

1. WHAT IS A FOREIGN TRADE ZONE?

In Canada, the term “foreign trade zone” is used by the Government of Canada to:

- Promote Canada’s duty deferral and tax deferral programs and measures
- Allow for duty and/or tax relief on imported goods until the goods enter the Canadian marketplace for further processing or for consumption
- Eliminate the import duties and taxes a business usually has to pay, if the imported goods never enter the market and are re-exported
- Issue a full (100%) refund by way of a drawback claim, if a business did pay import duties and taxes

In Greater Saint John, the term Foreign Trade Zone Point represents the organization that is committed to ensure the efficiency and competitiveness of area businesses in the global marketplace. The Saint John FTZ seeks to help locally-owned businesses as well as multinational corporations benefit through:

- The use of available lands and buildings
- Services of area storage/distribution and international trade service providers
- Promotion of products developed by our region’s manufacturers/producers, as well as promote the products and services of our region’s qualified labour force and entrepreneurs

2. What is a Foreign Trade Zone (FTZ) Point?

An FTZ Point refers to one of Canada’s strategic locations for international trade where an organization – such as Enterprise Saint John – is given the mandate to promote local trade and foreign direct investment. An FTZ Point is a one-stop-shop to gain access to information on relevant government policies and programs. This information is provided through a designated FTZ Task Force coordinated by the regional development agency responsible for the area, and may be comprised of representatives from the following federal departments:

- Canada Border Services Agency
- Canada Revenue Agency
- Transport Canada
- Global Affairs Canada
- Industry Canada
- Export Development Canada
- Agriculture and Agri-Food Canada

The task force acts as a behind-the-scenes facilitator for the organization, with the goal of improving access to existing programs, and promoting Canada’s foreign trade zone advantage.

Coordination and collaboration with other orders of government is essential, since they offer a suite of programs that make up the FTZ advantage. As a prerequisite to establishing a task force, a representative(s) from local and provincial government must commit to participate.

This initiative builds on a pilot project set up at the CentrePort Canada inland port in Winnipeg. In 2009, the Government provided CentrePort with a single point of contact and coordinated service on FTZ programming. This helps CentrePort provide facilitated access to FTZ programming to companies that set up on their site.

After Winnipeg, Calgary, Edmonton, Halifax, Regina, Niagara and Cape Breton Regional Municipality, Windsor-Essex, and Quebec City, the Saint John Foreign Trade Zone becomes Canada’s tenth (10th) FTZ Point.

3. Who can use FTZ-type programs?

Export-oriented manufacturers/processors/producers

Export oriented manufacturers/processors/producers can use these programs in order to “manufacture under bond”. Simply put, this means that Canadian-based production activities can be performed on imported inputs without having to pay duties and/or taxes, as long as the finished or further processed products are exported within a certain time limit (2 to 4 years after the importation of inputs).

Import-oriented businesses

Manufacturers/processors/producers, distributors, wholesalers and retailers – including SMEs, home-based businesses and artisans, as well as foreign based businesses (non-resident importers) – who export and store their goods into Canada for the purpose of subsequently selling them in North America, can all benefit from Canada’s private or public customs bonded warehouses and bonded 3PL service providers.

- Any type of business can in fact import goods and store them into these FTZ-type bonded facilities for a period of up to four (4) years, without having to pay any import duties or taxes including the GST, until the goods are ready to be: shipped within Canada; or, used in Canada or ready to be entered into further processing.
- If the goods are directly shipped from the bonded facility to a destination outside of Canada, then, no duties or taxes are ever owed or payable to the Canada Border Services Agency (CBSA).

International event organizers

International event organizers and local facilities that host conventions, exhibitions or trade shows may be issued temporary customs bonded warehouse licenses for a specific location that will house imported goods to be displayed at such events. Such goods may include products on display as well as those that form part of the display such as:

- Stands
- Tables
- Backdrops
- Decorations
- Display booths
- Tents, and other housings or coverings

4. What type of activities can be performed on imported products that are stored in FTZ-type bonded facilities?

Aside from storing the imported goods, the following activities, that do not change the condition of the imported goods, may also be performed while they are “in bond”:

- Disassembling or reassembling goods that have been assembled or disassembled for packing, handling or transportation
- Displaying
- Inspecting
- Marking, labeling, tagging, or ticketing
- Packing, unpacking, packaging or repackaging (including bottling)
- Testing and removing a small quantity of material, or a portion, a piece or individual object that represents the goods, for the sole purpose of soliciting order for goods or services

