

OVERVIEW

The WindsorEssex Economic Development Corporation (WE EDC) has applied for the Foreign Trade Zone (FTZ) Point designation for the Windsor and Essex County region in collaboration with regional private and public stakeholders. FedDev has confirmed that WE EDC's application has been approved. A formal announcement is pending.

Windsor-Essex is an ideal location for hosting a FTZ Point. The region is strategically located across the river from Detroit, Michigan and serves as Canada's Gateway to North America and beyond with a third of all Canada-US trade passing through Windsor-Essex. The upcoming Gordie Howe International Bridge will increase the region's connectivity to the rest of the continent alongside the region's multi-modal capabilities. The Windsor-Essex region has a rich tradition in manufacturing alongside a growing transportation, logistics and warehousing sector which will benefit from increased activity through the FTZ Point. Windsor-Essex offers a central, capable, affordable and connected location for doing business.

The FTZ Point will serve as an additional tool for WE EDC in attracting new companies to invest in the region as well as assist our local companies entering new foreign markets and global value chains.

OPERATIONS

The Windsor-Essex FTZ will be managed by WE EDC in-house. A project manager will be assigned to the FTZ Point who will oversee the day-to-day operations with the support of WE EDC's hired FTZ Consultant. A steering committee will be created with regional stakeholders including organizations, such as: WE EDC, Port of Windsor, Windsor International Airport, Windsor-Essex Chamber of Commerce, Cross Border Institute, Institute for Border Logistics and Security and others which will meet monthly to further develop the Point's mandate and activities. Once the FTZ is established an advisory committee will be created with representation from local firms including logistics and warehousing providers, manufacturers and professional services to better serve the region.

Windsor-Essex's FTZ Point will be self-sustaining through WE EDC's budget and funding support from other regional stakeholders. Once Windsor-Essex is designated a FTZ Point, WE EDC will apply for the Foreign Trade Zone – Marketing Program (FTZ-MP) to further market Windsor-Essex as a Foreign Trade Zone location.

FTZ CONSIDERATIONS

Windsor-Essex is well positioned to host a FTZ Point and exceeds all ten considerations.

- 1. Economic Priority for the Region:** The FTZ Point has been identified as a priority by both the City of Windsor and County of Essex to assist in further raising the profile of the region for business investment.
- 2. Private Sector Leadership and Commitment:** WE EDC has received support and commitment for the FTZ Point from large manufacturing associations, the Windsor-Essex Regional Chamber of Commerce and many small, medium and large sized manufacturers and logistics providers in the region who are willing to participate on FTZ working committees and groups.
- 3. Dedicated Governance Body:** Windsor-Essex's FTZ will be managed in-house by a WE EDC Project Manager and hired FTZ Consultant with a steering committee with stakeholders such as WE EDC, Port of Windsor, Windsor International Airport, Windsor-Essex Regional Chamber of Commerce, the Cross Border Institute, Institute for Border Logistics and Security and others.

- 4. Local and Provincial Government Support:** The City of Windsor and County of Essex is fully supportive of the FTZ Point with WE EDC taking the lead role. Provincial support has been received from Giles Gherson, Deputy Minister, Ministry of Economic Development, Employment and Infrastructure.
- 5. Favourable Business Environment:** Windsor-Essex offers a favourable business climate with low property taxes and attractive incentives including zero industrial development charges and grant equivalents up to 100 percent of the municipal property tax increase on projects.
- 6. Available Land:** Windsor-Essex has a variety of high-quality, affordable and available land including land located at the Port of Windsor and Windsor International Airport as well as an Ontario Investment Ready Certified Site and many more privately owned sites.
- 7. High Quality Infrastructure:** The region is continually upgrading its infrastructure including the recently opened Herb Gray Parkway (\$1.4 Billion), renovated Detroit-Windsor Tunnel Plaza (\$30 million) and the upcoming Gordie Howe International Bridge (\$2.2 billion).
- 8. Active Participation in and Connection to Global Supply Chains:** Windsor-Essex serves as the gateway to North America and beyond, with a third of all Canada-U.S. trade crossing through the region. Our local manufacturers have extensive expertise in global trade, 90% of all manufacturers currently export globally.
- 9. Access to Skilled Labour:** Windsor-Essex has a talented and skilled workforce supported by the University of Windsor and St. Clair College including programs in Logistics and Supply Chain Management and Freight Forwarding and Logistics.
- 10. Access to Multimodal Transportation System:** Windsor-Essex is serviced by all major forms of transportation including the Highway 401 with direct connection to the US Interstate system, Port of Windsor, Windsor International Airport and Class 1 rail corridors.

