caused by the worst recession in Canadian post-war history. Production during 1983-1986 again began to increase at a healthy rate, reflecting the up-turn in the Canadian economy during this period.

However, the total volume of production only gives a partial picture of the footwear production in Canada, for it is possible that Canadian production, despite decline in
Figure III
FOOTWEAR PRODUCTION, IN PAIRS

(million pairs)

Year

pairage, may have increased in terms of value. Indeed this seems to have been the case since the early 1970s when footwear production is examined in terms of constant dollar, as shown in Table IV. It shows that the value of production increased by 9 per cent between 1974 and 1983, despite the 30 per cent decline in the volume of production during the same period depicted in Table III. This was the result of the fact that the average constant dollar value of a pair of footwear increased from $4.90 in 1974 to $7.60 in 1983, indicating a shift towards production of higher quality, more labour-intensive, and higher priced leather footwear.

**PRODUCTIVITY**

Productivity is a measure of the efficiency with which inputs are employed in the production of a unit of output. Although the calculation of productivity should ideally take all inputs into account, it is usually measured against only one input, labour, because of the inherent difficulties in measuring the amount of capital used in the production of a particular output. However, when one talks of labour productivity, it does not mean that it includes only labour's contribution to the output. Rather it is a result of all inputs that go into production, but measured against per unit of labour.

The first column in Table IV shows the number of pairs of footwear produced per person-hour generally declined
Table IV

PRODUCTIVITY, IN PAIRS AND CONSTANT DOLLAR: 1974-1983

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OUTPUT PER PERSON HOUR (Pairs)</th>
<th>RDP PER PERSON HOUR (1971 $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>1.67</td>
<td>3.39</td>
</tr>
<tr>
<td>1975</td>
<td>1.42</td>
<td>3.38</td>
</tr>
<tr>
<td>1976</td>
<td>1.40</td>
<td>3.71</td>
</tr>
<tr>
<td>1977</td>
<td>1.50</td>
<td>3.85</td>
</tr>
<tr>
<td>1978</td>
<td>1.62</td>
<td>4.09</td>
</tr>
<tr>
<td>1979</td>
<td>1.55</td>
<td>4.08</td>
</tr>
<tr>
<td>1980</td>
<td>1.39</td>
<td>4.04</td>
</tr>
<tr>
<td>1981</td>
<td>1.32</td>
<td>4.01</td>
</tr>
<tr>
<td>1982</td>
<td>1.30</td>
<td>3.99</td>
</tr>
<tr>
<td>1983</td>
<td>1.31</td>
<td>4.09</td>
</tr>
</tbody>
</table>


between 1977 and 1981, and became stagnant in the following years. However, it is still not clear whether this decline was accompanied by an increase in the value per pair of footwear produced. If the latter was the case, then productivity indeed declined. If the former is true, then it would mean that productivity may not have declined after all because more labour-intensive, value-added footwear was being produced, even though in fewer numbers. To measure this, the concept of Real Domestic Product (RDP) is employed. RDP is Gross Domestic Product expressed in constant dollars.

The second column in Table IV, instead of showing decline, shows that the footwear industry's RDP per person-hour either increased or remained stagnant on an annual basis.
in 1974 to $4.09 in 1983, an increase of almost 20 per cent.
The evidence is clear that although the Canadian footwear
industry was producing fewer shoes per worker, it was
producing shoes of higher value.

INVESTMENT

The footwear industry's Gross Fixed Capital
Formation and Net Stock in constant (1971) dollars are shown
in Table V. It shows that the gross fixed capital formation
for all capital after increasing until 1976, generally
declined in the subsequent years. Similarly, the industry's

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FIXED CAPITAL FORMATION (Million)</th>
<th>MID-YEAR NET STOCK (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.8</td>
<td>48.1</td>
</tr>
<tr>
<td>1971</td>
<td>2.7</td>
<td>47.6</td>
</tr>
<tr>
<td>1972</td>
<td>3.6</td>
<td>46.8</td>
</tr>
<tr>
<td>1973</td>
<td>5.0</td>
<td>47.2</td>
</tr>
<tr>
<td>1974</td>
<td>6.4</td>
<td>49.2</td>
</tr>
<tr>
<td>1975</td>
<td>5.7</td>
<td>51.7</td>
</tr>
<tr>
<td>1976</td>
<td>3.6</td>
<td>52.7</td>
</tr>
<tr>
<td>1977</td>
<td>4.0</td>
<td>52.7</td>
</tr>
<tr>
<td>1978</td>
<td>3.5</td>
<td>52.4</td>
</tr>
<tr>
<td>1979</td>
<td>5.0</td>
<td>52.5</td>
</tr>
<tr>
<td>1980</td>
<td>4.9</td>
<td>53.4</td>
</tr>
<tr>
<td>1981</td>
<td>2.8</td>
<td>52.9</td>
</tr>
<tr>
<td>1982</td>
<td>2.0</td>
<td>50.9</td>
</tr>
<tr>
<td>1983</td>
<td>4.4</td>
<td>50.0</td>
</tr>
</tbody>
</table>

net stock of all capital, after gradually increasing until
1976, became almost stagnant in the following years. These
indicators show a decrease in real investments by the
industry after 1976. The real net stock declined
particularly steeply after 1980. The recession and the high
interest rates during this period played a major role in
caus[ing this reduction.

WAGES

Wages in the Canadian footwear industry are low,
compared to the manufacturing sector as a whole. Although
they more than tripled between 1974 and 1982, the average
wage for all manufacturing increased at even a higher rate.\textsuperscript{12}
Wages in the footwear industry were the lowest among
manufacturing industries, although this level has been
recently exceeded marginally by those in the clothing
industry.\textsuperscript{13}

Until 1975, wage rates in Ontario were higher than
those in Quebec.\textsuperscript{14} Since then, however, the wage rates in
Quebec have been consistently higher than in Ontario. This
may be because of the larger proportion of female workers in
Ontario who are usually paid lower wages than their male

\textsuperscript{12} See Tribunal, Report, 1973, \textit{op. cit.}, p. 32, Tribunal,

\textsuperscript{13} \textit{Ibid.}, 1985, p.81.

\textsuperscript{14} See \textit{ibid.}.
counterparts, who form a greater percentage of the footwear work-force in Quebec.

Table VI

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CANADA</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>107</td>
<td>105</td>
<td>100</td>
<td>97</td>
<td>91</td>
</tr>
<tr>
<td>FRANCE</td>
<td>32</td>
<td>39</td>
<td>43</td>
<td>44</td>
<td>48</td>
</tr>
<tr>
<td>ITALY</td>
<td>38</td>
<td>41</td>
<td>42</td>
<td>51</td>
<td>N/A</td>
</tr>
<tr>
<td>U. K.</td>
<td>54</td>
<td>56</td>
<td>59</td>
<td>57</td>
<td>N/A</td>
</tr>
<tr>
<td>SPAIN</td>
<td>23</td>
<td>28</td>
<td>32</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td>BRAZIL</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>TAIWAN</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>S. KOREA</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>12</td>
<td>13</td>
</tr>
</tbody>
</table>


Table VI sets out the comparative wage index of some of the major exporters of footwear to Canada for the 1972-1976 period. It is evident that wages in Canada were about the highest; in fact in the early 1970s, they were significantly higher than in most major footwear exporting countries. Table VII shows wage rates in the footwear industry in some developed countries as compared to those in Canada in 1982-1983. Although not directly comparable to the preceding table, this table reasonably might be interpreted as showing that wage increases in the Canadian footwear industry were lower than in its American and West European counterparts during the 1976-83 period. In fact, in 1983
wages in Canada were lower than those of every country in the table, some of which were major exporters of footwear to Canada.

Table VII

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>1982 (Cdn. $)</th>
<th>1983 (Cdn. $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>W. GERMANY</td>
<td>9.67</td>
<td>9.50</td>
</tr>
<tr>
<td>FRANCE</td>
<td>9.00</td>
<td>9.06</td>
</tr>
<tr>
<td>ITALY</td>
<td>6.91</td>
<td>8.41</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>10.85</td>
<td>10.07</td>
</tr>
<tr>
<td>U. K.</td>
<td>6.80</td>
<td>5.80</td>
</tr>
<tr>
<td>IRELAND</td>
<td>5.76</td>
<td>6.17</td>
</tr>
<tr>
<td>U. S. A.</td>
<td>6.32</td>
<td>6.53</td>
</tr>
<tr>
<td>CANADA</td>
<td>6.12</td>
<td>6.36</td>
</tr>
</tbody>
</table>

Note: Figures include direct wages, indirect wages, and social charges.


COSTS

The cost components of the value of footwear shipments are shown in Table VIII. The increasing labour productivity in the Canadian footwear industry is evident in the declining percentage of wage costs, having declined from 27 per cent of the total costs in 1972 to 23 per cent of the costs in 1982. The decline in wage costs as a percentage of the total costs in the footwear industry has in fact been slightly higher than in all manufacturing because of the later introduction of the efficiency improving measures in
### Table VIII
COST DISTRIBUTION, MANUFACTURING AND FOOTWEAR: 1972-1982
(% of Total Value of Shipment)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRODUCTION WAGES</th>
<th>MATERIALS AND SUPPLIES</th>
<th>OTHER COSTS &amp; PROFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>26.70</td>
<td>50.60</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>50.70</td>
<td>50.50</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>14.10</td>
<td>59.60</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>14.30</td>
<td>59.90</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>14.90</td>
<td>60.40</td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>14.50</td>
<td>60.50</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>13.90</td>
<td>60.60</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>13.60</td>
<td>61.90</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>13.20</td>
<td>62.00</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>12.80</td>
<td>63.80</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>12.90</td>
<td>62.80</td>
<td></td>
</tr>
</tbody>
</table>

With regard to the material cost, its percentage share for footwear fluctuated constantly between 47 and 51 per cent of the total costs, mainly influenced by the tremendous swings in leather prices during the 1970s and early 1980s.

The most notable change in the cost structure of the footwear industry has been with respect to 'other costs and profits' account. This includes selling, administrative and various capital costs and profits. While the costs under this account have declined in all manufacturing, they have increased significantly in the footwear industry. This increase reflects "both increases in management and engineering personnel and an upgrading of their skills, and the achievement of major shifts towards computerized record-keeping, production controls and inventory controls, changes which the manufacturing sector as a whole has been introducing over a much longer time-span."\(^{15}\) It is perhaps the best indicator of the industry's efforts to improve its competitive ability.

**RELATED INDUSTRIES**

There are several industries which are to some extent dependent on the footwear industry. These include the tanning, boot and shoe findings, chemical, plastic, textile

\(^{15}\text{Ibid.}, \text{p. 19.}\)
and paper products industries. But it is the tanning, and boot and shoe findings industries that are the most dependent. Between 70 and 80 per cent of the tanning manufacturers' output is purchased by the domestic footwear industry. As a result, a decline in domestic production of footwear has an adverse impact on the tanning industry as well. The survival of the shoe findings industry is also inextricably linked to that of the domestic footwear industry. There are a few other industries which depend on it for an insignificant proportion of their total sales. In all, less than five thousand workers in the related industries are in some way dependent on the footwear industry for their livelihood. Their numbers have declined consistently over the years.

APPARENT CANADIAN MARKET

Table IX shows the Apparent Canadian Market (ACM) for footwear in terms of pairs. ACM is derived by adding imports to domestic shipments, and subtracting exports. The peak year was 1972 when 87 million pairs formed the Canadian market. Between 1972 and 1980, the market generally declined. It rose in 1981, to be followed by a sharp decline in 1982. It grew in the following year, but in 1984 it had still not reached the 1972 peak-level.

16 Ibid., Table XXVII, p. 96.
17 Ibid., p. 97.
Table IX
APPARENT CANADIAN MARKET FOR FOOTWEAR,
BY SECTOR, 1971-1984

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MEN'S</th>
<th>WOMEN'S</th>
<th>CHILDREN'S</th>
<th>SLIPPERS'</th>
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<td>9.11</td>
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</table>

Figure IV

APPARENT CANADIAN MARKET FOR FOOTWEAR


Year

(Million Pairs)

Men's  women's  children's  slippers  Spl. Purpose
Changes in the ACM by themselves do not, however, provide a complete picture of the footwear market, for it sheds no light on possible substitution towards lower- or upper-priced footwear. Between 1979 and 1983, while ACM in terms of pairs increased by 4.5 per cent, their total value in constant dollars increased by only 2.7 per cent. This indicates there was a shift in Canadian consumption toward lower-priced footwear. The shift toward lower-priced footwear, it must be remembered, took place in the context of a generally stagnant or declining market for footwear in terms of pairage. It must also be noted that Canadian production was mostly concentrated in medium- to high-priced footwear.

The market for the men's/boys' sector tends to be the most volatile among footwear sectors. The ACM for this sector expanded in every year between 1971 and 1976. Then it declined continuously until 1980, to rebound in 1981, with the resurgence continuing until 1984, except for 1982. This sector's share of the total ACM has generally followed the same trend. The decline in the ACM for the men's/boys' sector and its percentage share of the total ACM after 1977 may have been affected by the greater increase in the market share of men's and boys' joggers/runners, which are included in the special purpose footwear sector.

18 Ibid., p. 185.
19 Ibid., p. 189.
The women's/girls' sector is the largest among footwear sectors. It is also different from the men's/boys' sector in that it

...is relatively immune to cyclical fluctuations and tends to be more heavily influenced by fashion trends....[It] is characterized by a much wider variety of styles, colours, textures and materials than men's footwear, which is basically unchanged from year to year.

During 1973-77, the trend in the ACM for women's/girls' footwear was similar to the overall industry trend. However, after 1977 it grew at a rate faster than the total ACM and declined less than the total ACM in years of fewer footwear purchases. In terms of the share of the total ACM, this sector grew consistently after 1973. This growth in share, however, was not so much a reflection of the overall expansion of its market as it was of the contraction of the other sectors. The popularity of the 'jellies' (beach type plastic sandals) which sold in huge quantities in the 1980s because of their lower prices further expanded the sector's share of the total market.

The ACM for children's/infants' sector shrank gradually after 1976. Its share of the total ACM also declined slowly but consistently between 1978 and 1984. These declines reflected the declining birth-rate in Canada in the 1970s. The tendency among parents to purchase 'ath-leisure' footwear for their children, which is included in

the special purpose footwear category, further reduced the size of this sector.\textsuperscript{21}

The ACM for slippers/housewear sector also generally declined during 1972-1984. Its share of the total ACM declined continuously from 1972 to 1979, when it became stagnant at around 11 per cent until 1984. The increased popularity of the special purpose footwear seems to have had an adverse impact on this sector as well.\textsuperscript{22}

The Special Purpose footwear sector is the second largest after the women's/girls' sector. It includes a wide variety of footwear including plastic footwear, ski boots, athletic footwear, utility footwear with fabric tops, skates, and other footwear not included elsewhere. However runners/joggers and fabric top utility footwear constitute 92 per cent of the total ACM for this sector.\textsuperscript{23} The large market for this type of footwear is explained by the fact that since the mid-1970s it has been the most popular form of casual footwear. According to the Tribunal, the growth of this sector can be explained by "[t]he shift in fashion towards more casual footwear, the increased interest of Canadians in physical fitness and [its] lower average

\textsuperscript{21} Ibid., p. 197.

\textsuperscript{22} Ibid.

\textsuperscript{23} Ibid., p. 139.
price..."24

The special purpose footwear sector after declining in the mid-1970s took off again in 1979, capturing more than 26 per cent of the total ACM for footwear in the following years. The expansion of this sector was generally at the expense of the other sectors. The exemption of canvas footwear from import quotas between 1977 and 1981 also contributed to the growth of this sector.

DOMESTIC SHIPMENTS

After declining continuously after 1972, as is evident in Table X, domestic shipments picked up in 1978 (the first full year of quotas on imports), and 1979, even though total shipments were still much lower than in any year during 1971 to 1976. They dropped again in 1980 and in 1982; then showed a rising trend until 1984.

Table XI shows that the share of the total ACM held by domestic shipments as a whole stayed at between 50 and 51 per cent during the 1971-75 period. Its share dropped sharply between 1975 and 1977, when it began to rise and reached its second peak in 1979; but even the 1979 level was still lower than in any year before 1975. All through the early 1980s, the share of domestic footwear showed a declining trend.

24 Ibid., p. 199.
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<td>1.2</td>
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</table>

Figure V

DISTRIBUTION OF DOMESTIC SHIPMENTS

(Million Pairs)


[ ] Men's  [ ] women's  [ ] children's  [ ] slippers  [ ] Sp. Purpose
In terms of the distribution of domestic shipments by sector, as evident in Table X and Figure V, the Canadian manufacturers seem to have concentrated on the women's/girls' sector. During the 1971-1984 period, more than 40 per cent of the domestic shipments were in this sector. Although this was indeed the largest sector in the ACM (See Table IX), the concentration of domestic shipments in this sector was even higher. Men's/boys' footwear formed the second largest sector in domestic shipments, whereas in terms of share of the total ACM, this sector ranked third. Thus, during the 1971-1984 period, while the two sectors combined formed less than 60 per cent of the total ACM in terms of pairs; they

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Figure VI
SHARE OF DOMESTIC SHIPMENTS AND IMPORTS

(PERCENTAGE DISTRIBUTION, PAIRS)


DOMESTIC YEAR IMPORT
formed more than 70 per cent of the domestic shipments. The Canadian manufacturers' shipments in the children's/infants' and slippers/housewear sectors were roughly in proportion to their share of the total ACM. The special purpose footwear sector, which at 20 per cent was the second largest sector in the ACM, accounted for less than 10 per cent of the domestic shipments during this period. Obviously, the Canadian footwear manufacturers do not participate in this sector to any large extent.

**IMPORTS**

The 1971-76 period, as evident in Table XI, witnessed great fluctuations in the volume of imports. In 1976, imports reached their highest level in the decade. The imposition of quotas in late 1977 led to a decrease in the level of imports, which continued until 1979. After 1980, the volume of imports increased continuously, except for the sharp decline in 1982.

Table XII shows that the imported footwear's share of the ACM was stagnant at around 50 per cent from 1971 to 1975. Then it began to rise sharply until quotas were imposed in 1977, after which it declined marginally. In 1980 its share began to increase again, rising to its highest level ever in 1982 and 1983.

In contrast to domestic shipments, imports are heavily concentrated in the special purpose footwear sector
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<td>21.1</td>
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</table>

(See Table XII and Figure VII). This sector accounted for on average 40 per cent of the total imports during the 1971-1984 period. During the same period, this sector never accounted for more than 27 per cent of the total ACM. About 30-32 per cent of the imports were in the women's/girls' sector, which was somewhat smaller than the size of the ACM for this sector (Table X). With respect to the men's/boys' sector, only between 11 and 15 per cent of the imports were in this sector, while the share of the ACM accounted for by this sector was significantly larger. In the children's/infants' and slippers/housewears sectors, the share of the imports accounted for by this sector was about the same as their share of the total ACM.

Much of the growth in imports in the 1980s came from the expansion of the market for 'ath-leisure' footwear. Because this class of footwear, after the early 1970s, was captured by imports in excess of 75 per cent of the total market --in fact, it may be argued that the market for 'ath-leisure' footwear was created by imports --it would be helpful if the relative market share of the Canadian and imported footwear was calculated in relation to ACM which excluded this class of footwear. This is important because between 30 and 42 per cent of the total imports was in this sector, which gives an exaggerated picture of the share of the total ACM held by imports. When special purpose footwear is excluded, as shown in Table XII, the domestic footwear's
share of the total market was more than 50 per cent, except after 1982, when imports captured slightly more than half the market.

Table XII

DOMESTIC SHIPMENTS AND IMPORTS AS PERCENTAGE OF ACM, EXCLUDING SPECIAL PURPOSE FOOTWEAR, IN PARIS: 1971-1984

<table>
<thead>
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<th>YEAR</th>
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DOMESTIC SHIPMENTS' AND IMPORTS' SHARE OF ACM

In terms of the share of the ACM for the men's/boys' sector, domestic producers controlled between 64 and 70 per cent of the total market during the 1971-80 period. In the 1980s, domestic producers lost ground to imports but still held over 60 per cent of the market. The fact that men's/boys' footwear is mostly in the leather category, with minimal changes in fashion and styles-- in 25 See ibid., pp.208-215.
Figure VIII

SHARE OF DOMESTIC SHIPMENTS AND IMPORTS, EXCLUDING SPECIAL PURPOSE FOOTWEAR

(Percentage distribution, pairs)


DOMESTIC  YEAR  IMPORT
other words the products in which the Canadian producers are
the strongest -- was the main reason why domestic producers
were, and continue to be, so successful against import
competition.

The domestic manufacturers' share of the market
for women's/girls' footwear declined dramatically all through
the 1970s and the 1980s. Until 1975, they held about 60% of
the total market; after that year it generally declined. The
sharpest decline was in 1976, when it declined by 10 per
cent, to 49 per cent of the total market. It remained stable
at that level in the following years.

The share of the market for the women's sector held
by imports increased in almost every year after 1971, except
for 1979 and 1980. Thus, as the imports' share increased from
36% in 1971 to 41% in 1975, followed by a sharp increase to
51% in 1976, declining to around 49% in 1979 and 1980; it
increased and remained slightly above 50% in the following
years. Much of the increase in imports was in the lower-
priced non-leather footwear category.

Domestic shipments' share of the ACM for the
children's/infants' sector, after fluctuating a great deal
throughout the 1970s, declined drastically after 1980. This
decline in the share occurred in a market that was itself
shrinking. Much of the increase in the imports' share can be

26 Ibid.
27 Ibid.
accounted for by the increasing consumption of non-leather footwear, which is dominated by imports.\textsuperscript{28} 

The special purpose footwear sector is completely dominated by imports. Because of the low material costs that go into their manufacture, labour costs form a very high percentage of the total costs, which gives immense competitive advantage to the low-wage countries. This explains why most of the market is captured by imports from South Korea and Taiwan, although the higher quality footwear in this sector is usually designed in West Germany or the United States.

The largest share of the market for special purpose footwear that the Canadian producers ever held was in 1973, when they supplied 26 per cent of the total market.\textsuperscript{29} After that, it declined continuously, except for 1979, and as a result supplied only 5 per cent of the total market for this sector in 1984.

In conclusion, since the early 1970s, about 60\% of the total Canadian market was formed by men's and women's footwear, while about 70 per cent of the domestic shipments was concentrated in these two sectors. In contrast, less than 50 per cent of the imports were in these sectors. Imports dominate in special purpose footwear, and in synthetic children's and women's footwear, products

\textsuperscript{28}\textit{Ibid.}, p. 196.
\textsuperscript{29}\textit{Ibid.}, p. 208-215.
manufactured only in limited quantities in Canada. This indicates that domestic shipments and imports specialize in different segments of the Canadian market. That imports and domestic shipments are not directly competitive is further evident in the fact that more than 75 per cent of the imports are in non-leather footwear, whereas only a small part of the domestic shipments is in this category.

SOURCES OF IMPORTS

Although imports of footwear into Canada originate in over forty countries, they are highly concentrated in just three of them: Taiwan, South Korea, and Italy. The three have accounted for around half of the total imports in terms of both pairage and value. There are some countries which are not major suppliers of footwear to Canada in overall terms, but which are important suppliers in particular sectors. The vast majority of the exporting countries, however, individually supply only a small portion of the total imports of footwear, or even the total imports in a particular sector.

After 1972, between 40 and 48 per cent of the total footwear imports in terms of pairage came from Taiwan and South Korea (Table XIV). In 1984, the combined imports from the two countries for the first time formed more than half the total imports in terms of pairage. In terms of dollar value, however, imports from Taiwan and Korea formed
Table XIV

PERCENTAGE SHARE OF THE TOTAL IMPORTS, FOR PRINCIPAL COUNTRY OF EXPORTS, IN PAIRS: 1972-1984

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<tr>
<td>Taiwan</td>
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<td>38</td>
<td>28</td>
<td>22</td>
<td>27</td>
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<tr>
<td>S. Korea</td>
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<td>17</td>
<td>17</td>
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<tr>
<td>Hong Kong</td>
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<td>3</td>
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<tr>
<td>India</td>
<td>(*)</td>
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<td>5</td>
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<td>4</td>
<td>3</td>
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<tr>
<td>China</td>
<td>(*)</td>
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<td>(*)</td>
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<td>(*)</td>
<td>5</td>
<td>6</td>
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<td>Spain</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>6</td>
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<td>5</td>
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<tr>
<td>U.K.</td>
<td>3</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Czechosl.</td>
<td>(*)</td>
<td>(*)</td>
<td>(*)</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>2</td>
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<tr>
<td>OTHERS</td>
<td>36</td>
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<td>36</td>
<td>20</td>
<td>15</td>
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(*) Figures included in Others column.

less than 25 per cent of the total Canadian imports throughout the 1970s. This changed in 1980, after which the value of imports increased rapidly, forming 38 per cent of the total by 1984. Imports from these countries are heavily concentrated in the non-leather category. A very large proportion of the imports from South Korea are fabric-top athletic or utility footwear. Similarly, a large proportion of the imports from Taiwan are in the cheaper canvas, plastic, and vinyl footwear categories.

During 1972-84, imports from Italy formed, on an average, about 13 per cent of the total imports in terms of pairage. In terms of dollar value, however, they formed about 25 per cent of the total imports during this period. This is so because for the most part imports from Italy are in fashionable leather footwear, which are more expensive than imports from Taiwan and Korea.

In addition to Italy, there are numerous developed countries (including Rumania, Poland, Czechoslovakia, and the U.K.) which are significant exporters of higher priced leather footwear to Canada. In contrast, imports from developing countries are heavily concentrated in the hands of Taiwan and South Korea, which are, as was noted earlier, mainly suppliers of non-leather footwear. Brazil, whose exports are mainly in women's footwear, is the only

30 Figures provided to the author by Grant Vaudry (Officer, Footwear Division) at an interview, August 19, 1987.
developing country which is a major exporter of leather footwear to Canada.

The imports from developed countries (including East European) generally compete directly with Canadian-made footwear. This is because these imports, like Canadian footwear, are concentrated in the men's and women's leather footwear sectors. In contrast, imports from developing countries (except those from Brazil) are usually in sectors that are either not produced in volume in Canada (such as joggers from South Korea and Taiwan) or are at the lower price-end of the market which has been largely vacated by Canadian producers (such as plastic and vinyl footwear from Taiwan). Brazil is the only developing country whose products compete head-on with Canadian footwear.

In Table XIV, the shrinking volume of imports from "other" countries clearly shows that exports to Canada are becoming increasingly concentrated in the hands of fewer countries. A process of international specialization in footwear trade may well be underway whereby an increasingly large number of footwear exporters are seeing their international market share decline while a few others continue to expand.

**EXPOSURE**

A very small proportion of total Canadian footwear production is destined for the export market, forming
between 4 and 8 per cent of the total domestic shipments during the 1974-1984 period.\(^{31}\) The domestic industry's weaknesses in the home market are even more pronounced in the markets abroad. Most of the Canadian footwear exports are in products in which they are regarded as being competitive in the home market as well, for example, leather work boots and men's and women's winter boots. Between 75 and 92 per cent of the Canadian exports during the 1974-1984 period were destined for the American market.

**FINANCIAL ANALYSIS OF FIRMS**

**1968-1971**

As shown in Table XV, the financial situation of the footwear firms during these four years was more or less stable, except for 1970, when it deteriorated considerably. In an overall sense, 1968 was the best year for profitability. But even in the worst year during this period, 1970, gross profit to sales was 17 per cent and the return on equity was 11.2 per cent. The ratio of assets to liabilities was also healthy. In 1971, profits on sales as well as return on equity were better than manufacturing as a whole.\(^{32}\)

Gross and net profits to sales in the men's/boys' sector was lower than those of the women's/girls' sector in


## Table XV

### THE PROFITABILITY OF "AVERAGE" FOOTWEAR FIRM: 1968-1983

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<tr>
<td>Gross Profit to Sales (%)</td>
<td>18.4</td>
<td>18.5</td>
<td>17</td>
<td>10.2</td>
<td>20</td>
<td>20.5</td>
<td>21.6</td>
<td>20.5</td>
<td>18.8</td>
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<tr>
<td>Net Profit to Sales (%)</td>
<td>5.5</td>
<td>4.1</td>
<td>2.7</td>
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<td>2.4</td>
<td>3</td>
<td>3.4</td>
<td>2.9</td>
<td>2.1</td>
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<td>Net Profit to Assets (%)</td>
<td>9.2</td>
<td>6.7</td>
<td>4.2</td>
<td>5.2</td>
<td>4</td>
<td>5.5</td>
<td>6.4</td>
<td>5.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Net Profit to Equity (%)</td>
<td>30.6</td>
<td>17.3</td>
<td>11.2</td>
<td>16.2</td>
<td>10.5</td>
<td>15.6</td>
<td>17.2</td>
<td>14</td>
<td>10.5</td>
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<tr>
<td>Current Assets to Current Liabilities (%)</td>
<td>63.9</td>
<td>54</td>
<td>85.2</td>
<td>86.3</td>
<td>74</td>
<td></td>
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<tr>
<td>Total Assets to Total Liabilities (%)</td>
<td>198</td>
<td>192.3</td>
<td>183</td>
<td>166.4</td>
<td>161.5</td>
<td>155</td>
<td>158.6</td>
<td>162.8</td>
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<tbody>
<tr>
<td>Gross Profit to Sales (%)</td>
<td>23.8</td>
<td>23</td>
<td>24.7</td>
<td>23</td>
<td>24</td>
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<tr>
<td>Net Profit to Sales (%)</td>
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<td>3.8</td>
<td>4.4</td>
<td>4</td>
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<tr>
<td>Net Profit to Assets (%)</td>
<td>7.8</td>
<td>7.1</td>
<td>8.3</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Net Profit to Equity (%)</td>
<td>17.1</td>
<td>21.5</td>
<td>25.9</td>
<td>19</td>
<td>21</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Current Assets to Current Liabilities (%)</td>
<td>95</td>
<td>81.1</td>
<td>68.1</td>
<td>84</td>
<td>88</td>
<td>110</td>
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<tr>
<td>Total Assets to Total Liabilities (%)</td>
<td>184.8</td>
<td>149.3</td>
<td>146.3</td>
<td>165</td>
<td>169</td>
<td>191</td>
<td>175</td>
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1968-1969; the reverse was true during 1969-1971.\(^{33}\)

Moreover, while the profitability of the men's firms was improving, that of the women's firms was declining over the years.

In terms of location, firms in Quebec financially performed better against every measure as compared to the firms in Ontario throughout the 1968-1971 period.\(^{34}\)

1972-1976

As evident in Table XV, profits --measured in terms of sales, assets, or equity-- of an average firm increased in 1973 and 1974, began to decline in 1975, and reached "dangerous" level in 1976, the lowest in ten years.\(^{35}\) The equity position improved slightly in terms of current dollars, but would show a decline in constant dollars because of high inflation during the period. The overall liquidity and working capital positions were more or less stable between 1972 and 1975, but declined sharply in 1976.

During 1973-1976, the net profitability in relation to sales was the best in the men's/boys' sector, which increased from 1973 to 1975, but declined moderately in 1976.\(^{36}\) The profitability of firms in Quebec was higher

\(^{33}\) Ibd., pp. 18-19.

\(^{34}\) Ibd.

\(^{35}\) Tribunal, 1977, op. cit., p. 3.2.

\(^{36}\) Ibd., p. 3.8
than those in Ontario during the 1972-76 period. This may have been because of the concentration of more profitable medium-size firms in Quebec.

1977-1979

This was a tumultuous period in the history of the Canadian footwear industry. The year 1977 was one of the worst for Canadian footwear manufacturers in terms of market conditions. The month of December saw the imposition of quotas on imports which continued through 1979.

Profitability of footwear firms in terms of equity increased in all years from 1977 to 1979. In fact, return on equity in 1978 and 1979 was higher than in most other manufacturing industries, and higher than its own performance during 1972-76. This may have been because of the large proportion of leased capital stock employed in the industry which on the books decreased its liabilities.

However, the overall liquidity and working capital position deteriorated in every year during this period, reaching an eight-year low in 1979. At least part of the decline was caused by "[h]igh interest rates, significant buildups in inventories starting in 1978, and some increased spending on plant and equipment, in current dollars...."

37 Ibid., p. 3.9 - 3.11.
38 Tribunal, 1981, op. cit. p. 27.
39 Ibid.
40 Ibid., p. 28.
In terms of gender, firms producing mixed footwear (usually larger firms) exhibited the most profitability, followed by men's/boys' and women's/girls' sectors.\(^41\)

In contrast to the 1968-1976 period, during 1977-1979, firms in Ontario were more profitable than their counterparts in Quebec.\(^42\) This was because of the preponderance of larger and men's/boys' firms in Ontario which had a better financial performance during the period.

1980-1983

The footwear firms' profitability in relations to sales and assets during the period remained steady, despite the recession of 1982. The profitability during this period, however, was slightly lower than in the 1977-1979 period.\(^43\) The Tribunal's study also showed that the footwear industry enjoyed a greater return on total assets and shareholders' equity than Canadian manufacturing as a whole in the years 1979 to 1982. The industry's practice of leasing, rather than owning, machinery was advantageous during this period of historically high interest rates, and, was the main reason for the above-average return on invested capital.

In terms of gender, profit as a percentage of sales

\(^{41}\) See Table 2-15 in \textit{ibid.}, p. 30.

\(^{42}\) See Table 2-17 in \textit{ibid.}, p. 32.

\(^{43}\) The data for 1983 includes those of any firm whose financial year-end fell between July 1, 1982 and June 30, 1983. Hence, the effects of the 1982 recession are still reflected in the 1983 period in the Table.
and equity was much higher in the men's/boys' sector than in the women's/girls' sector in 1980 and 1981. However, profits declined in all sectors in 1982 and 1983, because of the recessionary economic conditions. Liabilities in relation to assets and the working capital position were in excellent shape for the men's sector throughout 1980-1983, whereas ratio was considerably poor in the women's sector.

In terms of location, the firms in Ontario enjoyed a considerably higher profits than those in Quebec throughout the period, except in 1982. The generally lower profits in Quebec were due to the larger number of women's footwear plants located in the province which, as seen above, were in financially worse position than men's footwear plants, located mainly in Ontario.

CONCLUSION

It is apparent from the discussion in this chapter that there were no clear, irrefutable indicators as to the health of the Canadian footwear industry over the last decade and half. Thus, while the number of establishments declined during this period, it could be argued that this was a healthy sign of 'rationalization', necessary for the industry to become internationally competitive. Similarly, the figures regarding decline in employment lose some of their

44 See Table A-12 in Tribunal, Report, 1985, op. cit., p.115.
45 See Tables A-13 and A-14 in ibid., pp. 116-117.
appeal when it is pointed out that employment did not decline in proportion to production, indicating a trend toward manufacturing of more expensive labour-intensive footwear. More evidence of this trend can be discerned from the fact that declines in production in terms of volume were not matched by declines in terms of constant dollar value; in fact the latter increased during the period under consideration. The generally declining market share of the Canadian manufacturers in terms of pairs is perhaps one of the better indicators of the weakening position of the Canadian footwear producers. But even this could be refuted by other evidence which shows a much smaller decline in market share in terms of value.

However, it is undoubtedly true that the industry was faced with grave problems during the period under consideration. The size of the total Canadian footwear market showed almost no growth throughout the 1970s and early 1980s. The only market sectors to expand were women's and special purpose footwear, that is sectors in which domestic producers were weak vis a vis imports. Canadian producers were strong in the men's sector, but this was not a growing area, and moreover, was susceptible to wide fluctuations in demand. The gradual shift in consumption towards lower priced footwear, which was uneconomical to produce in Canada, also favoured imports. The industry's precarious liquidity and working capital position further aggravated its problems.
Moreover, at times (such as in 1970, 1977, and 1982) unusual economic circumstances arose that dealt a severe blow to the industry.

The segment of the industry located in Quebec was faced with especially severe problems. The concentration of smaller firms and those producing women's footwear, that is, the firms facing the greatest difficulties, in the province led to their greater decline in terms of production and employment than those in Ontario. Given the threat of Quebec separatism, the plight of the industry in the province could not be taken lightly by the government.

The industry displayed, it must be admitted, a remarkable resilience against the hardships it was experiencing. It generally held on to its market share in terms of value. Moreover, its profitability compared favourably with other manufacturing industries. In 1985, the Anti-Dumping Tribunal found that over the years the industry had become modern and had vastly improved its competitiveness against imports in sectors in which it concentrated.46

These somewhat contradictory statistics provided powerful ammunition to those involved in shaping government policy towards the industry. There was no incontrovertible truth and the choice of data utilized by each actor in the policy process was largely determined by the interest they sought to serve.

Footwear policy during the 1970-1985 period was, of course, made in the context of the needs, ambitions, and predilections of the actors with interests in the Canadian footwear industry. Each had its goals, the realization of which were constrained by those of the other actors. The complex interplay between their goals and the constraints they imposed on each other left an indelible mark on the resulting policies. In order to understand Canadian footwear policy, one must examine the objectives each actor sought to realize, the resources they possessed to accomplish them, and how their efforts were hampered by those of others. Such an examination can best be accomplished by studying the internal organization of each actor in the policy process, and the organization of the relationships among them.

The main argument of this chapter is that insofar as footwear policy-making was concerned, the interests comprising the state, manufacturers, or traders were internally united. This accorded a great deal of strength to them, but never enough to enable any single one of them to impose its objectives on others. The lack of capacity to dominate others could, of course, be overcome by any one actor aligning itself with one or both of the others. But
the deep differences among them made such a degree of co-operation impossible to accomplish. The resulting impasse meant no clear policy direction acceptable to all three groups could emerge and each actor was forced to react to changing circumstances, for the most part stemming from changes in international political economy, which is the subject of the next chapter. In the meanwhile, the organization of the three must be examined closely, because the external factors, no matter how powerful, merely constrained or facilitated the realization of domestic actors' interests, and did not create them.

This chapter will separately discuss the organization and predilections of the actors comprising the state, manufacturing interests, and trading interests. Each will be studied with regard to its internal organization, level of internal fragmentation, goals, capacity to accomplish goals, and its imperative to co-operate with other interests. The chapter will close with a discussion of efforts towards co-operation among the three and the reasons for their failure.

**STATE**

The state, for the purpose of policy-making, consists of two components: bureaucratic actors and political actors. This is, of course, a broad classification because neither set of factors are monolithic. The
bureaucracy consists of myriad departments, agencies, and the like, each of which have their own objectives, and varying degrees of capacity to accomplish them. Similarly, the politicians are marked by division between cabinet and parliament, government M.P.s and opposition M.P.s, and M.P.s from different regions. In Canada both sets of actors exist in the provinces, which play a continuing role in the policy process, even in areas exclusively under federal jurisdiction. Among the provinces too there are differences, based on their varying regional interests.

**BUREAUCRACY**

The policy process for the footwear industry, like that for any industry, involved a plethora of bureaucratic actors. These included several branches, bureaus, and divisions within a host of federal departments. While studying the bureaucratic actors' involvement in the policy process, however, it must be clearly understood that footwear is a relatively small industry, and hence ranked low on the priorities of most bureaus. Often they were unwillingly dragged into the debate and frequently maintained minimal participation in the policy process concerning the industry.

**ITC/DRIE**

Throughout the 1970s, The Department of Industry, Trade and Commerce (ITC) was the most important actor in the
footwear policy process. However, with its break-up in 1982, and the subsequent creation of the Department of Regional Industrial Expansion (DRIE), it has had to share its leadership position with External Affairs. ITC was founded in 1969 as a result of amalgamation between the Department of Trade and Commerce and the Department of Industry.\(^1\) The former was established at the turn of the century for the purpose of promoting Canada's exports.\(^2\) The Department of Industry was established in 1963 to foster industrial development in Canada.\(^3\) In 1982, ITC again went through a major re-organization.\(^4\) Its industry functions were transferred to a newly-created DRIE, to which was also transferred the regional development functions of the Department of Regional Economic Expansion (DREE), which was abolished. The trade and commerce functions of ITC were transferred to External Affairs.

The amalgamation of the departments of Industry and Trade and Commerce in 1969 had stemmed from the desire to align closely the objectives of developing Canadian

\(^1\) Canada, "Department of Industry, Trade and Commerce Act", Revised Statutes of Canada, 1970, Chapter 1-11.

\(^2\) Canada "Department of Trade and Commerce Act", Revised Statutes of Canada, 1952, Chapter 78.

\(^3\) Canada, "Department of Industry Act", Statutes of Canada, 1963, Chapter 3.

industries and exports promotion. Unfortunately, the two sides never really gelled, and for all practical purposes continued to operate separately. The industry side, in its efforts to foster industrial development, had to respond to the demands of the domestic import substituting industries which often included demands for additional protection. Its sympathies for protectionist measures led it into conflicts with the trade side, which for the most part had the export-oriented industries as its clients, and therefore was opposed to import control measures, which adversely affected its ability to promote Canada's exports. Nevertheless, regardless of the conflicts between the two in other policy areas, their differences with regard to footwear were surprisingly few.

