

Newfoundland and the Atlantic Gateway

Why Canada's Shipping Policy
needs to change

St John's, Newfoundland

July 3, 2007

Presentation Overview

- ▶ What is Canada's shipping policy?
- ▶ How is it achieved?
- ▶ What is its rationale?
- ▶ What is wrong with this rationale?
- ▶ What have other countries chosen to do?
- ▶ Why is it important to Newfoundland?
- ▶ What needs to change?
- ▶ Summary.

What is Canada's Shipping Policy

Canadian domestic shipping policy:

Protection.

Canadian international shipping policy:

Laissez-faire



More specifically - Canada's Domestic Shipping Policy

- ▶ Long history of protective measures, but not of great import until recently
- ▶ Current policy stems from 1970 – Darling Report - recommended extension of definition, area of application
- ▶ 1992 – Present Coasting Trade Act entered into force, (but no policy statement included).

More specifically - Canada's international shipping policy

- ▶ Not formally articulated
- ▶ Stems from last and most important study (1985 Deep Sea Task Force)
- ▶ Study recommendations included:
 - Don't subsidize Canadian flag fleet
 - Strengthen shipping management expertise
 - Provide a fiscal environment that encourages ship management activities in Canada
- ▶ Since then no explicit statement of policy

How is Canada's domestic shipping policy achieved

- ▶ **Two mechanisms:**
 - Access control
 - Payment of applicable duty (25%)
- ▶ **Conditions for temporary entry**
 - No "suitable" qualified ship "available"
 - Payment of a temporary entry fee.



How is Canada's international shipping policy achieved

- ▶ No substantive measures (- beyond provision of ISC* opportunities under the Income Tax Act)
- ▶ Continuing reliance on foreign flag



* International Shipping Corporation

What is the rationale behind the policy?

- ▶ Policy rationale not well articulated
- ▶ Policy objectives assumed to include:
 - Strive for domestic 'equality of treatment' between modes (CTA policy statement)
 - Maintain broad economic, legal, social, safety standards in "domestic" activity
 - Provide protection to the Canadian shipbuilding industry (duty mechanism instead of some other form of aid)
 - Provide protection to domestic ship operators rendered uncompetitive by protective ship-building regime.
 - No substantive support for flag participation in international shipping, hence assumption that Canadian shipper interests best met by foreign flag.

