GCT Global Container Terminals Inc.

Submission to the House of Commons Standing Committee on Finance

Pre-Budget Consultations 2011

August 12, 2011

EXECUTIVE SUMMARY

Global Container Terminals Inc. (GCT) is pleased to have the opportunity to submit its priorities to the Standing Committee on Finance as part of its pre-budget consultations. GCT believes that the recommendations contained within are consistent with the Committee's request to hear from groups about how to attain high levels of job growth and business investment.

Global Container Terminals Inc. (GCT) was established in 2007 as a wholly-owned subsidiary of the Ontario Teachers' Pension Plan, one of the largest financial institutions in Canada with more than C$107.5 billion in net assets. The Company operates four container terminals through three principal businesses in North America: TSI Terminal Systems Inc. in Vancouver and Delta, British Columbia; New York Container Terminal on Staten Island, New York; and Global Terminal & Container Services in Bayonne, New Jersey.

In Canada, GCT is the largest container terminal operator in the country, providing service for more than 77% of the containerized cargo that moves through the Port of Vancouver at Vanterm in the inner harbour and Deltaport at Roberts Bank.

Global Container Terminals is a member of the FTZ Coalition, a group of transportation agencies that believes that locally-defined Foreign Trade Zones (FTZs), combined with marketing support from Canada and the provinces, would create effective marketing brands and improve opportunities for Canadian Gateways and transportation nodes.

Based on the Government of Canada's commitment in Budget 2011 to "an examination of Canada's current foreign trade zone-like policies and programs", GCT encourages the Standing Committee on Finance to endorse the following recommendations established by the FTZ Coalition:

1. Amendments to Canada's Foreign Trade Zone-like programs to:

   - Restructure and integrate the current federal programs to simplify access to them, and provide a single federal point of contact for potential users;

   - Reduce or remove the restrictions on added value;

   - Allow companies that sell a significant proportion of their production within Canada to participate; and

   - Allow the deferral of GST/HST until the product departs the FTZ to the Canadian market.

2. The opportunity for private sector agencies and regional entities to define local marketing zones linked to major gateways or corridors to promote and market these areas and Canada's FTZ-like programs effectively in domestic and foreign markets.

3. The establishment of a federal umbrella program to provide modest financial support for locally-based zones and marketing, subject to matching provincial and local financial support, and provide direct liaison between related federal agencies and local marketing zones.

INTRODUCTION

Over the past several years, Canada has invested heavily in infrastructure at its Gateways and key transportation corridors. It has also reduced tariffs on some manufacturing equipment and inputs, and committed to the elimination of these tariffs by 2015. These are significant actions, which will enhance Canada's competitive position. Programs are in place for duty deferral and duty rebates, which provide benefits similar in part to those available in Foreign Trade Zones in other countries.

These tariff changes and the FTZ-like programs provide the basis for increased investments into Canada, and growth in Canada's manufacturing sector and exports. However, more can and should be done. The FTZ Coalition, a group of transportation agencies, believes that locally-defined Foreign Trade Zones, combined with marketing support from Canada and provinces, would create effective marketing brands and improve opportunities for Canadian Gateways and transportation nodes (see Appendix A for a list of FTZ Coalition member agencies). Further, adjustments in existing FTZ-like programs would increase Canada's attractiveness to investors, importers and exporters. Along with continued investments in infrastructure, these changes would have the potential to bring real benefits to the Canadian economy.

The federal government argues that businesses can "enjoy the benefits of Foreign Trade Zones anywhere in Canada". There are no locational requirements and individual business can apply to participate without the increased complexity associated with creating an FTZ in the US, for example. Canada argues that these provisions, together with Canada's favourable tax regimes and recently committed tariff reductions, make Canada an attractive place to handle and process goods for re-export.

These are legitimate arguments, and if a company's business model fits the definition of the programs offered, the Canadian programs may be highly attractive. However, Canada's programs are narrowly targeted, and are intended only to encourage export activity. The programs incorporate very specific constraints that make the programs unavailable to businesses which sell a significant portion of their production into the Canadian market. In contrast, the value of products exported from US FTZs represents only about 5% of the total value of goods produced in US FTZs; the remainder of the production is sold into the US. This is a fundamental difference.