On the industry side of ITC, there were two bodies which were relevant to the footwear industry, the Footwear Division of the Textile Branch (the names of both the Division and Branch were changed several times over the years, without any change in their functions or official status) and the Office of Industrial Policy (OIP), which was disbanded in 1977. Similarly, there were two bodies on the trade side: Office of Spacial Import Policy (OSIP, which was subsequently changed to Office of Special Trade Relations, or

OSTR, and again to Special Trade Relations Bureau, or STRB) and the Office of General Relations (OGR). In 1982-83, the Footwear Division was transferred to DRIE, and the OSIP and the OGR to External Affairs, with no change in their functions.

The Footwear Division was intended to be the government's expert agency on the industry, responsible for policy developments, and was also to serve as a focal point of the latter's contact with the federal government. It maintained everyday dealings with the industry and possessed an extensive knowledge of the problems it faced. In the bureaucracy, the Division was the one that was most sympathetic to the problems of the industry as a high-cost producer. At the same time, it was convinced that higher wages in Canada were not the industry's only problems; equally important were the industry's own deficiencies. The Division felt the industry could become competitive against imports from Europe by improving its productivity and marketing practices. Its assessment of the industry's problems in 1973 included the following: fragmentation, obsolescence, unprofessional management, inadequate marketing, and inadequate training facilities. It believed the industry could become competitive though persistent

efforts, with the government's role restricted mainly to maintaining high tariffs and providing financial assistance to the needy firms. It was also willing to support short-term quota protection, but by the mid-1970s, it was convinced the industry had made tremendous strides without quotas, and hence the process ought to continue with further financial assistance from the government. As such, it viewed quotas as being unnecessary, and therefore could not support the demands for them.

Since the footwear industry was the Division's client, it was in its best interests to cultivate close relationship with the former. In the late 1960s and early 1970s, extensive efforts were made towards this end. In 1967, the Division proposed the establishment of a advisory committee consisting of footwear manufacturers, since it was "...most anxious to develop some constructive and practical programs tailored specifically to fit the needs of the Canadian shoe manufacturing industry." Such a committee was indeed established and the two worked jointly on several important projects in the subsequent years. The height of their co-operation was the formulation of the Sector Strategy

7 Maurice Chapleau (Chief, Footwear Division, ITC/DRIE), interview, June 24, 1987.

8 PAC, Records of ITC, RG 20, Volume 2066, File G(L)8001-240/S6 part 3, G. A. Tardif (Chief, Footwear Division) to J. G. Maheu (Vice President, SMAC), April 4, 1967.
in 1973-1974, when the industry was extensively consulted.\(^9\) In fact, in 1974, the government gave, at the recommendation of the Division, $30,000 to SMAC to "...partly defray costs associated with increased manpower resources by them to implement the strategy."\(^10\)

The relationship between the two, however, began to deteriorate rapidly in subsequent years (for reasons to be discussed later), and shortly reached the level whereby there was no consultation between them on any major issue after 1975. While the Division's non-committal attitude towards quotas weakened its relationship with the industry, it found favour with other bureaucratic actors, who were generally suspicious of industry sector branches because of the readiness with which they proposed protectionist measures. It also led them to support its recommendations for financial assistance package for the industry.

The Office of Industrial Policy (OIP) was a staff body in charge of developing policies in consultation with the industry sector branches of the department. In the early 1970s, it was the centre of activity related to efforts to

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\(^9\)See, for example, PAC, Records of ITC, RG 20, Accession 83-84/221, File 43/530 part 2, SMAC, "Statement for Submission to the Minister of Industry, Trade and Commerce, the Hon. A. W. Gillespie by Emile Gagnon, President, SMAC", October 11, 1973.

\(^10\)Ibid., File 43/530 part 1, A. M. Guerin (General Director, Textile and Consumer Products Branch) to R. G. Head (ADM, Industry Development), September 24, 1973.
develop an overall industrial policy for Canada.  

This left little time to get intimately involved in minor industries such as footwear, and hence the OIP generally went along with the Footwear Division's initiatives.

On the trade side of ITC, the Office of General Relations (OGR) was responsible for looking after Canada's commitments under GATT. Because of the nature of its responsibility, it was an avowed believer in liberalized trade. In the case of footwear, however, there was little opportunity for conflict because the industry side did not propose additional protection. OGR maintained no direct contacts with the manufacturing or trading interests.

The Office of Special Import Policy (OSIP) was founded within the trade side of ITC in 1970 to administer the Export Import Permits Act. In essence, it administered controls on products subject to import or export restrictions. As such, it did not play a role in decisions regarding financial assistance or tariffs; its concerns were restricted to quotas. Throughout the 1970s it played a somewhat restrained role in policy-making, even with regard to quotas. As its former Director General once noted,

OSIP's role [was] more directly related to the administration of the restrictions or surveillance required rather than to the development of the policy. In this regard one of my principal objectives as the

Director General of OSIP [was] to ensure that the administration [was] equitable and that the rules or guidelines used to administer the restrictions [were] as clear as possible and known to all.\footnote{ITC, "The Role of the Office of Special Import Policy", Notes on Speech by C. D. Arthur, Director General, OSIP, to the Canadian Importers' Association, October 25, 1979.}

He was, however, being more modest about its role than was true. It chaired the Low Cost Imports Committee (LCIC), which was an interdepartmental committee for advising the cabinet on import controls on textiles, clothing, and footwear, and on Canada's commitments under GATT. OSIP was also in charge of negotiating export restraint agreements and the compensation to be paid in return for global quotas. Despite the critical nature of its functions, it is true that in the 1970s it played a rather low-key role, and for the most part merely implemented decisions made elsewhere in the government.

Towards the end of the 1970s, OSIP (now OSTR) began to play a more prominent role in the policy process. This transformation was made possible by the increase in the number of textile, clothing, and footwear products that were brought under import controls after 1976, and the concomitant growth in staff required to administer these controls. Its transfer to External Affairs in 1982 further reinforced its position in the policy process. The milieu in the new department emphasized export promotion, and the task of enforcing controls on imports was only perfunctorily
undertaken. The year 1982 also witnessed the quiet burial of LCIC and its replacement with an informal committee consisting of STRB, DRIE, Finance, and Consumer and Corporate Affairs. The informal manner in which the new group operated, and the unchallenged position that STRB enjoyed in setting agenda by virtue of its chairmanship, gave it enormous powers with regard to decisions on footwear quotas.

With regard to its predilections towards quotas, OSIP maintained a fairly neutral position until about 1979, after which it became increasingly unfavourable to quotas. Its experience with negotiating bilateral quotas or compensation packages in return for global quotas made it unenthusiastic about such measures. Moreover, it increasingly came to view the administration of import controls as a thankless task, whereby it was impossible to satisfy the various divergent interests. Its chairmanship of the interdepartmental committee and the private sector Advisory Committee on Footwear Quotas provided it with the opportunities to chip away at the controls on footwear imports. Thus, after 1982, STRB played a lead role in relaxing the controls on footwear imports. This was accomplished by increasing exemptions from controls, relaxing the conditions allowing for switching among classes of footwear, and raising the quota levels.13

13 Interviews, Chapleau, loc. cit., and Craig Campbell (Officer, The Department of Consumer and Corporate Affairs), June 9, 1987.
Finance

The Department of Finance by any measure has traditionally been the most powerful department in the government, especially in matters related to economic policy. Its role in formulating macro-economic policy for the nation (as embodied in the annual budget), and co-ordinating the various departments' programmes into a coherent economic policy gives Finance an enormous capacity to shape policies.\textsuperscript{14} Its authority to participate in the footwear policy process lay in the fact it administered all international trade-related statutes, except for the Export Import Permits Act. While considering its role in the policy process, it must be remembered that the department is almost exclusively staffed by economists, who generally tend to be skeptical of micro-level intervention in the economy.

Finance has generally been supportive of maintaining high tariff protection to soft industries such as footwear, textiles and clothing. In any case, there was no domestic or international pressures to lower tariffs on footwear. It also followed a pragmatic approach towards financial assistance to the footwear industry.\textsuperscript{15} Such assistance was viewed as a means of weakening protectionist demands by the industry. It was, at the same time, one of the strongest opponents of quotas on imports. It regarded

\textsuperscript{14}Prothroe, \textit{op. cit.}, p. 73.

\textsuperscript{15}Chapleau, \textit{loc. cit.}
them as inefficient instruments of assisting an industry.\textsuperscript{16}

\textbf{External Affairs}

External Affairs, along with Finance and ITC, formed the triumvirate responsible for the conduct of trade policy. While the involvement of the latter two arose from specific statutory authority, External's involvement, until 1982, had its basis in the department's overall mandate to conduct and manage Canada's international negotiations and relations with other countries. Its primary responsibility for maintaining diplomatic relations shaped its position on trade policy. It "shared Finance's commitment to the multilateral trade framework and skepticism about more quantitative restrictions."\textsuperscript{17} Its opposition to restrictions on imports had its basis in concerns for "...the effects such a quota could have on Canadian economic relations, the precedent it might have for other countries wishing to limit Canadian exports, and the inconsistency of such measures with Canada's general commitment to freer trade and lower trade barriers for exports from the 'South'."\textsuperscript{18} In other words, it viewed import controls as harmful for Canada's broad trade objectives and general diplomatic relations.


\textsuperscript{17}Buhne, \textit{op. cit.}, p. 91.

\textsuperscript{18}Ibid.
The departmental re-organization of 1982 brought most trade-related subjects, except tariffs, under the umbrella of External Affairs. As a result of the re-organization, it became the undisputed leader in matters related to quotas. The transfer of OSIP to External added to its expertise in this area. It now began to oppose quotas not only because it adversely affected Canada's diplomatic interests, but trade interests as well.

**Consumer and Corporate Affairs**

The Department of Consumer and Corporate Affairs (CCAC) was established in 1967 to promote the interests of consumers and to ensure optimal competition in the marketplace. Since imported products form a significant part of the Canadian market, and insofar as consumers are affected by government policies that affect their prices, it has construed its mandate as giving it a vital role in import policy. However, there was, and still is, a considerable opposition to its role in the area from other departments which did not believe it had the authority or the expertise to participate in trade policy matters. Had it not been for its unrelenting persistence, it probably would have been completely shut out of the policy process.

CCAC's basic position was that quotas hurt consumers by increasing prices and limiting choices. Towards the end of the 1970s, it developed an additional argument
that quotas cause inefficiencies in the domestic economy by favouring existing importers and restricting new entries (because of the practice of allocating quotas on the basis of historical performance). In the 1970s, the chief forum used by CCAC to express this view was LCIC. It used the Committee's meetings to give "lectures" on the inefficiencies of quotas, behaviour other departments found extremely disagreeable.\(^\text{19}\) They found its positions especially irritating because they generally agreed with the thrust of its argument, but were in the situation of having to go along with protectionist measures because of political pressures. CCAC's predictable position on imports, moreover, led to its exclusion from the informal interdepartmental consultations that are endemic to policy-making, thus denying it many potentially valuable opportunities to influence policy.

By the end of the 1970s, however, CCAC began to follow a more sophisticated approach and became more influential.\(^\text{20}\) Instead of presenting abstract, and often banal, theoretical arguments, it now provided empirical evidence to support its case. During 1979-1981, it produced a series of papers covering different aspects of the footwear (and textiles and clothing) industry, all of which in some way argued against restrictions on imports. In the face of

\(^{19}\) C. D. Arthur (Director General, OSIP), \textit{interview}, June 25, 1987.

\(^{20}\) Campbell, interview, \textit{loc. cit.}
such empirical evidence, the other departments were forced to justify why its arguments should be disregarded. Its membership on the interdepartmental committee consisting of three other senior departments, two of which were vehemently opposed to quotas, also gave it a larger role in the policy circles.

CCAC played only a negligible role in tariff policies. It recognized the near-consensus that prevailed in favour of maintaining high tariffs on footwear, and the futility of the efforts to reduce them. Policies regarding assistance to the footwear industry would have been clearly outside its mandate, and it stayed out of the area.

National Revenues-Customs and Excise

Revenue Canada's involvement was restricted to collecting duties on imported products, ensuring appropriate rates of duties were being levied, and applying anti-dumping and countervailing laws and rulings. It also applied other laws and regulations that need to be enforced on imported products at the point of entry into the country. Revenue Canada has traditionally avoided participating in discussions regarding tariffs or quotas. However, it was intimately involved in determining value for duty advances, which, as will be seen in Chapter Five, provided enormous tariff protection from imports to domestic manufacturers. Unfortunately, the Department maintains, as is required by
law, impenetrable secrecy around how it arrived at its decisions.

**Employment and Immigration**

The Department of Manpower and Immigration was established in 1966 and re-organized as the Department of Employment and Immigration (CEIC) in 1976. Its establishment underscored the importance the government attributed to labour market policies in the 1960s. Its chief purpose has been to maintain optimal labour market conditions in Canada. The Labour Market Planning and Adjustment Branch was responsible for, in addition to planning for, meeting the demands of growing occupational sectors, developing policies, programmes and strategies for critical adjustment that cause employers, workers, industry sectors and communities to more quickly undertake and manage the labour market disruption of plant closures, layoffs, technological change, etc. 21

As such, the responsibility for labour adjustment fell directly under its purview. However, even in the heady days of the 1960 and early 1970s, when it was an enthusiastic practitioner of active labour market policies, 22 it did not

21CEIC, "Labour Market Planning and Adjustment Branch: Role, Activities, Programs, Organization and Responsibility Assignments", January, 1982, p. 3.

propose a single labour adjustment programme for industries facing massive lay-offs, such as textiles, clothing and footwear. It was generally wary of industry-specific interventions, and instead relied on broad adjustment measures such as training or mobility allowances available to all workers. Its basic philosophy was that the forces of demand and supply, with some broad assistance from the government, were sufficient to effect necessary adjustments in the labour market.

It was only in the early 1980s that the Department even began to recognize that workers in some industries might require special assistance. Thus, in 1982, one of its studies cursorily noted,

...while the market forces, combined with assistance from regular government measures, are sufficient to maintain an orderly and effective industrial adjustment process, there is a certain limited number of cases where special assistance is required.  

Its reasoning was that

without such special assistance measures, the acceptability of the industrial adjustment process in the economy would be replaced by pressures for strong protectionist measures to shore up uncompetitive industries. This [was] both costly to the economy and [inhibited] further economic growth and development.  

Despite the recognition of the need for special assistance to workers in industries such as footwear, it made little


\[24\] Ibid.
efforts to develop appropriate programmes. In fact, the only special adjustment programme available to footwear workers (apart from the pre-retirement benefits available to those over 55 years of age) was not introduced until 1982, and then too only at the insistence of the cabinet. The special measures available to the footwear workers from 1982 to 1985 were entirely unsuited to them, as was evident in their negligible rate of utilization.

It may well have been that by the time the CEIC was coming to recognize the unique problems in declining industries, the government had begun to withdraw from active labour market policies. It may also have had its roots in its belief that

layoffs and plant closures ...[were] important mechanisms in the process of economic adjustment and the achievement of economic efficiency. Efforts to impede the process [were] considered to have a negative impact upon growth and productivity.

As a department's discussion paper noted, "...it is anticipated that in the long run the labour market will adjust efficiently and equitably to altering trade adjustments." 

For a discussion of labour adjustment programmes, see the chapter on financial assistance.

See Muzynski, op. cit., p. 253.

Ibid., p. 291

The Department maintained little contact with other government agencies dealing with the footwear industry. However, it did have a senior representative seconded to the Canadian Industrial Renewal Board. It also prepared a study, at the request of the Anti-Dumping Tribunal, on the impact of removal of quotas on footwear workers. The Department maintained no contacts with the organized labour in the industry.

Department of Labour

Established in at the turn of the century, Labour is one of the oldest departments in the federal government. Its primary role has been to maintain a "proper" industrial relations climate, and to represent the views of the organized labour in governmental decision-making. The founding of the Department of Employment and Immigration clearly demarcated Labour's functions as excluding labour adjustment policies. However, in recognition of its need to maintain the support of organized labour, it was sympathetic to the plight of workers affected by large scale lay-offs in highly unionized industries such as textiles, and to some extent, footwear. As a result, it played the lead role,

despite the fact it had no statutory authority in the area, in designing and gaining approval for pre-retirement benefits programmes for textiles, clothing, and footwear workers. Apart from the years 1971 to 1973 when it sought to extend the pre-retirement programme to footwear workers, Labour played a negligible role in the footwear policy process.

Department of Regional Economic Expansion

DREE was involved in marginal ways in the footwear policy process during its existence until 1982, when it was merged with DRIE. Since a large number of footwear plants were located in slow growth regions, mainly in Quebec, it was drawn into providing them with financial assistance. Between 1970 and 1980, it provided about $3 million to 42 footwear firms in Quebec, and about $4 million to 51 footwear firms in all of Canada. A general problem for DREE at the time was the dismal performance of firms it had assisted. The increasing imports only worsened the situation. As a result, DREE espoused one of the most protectionist positions in the bureaucracy, and let it be known that it was in favour of quotas on imports. However, it was not generally consulted

30 For details, see chapter on financial assistance programmes.

31 DREE, Timothy E. Reid (ADM, Planning and Coordination) to A.B. Trudeau (Secretary, Anti-Dumping Tribunal), September 26, 1980, Table I of Annex 2.

32 Ibid.
by other departments in matters relating to the footwear industry. In fact, there was some resistance to its programmes on grounds its assistance was actually retarding industrial adjustment.\textsuperscript{33}

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The Footwear Division of ITC/DRIE was clearly the lead bureaucratic actor in the footwear policy process until 1982, when External Affairs became the lead actor, because of the emergence of quotas as the most contentious issue. The Division was also the most sympathetic to the problems of the industry, even though it disagreed with the latter's emphasis on the indispensability of quotas for the industry's survival. It sought to assist the industry primarily through financial assistance. It also supported the maintenance of high tariffs on imported footwear. The other main departments active in the process went along with the Division's proposals because the latter did not propose what they feared the most: quotas on imports. They recognized the government was under pressure to do something for the industry, and hence found financial assistance and continuation of high tariffs as the preferred solutions. Thus, there was a consensus among bureaucratic actors with respect to policy

\textsuperscript{33}CCAC, "The Impact of Department of Regional Economic Expansion's Regional Development Incentives on Canadian Textile, Knitting, Clothing, and Footwear Industries", unpublished study prepared by Craig Campbell, 1980.
for the footwear industry. The only two departments concerned with labour never really addressed themselves to the question of labour adjustment in the industry.

The bureaucracy's opposition to quotas may well have arisen from its intimate involvement in the formulation and implementation of policies for the whole economy, and the concomitant recognition of Canada's dependence on international trade for its economic prosperity. It may also have had its roots in the fact that a large number of officials in all key departments, except the Footwear Division, had their educational backgrounds in economics or commerce. These disciplines largely believe in the superiority of barrier-less trade in optimising the economic well-being of a nation. The Footwear Division was not dominated by economists, nor was it opposed to quotas in principle. But from its extensive dealings with the industry, it had concluded that import controls were not a solution to the industry's malaise. Finally, as Hines has noted, a large number of bureaucrats in the three key departments --ITC/DRIE, Finance, and External-- had "...a very strong contingent of officials who were, first and foremost, trade policy officers schooled in the virtues of freer trade..."34

34Hines, op. cit., p. 29.
Anti-Dumping Tribunal

The Anti-Dumping Tribunal, known as the Canadian Import Tribunal since 1985, is not strictly a bureaucratic actor; nor does it have organizational interests its seeks to advance in the policy process. It is rather an investigative and an adjudicative body which plays a critical role in decisions regarding controls on imports. Its primary function is to inquire whether dumped or subsidized imports are causing, or threatening to cause, injury to a domestic industry. However, it was another, and infrequently used, provision of its enabling Act that got the Tribunal involved in the footwear policy process. According to Section 5(2) of the Export Import Permits Act, there must be a finding of injury to the domestic industry from imports by the Tribunal under the Anti-Dumping Act before the government can impose controls on imports of a product (except for textiles and clothing, where injury is determined by the Textile and Clothing Board). Section 16(1) of the Anti-Dumping Act authorizes the government to request the Tribunal to conduct an inquiry into an industry and report if there is a case for injury. After 1985, the government has derived this authority from Section 48 of the Special Import Measures Act. Over the years, the government has ordered four inquiries into the footwear industry, the only industry which has ever undergone such an inquiry.

The Tribunal is a semi-autonomous body consisting
of a chairperson and normally three other members (to the maximum of five). During the inquiries it makes extensive efforts to encourage participation by interested parties at the various stages of the inquiry. Its findings are based on information provided by the contending parties, various government departments, and its own research staff.

While it would be patently untrue to say the Tribunal is a mouth-piece of the government or private interests, it would also be inaccurate to describe it as a body totally immune to government influence. The timing of the ordering of an inquiry and the terms of reference, both of which are determined at the upper echelons of the government, have a critical impact on its findings. The personal convictions and background of Tribunal members have a similar impact. After all, the Act does not define the test of injury, leaving it to the Tribunal to adopt criteria at the time of inquiry. Moreover, the information on which it bases its findings is often contradictory and sketchy, allowing Tribunal members the scope to use their discretion. Finally, the political climate surrounding the inquiry also influences its decisions. The chapter on quotas will demonstrate how the terms of reference, the timing of inquiries, and the political climate had a bearing on the Tribunal's reports, and the government's subsequent decisions.

The Tribunal's reports do not, however, recommend
directly whether special measures of protection are needed by an industry. They merely provide analyses and interpretation of recent data. While the government is not bound to accept its findings, in practice it is nearly impossible to ignore them. If the Tribunal found no injury, the government is forbidden by the Export Import Permits Act from providing additional protection. If, on the other hand, it found injury, the government still had to decide on the form of protection. In the latter case, the decision-making became a political process, subject to all the normal pressures of intra-governmental bargaining and interest group activity. In this sense, the Tribunal's inquiries were only one, albeit a critical one, of the many stages in the process leading to the decision to provide or deny quota protection to the footwear industry. As Hines comments,

The requirement [of an inquiry] provides a buffer between ministers and their political constituencies and an opportunity for interested parties to have their case heard publicly based on the facts. On the other hand, it involves two separate decisions: whether to refer the issue to the independent body for study; and what action to take based on the report of that body. The paper work, interdepartmental discussion, and infighting, to say nothing of the lobbying by private sector interests during the inquiries is monumental.  

THE POLITICAL ARENA

Cabinet

The cabinet is the supreme executive body in Canada and therefore, ultimately, commands the greatest resources to

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35 Hines, op. cit., p. 53.
shape public policies. The principles of cabinet solidarity and confidentiality, however, make it difficult to assess its functioning. It is known, in keeping with the regionalized character of Canadian politics, that ministers from central Canada are generally, but not always, more sympathetic to demands for protection from domestic manufacturing industries, whereas those from Eastern and Western Canada oppose such demands.

In the post-War period, cabinets have generally been favourable towards liberalized trade, although not quite as consistently, or to the same degree, as the bureaucracy. Ministers, as chief governing officials, are undoubtedly aware of Canada’s dependence on exports, which correspondingly implies allowing freer access to imports. As Ed Lumley, the then Minister for International Trade, noted, "... any protectionist action we take could have adverse effects on our future trade and job creation." The briefing papers on different issues prepared by bureaucrats, who generally leaned towards liberalized trade, for their ministers further reinforced the latter’s support for freer trade.

At the same time there has been a recognition that there are certain large industrial sectors that have developed behind barriers to imports, and would therefore require special assistance during the time they adjusted to

36 Buhne, op. cit., p.27.
liberalized trade. In the years following the Kennedy Round, the government's intention was to reduce protection progressively for such industries, allowing the weaker sectors to gradually die. At the same time, the sectors that were expected to remain viable in the long-run were to be provided financial assistance to become stronger and, ultimately, internationally competitive. The clearest evidence of this was the Textiles Policy, announced in 1970.\(^\text{37}\)

While successive governments were committed to reducing protection progressively for the soft industries, they were also mindful of the policy's consequences, especially in terms of permanent loss of jobs in the slow-growth regions, notably Quebec. After all, cabinet ministers are essentially political creatures who constantly have their eyes on winning the next election. They cannot follow a policy which would increase unemployment and correspondingly diminish their electoral prospects. The threat of Quebec separatism that haunted federal politicians through most of the 1970s created further imperatives for taking measures to protect industries that were significant employers in the province. Therefore, successive federal cabinets, despite their general support for liberalized trade, have been susceptible to demands for protection by labour-intensive industries in Quebec.

\(^{37}\)See Mahon, \textit{op. cit.}\)
The cabinets' broad trade objectives, and the constraints on them, were clearly reflected in their attitude towards the footwear industry. They were willing to approve the bureaucracy's recommendations for financial assistance to footwear firms in order to make them competitive. They were also supportive of the industry's demands, and the bureaucracy's favourable recommendations, for maintaining high tariffs on footwear imports. With respect to quotas, the cabinet would have preferred not to impose them, but could not resist the demand for such protection in times of exceptionally adverse circumstances. The decision to impose quotas in 1977 must be seen in the context of the appreciation of the Canadian dollar, which caused massive dislocations in the industry, and the election of the Parti Quebecois government in Quebec in the preceding year. Similarly, quotas on leather imports were re-imposed in 1982, after nine months of absence, to arrest the increase in unemployment in the year of worst depression in the post-War history.

Parliament

Parliament is generally regarded as playing an inconsequential role in economic policy-making. 38 Be that as

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it may for the overall Canadian situation, the M.P.s played a significant role in the footwear policy process. The manufacturing interests, as will be seen in the subsequent section, did not trust the bureaucracy, and hence devoted their entire attention to the ministers and M.P.s.

In SMAC's estimate, most of the M.P.s with footwear plants in their ridings were to varying degrees sympathetic towards the industry's demands. In the mid-1970s, there were 46 federal ridings in Quebec, and 60 in Ontario, which contained at least one footwear plant.39 All Quebec ridings, except five (1 Tory, and 4 Social Credit) were held by Liberals; in Ontario, it was almost evenly split between the Liberals and Tories, with one in the hands of N.D.P. After the 1984 elections, the number of federal ridings with footwear plants had declined to 37 in Quebec and 44 in Ontario. Of these, in Quebec, 24 were held by Tories and 13 by Liberals; in Ontario, 30 were Tory, 7 Liberal and 4 N.D.P. ridings. It was a part of the manufacturing interests' strategy to cultivate close ties with their local M.P.s, especially those in the ruling party, to apply pressure on the government. In a letter, for example, encouraging manufacturers and workers to contact their local M.P.s, SMAC said, "You need the support of M.P.s. They were responsible

39 Figures compiled by SMAC.
for the last extension of quotas [in 1982].

The back-bench M.P.s, unlike the cabinet ministers or bureaucrats, were quite vulnerable to local interests. They had to depend on their constituents for election campaign funds and volunteers. Those from the ruling party were not unconcerned about their election prospects in case of plant closures that could be attributed to the government's failure to control imports.

The question of quotas, on the face of it, was simple: imports were increasing at a time when production and employment were declining. The manufacturers' proposed solution, to impose quotas on imports, had an instant appeal to many M.P.s. Lacking their own independent source of information, and denied access to the bureaucracy's expertise, they were dependent on the information provided to them by the manufacturers and workers in their ridings. Moreover, since they were not directly involved with the complexities of administering the economy, they were less likely to appreciate the problems that erecting barriers to imports caused for Canada's export efforts.

The M.P.s had almost no involvement in the areas of financial assistance or tariffs. These areas were too technical for those outside the administration or the industry to comprehend. In any event, the manufacturing

40 SMAC, J. G. Maheu (President, SMAC) to members of SMAC, TAC, SISAC, and Unions with contract in the industry, November 25, 1983.
interests were not, as will be seen in the subsequent section, overly concerned about these areas, and hence there was no pressure on the M.P.s to get involved in them. Their activities were restricted to the high profile, and apparently simple, issue of quotas.

Several M.P.s, regardless of party affiliations, from ridings with footwear plants would speak in the House on behalf of the industry. Some also marched on the Parliament Hill along with manufacturers and workers in support of the industry's demand for quotas. They often wrote to the ministers in support of the industry. However, there is little evidence that these activities had a decisive impact on government decisions. What did have an impact was the pressure ruling party M.P.s would exert on the cabinet at caucus meetings. Normally these pressures could be ignored, but if the demand for quotas could be linked to some greater political concern such as Quebec separatism or growing unemployment, the pressures from M.P.s could not be entirely ignored by the executive.

PROVINCIAL GOVERNMENTS

In a sense, the provinces are states in themselves, with their own bureaucracies and politicians, not unlike the Canadian state. However, with regard to footwear policy, two of the three main policy instruments, tariffs and quotas, fall exclusively under the federal jurisdiction. The
provincial governments are confined to options regarding financial assistance only. Even in this area, it is the federal government that has played the lead role. In fact, provinces other than Quebec and Ontario, and to some extent British Columbia, have had no significant involvement in any aspect of footwear policy. The areas in which Central Canadian provinces were interested (tariffs and quotas on imports) were outside their jurisdiction under the Constitution, and hence they could play only an indirect role.

The fact the footwear industry was a prominent employer in Quebec and Ontario was the main imperative leading them to participate in federal policy-making for the industry. Their objective was to maintain the highest possible level of tariff protection for the industry, something about which Ottawa itself was keen. They also wanted the latter to assist the industry's modernization, which again was Ottawa's objective as well. In fact, throughout the 1970-1985 period, there was a great deal of co-operation between federal officials and those from Quebec and Ontario regarding the delivery of Ottawa's financial assistance programmes to the industry. Quotas, as usual, were another story. The two provinces regarded quotas as vital for the survival of the industry, a perspective that was not shared by the federal government. The divergence in opinion at times led to bitter exchanges between them.
The governments of Quebec and Ontario, especially the former, maintained extensive links with local manufacturing interests. The latter, for their part, regularly met and wrote letters to provincial politicians to pressure the federal government on their behalf. In 1981, the Quebec government in fact wanted to forge a formal alliance among the government, manufacturers, and labour in order to fight Ottawa's decision to remove quotas from imports on leather footwear. The proposal was turned down by the manufacturing interests on the grounds it might actually weaken their cause. Both provinces entirely ignored the trading interests in the industry, partly because they were not seen as economically suffering, and also because these interests did not exert pressure on the provincial governments.

In 1977, after the publication of the Tribunal's interim report finding injury from imports, the government of Ontario wrote to the federal government demanding quotas on imports.41 The newly-elected Parti-Quebecois government made no such demand; it knew if Ottawa did not act to halt the rapidly declining conditions of the industry, it would only constitute an additional proof that federalism did not work for Quebec. When the federal government imposed quotas on

41 See SMAC, Claude Bennett (Minister for Industry and Tourism, Ontario) to J. G. Maheu (President, SMAC), August 12, 1977. Also see William Davis (Premier, Ontario) to Don McLeod (Chairman, SMAC), August 26, 1977.
imports later that year, it was responding more to the needs of strengthening the federalist cause in Quebec, than to the demands of the government of Ontario.

In 1980, with the referendum lost, the Quebec government realized it had less leverage with Ottawa, and hence openly exerted direct pressure on the latter to protect the footwear industry in the province. Ontario too did the same, as it had done in 1977. Regardless of their demands, however, the federal government removed quotas from imports of leather footwear in 1981. Quebec's trade minister, Rodrigue Biron, charged, "You can bet that if the policy was going to hurt Ontario, Mr. Gray [the Minister of ITC] would have consulted the Ontario government before going ahead." 42 Similarly, Premier Rene Leveque in his opening address to the Parti Quebecois convention said, "It isn't by accident that the federal government has removed the protection for the shoe industry, when 50 per cent of the employees are in Quebec." 43 Ironically, by 1980 a larger proportion of the industry was located in Ontario, and the government of that province was equally incensed with Ottawa's decisions. In mid-1982, when the government reversed its decision and re-imposed quotas on leather footwear, it was responding more to the recession of that year than to the pressures from the two

provincial governments. In 1985, after the publication of the Tribunal's report recommending the removal of quotas from most classes of footwear, the governments of Quebec and Ontario again exerted pressure on the federal government on the manufacturing interests' behalf. They asked Ottawa to disregard the Tribunal's report in view of the increased unemployment its implementation would cause, and to renew quotas. Ottawa disregarded their pleas, and implemented the report's recommendations almost in its entirety.

The reasons why the federal government did not cave in to pressures from Central Canadian provinces was that federal-provincial conflicts are endemic to policy-making in Canada, and the footwear policy was a relatively minor point of contention between the two levels of government. Ottawa could afford to risk provincial opposition on such minor issues. Moreover, the federal government was aware it could count on other provinces, which were either unconcerned or opposed to quotas, for support of its position. Indeed, in 1980, the government of British Columbia submitted a formal brief to the Tribunal claiming quotas were yet another instance of the subsidization of Central Canadian industries by Western consumers, and asked for their immediate termination.

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Quebec, Rodrique Biron (Minister, Industry, Commerce and Tourism, Quebec) to Sinclair Stevens (Minister for DRIE), September 16, 1985.
The Canadian state's basic goal was to rationalize and modernize the industry so that it could become competitive with only the protection of high tariffs. Towards this end, it was willing to offer attractive financial assistance to the industry. While not entirely opposed to the use of quotas for short-term protection, the government was most reluctant to use this instrument.

The government had the organizational capacity to determine its objectives. It also had the capacity to realize its objectives with regard to financial assistance and tariffs. It had the financial resources to fund assistance programmes, which, in any event, involved small expenditures, because of the small size of the industry. It also had the diplomatic resources to continue to maintain high tariffs on footwear. What it did not possess was the capacity to persistently withstand demands for quotas. The single-minded pursuit of quotas by the manufacturing interests, when reinforced by other broader political and economic concerns fundamental to the state, at times caused the government to depart from its objective.

MANUFACTURING INTERESTS

FOOTWEAR PRODUCERS

The footwear manufacturers have been collectively represented by the Manufacturers' Association of Canada
Established in 1918, and incorporated in 1945, it is one of the oldest one-industry business associations in Canada. Throughout the post-War period, it has represented manufacturers who together accounted for over 80 per cent of the total footwear production in Canada. The non-members have generally been the small producers from the Toronto area. Its comprehensive membership has enabled it to speak authoritatively on behalf of its members.

Although its members do not form the wealthiest section of the business community, the Association itself has not lacked funds to pursue its objective. In addition to its relatively high membership fees, which are based on the firm's total sales, it has been able to levy special dues at times of extraordinary expenditures. It has had a prominent trade consultant and lobbyist in Ottawa on retainer since the early 1970s, and in times of intense lobbying activities, such as 1981-82 and 1985, it hired public relations consultants as well. It has also sometimes published advertisements in newspapers and trade journals to take its case directly to the public. In 1984, the year in which it geared up for major efforts to secure the extension of quotas in the following year, it spent $46,318 on "survival activities", of which $22,391 were derived from "special" membership fees.  

The industry had been doing relatively well until the late 1960s, and hence there were few reasons for the members to get involved in public policy-making through their association. After imports from Europe began to increase their share of the Canadian market in the late 1960s, resulting in plant closures and lay-offs, the industry sprang into action. Adversity led members to participate more actively in the affairs of the association in order to apply pressure on the government to control imports.

The almost even split in the industry's location between Quebec and Ontario did not mar the internal unity of the organization. The Association rotated its chair between the two provinces. It also never directly used, in consideration of the sensitivity of its members in Ontario, the threat of Quebec separatism to advance its cause. The relatively greater hardships faced by the industry in Quebec also did not cause friction in the organization. The industry in Ontario was under similar pressures, albeit to a lesser extent, and therefore supported the cause of its counterparts in Quebec.

While considering SMAC's ideology, it must be remembered that footwear firms have traditionally been owned and operated by small businesses; Bata, the largest footwear producing firm in the world, being an exception. Like other small businesses, footwear manufacturers detested government intervention in their business affairs. This explained, in
part, their reluctance to utilize government's financial assistance programmes, because they often came with stringent conditions ITC imposed on recipient firms. Those going through hard times, as many usually were, however, had few qualms about applying for assistance. Opposition to government intervention, yet dependence upon it, was clearly evident, for example, in the statements of Anthony Carrier, who was one of the leading businesspersons in the industry. In 1977, he ran a series of advertisements criticizing the Canadian government's policies. One of them, for example, read:

Our system...is based on the simple and functional premise of 'an honest days work for an honest days pay'. No handouts, no giveaways....

In Canada, during the past few years, the Federal Government has legislated the country not only a welfare state but also welfare mentality.

What we find objectionable is a system that actually encourages laziness by excessive handouts—handouts that come from your pocketbook and mine.

At about the same time his advertisements were appearing, he had this to say at an interview with a journalist:

Canadians will have to decide what exactly they want; either cheaper products with high unemployment or more expensive products with low unemployment. I am afraid we can't have it both ways. Personally, I would rather see footwear prices rise by $1.00 per pair and have lower unemployment.

Since he did not believe in hand-outs to the unemployed, his

46 Shoe and Leather Journal, September, 1977, p. 3.
generosity towards them must surely have arisen from the need to protect his own business, which was in deep financial trouble at the time. His company received the largest assistance package among footwear firms; it went bankrupt soon thereafter.

Tariffs and quotas, of course, were another question. The Association never even saw them as interventionist measures. The industry had been demanding increased tariffs since long before the establishment of SMAC. In 1901, the industry complained about footwear imports from the U.S. and demanded that tariffs be increased from 25 to 35 per cent, so as to provide "...a modest protection for a very large number of men, women, and children." 48 SMAC in a press release dated December, 1918, the year it was founded, noted that after its establishment "...it lost no time in tackling the tariff question." 49 Its argument was that protection from imports was essential to foster the development of manufacturing industry in Canada. Its brief to the Gordon Commission noted:

While the principles of free trade may be attractive, it is an impractical policy for one nation to follow....It is not sound policy to sacrifice the development and maintenance of domestic manufacturing industries for the purpose of encouraging the export of primary products as an end itself. Such a policy will produce eventually an economy based upon a few primary industries with

48 PAC, Wilfred Laurier papers, Quebec Boot and Shoe Manufacturers to William Patterson (Minister of Customs, Canada), undated, 1901, p. 62210.

49 Quoted in Footwear Forum, January 10, 1979, p. 12.
relatively small and weak secondary industries, which will be dependent upon the economic and fiscal policies of other countries over which we have no control. Thus, SMAC wanted tariff protection as a matter of broad strategy, not just as a special measure.

The industry's half century of emphasis on tariffs began to change, however, in the beginning of the 1960s because of increasing imports of cheap synthetic leather footwear from Japan. It now began to ask for controls on imports, although this demand was not fully developed until 1970. In a letter to Prime Minister Diefenbaker in 1960, it asked for quotas on footwear imports from Japan. Similarly, in its briefs to the Canadian Trade and Tariff Committee in the mid-1960s, it suggested the need for controls on imports. It was in 1970 that it made its first serious demand for quotas on import, which has since been its sole objective. Indeed it has equated quotas with its very survival.

With regard to its relationship with other actors in the policy process, SMAC took a very hostile stand against


51SMAC, "Memoire presente...au Premier Ministere Monsieur John Diefenbaker au seyet de la necessite d'une re-evaluation de la politique economique canadienne et d'une demande de contingentsments des importations de chassures du Japon", undated, 1960.

52SMAC, Submissions to the Canadian Trade and Tariff Committee, 1965-1967, Various.

53For details, see chapter on quotas.
those that did not support its demand for quotas. In the late 1960s, it made some efforts to build regular contacts with the government through the Footwear Division. The latter, as discussed earlier, was itself keen to gain the Association's confidence and went to great lengths to accommodate its needs. As a result, SMAC participated in the advisory committee attached to the Division, and was consulted extensively regarding the programme initiatives of the early 1970s.

The relationship between SMAC and the Footwear Division began to deteriorate, however, during the implementation of the Footwear Sector Strategy. Suspicious of government interference, the former wanted greater control over the delivery of the programmes. The Footwear Division, for its part, found SMAC's behaviour distasteful and concluded it was not possible to co-operate with it. But what irked the industry most was the Division's refusal to support its demand for quotas. It was convinced the bureaucracy was full of free traders who had no interest in maintaining a manufacturing base in Canada. Responding to the government's decision to lift quotas from leather footwear, SMAC's President commented:

So, the very persuasive bureaucrats in Ottawa who are avowed free trader theorists with a secure income have conceived the ill-advised footwear policy because it is not the function of theorists to worry about ineffective and inefficient policies that favour mainly big U.S.

54 Chapleau, interview, loc. cit.
retail-import business over small, efficient and productive Canadian manufacturers...or about unemployment.

At another instance, the same President bitterly complained

Some of the senior bureaucrats dealing with trade policy in Ottawa do not understand the private sector, and have low appreciation of the importance of the manufacturing sector as the prime provider of jobs in Canada.

Convinced the industry would not get a fair hearing from the bureaucracy, SMAC appealed its case directly to the minister and M.P.s after the mid-1970s. 57

In addition to its contacts with ministers and M.P.s, and with the Footwear Division until the mid-1970s, the Association communicated its views to the government through other channels as well. In 1976, the government established a task force on the footwear industry consisting of footwear producers; its report reflected the industry's demands in entirety. 58 The consultative Task Force on the Footwear Industry, established in 1978, similarly consisted of footwear manufacturers, with a minority representation from labour. Its recommendation too basically reiterated


57 See ibid.

SMAC's demands. Moreover, the terms of reference of the first three footwear inquiries by the Anti-Dumping Tribunal were addressed exclusively to the needs of the manufacturers, giving them opportunities to convey the industry's position to the government, while shutting out other contending interests.