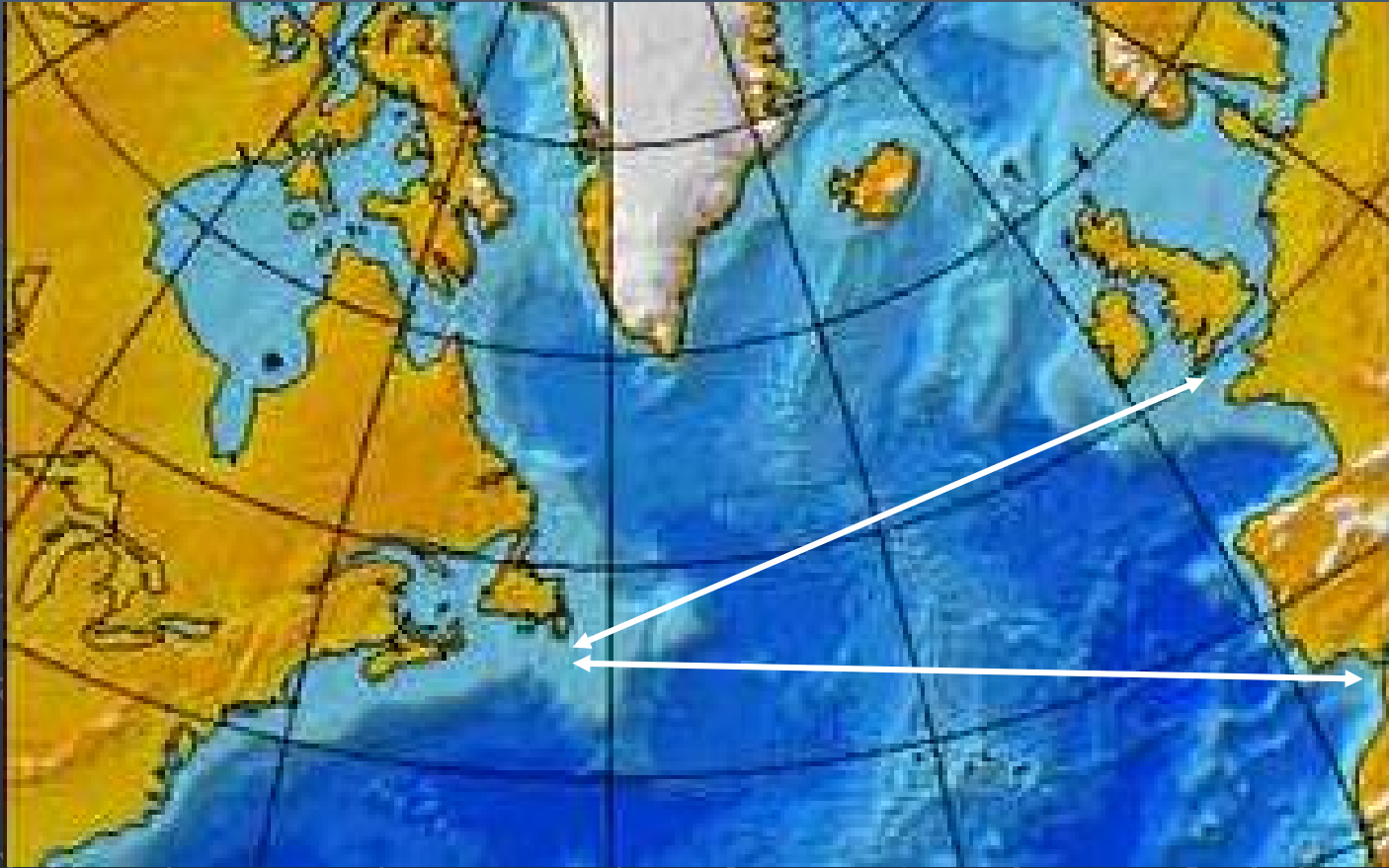
What is wrong with the rationale?

- ▶ Current policy establishes a barrier between domestic and international shipping markets.
- ▶ Canadian policy premises (unstated):
 - The domestic market is large enough to be fully self-sufficient
 - The two shipping regimes are independent of each other
- ▶ These premises are incorrect
- ▶ Leveling domestic intermodal 'playing field' creates uneven international 'playing field'
- ▶ Canadian domestic market is increasingly exposed to competition from international alternatives.
- ▶ Exacerbated by seasonality problems
- ▶ Tariff policy no help to shipbuilders
- ▶ Canadian fiscal, regulatory regime not reflective of current international trends.

What have other countries chosen to do?

- ▶ Virtually all developed maritime States have the same goals
- ▶ No other developed maritime State applies duty to ships, offshore industry
- ▶ EU has liberalized its cabotage access regime
- ▶ Certain States (e.g. UK, Norway) have no cabotage access restrictions at all, (but impose manning constraints)
- ▶ EU authorizes fiscal aid, seafarer income tax relief for international, and (under certain circumstances) to domestic shipping.
- ▶ All such initiatives facilitate domestic/international competitiveness, mobility.

Why is it important to Newfoundland?



Why is it important to Newfoundland (contd.)?



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Why is it important to Newfoundland (contd.)?

- ▶ Presently costs are understood to be of the same order for a container:
 - Montreal - St. John's
 - Montreal - Europe
- ▶ Newfoundland could very likely compete with Montreal for Gateway traffic if EU shipping policy regime applied here.
- ▶ Need to be able to combine both Feeder and Newfoundland O/D SSS cargoes.

What needs to change?

- ▶ The tariff has to go – but carefully!
- ▶ Instead of protection Canada needs facilitation
- ▶ Canada needs to provide fiscal (tonnage tax) and seafarer tax relief (that equate to terms provided in many other OECD States (- and even proposed for the US).
- ▶ Access controls need to be relaxed,
 - Recognition of need for international mobility
- ▶ Obviously need to ensure reciprocity.

Summary

- ▶ The present policy framework disadvantages Newfoundland
- ▶ There is a better way.



Thank you!

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