SHIPBUILDING ASSOCIATION OF CANADA
ASSOCIATION DE LA CONSTRUCTION NAVALE DU CANADA

August 12, 2011

Clerk of the Standing Committee on Finance
131 Queen Street, 6th Floor
House of Commons
Ottawa, ON, K1A 0A6

Dear clerk,

Please find attached the Shipbuilding Associations pre-budget consultation brief.
We thank you for the opportunity to participate.

Yours sincerely,

Peter Cairns

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Budget Considerations – Shipbuilding Industry

Submitted by

The Shipbuilding Association of Canada

EXECUTIVE SUMMARY

The National Shipbuilding Procurement Strategy (NSPS) will provide predictability and coherence to the federal governments ship acquisitions. Two shipyards will be selected to provide the government's ships for the next 20 to 30 years. This submission deals with the issue being faced by the smaller shipyards and those not directly involved in NSPS.

The small commercial shipbuilder is faced with many challenges.

- The U.S. market is closed, NAFTA opened U.S. markets to most Canadians but not shipbuilders.
- Subsidization is still commonly practiced.
- Bilateral Free Trade agreements do not help shipbuilders.
- The sophisticated technology employed in ships and by shipbuilders is not recognized

Canada's assistance measures are about to die unless some action is taken.

- The Structured Financing Facility (SFF) is unfunded.
- Accelerated Capital cost Allowance for ship purchasers is still in effect but does not in deter owners from building offshore.
- There is a need for long-term (25 Years) ship financing program that does not yet exist in Canada.

Recommendations

1. The SFF program continues to be funded at a level of $Can 20 million per year for a minimum of five years. At the end of this period the program be reviewed before a further investment decision is made.
2. The SFF program and the ACCA need to be combined for use by a Canadian owner.
3. The Canadian government adopt long term financing terms of up to 25 years that would allow repayment terms of up to 25 years for amounts up to 87.5% of the cost of the vessel

BUDGET CONSIDERATIONS – SHIPBUILDING INDUSTRY

Submitted by

THE SHIPBUILDING ASSOCIATION OF CANADA

Introduction

The Federal government is in the process of implementing a National Shipbuilding and Procurement Strategy more commonly known as NSPS. This program is designed to provide predictability and coherence to the way the Federal government builds its vessels. The process is competitive and will result in two shipyards being selected to build Navy and Coast Guard vessels for the next 20 to 30 years. It is expected that this selection will be made at the beginning of September 2011. NSPS will provide a made-in-Canada solution for the procurement of government vessels and has the potential to transform those two shipyards into world-class facilities. More importantly, it will provide the Navy and Coast Guard with modern capable ships designed for the unique conditions encountered in Canada's maritime area of responsibility.

The main thrust of this submission will be to discuss the issues affecting those shipyards that are in the commercial sector and unlikely to be involved directly in the NSPS.

Background

It is necessary to understand the impediments to business in the commercial shipbuilding sector.

In the North American Free Trade Agreement shipbuilding was excluded from by virtue of the U.S. Jones Act. The Jones Act prevents Canadian Shipbuilders from competing for work in the U.S.

Subsidization is still common in the global shipbuilding markets. Changes have been subtle moving from nationally sponsored subsidies to state and city sponsored subsidies such as tax relief and infrastructure investment.

Canada's drive toward bilateral free trade agreements is opening Canadian markets to mature shipbuilding nations with a consequence that Canadian jobs and livelihoods are at risk with no evident benefit to Canadian shipbuilding. The Canada/European Free Trade association agreement almost foundered over the shipbuilding issue even though only one of the EFTA nations involved had any interest in shipbuilding. That nation is Norway who will soon have access to the Canadian market place.

The lack of maritime awareness in this country does not allow for the realization of the high tech economy that is associated with the building of ships.

The arbitrary removal of tariffs by the Finance department on some classes of ships, particularly ferries, has negatively affected the industry.

Discussion

Structured Financing Facility

The one assistance measure that is available to commercial shipbuilders is languishing unfunded and liable to die under the government's move toward a balanced budget.

The Structured Financing Facility (SFF) was developed in 2001/2002 to stimulate demand for Canadian built vessels. It provides interest rate support as an interest rate buy-down of the financing used in the acquisition or modification of a Canadian built vessel or offshore structure. The support is in the form of a non-repayable contribution. The value of the SFF is 15% of the contract to the shipyard. After taxes the SFF is valued at 8%. In the last two years the program has dispersed some $Can 15 million. The cost of a person year of employment resulting from the SFF program is calculated at only $Can 17,000.00 making it a very efficient small program.

At this time it is understood that the SFF program remains authorized but is unfunded.

Accelerated Capital Cost Allowance (ACCA)

ACCA allows a Canadian owner with a good balance sheet to write off the capital cost of a Canadian built vessel in four years. ACCA is valued at 10% of the vessel price.

Under the present regulations an owner has the ability to utilize ACCA or SFF but not both. Having the ability to combine both ACCA and SFF would provide a reasonable benefit to an owner that could assist him to make the decision to build in Canada.

Long Term Financing

One of the main reasons for Canadian commercial owners to build offshore is because of the financing deals available to them that are not available in Canada.

In the United States what is known as Title XI loan guarantees are available to shipyards. The primary purpose of the program is to promote the growth and modernization of the US merchant marine and US shipyards. The program allows borrowers to obtain fixed-rate financing for a period of up to 25 years at a rate that is usually much better than most borrowers can find on the open market. The program provides for a full faith and credit guarantee by the U.S. government of debt obligations (principal and interest) for the purpose of financing or refinancing the construction of U.S. Flagged vessels or the modernization of U.S. shipyards.

Long term financing could be provided in Canada without any market distortions or costs. An ordinary Canadian consumer can readily obtain 20 year financing for a recreational vehicle – why not a ship owner?

There is no commercial market in Canada at present for long term financing of ships due to the scarcity of opportunities. In the meantime, government support on a non-concessionary basis is required to facilitate and generate an interest in such lending.

Conclusion

When an owner builds offshore all the wealth and economic benefits that would accrue to Canada are lost. Employment, skills training, family welfare, federal, provincial and city taxes are but a few. In addition, the parts and equipment in a foreign built ship require lines of logistics that will exclude any number of Canadian suppliers over the life of the ship. Of interest a larger Canadian shipyard will have some 2,000 suppliers.

On the other hand when an owner builds in Canada 80% of that investment stays in Canada. The case for building in Canada is very strong. Each of the recommendations that follow is designed to encourage Canadian owners to build in Canada.

Recommendations

1. The SFF program continues to be funded at a level of $Can 20 million per year for a minimum of five years. At the end of this period the program be reviewed before a further investment decision is made.
2. The SFF program and the ACCA be combined for use by a Canadian owner.
3. The Canadian government adopt long term financing terms of up to 25 years that would allow repayment terms of up to 25 years for amounts up to 87.5% of the cost of the vessel