In the mid-1970s, when SMAC increasingly tilted towards applying direct pressure on the government to impose quotas on imports, it needed all the support it could get from its potential allies. The most powerful candidate in this regard, of course, was organized labour in the industry. The success with which the Canadian Textile Institute had used labour in the textile industry to secure protection from imports was not lost on SMAC. The co-operation between the footwear producers and organized labour in the industry began around the mid-1970s and lasted well over a decade. It strived for, and received, similar support from the supplying industries as well, thus forming a solid block of pro-quota forces.

SMAC never sought to maintain contacts with the importers, retailers, or consumer associations. There was obviously no purpose in trying to co-operate with the importers who were its main adversaries. Co-operation with retailers was possible, but SMAC's unwillingness to work with

those that did not support its demand for quotas made the
task virtually impossible. In a letter to the Retail
Council, the President of SMAC angrily noted:

The Council professes support for Canadian
manufacturers....In reality, your members scour the
world for sweat-shop footwear, dumped footwear and
subsidized footwear to maintain their profits in the
face of their declining productivity.

Such words could hardly have been intended to gain allies.

SMAC's internal unity, its comprehensive
membership, adequate financial resources, and clearly defined
goals, made for a strong organization. The workers' and the
supplying industries' backing for its position further
reinforced its strength. The support of several ruling party
M.P.s from ridings with footwear plants provided it with
vocal representation at caucus meetings. The support for its
cause from the governments of Quebec and Ontario added to the
strength of its demands. All these made SMAC a strong
organization vis a vis the other actors in the policy arena.

SMAC's internal unity began to crumble, however,
towards the end of the 1970s, when producers increasingly
turned to importing directly. This was the result of the
fact that importing was viewed by them to be more profitable
than manufacturing. In 1983 (the only year for which data is
available), domestic producers and their related companies
held 20 per cent of the quotas for leather footwear and 26

60 SMAC, J. G. Maheu to Mel Fruitman (Research Director,
Retail Council of Canada), July 16, 1982.
per cent for non-leather footwear. Insofar as the major manufacturers themselves increasingly became importers, or were planning to become one after quotas were removed, they no longer had the same imperatives as before to fight for control on imports. This introduced a critical cleavage in the organization and severely constrained the Association's ability to apply concerted pressure on the government.

**ORGANIZED LABOUR**

The organized labour in the footwear industry has had a unique relationship with the producers. On the one hand, they had, at least until the 1950s, bitter labour relations with their employers regarding wages, technological changes, and poor working conditions. Yet, on the other hand, they usually worked together when it came to exerting pressure on the government for additional protection from imports. Labour unrest began to subside remarkably, at least on the surface, with the wide-spread decline in the industry after the mid-1960s. Large scale plant closures and lay-offs in the late 1960s, continuing through the 1970s, dealt a severe blow to organized labour's strength to demand concessions from the employers. The adversity of the


63 See Ferland, *op. cit.* and Rouillard, *op. cit.*
circumstances also brought the two sides together and they began, more than ever before, to jointly pressure the government to protect the industry.

The level of unionization in the footwear industry stood at around 60 per cent in the 1950s and 1960s. The closure of many large unionized plants, especially in Quebec, greatly reduced union membership in the industry. These new plants were replaced, often immediately, by new entrants, which tended to be small and located in smaller towns. These new plants were difficult to unionize because of the spread of a pattern of small number of workers employed in a large number of plants. The increase in the number of recent immigrants and married women (who tend to be secondary wage earners in smaller towns) further weakened the unions because of the difficulties in organizing these social segments. Labour's weaknesses were aggravated by the long spells of unemployment that were endemic to the industry. An Employment and Immigration study on the footwear workers found that during 1974-1983,

"...the norm appears to have been for workers to experience intermittent spells of employment and unemployment. An analysis of the duration of unemployment data shows that the average duration lasted between 26 and 28 weeks per spell. About 35 per cent of the unemployment spells lasted more than 20 weeks."

Such long periods of absence from the work-place could hardly be expected to aid unionization drives. The labour turnover

64 CEIC, Costs of Dislocation, op. cit.
in the industry was also unusually high. As a result of these factors, the level of unionization in the Canadian footwear industry was around 40 per cent in the 1970s and around 33 per cent in the 1980s. The level of unionization in Quebec has been slightly lower because of the preponderance of smaller plants in the province, as compared to Ontario.

There were other constraints on the unions as well. Footwear workers have over the years received the lowest wages among manufacturing workers, with the recent exception of clothing workers. In addition, their wages are based on piece-work, which has an immense adverse impact on their morale and job satisfaction. The unions, of course, could do little about the wages because of the often precarious financial condition of the firms. The fact that the unions in the footwear industry had most of their membership in other industries made them especially aware of the disadvantaged lot of the footwear workers. At the same time, these workers wanted to keep their jobs, because more often than not they had no alternative employment. Thus, while the leadership fought for protecting jobs, it could not do so

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65 In 1984, there were 5,670 union members in the footwear industry. Data provided by Isabelle Balon, (Labour Union Section (CALURA), Statistics Canada), interview, telephone, July 18, 1987. The estimate of the unionization level in the 1970-1984 period provided by Jean Paul Hetu, President, Centrale Des Syndicats Democratiques, at an interview, September 25, 1987.
with a great deal of enthusiasm.  

Most of the unionized workers in the industry are affiliated to the United Food and Commercial Workers' International Union (UFCW) in Ontario and Centrale Des Syndicats Democratiques (CSD) in Quebec. Although there are several other unions with a small number of members in the industry, it is these two unions that have been the principal voice of the workers in the footwear industry since the early 1970s. While the two for most part have operated separately and made separate representation to the government, there have been no real differences between the two, especially regarding their positions on footwear policy.

The UFCW locals in the footwear industry have their antecedents in the Boots and Shoe Workers Union, which was an international union established before the turn of the century. It was affiliated to the American Federation of Labor, and in a sense was a typical business union; traces of this ideological tradition continues in UFCW to this day. The CSD was established after the split in the Confederation des Syndicats Nationaux (CSN) in 1972. The CSD took with it almost all the workers in the footwear industry. The CSD, which was conservative by the standards prevailing in Quebec in the 1970s, viewed the CSN as dominated by public-sector

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66 Lorne Kenney (Director, Labour Canada; formerly, Canadian Representative, Region 19, United Food and Commercial Workers International Union), interview, September 17, 1987.
unions and as being too radical.\textsuperscript{67}

Since the early 1970s, organized labour in the footwear industry has had, as one former union official put it, only one objective: quotas on imports.\textsuperscript{68} Lay-offs, temporary and permanent, were so common in the industry that protecting existing jobs was organized labour's most important concern. The best way to accomplish this end was, of course, to halt increases in imports, which stabilized domestic production, and consequently, employment.

In pursuit of quotas, labour supported the manufacturers, who too were single-minded in their pursuit of quotas. However, this was not a recent development; as early as 1901, labour supported the manufacturers' demand for protection from imports. In that year, footwear workers sent, at the encouragement of their employers, individually signed petitions to the minister for Customs, stating:

\begin{quote}
We, the undersigned operators...having read the petition of the Quebec Boot and Shoe Manufacturers in reference to the importation of American Manufacturers' Boots and Shoes into Canadian markets, and having taken cognizance of the same do hereby fully agree with and endorse the same. The steadily increasing importation... is being seriously felt by those employed in the Canadian factories, and is having a very detrimental effect on our means of earning a living for ourselves and families.\textsuperscript{69}
\end{quote}

The producers were, obviously, fighting for protection of


\textsuperscript{68}Kenney, \textit{loc. cit.}

\textsuperscript{69}PAC, Wilfred Laurier's papers, 1901, pp. 62157-62246.
their investments, but there was little unions could do about it, so long as quotas saved jobs. The irony of the situation was that quotas on footwear imports were often offered in addition to modernization assistance, which also caused job displacement.

Unlike the manufacturers, however, labour sought to present its case for protecting jobs in terms of social policy. As it pointed out in its brief submitted to the Tribunal in 1980,

The protective measures that are in place now are there to preserve our jobs as a matter of social policy.... When they were introduced in 1977, the quotas were intended specifically to save our jobs.

What labour seemed to be forgetting was that state has no iron-clad commitment to protecting jobs "as a matter of social policy". It was seen as just another pressure group whose interests had to be weighed against those of others. Labour also appeared to be ignoring that quotas were really a part of trade policy, and not social policy, subject to broader pressures emanating from the international environment. Consequently, when the government did not provide quotas because of opposition from national and international forces, labour had nothing to fall back upon - unlike the producers who were usually compensated in the form of additional financial assistance. The latter also had the option, in the absence of quotas on imports, to become

70 Tribunal, Joint Brief Submitted by All Unions in the Footwear and Tanning Industries, 1980.
importers, as many did when quotas were lifted in 1985.

Organized labour's emphasis on quotas, instead of proposing measures addressed directly to the needs of workers facing difficulties, had its roots in the structural features of the unions in the industry. The fact that they were multi-industry unions, with only a small percentage of their membership in the footwear industry, impeded their capacity to represent the interests of the footwear workers, who were facing unique hardships. The business unionism of UFCW, and to some extent that of CSD, also inhibited them from developing broader programmes addressing the needs of the footwear workers.

SUPPLYING INDUSTRIES

The Tanners' Association of Canada (TAC) and the Shoe Industry Suppliers' Association of Canada (SISAC) were also a part of SMAC's comprehensive strategy to include all interests affected adversely by footwear imports. The members of TAC and SISAC were heavily dependent on the fortunes of the domestic footwear industry, because the latter was the customer for most of their production. Because of their reliance on the footwear industry for their own survival, the supplying industries were themselves keen to support the footwear producers' demand for quotas on imports.

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The examination of the groups forming manufacturing interests clearly shows the group was united with a clearly-defined objective. The manufacturers, and for the most part labour, did not display internal fragmentation and had developed a strong working relationship between themselves with regard to government assistance to the industry. Despite the strength arising from their unity, they lacked the capacity to impose their objectives on the state which was opposed to their demand for quotas.

The Canadian state's reluctance to impose quotas was a major constraint on the pursuit of their objective. The footwear industry, even after including the supplying industries, formed such a small percentage of the total manufacturing GNP that it could not command special treatment on economic grounds. The dependence of only a handful of communities on the footwear industry for their livelihood, compared to the textile industry for example, also deprived the industry of the ability to apply concentrated regional pressures on the government. Moreover, the fact it employed less than 20,000 workers, including those in the supplying industries, made it incapable of altering the electoral fortunes of any political party. Finally, the manufacturers', and the labour', failure to cultivate close

71 CCAC, "Location of the Canadian TKCF Industries", unpublished paper prepared by Craig Campbell, 1980.
relationships with at least a section of the bureaucracy severely constrained their ability to pursue their objectives.

What really weakened their cause, however, was the entry of the footwear manufacturers into the import business in the 1980s. With this development, the common purpose of fighting imports, which until then had been critical in promoting group cohesion, was lost. The failure of the manufacturing interests to mount a strong opposition to the government's decision to lift quotas in November, 1985, must be seen in the light of the fragmentation resulting from this development.

**TRADING INTERESTS**

The business formations constituting the trading interests represent two different streams in the footwear trade: retailers and importers. The retailer sells directly to the consumers, whereas the importer, like the manufacturer, sells to the retailer. However, while the importers include only those in the business of importing, the category of retailers include those who, in addition to retailing, in part or whole do their own importing. Most retailers, in addition to selling imported footwear, deal in domestic footwear as well. Retailers, therefore, have contacts with both Canadian manufacturers and importers. The
importers, on the other hand, are direct competitors to the domestic manufacturers because their business is usually at the expense of the latter. Consequently, retailers could potentially co-operate with both manufacturers and importers, but it was not in the interest of the importers to co-operate with the manufacturers, or vice versa.

For the purpose of analysis, however, retailers and importers have been grouped together for three reasons. First, both shared a common interest in footwear trade, in the sense of buying and selling as opposed to manufacturing. Second, they needed an environment whereby they could deal in imported footwear, unrestrained by quotas. This pitted them against the domestic producers, who would rather not have imported footwear enter the Canadian market. Third, many of the large retailers, who were also direct importers, held membership in both retailers' and importers' associations. Despite the common position the retailers and importers presented in the footwear policy process, however, the former were not entirely opposed to the domestic manufacturers because they needed domestic sources of supply as well.

**LARGE RETAILERS**

The large retailers in the footwear trade have been represented by the Retail Council of Canada (RCC). It was established in 1962, after the abandonment of the Retail Federation, which had been founded in 1945. It is not,
however, an association exclusively of footwear retailers. Its members account for over 65 per cent of all retail sales in Canada; footwear accounts for only a small part of its business. In the area of footwear trade, its members include mostly the department stores and retail chains.\textsuperscript{72} Although the Council would not disclose the size of its membership, it claims its members have traditionally accounted for 60 per cent of the total footwear sales in Canada.\textsuperscript{73} The inclusion of the largest retailers among its members made for a sound political and financial base.

RCC was not involved, like other trading interests, in the policy process regarding financial assistance or tariffs. It accepted high tariffs on footwear as a \textit{fait accompli}. With respect to financial assistance, it constantly encouraged the government to provide additional funds. This was not surprising because it gave the appearance of supporting the domestic industry, while the costs of the support were borne by the government. Its approach towards quotas was somewhat ambivalent. On the one hand, it declared its deep opposition to import controls, yet, on the other hand, it did little to fight for their removal.

There were several reasons for the Council's

\textsuperscript{72}Mel Fruitman (Research Director, Retail Council of Canada) interview, July 29, 1987

\textsuperscript{73}Tribunal, Submission of the Retail Council of Canada, 1984.
ambivalence towards quotas. The largest retailers forming the RCC were opposed to quotas because they imposed an unnecessary constraint on their expansion. But at a time of stagnant footwear sales in the 1970s and early 1980s, this was hardly a problem. Similarly, quotas involved unnecessary paper-work and irritating regulations, but they never really harmed the large retailers' business. As the Tribunal's 1985 report noted:

Most department and chain stores [which form RCC] appear to have had little difficulty in obtaining a sufficient volume of footwear. Because their historic practice was to import directly they were allocated quotas in 1977. If they exhausted their entitlement, the department and chain stores had sufficient resources to purchase additional import requirements from importers. The costs involved in such transactions have been borne by consumers through increased prices. The large buyers could also obtain all the domestic product they wished without delay.

That RCC members were not adversely affected by quotas was reflected in the increase in share of the total retail sales held by department and chain stores during the quota period, which increased from 57 per cent in 1977 to 63 per cent in 1984. The increase in their share could not, however, be fully attributed to their quota holdings, because they could have—considering their immense purchasing power and market dominance—performed just as well or better without quotas. As such, their opposition to quotas was primarily a matter of principle. At the same time, the Council was not willing to

74 Tribunal, 1985, op. cit., p. 204.
75 Ibid., p. 213.
commit large resources to fighting quotas. Unlike many other main actors in the process, RCC never, despite its financial strength, retained lawyers, public relations consultants, or trade consultants, or published advertisements in newspapers to express its opposition to quotas.

The RCC members, like other retailers, were essentially believers in a free market economy. Catering to fickle consumer tastes and dealing in fashion goods, they bore the full brunt of market forces, and preferred to have the freedom to purchase from sources of their choice. Insofar as quotas came in the way of their freedom to import, they detested the controls. Imported products also afforded higher mark-up, which led them to import to the extent viable. Moreover, the fact the retail sector in Canada was not generally assisted by the government, unlike the manufacturing or agricultural sectors, aggravated their opposition to government controls on their business. However, they preferred stability, as behooved large businesses, and refrained from taking extreme positions. They were therefore also willing to compromise and co-operate with the manufacturers. At any event, the retailers could not entirely ignore the domestic manufacturers because in certain sectors they were simply more competitive than foreign suppliers.

As a part of its efforts to appear conciliatory, RCC made numerous overtures to SMAC. In 1977, it proposed
that since the Canadian manufacturers' greatest weaknesses was in marketing, an area in which the retailers had the greatest expertise, its members would support the establishment of a committee consisting of manufacturers and retailers to help the former overcome their shortcoming. Its members, it proposed,

...will undertake a commitment to deliver marketing advice to domestic manufacturers, will individually establish targets for the utilization of domestic sources, will co-operate in developing specialization for new products and, to the extent possible, will give Canadian manufacturers first option on orders.

As a part of its proposal, it promised its members would commit to guarantee the purchase of at least 90 per cent of the purchases from domestic manufacturers in the previous year, on the condition SMAC gave up its demand for quotas on imports. The latter, of course, would have none of that and rejected the proposal outright.

RCC had no formal links with the CSRA or FIC. But many of its larger members held membership in these associations as well. The location of the offices of all three in Toronto also made consultation among them easier. Apart from infrequent contacts with OSIP, the Council had few regular contacts with the government.

SMALL RETAILERS

The small footwear retailers have been represented by the Shoe Retailers Association (CSRA), which was established in 1960. It is a successor to the National Shoe Retailers' Association, which had been founded in 1946. The latter's establishment was a response to the problems footwear retailers were facing at the time. According to one source,

"During World War II, when a severe quota system was applied to footwear marketers, the small retailers sat by disgruntled with the nagging notion that their bigger brothers, the chains, were getting more than a fair share of the quota."

Its basic orientation, reflecting the needs of small retailers, has remained constant over the years, even though many of its presidents were drawn from the larger stores.

In 1960, CSRA had a membership of 650, which declined consistently over the years. In the early 1970s, it had a membership of about 500, which decreased to about 400 in the early 1980s. While its membership declined, the number of stores owned by its members increased from 1800 in 1960 to 2000 in 1984. The decline in its membership, coupled with increase in the number of stores owned by them, reflected the secular trend towards displacement of

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78 Ibid.
individual stores by chains and department stores in the retail sector.

While more than 90 per cent of its members have traditionally consisted of family-owned independent businesses, operating less than 3 stores, the CSRA after the late 1970s increasingly included chain stores. The latter were taking up membership in the Association in addition to their existing membership in the RCC. While they did not add significantly to the number of members, they contributed enormously to the membership's total sales and the workers employed by them. In 1977, its members together accounted for one-third of the total footwear sales in Canada, and employed 8000 full- and part-time workers. In 1984, its members operated half the footwear retail stores in Canada and accounted for 60 per cent of the total footwear sales. It is clear that the growth of CSRA after the mid-1970s was phenomenal, arising mainly from the joining of the larger chain stores.

Before the joining of the chain stores, CSRA had been a weak organization. In 1977, its President candidly admitted,


82 Tribunal, Submission by the Canadian Shoe Retailers' Association, 1984.
We are dealing with thousands of individual businesses spread all over the country and the physical job of getting to them and of constantly campaigning to get them to see the value of co-operation makes it very difficult for us to be much bigger than we are.

Its membership consisted of individualist small businesses which saw little immediate benefits in joining the association. It was only after the larger retailers began to join that its fortunes began to improve. The large footwear retailers, as seen in the previous section, were not overly concerned about quotas, but they realized that their smaller counterparts were being injured, and joined the CSRA to preclude it from taking extreme positions which would have only worsened the situation. Their membership, apart from enhancing its legitimacy as a body representative of retailers, made enormous differences to the CSRA's financial position. Its membership fees were based on total sales, as a result of which the revenues increased disproportionately after the joining of the larger stores. After all, the footwear retail sector is highly concentrated, with the top 10 retailers (including their affiliates) account for 40 percent of the total sales.84 The increased revenues came in handy, because the fight against quotas was becoming expensive. As its news-letter noted, "In the past few years, over $100,000 has been spent to lobby, advertise, and liaise

83 *Tribunal, transcripts, loc. cit.*

84 *Tribunal, 1985, op. cit.*, p. 204
Quotas on imports imposed in 1977 had had their severest impact on smaller retailers. As the Tribunal's 1985 report explained,

...since many of the independent stores traditionally relied on importers for their supplies of imported product, they were not entitled to quotas of their own. Thus, they have had to compete with the large organizations for the supply of both imported footwear and domestic products. In these circumstances, the small size of the independents put them at a disadvantage. Consequently, independent stores have not always been able to purchase the variety of footwear they require to compete effectively in the marketplace. The method of allocating quotas also appears to have favoured larger retailers over the smaller independent stores. The benefits of the quota to the larger retailers are particularly evident when the scarcity premium is taken into account. To the extent that the scarcity created by the quota regime resulted in higher retail prices for footwear, quota holders benefitted from this restriction of supply.

Their disadvantaged lot was reflected in the decline in their market share from 23 per cent in 1977 to 17 per cent of the total footwear sales in 1984. The Tribunal concluded that quotas had increased concentration in the retail sector, and benefitted large retailers at the expense of the smaller ones.

Unlike the importers or the RCC members who benefitted or remained unaffected by quotas, most CSRA

86 Tribunal, Report, 1985, op. cit., p. 204.
87 Ibid., p. 216.
88 Ibid., p. 52.
members' businesses were increasingly losing grounds. The latter realized that in order to compete, they had to start importing on their own, something not possible under the existing quota regime. All these factors spurred them to actions opposing quotas. In fact, this was the only one among the trading interests that became increasingly active after quotas were first imposed in 1977.

The CSRA was aided in its fight against quotas by other factors as well. The CCAC was gradually becoming more vocal against the increasing concentration in the retail sector. Moreover, the fact smaller retailers were spread all across the country meant they could individually convey their concerns to their local M.P.s, many of whom would air them in the House of Commons. One of the best measures of its increased strength was the inclusion of consideration of the retailers' interests in the terms of reference of the 1984 inquiry by the Anti-Dumping Tribunal --something for which it had been fighting for years. In fact, CSRA had boycotted the 1980 inquiry on the grounds that its terms of reference did not allow for "retail statement". Similarly, in 1984 it had demanded, "The needs of retailers and the thousands of employees they support must be given full consideration in the government's decision-making process."\textsuperscript{89} This demand was finally met in 1984.

Although the CSRA was one of the most vocal groups opposing quotas in the later years, this had not traditionally been the case. The smaller retailers realized they needed domestic manufacturers, and would have rather cooperated with them than fight. As the Association's President once said,

The retailer, particularly the independent who does from a quarter to a half-a-million dollars in sales, still wants the domestic manufacturer. He knows that success is not the initial buy, it's the repeat. You have to have the ability to fill in as quickly as you can.

The domestic producers provided flexibility with regard to the size of orders, delivery schedules, and lines of credit, all of which are critical to the survival of small business. Importation, on the other hand, involved several problems for small businesses: placement of orders usually a year in advance, increased capital cost because of the requirement to pay through letters of credit, high minimum order requirement, absence of the opportunity to place repeat order, et cetera. Consequently, small retailers preferred domestic producers for supplies, and sought imports only to provide product exclusivity or supplement their lines. In the early 1970s, CSRA made several attempts to build closer relationship with SMAC, but to no avail. The latter was so determined to achieve quotas that it regarded anyone not


fully supporting its position as an opponent.

IMPORTERS

Footwear importers, that is those exclusively in the business of importing (as opposed to manufacturers and retailers for whom imports were an additional business) have been represented by the Footwear Import Committee (FIC). The Committee was established as a trade association within the Canadian Importers' Association (CIA) in 1971. Its membership has varied between 40 and 45 importing firms, which together accounted for about 60 per cent of the total footwear imports into Canada. Some of the major retailers who did their own importing were members of FIC as well. Its small but comprehensive membership and common purpose made for a united organization and enabled it to speak authoritatively on behalf of footwear importers.

The importers, however, operate under a handicap unique to them. Because they import products which are made, or which could potentially be made, in Canada (thus displacing Canadian production and jobs) they were only grudgingly accepted as a group with legitimate interests in the policy process. In fact, SMAC in many of its official pronouncements derisively described importers as "job exporters". As a result, the FIC had to go to great lengths

to dispel the popular public perception of its role, and emphasize the benefits accruing to the Canadian economy in the form of customs duties, business taxes, and employment. Nevertheless, they could count on little support from within or without the government. Although many government agencies, retailers, and private interests took positions similar to theirs, no one would openly align itself with FIC.

FIC's ideology must be understood in the context of that of the CIA, of which it is a subordinate part. The Importers' Association was formed in 1932 for the express purpose of fighting against barriers to imports. To this day, opposing tariff and non-tariff barriers continues to be its main function, indeed its raison d'être. As such, opposing quotas, so fervently demanded by the manufacturing interests, has been an essential thrust in FIC's thinking as well. During the 1971-73 and 1977 footwear inquiries by the Anti-Dumping Tribunal, the FIC played a leadership role among those opposing quotas on imports. However, after quotas were first imposed in 1977, its opposition began to gradually wane because of the benefits from controls that started to flow to its members.

Quotas on footwear imports were unique. Unlike those on textiles, clothing, or automobile imports, quotas for footwear were allocated to importers. Since quotas were scarce, their holder could collect premiums. The practice of allocating quotas on the basis of historical performance also
favoured the existing importers and shut out new entrants. It is for this reason that the FIC opposed bilateral quotas—allocated to foreign exporters—which the government was contemplating. The quotas on footwear imports made FIC members, even more than the domestic producers, the largest beneficiary of controls. During 1977-1984, importers held 49 per cent of the total quotas for leather footwear and 64 per cent of the total for non-leather footwear; the remaining portion falling into the hands of manufacturers and retailers.\textsuperscript{93} Commensurate with this position, the Tribunal estimated importers derived about 40 per cent of the total benefits of quotas during the 1977-1983 period. In terms of value, this translated into $156 million.\textsuperscript{94} The importers, therefore, had a vested interest in maintaining quotas on imports.

In 1984, the FIC officially changed its position from total opposition to asking for a gradual phase-out of quotas.\textsuperscript{95} It could not, of course, as a constituent of CIA, explicitly ask for continuation of the controls. Even though the benefits of quotas to its members had been apparent since they were first imposed in 1977, the FIC until the early 1980s professed its opposition to them because it believed

\textsuperscript{93}Tribunal, 1985, \textit{op. cit.}, p. 123.

\textsuperscript{94}Ibid., p. 36-37.

\textsuperscript{95}See Tribunal, Submission by the Footwear Import Committee, 1984.
its members could increase their business in an import regime free of controls. The optimism began to fade, however, with the growing concentration in the retail sector. As the retailers were becoming larger and more sophisticated, it was inevitable they would expand their import activities to retain for themselves the commission that otherwise accrued to the importers. The FIC was apprehensive the removal of quotas would open the flood-gates for imports by retailers, whose entry into the business had so far been restrained by quotas. The demand for a gradual phase-out arose from the need to ease the resulting dislocations among importers. In 1981, when the government lifted quotas from imports of leather footwear, many importers were displeased. Said one importer,

The government should not have done it. It should have raised quota levels by 15 to 20 per cent and everyone would have benefitted.

By asking for an increase in quota levels, instead of an end to them, the importers sought opportunities to increase their business while precluding competition from new entrants. Similarly, the FIC expressed its displeasure with the Tribunal's 1985 report, and the government's subsequent decision, which recommended an immediate end to quotas.97

The FIC, regardless of its vacillating position on


97 See Footwear Forum, August, 1985, p. 68.
quotas, however, did not possess the capacity to play a major role in the footwear policy process. Its limited membership did not give the Committee the numbers or the financial clout required to exert pressure on the government. It was also constrained by the general attitude towards the role of importers in the society, the lack of a representative agency within the bureaucracy, and the lack of direct support for its position from the retailers' or consumers' groups. It made the most significant contribution in 1971-1973 and 1977 when it cogently refuted SMAC's arguments before the Tribunal. Its half-hearted opposition to quotas after 1980 rendered its position insignificant to the decision-making process.

* * * * *

The RCC, CSRA, and FIC were internally united and had a clear goal. However, as a collectivity --trading interests-- they were somewhat divided among themselves. The only thing the three association had in common was their varying degrees of opposition to import controls, depending on whether or not they possessed sufficient quotas. The small retailers, represented by CSRA, by and large were not allocated quotas, and hence, were most vociferous in their opposition to the existing import control regime. However, the trading interests were neither individually nor collectively strong enough to impose their objectives on the
state or the manufacturing interests. But to the extent their position supported those of others, they did have an impact on the government's policy.

CONSUMERS' INTERESTS

The interests of Canadian consumers has been organizationally represented by the Consumers' Association of Canada (CAC) since 1947. Its main concerns are "the economy, including the federal budgets and free trade; health and safety, including child safety; energy; competition; and housing." 98 This is a vast mandate, especially for a small, voluntary organization. Its total membership across Canada has varied between 125,000 and 150,000 in the 1980s. It has an annual budget of $4 million, about 85 per cent of which comes from its membership, and the balance from government grants. The Association's participation in the footwear policy process is co-ordinated through its Regulated Industries Program. The Program is financed almost entirely by the Department of Consumer and Corporate Affairs, which in 1986-87, for example, provided it with grants totalling $325,000. 99 The programme is administered by four permanent staff members.

It is only since 1980 that the Association has been


involved in the footwear policy process. Until then, it did not have the resources necessary to address the issue. Even in the subsequent years, its participation has been restricted to submitting briefs at the inquiries by the Tribunal and criticizing restrictions on imports in general terms. Its position on quotas is rooted in classical economic theories, which emphasize free operation of the forces of demand and supply as the most effective means of advancing consumers' interests. The Association argued that quotas increased prices, reduced choices, and imposed a heavy burden on low-income consumers because of 'trading up' by importer under a regime based on quantitative restrictions.

While the CAC's critique made sound economic sense, there were few consumers who were willing to spend time or money to oppose the government decisions. A second associational weakness has been the sharp division between the national organization and its Quebec chapter on the question of quotas on footwear, textile and clothing. The Quebec chapter was vocal in its support for quotas, which were so vehemently opposed by the national organization. In 1977, the former appeared before the Anti-Dumping Tribunal and argued that quotas were a pre-requisite for maintaining a domestic footwear industry, which, in turn, was essential to check arbitrary price increases by foreign exporters.\(^{100}\)

Similarly, in 1984 it argued for a gradual phase-out of quotas, as opposed to the immediate elimination demanded by the national body.\(^1\) In addition to the Quebec chapter, there were individual members in the organization who supported quotas as a measure to assist Canadian industry and workers. For CAC, it was easier to forge unity on issues such as product safety and package labelling than on divisive issues such as quotas.

In the 1980s, CAC's influence increased along with the strengthening of broader forces opposed to quotas. The opponents of quotas would often use the need to defend consumers' interests to advance their own cause. As Prothroe has noted, "One of the most important roles of consumers' organizations is the simple fact that their interests can be invoked by policy-makers wishing to resist protectionist demands."\(^2\) The need to serve consumers' interests was one of the government's declared reasons for removing quotas on footwear in 1985. The CAC, however, maintained no contact with the other actors, not even the Department of Consumers' and Corporate Affairs.


\(^2\)Prothroe, op. cit., p.41.
CO-OPERATION AMONG INTERESTS

There was a broad unity, as was seen in the previous sections, within the state, manufacturing interests and trading interests. The same cannot be said about the relationship among them. Since each interest was strong, yet not strong enough to impose its views on others, co-operation between any two of them would have tilted the balance in their favour. But such a co-operation required a modicum of congruence in interests, and a willingness to compromise, something that was absent in the footwear policy arena. The nature of their interests, and the prevailing circumstances, made the likelihood of compromise among divergent interest improbable. Nevertheless, there were some attempts at co-operation made by producers and retailers.

Until the late 1960s there was little basis for conflict between the manufacturers and retailers; the importers were an inconsequential force at the time. The manufacturers were clearly the stronger group, who the retailers could not antagonize because of their dependence for supplies. Reflecting the homogeneity of interests that existed until the late 1960s, the Shoe and Leather Council was established in 1952. The Council consisted of footwear manufacturers (SMAC), tanners (TAC), components' suppliers (SISAC), and the retailers (CSRA). Its main purpose was to organize the Canadian Shoe and Leather Fair, which was
basically an event for buyers and sellers to meet.

Commenting on the Council, an editorial in a trade journal noted:

We have often mentioned in these columns how well various segments of the industry get along together. This is most evident in the monthly meetings of the Shoe and Leather Council of Canada where manufacturer, retailer, tanner and supplier can get together and discuss in a friendly and even amicable manner various problems of mutual interest or even examine problems facing only particular segment of the industry.

The problems between them almost exclusively related to order or delivery, and had little bearing on public policy.

Towards the end of the 1960s, the situation began to change rapidly. The sharp rise in imports at the time led to stress in the Council. The importance of importers in the footwear trade was increasing, leading ultimately to the formation of the FIC. The retailers were increasingly dealing in imported footwear, which reduced their dependence on domestic producers. The latter, for their part, blamed the importers and retailers for the industry's woes. Although the Council was never officially disbanded, for all practical purposes it died in 1971. 104 This was the result of the anti-dumping case against imports of women's footwear from Italy and Spain, when the domestic manufacturers were for the first time pitted directly against the retailers and importers.

103 Leather World, May, 1960, p. 5.
104 Kelley, interview, loc. cit.
But in the early 1970s, it was still believed that the conflict between the manufacturers and retailers was based on the lack of mutual communication between the two. The former were suspicious the retailers preferred to sell imported shoes, whereas the latter alleged the manufacturers did not produce footwear in style or in demand. It was believed mutual co-operation between the two could solve the problem. Thus, an editorial wondered:

...whether the basic problem lies in the lack of communication between the two groups? I realize manufacturers and retailers get together in two's and three's and discuss health, wealth and the weather, with may be the odd problem thrown in. But when was the last time a serious meeting was held between the two groups at which major beefs were aired and answers given?

It was still too early to realize that over the years, the fundamental interests of the two sides had become increasingly divergent.

The second attempt at industry-wide co-operation was undertaken in 1977, which manifested in the founding of the National Footwear Conference of Canada (NFCC). It included not only all the constituents of the earlier Council --SMAC, TAC, SISAC, and CSRA, -- but also the RCC, FIC and the unions in the industry. The establishment of NFCC was precipitated by the publication of the Tribunal's interim report on women's footwear in July of that year. The report's finding of injury, and the unusually harsh language of its conclusions, caused a panic among those opposed to

quotas. They apprehended a restrictive quota regime which would cause severe disruptions in the footwear trade. It was further feared that the final report due in September would find similar injuries in other sectors, leading to a comprehensive control on imports.

To preclude the imposition of an overly restrictive quota regime, the RCC took the initiative to develop an industry-wide consensus which could then be presented to the government. The CSRA and FIC shared RCC's apprehensions, and hence readily agreed to work towards such a consensus. They believed they could persuade manufacturers to agree on a more flexible quota regime than what the government was likely to impose in the absence of consensus among themselves. SMAC joined because it was still not sure about the government's intentions. In fact, the government had expressed its preference for bilateral quotas with a limited number of countries, to which SMAC was opposed, as were the retailers and importers. To increase the number of manufacturing interests represented on the proposed body, SMAC brought in TAC, SISAC and the unions. In all, NFCC had twelve voting members, two each for RCC, CSRA, FIC, SMAC, labour, and one each for TAC and SISAC. Thus, the NFCC was evenly divided between the manufacturing and trading interests, with six votes on each side. The basic objective of NFCC was "to work for a healthy, profitable, competitive
footwear industry in Canada."¹⁰⁶

Immediately after its establishment, the NFCC jointly recommended that global quotas be imposed on imports of women's footwear; the quota level being set at 75 per cent of the total imports in 1975-76. The government did not act on the recommendations, awaiting results from the bilateral negotiations with the main exporting nations that were underway and the publication of the Tribunal's final report. Soon after the publication of the final report in September in which the Tribunal found injury in all classes of footwear, the NFCC (with CSRA abstaining) again recommended global quotas, set at 75 per cent of the imports in 1975-76.

The CSRA abstained from supporting the proposal because its members, who had for the most part not been importers, would not have been allocated quotas under a global quota regime based on historical performance. FIC's accedence to the proposal was surprising, given its vehement opposition to quotas during the inquiry. It changed its position because it recognized quotas were inevitable, considering the prevailing political climate. Second, by joining other industry groups in support of global quotas, it sought to dissuade the government from imposing bilateral quotas. Finally, global quotas based on historical

performance would have provided its members with a stable share of imports and reduced competition by restricting new entrants to the business. The RCC's support was also not surprising, since its members would have remained largely unaffected by quotas, given their position as the largest retailers as well as importers.

In November, 1977, the government finally imposed quotas along the lines proposed by NFCC. However, the government's decision was as much a response to collective pressures of NFCC as to its failure to secure export restraint agreements with the major supplying nations. The mood at NFCC, however, was still up-beat. Don Mcleod, the chairman of SMAC optimistically mused,

'It is my feeling that the National Footwear Conference represents a very real opportunity for all segments of the industry to increase their co-operation and communication, and...can have a very beneficial effect on bringing buyers and sellers together in a mutually productive way.'

The RCC's moderate leadership role was especially admired. 108

At the 15 meetings held between 1977 and 1980, NFCC took several key decisions, usually by consensus, regarding approaching the governments of Ontario and Quebec for elimination of the provincial sales tax on footwear;


108 SMAC, TAC, SISAC, and labour unions' joint letter to M.P.s, December 4, 1978.
launching consumer campaigns for increasing consumption of footwear; and resolving delivery problems between producers and retailers.109 The minister of ITC was also approached to accord government recognition to the Conference. An examination of the NFCC's decisions, however, indicates that they all entailed the lowest common denominator among the members' interests.

The real test for NFCC was its stand regarding the future of quotas after they expired in December, 1980. Towards the end of 1979, the indicators augured well, for the NFCC was on the verge of recommending to the government that quotas, set at 100 per cent (instead of the existing 80 per cent) of the import levels in the base year, be extended for another five years.110 The consensus, however, was short-lived. In early 1980, the RCC changed its mind, and proposed a complete end to quotas. The FIC followed suit, and was joined shortly by CSRA.111 In place of quotas, RCC proposed that its members would commit to purchase a minimum of 90 per cent of their purchases from the domestic manufacturers in the preceding year. In response, the manufacturers retracted their earlier proposal to allow for growth in quota levels and to make quotas available to new stores.

It was in this context of mutual recrimination

that NFCC met on May 6, 1980. The RCC's proposal, after considerable debate, was voted down, as was SMAC's motion asking for extension of quotas. The manufacturing interests' opposition to the RCC's proposal was based on their suspicion that the retailers would not keep their commitment, because of its voluntary character, and instead would buy from the cheapest sources abroad. SMAC claimed a similar scheme in U.K. had failed in 1979 because of the retailers' failure to meet their commitment.\textsuperscript{112} This was the last time NFCC ever met.

It is evident that the co-operation between the manufacturing and trading interests was successful only on issues from which both sides benefitted, or at least neither were adversely affected. Since there were few areas where this was possible, because of the basic differences in their objectives, the basis for NFCC was too fragile to forge unity on fundamental issues. However, at times when they succeeded in co-operating, as in 1977 on the question of quotas, their common position did have some impact on government policy.

CONCLUSION

The internal organization of the Canadian state displayed remarkable unity with regard to policy for the

\textsuperscript{112} SMAC, "Retail Commitment (so called) of the Retail Council of Canada", discussion paper, April 30, 1980.
domestic footwear industry. All key bureaus involved in the making of the policy were opposed, albeit for somewhat different reasons, to quotas on imports and instead favoured assistance through financial aid and continuation of high tariffs. The political executive broadly favoured the same course. However, it was less resolute in its stand because of the political constraints under which politicians operated. This made them vulnerable to those outside the state demanding quotas. Their vulnerability also affected the bureaucracy's position, because of the latter's subordinate position vis a vis the executive.

The manufacturing interests' efforts to pressure the federal government to control imports through quotas exhibited immense unity of purpose and action. Their unity broke down only in the 1980s when increasingly large numbers of manufacturers themselves turned towards becoming importers. However, even prior to this development, they did not possess the strength or leverage necessary to force the government to meet their demands. The manufacturing interests succeeded in achieving their objectives only when exogenous circumstances, such as economic recession or the threat of Quebec separatism, favoured the achievement of their objectives.

The trading interests played a minor role in the formulation and implementation of the footwear policy. Despite the unity within the individual groups --large
retailers, small retailers, and importers—comprising this coalition, the three held somewhat different positions which weakened their capacity to bring effective pressure to bear on the government. They were significant only insofar as their positions could be used by the government to resist the demands of the manufacturing interests.

In contrast to the unity that characterized the internal organization of the state, manufacturing interests, and trading interests, the relationships among them was marked by a high degree of conflict. Beginning in the late 1960s, the increasing levels of imports made co-operation among them progressively difficult to achieve.

The failure of the domestic actors, individually or collectively, to impose their goals on the others allowed exogenous factors to shape the policy towards the industry. The following chapter will examine these factors and evaluate the role they played in the footwear policy process.
Chapter Four

INTERNATIONAL POLITICAL ECONOMY

Policy for the footwear industry was shaped by, as was stated in the introductory chapter, domestic as well as international factors. The preceding chapter discussed the domestic policy arena. It was concluded that while the state, manufacturing interests, and trading interests had clearly defined objectives, they individually lacked the capacity to realize them. Similarly, the lack of cooperation among them rendered it difficult for them to develop a common objective which they could accomplish collectively. This chapter will demonstrate that international political and economic factors played a decisive role in determining, given the domestic actors' inability to achieve their goals on their own, whose objectives were met and whose remained unfulfilled.