In addition, the following activities that do not materially alter the characteristics of the goods, may be carried on in a bonded facility:

- Cleaning
- Diluting
- Preserving
- Normal maintenance or servicing
- Sorting or grading
- Separating defective goods from prime quality goods
- Trimming, filing, slitting and cutting

5. Are FTZ-type programs good for Canada?

Yes, the primary aim of the Government of Canada's FTZ-type programs is to stimulate economic growth and development in Canada. These programs have been created to advance Canadian competitiveness by helping Canadian businesses to maintain and expand their domestic operations. Similarly, the programs also aim to attract foreign businesses who may or may not already export their goods into Canada to actually create a physical

presence in our country by opening distribution centers, retail shops, after sales or warranty repair centers, etc.

Furthermore, FTZ-type programs benefit the country as a whole due to the creation and retention of jobs, capital, infrastructure and tax base.

6. How do FTZ-type programs encourage foreign direct investment in Canada?

Global businesses and foreign investors and their site selectors often look at a potential business destination's available FTZ-type programs. This is particularly the case for global businesses that already use FTZ-type programs and facilities in other countries. If an international business turns its attention to North America for example and wishes to either produce or simply distribute or sell directly to consumers its finished products in North America, they may look at benefits of utilizing bonded facilities in either Mexico, the United States or Canada and choose a single location to serve the entire continent.

Canada's FTZ-type programs in comparison to America's Foreign-Trade Zone program are less costly to administer and more easily accessible to all business sizes; they are not just designed for a multinational's manufacturing facility or distribution center.

Business Case:

In the United States and in Canada, a multinational cannot store bonded imported goods in the back store of each retail outlet but only at a bonded distribution center. In Canada a small shop can be issued a customs bonded warehouse licence for its back store storage unit and benefit from duty and tax deferral on its imported goods until a time where the retailer needs to stock up the shelves in the retail area, or ship the goods elsewhere in Canada. The small retailer would of course not even need to pay duties or taxes if he were to ship his products across the border to a U.S. destination or anywhere else outside of Canada.

7. Why do multinational corporations use free zones?

In many instances, these zones are used by multinational corporations to set up factories to produce goods such as clothing, shoes, electronics and vehicles and/or parts.

In some jurisdictions, corporations setting up in a zone may be given a number of regulatory and fiscal incentives and even property tax breaks. In the state of Arizona (USA), corporations that locate in a U.S. FTZ designated site are given property tax breaks.

Corporations may also be offered incentives relating to the methods of customs control and filing requirements. Once again, in the United States, corporations are allowed to file one weekly customs declaration for all the goods that exit an FTZ during that specific week.

In Canada, FTZ-type programs simply offer the deferral of the payment of duties and taxes on imported goods while they are being stored here.

8. Do the cost reduction features of Canada's FTZ-type programs translate into an import subsidy or a cause of imports that is detrimental to the production and sales of domestic goods?

No, keep in mind that ultimately, import duties and taxes are always payable if the imported goods remain in Canada permanently. The programs are aimed at allowing importers to "temporarily import" goods into this country in order to conduct business operations in Canada rather than offshore. E.g.: manufacturing, distribution and online retail.

A businesses decision to import goods is usually motivated by one or a combination of factors: price, quality, and product availability.

So, in some respects, a suggestion that Canadian FTZ-type programs cause imports, would be equivalent to suggesting that imports are caused by the trucks, trains, ships and planes that transport imported goods into Canada.

9. Are Canada's FTZ-type programs more beneficial to foreign-owned businesses than to Canadian-owned businesses?

No, the benefit of using Canada's FTZ-type programs is not determined by ownership. If a Canadian-owned business and a foreign-owned business have identical international trade operations, the potential benefit of Canada's FTZ-type programs for each of them will be identical.

The Government of Canada's FTZ-type programs encourages/enables production and logistics activities to be performed here in Canada rather than take place in another country.

10. How have Canada's various free trade agreements affected the need for FTZ-type programs?

Free trade agreements (FTAs), including the TPP, CETA and NAFTA, have resulted and will result in the reduction of many Canadian import tariffs (customs duties). As a result, certain businesses that have benefited from Canada's FTZ-type programs in the past may find that they no longer need the programs to place them on an even playing field with their competitors abroad. This occurs by design and is a positive reflection of Canada's approach and strategy on international trading with partner countries.

