



## CMC POSITION PAPER

### Remove the Duty on Foreign Built Vessels

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#### CMC Position

- ✓ The Chamber of Marine Commerce supports the immediate removal or remission of the 25% duty imposed by the federal government on importation of foreign built vessels into Canada's coasting trade.

#### Background

When new, used or reconditioned vessels are imported into Canada for use in the coasting trade (within domestic waters), they are subject to a 25% duty under the Customs Tariff, resulting in a tax of approximately \$12 million or more per vessel.

When the 25% vessel import duty was originally developed, it was a protectionist industrial policy designed to protect Canadian shipbuilders. Yet, despite this policy being in place for over 25 years, there have been no new lakes vessels ('lakers') built for domestic shipowners by Canadian shipyards. Therefore, any Canadian shipowner who purchases a ship must do so from an offshore shipyard and consequently pay the 25% import duty when the ship arrives in Canada. The result has been very little re-investment in the Canadian fleet which now averages approximately thirty-five years.

#### Rationale

The 25% vessel import duty is creating an unfair economic playing field for Canada's marine industry and needs to be removed for the health of the nation's industrial and manufacturing sector and the economy at large. There are a number of compelling reasons why the Federal Government should take action to immediately eliminate the 25% duty on foreign-built vessels imported into Canada:

*Import duty has failed to protect the Canadian shipbuilding industry.* Canada remains the only developed country that continues to apply such a tariff on the acquisition of foreign built vessels. Shipyards in Canada are unable to build vessels required by Canadian shipowners due to both technical and competitive factors. A new full Seaway-size dry bulk carrier or petroleum products tanker has not been built in Canada in over 25 years.

*Need for renewal of Canada's domestic fleet.* On average, Canada's bulk cargo fleet is approximately thirty-five years old. The investment in new vessels is costly. This expense is significantly increased by the 25% import duty. Not only has the tariff been of no value to the shipbuilding industry, it has given rise to some serious issues for ship operators, which includes the additional financing burden imposed on ship operators by the imposed duty, as banks do not view the 25% tariff as part of the purchase price of the vessel and are unwilling to finance this portion of the vessel's capital cost.

*Improve environmental sustainability of Canada's transportation system.* The 25% import duty places an unfair burden on marine transportation relative to other modes of transportation, which are less efficient and less environmentally friendly. Marine shipping is the most carbon-efficient mode of transportation. The increased use of marine transportation contributes positively to the environmental sustainability and safety profile of Canada's transportation system.

*The duty penalizes marine transportation compared to other modes.* The rate of duty on ships is more than double the duty on rail equipment and trucks. The competitiveness of marine shipping vis-à-vis other modes of transportation is undermined by this disproportionately high duty.

*Detrimental to competitiveness of Canadian companies that depend on marine transportation.* Shipowners must pass on the cost of the 25% duty to cargo shippers through higher rates thus making

their customers less competitive in both domestic and international markets. These additional costs will necessarily be passed onto shippers and ultimately to consumers through higher prices. The 25% duty has, in effect, become an unintentional tax on Canadian citizens and is clearly not in the public interest.

*Remove obstacle to increased shortsea shipping activity.* The import duty is inconsistent with the principles and policy objectives of the Canadian Government to enhance the use of short sea shipping as described in the Declaration between Canada, the United States of America and the United Mexican States, dated April 20, 2006. Shipping via the waterways relieves the road infrastructure by reducing congestion and wear and tear of our roads and by increasing safety. Less congestion and wear on our roads reduces the overall tax burden for Canadians.

*Improve the competitiveness of the Continental Gateway.* The Federal Government has identified the St. Lawrence - Great Lakes Gateway as an essential trade route serving the industrial and commercial heartland of Quebec and Ontario that links the primary transportation routes between this region with Western and Atlantic Canada as well as major U.S. and offshore markets. Getting dry bulk in and out of this Continental gateway efficiently is vital to the many industries operating in the region. These industries, primarily agriculture and steel manufacturing, compete in the international marketplace and require access to competitive transportation services to survive. The principal issues for dry bulk shippers are therefore cost-related and any decrease in Seaway and navigation fees as well as the 25% duty on Canadian-flag ships would assist in their ability to be more competitive.

*Higher revenues for government.* If the Federal Government eliminates the 25% import duty in an effort to promote vessel renewal, this would strengthen Canada's marine transportation industry and those customers that depend upon it thereby generating greater economic value for Canada and increasing the Government's overall tax revenue significantly. The Canadian flag fleet makes an on-going, multi-million dollar contribution to the Canadian economy. Federal and provincial income taxes and personal income taxes from employees over their expected life span of 25 years of new vessels significantly exceeds the tax revenue from the import duty.

*Support industries that rely on a competitive Canadian fleet.* There are a large number of Canadian shipbuilding, repair and maintenance companies that depend on the Canadian fleet for their livelihood. On average, a ship contributes over three times its original purchase price to the economy in operational, repair and maintenance expenditures.

*Precedent exists for not imposing duty.* The arguments cited by the Canadian Government to approve the remission of duty for the recent replacement of a ferry in B.C ("MV Sonia" Remission Order, 2007 SOR/2007-151) included the Federal Government's commitment to renew Canada's transportation industry and reduce the cost of the imported vessel to B.C. Ferries, thereby eliminating the possibility of these duties being passed on to end users in the form of increased fares.

*Increase employment in the marine sector.* Maintaining the 25% import duty will eventually lead to a decline in the size of the Canadian fleet and employment base in the sector. On the other hand, removal of the duty will provide on-going opportunities for the employment of Canadian workers in highly skilled, high-paying jobs across the country.

*Duty being eliminated under new Free Trade Agreements.* The 25% duty is on the table as a strategic issue in the current free trade talks and negotiations with a number of Canada's trading partners. The reality is that the foreign ship import duty is slowly being eliminated as the Federal Government proceeds with bi-lateral and multi-lateral trade agreements with various foreign shipbuilding countries including the United States, Korea, Singapore, Chile, European Free Trade Association ("EFTA") and the EU.