The factors emanating from the international political economy were general and applied equally to all actors with interests in the footwear policy. However, they did not benefit all actors equally, favouring some more than others. While those disadvantaged sought to undermine the significance of these factors, none of them were sufficiently powerful to overcome their impact. The resulting policies, therefore, bore indelible marks of the international political economy.
The international political-economic factors that played the most critical role in the footwear policy-making process can be broadly classified into two categories. On the one hand, there were factors related to the provisions of GATT, Canada's overall trade objectives, and the diplomatic resources of the EEC. These were constant over the 1970–1985 period and overwhelmingly favoured liberalized trade. On the other hand, there were factors related to the state of the Canadian economy, the monetary exchange rates, and the international climate for protection, which, while more variable over time, also had a pervasive impact on the footwear policy. They at times favoured increased protection for the industry, whereas at others they worked in the opposite direction.

The impact of the international political economy on the Canadian government's ability to assist the domestic footwear industry through quotas was considerably more restrictive than it was with regard to assistance through tariffs or financial aid. There were few international pressures on Canada to reduce its steep tariff barriers to footwear imports, because other countries maintained similarly high tariffs on this product, and made only token efforts to reduce them. Consequently, the government could continue to maintain high tariffs on footwear without opposition from abroad. The financial assistance programmes for the industry were similarly unaffected by international
pressures. Since only a small percentage of the industry's total production was exported, subsidies to it did not provoke retaliation from the importing countries. Had its exports been significant, however, subsidies would have made it the potential target for countervailing duties, thus nullifying the benefits. It was only with regard to quotas on imports, which adversely affected the interests of the exporting nations, that the international political economy played a critical, and contentious, role in shaping the government's policy for the industry.

The main argument of this chapter will be that Canada's obligations under GATT, its overall trade objective, and pressures from the EEC, overwhelmingly worked against quotas on imports. At the same time, changes in domestic economic conditions, the rates of exchange against the currencies of the major footwear exporting countries, and the international climate for protection prevailing in footwear trade, sporadically created conditions favouring increased protection.

GENERAL AGREEMENT ON TARIFFS AND TRADE

The purpose of GATT, signed by founding members in 1947, was to foster a neo-liberal international economic order. It created reciprocal rights and obligations among contracting parties to reduce barriers to international trade. It now includes nearly hundred states as signatories
and almost 80 per cent of world trade is conducted under its aegis.\(^1\) Canada is not only one of the original signatories to it, but has been one of its most ardent supporters as well. Its provisions, however, restricted the Canadian policy-makers' ability to control footwear imports.

The GATT's chief goal is to reduce protectionism in international trade, in the forms of both tariffs (Art. II) and quantitative restrictions (Art. XI).\(^2\) Quantitative restrictions are generally prohibited, except for agricultural and fisheries products (Art. XI), controls designed to offset balance-of payment problems (Art. XII), and those barriers to trade imposed by developing countries (Art. VIII). Moreover, there is an over-riding clause in Article XIX which allows a nation to raise tariffs or impose quotas on imports in order to protect a domestic industry. It is meant to be an emergency clause to which a signatory may resort in order to mitigate unforseen hardships caused by imports.

Article XIX is the only provision in GATT which Canada can normally use to provide quota protection to the domestic footwear industry. The conditions under which this provision can be used, however, are highly restrictive, as


was intended by its authors. To qualify for emergency action, the product must be imported in such quantities and under such conditions as to cause, or threaten to cause, serious injury to the domestic producers of like or competitive products. If the conditions are met, to be determined solely by the importing country, a contracting party is entitled to raise tariffs or impose quantitative restrictions to the extent and for such time as may be necessary to prevent or remedy the injury.

The use of Article XIX is governed by other restrictions as well. In return for limiting imports, the country is expected to offer compensation to countries with "substantial interest" in the product as exporters. The concept of compensation, however, is not explicitly mentioned in the agreement. Article XIX:3(a) only authorizes exporting countries to retaliate, normally in the form of raising tariffs, against the exports of the country imposing restrictions on imports. In practice, the country resorting to the emergency provision negotiates to compensate the affected countries in the form of tariff reductions in other products in order to preclude retaliation.

Another restriction the use of Article XIX involves is that the measure be temporary. While this is, again, not explicitly stated, its title, "Emergency Action on Imports of Particular Products" clearly implies that the measure taken be temporary. There is an international understanding that
normally three to five years is the maximum period for which a nation can use restrictive measures under the Article.\textsuperscript{3} Thus, after a few years of maintaining quotas on imports, a country comes under pressure from the exporting countries to remove the controls.

The use of this Article is also restricted by the fundamental tenet of GATT that all measures must be applied on a non-discriminatory basis. Article I guarantees the principle of non-discrimination as "immediate and unconditional" in the conduct of international trade by contracting parties. Similarly, Article XIII clearly stipulates that the administration of quantitative restrictions must be non-discriminatory. The effect of this principle is that a country applying controls on imports cannot target them against specific countries, while excluding others from them. It also means that all significant exporters of the product subject to controls can claim compensation or else resort to retaliation. By not being able to exempt the politically and economically stronger nations from controls, the country employing Article XIX becomes the target of their pressures to lift the controls.

A large number of quantitative restrictions on imports are, however, applied outside the provisions of GATT.

\textsuperscript{3}Mark Sills (GATT Division, General Trade Policy Branch, Department of External Affairs), interview, June 8, 1987.
The latter is completely silent on arrangements whereby an importing country enters into an agreement with the exporting country or countries to limit its/their exports of specified products to a certain level. Such arrangements are euphemistically called Voluntary Export Restraint Agreement (VERA) or Orderly Marketing Arrangement (OMA). Since they are entered into entirely outside the provisions of GATT, they are not bound by conditions that are entailed in the use of Article XIX. Textiles and clothing products are the only goods that have the legal sanction under GATT for being dealt with in this way.\(^4\) VERA does not technically contravene the provisions of GATT, because the latter does not explicitly prohibit them. However, they do violate its spirit to the extent that they are applied on a discriminatory basis, do not involve payment of compensation, and are not required to be temporary.

In recent decades, countries seeking to impose quotas on imports have resorted to VERA/OMA more often than to Article XIX.\(^5\) The former have proliferated because they

\(^4\)Trade in textile and clothing is governed by international agreement among major exporting and importing countries, which was first arrived at in 1961 under the title of 'Short-Term Arrangement Regarding International Trade in Textiles', replaced by 'Long-Term Arrangement Regarding International Trade in Textiles' in 1962. It was, in turn, replaced by 'Arrangement Regarding International Trade in Textiles', popularly known as 'Multi-Fibre Agreement' (MFA), in 1974, which after several renewals continues to this day.

do not entail the need to establish injury to the domestic industry, or the need to pay compensation, as is required for Article XIX actions. They also do not have to be temporary, so long as the exporting countries are willing to restrain their exports. The fact they can be applied selectively on certain supplying countries also makes them more convenient for nations seeking to control imports.

The reason why countries agree to restrain their exports are, despite their rights under GATT to reject such requests, political and economic. First of all, they fear that in case of their refusal the importing country would impose global quotas under Article XIX which might be more detrimental to their interests. Moreover, VERA/OMAs are administered by the exporting countries which enables exporters to collect premiums on their quota holdings, as opposed to quotas under Article XIX which are administered by the importing countries. Export restraint agreements also provide market stability to exporters by guaranteeing a certain level of imports which is not possible under Article XIX quotas because of their global nature. Finally, the negotiations preceding the agreement enable exporting countries to bargain for trade concessions in other areas in return for restraining their exports to a specified level.\(^6\)

\(^6\)For an excellent discussion on VERAs/OMAs see GATT Secretariat, "Grey-Area Measures: Background Note by the Secretariat", Restricted Document No. MTN.GNG/NG9/W/6, September 16, 1987.
Nevertheless, unlike actions under Article XIX which can be taken unilaterally, VERA/OMA requires the consent of the exporting countries. Since the latter can refuse to enter into such an agreement, as often happens, the ability of an importing country to use this mechanism depends largely on its bargaining resources.

Canada has resorted to Article XIX 22 times since the inception of GATT. Of the total, 18 have been on agricultural and textiles and clothing products, 3 on footwear, and 1 on motor gasoline (it was not intended to limit the overall level of imports into Canada). Thus, apart from agricultural, textiles and clothing products, all of which receive special treatment under GATT, footwear is the only product whose imports have been restricted by Article XIX quotas. In fact, apart from Australia and South Africa, Canada is the only signatory to GATT which has ever resorted to this Article for restricting imports of footwear. Other countries seeking to restrict footwear imports did so through VERA/OMA. Canada too would have preferred the latter, but resorted to Article XIX only after it failed to persuade the major footwear exporting countries to limit their exports.

In order to effectively control imports through VERA/OMA, the importing country must have the capacity to

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7See GATT, Drafting History, op. cit.

8Ibid.
persuade the major exporting nations to restrain their exports. At the same time, the latter must see some benefits in doing so, otherwise they would refuse to enter into such an agreement. The largest exporter in terms of volume, Taiwan, is not a party to GATT and hence could be subjected to unilateral restrictions on its exports. Canada's ability to protect the domestic footwear industry would have been remarkably easy if it was the only source of problematic imports. Taiwan, however, was principally a supplier of low-cost non-leather footwear, much of which was not produced in Canada. Controlling its exports alone, therefore, would have provided negligible relief to the domestic industry.

Canada has not had the same resources vis a vis the other major footwear exporting states. In the 1970s, the greatest threat to the domestic industry came from Italy. Its exports were mainly in medium to high price leather footwear, areas in which Canadian production was concentrated. Any increase in Italian exports were usually at the expense of domestic production. Consequently, import restraint measures that did not include Italy would not have provided effective protection. However, its membership in EEC, and the fact it is one of the largest industrialized nations, meant Canada was not in a position to pressure it into accepting an export-restraint programme. Italy also had nothing to gain from such an agreement. In 1977, when it was approached to restrain its exports, it flatly rejected the
proposal. At the time it was under similar pressure from the United States, and by agreeing to Canada's proposal it would have set a precedent for the former to follow. It was never again approached on this subject, Canadian officials knowing well that it would not agree to such a request.

Brazil was mainly an exporter of women's leather footwear, the sector in which the Canadian industry was suffering the most. The concentration of women's footwear production in Quebec made it even more vital that Brazilian imports be controlled. Canada approached Brazil in 1977 and in 1981 to restrain its exports to Canada. It refused to negotiate such an agreement both times. Canada had been seeking to export its power generation and communication equipments to Brazil at the time, and the latter made it known that Canada's chances of getting the order would be jeopardized if it was pressured to restrain its footwear exports. It was not in Brazil's interest to accept limits on its exports when its share of the total imports into Canada was increasing. The threat that Canada would otherwise resort to global quotas did not affect Brazil because under a system of global controls it could expect to increase its exports at the expense of other suppliers. In any case, Canada was a relatively small market, and it would not have been in Brazil's interest to set a precedent for the

9 Arthur, interview, loc. cit.

10 Ibid.
Canada was in a relatively strong bargaining position vis a vis South Korea. In 1977, the United States had negotiated a four-year OMA with it, and it would have been relatively easy for Canada to demand similar treatment. But an agreement with Korea alone would have been entirely ineffective because it was primarily a supplier of 'ath-leisure' footwear, something that was not produced in volume in Canada. In 1981, it was widely believed that the increasing sales of joggers, much of which came from Korea, were displacing footwear in other sectors, and hence their imports must be controlled. However, the objective was not pursued seriously, Canadian officials fearing that the ongoing efforts to sell CANDU reactors to Korea would be seriously jeopardized if its footwear exports were restricted.

Canada's capacity to negotiate voluntary export agreements is, generally speaking, low. It is not a large enough to provide exporting countries with the incentive to restrain their exports in return for assured access to its market. They are also apprehensive that agreeing to such arrangements with Canada would invite pressures from other countries to enter into similar arrangements. Australia finds itself in a similar position which is reflected in the fact that it has had to resort to Article XIX the largest number of times. The U.S. or the EEC, with their tremendous
diplomatic and economic resources, are in a much stronger position in this regard. The only product (excluding agricultural, textiles and clothing products because of their special status) the imports of which Canada controls through VERA/OMA is automobiles. In this case, Japan was the only country whose exports were perceived to be causing injury to the domestic industry and, moreover, it already had such agreements with the U.S. and EEC, which made it easier for Canada to demand similar treatment. The absence of such favourable conditions with regard to footwear made its restraint through VERA nearly impossible.

Its failure to conclude VERA with the major footwear exporting countries led Canada to resort to Article XIX for restraining imports of footwear. However, the conditions requiring quotas to be temporary, non-discriminatory, and entitled to compensation were problematic for policy-makers. The extension of quotas beyond three years generated opposition from the trading partners. Similarly, the non-discriminatory application of restraint on imports from the U.S. and the EEC soured trade relations with them. In 1977, when Canada imposed quotas for the first time, conditions were such that establishing a case of injury to the domestic footwear industry was not difficult. But in 1981, when quotas were renewed for another three years, it

was severely opposed by the footwear exporting countries as exceeding what could be considered temporary. By 1985, it was clear that renewing existing quota regime would be a flagrant violation of the spirit of Article XIX and would provoke severe retaliation by the trading partners. Moreover, after 1980 the EEC demanded compensation in return for restriction on its exports. The negotiations on compensation stretched over a long period, straining relations between the two.

The task of controlling footwear imports through bilateral agreements would have been considerably easier if there was an international agreement on footwear similar to the Multifibre Agreement (MFA). The latter provides for developed countries to negotiate bilaterally the level of textiles and clothing imports from individual countries. In the late 1970s there were some attempts to develop an agreement on footwear modelled after MFA. In 1978 and 1979, footwear producers' associations from developed countries met and resolved to work towards the objective. The Sector Task Force on the Footwear Industry also made recommendations along similar lines. However, these efforts yielded no

12At a meeting in Brussels on September 21, 1978, the representatives of national associations of footwear manufacturers of eighteen developed countries, including Canada's, adopted a resolution calling for pressuring their respective governments to initiate negotiations on an international agreement which would enable importing countries to restrict imports on a selective basis. The resolution was re-confirmed at the meeting of December 3, 1979, held in Geneva.
results because it was not pursued seriously by any government. It was realized that reaching such an agreement would be a time-consuming task and, more importantly, would constitute a serious derogation from the principles of GATT. The arrangement regarding textiles and clothing had come about because of the industry's enormous importance in terms of employment and production in most developed countries, and the leadership role played by the United States in negotiating the arrangement.\(^\text{13}\)

Instead of developing a new international regime for footwear, there have been attempts by the developed countries to amend Article XIX to allow for its discriminatory application.\(^\text{14}\) At the Tokyo Round of negotiations, the EEC was adamant on a revision that would allow importing countries to unilaterally impose quotas on a selective basis. The proposal was tacitly supported by the United States and Canada. The developing countries opposed the amendment on the grounds that it would lead to proliferation of controls on their exports. Finally, no agreement was reached and the Article remained unchanged. Had the EEC's efforts been successful, it would have been much


\(^{14}\)For a discussion on attempts to amend Article XIX to allow for its discriminatory application, see GATT Secretariat, "Work Already Undertaken in the GATT on Safeguards", Restricted Document No. MTN.GNG/NG(/W/1, April 7, 1987.
easier to control the imports of footwear. As matters stood, it was extremely difficult for Canada to impose quotas or extend them beyond three years. Consequently, those domestic interests that sought quotas on imports were seriously handicapped by Canada's obligations under GATT.

CANADA'S TRADE OBJECTIVES

The Canadian policy towards footwear imports has been inadvertently conditioned by the nation's overall trade objectives. The footwear industry in the post-War period has been a minor industry in Canada, which has denied it the economic clout to effect changes in the nation's broader trade objectives. At the most, it could only expect to modify them to accommodate its interests. The interests of the footwear industry, however, were at such fundamental odds with Canada's trade objectives that it was extremely difficult for the industry to realize them.

The fundamental tenet of Canadian economic policy through much of its history has been export-led growth. In order to promote its exports, Canada established the Trade Commissioner Service as far back as in 1892, long before the establishment of its own diplomatic service. While it has made extensive efforts to foster the growth of import-substituting manufacturing industries, they were clearly

subordinate to the goal of promoting exports. Endowed with huge resources of agricultural, forestry, mineral, and energy resources, their exports have been seen as critical to Canada's economic prosperity. It was widely believed that the country's comparative advantage lay in these products and hence must have priority over other economic policy goals.

As Rowell-Sirois Commission noted in 1937:

Because Canada is one of the least self-sufficient countries in the world her prosperity and her very existence depend on making the most of her own specialized resources, and on trading them as advantageously as possible for her other requirements. Her success will depend...on the continuation of interdependent and integrated international system of trade and finance. Everything which tends to restrict the operation of that system...reduced the scope for an advantageous international division of labour--the principle on which the existing Canadian economy and standards of living are built.

In a similar vein, D.C. Abbot, the Minister of Finance, in 1950 noted:

Given the basic feature of our economic structure and the heavy dependence on trade, I believe that the only appropriate policy for Canada with respect to tariffs and other trade barriers is to get them down to reasonable levels and keep them down, both here and abroad.

Partly as a result of the innate structure of the economy, and partly as a result of the government policy, Canada's exports have played an increasingly vital role in

\[16\] Quoted in *ibid.*, p. 1

\[17\] Department of External Affairs, "Trends in Canada's Trade and Tariffs Policy", An Address by Mr. D.C. Abbot, Minister of Finance delivered to the Annual Meeting of the Canadian Section of the International Chamber of Commerce in Montreal, on February 9, 1950, Reference 50/4.
the economy. Exports as a percentage of the total GNP increased from 20 per cent in 1963 to 25 per cent in 1973 to 29 per cent in 1983. In 1983, more than three million jobs, of which almost half were in manufacturing, were dependent on exports. Among the seven largest industrialized nations, only in West Germany do exports account for a larger percentage of the GNP. While Canada has traditionally been mainly an exporter of natural resource and agricultural products, exports of finished manufactured products doubled between 1971 and 1981. This led to increased confidence among policy-makers that Canada could be competitive in certain specialized manufacturing sectors. This was reflected in its general support for lowering trade barriers at GATT negotiations.

While Canada was working towards lowering barriers, including its own, to trade, it was not keen to do so with regard to certain products because of political and historical reasons. As the background document to trade policy stated, "An important exception to the general trend in the post-war era of gradually moving towards freer trade occurred in a range of standard technology, relatively labour intensive industries, including textiles, clothing, and


footwear. It was politically difficult to expose these industries to the level of international competition under which other industries operated because the former had developed and survived under protection and were not in a position to compete without barriers to imports. The problem was further compounded because they were large employers of workers, often in slow-growth regions. While the government was not favourable to reducing the levels of protection for these industries, it was also unwilling to increase them, as was being demanded by the industry.

The government's goal with regard to footwear, and textiles and clothing, industries was to make them more competitive through 'rationalization'. As it admitted, "A fundamental dimension of the government's economic development priorities for the 1980s is industrial renewal through modernization, rationalization and the creation of alternate employment opportunities." It wanted to "...reduce the pressure for costly support to less competitive industries and at the same time provide alternate employment opportunities in higher productivity and higher wage sectors." These broad objectives were sought to be achieved through gradual reduction in the levels of protection afforded these industries, including the footwear

20 Ibid., p. 6.
21 Ibid., p. 47.
22 Ibid., p. 49.
industry.

It was clearly understood by the policy-makers that in order to reduce foreign barriers to its exports, Canada must lower its own barriers to imports. As J. H. Warren, the Co-ordinator for Canadian negotiations at the Tokyo Round noted, "...trade is a two-way street; while there is no automatic balancing and other payment flows must be taken into account, it remains true that in real world one must be prepared to buy if one wishes to sell." David Prothroe in his study of Canada's trade policy in the 1970s arrived at a similar conclusion:

Canada's dependence on external markets makes it more vulnerable than most countries to foreign trade obstacles. This has accounted for generally strong Canadian support for multilateral trade liberalization in the post-war period. The threat of retaliation against Canadian import barriers is probably the single most important constraint upon Canadian protectionism...

Considering the importance of exports to the Canadian economy, the government was constrained in assisting the domestic footwear industry with quotas on imports. It was awkward for Canadian officials to defend quotas on footwear while promoting Canadian exports or while negotiating the lowering of foreign trade barriers. Trade barriers on agricultural, defence, and textiles and clothing


24 Prothroe, op. cit., p. 19.
products are maintained by most nations and hence Canada can do the same without jeopardizing its export interests. With regard to footwear, however, Australia was the only other country that maintained global quotas, and it was therefore difficult for Canada to defend its quota regime. In short, Canada's overall trade objectives worked against the footwear manufacturing interests' demand for quotas on imports.

FOOTWEAR IMPORTS FROM THE EEC

The vast quantities of footwear imported from the European Community formed an enduring structural constraint on the actors in the domestic policy arena. From 1981 to 1985, footwear imports from the EEC formed between 28 and 41 per cent of the total imports in terms of value. Its share was even higher in the 1970s. Its exports are backed by its tremendous diplomatic resources arising from its position as the world's largest trading bloc. A medium-size economic entity such as Canada has little leverage against it in trade negotiations. The EEC is also the second largest destination for Canada's exports, with scope for further expansion. Consequently, the Canadian government cannot afford to ignore the likely reaction of the EEC while formulating policy for the footwear industry.

Imports of footwear into Canada prior to the 1960s

came almost exclusively from Western European countries which now form the EEC. Beginning in the late 1960s, their exports to Canada increased further, though not at the same rate as those from the Newly Industrializing Countries. The EEC's exports, however, were mostly in medium- to high-price leather footwear, the market segment in which the Canadian producers also specialized. Consequently, they were more damaging to the domestic industry than those from the developing countries. For a quota regime to be effective, imports from the EEC had to be included, an action Canadian policy-makers did not find easy to take.

In 1977 when Canada imposed quotas on footwear imports for the first time, the EEC's reaction was rather subdued. It made routine threats of retaliation without carrying them out. But in 1980 when the quotas were extended for another year to enable the Anti-Dumping Tribunal to complete its inquiry, the EEC made it known that it was going to exercise its rights to retaliate against Canada's exports under Article XIX. After prolonged negotiations, a compensation package in the form of tariff concessions valued at $28 million was worked out between the two.\(^{26}\) It was a stark reminder to Canadian policy-makers of the compensation they would have to pay if quotas were extended beyond 1981.

In 1981, following the publication of the Tribunal's report, the government decided to extend quotas on

\(^{26}\)Buhne, *op. cit.*, p. 108.
non-leather footwear and remove them from leather footwear, despite the fact that it was the latter in which the Canadian production was mostly concentrated. The decision was undoubtedly taken to exempt the EEC from quotas because its exports were almost exclusively concentrated in leather footwear. As a newspaper column pointed out, "The evidence is that Ottawa lifted the quotas on leather footwear...simply because it could no longer get away with keeping it in force without risking serious retaliation from Canada's trading partners." Since the EEC was the only one in a position to retaliate, the Canadian decision must have been in response to EEC's opposition to quotas.

In 1982, the combined forces of increasing imports of leather footwear, severe economic recession, and extensive lobbying by the domestic industry led Canada to revoke its decision and re-impose quotas in July, 1982. The EEC demanded compensation, failing which it threatened to increase tariffs on imports of nine products (including whiskey and kraft paper) from Canada. A compensation package was finally negotiated, which obviated retaliation. In order to minimize the compensation, Canada exempted many classes of footwear from quotas. The increase in the number of exempted classes of footwear increased from 9 in 1981 to


36 in 1983. Most of the exempted footwear came from the EEC.\(^{29}\) In 1984, when Canada extended quotas for a year, the events of 1982 were replayed, and compensation of $7.7 million in tariff concessions was finally paid.\(^{30}\) Again in 1985, when the government extended quotas on women's leather footwear for three years, the EEC demanded and received compensation. In order to reduce the size of the compensation, the new quota regime was even more liberal and allowed increasingly freer access to European exporters.

It must be remembered that even though all footwear exporters to Canada were adversely affected by quotas, the EEC was the only trading bloc or country that was compensated. This was so because of the peculiarities of GATT and the realities of trade relations. Article XIX, as discussed earlier, makes no mention of compensation; it merely permits retaliation by the affected countries in the form of suspension of concessions on the exports of the country imposing controls. While the right to retaliate is available to all, the developing countries could not do so because they were already fairly closed economies, buying only what they needed from Canada. By retaliating against imports from Canada, they would have only harmed

\(^{29}\)E. W. Weybrecht (Director, Import Controls Division, Special Trade Relations Bureau), interview, June 25, 1987.

themselves. The EEC, on the other hand, is a relatively open economy, and the raising of barriers to imports from Canada would have injured Canadian exporters. As a result, the Canadian government would rather pay compensation to the EEC than risk retaliation against its exports. The United States, which too was in a position to exact compensation, never pressed the issue because of the relatively small size of its footwear exports to Canada.

ECONOMIC CONDITIONS

The immediate factors determining the Canadian policy for the footwear industry were closely related to the overall state of the prevailing economic conditions in the country. In times of a high rate of economic growth, the disposable income of consumers increases, leading to higher spending on footwear among other things, which in turn leads to increased shipments by the industry. The reverse is true in times of economic slow-down or recession. It is especially true for Canadian-made shoes because they are usually in the medium-price range, the demand for which is high in times of high economic growth and decreases more than that for cheaper imported shoes in times of economic hardship. The higher level of unemployment that

31 Tom Macdonald (Director, GATT Affairs), interview, October 28, 1987.

32 Chapleau, interview, loc. cit.
accompanies adverse economic conditions also enhances protectionist pressures on the policy-makers. As William Cline has noted,

Unemployment has been a major cause of protectionist pressures. When unemployment is high, adjustment to increased imports is more difficult; the demand for protection from labour, and the degree of governmental sympathy for supplying protection, both increase. 33

All major policy-decisions with regard to the footwear industry were taken in years of unusual economic growth or decline. In 1969, the economic growth rate declined and unemployment increased, 34 malaise reflected in the footwear industry in the following year because of the time lag in response. The industry's production declined from 49 million pairs in 1969 to 45 million pairs in 1970. 35 The total Canadian market for footwear similarly declined from 57 million pairs to 55 million pairs during the same period. 36 That was the year in which the industry made its first demand for comprehensive quotas on imports. The extension of the General Adjustment Assistance Programme to the footwear industry was also partially a response to the


36 Ibid., p. 38.
latter's ailing conditions that year. In 1971, the economy was growing at a healthy rate, but this was yet to be reflected in the industry's fortunes. The industry repeated its demand for quotas, which led the government to order the Tribunal to conduct an inquiry into the industry in 1971. Most of the inquiry was conducted in 1972, when the economy, and the footwear industry, were doing well. Consequently, when the Tribunal submitted its Report in 1973, it could not but find that there was no injury to the industry. The government accepted the conclusions and rejected the industry's demand for quotas.

The economy was similarly performing poorly in 1974. The impact was reflected in a 10 per cent decline in the market for footwear and a 16 per cent decrease in production in 1975 compared to 1974. The rate of GNP growth had started to improve in 1976, but the level of unemployment did not. In 1975, the industry renewed its demand for quotas, to be repeated in 1976 and 1977. In response, the government ordered another inquiry into the industry. The quotas on imports that followed the release of the report in 1977 cannot, however, be attributed to general economic conditions because the economy was growing at a healthy rate,


despite the persistence of high unemployment.\textsuperscript{39} They were, instead, imposed because of factors related to the appreciation of Canadian dollar and the election of Parti Quebecois.

In 1981, the economy was performing at a reasonably healthy rate and the economists were predicting that economic growth in the following year might rise to as high as 3 per cent.\textsuperscript{40} In November, 1981, the government removed the quotas from leather footwear under pressure from the various domestic and international factors. It was expecting the continuing growth in the economy to absorb the dislocations resulting from its decisions. As it turned out, the GNP declined by 7 per cent from the peak in mid-1981, while unemployment increased from 7 per cent to 12 per cent in 1982.\textsuperscript{41} As Marc Lalonde, the Minister of Finance, admitted in Parliament,

\begin{quote}
The world-wide recession has cut our economy to the bone. We have lost half a million jobs during the past year. Almost a million and half among us are looking for work.\textsuperscript{42}
\end{quote}

This was the worst recession in the post-war period. The ailing general economic conditions were reflected in the

state of the footwear industry as well. In 1982, compared to the preceding year, the total market for footwear declined by 10 per cent, production by 14 per cent, and employment by 13 per cent. Considering the industry's woeful conditions, the government re-imposed quotas on leather footwear in July, 1982. That year the government announced several other major reversals in policies, including the announcement of a mini-budget in June, 1982. It is likely if the economy had continued to grow as forecast, the government would have stood by its decision on quotas.

The booming Canadian economy (especially in the central provinces) during the 1983-1985 period similarly precipitated major changes in the policy for the footwear industry. In 1984, the government ordered the Tribunal to conduct another inquiry into the footwear industry. When the inquiry was being conducted that year, the economy was performing at an exceptional level, as was the footwear industry. By 1985, consumer spending and economic growth had increased at near-record levels in every year since 1982. Unemployment too was declining rapidly in the central provinces, where the footwear industry was for the most part located. Despite massive increases in the level of footwear imports, domestic production increased by 6 and 16 per cent in 1983 and 1984 respectively; the total Canadian market for footwear similarly increased by 5 and 6 per cent.

respectively. The Tribunal, therefore, concluded that the industry, except for the women's sector, was not being injured by imports and that quotas on imports should be lifted. The government accepted the recommendations and removed quotas on all classes of footwear, except women's, in 1985.

MONETARY EXCHANGE RATES

After the collapse of the Breton Woods Agreement in 1972, and the adoption of floating rates of exchange, the rates at which most currencies traded on the world market tended to fluctuate, often by wide margins. In the past few decades, according to one estimate, exchange rates have had even more impact on prices than tariff cuts, significant as they were. Appreciation in the rates of exchange of the currencies of the exporting countries increase the price of imports, and, as a result, strengthen the competitiveness of the Canadian industry in the domestic market. A depreciation in the currencies of the exporting nations has the opposite impact on the domestic industry. Such fluctuations have a disproportionately large impact on consumer goods, which tend to be more sensitive to price changes.

When the exchange rate of the Canadian dollar rose against the currencies of the major exporters of footwear,

the level of imports increased correspondingly. In times of a low dollar, imports became unattractive to consumers in terms of price and, hence, less was imported. The Anti-Dumping Tribunal in its 1981 and 1985 reports concluded that exchange rate was "the most important factor" in determining the level of imports into Canada. At times when the dollar, and the level of imports, was high, the fortunes of the Canadian footwear industry was correspondingly low, leading to calls for quotas. The government, for its part, had to take these demands seriously because of the prevailing malaise in the industry.

A study on footwear import quotas commissioned by the Tribunal found that exchange rate movements during the 1978–1982 period had, as shown in Table XVI, a significant impact on the price and levels of footwear imports. Between 1978 and 1981 the Canadian dollar generally depreciated, compared to the 1977 level, against the currencies of the major footwear exporting countries, leading to increase in price of imports, and a growth in the quantity of domestic production. In 1982, when the Canadian dollar was higher than the 1977 level, all impacts were in the opposite direction.


Table XVI

IMPACT OF EXCHANGE RATE FLUCTUATIONS ON FOOTWEAR IMPORTS: 1978-1982

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RETAIL PRICE OF IMPORTS (%)</th>
<th>QUANTITY OF IMPORTS (%)</th>
<th>QUANTITY OF DOMESTIC FOOTWEAR PRODUCTION (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>9.25</td>
<td>-11.52</td>
<td>2.97</td>
</tr>
<tr>
<td>1979</td>
<td>13.06</td>
<td>-15.21</td>
<td>3.35</td>
</tr>
<tr>
<td>1980</td>
<td>6.73</td>
<td>-8.85</td>
<td>2.13</td>
</tr>
<tr>
<td>1981</td>
<td>0.9</td>
<td>-1.67</td>
<td>0.32</td>
</tr>
<tr>
<td>1982</td>
<td>-3.0</td>
<td>4.37</td>
<td>-1.44</td>
</tr>
</tbody>
</table>

In 1970, the Canadian dollar was trading at a high level,\(^{47}\) which was reflected in increase in imports by 3 million pairs compared to the preceding year, or an increase from 24 to 31 per cent share of the total market.\(^{48}\) The resulting decline in the health of the domestic industry was followed by demand for quotas in that year. The fall of the Canadian dollar in 1971, however, largely restored the competitiveness of the domestic industry.\(^{49}\) In 1971 and 1972, when the Tribunal was conducting its inquiry, a part of the reason why it did not find injury from imports was the subsiding of imports because of the depreciation in the


Canadian currency. The generally high dollar in the mid-1970s corresponded to increased imports and reduced domestic production in those years. Between 1977 and 1980, not only were imports disadvantaged because of quotas, but by the depreciation of the dollar as well. The appreciation of the Canadian dollar against the currencies of the major footwear exporting countries in the 1980s, however, led to increased imports, except for 1982. Yet the industry's conditions did not worsen because of the improvement in general economic conditions discussed earlier in the chapter. In 1985, the dollar was high, so were imports, but the government still removed quotas because of the pressures from the exporting countries and the fact that the economy was generally performing well.

INTERNATIONAL CLIMATE FOR PROTECTION

The overall international climate for protection has also influenced Canadian footwear policy. When a major country adopts protectionist measure, domestic producers in other countries demand similar treatment from their government. Their demand acquires additional legitimacy because of increased imports resulting from trade diversion from countries restricting imports. This is known as the "'ricochet' dynamics of protection whereby when one group of countries raises barriers, a second group fears that its
markets will be inundated by diverted supply and implements protection of its own.\textsuperscript{50} Some of the major events in Canadian policy-making for the footwear industry were directly or indirectly affected by measures taken by other countries. The U.S. government's policy towards its domestic footwear industry had a particularly significant Impact.

The United States receives 40 per cent of the world exports of footwear.\textsuperscript{51} Access to the U.S. market is so critical to most exporters that any restriction imposed by it inadvertently has a tremendous impact on international trade in footwear. The impact is particularly pronounced in the case of Canada because of its geographic, economic and political proximity to that country. In January, 1971, the United States International Trade Commission (USITC) arrived, after an inquiry into footwear imports, at a tied decision on the question of injury to the domestic industry.\textsuperscript{52} President Nixon was under pressure from the industry and Congress to break the tie in favour of injury and take restrictive action against imports. It was not entirely co-incidental that the Canadian footwear industry increased its lobbying efforts to impose similar restrictions. After all, the Shoe Manufacturers Association of Canada maintains close ties with

\textsuperscript{50} Cline, in Cline, \textit{op. cit.}, p. 7.


its American counterpart, the American Footwear Federation. Nixon's refusal to meet the industry's demand subsequently dampened the Canadian industry's efforts to secure quotas.

In 1976, the USITC conducted another inquiry and unanimously concluded that the American footwear industry was being injured by imports. That year the Canadian industry revived its efforts to secure quotas on imports. While President Ford rejected the recommendations, the industry succeeded in instituting another inquiry. The Commission again unanimously found injury from imports and recommended quotas. President Carter responded to the report by concluding OMAs with Taiwan and South Korea in June, 1977.

The American government's action gave a fresh boost to the Canadian industry's efforts to institute quotas. It also created apprehension among Canadian importers that their government might follow suit, which led them to increase their imports so as to establish larger entitlement to quotas in the event they were imposed. Moreover, since the exporters in Taiwan and Korea now had surplus capacity, because of reduced exports to the U.S., they began to flood the Canadian market in order to clear inventories. All these factors only strengthened the Canadian industry's claim of


injury from imports. In 1977, footwear imports into Canada had reached record levels, which led the Tribunal to conclude that the domestic industry was being injured.

The mid-1970s was a period marked by enhanced protection at the international level, after having been at post-war low for several years. As Cline has noted, "By 1977, ...the tides of protection began to rise again, partly in a delayed response to a world recession of 1974-1975 and partly due to renewed exchange rate misalignments." In that year, the EEC tightened its restrictions on textiles and clothing imports, the United States negotiated OMAs on footwear with Taiwan and South Korea, and on colour televisions with Japan. In December, 1976, Canada itself had taken an unprecedented step of imposing global quotas on clothing imports. It was in the background of these events that the Canadian government imposed quotas on footwear imports in November, 1977.

In 1981, the USITC recommended, after an inquiry, the continuation of OMAs with Taiwan and South Korea. The Reagan Administration disregarded the recommendation and let the agreements expire in June, 1981. Only five months later, the Canadian government decided to lift quotas from imports of leather footwear. Similarly, in 1985, the Commission's

55 Cline, "Introduction", op. cit., p. 7.

unanimous finding of no injury, despite record level of imports, must certainly have influenced the Canadian government's decision to terminate quotas on most classes of footwear.

CONCLUSION

The preceding chapter argued that the manufacturing interests lacked the organizational capacity to impose their demands on the government. Similarly, the government was incapable of carrying out its objectives in the face of opposition from the manufacturing interests. This chapter showed that the structure of the international political economy, and Canada's position in it, generally worked against the domestic producers' demands and favoured the state and trading interests opposed to quotas. At the same time, changes in international political and economic conditions sometimes favoured the producers' cause and enabled them to accomplish, at least temporarily, their objectives.

Canada's obligations under GATT to avoid quantitative restrictions on imports, and, when imposed under exceptional circumstances, to pay compensation to the exporting nations, and to apply the restrictions on a temporary and non-discriminatory basis, made it difficult to

impose quotas or continue them past a few years. The handicaps imposed by GATT could have been, of course, overcome through the use of VERA. But Canada lacked the diplomatic resources to conclude such agreements with nations that were the sources of footwear imports most injurious to the domestic industry.

The export-orientation of the Canadian economy further restricted the manufacturing interests' ability to accomplish their objectives. The imperatives of export promotion entailed allowing freer access to imports. Moreover, the predominant position of the export sectors in the domestic economy ensured that government measures which might injure their interests would be reluctantly undertaken. These created problems for import-competing industries, such as footwear, seeking controls on imports.

Canada's economic relations with the EEC and, to a lesser extent, the United States similarly hindered attempts to erect barriers to footwear imports. Imports from Italy, which were most injurious to the domestic industry, were difficult to control because of the economic and political clout it derived from its membership in the EEC. The position of the European Community as the largest trading bloc in the world and its importance as a major destination for Canadian exports made it difficult for Canada to control imports from its member countries.

While these factors hampered efforts to control
footwear imports through quotas, the appreciation of the Canadian dollar and the down-turn in the domestic economy—both of which caused redundancies in the industry—strengthened the manufacturing interests' demands. This is not surprising considering that increased unemployment adversely affects the electoral fortunes of the elected state officials which move them to take palliative actions. In the case of footwear, quotas on imports was the most visible short-term measure the government could take. Similarly, when the economic circumstances improved, there were pressures on the government to remove the controls. The American government's policy towards its domestic industry also, to an extent, affected the force with which the Canadian producers could exert pressure on their government.
Chapter Five
TARIFFS ON FOOTWEAR

Tariff protection is one of the oldest and most widely used instrument by which nations assist domestic industries against imports. "A tariff is, in effect, a sales tax imposed exclusively on imported goods."¹ It causes the price of an imported product to rise, which reduces the product's competitiveness in the importing country's market. As a result, consumers purchase domestic products which they would not have otherwise done. The higher prices caused by tariffs, of course, reduce consumer demand to the extent of price elasticities. But in the short-run, domestic producers are favoured to an extent equal to the tariff, the cost for the support being borne by consumers.

Customs duties listed in tariff schedules are known as 'nominal tariffs'. On its own, however, a nominal tariff gives little indication of the real level of protection afforded the domestic industry. To overcome this shortcoming one must calculate the 'effective tariff', which, in the words of the Economic Council of Canada "...is measured as the change in industry value-added that results from elimination of the tariff on both inputs and outputs, divided

by value-added with protection."² It indicates the proportionate increase in value-added permitted to the domestic industry by tariffs on its inputs as well as outputs. The calculation of an effective tariff enables one to, among other things, find out how high domestic input costs can be in order to remain competitive with imported products under tariff protection.

This chapter will discuss the tariff protection afforded the Canadian footwear industry in recent decades. The main argument will be that the industry demanded, and the government provided, the maximum tariff protection possible under the existing domestic and international circumstances. The Canadian government not only never seriously contemplated reducing tariffs on footwear imports, it, on the contrary, did its utmost to find innovative ways to accord additional tariff protection to the industry. It received strong support for its actions from the manufacturing interests, and faced negligible opposition from the trading interests or the international political economy.

In recognition of its position as a small economy with one of the highest dependence on exports as a percentage of the GNP,³ Canada has been a keen supporter of efforts to


³ In 1983, exports accounted for 29 per cent of the total GNP in Canada. Among the seven industrialized nations, only in West Germany do exports account for a larger percentage of the GNP. See External Affairs, How to Secure, op. cit.
reduce international barriers to trade. At the same time, it has been reluctant to reduce its own hurdles to imports which threatened domestic production of goods in industries employing substantial number of workers. This somewhat contradictory position was rooted in the conflicting nature of Canada's economic interests. While it recognized that the country's international competitiveness lay in natural resource-based industries, and that growth in their exports was critical to the nation's economic prosperity, it was also determined to establish an indigenous manufacturing base in the country. The latter goal was clearly reflected in the National Policy of 1879 which sought to develop manufacturing industries behind steep tariff barriers against imports. And many industries, including footwear, did grow as a result. The only problem was that they continued to remain weak in subsequent decades, and it was believed by the Canadian policy-makers that they would not be able to survive reduced protection contemplated by GATT. Thus, Canada in the post-War period pursued two somewhat conflicting goals: reduction in foreign tariffs on its exports while resisting pressures to decrease its own tariffs, especially on goods produced by weaker industries employing a large number of workers which had grown behind high tariff barriers.