While some businesses find that the use of FTZ-type programs is no longer required to improve their cash flow or recuperate import duties on goods that were subsequently re-exported, others discover that the programs offer much-needed relief from the Goods and Services Tax (GST) that remains applicable even on FTA qualified imports.

11. Is Canada the only country to offer FTZ-type programs?

No, in North America alone, there are more than 250 "U.S. Foreign-Trade Zones" and 500 sub-zones located in the United States.

Additionally, outside of North America, the World Customs Organization approved concept of "Free Zones" is widely present in over 135 countries world-wide. In most jurisdictions, they are called "free zones", but in some jurisdictions they may be called free trade zones, export processing zones, free ports, special economic zones, maquiladoras, manufacturing under bond facilities, customs warehouses, etc.

12. Why do communities worldwide organize/create trade zones?

A local trade zone contributes to an area's commercial attractiveness as a place to do business. By promoting local service providers, available buildings and properly serviced and zoned lands, organizing a zone can be a relatively inexpensive feature of an area's overall economic development efforts. A well-organized zone will provide immediate service to the area's current business base as well as aiding in the attraction of new business to the area.

13. If FTZ-type programs are available anywhere in Canada, why does Saint John FTZ promote these programs?

A local FTZ organization should offer a great deal more than just create awareness of FTZ-type programs and facilitate export activities for area businesses.

Our plan is to create international awareness of Saint John's geographic location for conducting international trade activities, promote our area's amazing products and services that are ready for export and promote our region's world class facilities, transportation and logistics and international trade services providers that are ready to cater to the needs of foreign businesses looking for assistance in their North-American market penetration strategy.

14. How will this FTZ initiative serve our community as a whole?

We have the goal of retaining and expanding current Greater Saint John businesses and helping them be more competitive in the global marketplace. The FTZ point will offer a one-stop-shop to international investors and businesses who are looking to locate or start new operations in our region. The successful attraction of new investment will in turn serve the interests of the whole community because we will help support new job growth, workforce expansion, and also help create more awareness about the advantages of having a business in this region.

15. Will the FTZ help businesses located anywhere in Canada and in the world?

Similar to a tourist information center, we will provide information on Canada's FTZ policies and programs and area service providers via our website.

We will offer one-on-one consultations, information sessions and training seminars to businesses that are located in or have expressed an interest in locating their activities within our service area or are looking to use local service providers or buy local products.

16. How do the federal FTZ-type programs fit within the economic development efforts of Enterprise Saint John?

Due to our strategic location, we know businesses located in our FTZ service area will benefit from advanced distribution networks, quick, easy and reliable access to the border, shipping channels, U.S. and Canadian national highway systems and class 1 railways and airways. Thanks, in part to the government of Canada's Foreign Trade Zones Marketing Program (FTZ-MP) we will now be able to promote local success stories globally.

Part of our strategic economic development plan is to choose projects and programs that support job growth, workforce expansion and strengthen the advantages of our region. Basically, we want to encourage more jobs, more people, in a region that has an attractive business environment.

This effort allows us to be better equipped to organize access to information and training – all via one point of access – to help local businesses grow and succeed.

17. Do I still need a customs broker?

If you already utilize the services of a customs broker, you should continue doing so.

18. Are there any FTZ-type programs that I can use if I neither import or export goods?

Yes, the Obsolete or Surplus Goods Program may be of interest to local businesses that purchase products from a Canadian supplier who in turn had imported the said products.

The purpose of the Obsolete or Surplus Goods Program is to assist Canadian industry in competing internationally by reducing exportation costs on valueless goods that will not enter the domestic market. By allowing the destruction of obsolete or surplus goods, the necessity to export the imported goods in order to qualify for a drawback is removed. This eliminates the shipping costs associated with exporting valueless goods.

19. How much will this new FTZ initiative cost area taxpayers?

We have determined that the cost associated with administering the FTZ Point is already accounted for through ESJ's position, "Director, Investment Attraction". This will be part of their role in Investment Attraction.

We are also looking into the marketing budget for the FTZ. We have applied to the Government of Canada to match funds to help us build and create FTZ related marketing activities.