Despite the availability of Canada's current programs, customers of railways, ports, and terminal operators regularly ask why Canada does not have FTZs which would allow a broad range of logistical and manufacturing activity to take place under advantageous circumstances. This likely arises from a combination of the lack of familiarity and complexity with Canadian programs, and the restrictions within the programs.

While the concept that "all of Canada is a free trade zone" is attractive, the lack of defined zones is a marketing limitation. Many potential users are accustomed to the concept of zones, and expect local agencies that can assist them in evaluating opportunities under Canada's FTZ-like programs. These local contacts can also make the entire process user friendly.

Although there will be a mixture of reasons why the take-up of Canada's FTZ-like programs has been modest, the reality is that there are far too few companies which see the current program as a compelling draw to Canada. Enhancing Canada's FTZ-like programs is about attracting anchor business to Canada. International investors have many options available to deploy capital in today's world. Attracting this capital to Canadian shores will create long term jobs and strengthen our economy.

Global Container Terminals is encouraged by the following language in Budget 2011, and believes that the recommendations contained in this submission should be considered as part of the Government's examination of Canada's foreign trade zone-like policies and programs:

“*Through longstanding tax and tariff export-related programs, Canada has been providing benefits to businesses comparable to those found in foreign trade zones in other countries while having the advantage of not being site specific. These programs, which are administered by the Canada Border Services Agency and the Canada Revenue Agency, relieve tariffs (Duty Deferral Program) and the Goods and Services Tax (Export Distribution Centre Program and Exporters of Processing Services Program).*

Building on the success of the Government's gateways and corridor approach, Budget 2011 commits to an examination of Canada's current foreign trade zone-like policies and programs. Specifically, the Government will concentrate on ensuring that these policies and programs are internationally competitive, effectively marketed and administratively efficient.

AMENDMENTS TO CANADA'S FOREIGN TRADE ZONE-LIKE PROGRAMS

There are three types of issues related to the Canadian programs: limitations on the proportion of goods that can be sold in Canada; limitations on value added; and inability to defer GST/HST.

Limitations on goods that can be sold into the Canadian market

In pursuing export markets and limiting the opportunity for Canadian firms to take advantage of duty deferral on domestic sales (presumably with the intent of protecting existing manufacturers, though analysis of potential impacts does not appear to be publically available), Canada's programs limit the potential for substantial investment and economic activity in Canada. Relaxing the current limits on Canadian sales (30% for duty deferral, 10% for an Export Distribution Centre, or EDC) would encourage greater investment and create additional jobs and government revenues in Canada. Arguably, if as much as 50 or 60% (for example) of goods could be sold into the Canadian market, Canada would still benefit from significant export volumes, and the competitiveness of goods sold into the Canadian market would be enhanced relative to offshore production. Given the potential export volumes and the high proportion of goods sold in Canada that are manufactured entirely offshore, the net benefit could be significant.

Limitations on Value Added

There are significant limitations on value added within the EDC program and in aspects of the duty relief program (essentially, goods must be exported without substantial change), and financial limits on expenditures to process the goods are imposed in the EDC program. Raising these limits would again create the potential for additional export and domestic sales and increase employment in Canada.

Deferral of GST/HST

While deferral of GST/HST is permitted in some programs, it is not permitted in the Duty Relief Program.

With the implementation of HST in Ontario and British Columbia, the benefit arising from deferring this tax would be significant. As with other proposed changes, this would improve Canada's competitiveness in export markets.

Recommendation

GCT encourages the Standing Committee on Finance to recommend that the Government amend Canada's FTZ-like programs, specifically to:

- ***Restructure and integrate the current federal programs to simplify access to them, and provide a single federal point of contact for potential users;***
- ***Reduce or remove the restrictions on added value;***
- ***Allow companies that sell a significant proportion of their production within Canada to participate; and***
- ***Allow the deferral of GST/HST until the product departs the FTZ to the Canadian market.***

PROGRAM ADMINISTRATION AND MARKETING

One of the significant operational advantages of the US FTZ program is the provision of an "operator", who will act as a single point of contact for potential and current users of the FTZ, providing liaison and reporting to US government agencies. The operator also undertakes marketing of the FTZ with potential users. Provision for such an "operator" would be a useful enhancement to the Canadian FTZ-like programs, which are based in different government departments, are not transparent, and require a potential user to understand program content and decide which programs may be applicable under what circumstances.