As discussed in Chapter Three, the domestic manufacturers, and the workers employed by them, had been demanding increased tariffs since before the turn of the
century. The government, by and large, met their demands and afforded the industry one of the highest tariff protection among domestic industries. The situation remained unchanged until the GATT negotiations began after the Second World War. However, even at the several rounds of these negotiations, the footwear industry (along with textiles and clothing) was spared, relatively speaking, from the deep tariff cuts affected on other products. The reason for this special treatment was not solely the industry's pressures for the continuation of high tariffs, but also the lack of international pressures for their reduction. Most other countries maintained similarly high tariffs, and none were keen to reduce them. This confirms findings of several studies that tariffs are reduced less in industries that are already more protected than others.4

It was stated previously that the Canadian government officials broadly favoured the objective of liberalized trade. However, this arose not out of ideological convictions, but rather from the practical consideration that international trade barriers must be lowered in order to expand Canada's exports. Canada had nothing to gain from lowering tariffs on footwear because, considering that other nations were themselves keen to maintain high tariffs on the product, the concession would not have secured reciprocal concessions on its exports. The

4See Blais, Political Sociology, op. cit., p. 21.
near-consensus that prevailed on the need to maintain high tariffs on footwear precluded the trading interests from seriously working for their reduction, something that would have been clearly in their interest.

**EFFECTIVE TARIFF PROTECTION**

One of the chief purposes of GATT, to which Canada is an original signatory, is to progressively reduce or eliminate tariffs. Towards this goal, Article II "binds" tariffs to reduced levels, arrived at through international negotiations. They can only be increased through a difficult process of negotiations with the exporting countries governed by Article XXVIII. There is thus an enormous pressure on governments to consider carefully before they accept cuts in tariff rates, because once reduced, they are practically irreversible. As a result, the Canadian government has been reluctant to reduce tariffs on products produced by weak domestic industries. Moreover, the "binding" of rates stifled demands for increase in tariff rates and, instead, encouraged the domestic actors to secure additional protection through other means.

The Kennedy Round of GATT negotiations during 1963-1967 were primarily directed at reduction in the tariff levels of the signatory countries. The federal government established the Canadian Trade and Tariffs Committee (CTTC) to, among other things, seek information from industries that
might be affected by changes in tariff rates. Most of the import-substituting manufacturing industries, including footwear, which catered primarily to the domestic market made submissions before the CTTC citing particular problems which they argued justified exemption from the general tariff reduction.

During the 1960s, high tariffs on imports were the only form of government assistance available to the domestic footwear industry. Imported footwear at the time came primarily from Europe where high wages, coupled with high Canadian tariffs, were sufficient to protect the Canadian industry. The possibility that tariffs might be cut galvanized the industry into action. It clearly recognized the changes would have a long lasting impact on the industry.

The Shoe Manufacturers Association presented its first brief on the subject to the CTTC in May, 1964. To maintain intermittent pressures on the government, it submitted four supplementary briefs over the following two years. These sophisticatedly produced briefs covered a wide range of related topics, but all boiled down to the plea that Canada exclude footwear from tariff negotiations. The SMAC argument ran as follows: "In order to protect the footwear industry and its 24,000 employees from further disruption... we recommend that footwear be placed on the reserve list so
that no tariff concession be offered...." The other submissions were written in a similar vein reiterating the same point.

The industry's efforts bore fruit. Despite larger cuts accepted by Canada on other products, the reduction in nominal tariff rates on footwear accepted by Canada was minimal. It was reduced from 27.5 per cent \textit{ad valorem}, a rate that had existed since 1947, to 25 per cent \textit{ad valorem}. The latter translated into an effective tariff rate of 36.4 per cent.\footnote{CCAC, "The Impact of Barriers to Footwear Imports on Canadian Consumers and the Canadian Economy", working paper prepared by Craig Campbell, Consumer Research and Evaluation Branch, May, 1981, p. 53.} The new rate came into effect in 1969. Even with the reduction, the Canadian tariff on footwear remained among the highest in the OECD. The industry was pleased that storm clouds had passed without causing much damage.

In 1973, another round, known as the Tokyo Round, of GATT negotiations began. From the outset it was clear that the latest round would lead to even more drastic cuts in tariffs than had the Kennedy Round. The footwear industry started making preparations for putting pressure on the government to not accept the envisioned reductions. As early as its meeting of June 5, 1973, SMAC's Board of Directors decided to exert pressure on the government to maintain the existing level of tariffs on footwear. When in 1977 the CTTC

\footnote{SMAC, "Fourth Supplementary Submission to CTTC", December, 1966.}

5
sought the industry's opinion on tariffs for developing the government's position at the negotiations, the latter was well prepared to present its case.

In its April, 1975 brief to the CTTC, SMAC argued along the same lines as it had done during the previous Round. But this time it had an additional argument to augment its case. It argued that continuation of existing tariffs was essential if the objectives of the Sector Strategy, announced a year earlier, were to be met.\(^7\) The brief stated,

> ...our industry should be treated as a 'Reserved Area' in the forthcoming Tokyo Round negotiations, to provide the time necessary to achieve the objectives of the Sector Strategy. Removal of our present tariff protection, and those non-tariff measures that have been introduced, would severely undermine the government programme looking toward increasing the viability of our industry, providing more stable employment opportunities, encouraging new investments and enabling our industry to increase its contribution to the Canadian economy.\(^8\)

This was indeed a powerful argument, because the government held high hopes in its Strategy's ability to make the industry internationally competitive, and would not have liked to be blamed if the objectives were not met.

But during the Tokyo Round, unlike the previous one, there were other social groups that had become active in the CTTC's consultative process and which argued against the

\(^7\) For a discussion on Sector Strategy, see Chapter VI of this thesis.

\(^8\) SMAC, "Submission to CTTC", April, 1975.
domestic industry's position. GATT-Fly/Oxfam submitted a brief which basically argued for allowing freer access to goods from developing countries by reducing tariff and non-tariff barriers on imports of goods in which these countries had a comparative advantage. This was not the kind of argument that found favour in the government. The Footwear Division in its comments on the brief said, "GATT-Fly's/Oxfam's propositions are predicated on laudable human concerns for developing countries, but their adoption would risk the emasculation of the domestic industry." The health of the Canadian industry, understandably, was more important to the government than concern for international development. No other brief demanding a reduction in tariffs on footwear was submitted.

The Footwear Division offered its full support to the submission made by SMAC. Reiterating the stand taken by the latter, it stated that the "objectives of this Strategy have not yet been attained and consequently, tariffs should not be abolished." It further asserted that

... a substantial reduction in footwear tariffs in the near future would increase inordinately the competitive pressures on the Canadian industry from foreign competition and destroy any chance of success for the restructuring needed. Therefore, our recommendation is for modest tariff reduction in the order of 20%, given


10Ibid.
reciprocal arrangement by other countries.\textsuperscript{11}

When the Tokyo Round negotiations were concluded, the industry got all it had asked for, and more than what the Footwear Division had recommended. Canada agreed to reduce its tariffs from 25 per cent to 22.5 per cent \textit{ad valorem}, or a reduction of 10 per cent, in a phased manner over the 1980-1987 period.

The 10 per cent reduction in the tariffs on footwear was small compared to the average cut of 38 per cent on all industrial products accepted by Canada at the Tokyo Round.\textsuperscript{12} As a result, the average Canadian tariffs on industrial products came down to 8.3 per cent, with a large proportion entering the country free of duty. Although the Canadian reduction in tariffs on industrial products was generally small compared to other developed countries, it was particularly small with regard to footwear, textiles and clothing. In fact, tariffs on footwear remained among the highest in Canada, with only three other products enjoying a higher tariff rate.\textsuperscript{13} The General Preferential Tariff (GPT) rates which were accepted by Canada in 1973 as a way of assisting the developing countries by allowing their exports to enter Canada under reduced rates have not been generally available on footwear. The Tariff Item No. 61105-1 under

\textsuperscript{11}\textit{Ibid.}, Annex I.
\textsuperscript{12}\textit{Salembier, op. cit.}, p. 86.
which most footwear enter Canada has no provision for GPT. The preferential rate has been available only on Item No. 61110-1 (canvas footwear) which was 16 per cent before the Tokyo Round cuts, and 14 per cent in 1984.

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### Table XVII

**AVERAGE NOMINAL TARIFF**

<table>
<thead>
<tr>
<th></th>
<th>1974</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Input (%)</td>
<td>Output (%)</td>
</tr>
<tr>
<td>Footwear*</td>
<td>14.6</td>
<td>25.0</td>
</tr>
<tr>
<td>Shoe finding</td>
<td>16.7</td>
<td>17.3</td>
</tr>
<tr>
<td>Leather tanneries</td>
<td>2.0</td>
<td>11.6</td>
</tr>
</tbody>
</table>

**AVERAGE EFFECTIVE TARIFF**

<table>
<thead>
<tr>
<th></th>
<th>1974 (%)</th>
<th>1987 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear*</td>
<td>36.4</td>
<td>36.5</td>
</tr>
<tr>
<td>Shoe finding</td>
<td>18.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Leather tanneries</td>
<td>29.9</td>
<td>16.8</td>
</tr>
</tbody>
</table>

*includes all footwear, except those made of rubber

Source: CCAC, 1981, *op. cit.*, p. 57

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The reduction of 2.5 percentage points in nominal tariffs on footwear when fully implemented in 1987 did not, in CCAC's estimate, translate into any reduction in the rate of effective tariff.\(^{14}\) This is so because the reduction in

\(^{14}\)[CCAC, 1981, *op. cit.*, pp. 54-59.]
tariffs on footwear was accomplished by cuts in tariffs on imported inputs used by the industry as well. This is evident in Table XVII.

It is clear from the tables that effective tariff on footwear remained approximately the same, even though the nominal tariff was reduced. Undoubtedly, "... the strategy of the Canadian and other negotiators [was] to reduce tariffs on the output of the last stage of processing but to provide compensating reduction on input tariff in order that effective protection [remained] unchanged."\(^{15}\) Thus, the industry's demand for no reduction in tariff rates was met in entirety.

**ACTUAL EFFECTIVE TARIFF PROTECTION**

While the Canadian government was doing its best to retain the existing level of tariffs on footwear imports, more ingenious ways were being devised to increase tariff protection for the industry. By the late 1960s, tariffs, high as they were, on their own were proving to be increasingly ineffective in halting the growing levels of imports. Increasing the tariff rate itself was almost an impossible task under the provisions of GATT. Therefore, a clever method was devised which effectively raised tariff protection within the existing framework of Canadian statutes, without violating Canada's international

\(^{15}\) Ibd., p. 55.
commitments. This was known as "value for duty advances". The government and the industry recognized its powers against imports and used it to the hilt until it became impossible to do so under international pressures.

Pointing out the significance of value for duty advances, the Tariff Board has noted,

When there is an ad valorem factor in the rate of duty, then the method of establishing the value for duty may be as significant for protection or customs revenues as the rate of duty itself. Any advance in value is accompanied by a commensurate increase in both duties collected and in level of protection. It was accomplished through increasing, for customs valuation purposes, the value of the product being imported by certain percentage points, and then applying the nominal tariff rate against the increased value. Technically, this was not an increase in the tariff rate because it was the value of the product that was being artificially advanced, and not the tariff, although the net result was the same.

To understand the concept of value for duty advance one must understand the concept of 'fair market value' on which the Canadian customs valuation system was based. According to the Tariff Board's Report cited above, "the fair market value is the price at which like goods are freely traded under comparable conditions and circumstances (level of trade, time, place, etc.) on the domestic market of the

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country of export." In other words, it required that the export price of a product must not be lower than the price at which it was sold in the market of the country of origin. If the export price was lower, Revenue Canada was required to appropriately advance the value.

The value for duty advances on footwear were based on Section 39 or 40 of the Customs Act and were effected through "ministerial prescription". Under these provisions, if adequate information was not available on the price of the product in the home market, or if it was otherwise determined that circumstances were "unusual", fair market value was constructed through prescription. It included situations whereby the product in question was not sold in the home market under circumstances that would allow appropriate comparison with the exported products, or where "... the large number of producers in each of the exporting countries made individual investigation of all the exporters, and hence the issuance of individual rulings, administratively complicated and difficult." It also included exports from many socialist countries where ascertaining, because of the state-controlled nature of their economies, market price was impossible. In all these situations, values for duty for the designated goods were prescribed as the selling price advanced by fixed percentage points. The prescriptions were

\[17\text{Ibid.}, \text{p.6.}\]
\[18\text{Ibid, p. 65.}\]
country-specific and continued until revised or revoked. There was no appeal from these prescriptions. Nor did the government provide information on the basis of which the prescribed advances were calculated. It was these prescriptions that were most useful to the industry.

The concept of fair market value for customs valuation predates Confederation. However, widespread use of ministerial prescriptions with regard to footwear began only in the late 1960s. Regardless of its usage, its legality under GATT was always dubious. Article VII, in fact, clearly states that the "value for customs purposes... should not be based on the value of merchandise of national origin or on arbitrary or fictitious values." To an extent, ministerial prescriptions were discriminatory on the grounds of national origin because they applied to specific countries, without demonstrating the product from that country was indeed being undervalued. They were arbitrary in the sense that they did not allow appeal from the decision. They could also be argued to be "fictitious" because no reason was ever disclosed on why the advances were set at the specified level.

The use of tariffs based on advanced value for duty

19 Ibid., p. 6.
20 GATT, Basic Instruments, op. cit.
was dear to the footwear industry because it was one of the few exclusive beneficiaries of the system. In the words of Tariff Board:

A review of the list of goods encompassed by Ministerial Prescriptions suggests that some industrial sectors, particularly wearing apparel and footwear, have become heavily dependent upon the use of this device to limit the adverse impact of foreign competition from low-cost suppliers.

The demand for value for duty advances by the footwear industry dates back to the mid-1960s.

In its Fourth Supplementary Brief to the CTTC in December, 1966, SMAC made its first demand for "constructed third country values" for imports from state-trading and developing countries. 23 The demand was reiterated in its brief submitted to the government in April, 1970. Third country valuation entailed calculation of what the product would cost in another country, always the U.S. or U.K. Needless to say, the effect was to negate the cost advantages that the affected countries might have had, because both the U.S. and U.K. were high-cost producers. Third country valuations were mostly applied to imports from state-trading countries.

Just after SMAC made its demand for third country valuation in 1967, Revenue Canada ruled that all leather footwear from Czechoslovakia would be valued on the basis of

22 Board, Part II, op. cit., p.7.
23 SMAC, Submissions to the CTTC, op. cit.
comparable footwear from U.K. The same was ruled for Poland and Rumania in 1969. In 1976, Hungary and, in 1983, Bulgaria were covered by similar prescriptions. All the prescriptions continued until December, 1984. Thus, all major East European exporters of footwear were covered by third country valuation throughout the 1967-1984 period. This afforded enhanced protection to the domestic industry, especially the men's leather footwear sector in which East European exports were concentrated.

The real threat to the domestic industry, however, came from Western Europe and Far East, and not from Eastern Europe. In 1975, the value of all footwear (except those made of rubber or canvas) from Taiwan was advanced by 50 per cent of the selling price. This was progressively reduced to 20 per cent in 1977 and 13 per cent in 1979. In 1975, the value of the women's footwear from Italy was advanced by 6 per cent. Men's footwear from Italy were covered by a 15 per cent advance in 1977. In 1979, the previous prescriptions were replaced by a flat advance of 8.5 per cent on all footwear from Italy. Imports from Spain were also dealt with in a similar way. In 1976, the value of women's footwear from Spain were advanced by 11 per cent, and in 1977, that of men's footwear by 25 per cent. In 1978, the advances on Spanish footwear were reduced to a uniform rate of 5 per cent. In 1977, the value for duty of all footwear from South Korea were advanced by 10 per cent. In 1978, all footwear
from Brazil were subjected to value for duty advance by a whopping 50 per cent.

Thus, between 1978 and 1985, all major sources of footwear imports, without exception, were under various degrees of value for duty advances. By SMAC's own admission, more than 75 per cent of the footwear imported into Canada in 1981 were covered by advances. This was in contrast to all imports into Canada, only 10 per cent of which were subject to duty advances. A large proportion of this 10 per cent consisted of clothing and footwear products.

To the extent third country valuation and fixed percentage advances were country-specific, the nominal tariff rates of 25 or 22.5 per cent were misleading. Imports from different countries entered Canada under what amounted to different tariff rates, depending on the applicable level of advance. The table on the following page gives a better understanding of the concept of differential tariff rates.

The table shows that in 1978, when the tariff rate was 25 per cent, an advance of 50 per cent on imports from Brazil translated into a nominal tariff rate of 37.5 per cent. Similarly, a 20 per cent advance on Taiwanese footwear translated into 30 per cent tariff in 1977. The impact of the third country valuations on tariffs is almost impossible to calculate because the value of each pair of footwear was

24 Cited in Board, Part II, op. cit., p. 36.
valued on the basis of what the customs officials determined was the price of comparable footwear from the U.S. or U.K. One can only assume that the increase in tariff as a result of third country valuation was substantial.

Table XVIII

<table>
<thead>
<tr>
<th>ADVANCES OF VALUE FOR DUTY (%)</th>
<th>TARIFF EQUIVALENT OF THE ADVANCE (%)</th>
<th>ACTUAL NOMINAL TARIFF (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>5</td>
<td>1.2</td>
<td>26.2</td>
</tr>
<tr>
<td>8.5</td>
<td>2.1</td>
<td>27.1</td>
</tr>
<tr>
<td>10</td>
<td>2.5</td>
<td>27.5</td>
</tr>
<tr>
<td>13</td>
<td>3.2</td>
<td>28.2</td>
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<tr>
<td>15</td>
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<td>28.7</td>
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<tr>
<td>20</td>
<td>5.0</td>
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<tr>
<td>25</td>
<td>6.2</td>
<td>31.2</td>
</tr>
<tr>
<td>50</td>
<td>12.5</td>
<td>37.5</td>
</tr>
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</table>

It was stated in the earlier section that the nominal tariff of 25 per cent after the Kennedy Round entailed an effective tariff of 36.4 per cent. The fact that 75 per cent of the footwear imports entered Canada under a nominal tariff rate of over 25 per cent (because of the advances) altered the effective rate of tariff as well. The following table demonstrates the actual effective tariff protection available to the domestic industry at the various levels of advances.
Thus the actual effective rate of protection afforded the domestic footwear industry ranged from 36.4 per cent in cases where no advance was applicable (as in the case of the U.S.) to 64 per cent in the case of Brazil (which was subject to 50 per cent advance). Beyond doubt, the protection afforded the domestic footwear industry by value for duty advances was tremendous.

Securing the highest possible value for duty advance was, as one SMAC official put it, a top priority for the industry. As even the government clearly preferred this form of protection for several reasons. It did not involve negotiations with other countries, as did increases in tariff

Table XIX

<table>
<thead>
<tr>
<th>ACTUAL NOMINAL TARIFF (%)</th>
<th>ACTUAL EFFECTIVE TARIFF (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>36.4</td>
</tr>
<tr>
<td>26.2</td>
<td>39.2</td>
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<tr>
<td>27.5</td>
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<td>50.2</td>
</tr>
<tr>
<td>37.5</td>
<td>64.0</td>
</tr>
</tbody>
</table>


Kelley, interview, loc. cit.
rates. Nor did it provoke demands for compensation by the exporting nations, or threats of retaliation by them, as was the case with quotas on imports. It also did not cost anything to the public treasury; if anything, it brought increased revenues to the government. Moreover, there was minimal opposition from the footwear exporting countries because many of these themselves had similar arbitrary systems of customs valuation.  

The conclusion that values for duty advances were instruments of protection par excellence is, of course, strongly opposed by the government officials who administered Canada's customs valuations laws. They aver the duty advances were made solely for the purpose of ensuring, as provided for in the Customs Act, that revenues payable to the Crown were diligently collected. The fact that the industry received additional protection, they maintain, was purely coincidental. These officials described the decision to advance value for duty as an administrative procedure whereby upon receipt of an informal complaint from the industry regarding imports from a particular source, Revenue Canada would conduct an investigation before making a ruling. The investigations would consist of a visit by a customs officer to the exporting country and the determination of the fair

28 Board, Part I, op. cit., p. 6-7.
29 Interviews, with Maurice Chapleau (Chief, Footwear Division), June 17, 1987, and Ms. Karen Humphrey (Officer, Revenue Canada--Customs and Excise), June 4, 1987.
market value of the product. Since footwear exporters were too numerous to be thoroughly investigated, information would be ascertained from only a small number of them. The information thus collected would form the basis for calculating the fair market value and the level of advance. The minister was then accordingly advised, and the advance was effected though prescription. The government, as stated earlier, would not disclose the bases for its calculations.

Although the description of value for duty advance as a purely administrative procedure may be true for other products on which they were applied, it is too simplistic to be plausible with regard to footwear or clothing. There are several reasons which lead one to this conclusion.

In the first place, the two main beneficiaries of the advances --footwear and clothing-- were also the most heavily protected industries in Canada. So it is not surprising that the government would have surreptitiously provided them additional protection through duty advances, given that increasing tariffs was practically impossible. Second, the industry clearly saw the decision to prescribe advances as one that was discretionary, and would put constant pressure on the government to subject certain countries' exports to advances. Third, the advance would remain in effect for several years. It is implausible that undervaluation would continue for such a long time, especially since by ceasing to undervalue the exporters could
pocket the margin of advance as profit. Finally, and most importantly, if the affected exports were indeed undervalued, then they should have been dealt with under Anti-Dumping or Countervailing laws, unless the government and the industry believed they could not establish their case at an inquiry required by these laws.

Be that as it may, the Canadian government was concerned about the possibility of the loss of its ability to subject imported goods to valuation, as was being contemplated during the Tokyo Round negotiations. It was well understood that efforts were underway to make customs valuations decisions transparent and internationally uniform. This was not a possibility that the domestic footwear industry, given the high stakes it had in the existing system, could take lightly.

In its April, 1975, submission to CTTC, SMAC opposed the adoption of any system of customs valuation which would not allow Canada to make value for duty advances. The Footwear Division of ITC, in its appraisal of SMAC's brief, concurred with the latter's position. But the pressure from other trading partners was simply too great, as a result of which Canada agreed to sign the "Customs Valuation Code". The Code basically rendered value for duty advances illegal, and instead provided for a uniform "transaction value system". The transaction value is the same as the price stated on sales invoice. It was understood by the
signatories to the Code that cases of undervaluation on invoices would be dealt with under domestic anti-dumping and countervailing laws. All other signatories implemented the Code by July, 1980, except Canada, where it came into effect on January 1, 1985. In the words of one observer, "Agreeing to revise the Canadian customs evaluation system was perhaps the single most important commitment to freer trade made by Canada in the last fifty years."  

After Canada had signed the GATT Code on Customs Valuation, the government ordered the Tariff Board to prepare a report on its implementation, and especially to recommend a scheme to compensate for the loss of the fair market value system. During its inquiry the Board found that under the transaction value system it was impossible to devise a scheme that would protect particular domestic industries as before, without contravening some other provisions of GATT.

As far as SMAC was concerned, the transaction value system was unacceptable and did its best to prevent it from being implemented. In its brief to the Board, it recommended that "Canada should not accede to the Agreement on Implementation of Article VII for purposes of valuing

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30 Board, Part I, op. cit., p. 7.
footwear imports." Furthermore, if Canada did accede to the Code, it should retain its right to "address customs valuation problems by means of ministerial prescription." In one of its testimonies before the Board, a SMAC witness testified that value for duty advances were "more effective than global quotas [on footwear imports]." The Canadian Textiles Institute and the Canadian Manufacturers Association took positions similar to that of SMAC.

Regardless of their opposition, the transaction value system of customs valuation came into effect, as scheduled, on January 1, 1985. When all was said and done, Canada was not prepared to sacrifice the interests of other large domestic exporters, who supported the new system, for protecting smaller industries such as footwear. The export-orientation of the Canadian economy ensured that the goal of assisting import-substituting industries would be pursued only insofar as it did not adversely affect the interests of the exporting sectors. Thus, the domestic footwear industry received additional tariff protection through duty advances

33 Quoted in Board, Part I, op. cit., p. 23.
34 Ibid.
35 Ibid.

Surprisingly, the clothing industry, which was the largest beneficiary of the duty advances, did not share the opposition to the new system. It argued that it would be hypocritical to oppose duty advances on textiles (which adversely affected the down-stream clothing industry), and at the same time support their application on clothing.
TARIFFS AND LABOUR COST

A common understanding of the woes of the footwear industry in Canada, indeed in all developed countries, is that high labour costs, compounded by high labour content in footwear, make domestic production uncompetitive against imports from low-wage countries. This is the view that the Shoe Manufacturers Association perpetuated in all its submission to the government and in its public pronouncements. Even the Canadian government justified its assistance measures for the industry on the same grounds. It is therefore pertinent to compare wage rates abroad with those in Canada, and to examine to what extent the lower wages abroad were offset by tariffs, to which only imports were subjected.

Canada is undoubtedly a high wage country. At the same time, the actual effective rates of tariffs on footwear were so high that the cost-advantage of the overseas producers cannot be taken for granted. The extent to which tariffs offset "...the labour cost advantages of foreign producers depends on the effective rate of protection of the Canadian footwear industry, the proportion of value added accounted for by labour cost and the actual level of wages in the exporting country's footwear industry, relative to wages
Calculating the relationship between tariffs and relative wages rates is a complicated task because it means ascertaining wage rates in exporting countries, adjusted to eliminate the impact of inflation and exchange rate fluctuations, and taking into account the differing levels of duty advances that were in place. No comprehensive analysis of this nature has ever been undertaken. The best available study along this line is the above-cited study by CCAC. This study calculates the relationship between domestic tariff rates and relative wage levels for a select groups of countries for 1976 and 1978.

The CCAC's study uses the concept of the maximum wage level that an exporting country can have relative to that in Canada while remaining competitive in the Canadian market, taking into account the actual effective tariffs on footwear. If the wages in the exporting country's footwear industries' were higher than the maximum permissible, then tariffs offset any wage-cost advantage that they might have had, and their exports should not be competitive on the Canadian market for reason of low labour costs alone. The comparison is set out in the table on the following page.

The table shows that in 1976 wages in Italy, U.S., France and Germany were higher than the maximum permissible. Thus, even though wages in these countries were lower than

\[ \text{CCAC, 1981, op. cit., p. 28.} \]
the Canadian wages, their labour-cost advantages were more than offset by tariffs. As a result, imports from these countries were competitive in the Canadian market for reasons other than lower wages. In 1978, in addition to the above countries, actual wages in Spain were also higher than the maximum permissible, and the U.K. came close. However, wages in Korea and Taiwan were too low in both 1976 and 1978 to be offset by tariffs.

Table XX
LEATHER AND VINYL FOOTWEAR: TARIFF AND LABOUR COST ADVANTAGE OF IMPORTS

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SOURCE: CCAC, op. cit., p. 38.

It is clear that imports from Italy, Spain, U.S.A. and Germany, all of which were significant exporters of footwear to Canada, were not competitive because of lower

38 See Table VII, Chapter Two of this dissertation.
wages but due to other factors. These may have included styling, marketing, quality, and productivity. Although analyses for the post-1978 period are not available, it is reasonable to conclude that higher wage increases in the footwear industries of the major exporting countries compared to those in Canada would have only further reduced their labour cost advantages, where they existed.

CONCLUSION

Among the instruments used to assist the footwear industry, tariffs was the least contentious. There was no significant opposition from any quarter, domestic or international, for assisting the industry through this instrument. The fact tariffs on footwear had been high since the National Policy days gave them an unparalleled legitimacy for continued existence. Even though in the 1960s tariffs began to lose some of their usefulness as an instrument of protection, the desperate conditions of the industry led it to fight against their possible reduction.

The Canadian government accepted the domestic producers's demand because of the absence of any opposing pressures on it. The tariffs on footwear had traditionally been high, here and abroad, and there was no attempt by any major country to significantly reduce the rates at the various rounds of GATT negotiations. The lack of

\[39\] See ibid.
international constraints enabled the government to meet the industry's demands in entirety. The most interesting conclusion of this chapter, however, was the finding that the actual level of tariff protection afforded the industry was not what it appeared to be on the basis of tariff schedules. Additional protection was provided through "value for duty advances". Provisions in the domestic customs laws, and the absence of prohibition against such practices in international laws, were arbitrarily used to offer enhanced tariff protection to the domestic industry. The fact other nations followed similar dubious practices only made it easier for the Canadian government to follow this course. Thus, between the early 1970s and the end of 1984, footwear imports from all significant sources were subject to varying degrees of duty advances.

The practice of artificially raising a product's price for duty valuation purposes ended after the implementation of Customs Valuation Code by Canada in 1985. The domestic footwear industry, of course, pressed the government to resist accession to the Code. However, the international pressures on Canada, and the fact that the much more powerful domestic export interests supported it, made stopping its adoption virtually impossible. The manufacturing interests simply did not possess the organizational capacity to impose their objectives on the
state on issues on which the two disagreed.

The trading interests played a negligible role in the policy process relating to tariffs. They rather accepted high tariffs on footwear as *fait accompli*. In any case, they lacked the organizational strength, as shown in Chapter Three, to play a vital role in the policy arena.
Chapter Six

FINANCIAL ASSISTANCE PROGRAMMES

There are essentially two kinds of policy instruments to assist a declining industry: protection from imports through tariffs and/or quotas, and financial assistance to make the industry more competitive. The two are fundamentally different in the way they are intended to assist an industry. Protection from imports is designed to reduce the level of competition in the domestic market, thus favouring the maintenance of status quo. In contrast, financial assistance is typically geared towards improving the competitiveness of the recipient firms, and ultimately the industry in question.

This chapter will discuss the financial assistance programmes available to the Canadian footwear industry during the 1970-1985 period. It will be argued that the government's policy towards the footwear industry throughout the period under consideration displayed an emphasis on assistance through grants and loans for the modernization of plants and management. This was the result of factors related to the organization of the state, manufacturing interests, and the structure of the international political economy.
THE GOVERNMENT'S PERSPECTIVE

The policy goals of the government with regard to the footwear industry were simple: "... to improve the domestic and international competitive position of the industry, to ensure its viability without special government assistance, and especially without trade protection other than tariffs." The statement contains two elements which formed the basis for the government's policy throughout the period under consideration. First, the government was confident the industry could become internationally competitive, and second, it was determined not to protect the industry from international competition through means other than tariffs. The former was predicated on the belief that major sectors of the industry were essentially viable and could, with government assistance, become internationally competitive. At the same time, it was accepted that production in certain sectors was unviable and hence would have to be vacated to imports. The government's determination to assist the industry only through tariffs and financial assistance received, as will be seen in the following chapter, a set-back in the late 1970s, but was never abandoned.

The most important objective of the government, as a part of its overall goal, was to improve the quality of

1PAC, Records of ITC, RG 20, Accession 83-84/82, Volume 131, File 43/710, part 1, L. C. Howey (Director, Apparel and Textile Branch) to R.G.Head (A.D.M., Operations), July 14, 1970.
management in the industry. In the government's estimate, it was the poor quality of management in the industry which was the main problem to be overcome. It believed that once management was improved, other problems could be solved by the industry on its own. The industry was viewed as consisting of family-owned businesses run by people who were "conservative", "paternalistic", and "narrow-thinking".  

There were few professional managers working in the industry, and this was seen as a critical problem. As a result, programmes designed during this period bore a heavy emphasis on improvements in management.

The conclusions regarding the poor quality of management in the industry were no doubt based on personal experience of the staff in the Footwear Division who maintained every-day dealings with the industry. Their personal experience was further reinforced by the report of an American consulting firm which had been commissioned by the Division in 1970 to study productivity in the industry. The Report noted that a Harvard business professor's description of the American footwear industry --"More a way of life than an economic sensibility"-- was equally apt for the Canadian industry. According to the consultants, "...
shoemaking [was] too often considered as an art, rather than science. In the course of its study, it found the problem clearly manifest in the existing management in the industry:

1. Shoe management is too often guided more by past experience and controlled by emotional judgement than by logically and factually derived decisions.

2. The necessary management techniques and procedures in use are too often ineffective, improperly used, or not used at all.

Unless the industry adopted, it argued, modern management principles, "... new equipments, new techniques, new procedures, and new materials will be relatively meaningless in the quest for improvement of the industry as a whole." It further noted that while improvements in technology and marketing were necessary, it is "[the] managerial improvements indicated in the Report [that] will have the most immediate effect...." The changes, it recommended, should be effected at all levels of management in the industry. An OECD report on the footwear industry among member countries corroborated this conclusion.

Convinced that management in the industry was deficient, the Footwear Division set about designing programmes which would bridge the shortcomings. The

5 Ibid.
6 Ibid., p. 137.
7 Ibid., p. 138.
8 Ibid., p. 164.
9 OECD, op. cit.
instrument through which the government sought to improve management was financial assistance. Such assistance, coupled with high tariffs, was seen as all that the government needed to provide to make the domestic industry competitive. Financial assistance was available for two broad purposes: productivity improvement and marketing practices improvement. A briefing prepared for the minister of ITC asserted that in order to make the industry competitive, the Department "... has developed two basic approaches --Productivity and Technological Improvements, and Changes in Marketing Practices."^10

Productivity Improvement

The measures to improve productivity displayed four main features: operational audit of firms by independent consultants; preparation of restructuring plans for firms by consultants; reduction in the total number of firms in the industry; and inter-firm comparison.

The role of independent consultants was viewed as critical in improving the productivity of firms. Consultants, the government believed, not only recommend means of improving productivity, but more generally infused modern management techniques into the industry as well. As far back as 1968, a study on the Quebec footwear industry had recommended financial assistance for firms using the

^10 PAC, Howey to Head, loc. cit.
services of consultants. It noted that:

There [was] practically no government assistance toward solving the most important problems confronting the small and medium-sized companies. This [was] especially true in the field of applied research, industrial engineering and management consultation.\textsuperscript{11}

Recognizing that it would be difficult for management to change the inefficient practices it had developed over many years, the Schwab Report suggested that "[the] changes can be most readily achieved by providing existing management personnel with understandable, tangible and provable facts and figures which can be used to measure the importance of each and every problem and proposed solution."\textsuperscript{12} It further recommended that "Each company within the industry, regardless of its level of effectiveness, should immediately subject themselves to a detailed audit of manufacturing effectiveness...."\textsuperscript{13} Under these influences, one of the main thrusts of all financial assistance programmes was to provide grants to firms to retain independent consultants to investigate their operations.

The second component of productivity improvement measures involved the preparation of individual restructuring plans for firms by consultants. The Schwab Report had put

\textsuperscript{11}Quebec, Research Committee on the Quebec Shoe Industry, "Report and Recommendations" (Quebec, Ministry of Industry and Commerce, and Ministry of Labour, and, Canada, Department of Manpower and Immigration), 1968, p. 81.

\textsuperscript{12}Schwab, \textit{op. cit.}, p.139.

\textsuperscript{13}Ibid., p. 158.
heavy emphasis on the need for planning by firms.\textsuperscript{14} It was expected that on the basis of operational audit, firms would formulate a long-term comprehensive plan to correct their weaknesses and build on strengths. The preparation of the plan was recognized as a complex task which only experienced consultants could accomplish. Government programmes, therefore, provided grants to firms retaining consultants to prepare restructuring plans.

The third component of the government's programmes was reduction in the total number of firms in the industry. This was necessary, it was believed, to enable firms to take advantage of larger production runs and attain economies of scale, and thus reduce unit production costs. The number of footwear plants in Canada was twice as many per capita as in the U.S. The Schwab study had recommended that the optimum size of an establishment in the footwear industry in terms of employment ranged from 170 to 330 workers, depending on the sector. Only a handful of Canadian establishments employed that many workers. As a result, government programmes throughout the 1970s encouraged a reduction in the number of establishments. Loans and acquisitions were made available for firms to merge with or acquire other firms. A government document argued that government programmes "... plus the expectation that competitive pressures will continue to force the small manufacturer out of business will result in major

\textsuperscript{14} See \textit{ibid.}, p. 144.
structural improvements." (emphasis added) It was only in
the 1980s that the emphasis on mergers and acquisitions was
abandoned because of the findings that medium-sized firms,
and some highly specialized small firms, were more profitable
than the larger ones.

The final, and of lesser importance, component was
inter-firm comparison. It involved preparation of
inventories of the performance of individual firms in the
industry. The purpose was to establish a rough industry
bench-mark against which individual firms could evaluate
their own performance. The cost of acquiring information was
borne by the government, with the firms expected only to co­
operate with the government officials by providing the
required information.

Marketing Practices Improvement

The objective of improving marketing practices was
more amorphous than that of increasing productivity.
Everyone knew what it generally meant; there was also a
consensus that it was critical for the industry to improve
these practices if it was to be competitive against imports.
What could not be specified was the role the government
should play in this area. The need for government action had
begun to be recognized in the late 1960s, but this translated
into few concrete programmes in the following decade, or even

15 PAC, Howey to Head, op. cit.
Recognizing that the future of Canadian footwear lay in medium- to high-priced range, the government was "... actively encouraging manufacturers to vacate the low end to imports." The relatively higher labour costs in Canada made it difficult for domestic manufacturers to compete with imports from low-wage countries, which were almost exclusively concentrated in low-priced footwear. But neither was the competition at the upper end of the market any less severe because of the image of certain European countries as premier centres of apparel design, which gave them a tremendous marketing advantage. It was recognized that an effective marketing strategy was needed to compete with imports from developed countries. Towards formulating such a strategy, the Footwear Division commissioned the consulting firm of Leetham, Simpson, which submitted its Report in January, 1972.

The Report contained a large number of disparate recommendations. The Footwear Division in co-operation with SMAC developed a 'Marketing Plan' based on the consultants' report. In January 1973, another official in the Division

16 Ibid.
18 PAC, File 43/530 part 1, loc. cit., "A Marketing Plan for the Canadian Footwear Industry", prepared by M. Olivier (Footwear Division) and N. Finkelstein (SMAC), July 1972.
produced a report which contained many of the same recommendations. The Division generally agreed with the various recommendation made in these reports (except for the Leetham, Simpson's suggestion to control imports) and designed programmes in line with them. The programmes entailed three main thrusts: strengthening the machinery for collection and diffusion of marketing information, strengthening design capabilities of the industry, and increasing the industry's exports.

Trends in market demand for apparel items began to shift so rapidly after the mid-1960s that only firms which could keep up with the latest fashion could hope to survive. To keep abreast with the changes it was necessary for firms either to collect directly, or have access to, information on trends in consumer spending, colour and style, advertising, retailing practices, and the like. The problem with the Canadian footwear industry, as viewed by the government, was that firms were often too small to collect information on their own. There was also no central organization from which they could avail the information. It was believed the government could play a vital role by providing financial assistance for strengthening the machinery for collection

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19 This report was written, as the author himself admitted, with women's skirt in mind, that is to say, "it was short enough to be Interesting but long enough to cover the subject." ITC, Apparel and Textile Branch, "An Analysis of Fashion Design in the Canadian Clothing and Footwear Industries", Study prepared by Chris S. Kuzik, January 16, 1973.
and diffusion of marketing information on the footwear industry. There were several government programmes geared towards this end.

The rapid changes in fashion also meant that the footwear industry had to develop its own internal design capabilities if it was to have an edge over imports. Innovative design was especially critical at the upper-end of the market, in which the domestic producers eventually hoped to compete. Their poor reputation in this regard only made the task more difficult. To overcome the deficiency, the government offered scholarships for designers to take training at well-known design schools in Europe.

Increasing exports, especially to the U.S., was another major thrust of the government's programmes. It was believed that the industry could improve its condition by increasing exports, despite the loss of certain segments of the domestic market to imports. Canada's international image as a country with a cold and rugged climate, it was felt, could be used by the industry to bolster its exports of winter boots, skates, and ski boots. As such, there were several assistance packages available to the industry for increasing its exports.

THE INDUSTRY'S PERSPECTIVE

While the government believed that the domestic footwear industry could become internationally competitive by
improving its productivity and its marketing practices, through improvement in management, the industry itself did not share this point of view. The latter, on the contrary, argued that the "Canadian manufacturers [were] just as, if not more, effective than any other manufacturer in the world in terms of management, production and marketing practices." It went on to argue that the increase in imports

... has been brought about by the huge price disparity in favour of imports. What causes this price disparity? For the most part, low wages.

Since the government and the industry could not agree on the causes of the industry's problems, it was not surprising that they did not agree on the proposed solutions.

The industry's outright rejection of the government's contention that there were deficiencies in the industry with regard to productivity and marketing impeded it from participating in programmes that were geared towards bridging these gaps. The SMAC President's response to the extension of financial assistance to the industry in 1970 was typical of the industry's position:

The industry has absolutely no need for additional facilities to improve production. There is too much equipment now standing idle because imported footwear


Ibid.
has a major share of the Canadian business.  

