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Foreign Trade Zone

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Background:

The U.S. Foreign-Trade Zone Board defines a Foreign-Trade Zone (FTZ) as a physical area within the United States that, for customs purposes, is treated as if it is outside U.S. borders.

The FTZ program was developed to provide American firms with financial incentives for value-added manufacturing and processing by allowing them to source low-cost materials from outside the U.S. for incorporation into final products. This arrangement helps 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 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. While often there are specific boundaries to FTZ, they are not necessarily confined to a contiguous space. For example, six locations spread among four cities make up the Minneapolis-St. Paul FTZ and include such sites as the airport, two industrial parks and the Minneapolis Convention Center. The flexibility of the FTZ program allows for individual firms to receive special "sub-zone" designation to enable for FTZ rules to be applied to these firms in multiple locations. In addition FTZs support the development of gateways – something Canada needs to give serious thought to given the current gateway initiatives underway. Most effective global logistics centres have FTZs as integral components.

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. The 67th annual report of the Foreign-Trade Zones Board to the Congress of the United States, reported that in 2005, the combined value of shipments into general-purpose zones and subzones totaled \$410 billion, compared with \$305 billion the previous year. Of this, general-purpose FTZs received \$69 billion in merchandise, while subzones received \$341 billion worth of shipments – 83 per cent of zone activity took place at subzone facilities, which is consistent with the pattern over the past 15 years. Finally, approximately 340,000 persons were employed at some 2,500 firms that operated under FTZ procedures during the year.

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.

Subsequently, 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.

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.

Recommendation

That the Government of Canada:

- 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;
- Reduce or remove the restrictions on the amount of added value activity that can occur in a FTZ;
- Allow companies that sell a significant proportion of their production within Canada to participate in the FTZ program;
- Allow the deferral of GST/HST throughout all components of the FTZ program; and
- Promote and market the FTZ program effectively in domestic and foreign markets.