Canada has taken a significant step in this direction with its participation in the CentrePort program on a pilot basis. CentrePort, a non-share capital corporation created by provincial legislation, serves as a single window contact for potential investors. In addition, it has access to a task force that includes the majority of the key provincial and federal agencies related to the FTZ-like programs.

While a structure similar in some regards to CentrePort will be necessary to incorporate federal and provincial economic development expertise and local development expertise, there may also be merit in considering rationalization and integration of the administration of federal FTZ-like programs. They do overlap, and sometimes are used in conjunction, one with the other. Canada's significant reductions in import duties will change the relevance of aspects of the existing programs, and may in any case warrant a review and restructuring in the medium term. Replacement of the current narrowly targeted programs with fewer more broadly targeted programs and incorporating the changes proposed in this paper would increase Canada's competitiveness.

More generally, enhanced marketing will be required to take full advantage of Canada's reductions in import duties, highly competitive tax regime, and FTZ-like programs. Other countries are well-known for offering FTZ opportunities, and aggressively market themselves as destinations. In addition, many potential users would require information about the opportunities in specific regions – many factors other than FTZ-like programs are also relevant – to help them reconsider Canada as a location destination.

AN ALTERNATIVE APPROACH

CentrePort is a potential model for application across Canada, but there may be significant merit in a broader model. Local agencies could be created or existing agencies identified to designate an area as a "Foreign Trade Zone", with the support of the province in which they operate. These agencies could include new not for profit organizations, or pre-existing economic development associations, transportation authorities, regional governments or a number of municipalities or First Nations coordinated together. They may also include key businesses with an interest in FTZs and their outcomes as members. The local agencies would provide financial support, which the Province and the Department of Foreign Affairs and Trade (DFAIT) would match. DFAIT and the province would provide marketing materials on Canada's FTZ-like programs and other advantages of doing business in Canada.

The local agency would partner with all major Gateway agencies and relevant private sector companies for funding, and draw on their expertise. This group would include provincial government transportation and economic development agencies, and relevant federal agencies (DFAIT, CRA, CBSA, Transport, and economic development agencies, such as WED). It would operate in a highly virtualized manner, with limited staff, to involve its partners without creating excessive time demands, creating smaller working groups on specific topics and opportunity-specific task forces to deal with potential investors.

As a preliminary step, the local agency would undertake a five-year plan with its partners, prior to entering into funding agreements with the federal and provincial government. These agreements would include a specific area definition for the local zone, and any ability for the local agency to act as an "operator", or an alternate method to provide facilitated access to federal and provincial programs.

Recommendations

Create the opportunity for private sector agencies and regional entities to define local marketing zones linked to major gateways or corridors to promote and market these areas and Canada's FTZ-like programs effectively in domestic and foreign markets; and

Establish a federal umbrella program to provide financial support for marketing, subject to matching provincial and local financial support, and provide direct liaison with local marketing zones.

CONCLUSION

Canada's companies face increasing competition in domestic and export markets. Canada's highly competitive tax structure, recent reductions in import duties, and existing FTZ-like programs do provide competitive advantages, but these advantages could be increased significantly. A combination of changes in Canada's FTZ-like programs, as recommended in this submission, and support for defined and branded local trade zones at significant ports of entry and transportation nodes would enhance Canada as a destination for foreign investment and increased economic activity. Further work is required to define the precise nature of the required program changes and develop the most effective model for enhanced marketing of Canada's advantages, but the potential benefits of job growth and business investment are significant, and worth pursuing aggressively.

APPENDIX A - LISTING OF FTZ COALITION MEMBER AGENCIES:

Global Container Terminals
Canadian National
Canadian Pacific
Aéroports de Montréal
CentrePort Canada
Greater Toronto Airport Authority
Greater Vancouver Gateway Council
Port Metro Vancouver
Halifax International Airport Authority
Halifax Port Authority
Prince Rupert Port Authority
Vancouver Airport Authority
Winnipeg Airports Authority