A similar position was taken by SMAC in a letter to ITC:

We have pointed out [in the past] the discrepancy in the government's assumption that the only requirements needed to meet foreign competition are modern facilities and improved productivity, marketing and management. In reality, ...the industry is not experiencing import troubles because they are inefficient, unproductive or using obsolete equipment and machinery; in most cases, Canadian footwear firms have facilities and equipment equal to or better than similar facilities anywhere in the world, enjoy substantially higher productivity, have large-scale factories, and are more market conscious.

All the industry's arguments in one way or another led to the conclusion that the lower wages abroad were its main problem, to which financial assistance was not the solution.

The only effective way in which the government could assist the footwear industry, SMAC argued, was to impose quotas on imports. As an independent evaluation of the assistance programme for the footwear industry found: "Most shoe and tanning firms would prefer a minimum role for government except for protection from imported goods." The industry's preference for quotas over financial assistance

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22 Ross Hahn, quoted in *Kitchener-Waterloo Record*, December 4, 1970.


was expressed formally for the first time in 1970; it has not changed up to this day. In fact, as part of the Association's strategy, the footwear manufacturers were discouraged from making use of government assistance because of the fear that this might weaken their case for quotas.

To improve the attractiveness of its assistance, and to weaken the demand for quotas, the government continuously enriched the benefits it was providing the industry. In 1977, along with the existing programmes available to it, the industry succeeded in securing quotas on imports as well. However, as will be seen in the next chapter, the government never really set aside its emphasis on financial assistance and made every effort to eliminate or weaken quotas on imports.

INDUSTRIAL ADJUSTMENT PROGRAMMES

After internally debating the option as to the most effective way of assisting the footwear industry, by 1970 the government had a fairly clear idea with respect to what it wanted to do and what it expected of the industry. It spent the following three years working out specific programmes to implement the overall plan. In a sense these were


evolutionary, because of the continuity and the refinement in each subsequent programme. By the mid-1970s, however, innovation in new programmes for the industry had stopped. The programme established in 1981 was basically a continuation of the thrusts of the programmes laid out in the early 1970s.

GENERAL ADJUSTMENT ASSISTANCE PROGRAMME (GAAP)

GAAP was one of the earliest industrial adjustment programmes in Canada. It was established in 1968, following the Kennedy Round negotiations of GATT. Its main purpose was to assist manufacturing firms which had been adversely affected by reduction in Canadian tariffs, or those which wished to capitalize on export opportunities opened by reduction in tariffs abroad. Since the reduction in tariffs on footwear was marginal in both Canada and abroad, the programme was of little use to the industry. In early 1970, as a part of the announcement of the Textiles Policy, the textiles and clothing industries were excluded from the requirement that there must have been a reduction in tariffs for the industry to become eligible for assistance under the programme. The modification was extended to the footwear industry in December of that year.\(^\text{27}\)

In order to qualify for assistance, the firms had to demonstrate the viability of the project and that they

were unable to get financing from usual sources. The forms of assistance included: government insurance for 90 per cent of the loans from private lenders; direct government loans to firms facing exceptional problems; and grants to cover up to 50 per cent of the costs of developing a restructuring plan for which loan assistance was being sought. The programme emphasized loans and loan insurance because in those days it was not common for banks to extend long-term loans. This was especially true for the footwear industry which had an image of being an industry in decline.

The terms on which GAAP assistance was available were difficult to meet. Its requirement that firms must have been turned away by banks to be eligible for assistance ensured that only extremely weak firms applied for it. They would have been financially so weak that they would have had a hard time persuading banks to provide loans despite the government's guarantee. Moreover, their financial circumstances often did not allow them to develop viable projects. For many such firms, assistance covering only 50 per cent of the costs of a restructuring plan was not enough of an incentive to take the risk. As a result, GAAP was hardly used by the industry. Between 1970 and 1973, only 2 footwear firms gained assistance under the programme.

The programme ended in April 1977. But for the footwear industry it had for all practical purposes ended by the end of 1973, because after that year it could get better
assistance under other programmes.

The initiative for the extension of GAAP to the footwear industry had come from the Office of Industrial Policy, ITC. Other departments supported the measure because it involved only small additional expenditures and, more importantly, weakened the case for quotas. The industry had not asked for its extension. In fact, in April of that year, SMAC had submitted a brief to the government demanding quotas on imports. The government's hurried announcement of the GAAP's extension in that year was partly an effort to appease the industry in return for refusing to impose quotas.

PRODUCTIVITY ENHANCEMENT PROGRAM (PEP)

Introduced in November 1972, PEP, like GAAP, was a programme available to all manufacturing industries. However, unlike GAAP, it had a narrower objective of improving productivity in a firm, rather than "restructuring" the firm. In this sense it was a modest programme, which perhaps was the reason for its success.

PEP provided grants for studying the feasibility of projects to improve "substantially" the productivity of the firm. The proposed project had to be a significant departure from the firms' existing practices. However, the proposal could not involve an unproven technology. Under the

28 Interviews, J. M. Belanger (General Director, Office of Industrial Policy), May 21, 1987, and L. Drahotsky (General Director, Office of Industrial Policy), May 29, 1987.
programme, the government contributed grants up to 50 per cent, to the maximum of $50,000, of the cost of feasibility study. In the case of footwear industry, a special exception was made whereby the firm could also receive up to 25 per cent of the cost of market survey. All capital costs were excluded.

This was a highly popular programme among footwear manufacturers. Since it was a straightforward programme for productivity improvement, almost all firms could use it. In order to get assistance, they did not have to go through an operational audit of the firm or the exercise of developing a comprehensive restructuring plan. As a result, it took less time for the firms to prepare, and for the government to process, the application. The assistance was in the form of pure grants, with few strings attached.

Until the end of 1973, about $2 million was approved for 16 projects in the footwear industry.\(^\text{29}\) Although the programme formally ended in 1977, no footwear firm was allowed assistance after December, 1973, because of the availability of other programmes directed specifically at the industry.

JOINT FEDERAL-PROVINCIAL DEVELOPMENT PROGRAMME

While GAAP and PEP were ITC's official programmes available to all manufacturing industries, the Footwear

\(^{29}\)ITC, "Sector Strategy", undated (late 1973?).
Division was also devising new ways of specifically assisting the footwear industry. In 1971, it developed what was internally called a "Development Plan". It was not an official programme and did not involve additional financial commitment by the government. It basically involved promoting greater utilization of the existing programmes by the footwear industry and co-ordinating their implementation.

The experience with the Development Plan led the Footwear Division increasingly to the conclusion that the co-operation of the provincial governments, especially those of Quebec and Ontario, was essential for the programmes for the footwear industry to be successful. This was particularly true for Quebec, where the industry's malaise was far more serious and concerted action was required to ameliorate the situation. This led to increased informal co-operation between the Division and the Quebec's Department of Industry and Commerce. Soon, in late 1971, this co-operation was formalized by an agreement between the two levels of government on what was called a "Joint Federal-Provincial Development Program". It had two components: inter-firm comparison, and promotion of the existing programmes.\(^\text{30}\)

Inter-firm comparison, discussed earlier in the chapter, was conducted through collection of data on individual firms jointly by the federal and Quebec officials.

Similarly, GAAP and PEP were promoted by Quebec officials who encouraged footwear firms to apply for assistance and helped them prepare the applications. Moreover, the Quebec government provided additional grants equal to 25 per cent of the amount approved under GAAP or PEP to the firms in the province. It also provided $5,000 as first year salary contribution to middle managers hired to implement restructuring plans. By 1973, 11 footwear firms in Quebec had been assisted under this programme.\(^{31}\)

In the Fall of 1972, an informal arrangement along the lines of the agreement with Quebec was started in Ontario.\(^{32}\) However, there was no formal agreement between the two levels of government. Nor did the government of Ontario provide additional assistance to firms in that province.

The Footwear Division was overly confident about the potentials of concerted action by the two levels of government. One of its officials claimed that if the plan was implemented, within 18 to 24 months, "... the industry will indeed experience the necessary turnaround and realize to a significant degree the potential the government is


\(^{32}\)See PAC, File 43/530, loc. cit., G. E. Dubois (Assistant Director, Apparel and Textile Branch) to footwear manufacturers in ONtario, September 18, 1972.
Chapter Seven

QUOTAS ON FOOTWEAR IMPORTS

Quotas are the ultimate instrument a country can use to control imports, short of banning them altogether. While tariffs merely make imports uncompetitive on the market, quotas set an absolute limit to the level of imports of a specified product into the country. Recognizing their inherent capacity to disrupt international trade in favour of domestic producers, international and domestic laws severely restrict the conditions under which quotas can be employed by governments.

Although the impact of quotas on the market is similar to that of tariffs, the way in which they operate is vastly different, and more complex. By limiting the level of imports, regardless of their competitiveness, the former greatly reduces the pressures of competition on the domestic producers. As a result, the costs to consumers and the economy as a whole are high, far more than tariffs. Correspondingly, the benefits accruing to domestic producers and workers are also higher. The costs are even more if quotas are set in terms of aggregate volume rather than value of imports. It encourages quota holders, because of the ceiling on the volume they can import, to achieve growth in business by substituting lower-priced products with those of higher price.


FOOTWEAR SECTOR STRATEGY

The Footwear Sector Strategy was officially announced on December 21, 1973. Alistair Gillespie, the minister for ITC, described the objectives of the Strategy as follows:

[It] will put them [manufacturers] into a position of new strength to become more competitive, to rationalize into larger units, to undertake expansion of operations as necessary and to take full advantage of and become leaders in changing world markets.

It is clear the basic thrust of the Strategy was the same as those of the earlier programmes. In a sense it was a culmination of the forces that had led to the establishment of its predecessors.

The Sector Strategy was an outgrowth of the government's efforts to refine the existing programmes, as well as the result of the political circumstances of the time. The experience with the administration of GAAP and PEP

33 PAC, File 43/530 part 1, Proposal, loc. cit.


had led the Footwear Division staff to the conclusion that the programmes were not focussed or generous enough to interest the generally conservative industry. It was believed that if the government gave more financial assistance on easier terms, firms could be persuaded to increase their utilization of the various programme. Moreover, despite the great deal of talk about giving assistance for improvement in marketing practices, little had been done in this regard. As a result, a comprehensive package of assistance was developed which included some existing programmes in an enriched form along with some new programmes.

Even before the government had decided to develop industrial strategy for specific industries, the Division was already working along the lines of developing comprehensive programmes for the footwear industry. In December, 1972, an internal document was talking of programmes that were remarkably similar to those announced a year later. As a result, in late summer of 1973 when Alistair Gillespie asked the Department to draw up a sector strategy, the Division was already prepared for it. It basically put the existing programmes and those on the drawing board together and presented them as sector strategy.

\[36\textit{PAC, File 43/530 part 1, "Leather and Footwear Sector", loc. cit.}\]
\[37\textit{Chapleau, interview, loc. cit.}\]
The Strategy was also a product of the overall policy context of the time. Starting in 1971, ITC was under pressure from its minister, Jean-Luc Pepin, to develop a comprehensive 'industrial strategy' for Canada.\(^{38}\) The futility of the exercise to develop an overall strategy that took into account the interests of all the industries led Pepin's successor, Alistair Gillespie, to temper the Department's goal to come up with sectoral policies for individual industries.\(^{39}\) There was already a precedent for this in the policies announced for the automobile and textiles industries only a few years earlier. As one senior official involved with the process put it, "The Sector Strategy was really an exercise in self-scrutiny on the part of the government and an attempt to give coherence to the policy towards each industry."\(^{40}\) Efforts along this line had been underway in the Footwear Division since at least 1970. As a result, when the word went out in mid-1973 to develop a Footwear Sector Strategy, the Division was well prepared.

The Footwear Sector Strategy was also, no doubt, precipitated by the submission of the Report on the footwear industry by the Anti-Dumping Tribunal in April, 1973. The industry, and even the government to some extent, were expecting a finding of injury from imports which would

\(^{38}\)See French, *op. cit.*, pp. 105-115.

\(^{39}\)See *ibid.*, pp. 115-129.

\(^{40}\)Belanger, interview, *loc. cit.*
lead to controls on them. When the Tribunal concluded no injury, the government apprehended opposition from the industry and a reduction in its participation in the government's programmes for rationalization. The government sought to appease the industry by sweetening the assistance package. At that time, E. O. W. Hehner, SMAC's government relations consultant in Ottawa, reported to the Association that "... the government [has] been so hard hit by the conclusions of the Report that they would come out with a programme where the industry would be much better off than having attained quotas." It is likely that programmes similar to those announced under the Strategy would have in any case been offered at some point in time; the Tribunal's Report only expedited the announcement.

There was no significant opposition to the proposed Footwear Sector Strategy from any quarter. The fact that it basically continued the thrusts of the existing programmes, that it did not involve a great deal of additional expenditure, and that it had the strong backing of the Minister of ITC, ensured that it went through without opposition within the government. Even SMAC, after it had overcome the disappointment of the denial of quotas, tried to make the best of the situation by participating in the Strategy. Its Directors had been shown the proposed

programmes, in confidence, far in advance of the announcement and had agreed with the proposals. At the same time, they also reminded the government of the need to assure the industry that it "... will not be continually threatened by disruptive imports from low-cost and state-trading countries." After the Strategy was formally announced, the manufacturers were generally supportive. "The new 'sector strategy' developed by the ITC for the shoe manufacturing and tanning industry [was] welcomed by industry spokesman as just what [was] needed to encourage rationalization."

The following were the various programmes comprising the Footwear Sector Strategy.

1. Footwear and Tanning Industries

Adjustment Programme (FTIAP)

Coming into effect on January 1, 1974, FTIAP was the centre-piece of the Strategy. Like earlier programmes, its emphasis was on financial assistance to firms for hiring consultants to conduct operational audit and prepare restructuring plans. The only difference was that the government paid for a larger share of the consultants' costs, and that assistance was also available to consortia of firms.


43Ibid.

Under FTIAP, the government gave grants up to 80 per cent of consultant's costs for conducting audits and preparing business plans. It also paid for grants up to 80 per cent of the consultant's costs for implementing the plan. To cover other costs related to the implementation of the plan, it provided direct loans to manufacturers, if they could demonstrate that funds were not available from other sources on reasonable terms. Loans could be availed for improvements in financial and plant control systems, marketing methods, plant and machinery, working capital, and administration. There was a ceiling of $1 million per loan that could be provided under the programme. The loans carried an interest rate, at the minimum equivalent to that charged by the Government of Canada to Crown corporations, and at the maximum 2 1/2 per cent higher than that.

FTIAP was the government's first direct lending programme in Canada. The reason for providing direct loans was based on the government's experience with earlier programmes whereby firms had difficulty getting loans from banks despite government insurance. However, the loans so provided were not without conditions. The government's position as a creditor gave it enormous powers to modernize the debtor firms. It would often include conditions relating to changes in management or financial control.

Frank Prud'homme (Officer, Textiles Branch, ITC), interview, May 4, 1987.
systems as terms of the loans. The firms obviously did not like government interference, but they often had no choice because of their poor financial condition. The purpose of the government's conditions was to spur the recipient firms into adopting modern management practices.

FTIAP was heavily promoted by the Footwear Division, and the participation rate was greater than was the case with earlier programmes. During its existence from 1974 to 1981, grants disbursed toward consulting costs amounted to $2.7 million. Out of this, $0.9 million was for operational audit and preparing business plans, and $1.8 million for plan implementation. Direct loans authorized under the programme exceeded $13 million.

During its existence, 46 firms were assisted with operational audits, and 38 for preparing business plans. Consulting grants were also granted to 6 common service consortia at the cost of $96,000. Loans were provided to 12 firms. Out of these, 4 later ceased operation, accounting for 46 per cent of the total loans provided. In fact, the government had to write-off the entire loans to these firms, two of which had been given loans of $4 million each.

The loans programme was not as successful as was contemplated because of the continuing reluctance of firms to apply for them. As an independent evaluation of the

46 Ibid.

programme concluded:

Government loans were not always at competitive rates of interest and usually required as much or more security than commercial loans. Also there were considerable delays in awarding loans as the government usually required more studies and information than do banks and regular lending establishments.  

The restrictive terms of the loans were also discouraging to those opposed to government interference. The study found that large firms applied for loans more often than the small ones. The former could see the usefulness of having their operations studied by an outside consultant, especially when 80 per cent of the costs were being borne by the government. 49 For medium-sized firms, even the remaining 20 per cent of the consultants' costs was not attractive enough unless they could be reasonably sure that it would lead to increased sales or reduced costs. There was also conflict between the government and the industry with regard to the programme's objectives, which prevented greater programme utilization. Firms wanted quick solutions to their immediate problems, whereas the government insisted on restructuring all operations of the firm.

2. Management Development Measures

The Sector Strategy consisted of measures to improve the quality of personnel in the industry, especially at the managerial level. There was a Management Development

48 Portis, op. cit., p. 10

49 Ibid., p. 13.
Programme which provided subsidies for courses and seminars of interest to senior and middle managers in the industry. They were usually held in co-operation with the industry.

Management Scholarship Programme assisted firms to send their managers for up to one year for training at a specialized educational institutions abroad. The government paid for two-thirds of the allowable expenses, to a maximum of $5,000. Between 1974 and 1981, when the programme was terminated, 34 officials from the footwear and tanning industries availed assistance, at the cost of about $140,000 to the government. Over 70 per cent of the participants remained in the industry.50

An Operator Training Programme, administered by Manpower and Immigration, financially assisted groups of firms to formally train their production workers.

3. Inter-firm Comparison Programme
This was a continuation of the programme as discussed earlier.

4. Development and Productivity Services
It was spelled out in the Sector Strategy but was not implemented until 1976, when the Footwear and Leather Institute (FLICC) was established. FLICC's objective was "... to provide specialized services to its member firms, services that would not be practical or affordable on a full-time basis for small and medium-size firms. Services [were]
provided in the areas of productivity improvement, marketing, human resource management and financial management." The government pledged $1,000,000 towards its start-up and initial operating costs. Firms representing 70 to 80 per cent of the total domestic production were members of the Institute; it also had a similar level of representation from the supplier industries.

5. Colour and Fashion Trend Services

The government assisted the establishment of this service for footwear, tanning, textile and clothing industries. Managed jointly by the four industries, its purpose was to collect and diffuse information on emerging trends in colour and style in apparel. It was established in 1975 and had 30 footwear and tanning firms as members. It was disbanded in November 1977 because of lack of interest among the participating industries.

6. Design Scholarship Programme

In order to improve the capability of the Canadian designers in the footwear industry, the programme was established to encourage firms to send their designers to recognized footwear design schools in Europe. The government provided two-thirds of the costs, to the maximum of $5,000. Between 1974 and 1981, 14 trainees received scholarships, at the cost of about $50,000 to the government. All recipients remained in the industry.

51 Ibid., p. 13.
7. Marketing Information

The government made a greater attempt to strengthen and co-ordinate statistical information on footwear and tanning industries, so as to enable firms to identify trends and plan accordingly.

8. Image Enhancement Programme

This involved improving the image of the Canadian footwear industry in the public mind through promotional films, 'Buy Canadian' campaign, topical articles, et cetera.

9. Export Promotion Assistance

The programme provided financial support for the Montreal International Footwear Exhibition, and the International Fall and Winter Footwear Fair. Footwear firms were encouraged to use the assistance available under the Program for Export Market Development. The government also assisted the organization of seminars on export marketing for footwear firms.

10. Commercial Policy Measures

Under this package of measures, most categories of footwear were excluded from GSP tariff rates, which allowed exports from developing countries to enter Canada at preferential rates. The government also reduced tariffs on certain input materials and components which were not made in Canada, such as kid leather. There was a greater commitment to use valuation procedures to ensure that footwear entered Canada at the highest possible tariff rates.
Initially, there was a great deal of enthusiasm in both the industry and the government to make the programmes under the Sector Strategy successful. The flood of imports in 1976 and 1977, however, dispirited the industry and led to the curtailment of many restructuring plans by the firms. Portis's evaluation, conducted in 1977, noted that "[the] current down-turn seemed to be overwhelming most of the progress made in recent years. Most private investment was being curtailed." The imposition of quotas in that year only further weakened the centrality of the Strategy in the government's policy; from then on, the issue of continuing or eliminating quotas became the dominant issue.

**CANADIAN INDUSTRIAL RENEWAL PROGRAM**

On November 24, 1981, the government extended, along with the withdrawal of quotas from leather footwear, the Canadian Industrial Renewal Programme (CIRP) to include footwear and tanning industries. A month earlier, the government had established the programme

... to help restructure, consolidate and modernize the textile and clothing industries, to renew the economic base of communities heavily dependent on those industries and most likely to be affected by the gradual liberalization of world trade in those commodities, and to help workers affected by these changes.

52 Portis, *op. cit.*, p.26


By extending it to the footwear industry, the government intended to restructure, consolidate and modernize the industry in the same way it had planned for the other two industries. As far as the footwear industry was concerned, however, CIRP did not represent as much of a new initiative as it did for the textiles and clothing industries because it already had a similar programme in FTIAP. In contrast, the latter had no specific programme available to them until CIRP was announced.

Although CIRP essentially offered the same assistance as FTIAP (which had expired earlier in the year), it did contain some unique features as well. The first was its operational philosophy of only supporting strong firms, not necessarily those in need. This was different from the earlier programmes which required that the applicant firms must have exhausted the usual sources of financing to qualify for assistance. Second, it was a sunset programme whose date of expiry (March 31, 1986) was fixed in advance. The programme expired as planned, but the benefits will continue to be paid until 1990. Third, it was administered by a Board (CIRB) which had a majority representation from the private sector. Out of the total membership of 17, the Board contained 12 representatives from the private sector, headed by Paul Desmarais, Chairman of Power Corporation. It also consisted of 5 senior members from the public service. To further emphasize the importance of the programme, CIRB was
to operate under the direct supervision of a Special Committee of Ministers, chaired by the Prime Minister himself.

The establishment of CIRP, originally for textile and clothing, and its eventual extension to the footwear and tanning industries, arose from disparate circumstances, even coincidences. The most widely held explanation for its extension to the footwear industry is that it amounted to compensation to appease the industry in return for the removal of quotas from leather footwear. Be that as it may, the establishment of Industry and Labour Adjustment Program (ILAP) in 1980, primarily in response to the severe problems of restructuring being faced in the automobile parts industry, had set the tone for establishing comprehensive adjustment programmes to include industry, and the communities and workers dependent on them.

The initiative to establish CIRP, and its extension to the footwear and tanning industries, came straight from the cabinet. It was the outgrowth of the government's wish to offer to the textiles and clothing industry an assistance package for restructuring so rich that will make the industry modern and competitive for once and for all. The Textile and Consumer Products Branch already had experience with a similar programme, FTIAP, and hence

55 Chapleau, interview, loc. cit., and Richard Pageau (Vice President, CIRB), interview, June 10, 1987.
developed a proposal based on it.\(^{56}\) During inter-departmental discussions, the MSED had suggested the addition of community adjustment measures to the programme,\(^{57}\) and eventually, labour adjustment measures were also added—based on experience with ILAP. Considering that the proposal had a strong backing of the cabinet, other departments did not offer major objections, despite the unprecedented level of expenditures it involved. FTIAP had ended earlier in that year, quotas on leather footwear were being removed, and hence something needed to be done to placate the industry. The choice of extension of CIRP seemed logical.

The footwear industry was not consulted about the extension of CIRP. In fact, it was openly hostile to a programme which was seen as replacing quotas. Nor was labour consulted with regard to the labour adjustment measures. But after the programme was announced, the beneficiaries' initial reluctance vanished, once they recognized the bounties it had to offer, realizing well that they were unlikely to get a second chance at a trough so rich.

CIRP had three components: The Sector Firms Programme (SFP), Business and Industrial Development Programme (BID), and Labour Adjustment Programme (LAP). Since the last was directed at labour adjustment, it will be dealt with in a separate section later in the chapter.

\(^{56}\) Chapleau, interview, \textit{loc. cit.}

\(^{57}\) Pageau, interview, \textit{loc. cit.}
1. Sector Firm Programme

This programme was directed at expediting the restructuring of the textiles, clothing, footwear and tanning (TCFT) sectors. In its basic design and thrust, it followed FTIAP. The main difference was that it assisted only firms with proven performance and satisfactory financial resources. As one former senior official of CIRB put it, "SFP was not an assistance programme. It was an incentive programme."\(^5^8\) It provided rich cash grants to strong firms to incur additional expenditures towards modernization which they would not have otherwise undertaken.

As originally planned, SFP had four schemes for assistance: restructuring and modernization; common services; mergers and acquisition; and loan insurance. CIRB later decided not to assist firms through loan insurance because of its emphasis on grants. Similarly, it decided not to assist mergers and acquisition because of its lack of expertise in the area, and also because in the 1980s it was becoming doubtful whether encouraging firms to become larger was a right strategy.

Restructuring and modernization was the largest component in SFP. It was a three-phase scheme whereby, first, the firm had to have its operations evaluated by an independent consultant. CIRP paid for 75 per cent of the

\(^{58}\) Morton Hersh (Vice President, CIRB), interview, April 28, 1987.
costs of this audit. In the second phase, the firms had to develop, with the assistance of consultants, a long-term restructuring plan aimed at correcting problems and building on strength. CIRP paid for 75 per cent of the consultants' cost at this stage as well. At the third phase, assistance was available for the implementation of the restructuring plan. CIRP provided grants up to 75, but usually 50, per cent of the consultants' cost for assisting with plan implementation, and 25 per cent of the capital costs (of at least $50,000) for projects which were a part of the plan. Grants covering 25 per cent of the costs of improving marketing practices were also available.

The common services component was directed at encouraging groups of firms to establish services jointly owned and operated by them. The purpose was to enable medium-size and smaller firms to avail themselves of services which larger firms maintained in-house, but were beyond the financial means of the others. However, the scheme was used only to a limited extent by the industry. Nine proposals for common services were received from the footwear industry, out of which 6 were approved. 59 The total expenditures under this component was less than $500,000.

CIRP, like its predecessor, was not a 'hands-off' financial assistance programme. The selection of consultants by firms, the areas to be included in the operational audit,

59 Tellier, interview, loc. cit.
and the elements to be included in the restructuring plan were tightly controlled by CIRB. Moreover, firms receiving assistance had to demonstrate their commitment to restructuring by agreeing to re-invest 75 per cent of their after-tax profits into the firm for five years. Other restrictive conditions unique to each firm were included in the terms of grants as well.

SFP was received with enthusiasm by the footwear industry. During its five years of existence, applications were received from 120 footwear firms. Out of this, 75 applications were rejected or withdrawn. The remaining 55 were offered some form of assistance. Only 34 firms received assistance for the third phase, involving capital costs. These 34 firms accounted for more than half of the total footwear sales in the industry. Firms in the industry received $1 million for phase one and two, that is, for the consulting costs of operational audit and preparing restructuring plan. Under phase three, firms received $2.5 million towards consultants' costs associated with plan implementation and $17.1 million towards capital costs. Thus, in total, the footwear industry received $20.8 million under SFP during the entire period the programme existed. When SFP assistance is added to the firms' own expenditures under the programme, a total of about $70 million was

\[^{60}\text{Canadian Industrial Renewal Board, "Update of the Fourth and Final Annual Report: Cumulative Results, November 1, 1981-March 31, 1986", (Montreal:May 16, 1986).}\]
generated in investments in the footwear industry. According to CIRB's estimate, when the programme is fully implemented by 1990, the footwear industry's capacity is expected to increase by 4 per cent, employment in participating firms by 10 per cent, sales by 40 per cent, gross profit margin by 60 per cent, and net profit by 240 per cent as a result of the programme.  

2. Business and industrial Development Programme

The objective of BID was "to promote the strengthening and diversification of the economic base of regions which are heavily dependent upon the textile, clothing, and footwear industries." Seven communities in Quebec and Ontario were designated as eligible under the programme. Most of these communities were dependent on the textile and clothing industries; in fact, there were only three footwear plants in all the designated communities combined. As such, BID as designed was not relevant to the footwear industry.

CIRP had begun with high ambitions and great fanfare, but during the implementation of the programme, the enormity of the task began to be appreciated. The objective of CIRB, as stated in the News Release of January 19, 1981,


63 ITC, Textiles, Clothing and Footwear Directorate, Sector Profile of the Canadian Non-Rubber Footwear Industry May, 1984, p. 46.
was "to secure for Canada viable and competitive" TCFT industries. But, as the evaluation of CIRP noted, "over time this definition was interpreted by CIRB in more modest terms --ie. to secure for Canada more viable and competitive..." industries.\textsuperscript{64} While most recipients of CIRP covered by the evaluation said that it had been "somewhat effective" in making firms competitive against imports from developed countries, they said that it was only "minimally effective" in increasing their competitiveness against developing countries.\textsuperscript{65} Ironically, CIRP had been effective in making the footwear industry more competitive against those which the industry claimed it was already so. Even more ironically, while the programme emphasized capital expenditures, the evaluation concluded that it was the planning and management improvement aspects that were the most effective among various components of the programme.\textsuperscript{66}


\textsuperscript{65} Ibid., p. 19.

\textsuperscript{66} Ibid., pp. 62-63
LABOUR ADJUSTMENT PROGRAMMES

Adjustment programmes generally tend to emphasize adjustment of industries more than that of workers.\textsuperscript{67} The underlying presumption is that once an industry has restructured, the overall increase in economic efficiency will open up jobs in other sectors of the economy which will absorb the laid-off workers. To ease the process of unemployment in the short term, regular programmes such as unemployment insurance, and retraining and mobility assistance are generally considered to be sufficient. It is only with respect to older laid-offs workers that some special adjustment assistance is believed to be necessary. Special measures for other laid-off workers is a very recent, and short-lived, phenomenon in Canada.

ADJUSTMENT ASSISTANCE BENEFITS PROGRAMME

Adjustment Assistance Benefits Programme (AAB) was the outgrowth of the Textile Policy announced in 1970. The policy recognized that its encouragement of industrial adjustment would cause lay-off of workers, some of whom would have great difficulties in securing alternate employment. As a result, AAB was established in 1970 to assist older workers laid-off from the textile and clothing industries. It was

\textsuperscript{67} For a discussion on why government assistance programmes emphasize business rather than labour adjustment, see Blais, Industrial Sociology, \textit{op. cit.}, pp. 126-128. Also see Michael Trebilcock, \textit{The Political Economy of Economic Adjustment} (Toronto: University of Toronto Press, 1985).
basically an income-maintenance programme for those over 54 years of age.

After the programme had been established for the textiles and clothing workers, there were some efforts within the government to extend AAB's coverage to include footwear and tanning workers who were going through similar problems of adjustment. The lead role in this regard was played by the Department of Labour, which had also been instrumental in establishing the programme for the textiles and clothing workers. In one of the position papers developed by the Department, it had the following justification for AAB's extension to the footwear and tanning workers:

It is acknowledged that most workers who suffer dislocation in the industry can be assisted effectively through the many programs that exist in the areas of income maintenance, manpower adjustment, and public assistance. However, like the textile and clothing industry, the footwear industry is concentrated in small towns, and has many older, unskilled and semi-skilled workers who cannot be helped effectively by the existing programs. Hence a large part of the problem can be expected eventually to fall upon public assistance, intensifying the budgetary problems that now faces local municipalities. For this reason, for consideration of parity as between employers and employees, a special assistance program for workers is recommended.

Despite the persuasiveness of Labour's argument, and the tacit support of ITC, the proposal did not go beyond interdepartmental discussion stage. The main reason for its

68 See Mahon, op. cit., pp. 87-89.

69 PAC, Records of ITC, RG 20, Accession 83-84/82, Volume 140, File 43/799-1 part 3, Department of Labour, "Adjustment Assistance Program for the Displaced Workers in the Footwear Industry", Draft No. 7, undated (November, 1971?).
rejection was that the government did not want the programme to be spread to every industry experiencing adjustment because of its expensive character. By 1973, however, its extension to the footwear industry was an idea whose time had come. In that year, the government announced the Sector Strategy, which included a whole series of specific measures, one of which was AAB.

AAB was directed at those workers who, because of their age and possession of industry-specific skills, could not benefit from regular placement programmes and hence had inordinate problems in adapting to lay-offs. To be eligible, the worker had to be between 54 and 65 years of age; must have worked in the industry for ten of the last fifteen years; be employed in a plant which had laid-off 50 workers or 10 per cent of its employees, whichever was lesser; and be certified by Manpower and Immigration as having no prospect of employment. Benefits were equal to 50 per cent of the average insurable earnings before the lay-off. The employee must have had exhausted unemployment insurance benefits to be eligible for AAB assistance. Once certified as eligible, the worker continued to receive benefits until s/he turned 65 years of age, or found alternate employment which paid more than the AAB benefits. After 65, the employee became eligible for benefits under regular pension plans.

Although AAB became formally available to footwear

Chapleau, interview, loc. cit.
workers in 1974, they could not claim benefits until 1978 because of an eligibility criterion. It stipulated that to be eligible, the lay-off must be "directly attributable to the implementation of the government's new programme", that is, the Sector Strategy. Since the claimants could not demonstrate that to be the case, no worker was certified to be eligible. The situation was ameliorated in 1977 when the criterion was changed, and workers who suffered loss of employment as a result of increased imports were made eligible for benefits.

AAB was terminated in 1982, when it was replaced by Labour Adjustment Benefits Programme. When it ended, it had 49 active claimants in the footwear and tanning industries. During the 1977-1982 period that it existed, in total it disbursed $800,000 in benefits to these workers.

LABOUR ADJUSTMENT BENEFITS PROGRAMME

LAB was established in May, 1982. Insofar as the TCFT industries were concerned, it was a virtual continuation of AAB. The purpose of the change was to enable cabinet to designate industries other than TCFT as eligible for benefits, something that was not possible under AAB regulations. LAB involved some other minor changes as well. Benefits were increased to 60 per cent of the average insurable earnings before the lay-off. Moreover, apart from

those between 54 and 65 years of age, it gave "special consideration" to those between 50 and 54 years of age who had 30 years of experience in the industry. The programme expired on August 17, 1985, and was not replaced by any other programme. However, those certified will continue to receive benefits until they turn 65 or find an alternate employment.

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**Table XXI**

**EXPENDITURES UNDER AAB/LAB: FOOTWEAR AND TANNING**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Expenditure (million)</th>
<th>Active Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977-78</td>
<td>0.02</td>
<td>n/a</td>
</tr>
<tr>
<td>1978-79</td>
<td>0.1</td>
<td>14</td>
</tr>
<tr>
<td>1979-80</td>
<td>0.2</td>
<td>22</td>
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<tr>
<td>1981-82</td>
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<tr>
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<td>2.9</td>
<td>326</td>
</tr>
<tr>
<td>1985-86</td>
<td>4.7</td>
<td>597</td>
</tr>
<tr>
<td>1986-87</td>
<td>8.1</td>
<td>869</td>
</tr>
</tbody>
</table>


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The expenditures under the programme and the number of active claims in each year are shown in the above table. It is evident from this table that the expenditures and the number of claimants increased rapidly over the years, especially after 1985. It is believed that the knowledge the programme was going to be terminated in 1986 led to increased
lay-offs of older workers, often with the consent of the concerned workers and trade unions. It is also apparent from this table that it was indeed an expensive programme to maintain.

A study of the profile of the LAB claimants, based on November, 1984 data, showed that their average age was 59.5; their average years of education was 7; the average length of employment in the industry was 30 years; 69 per cent were union members; and 76.5 per cent were married. More than 90 per cent of the claimants were from Quebec. It is clear from many of these characteristics that their employability in other industries was low, and that had LAB assistance not been available, they would have indeed faced great difficulties in finding alternate employment. It was a successful programme insofar as it addressed the needs of those segments of the work-force which in its absence would have faced immense hardships. An advisory council to the government approvingly said that "[LAB] is favorably perceived and, and according to both employers and workers, is the only program which contributed to the real adjustment of workers." The only problem was the high costs that it

73 Labour Canada, untitled, undated, and unpublished table of statistics provided to the author by the Department.
74 Canada Employment and Immigration Advisory Council, Labour Adjustment Programs (ILAP and CIRP), Report to the Minister of Employment and Immigration, December, 1983.
entailed, which led the Conservative government to axe the programme in August, 1986.

LABOUR ADJUSTMENT PROGRAM

While employment in the footwear industry was being truncated throughout the 1960 and the 1970s, there was no labour adjustment programme for workers under 54 years of age. They were only eligible for the regular job placement programs available to all workers. In 1981 this changed when a program for such workers was announced, but did not come into effect until 1983 (because of the delays in receiving budgetary approval). While presenting the programme the government said, "The emphasis is on training and other labour force development programs to assist workers to meet changing occupational demands and technological conditions...." It was an incentive-based programme to encourage laid-off workers to make the switch to place or occupations where jobs were available.

Originally designed for the textile and clothing industries, LAP was extended to the footwear and tanning workers at the same as the CIRP's extension to the industry. It was recognized that the enormous assistance for restructuring under CIRP would cause wide-spread lay-offs in the industry which would require assistance for workers. The purpose of LAP was to inject labour adjustment measures at

75 Canada, News Release, November 24, 1981.
the right time and re-deploy the laid-off workers in other industries. Toward this end, the Prime Minister directed CIRB and CEIC to co-ordinate their programmes.  

LAP was not an official programme of the government. It was rather a name given to a set of regular CEIC programmes that were available to TCFT workers in a concentrated and co-ordinated form. Thus, it consisted of regular programmes for which all workers, regardless of their industry affiliations, were eligible, plus the following programmes which were available only to TCFT workers in an enriched form: training allowances; mobility assistance; wage subsidies; and, in communities most severely affected, special job creation assistance. The training allowances for eligible TCFT workers was an additional one-sixth of the usual amount. Similarly, mobility assistance for these workers was three times the basic rate available to other workers. The wage subsidy programme, called Career Access, was available only to workers assisted by CIRP and ILAP. It provided subsidies to employers who hired permanently laid-off workers from TCFT industries who were over 45 years of age. Job creation measures were to provide temporary

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assistance in exceptionally depressed regions.

On the face of it, the programme was generous. But in fact, during its three and half years of existence, not more than a handful of workers utilized the special measures. Although CEIC has not kept data broken down by industry, this is clear from the fact that only 346 workers from all TCFT industries combined benefitted from the programme during its lifetime. The benefits disbursed to these workers was a paltry $400,589. In 1985-1986, the only year for which data is available on an industrially-disaggregated basis, not a single footwear or tanning worker availed the special measures.

One cannot but conclude that there was something wrong with the way in which LAP was designed. As the Advisory Council to CEIC noted,

...even when massive lay-offs occurred, the Board [CIRB] made no effort to use those labour measures. It would appear that CIRP has been almost exclusively concerned with helping firms restructure to face international competition without taking into account the side effects on workers (lay-offs, relocation, etc.).

As an evaluation of ILAP's labour adjustment measures (which were exactly the same as those under CIRP) concluded, the measures were only successful to the extent they reduced adverse impact of unemployment in years of depression between

78 CEIC, Administrative Data provided to the author by Monfils, interview, loc. cit.
79 Advisory Council, op. cit.
1981 and 1983. The evaluation concluded that labour adjustment was a long-term process, whereas LAP provided only short-term relief. Providing additional benefits was not enough; there had to be alternative jobs for which workers were to be re-trained and re-located.

There are other reasons as well which prevented greater utilization of LAP. The footwear industry employs a large number of women with families for whom mobility assistance is of almost no use. Moreover, many of the workers lived in small communities who lacked access to training facilities, but were unwilling to travel. The most important problem, however, must have been the fact that there were simply no jobs in the economy for these lowly-skilled workers, for whom wage subsidies or mobility assistance were of little use.

CONCLUSION

The footwear industry was the beneficiary of one of the richest financial assistance programmes after 1973. In fact, it was one of the few industries which was assisted through industry-specific programmes in the 1970s. Even


the much larger textiles and clothing industries, which were facing similar adjustment problems, until 1981 did not receive financial assistance nearly to the same extent as what was available to the footwear industry since 1974. However, for most of the period, the majority of the workers had no programmes available to them, and for the short time they did, the programmes were entirely inappropriate and ineffective.

A crucial reason for the government's emphasis on assisting the footwear industry mainly through financial assistance had to do with the former's internal organization. The lead role in the policy process played by the Footwear Division, as discussed in Chapter Three, meant its views carried weight in the government. Its day-to-day dealings with the footwear firms had convinced the Division that the industry's problems were rooted in deficiencies in productivity and marketing. It believed that the industry's own efforts towards modernization, aided by financial assistance from the government, and not quotas, were the key to overcoming these deficiencies. The other government departments supported the Division's line of thinking because it did not propose what they resisted the most: quotas. Securing funds for the programmes did not pose a problem because even rich assistance measures for the industry were on the whole relatively inexpensive, given the small size of the industry. The political actors were generally supportive
of the measures because it made the government appear to be addressing the industry's problems, without the adverse effects that quotas on imports involved.

The manufacturing interests were not opposed to financial assistance programmes **per se**. The point on which they differed with the government was that they did not see financial aid as an alternative to quotas. Indeed, given to choose between the two, they would have clearly preferred the latter. The impact of quotas on production and employment are more certain, because they are meant to preserve the **status quo**. Assistance for modernization, on the other hand, provides no guarantee that an industry will indeed become competitive. The preponderance of family-run small firms in the industry only deepened its risk-aversion. It also recognized that the financial aids were being provided in lieu of quotas, and, by supporting the former, it weakened its case for quotas. At the same time, if it rejected the assistance, the industry would have appeared as unwilling to modernize. Consequently, the government was able to implement its programmes regardless of the industry's reluctance.

