THE CANADIAN CHAMBER OF COMMERCE
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Submission to the Department of Finance on Canada's Foreign Trade Zone-Like Policies and Programs

Ottawa | February 2012

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Consultations on Foreign Trade Zone Programming
Department of Finance Canada
International Trade Policy Division, 14th Floor East
140 O'Connor Street
Ottawa, ON K1A 0G5

Re: Canada's Foreign Trade Zone-Like Policies and Programs

The Canadian Chamber of Commerce welcomes the opportunity to comment on Canada's current foreign trade zone (FTZ)-like policies. As Canada's largest business association, the Canadian Chamber of Commerce has an extensive network of over 420 chambers of commerce and boards of trade, representing approximately 192,000 businesses of all sizes.

The membership of the Canadian Chamber of Commerce represents all regions and all sector of the Canadian economy. As such, we remain very interested in the development of Canada's FTZ-like policies and programs. We believe that Canada must enhance its position as a gateway into North American and support our value added manufacturing, distribution, storage and transportation sectors. FTZs are one way to encourage businesses to take advantage of these opportunities and to expand our trade position internationally.

Over the past number of years, the Canadian government has undertaken several helpful initiatives to enhance and support Canada's manufacturing and export sectors. For example, the broad elimination of tariffs on manufacturing inputs and machinery and equipment in the 2009 and 2010 Budgets was a welcome initiative and set a precedent among the G-20 countries in the creation of a nationwide tariff-free zone for industrial manufacturers. The Canadian Chamber also welcomed the commitment to eliminate remaining duties on imported machinery and equipment and manufacturing inputs by 2015 and the significant investment in and promotion of Canadian Gateways.

While the Canadian Chamber believes that these initiatives have helped to attract international investment to Canada, we firmly believe that more can be done strengthen Canada as a foreign trade zone to increase the competitiveness of Canadian business operations in domestic and foreign markets and help them invest and create jobs here at home.

Foreign Trade Zones:

Foreign Trade Zones are globally recognized programs that provide financial incentives for value-added manufacturing of low-cost material and processing of goods prior to export. FTZs allow firms to defer duties or taxes thereby lowering their operating costs. Participants in FTZs are able to take advantage of the program to facilitate storage, distribution, manufacturing and value-added activity.

Not only do FTZs attract economic activity that may otherwise be done offshore, they also encourage economic growth in host regions. They offer a flexible and streamlined approach to the movement of goods and strengthen a country's global competitiveness.

Unlike other jurisdictions, the Canadian government has adopted policies designed to allow export oriented companies to "enjoy the benefits of foreign trade zones anywhere in Canada". The lack of designated FTZs makes it more difficult to market and promote our programs to businesses and prospective foreign investors who have traditionally viewed a FTZ as a specific local area at or near a port of entry.

Canada currently has three main FTZ-like programs. Unfortunately, these programs have significant limitations. First, they are designed for companies that export the vast majority of their production. This means that they prevent companies from accessing the potential benefit from sales in the Canadian market. Second, some of these programs place significant constraints on the amount of value-added that can occur prior to export, while others do not allow for the deferral of GST/HST.

Finally, companies have identified issues with program overlap, complexity and the involvement of multiple government agencies. The creation of a single window interface for companies would greatly improve efficiency and simplify access for potential users.

A summary of the primary FTZ-like programs in Canada follows:

Canadian Programs:

Export Distribution Centre Program (EDCP)

This program is administered by the Canada Revenue Agency (CRA) and applies specifically to companies that import goods and/or acquire goods in Canada, and process them to add limited value prior to exportation. The EDCP exempts businesses from GST/HST on most imported goods or on domestic purchases of goods with a value of $1,000 or more. Unfortunately, the limitations of this program are numerous. For example, in order to qualify for this program, the goods cannot be altered in any significant way and the value added through processing must be below 20 percent. This automatically excludes companies that process goods prior to export in order to add significant value. Furthermore, 90 percent of the revenue generated by the participating company (in the fiscal year) must come from the sales of exports further limiting the number of companies able to qualify for the program. Finally, at least 90 percent of a business' operations (for the fiscal year) must be commercial activities.

The Exporters of Processing Services (EOPS) Program

The EOPS Program is administered by the CRA. Similar to the EDCP, the EOPS program exempts participants from GST/HST on imports of goods belonging to non-residents but also has a very narrow scope. While there is no limit on the value added to a non-residents good during processing and there is no requirement on the amount of revenue generated through export sales, the goods must remain the property of a foreign company and cannot be sold into the Canadian market. This means that the Canadian company only provides a processing service and cannot be related to either the owner of the good or the final customer.

Duty Deferral Program (DDP)

The DDP is administered by the Canada Border Services Agency (CBSA). The DDP is the primary FTZ-like program in Canada and can postpone or refund duties and taxes investors would otherwise have to pay on goods they import and that are subsequently exported.. There are three components to the DDP: upfront duties relief, drawback or repayment by government of import duties (when the imported goods are re-exported or used in the manufacture of exported goods) and the deferral of duties for up to four years.

Customs Bonded Warehouse Program

A customs bonded warehouse is a storage facility that a company operates under the authority of the CBSA. This program allows for the deferral of duties and GST/HST until goods enter the Canadian marketplace. Goods cannot be significantly altered but are able to be stored and repackaged. Unfortunately the costs associated with handling goods in Bonded Warehouses are very high.

Duties Relief Program (DRP)

This program provides relief on duties paid on imports that are stored, processed or used to manufacture other products, provided the goods or products are later exported. Thus, it allows for significant processing of the good prior to exportation. The program generally excludes companies that export less than 70% of their products from duty relief and it does not relieve GST/HST (although the GST/HST payable is reduced by the amount of duty remitted).

Drawback (refunding of duties)

Importer, exporter or processor who already paid duties on imported goods that are subsequently exported may still be able to recover those duties under the duty drawback option. They have to file the claim within four years of the date of importation.

CentrePort Canada

CentrePort Canada is the closest parallel to a true FTZ and serves as a potential model which could be used in other areas across Canada. Centreport is a pilot project run out of an inland port next to Winnipeg's James Armstrong Richardson International Airport. Conveniently located within an hour of the Canada-U.S. border, CentrePort provides users with access to integrated road, rail and air transportation routes.

The project offers a combination of the EDCP and the Duty Deferral programs through a single window access point. Centreport is supported by a taskforce comprised of representatives from the relevant federal, provincial and municipal government departments.

Conclusion

While Canada offers many FTZ-like programs it remains the only G8 nation without a true FTZ. In order to truly benefit from the opportunities provided by FTZs, Canada must address the limitations of the current programs and examine ways to enhance participation and marketing of FTZ in Canada.

Recommendations

The federal government should:

1. Revise and restructure Canada's current FTZ-like programs into a single program with a single federal point of contact.
2. Remove or reduce the restriction on the amount of value-added manufacturing that can occur in a FTZ.
3. Ensure that all components of the FTZ program allow the deferral of GST/HST.
4. Encourage private sector agencies and regional entities to define local marketing zones.
5. Enhance the promotion and marketing of Canada's FTZ programs domestically and internationally.
6. Lower the restrictions on the amount of goods that can be sold domestically to allow companies with significant domestic sales to participate in these programs.