



July 21, 2009

The Honourable James Flaherty
Minister of Finance
Finance Canada
Minister's Office - House of Commons
Wellington Street
Ottawa, Ontario K1A 0A6

Dear Minister:

As the federal government continues its efforts to improve Canadian industrial competitiveness through trade liberalization, we seek your support for a program that has enjoyed success abroad but has yet to be developed in Canada – Foreign Trade Zones.

The Canadian Airports Council, the Canadian Chamber of Commerce and the Canadian Manufacturers and Exporters are united in our support for this initiative.

A key component to the prosperity of global trading hubs is their proximity to a Free/Foreign Trade Zone (FTZ) – most if not all have FTZs nearby. By lowering barriers to trade, these zones are designed to help countries to improve their relative competitiveness as hubs of trade and transportation. Accordingly, the concept has exhibited strong growth and economic success throughout the world.

Foreign trade zones (FTZs) are facilities where goods from outside a country can be stored or processed duty and tax free, prior to a) shipment to another country, or b) import (via the normal custom process) into the domestic economy. FTZs have proven to be powerful economic generators, providing a number of advantages to their users, firms involved in international trade, including:

- Improved cash flow
- Reduction or elimination of duties
- Fewer quota restrictions
- Avoidance of inverted tariffs
- Access to economic incentives.

There are more than 500 distinct FTZs worldwide, a number that has more than tripled in the past three decades. In the United States alone, there are more than 250 general purpose FTZs in all 50 states and Puerto Rico. In fact, Canada is the only G8 country that does not utilize a true FTZ program.

While the Canadian government attempted to introduce similar incentives earlier this decade through the Export Distribution Centre (EDC) and other programs, several limitations in the application of these programs have meant lower than expected uptake by industry. Indeed, available information suggests only 30 applications for EDC programs were received by 2004 and only a few in the years since.

The stated intent of the EDCP was to create zones analogous to FTZs in other countries. However, the program was not designed for a typical situation. It was implemented as a program with appeal to a limited target audience – domestic or foreign distributors of product with very limited interest in the Canadian domestic market. Substantial alteration of property and/or manufacturing simply cannot be done within the provisions of the EDC program.

We contend that existing programs do not meet the needs of globalized businesses and new policy and programs are necessary to improve Canada's competitiveness in stimulating the use and investment in Canadian transportation and manufacturing sectors. As Canada continues to seek trade liberalization with other countries of the world, introducing FTZs in Canada would be a unilateral way to encourage foreign investment here at home.

While there are Canadian programs that would allow manufacturing, they face their own limitations. The Duty Relief program applies only to duties and not taxes, and thus imposes a cash-flow burden on operators. The Exporters of Processing Services (EOPS) program applies to both duties and taxes, but services have to be performed on goods from unrelated entities (i.e. in the business of providing a service rather than a product).

There are critical changes occurring in the logistics world today that indicate strongly that the time is right for Canada to revisit its lack of a true FTZ policy. There is an emerging trend to near-shoring manufacturing by U.S. firms, in large part due to rising transportation costs, but also due to an ability to achieve greater reliability.

There also continues to be significant foreign investment interest in facilities to penetrate the NAFTA marketplace. This indicates an opportunity to reverse historic trends to off-shoring manufacturing to nations with inexpensive labour and to capture foreign-financed manufacturing activities in Canada. Having a comprehensive FTZ program in place would be an extremely useful element in the Canadian investment business case.

We, the undersigned, support federal trade policies and programs that improve Canada's competitiveness as a global trading hub. Accordingly we seek the creation and establishment of true, competitive Foreign Trade Zones within Canada.

Sincerely,



Jim Facette
President and CEO
Canadian Airports Council



Perrin Beatty
President & CEO
Canadian Chamber of Commerce



Jayson Myers
President & CEO
Canadian Manufacturers & Exporters

CC:

Tony Clement, Minister of Industry
Peter Van Loan, Minister of Public Safety