The structure of Canada's trade relations also favoured this instrument. The use of financial assistance did not contravene international trade laws, or involve consideration of the trading partners' response. Since the industry was a minor exporter, government subsidies to it did
not provoke retaliatory measures from other countries. Had its exports been significant, however, subsidies would have made it the potential target for countervailing actions. Moreover, financial assistance did not adversely affect the domestic footwear trading interests, as a result of which they stayed largely out of the debate.
Quotas are the ultimate instrument a country can use to control imports, short of banning them altogether. While tariffs merely make imports uncompetitive on the market, quotas set an absolute limit to the level of imports of a specified product into the country. Recognizing their inherent capacity to disrupt international trade in favour of domestic producers, international and domestic laws severely restrict the conditions under which quotas can be employed by governments.

Although the impact of quotas on the market is similar to that of tariffs, the way in which they operate is vastly different, and more complex. By limiting the level of imports, regardless of their competitiveness, the former greatly reduces the pressures of competition on the domestic producers. As a result, the costs to consumers and the economy as a whole are high, far more than tariffs. Correspondingly, the benefits accruing to domestic producers and workers are also higher. The costs are even more if quotas are set in terms of aggregate volume rather than value of imports. It encourages quota holders, because of the ceiling on the volume they can import, to achieve growth in business by substituting lower-priced products with those of higher price.
In order to preserve historical trade relationships and maintain stability in the market, quotas are allocated on the basis of historical performance of the exporters or importers, depending on the nature of the quota regime. In the case of footwear, it is the importers who had quotas, as opposed to exporters in the case of, for example, textiles and clothing. Since quotas tend to be scarce, they assume a monetary value, enabling their holders to collect economic rent. In Canada, it is illegal to trade in quotas, but this has not prevented their sale on the black-market.¹ Moreover, the allocation of quotas on the basis of historical performance does not allow new entrants to the market, thus reducing competition. Consequently, those possessing quotas develop a vested interest in maintaining them, thus making their termination difficult.

Quotas may be classified into two types: global and selective. Their respective appropriateness for Canada has been a subject of constant debate, and hence requires understanding at the outset.

Global quotas assume their name from the fact that under the system the importing country prescribes a ceiling on the level of imports from all sources, and not specific exporting countries. It is the only instrument of import control authorized by GATT (Article XIX), which also

¹The Anti-Dumping Tribunal reported that in 1980 the value of footwear quotas was $1 to $2 per pair. See Tribunal, 1981, op. cit., p. 98.
specifies strict conditions as to when it can to employed. A global quota regime is usually administered by the importing countries, which allocate them to domestic importers.

Selective quotas are directed at exports from specific countries that are viewed as sources of disruptive competition. They are secured through bilateral arrangement (known as Voluntary Export Restraint Agreement or VERA) with the exporting country, which must agree to restrict its exports to a specified level. In return for the commitment to limit exports, it retains authority over the administration of the restraint regime. However, the fact that it is administered by exporting countries implies it is the exporters, and not domestic importers, who collect the economic rent from quotas. This explains why the importers are opposed to VERAs, and instead prefer global quotas.

The Canadian government has shown a distinct preference for selective quotas, and has had to employ global quotas on footwear imports only after it failed to secure them. The former would have saved Canada the wrath of its major trading partners, whose footwear exports it would have preferred to exempt from controls but could not because of the GATT's requirement that global quotas be non-discriminatory. In contrast, the domestic manufacturers, importers and retailers favoured global quotas. By setting an overall limit to imports into the country, they provide greater security to the domestic industry by not allowing an
influx of imports from uncontrolled sources, as could happen in the case of selective quotas. Moreover, global quotas, in addition to affording protection from imports, enable the domestic producers to collect economic rent on the quotas that they might themselves hold. In this, they are supported by importers and retailers who also benefit from their quota holdings. However, the Canadian government imposed global quotas on footwear not because of pressures from producers, importers and retailers, but rather because it could not negotiate bilateral restraint agreements with the targeted exporting countries.

The decision to impose or maintain quotas is not a simple process and has to be preceded by a formal inquiry into their need and involves deep struggles within and outside the government. The process typically begins with a demand for quotas by producers and workers in an industry. The government may reject the demand or order an inquiry into it. According to Section 5 of the Export Import Permits Act, the Anti-Dumping Tribunal must find injury or threat of injury from imports before quotas can be instituted on imports. The finding of injury, or the lack of it, is arrived at after a formal inquiry under Section 16 (1) of the former Anti-Dumping Act, and, since 1985, under Section 48 of the Special Import Measures Act. In these inquiries, injury is not determined on the basis of dumping or subsidy, but on the basis of criterion arbitrarily defined by the Tribunal.
Consequently, the finding of injury to a large extent depends on the definition of injury adopted by it.

The Tribunal has conducted four economic inquiries into the footwear industry, in 1971-73, 1977, 1980-81, and 1984-85. No other industry has ever undergone such an inquiry. Their findings were critical in the overall decision-making process because if no injury was found, the government could not, under the Export Import Permits Act, impose quotas on imports. Although the government could technically secure export restraint agreement with the exporting countries even with a negative finding of injury, it would have been practically impossible to do so because of the opposition from those opposed to controls on imports. The various opposing interests in the footwear trade understood the importance of the inquiry, and, as such, did their best to lead the Tribunal to conclusions that best suited their interests.

The main argument of this chapter is that the Canadian government was extremely reluctant to impose quotas on imports, as was being demanded by the manufacturing interests. In 1977, it imposed quotas under highly unusual economic and political circumstances, both domestic and international. Although quotas remained in effect until 1985, they were progressively weakened after 1980, and finally dismantled altogether. The chapter also shows that quotas were imposed, modified, or removed on political
grounds, despite attempts to rationalize the decisions in economic and technical terms, and that the inquiries by the Tribunal merely masked the political nature of the underlying process.

**PRE-QUOTA PERIOD: 1970-1977**

In the mid-1960s, the Shoe Manufacturers Association made feeble demands for quota protection,\(^2\) which were entirely ignored by the government. In early 1970, for the first time, SMAC presented a formal brief to the government complaining about plant closures and job losses as a result of increasing imports from low-wage countries, and demanded quotas on footwear imports.\(^3\) The government rejected the demand because it did not believe that the situation was sufficiently bad to warrant even a consideration of protection for the industry. In May, 1971, however, when SMAC again submitted a similar brief,\(^4\) its demands could not be so easily brushed aside. The year 1970 had witnessed an unprecedented increase in imports, along with a significant decline in domestic production and employment. The government ordered an inquiry by the Tribunal, but remained unconvinced as to the need for

\(^2\)See SMAC, Submission to CTTC, *op. cit.*


quotas. As one senior official in the Footwear Division, commenting on the industry's demands, cynically noted:

The industry is oriented to force political solutions (quotas) to their problems, instead of initiating their own corrective action....The Association is quick to dramatize recurring industry problems to attempt to achieve import restrictions, particularly global quotas.

It continued,

A consideration prior to reviewing the possibility of imposing global quotas must be the realization that based on past and recent industry practice and behaviour, there is little assurance that a significant proportion of the industry would in fact undertake the necessary improvements to strengthen considerably their competitive position. Thus 'temporary' quotas may in fact become 'permanent'.

Such misgivings regarding the industry's needs and motives were typical of the government's thinking at the time, much of which continued into the 1980s.

The government's cynicism regarding quota protection for the footwear industry was reflected in the inquiry's terms of reference.\(^6\) It is clear from the terms of reference that the government wanted to test the industry's claims of injury. The reference required the Tribunal to find out whether footwear, other than those made mainly of rubber or canvas, was being imported in such quantities and at such prices as to "...cause or threaten serious injury to Canadian production of like or directly competitive goods". In addition, the Tribunal was asked to provide "the most

\(^5\)PAC, File 43/530 part 1, Proposal, \textit{op. cit.}

complete information possible" on: the volume and prices of domestic and imported footwear, the structure of the industry, its competitiveness, profitability and the employment situation. It was a genuine fact-finding inquiry, in contrast to the later inquiries which contained implicit indications in their terms of reference as to what the government would like the Tribunal to conclude. The Tribunal was also not given a dead-line by which it had to submit its report. Accordingly, it took almost two years to prepare the report.

This was the first time that a public inquiry was being conducted on the footwear industry, which led to some confusion within the Tribunal and among participants. It elicited response from a limited number of interested parties, with the two main, and opposing, interests being the Shoe Manufacturers Association and the Footwear Import Committee.

SMAC participated in the inquiry with a great deal of confidence, assured that the Tribunal would find injury. Its optimism was fostered by an earlier anti-dumping case against footwear imports from Italy and Spain in which the Tribunal had found "threat of injury".\(^7\) SMAC even misunderstood the purpose of the inquiry. Instead of providing evidence of injury, it provided evidence of the

\(^7\)Anti-Dumping Tribunal, Inquiry under Section 16 of the Anti-Dumping Act, "Women's footwear Originating in Italy and Spain", Ottawa, August 25, 1971.
improvements being made by the industry. It then went on to argue that "time was needed...to permit the process to continue in an orderly manner; this process cannot continue under conditions of market disruption." Its line of reasoning was that reduction in market share of the Canadian manufacturers "...sharply reduced [their] ability to invest in new machinery and equipment, and to obtain economies of scale through larger run production."

SMAC challenged the widely-held view that imports had provided impetus for change and that the pressures must continue for the process to be maintained. It said,

The industry is in a period of change...[It] would have undergone a degree of restructuring, to meet those changed conditions, whether or not pressures from outside Canada had been introduced by the rapid increase in imports.

The brief also vigorously defended the industry's record of introducing productivity and styling improvements. Moreover, to counter the government's long-standing plan to rationalize the industry in the sense of making it vacate product lines in which it was not competitive, and to refute the argument that imports were in areas in which there was no significant Canadian production, the brief presented its decade-long argument about inter-changeability among footwear. It claimed that "a shoe was a shoe" and that imports of any footwear, regardless of whether similar footwear was made in Canada, was always at the expense of some Canadian-made

8Tribunal, Submission by SMAC, 1972.
footwear. Thus, the import of cheaper footwear not made in Canada displaced the potential purchase of a more expensive Canadian shoe. Trite as the argument might appear, the degree of inter-changeability among footwear and how the Tribunal interpreted the concept had a crucial impact on the findings of the inquiries.

SMAC claimed that lower costs, resulting from lower wages abroad, was the sole reason for the imports' greater competitiveness. Given the high wages in Canada, the domestic industry could not compete against imports without the protection of quotas. It must be remembered that SMAC described all major footwear exporting countries, except the U.S., as low wage countries.

In contrast to SMAC, FIC presented a highly legalistic brief. It interpreted the terms of reference as excluding a large proportion of Canadian production and imports. It also argued that there must be a causal relationship between imports and injury to arrive at a finding of injury. Furthermore, it admonished the Tribunal from adopting an alarmist position regarding 'threat of injury'.

The FIC's brief dwelt at length on the concept of 'like or directly competitive goods' referred to in the terms of reference. It proposed, in direct contradiction of SMAC's position, that price points and volume of production must be

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9Tribunal, Submission by FIC, 1972.
taken into account when determining whether imports were competing against domestic footwear. By that criterion, plastic and vinyl footwear (in addition to rubber and canvas footwear which were excluded from the inquiry) should be excluded from the consideration of injury because of their negligible production in Canada. It then went on to the general argument that most imports were in cheaper footwear which had no Canadian counterparts. When plastic and vinyl along with rubber and canvas footwear were excluded from imports, less than 25 per cent of the total imports competed with domestically produced footwear. The FIC argued that these imports formed less than 15 per cent of the total footwear market, leaving the rest of the market exclusively to the domestic producers. Even in this small market segment, the Committee argued, imports sell because of style and quality, not price. The point was to refute SMAC's claim that lower wages abroad were enabling imports to displace Canadian production.

FIC attributed the decline in production to the Canadian industry's own internal weaknesses and its efforts towards rationalization. It did not make any recommendation because it did not need to, for the onus was on SMAC to prove that injury was being caused. Failing that, the status quo would have been maintained, which was what the FIC wanted.

The Tanners Association of Canada submitted a brief supporting SMAC's position. The Textile Workers Union of
America (a small union in the footwear industry) and the Canadian Food and Allied Workers (the predecessor of UFCW) also submitted briefs in support of the manufacturers' position. Neither of the two unions in Quebec participated in the inquiry. Six other briefs were submitted, all arguing that imports were not causing injury to the domestic industry.

The Tribunal submitted its report in April, 1973. Considering the importance SMAC and FIC attributed to the concepts of 'serious injury' and 'like or directly competitive goods', the report provided their definition at the very outset.\(^{10}\) It asserted that in order to conclude 'serious injury' there must be clear evidence of injury and that there must be an identifiable causal relationship between imports and injury to the domestic industry. This weakened SMAC's claims, which were based on a rather loose definition of injury. Similarly, the concept of 'like or directly competitive' was strictly defined, which again had a damaging impact on SMAC's broad position that all footwear were interchangeable.

The main thrust of the report was that it was not imports, but the industry's own deficiencies which were the problem. It pointed out numerous weaknesses in the industry's management, manpower, and marketing practices. It also rejected SMAC's argument that lower wages were the sole

\(^{10}\)Tribunal, Report, 1973, op. cit., pp. X-X.
reason for the imports' greater competitiveness. Furthermore, it accepted FIC's argument that not all footwear were interchangeable and that imports were mainly in cheaper footwear categories. It pointed out that in 1971, a large percentage of footwear imports (40 per cent of the total footwear imports, excluding slippers and housewear) consisted of low-priced footwear, in which Canadian production was virtually non-existent.\textsuperscript{11} It also rejected SMAC's position that "a shoe is a shoe".

The report finally evaluated the industry's claims of injury against various criteria of injury. First, profitability in the industry, despite the decline in production, had been "adequate", except in 1970, which was "...attributable to general economic conditions and there was a marked recovery in 1971."\textsuperscript{12} In other words, there was no relationship between levels of imports and profitability. Second, there was no evidence of downward pressure on prices because of imports.\textsuperscript{13} Third, it concluded that while employment in the industry had declined, this was not in itself an indicator of injury. Similar to the development in other industrialized countries, employment in Canada declined due to increased productivity, rationalization and natural attrition. Fourth, it found no direct relationship between

\textsuperscript{11}\textit{Ibid.}, p. 98.
\textsuperscript{12}\textit{Ibid.}, p. 105.
\textsuperscript{13}\textit{Ibid.}

plant closures and imports. It observed that most closures occurred among smaller firms, reflecting a general trend towards rationalization which began before imports became a major factor in the domestic market.\textsuperscript{14} Finally, with regard to market share during the 1962-1971 period, it found that while the domestic producers' share had declined by 28 per cent in terms of volume, it declined only by 15 per cent in terms of value. The reason was the concentration of imports in cheaper non-leather footwear. This led the Tribunal to the conclusion that imports had filled a void in the Canadian market left by the domestic producers. From its findings, the Tribunal concluded that there was no injury or threat of injury from imports in any sector of Canadian production.

Predictably, SMAC was outraged at the report. "To put it bluntly," it said,

we are shocked by the Report. We completely disagree with the conclusions reached by the Tribunal. We do not think it is reasonable.

It took particular exception to the Tribunal's conclusion that imports were mainly in cheaper footwear, and hence were not causing injury to the domestic industry. SMAC also objected to the conclusion regarding imports filling voids in the market. "It is an interesting concept," it said, "that

\textsuperscript{14}\textit{Ibid.}, p. 106.

\textsuperscript{15}PAC, File 43/530, part 2, \textit{op. cit.}, SMAC, "Statement for Submission to the Minister of Industry, Trade and Commerce on July 6, 1973".
imports have filled a void in the market, which void had been created not by Canadian producers having been unwilling or unable to produce, but by the domestic manufacturers having been shoved out of the market by price competition." To discredit the report, SMAC tried to demonstrate that there were discrepancies between the findings and the conclusions. The Tribunal later submitted a confidential rejoinder to SMAC's rebuttal.  

Activity on the part of other groups with interest in quotas ceased after the publication of the report. Those opposed to quotas could count on the conclusions of the report that quotas would not be imposed. SMAC was left alone with the task of having the conclusions overturned. In this, it met with apathy from its own members whose business conditions had improved remarkably since 1970-1971, when they made demand for quotas. Everyone realized, even SMAC, that it was practically impossible to persuade the government to overturn the Tribunal's conclusions, specially when the government itself preferred them.

PERIOD OF EFFECTIVE QUOTA PROTECTION: 1977-1980

The rejection of the demand for quotas did not put an end to SMAC's efforts to secure them. In 1976, it once again started its campaign. This time, it was able to use an

16Kenneth Bessarah (Director of Research Anti-Dumping Tribunal), interview, April 22, 1987.
additional argument that for the Sector Strategy --in which the government held high hopes-- to succeed, it needed protection from import competition. In a letter to Donald Jamieson, the minister for ITC, it said,

No matter what assistance is provided by the government, this assistance will not be effective unless there can be some assurance, which we do not have now, that Canada will not be wide open to massive and disruptive footwear imports. Very simply, without a market for footwear, the Sector Strategy cannot be effective.

When Jamieson was replaced by Jean Chretien as the minister for ITC later in that year, the same demand was repeated by SMAC. It could not have made the demand for quotas at a more favorable time.

Prior to 1977, domestic production of footwear declined by almost 16 per cent in 1975, and by 3.5 per cent in 1976. The decline had been caused by increase in levels of imports resulting from various factors prevailing at the time. The appreciation of Canadian dollar had increased enormously the competitiveness of imports. Moreover, the panic among footwear importers after the imposition of global quotas on clothing imports for the first time in November, 1976, which led them to apprehend that footwear quotas might be in the offing, caused them to increase their purchase


18 SMAC, "Memorandum to the Honorable Jean Chretien, Minister of the Department of Industry, Trade and Commerce", November, 1976.
abroad to unprecedented levels. Similar reactions were caused by the U.S. government's efforts at the time to curtail footwear imports. But the most important development, however, was the election of Parti Quebecois government on a separatist platform in December, 1976. From then on, the federal government had to make special efforts to win the hearts of the Quebec electorate and avoid policies that Quebecois nationalists could allege were causing unemployment in the province. Finally, Jean Chretien, who was one of the most powerful ministers at the time, and had the reputation of being protectionist, was appointed minister for ITC in 1976. All these conditions favoured SMAC's demand for quota on imports.

The government responded to the demands of the industry by ordering an inquiry in March, 1977. The terms of reference for the inquiry were simple, to find out if footwear, other than those made of rubber or canvas, were being imported or were likely to be imported as to cause or threaten serious injury, to the domestic industry. The Tribunal was given six months to complete its report. It was also explicitly permitted to submit interim reports, if it so wished. In other words, the Tribunal was to find out at the earliest time possible whether the domestic industry was being injured by imports.

Unlike the preceding and subsequent inquiries, the Tribunal was not to find out anything about the conditions of the industry, its problems, and the ways to correct them. The terms of reference undoubtedly predisposed, given the circumstances under which the inquiry was ordered, the Tribunal to find injury from imports. The implicit encouragement to submit interim report added further urgency to the matter.

It was clear from the very outset that this was going to be a crucial inquiry. SMAC realized that the tide was in its favour, as did its opponents. The retailers joined the importers for the first time to fight the producers' claims. These led to twice as many submissions as in 1972.

SMAC's main argument was that the drastically increased imports, and the consequent decline in Canadian production, had increased the industry's per-unit overhead costs, reducing its competitiveness even further.\(^{20}\) The decrease in the industry's competitiveness was making it difficult to attract human or financial resources, which had stunted the restructuring in progress. To establish its case, SMAC presented highly selective data, showing the deteriorating conditions in the industry. It claimed that lower wages abroad was the main factor responsible for its malaise. The retailers' tendency to prefer selling imports,

\(^{20}\)Tribunal, Submission by SMAC, 1977.
because of the higher mark-ups they afforded, was also emphasized by SMAC.

SMAC's traditional theme regarding interchangeability among different types of footwear was, again, dwelt on at length. But unlike 1972, this time SMAC also emphasized the issue of job losses in the industry from increased imports. It also pointed out how imports, especially in the women's sector, were increasingly concentrated in the mid-price range, an area from which they had largely refrained in the past.

FIC retained the main thrusts of its earlier brief. After raising legal points to restrict the scope of the inquiry, it reiterated its position that imports were not the source of problems to the industry. It argued that Canadian production had decreased because of rationalization in the industry and because of deficiencies in management in the industry. It said that there was no evidence of injury and that production was satisfactory in "...areas which Canadian producers choose to contest and where they are able to satisfy consumer demands." It reiterated the incompatibility between imported and domestic footwear and concluded, "... there may well be two separate market areas within which importers and producers carry out their activities...and that there is a limited degree of head-to-head competition." At the hearings, FIC produced the

largest number of witnesses, many of whom were retailers.

The Retail Council, whose membership consisted of the largest retailers, argued against quota protection in a conciliatory manner, something that was to be its hallmark in the later inquiries as well. In its opinion, the conditions of the footwear industry had not changed since the Tribunal last reported in 1973. It attributed the imports' success to style, variety and relatively low prices. It was particularly critical of the domestic industry's "inadequate sensitivity to, and knowledge of, the desires of the market."

The Council proposed that the Tribunal should conduct a sector-by-sector analysis of the industry and recommend phasing-out of sectors in which it was not competitive. It argued that quotas on imports was not an appropriate solution to the industry's problems.

The Shoe Retailers Association, whose members consisted of smaller retailers, also submitted a brief opposing the imposition of quotas. This was the first time it was participating in the inquiry and its brief was yet to acquire the sophistication of those presented in later inquiries. It mainly complained about the styling and delivery problems associated with domestic producers. It also expressed apprehensions that the already declining footwear purchases would decrease further if quotas were imposed.

22Tribunal, Submission by RCC, 1977.
23Tribunal, Submission by CSRA, 1977.
imposed because of the increase in prices inherent to controls.

Organized labour for the first time participated in the footwear inquiry in a major way. The two largest unions in the industry, the Canadian Food and Allied Workers and Centrale des Syndicats Democratiques (CSD), presented briefs and appeared at hearings. The former was representing all unions in the industry outside Quebec. It appropriately called its brief "Save our Jobs", which well indicated the main thrust of its arguments. At the very outset, it said,

We are here to defend ourselves and to stress one key point to this Tribunal...that the massive importation of footwear into Canada is causing serious injury to our jobs and our way of life, and this situation threatens to get worse unless the Tribunal, and subsequently the government, does something immediate and concrete to protect the Canadian footwear industry.24

It then proceeded to explain how the location of footwear plants in small towns and the preponderance of women workers in the industry made the task of finding alternate employment for displaced workers difficult. The brief also dealt with the retailers' preference for imported products. It recommended that quotas on imports be imposed immediately and "...left in place until the industry has had an opportunity to regain its balance and then remove them when it can be shown that there will be no adverse social consequences."

The CSD's brief was even more forceful in its

24Tribunal, Lorne J. Kenney (International Director, CFAW), Transcripts of the Tribunal's hearings in Toronto, 1977.
demand for quotas. Its submission assumed a position of great importance because of the threat of Quebec separatism at the time. In fact, the brief sought to capitalize on this, and pointed out,

Le problème est généralisé au niveau canadien mais, en plus, une différentielle régionale se concrétise; un transfert du Québec vers l'Ontario s'effectue graduellement de sorte qu'en plus du problème de base, on aura bientôt croit à ces inégalités régionales dans ce secteur.

Economic growth in Ontario at the expense of Quebec had been a major criticism among Quebec nationalists and the government in Ottawa was aware of its damaging potentials to the federalist position.

CSD argued that the government basically had two choices, to protect the industry or let it disappear. It said, "Le problème est complexe, mais il est aussi très simple. L'industrie de la chaussure et de la tannerie, on la conserve ou on ne la conserve pas." Unlike the Ontario unions, however, it did not just recommend quotas. It also proposed a host of measures to increase productivity and marketing in the industry. In the short term, it claimed, the industry needed quotas guaranteeing a minimum share of the market to domestic producers.

On July 15, 1977, after the completion of public hearings, the Tribunal submitted an interim report on the

women's/girls' sector. Its findings and conclusions were an accurate precursor to the final report. It absolved the domestic industry of any responsibility for its malaise and attributed the entire blame to imports. In summarizing its conclusions, it said evidence indicated Canadian manufacturers

...are suffering serious injury, and the information on future demand points to continuing deterioration in the market for their products. At the same time, imports are making significant gains in volume and market share.

The Tribunal does not consider that the recent severe drop in production and orders should be attributable to a failure of the Canadian manufacturers to meet the style demands of the Canadian market place. The industry is efficient, modern and enterprising. .... [The] Tribunal is satisfied from its evidence that the lower prices of imports, and their mass, are the most important causes of the present distress in the women's and girls' sector of the footwear industry.

Its submission was quickly followed by women's/girls footwear being put on import surveillance list.

The final report was presented in September, 1977. If the 1973 report was for the most part a rejection of SMAC's claims, this report displayed a complete acceptance of the industry's arguments. It is evident even from a cursory reading of it that this was the most one-sided reports among the four put out by the Tribunal. No doubt, the industry's condition was at a nadir in 1976 and 1977, but it is


27 Ibid., p.9.
improbable the circumstances had changed entirely since 1973. The Tribunal arrived at the findings it did because certain crucial concepts and their premises were redefined, which had the effect of yielding conclusions entirely different from those of the previous report.

The report exonerated the industry of all the criticisms that were generally levelled against it by the government, importers and retailers, and even by the Tribunal itself in 1973. It said that the industry was, contrary to popular beliefs, in the process of rationalization. The report was most scathing against the criticism that Canadian manufacturers were weak in styling, saying that the argument "has had its day". The industry's fashion consciousness "...was evidenced by the fact of production in the many varieties of style, in all sectors of production, which the Members of the Tribunal were able to view for themselves in the in-house showrooms of the score or more manufacturers whose plants they visited." No evidence was provided to show that the industry's styling had indeed improved; nor was the Tribunal members' expertise in assessing styles mentioned.

SMAC's claim that imports were gradually shifting from low-priced footwear to the medium-priced range was

29 Ibid., p. 1.28
30 Ibid., p. 1.29.
confirmed by the Tribunal as a major indicator of injury to
the domestic industry. It noted that while imports were
needed to fill voids in the market not served by Canadian
manufacturers, what was a matter of concern was "...the
rising imports of more traditional leather footwear in the
medium-price range which [originated] mostly in Europe."\(^{31}\)
Such imports were in areas

...in which Canadian manufacturers [had] shown
themselves to be efficient and directly competitive.
Their ability to compete [diminished] in direct
proportion to the increasing level of imports in their
area of competence.\(^{32}\)

In this instance, the Tribunal was exaggerating to the point
of misrepresentation because its own figures at another place
in the report showed a decline in average price of
footwear.\(^{33}\) In fact SMAC itself, in November, 1976, had
claimed that the price differential between average Canadian
and imported footwear had increased over the years.\(^{34}\) While
the report may have overstated its case, it was nevertheless
ture true that imports from Europe had increased in the mid-1970s.

The report also fully accepted SMAC's position that
it was the retailers' ability to effect higher mark-ups on
imported footwear that was responsible for their tendency to

\(^{31}\)Ibid., p. 1.16.

\(^{32}\)Ibid., p. 1.30.

\(^{33}\)See ibid., Table 4.3 in comparison to 5.2 and Table
4.5 to 5.4.

\(^{34}\)SMAC to Chretien, loc. cit.
place large orders abroad. It said,

...it appears from the evidence that the lower prices of imported footwear, made possible by lower wages in the exporting countries, [was] the single most important factor in enabling imports to make substantial gains in the market.

The low-wage countries referred to here included all European countries that were major exporters of footwear to Canada. No effort was made in the report to calculate the extent to which lower wages were offset by tariff and transportation costs, which, as seen in Chapter Five, were substantial.

The report finally turned to evaluate the case for injury. First, in terms of market share, it found that while the Canadian market increased by nine million pairs during the 1971-1976 period, domestic shipments actually decreased during the same period. What it did not mention was that while the volume of production had decreased, its total value had remained stable, indicating that Canadian production was moving up on price scale and that most of the increased imports were in inexpensive footwear. Second, it said the industry's profits had declined to "dangerously" low levels.36 Third, with regard to reasons for plant closures and reduced employment it concluded there was no relationship with imports because the decline had continued even before 1976 when the market conditions were stable.37 Fourth,

37 Ibid., p. 1.25.
during January to March, 1977, orders booked and orders ahead declined drastically compared to the same period in 1976. Finally, it concluded that imports had exerted down-ward pressure on prices. In its opinion, "...imports in the main considerably [undersold] directly competitive Canadian products in all sectors at the consumer level." 38  

The report rejected the argument that the excessively high levels of imports and the resulting damages to the domestic industry in 1976 and 1977 were caused by apprehension of quotas, and that without them imports would revert to their normal level. 39 The Tribunal retorted that "the proposition [was] of doubtful acceptance, but even if accepted, serious harm [had] nonetheless been done, and [indicated] the vulnerability of the industry to this form of disruption." 40  

Despite the report's assertion at the outset that the definition of 'serious injury' and 'like or directly competitive goods' presented in the 1973 report was being retained, in reality, the concepts were interpreted quite


39 At the Tribunal's hearings in Toronto, witnesses representing retailers and importers had testified that the recent abnormal increase in imports was the result of the apprehension that quotas were in the offing. The fear arose from the imposition of quotas on clothing imports in December, 1976, and the U. S. government's ongoing efforts to control footwear imports. See Transcripts of the testimony by Ruby Osten and Mr. Graftstein at the Tribunal's hearing in Toronto, June 2, 1977.

differently, which led to different findings. It regarded leather and non-leather as being directly competitive and did not distinguish between imports of inexpensive and other footwear for the purpose of determining injury. This was not merely an academic question because a large proportion of the imports in terms of volume were in inexpensive non-leather footwear, which for the most part did not have Canadian counterparts. By lumping all imports together, the case for injury from imports was greatly exaggerated. Moreover, the report made repeated reference to the recent entry of imports into the mid-price range. The underlying assumption here was that imports became injurious by the mere fact of their direct competition with domestic products. In other words, what the Tribunal was saying that footwear of the types produced in Canada ought not to be imported. With assumptions such as these, and given that import levels were high at the time, it is not surprising the report concluded injury and continued threat of injury from imports in every sector of the domestic industry.

After having made it known in advance that quotas on imports would be imposed if the Tribunal found injury, the government acted swiftly to keep its promise. However, the government now had to decide whether it should unilaterally impose global quotas or negotiate bilateral quotas with selected countries. It was understood that imported footwear, unlike clothing, came from only a handful of
countries, and it would be in the best interest of Canada to negotiate export restraint agreements with them. The cabinet decided to explore the possibility of negotiating VERAs with the major footwear exporting countries, and, accordingly, senior trade negotiators were directed to work on it.  

Every country which was approached to restrain its exports refused even to consider negotiating such an agreement, and the Canadian negotiators returned empty-handed. The producers and labour unions, for their part, maintained constant pressure on the ministers and M.P.s to act on the findings of the report. In any case, the Tribunal's finding of injury and the failure to conclude export restraint agreements on imports really left no other option to those involved in the policy process.

Quotas on imports of footwear were announced on November 30, 1977, effective immediately, and were to remain in force for three years. They included all kinds of footwear, except rubber, canvas, and beach-wear plastic footwear. Individual importers were allocated quotas equivalent to 80 per cent of their imports between September 1, 1976 and August 31, 1977. The annual quota level set this way came to around 37 million pairs. This was a very rigid quota regime which made virtually no allowance for switching among different classes of footwear, and offered no exemption.

41 ITC, Arthur, loc. cit.
42 Arthur, interview, op. cit.
for types of footwear not made in Canada.

After 1979, however, the system was made slightly more flexible, and a limited amount of switching was allowed. In 1980, quotas were extended for another year, to expire on November 30, 1981. Along with the extension, 9 classes of footwear were exempted from quotas. It is clear that the quota regime was very strict in the beginning, but began to be gradually relaxed after 1979. Its rigidity was reflected in the relatively low level of utilization of quotas by their holders during the period.


Not knowing what to do with the quotas when they expired, the government ordered another inquiry in July, 1980 to ascertain information on the state of the industry which would enable it to make a decision. The Liberal government had been returned to office only recently, and had a crowded policy agenda at its hands. Opposition to quotas was also far stronger now than had been when first imposed in 1977. After all, quotas would have been in place for four years when they expired in 1981. It was not clear whether

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43 External Affairs, OSIP, Notice to Importers, November 26, 1979, Serial No. 128.

44 Ibid., July 19, 1980, Serial No. 145.


their extension could still be justified under the GATT condition that quotas must be temporary. In 1980, when the government extended the quotas for another year, the EEC demanded, and had to be accordingly paid, compensation. Moreover, political pressures arising from the election of Parti Quebecois had eased after the loss of the separatist cause at the referendum. As a result, the government now had more room to manoeuvre.

The changed circumstances were reflected in the inquiry's terms of reference. If the terms of reference of the preceding inquiry implicitly encouraged the Tribunal to find injury, the present terms subtly asked for suggestions to weaken the existing quota regime. First, the Tribunal was asked if imports in any sector or sectors would increase to injurious levels if quotas were terminated. Second, it was asked to specify the sources from which such imports would increase. It reflected the government's wish to identify the countries whose footwear exports should be the target for restraint under a modified selective quota regime. Third, it was asked to identify the types of footwear produced "in volume" in Canada which would be vulnerable to imports. Again, this was in order to be able to know the specific products which would be subjected to quotas under a new regime. Fourth, the Tribunal was asked to report on the progress of restructuring in the industry and the extent to which manufacturers had improved their competitiveness under
quota protection. Finally, canvas footwear, which had been excluded from the previous two inquiries, was explicitly included in this inquiry. This was in response to the manufacturers claim that the massive increase in imports of canvas footwear had caused immense damage to the industry.

SMAC, in this latest inquiry, presented essentially the same arguments as in the earlier two, but had carefully adapted its brief to the new terms of reference and the changed circumstances. It began by undermining the fact that the industry had enjoyed quota protection since 1977. Imports in 1977 were so high, it argued, that quota did not have any impact until mid-1978. Hardly had the industry enjoyed some stability when by mid-1979 imported canvas footwear began to flood the market because of its exclusion from quotas. Such footwear not only displaced similar footwear made in Canada but leather footwear as well. The exemption of nine additional classes of footwear in 1980 further increased injury from imports. It claimed quotas had been effective only between mid-1978 and mid-1979.

SMAC correctly read the terms of reference as indicating that the government was contemplating an end to global quota and its replacement with bilateral quotas with a limited number of countries and only with respect to limited classes of footwear. It warned against removing quotas from developed countries on the grounds that once this was done,

47 Tribunal, Submission by SMAC, 1980.
their footwear exports to Canada would surge. It also admonished against the removal of quotas from some classes of footwear arguing that all footwear were interchangeable and that the exempted footwear would begin to be imported in large quantities at the expense of other Canadian footwear.

Responding to the question of restructuring in the industry, in a very general manner it said that it was in progress, and would stop if quotas were ended. Consequently, a rigid quota system providing for no exception, except for rubber footwear, should be established and maintained until 1989. Thus, it was now asking for a ten-year quota protection, instead of five as in the past.

FIC's submission this time was weak compared to its earlier two briefs. While it contained similar arguments, it had none of their eloquence. The benefits accruing to its members had obviously eroded its former total opposition to quotas. It argued that quotas were unnecessary because even without them imports would remain low. This was evident in the low utilization of quotas during the period they had existed. The depreciation of the Canadian dollar, and high rates of inflation and escalating costs in the exporting countries had decreased the competitiveness of imports. Imports were still significant only in sectors in which there was no Canadian production, such as canvas and athletic footwear. And, it argued, it was not the purpose of the

48 Tribunal, Submission by FIC, 1980.
inquiry to enable manufacturers to venture into these new areas under the protection of quotas. Moreover, it claimed that quotas had no impact on improving the domestic producers' efficiency.

The RCC's brief was also similar to its earlier submission. It said that while its own members had not suffered, smaller retailers and consumers had been adversely affected by quotas. It again suggested the Tribunal undertake a sector-by-sector analysis of the industry in order to ascertain the sectors that were worth assisting.

CSRA did not officially present a brief, on grounds that its views were entirely ignored by the Tribunal in the previous inquiry. However, after the Tribunal approached it for co-operation, it did present its views on the subject. It claimed that except for some weak firms, most manufacturers were prospering, not as a result of quota protection, but changing conditions which were making it increasingly difficult to import shoes that could undersell Canadian shoes. While quotas did not benefit domestic industry, it caused the following damages: increase in price, reduction in supply, decrease in footwear retail employment, and increase in concentration in the footwear retail sector because of closures among smaller retailing firms. It particularly emphasized the last point. It proposed a total end to quotas. However, if quotas were considered at all

49 Tribunal, Submission by RCC, 1980.
necessary, they should be global, and not bilateral.

Organized labour presented a joint brief on behalf of all unions which had locals in the footwear industry.\(^50\) The submission argued that the Tribunal must put the interest of workers before those of all others. In its words, "...[It] is we, the workers of the industry, who are the very reason the federal government is interested in the industry....The protection measures that are in place now are there to preserve our jobs as a matter of social policy." It sought to impress upon the Tribunal that the alleged adverse effects of quotas on manufacturers, importers and retailers were irrelevant to the inquiry. It argued that the termination of quotas would mean an imminent death of the industry, causing immense hardships to the workers and the towns dependent on it.

The labour's brief also took a dig at the position that ending quotas would benefit consumers. Without a domestic industry to check the price of imports, it claimed the consumer, instead of paying lower price, would be "...paying equally high or higher price with the added burden on his taxes of 20,000 families to support through unemployment insurance and welfare." The unions realized that in 1981 growing unemployment was a serious concern for the government, and the argument that ending quotas would

\(^{50}\) Tribunal, Joint Submission by all unions in the industry, 1980.
aggravate the situation carried weight with the government. The brief further argued that the industry needed stable market conditions on a long-term basis to undertake restructuring. It concluded, "...[We] support the position of the SMAC that quota protection be extended until the end of 1989 to stabilize the investment environment and permit the orderly transition and development to a new and better kind of Canadian footwear industry."

The most controversial presentation at the inquiry was the one by the Department of Consumer and Corporate Affairs, because the Tribunal at first did not believe that a government department should be making a submission. The paper touched on issues that no one had raised until then. It wondered why the footwear industry, uniquely among Canadian industries, "warranted 'insurance' against increased import competition." It argued that the continuation of quotas might provoke retaliation from trading partners against Canadian exports, and delay restructuring of the domestic footwear industry. The paper's most unique contribution, however, was its calculation of the extent to which lower wages abroad were being offset by Canadian tariffs. It found that tariffs more than offset the lower wages in Western Europe, although this was not true for Taiwan or South Korea because of their enormously lower

51 CCAC, 1980, op. cit.
52 Ibid., p. 8.
wages. It concluded by asserting that the benefits of the termination of quota would exceed its costs by nine to one.

The Tribunal submitted its report in February, 1981. The report represented a significant departure from the 1977 report; in many ways it was a retreat to the position taken in 1973. While the 1977 report had concluded the lower wages abroad and the retailers' preference for imported footwear as the chief causes for increased imports in the mid-1970s, this report identified the high exchange-rate of Canadian dollar as the main reason.\(^{53}\) Correspondingly, it argued, the depreciation of the dollar after 1977 contributed the most to the decline in imports. The higher rates of inflation in the exporting countries and the increased transportation costs had a similar impact on reducing import levels. It concluded that on the whole, these factors had more impact than even quotas in restraining imports after 1977.

In conclusion, the Tribunal expressed its confidence that "...the ability of the industry to compete with imports from the developed countries [was] now adequate, given the normal protection framework of valuation procedures, tariffs, freight and other cost items, and the accepted rules of the fair trade."\(^{54}\) The concept of developed countries included East European exporters of


footwear. The industry's competitiveness against the developing countries, however, was not yet adequate. It concluded that while the industry was competitive in terms of style, quality and product range, it could not still compete with footwear from developing countries because of the latter's lower wages.\textsuperscript{55} The report specifically identified five countries whose exports to Canada should be restrained because of their ability to injure domestic production: Taiwan, South Korea, Hong Kong, Brazil and India.

Although the report was submitted in February of 1981, the government did not announce its decision until the end of November. The report itself was partly responsible for the delay. It was sufficiently long and remarkably loose to allow conflicting interpretation of its findings, ranging from the conclusion that no quota was required to the conclusion that only global quota would be effective. Different participants took different positions, depending on their interests.

Interdepartmental discussion on the recommended course of action after quotas expired favoured their termination, supplemented by a strong adjustment assistance programme.\textsuperscript{56} It also favoured negotiations with Taiwan to curb its exports of footwear to Canada. Not only was Taiwan the largest exporter of footwear to Canada, it was also

\textsuperscript{55}\textit{Ibid.}, p.112.

