

Foreign Trade Zone - 2011

The Foreign-Trade Zone (FTZ) concept is recognized globally as a policy tool to develop local economies. FTZs typically provide financial incentives for value-added manufacturing and processing by allowing firms to source low-cost materials for incorporation into final products. This arrangement helps developed economies to level the playing field with international low-cost competitors as companies operating in FTZs are able to use the advantages of the program to facilitate storage, distribution, manufacturing and value-added activity. The deferral of duties or taxes within defined FTZs helps businesses with their cashflow and reduces operating expenses. The products that are manufactured or value-added in a FTZ can be sold domestically or re-exported.

FTZs may be defined strictly to a specific geographic area or defined instead by the firms registered under the program. FTZs support the development of gateways – something Canada needs to give serious thought to given the current gateway initiatives underway. FTZs offer a flexible, streamlined, profitable approach to the movement of goods and services that will encourage Canadian businesses to take advantage of manufacturing, storage, distribution, value-added, domestic and re-export trade opportunities. An effective and efficient FTZ program will ultimately increase Canada's competitiveness in the global supply chain.

FTZs also help to attract economic activity that in the absence of an FTZ would be done offshore. FTZs add to the economic activity that takes place – they are not established to merely relocate existing activity.

Prior to the most recent recession (and hopefully the trend will continue post recession) FTZs exhibited strong growth and economic success throughout the world. As of 2008 there were more than 500 distinct FTZs worldwide, a number that more than tripled in 30 years. In the United States alone, there were nearly 250 general purpose FTZs in addition to over 460 sub-zones in all 50 states and Puerto Rico.

The closest parallel to a FTZ in Canada is a pilot project at CentrePort Canada. This single window access to FTZ-like programs is a first step towards implementing better promotion of the applicable programs as well as facilitating easier access. It is a combination of the Export Distribution Centre (EDC) Program and the Duty Deferral Program. These programs are administered by the Minister of National Revenue, the Canada Revenue Agency (CRA) and Canadian Border Services Agency (CBSA). The CentrePort Canada (CPC) single window has a designated contact in CBSA and CRA and is supported by a Task Force comprised of representatives of different departments of the three levels of government in Winnipeg.

CPC has mapped out the application process for the programs accessible through the single window. The CPC pilot project and other parts of Canada's Foreign Trade Zone (FTZ)-like legislation, provide many of the benefits of FTZs in other countries, but not all. Canada's programs are heavily focused on companies that export the bulk of their production. There are also significant constraints on the permitted amount of value added. The programs are complex and overlap and may require the use of more than one program for maximum benefit; thus as noted previously, multiple federal departments are involved. As it stands right now, the FTZ-like programs have limited promotion because these programs are only a fraction of the many programs administered by CRA and CBSA.

Canada is the last G-8 nation to fully enact the trade incentives offered through a FTZ program and is still behind a number of OECD and developing nations. To improve Canada's FTZ-like programs and policies, we believe it is critical to address current administration and marketing.

The following recommendations are intended to provide a basis for discussion with federal officials. The language is directional rather than specific. We are not currently in a position to quantify our recommendation to reduce or remove the restrictions on the amount of value-added activity that can occur in a FTZ. We are recommending that the federal government examine the limitations on participation in the current FTZ-like programs in order to reach a conclusion on specific changes that will enhance the attractiveness of the programs and broaden their application.

Recommendations

That the federal government:

1. Use the nomenclature Foreign Trade Zone (FTZ) in creating a program that restructures and fully integrates current FTZ-like programs into a single program with one federal point of contact for potential users.
2. Reduce or remove the restrictions on the amount of added value activity that can occur in a FTZ.
3. Allow companies that sell a significant proportion of their production within Canada to participate in the FTZ program.
4. Allow the deferral of GST/HST throughout all components of the FTZ program.
5. Promote and market the FTZ program effectively in domestic and foreign markets.