

Cabotage - A Need to Increase the Number of Empty Containers Available to Canadians

The conditions under which international container equipment may be imported tax-free into Canada from non-NAFTA countries and used to move freight within the domestic market is known as “Cabotage”. The principle of how Cabotage is applied must be changed in order for Canada’s businesses to remain competitive internationally. The customs tariff on international container equipment in Canada has a negative impact on Canadian shippers, the environment, intermodal surface transportation service providers and Canadian retailers. The Department of Finance held consultations on this issue in the winter of 2009. It is expected to present its recommendations in the fall.

There is a natural imbalance in Canada’s containerized trade, with roughly three import loads to Central Canada for every export load. It is in the interest of the shipping line, which owns the international container, to move the empties back to their port of origin as quickly as possible for another load of high revenue imports. Unfortunately, there is little economic incentive for the owners of international container equipment to serve Canadian producers.

Commodity producers advise that, despite an increasing number of empty international container equipment moving through Canada’s ports to Asia, there is a shortage of empty containers for them to use. Canada’s custom policy towards international container equipment contributes to the shortage of empty container equipment available to Canadian commodity producers.

Canada’s customs tariff on international container equipment has a negative impact on the number of empty containers available to domestic producers. Tariff Item 9801.10.00 sets out Cabotage tax exemptions for point-to-point freight movements in Canada incidental to an international move (i.e., back to the port of origin) but only if used within 30 days of entry into Canada. As such, there is a disincentive for the owner of the international container equipment to allow the containers to be used in a manner that does not qualify for the exemption, because duty and the GST on the assessed value of the container would apply. In contrast, U.S. Cabotage rules respecting international container equipment allow 365 days of unrestricted duty-free freight movements in the United States and the container does not have to leave by the port where it entered.

Not only would relaxed Cabotage rules provide for greater availability of container equipment to domestic producers it would also generate environmental benefits associated with fewer empty container movements. Empty container movements take up as much capacity and create nearly as much pollution as full containers. Fewer empty container movements would lead to reductions in fuel consumption and emissions from container transportation, and would create surface transportation capacity without any additional investment in infrastructure.

The impact on the federal government of relaxing the Cabotage rules is not expected to be significant. The revenue from the tariff item appears to be minimal as most containers leave the country before the exemption expires. The increased economic activity generated by a more relaxed container Cabotage regime would more than offset any tax losses that might be incurred by the loss of federal revenue from customs duties.

Representatives from both Class 1 railways agreed that more relaxed Cabotage regulations on container equipment would make Canada more competitive for North American containers. The Committee was told that more flexibility for Cabotage movements could allow the railway to load a container with domestic freight back to the coast and mitigate the cost for steamship lines. Apparently, such a regulatory change would be of particular benefit to Newfoundland, which is expensive to service with international containers under the current regulations.

Recommendations

That the federal government:

1. Direct Transport Canada to harmonize its container regulations with those of the United States, in order to increase the supply of empty containers to Canadian shippers.
2. Amend Customs Tariff Item 9801.10.00 to match the U.S. Cabotage rules on the point-to-point movement of containers in Canada in order to increase the number of containers available to domestic shippers.