\textsuperscript{56}\textit{Buhne, op. cit.}, pp. 112-113.
easier to dictate terms to it because of its exclusion from GATT. The cabinet, however, was not enthusiastic about dismantling quota protection. It instead directed the trade negotiators to investigate the possibility of negotiating export restraint with Taiwan, South Korea, Hong Kong, and Brazil. The negotiations never really got off the ground because of the advice from the Canadian missions in Brazil and South Korea that the sale of satellite equipment to the former and nuclear reactors to the latter would be jeopardized if they were pressured to restrain their footwear exports. In any case, the Canadian negotiators were too busy with the negotiations regarding the renewal of bilateral quotas on clothing imports to spare time for footwear, which was an enormous task in itself.\(^{57}\)

The prospect of selective quotas administered by exporting countries was disconcerting for the importers and retailers. The FIC wrote to the government that if the government did not end quotas, it should renew global quotas, with increase in their levels and allowing for more flexibility in their administration.\(^{58}\) The RCC proposed that imports should be controlled only from Taiwan, South Korea, Hong Kong, and India, with the administration of quotas remaining in the hands of Canada.\(^{59}\) Its proposal, if

\(^{57}\)Ibid., pp. 115-116.


\(^{59}\)Ibid., p. 83.
implemented, would have minimized controls, while still allowing importers to collect quota premiums. The CSRA, on the other hand, recommended complete end to quotas. SMAC and labour unions continued their pressure for global quotas through meetings with ministers and M.P.s. The theme of their campaign was saving jobs. As one SMAC document noted, "What we are talking about is 20,000 jobs. Jobs are the key issue."

On November 24, 1981, the government, to the surprise of everyone, announced the termination of quota on leather footwear, and its extension to non-leather footwear for three years. For the first time, non-leather footwear included those made of canvas. The government also announced the extension of CIRP assistance to the footwear industry. The cabinet took the decision entirely on its own, for no government department or interest group had ever suggested this course of action. The cabinet reasoned that this was the best way to reconcile the Tribunal's findings with Canada's international commitments. By renewing global quotas, it was acting within the framework of GATT. It was also following the recommendation of the Tribunal that imports from developing countries should be restrained,

60 Ibid., p. 91.

61 SMAC, J.G. Maheu (President, SMAC) to members of SMAC in Montreal, January 22, 1981.

62 Buhne, op. cit., p. 118.
because they were the main suppliers of non-leather footwear.
The removal of quota from leather footwear was designed to please the developed countries, which were their main suppliers. The decision was also no doubt encouraged by economic forecasts of continued buoyancy in the economy, which was expected to absorb some of the adverse impact of the increased unemployment that might result from the decision.

The decision to end quotas on leather footwear, in which the Canadian industry specialized, was seen as a death-blow by the manufacturers and workers. SMAC, in cooperation with the unions, launched an unprecedented public campaign to have the decision revoked. They pressured the provincial governments and federal M.P.s and ministers, organized mail-in campaign, and even marched on the Parliament Hill. The march included several M.P.s from all three parties. SMAC wrote to the cabinet,

If the government does not accept to [revoke its decision], the new policy would continue to be useless. So if leather footwear is not included, we are recommending that the government abolish the so-called footwear import restraint policy.

In the meantime, the economic forecasts for 1982 turned out to be incorrect as Canada entered its worst recession of the post-war period. The importers too, in order to augment their quota entitlement in case controls were reinstated,

63 SMAC, J. G. Maheu (President, SMAC) to the Economic Development Committee of Cabinet, March 18, 1982.
increased their imports of leather footwear. As a result, imports of leather footwear increased by 19 per cent in the first quarter of 1982, compared to the same period in the preceding year.\(^{64}\) This was at a time when the domestic market for footwear had declined by 4 per cent. The employment in the industry declined by 13 per cent during the same period. The combined impact of all these was that the government had to reverse its earlier decision, and in July, re-imposed quotas on leather footwear.

The renewed quota regime on non-leather footwear, including canvas footwear, was to be in effect until November 30, 1984.\(^{65}\) Quota allocations were to be based on import performance during the April 1, 1980 to March 31, 1981 base period. Calculated this way, the quota level for non-leather footwear was set at 34.1 million pairs.\(^{66}\) Quotas on leather footwear, although imposed eight months later, were to expire on the same day as non-leather footwear. The base period for calculating leather quotas was May 1, 1981 to April 30, 1982; it came to 11 million pairs in all.\(^{67}\) The choice of the base period, it may be noted, was one during which overall imports were higher than in the three preceding


\(^{65}\) External Affairs, OSTR, Notice to Importers, December 1, 1981, Serial No. 160.

\(^{66}\) Ibid., December 1, 1981, Serial No. 162.

\(^{67}\) Ibid., July 9, 1982, Serial No. 167.
years. Moreover, the base period included a part of 1982 when there was no control of leather footwear. Consequently, the quota levels that were set were higher than at any time between 1977 and 1981. In addition, the new regime provided for a 3 per cent annual increase in the quota levels in the first two years, and 2 per cent in the final years.

Even more remarkable was the gradual introduction of various provisions which increasingly reduced the restrictiveness of the quota regime. During 1980-1981, only 9 classes of footwear were exempted from quotas. By December, 1982, these had been increased to 19, (including both leather and non-leather footwear) reaching 36 by August, 1983. The exemptions included both shoes and sandals over $45 per pair and boots over $75 per pair. This was to appease European and American exporters who were the main suppliers of high-priced footwear. Another modification involved making the regime increasingly more flexible, whereby importers could switch their quotas from one class of footwear to another. While a limited amount of switching was always allowed, the conditions allowing it were so severe that they could hardly be used by those needing to use it. The progressive relaxation of the conditions enabled

68 Ibid., December 1, 1982, Serial Nos. 184 and 185.

69 Ibid., August 19, 1983, Serial Nos. 208 and 209.

importers to make greater utilization of their quota holdings. Finally, unlike the first quota regime of 1977-1981, that of the 1981-1985 period made provisions for allocation to new retailers and importers who had had no imports in the base period and hence had not been entitled to quotas.  

It is clear that after 1981 the government was determined to relax substantially the quota protection afforded the footwear industry. It began with the removal of quotas from leather footwear. After its failure to follow through on the decision, the government devised other ways of relaxing the quota system. This was reflected in increasing quota allocations, from 38 million pairs in 1981 to 53 million pairs in 1985. Consequently, imports increased from 43 million pairs in 1980 to 53 million pairs in 1984.

In 1984, in order to enable the Tribunal to complete another inquiry, quotas were extended for 16 months beyond their scheduled date of expiry in November 1984. The extension was later reduced to 12 months.

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71 Ibid., December 1, 1982, Serial 184.
73 External Affairs, STRB, Notice to Importers, June 18, 1984, Serial 245.
74 Department of External Affairs, Communique, November, 29, 1984.
The fourth inquiry on the footwear industry was ordered in June, 1984. The circumstances in which it was ordered was very different from those during the previous inquiries. The conditions prevailing at the time were generally not favourable for continued protection. The overall political climate, even before the election of the Conservatives, favoured less government intervention in the economy. In 1984, the Canadian economy was buoyant and consumer spending was high. Correspondingly, the domestic footwear industry was experiencing its best time in years. At about the same time, the International Trade Commission in the U.S. ruled that the American footwear industry was not being injured, despite record increases in the levels of imports. The election of the Tory government in September, 1984, and its avowed commitment to freer trade, also did not bode well for continued protection. But most importantly, by then quota had existed for seven years, and its justification before the trading partners as being a temporary measure was becoming increasingly difficult. Thus, the conditions overwhelmingly weighed against continuation of quota protection for the footwear industry.

The terms of reference of this inquiry clearly indicated the intentions of the government to dismantle the quota regime, or severely weaken it and eventually terminate

it. First, the Tribunal was to inquire into the extent to which injury from imports would increase if quotas were removed. Second, it was to examine the extent to which the industry had rationalized and become competitive against imports. This question assumed an urgent meaning in the context of enormous financial assistance provided to the industry under CIRP. Third, it was asked to examine the impact quotas had had on "the operation and level of activity" of importers, wholesalers and retailers, and on the consumers. This was unlike any reference in the past. Now the question of injury was not only to be studied in reference to producers, but was to include the consideration of damages that quotas caused to others as well. Fourth, the Tribunal was to report on the competitive prospects of the industry against imports in particular product categories. Fifth, if injury from imports was found, it was to "...recommend a formula by which the special measures of protection could be phased out through a progressive liberalization process covering a period not more than three years...." The government could not have expressed itself more clearly that it wanted a speedy end to quotas.

SMAC submitted, again, a brief which in essence was a repetition of those presented in the past, with only minor modifications.\(^{76}\) The crux of its argument was that the protection provided to it in the past was not strong enough,

\(^{76}\)Tribunal, Submission by SMAC, 1984.
and not sufficiently long-term, to enable the industry to become fully competitive against imports. However, it could still become competitive, it argued, if quotas were extended for another five years.

SMAC claimed that as a result of gradual relaxation of the quotas, the domestic industry's market share had eroded substantially. It was also critical of the three-year duration of quotas provided to it twice, and their one year extensions. It claimed that the duration of the protection each time was not long enough to enable the industry to make long-term investment decisions. "In short," it said, "what the industry is looking for is something it has never had -- a period of reliable footwear imports." It completely rejected the suggestion of ending quota made in the terms of reference. It warned, "The entire Canadian footwear industry is threatened with serious injury and most probably complete disappearance in the event that a decision was made to remove global quotas three year after November 30, 1985."

FIC submitted a brief opposing, as in the past, extension of quotas, but its opposition sounded even more perfunctory than it did in 1980. After criticizing quotas in general terms, and expressing its support for their termination, it argued that this should be done gradually. It recommended that quotas should be phased out over three years. The objective of its argument undoubtedly was,

77Tribunal, Submission by FIC, 1984.
although the FIC itself would never admit it, to have quotas extended as long as possible.

RCC too presented no new argument at this inquiry. It again called for ending quotas, and providing "positive support measures" on the basis of sector-by-sector analysis. It also claimed that 2,150 potential jobs in the footwear retail sector had been lost because of its members' inability to expand their business because of quotas. It recommended a complete termination of quotas.

CSRA submitted the most sophisticated brief and was the only group which introduced new arguments. One of its chief arguments was that quotas had a damaging impact on the smaller retailers. It said, "...[The] presence of a quota system has had a deleterious effect on the retailers' ability to expand, due principally to the lack of availability of products in the styles, colours, sizes, and price points that the Canadian consumer demands." Since small retailers had traditionally not been importers, they had no or small quota holdings. They also had difficulties placing orders with manufacturers and importers because of the generally small size of their orders. Consequently, they were losing market share to larger retailers.

78 Tribunal, Submission by RCC, 1984.
Following from the retailers' inability to expand, CSRA argued that quotas had caused the loss of existing and potential employment in the footwear retail sector. It argued that

...government intervention should not attempt to retain employment in one sector [manufacturing] when at the same time it [undermined] employment opportunities in another. This [was] especially relevant when the jobs actually lost [were] more numerous than the jobs potentially saved.

It claimed that 4,000 new jobs in the retail sector would be created if quotas were terminated. It concluded the Tribunal should recommend an immediate end to quotas. If, however, a phase-out was considered to be politically more palatable, then the period should not exceed one year.

The Director of Investigations and Research, Combines Investigation Act, CCAC, for the first time presented a brief. It argued that as one responsible for enforcing competition policy in Canada, it was obligated to present its views before the Tribunal. It unequivocally opposed continuation of quotas on grounds that they had adversely affected retailers, consumers, and the producers themselves. Quotas, it argued, had distorted competition in the market by restricting new entries and creating rigidities by not allowing switching among various quota classes. Controls on imports had also caused higher prices for the

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81 Tribunal, "Final Submission" by CSRA, January 15, 1985.
82 Tribunal, Submission by the Director of Investigations and Research, Combines Investigation Act, 1984.
consumers. Finally, the Director claimed, quotas had hurt producers themselves by discouraging them from taking steps to become competitive. Citing Professor Tim Hazledine's study on the costs of protection especially prepared for it, the brief argued that the annual cost of quota protection for the footwear industry had been between $20 and $43 million. It claimed,

...[The] costs of quota outweigh the private benefits they generate. The corollary is that the benefits gained from the removal of quotas will outweigh the temporary costs of adjustments of the Canadian footwear manufacturing industry and a portion of its labour force.

It recognized that some jobs would be lost if quotas were removed. But its argument was that they would also be lost if the industry restructured, which was the avowed objective of quotas.

The Consumers Association's brief basically took the same position as that of the Director of Investigations.\(^{83}\) It pointed out that while imports had increased in recent years, Canadian manufacturers still controlled more than half of the market in which they chose to participate, that is to say, the total Canadian market excluding special purpose footwear. It also proposed that while determining injury in terms of jobs losses after the removal of quotas, the Tribunal should adopt 'net effect' as the criteria, which would include the consideration of jobs

\(^{83}\text{Tribunal, Submission by CAC, 1984.}\)
that would be created in the retail sector and the re-employment of dislocated production workers. It likened protection to addiction, and said, "Just as the addict cannot be rehabilitated until the dependency is terminated, the industry will not restructure until protection ceases."

The United Food and Commercial Workers Union, on behalf of all CLC-affiliated unions in the industry, submitted a brief which was almost the same as the joint union brief presented at the previous inquiry. It claimed that it was possible for the industry to become internationally competitive by adopting modern production technologies. In fact, the process was already underway, and would end with the terminations of quotas, causing irreparable damages to the workers in the industry. It recommended "[a] period of five clear years of quotas at 50% of the domestic market...would be sufficient to allow the strengthening of the industry to take place."

The CSD's brief argued that the conditions of the industry in 1984 was worse than what they had been in 1977 and 1980, when the Tribunal found injury. The industry would continue to be vulnerable until the process of modernization had been completed. For the industry to become fully competitive, it needed five years of quotas and a guaranteed 50 per cent of the market. It also argued for the

84 Tribunal, Submission by UFCW, 1984.
85 Tribunal, Submission by CSD (in French), 1984.
need for effective labour adjustment programmes.

The Tanners' Association and the Shoe Industry Suppliers' Association made submissions in support, as usual, of SMAC. The European Confederation of the Footwear Industry, whose membership included national footwear manufacturers associations of the EEC countries, asked for removal of quotas on imports from EEC because they were not causing injury to the Canadian industry. The Brazilian footwear industry also submitted a brief arguing against the continuation of quotas. Several importers and retailers also submitted briefs arguing against the renewal of quotas. CIRB made a submission highlighting the strengths and weaknesses of the industry. It presented a sector-wise analysis of the industry, highlighting the vulnerability of the women's/girls' sector, and the hopeless future in the manufacturing of athletic footwear.

If the terms of reference were comprehensive, and the task demanding, the Tribunal fully lived up to the challenges. Its report, presented to the government in June, 1985, was exhaustive, well-researched and cogent. The most remarkable feature of the report was its conclusion that the Canadian footwear industry had over the years become reasonably competitive, and hence did not require quota protection. This inference was different from those presented by both supporters and opponents of quotas that Canadian industry was not sufficiently competitive against
imports.

The report displayed a clear conception of what it understood by restructuring. It ruled out any fundamental restructuring on the ground that technology for accomplishing it was not available. It averred that, contrary to popular beliefs, it was not possible for the industry to offset its labour-cost disadvantages by increasing its production runs and gaining from economies of scale. Until such time as commercially viable labour-saving technology became available, it was unlikely that the footwear industry would be able to restructure in any fundamental sense. However, vigorous steps in the direction of product specialization, plant modernization, and improving managerial and production skills had been taken by the industry. It concluded that what had been done until then "...represented a successful pattern of restructuring."\(^{86}\)

According to the Report, that the industry had restructured significantly over the years was evident in the following indicators. First, contrary to popular beliefs that footwear plants were usually small, only about 25 per cent of them in 1974 and 30 per cent in 1980 employed less than 20 workers; for manufacturing as a whole, the figure was 60 per cent in 1981.\(^{87}\) The number of large footwear plants had undoubtedly declining since 1974, but that might well

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\(^{86}\)Tribunal, Report, 1985, op. cit., p. 23.

\(^{87}\)Ibid., p. 10
have been because firms had trimmed their operations in the knowledge that medium-size plants were more profitable. Second, between 1974 and 1984, dress and casual footwear had increased their share of the total Canadian production, while the shares of work and utility, plastic, and athletic footwear had declined. The increased rationalization of the industry after 1981 was also evident in the changes in output mix and the increase in real average value of output. These

...indicated that the Canadian producers have exploited their market opportunities skillfully and successfully, and it may be concluded from the figures that, during the 1974-1983 period, the industry strengthened the market position in those sectors where it can compete efficiently.

Finally, the industry had become more flexible over the years. In the words of the Tribunal, "A particular source of strength is its ability to respond to demands for short runs, with short lead times, while remaining profitable." This had enabled the firms to increase their inventory turnover, resulting in a greater utilization of their plant capacity and a more efficient use of their scarce working capital. The increasing trend towards "lick 'n stick" operation whereby sewn uppers, which are labour intensive, are imported to be soled, lasted, finished and marketed in Canada was another evidence of this trend.

88 Ibid., p. 12
89 Ibid., p. 15
90 Ibid., p. 24.
The Tribunal also found the footwear industry had improved its financial position after 1980. In fact, in terms of return on assets and equity, and profitability, the footwear industry performed better than manufacturing as a whole. Moreover, in the late 1970s and early 1980s, the lesser increase in wage rates in the industry compared to its counterparts abroad enabled it to improve its competitiveness further against them.

The report's most revealing part was the one dealing with the costs of quotas. It found that the costs were higher than what the producers claimed and lower than what their opponents alleged. Quotas did not cause price increases, the report concluded, for the domestic footwear. However, they did cause the price of imports to increase, by 5 to 10 per cent more than otherwise would have been the case. The quantity of footwear imported was lower, due to quotas, by between 6 and 12 per cent each year. However, since domestic footwear was not directly substitutable for imported footwear, the industry shipments increased by only 2 to 5 per cent annually. Quotas caused footwear consumption to decline by 1 to 2 per cent. Similarly, production employment was higher by 2-4 per cent; in other words, quotas

91 Ibid., p. 19
93 Ibid., p. 32.
94 Ibid., pp. 34-35.
provided for 350 to 700 additional jobs during the quota period. 95

The cost of quotas to consumers ranged from $35 million to $85 million per year; being higher in years of high consumption and low in years of low consumption. The impact of higher prices of imports caused by imports was disproportionately high on low-income consumers because of their inability to purchase higher-priced Canadian footwear. 96 However, the quota regime was not restrictive enough to significantly reduce choices to consumers.

Thus, the costs and benefits of quotas on the whole had been relatively limited. Correspondingly, in the Tribunal's opinion, their removal would have had only minimal impact, beneficial or otherwise. 97 However, the number of jobs lost after the removal of quotas would be higher than those preserved by quotas.

Having found that the domestic footwear industry had restructured remarkably, given the technological limitations; that it had become generally competitive against imports in sectors in which it participated; and that the impact of quotas had been small and that their removal would not cause major disturbances; the report made a bold recommendation: end quotas, except on the women's/girls'

95 Ibid.
96 Ibid., p. 40
97 Ibid., p. 41.
footwear. It arrived at the conclusion after a sector-by-sector analysis. In the case of the women's sector, it concluded the industry was vulnerable to imports and would be severely injured if quotas were lifted.

There were several factors, even though the report did not mention them, why it recommended against an immediate end to quotas on women's footwear. This was the sector in which the quotas had had the strongest impact, and hence their immediate removal would have caused the greatest disruption. Its concentration in Quebec, where the rate of unemployment was higher than in Ontario, must also have influenced the recommendation. As such, the Tribunal recommended that quota allocation in this sector should be increased by 10 per cent per year for the next three years, at the end of which quotas would become totally ineffective.

In addition to the terms of reference which encouraged the Tribunal to find no injury, it re-interpreted certain concepts critical to the inquiry in a way that yielded the conclusions desired by the government. For the purpose of calculating the domestic producers' market share, it considered, unlike the previous reports, the market segments in which the Canadian producers were active, rather than the entire market. It was thus able to exclude special purpose footwear, and conclude that the domestic industries' market share had been constant over the years, despite a decline in its share of the total market. Moreover, unlike
the 1977 and 1981 reports, which viewed any increase in imports as tantamount to injury, the present report perceived the increase in the context of broader market trends. Thus, it did not view the enormous increase in imports of athletic-leisure footwear as being injurious. Rather, it argued, increased consumption of these footwear reflected a change in life-style to which Canadian producers must learn to adapt. In these respects, the Tribunal had come full circle since its 1973 report. Both the first and the final reports considered the question of injury independent from the levels of imports. They also, unlike the reports of 1977 and 1981, put more emphasis on the importance of the footwear industry operating within the context of larger market forces, unprotected by quotas. It is not coincidental that the terms of reference of the first and the last inquiries were written in a way that restrained it from finding injury.

After the publication of the report, the various interested parties geared up to pressure the government to interpret it in a way that best suited their interests. SMAC, supported by the unions and the supplying industries, launched another campaign to discredit the report and have the government reject its recommendations. SMAC argued that the cabinet had the authority to reject the Tribunal's report, and that it should exercise this authority.98 The

98 SMAC, J. G. (President, SMAC) to James Kelleher (Minister of International Trade), July 19, 1985.
governments of Ontario and Quebec supported the industry's position.\textsuperscript{99} The retailers, especially CSRA, launched their own campaign to persuade the government to implement the report's recommendations. The government, which was already disposed towards a non-protectionist option, found the report an additional reinforcement to its beliefs. No government department recommended continuation of quotas. The conditions were right for an announcement of an end to quotas.

In late November, 1985, the government announced that quotas on all classes of footwear, except women's/girls' dress and casual boots and shoes, were to be lifted at the end of the month.\textsuperscript{100} The quotas on the remaining products were to be phased out over a three-year period by increasing quota levels by 6, 8, and 10 per cent respectively on an annual basis. SMAC and the unions tried to put together the same kind of opposition that they had so successfully mounted in 1981, following the removal of quotas from leather footwear. Their opposition, however, collapsed surprisingly swiftly.

The industry, especially the segment located in Ontario, was doing well. Moreover, many in the industry were

\textsuperscript{99}Quebec, Rodrige Biron (Minister of Industry, Commerce, and Tourism, Quebec) to Sinclair Stevens (Minister Regional Industrial Expansion), September 16, 1985.

\textsuperscript{100}External Affairs, STRB, Notice to Importers, November 21, 1985, Serial Nos. 277 and 278.
looking forward, after quotas were removed, to themselves becoming footwear importers. There was, therefore not the same imperatives or commitment to fight the government's decision as had existed in 1982. The disarray among manufacturers dispirited labour's participation as well. The buoyant economic conditions in central Canada had eased unemployment, and hence footwear workers were less impelled to fight for saving their existing jobs. In fact, even the march on Parliament Hill to protect the government's decision that SMAC and labour unions had organized was hastily called off, fearing lack of participation by members.\(^1\)

**CONCLUSION**

It is clear from the discussion in this chapter that the Canadian government was reluctant to avail the protection of quotas to the domestic footwear industry. Its reluctance arose, as discussed in Chapter Four, from the constraints imposed upon it by its commitments under GATT, its overall trade objectives, and its relationship with the EEC. It was also rooted, as shown in Chapters Three and Six, in its assessment that financial assistance, not quotas, was the most effective means of assisting the industry.

In 1977, the government was forced to deviate from its position because of highly unusual domestic and

international circumstances. The threat to Canada's territorial integrity arising from the election of Parti Quebecois government in Quebec in December, 1976, put the problems of the province on the top of the nation's policy agenda. The desperate conditions of the footwear industry (and those of the textiles and clothing industries) in the province could be ignored by the federal government only at the risk of fanning nationalist sentiments in Quebec. The hardships of the industry at the time arose from the sharp appreciation of the Canadian dollar against the currencies of the major footwear exporting countries. Moreover, in that year importers had increased their purchase abroad to unprecedented levels out of fear --arising from the imposition of quotas on clothing in December, 1976-- that quotas on footwear were in the offing. Similar defensive reactions on the part of the importers were caused by the American government's efforts to curtail footwear imports into its country. The adverse effects of these developments were especially pronounced in the generally weaker women's footwear sector, which was for the most part located in Quebec. It was under these unusual circumstances that the Canadian government imposed quotas in November, 1977.

After 1980, however, even when the government acceded to the demands for quotas, it took deliberate steps to gradually weaken the protection, and ultimately remove it altogether. In 1981, in order to exempt European imports
from controls, the government removed quotas from leather footwear, even though this was the area in which the Canadian production was concentrated. The economic recession of 1982, which caused massive decline in the levels of production and employment in the footwear industry, forced the government to revoke its decision and re-impose quotas on leather footwear. However, the new quota regime was remarkably weaker than the one that had existed before 1981. It provided for higher quota levels, larger number of classes of footwear that were exempt from controls, and allowed more flexibility in switching among various classes of footwear. Thus, after 1981 there was an unmistakable trend in the government's policy towards weakening the footwear quota regime, which culminated in the removal of quotas from all classes of footwear, except for those on women's footwear (which were to be progressively phased out over the 1985-1988 period), in 1985.

Contrary to the appearance of independent inquiries by the Anti-Dumping Tribunal, and its subsequent reports, as the critical determinant of decisions regarding quotas, this chapter argued that the Tribunal's role was itself shaped by political forces. The inquiries' terms of reference, which were prepared by the government on political, and not technical grounds, predisposed the Tribunal to conclusions preferred by the government. The Tribunal, for its part, arbitrarily defined key concepts critical to the inquiries
and adopted criteria of injury to suit the thrusts of the terms of reference. Thus, its reports broadly reflected the political imperatives that conditioned the government's preferences. However, this argument is not to be interpreted as casting aspersions on the integrity of the Tribunal, but rather as a reminder that even semi-autonomous government bodies are not immune to political constraints.
Chapter Eight

CONCLUSIONS

The purpose of this study was, first, to describe the Canadian government's policy for the domestic footwear industry during the 1970-1985 period, and second, to account for the forces that shaped it. This chapter will summarize the arguments presented in the preceding chapters and highlight the main conclusions that emerged from them. It will also draw theoretical implications from the findings of this study and place them in the context of the literature on economic policy discussed in Chapter One.

The making of the adjustment policy for the Canadian footwear industry involved three sets of actors: the state, manufacturing interests, and trading interests. The state's involvement in this area was, of course, inspired by interests broader than those of the other two. It arose from its general commitment to ensuring economic prosperity of the nation. This entailed the maintenance of adequate profitability and an acceptable level of employment in the overall economy, including the footwear industry. However, the fact this industry formed only a small part of the total economy implied that the government's efforts to maintain profitability and employment in the industry were constrained by the need to ensure they did not adversely affect the achievement of similar conditions for other larger domestic
industries. In other words, the state accommodated the interests of the footwear industry only to the extent they did not impinge on the interests of other more vital industrial sectors in Canada.

Although the state was committed to maintaining the well-being of the industry, different components within the state defined "well-being" in ways that reflected their own particular roles and predilections. The government bureaus in charge of exporting industries and those whose responsibilities cut across industrial sectors understandably attributed more emphasis to promoting exports, given the primacy of these sectors in the Canadian economy. The bureaus charged with the responsibility for import-substituting industries, by contrast, gave greater importance to their client industries, and often pursued objectives that adversely affected the interests of the exporting industries. However, such conflicts did not occur in the case of footwear. The Footwear Division of ITC believed that the solutions to the footwear industry's problems did not lie in quotas, and that assistance for modernization was a more effective means of assisting the industry. This assessment won the support of other bureaus because it did not involve what they considered as the least desirable option: quantitative restrictions on imports. Thus, there was a general agreement in the bureaucracy regarding the appropriateness of assisting the footwear industry through
financial aid for modernization.

The political actors within the state were guided by largely the same imperatives as the bureaus. They recognized the need for avoiding actions that might stymie Canada's exports and shared the view that the domestic footwear industry could be modernized and made internationally competitive through financial assistance. At the same time, they were vulnerable to political pressures arising from down-turns in the domestic economy and the threat to Canada's territorial unity. Thus, when the conditions of the industry deteriorated rapidly --because of general economic recession or the appreciation of the Canadian dollar in relation to currencies of the major footwear exporting nations-- causing displacements in production and employment, the political actors were more susceptible to the industry's demands. On such occasions, they took measures, including imposition of quotas, to arrest the industry's declining conditions. The concern for the industry's immediate malaise, and the need for ameliorative measures, assumed even more salience when Canada's territorial integrity was at stake, as it was after the election of a separatist government in Quebec in 1976. Insofar as decline in the industry's conditions fanned separatist sentiments, the political actors had to take palliative measures. Quotas on imports, of course, was the most effective means of accomplishing this objective in the
short-term. The supremacy of the political executive over the bureaucracy ensured that its preferences prevailed. Under exceptional circumstances the state, therefore, deviated from its objective of assisting the footwear industry through high tariffs and financial assistance and also offered quota protection.

In addition to factors internal to the Canadian state, its participation in the footwear policy process was conditioned by the structure of the international political economy, and Canada's place in it. The export-orientation of the Canadian economy, and the corresponding pre-eminence of the exporting industries on the government's policy agenda, affected the policies for import-substituting industries. Thus, Canada's commitment to the principles of GATT arose from the need to secure an international trade order which did not hinder its exports. While GATT did facilitate the pursuit of this objective, it also exposed domestic import-competing industries to enhanced international competition. More importantly, GATT restricted the government's ability to assist the domestic industries through quotas. Imports from the United States and the EEC were particularly difficult to control because of their critical importance as destinations for Canada's exports. Consequently, the government was most reluctant to impose quotas on imports (except on textiles, clothing, and agricultural products which receive special treatment under GATT). It was only under exceptional
circumstances that the government adopted this measures, at the risk of impairing its export interests.

These domestic and international factors conditioned the Canadian government's attitude towards assistance to the footwear industry. It faced few problems in protecting the industry through unusually high tariffs. In Canada, tariffs on footwear had traditionally been high, and there was no international pressure to reduce them, because other countries protected their own industries through similarly high rates. In fact, the government provided additional tariff protection to this industry through "value for duty advances". This was possible because GATT did not explicitly prohibit the advances, and more importantly, because other nations followed similar arbitrary practices. Canada ended the advances in 1985, after an international agreement prohibiting them was reached at the Tokyo Round of GATT negotiations.

The provision of financial assistance to the industry also did not encounter domestic or international pressures. The bureaucracy and the executive were united on the primacy they attributed to this form of assistance. In any event, this was a small industry, and even rich assistance programmes for it on the whole involved relatively small expenditures. The international environment was also conducive to this form of assistance. Since the industry's exports were small, government subsidies to it did not
provoke countervailing actions abroad. A higher volume of exports, however, would have made them targets for countervailing duties, thus nullifying the benefits of subsidies.

In contrast, the use of quotas on imports as a means of assisting the industry was problematic. On the one hand, the provisions of GATT, Canada's export objectives, and the consideration for diplomatic and economic relations with the EEC, worked against the imposition of quotas. On the other hand, the immediate domestic pressures for imposing controls on imports at times were so strong that the government could not resist them. In such exceptional circumstances, the government imposed quotas, and worked towards weakening them when normalcy returned. The decisions to impose, modify or remove quotas were preceded by inquiries by the Tribunal, but they only served to mask the political character of the forces that shaped the government's decisions.

The manufacturing interests consisted of two elements representing seemingly different interests: producers and workers. The producers' interest in the policy arose from their need to secure conditions in which they could extract profits, whereas labour was involved because of its interests in wages. The industry's low adjustment capability, arising from its poor financial resources and the generally conservative nature of the management, meant that
the producers would rather fight for the protection of their investments. Similarly, labour in the industry was characterized by the preponderance of low-skilled, women, and recent immigrant workers who could not be easily employed in other industrial sectors. Therefore, it was in their interest to see protection for their existing jobs. Since imports were viewed by both producers and workers as the greatest threat to their interests, they joined hands in pressuring the government to protect them. Both also resisted financial assistance for industry modernization because it caused redundancies in invested capital and in employment.

The producers and workers in the industry, and those in the supplying industries, formed a solid coalition with a clear goal, broad membership, and adequate financial resources. The support of ruling party M.P.s from ridings with footwear plants, and of the governments of Ontario and Quebec added to the resources they possessed to pursue their interests. At the same time, they lacked the strength to impose their objectives on the government. The footwear industry, even after including the supplying industries, formed such a small percentage of the total economy that it could not command special treatment on economic grounds. The dependence of only a few communities on the industry for their livelihood also deprived it of the ability to apply concentrated regional pressures on the government. Moreover,
the industry did not employ sufficiently large numbers of people to enable it to alter electoral fortunes. Finally, beginning in the early 1980s, the tendency among footwear producers to increasingly become importers introduced a crucial cleavage in their organization which severely weakened their ability to exert pressure on the government.

The manufacturing interests were also constrained in their relationships with the state and the trading interests. They, especially the Shoe Manufacturers' Association, did not trust the bureaucracy and hence made little effort to build close contacts with it. Their warm relationship with several M.P.s and a few ministers, however, did help their cause. They also did not attempt to garner the support of the trading interests and, in fact, displayed open hostility towards them. The international political economy, of course, affected their interests only indirectly, in the sense of constraining the state from meeting their demands.

The manufacturing interests' objective with respect to tariffs was to secure the highest possible level of protection through this instrument. They faced few hurdles in achieving this objective because of the lack of opposing pressures from within or without the country.

The manufacturing interests were somewhat opposed to financial aid for modernization. The producers would have normally supported cash subsidies from the government, but
insofar as they were viewed as substitutes for quotas, the industry was reluctant to support them. However, when the government went ahead and offered handsome financial aid packages regardless of the industry's position, individual firms displayed few qualms in applying for them, given their often precarious financial situations.

Quotas on imports, as mentioned earlier, was their first and foremost objective. Indeed, SMAC regarded quota protection as a *sine qua non* for the industry's continued survival. However, the industry did not possess the organizational capacity to pressure the government to meet its demands, which in any event was a difficult goal to achieve, given the constraints imposed by the international political economy. It succeeded in achieving its objectives only at times when the existing political and economic circumstances favoured its demands. Such circumstances arose in 1976-1977 when the appreciation of the Canadian dollar inflicted a severe toll on the industry's production, employment and share of the domestic market. The election of the Parti Quebecois government in December, 1976, and the imposition of quotas on footwear imports from Taiwan and South Korea by the American government further added to the strengths of its demands. In contrast, in 1985, despite a rapid increase in the levels of footwear imports, it failed to secure quotas because of the relatively healthy state of the overall economy, which was reflected in the high levels
of production, employment, and profitability in the industry. In that year, the decision of the U.S. government to deny quota protection to the American footwear industry, despite even a higher increase in the share of the market held by imports, only further weakened the Canadian industry's demands.

Similar to the manufacturing interests, the trading interests also consisted of business and labour. However, the negligible level of unionization in the footwear trading sector, indeed in the service sector in general in Canada, shut labour out of the policy process. Hence it was the business alone that played a role in policy-making on behalf of the trading sector. But the traders themselves did not constitute a homogeneous interest. The differential impact of quotas on different sectors of the footwear trade made for a degree of disunity among large retailers, small retailers, and importers. When quotas were imposed, the large retailers (who were also direct importers) were allocated substantial quota holdings because of the practice of allocating them on the basis of historical performance. Consequently, the controls on imports did not overly hinder their business in the market which, in any event, was stagnant. At the same time, they preferred the freedom of being able to purchase their stocks from sources of their choice, regardless of the products' national origin. The implication of the fact the large retailers were in principle opposed to quotas, yet
remained largely unaffected by the existing restraints, was that they did not participate in the policy process with the same intensity that characterized the participation of other actors. The smaller retailers, in contrast, had not traditionally been importers, and hence were allocated little or no quotas. Thus, the existing quota regime severely restricted their competitiveness, without compensating them through quota premiums that accrued to those possessing quotas. Consequently, they were virulently opposed to the existing quota regime. The importers, that is those strictly in the business of importing, were opposed to quotas in the beginning. However, once quotas were established, and they began to benefit from them in the form of rent on their holdings, their opposition gradually declined. Thus, the three elements comprising the trading interests were guided by somewhat different objectives, depending on how they were affected by the existing quota regime.

It is, however, doubtful if the trading interests would have played a more vital role in the policy process even if they had been more united. Without the involvement of the workers, they did not possess the numbers to exert electoral pressure on the government. Moreover, the profitability in the retail and importing sectors was reasonably high, and their complaints that they were suffering from quotas could not be taken seriously. In addition, importers (including retailers to the extent they
were also importers) operate under the stigma that imports are "bad" for the country, because they displace production and employment in the domestic industry. The relative weakness of the trading interests was also evident in their exclusion from the terms of reference of the first three inquiries on the footwear industry by the Anti-Dumping Tribunal. As a result of these weaknesses, the trading interests played a significant role in the policy process only insofar as their interests could be selectively invoked by the government to resist the pressures from the manufacturing interests.

While the trading interests did not support high tariffs on footwear, they also did not offer any opposition to them. The near-consensus that prevailed in the government, manufacturing interests, and the international arena on the question of maintaining high tariffs on footwear dissuaded them from working for their reduction. The issue of financial assistance to the industry did not affect the trading interests, and hence they played no role in this area. The ambivalence, and contradictions, that characterized their positions on quotas has already been noted. It was only the small retailers who were persistent, and increasingly sophisticated, in their opposition to quotas.

This study was conducted within an "organizational" framework which permitted us to capture the various factors
that shaped the policy for the Canadian footwear industry. The introductory chapter pointed out the need for a framework which emphasized the organization of the state and societal institutions, and that of the international political economy. It was proposed that the organization of the relationships within and among these institutions affect the policy process and its outcomes. However, no presumption was made as to the form of the organization, the precise manner in which it affects policy-making, or what would be the outcomes of the process. These were left to be arrived at through inductive analysis.

A theme of major theoretical significance that emerged from this study is the critical impact of the international environment on domestic policies. While the effects of domestic factors on international relations has been recognized, the international sources of domestic policies have been largely ignored by Canadian public policy analysts. Group theories' focus on actors, and the exclusion of institutions from their analyses, render them incapable of including the structure of international relations in their theoretical frameworks. Similarly, the neo-marxist scholars' emphasis on class conflicts within the society inhibits them from examining the international environment. No doubt, the Canadian analysts following the

1See, for example, the two comprehensive literature surveys on industrial policy prepared for the Macdonald Commission, Blais, op. cit., and Blais (ed.), op. cit.
dependency theories do attribute central importance to the structure of the international political economy. However, their explanation of Canada's economic policies in terms of showing how they serve the interests of the "metropolis" is not useful for understanding the forces affecting the Canadian footwear industry. The Canadians, such as Alan Cairns, working in the statist tradition, while attributing sufficient attention to domestic institutional factors, have not included the impact of international economic structures in their analyses. Studies by Peter Hall on economic policies in Europe\(^2\) and by Peter Katzenstein on economic policies of small states\(^3\) demonstrate the facility with which state-centric frameworks can incorporate international political economy in their analysis. The absence of such studies in Canada is particularly unfortunate, given the brilliant studies along this line produced by Harold Innis in this country more than half a century ago.

The second theoretical implication of this study is the need for viewing the arena for making adjustment policies for import-competing industries as consisting of state, manufacturing interests, trading interests, and the international political economy. The exclusion of the international environment from much of the Canadian

\(^2\)Hall, *op. cit.*

literature on economic policy has already been noted. A systematic consideration of even the domestic actors is rare in the literature. The state and societal participants in the policy process are for the most part viewed merely as actors, which inhibit the analysts from ascertaining a complete understanding of the process. In addition to being actors, the state and societal interests are also structures.

As Hall has pointed out, actors in policy-making form an organized relationship within and among themselves which affects the pursuit of their interests, and the resulting policies. The state-centric and the structuralist neo-marxist literature come closest to adopting this holistic view. However, their presupposition that domestic policy-making involves state, capital and labour is misleading in that actors relevant to a policy cannot be assumed a priori. Moreover, the structuralist neo-marxist position that whatever the government does ultimately serves the interests of the dominant capital imparts little insight into a policy. The public choice theory correctly views protectionist policies as the result of conflicts and cooperation among politicians/bureaucrats (state), protectionist forces (manufacturing interests) and anti-protectionist forces (trading and consumers' interests). However, these are regarded only as actors, and no attention is paid to the institutional constraints under which they operate, which makes public choice theory an inadequate
analytical framework. The groups theories suffer from a similar shortcoming. Their presumption that resources to influence government policy are distributed evenly among groups denies the existence of any systematic bias in the policy process. But as was seen in this study, the organization of the domestic policy arena and the structure of the international political economy systematically favoured some interests over those of others.

Another broad theoretical implication of this study relates to the level of public assistance to industries. The underlying presumption of public choice analyses, which form the bulk of recent studies on public policy, is that the government provides increasing levels of assistance to its societal clients. This has not been borne out by our study of the footwear policy. Neither the behaviour of the Canadian government as a whole, nor that of the Footwear Division, conform to the pattern predicted by this theory. In fact, in 1985, both financial assistance programmes and quota protection (except on the women's sector) were terminated, despite the protestations of the industry.

At this stage, it is necessary to introduce a note of caution about generalizing on the basis of this study. After all, footwear is a small industry, facing rather unique sets of constraints and opportunities. It is unlikely the forces that shaped the policy towards it would be the same as those that condition policies for other industries. At the
most, the findings of this study would be relevant to similar-sized Canadian industries facing similar problems of adjustment to increased import competition. However, the organizational framework employed here is sufficiently flexible to lend itself for the study of adjustment policies for other industries. It allows one to focus on the interaction among domestic and international actors and institutions which are the key determinants of policy.
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