KEY PERFORMANCE MEASUREMENTS

WE EDC looks to ensure that the FTZ Point in Windsor-Essex will be a valuable resource to our local companies and an attractive selling feature to potential investors. Key performance measurements will be in place including the number of firms exporting and importing in the region, number of firms accessing the FTZ programs and the number of landed investments influenced by the FTZ Point. Targets will be created and benchmarked for each measurement and WE EDC's FTZ Point staff and stakeholders will work to achieve the targeted outcomes.

WINDSOR-ESSEX FOREIGN TRADE ZONE POINT

An FTZ Point refers to one of Canada’s strategic locations for international trade, where an organization with a mandate to promote local trade and foreign direct investment is uniquely supported by a single-point of 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 comprised of representatives from the following federal departments: Canada Border Services Agency (CBSA), Canada Revenue Agency (CRA), Transport Canada, Industry Canada, Foreign Affairs, Trade and Development and Export Development Canada (EDC).

BENEFITS AND OUTCOMES OF ESTABLISHING AN FTZ POINT

- One stop shop/service for information on Canada’s FTZ policies and programs
- Site/ business expansion and investment opportunities
- Reduction in cost and paperwork for manufacturers
- Promotion of the Windsor-Essex region as a hub for international trade
- An additional tool for attracting foreign and domestic investment
- Integration of Windsor-Essex SMEs into foreign markets and global value chains

OVERVIEW OF CANADA’S FTZ – TYPE PROGRAMS

A FTZ Point administers a variety of FTZ programs that assist companies in their export/ import activities which helps manage the company’s bottom line. Export/ Importers can use either one or a mix of programs which can provide the following benefits: no heavy paper burden, no geographic restriction, improved cash flow, reduced operating expenses and increased international competitiveness.

<i>Program</i>	<i>Main Benefit</i>	<i>Main Qualifications</i>	<i>Program Administration</i>
Duties Relief Program	Upfront relief of duties	Goods must be exported within four years	Canada Border Services Agency (CBSA)
Drawback Program	Refunds duties for exported goods	Goods must have been exported within four years	
Customs Bonded Warehouse	Defers/ relives duties and taxes	Goods must not be substantially altered	
Export Distribution Centre Program	Upfront relief of GST/HST on certain imports	Must be export-oriented commercial entity that adds only limited value to goods	Canada Revenue Agency (CRA)
The Exporters of Processing Services Program	Upfront relief of GST/HST on certain imports	Goods must belong to non-resident and be re-exported after being processed	

WINDSOR-ESSEX FOREIGN TRADE ZONE – GOALS

1) Increase the export activities of Windsor-Essex based businesses, manufacturers and producers by:

- a) Helping them understand and leverage all the existing federal and provincial import duty and tax exemptions or deferral programs and measures, free trade agreements, sales tax on exports exemptions, etc.
- b) Assisting them in identifying the potential markets for export growth
- c) Assisting them in promoting their businesses, products and services internationally

AND BY PROMOTING TAX FREE SHOPPING IN WINDSOR-ESSEX

Goods and services that are normally subject to the GST/HST may be untaxed when exported from Canada. In this case, they are referred to as “zero-rated” goods or services.

SALE OF ZERO RATED GOODS:

If the purchaser is a consumer or tourist, the vendor must have the goods shipped outside of Canada by a common carrier (Canada Post, DHL, FedEx, UPS, or other transportation company). For example: Freed’s of Windsor could advertise TAX FREE SHOPPING IN WINDSOR and offer shipping to a US address in Detroit, MI.

If the purchaser is not a consumer/tourist, he can take delivery of the goods in Canada but must export them as soon as is reasonable.

2) Increase foreign direct investments in the Windsor-Essex region through:

- a) Greenfield investments (a foreign company builds its operations in Windsor-Essex from the ground up)
- b) Brownfield investments (a foreign company purchases or leases existing production facilities in Windsor-Essex to launch a new production activity)
- c) Mergers and acquisitions (deals between foreign companies and Windsor-Essex firms).

by:

- a) Promoting Windsor-Essex's available land and buildings
- b) Promoting Windsor-Essex's logistic infrastructures, assets and businesses
- c) Promoting, Canada's, Ontario's and Windsor-Essex' investor friendly taxation regime
- d) Creating a Windsor-Essex online marketplace to promote/advertise businesses and their products and services as well as businesses that are seeking merger and acquisition and joint venture opportunities or who are seeking investors.

CANADA’S FOREIGN TRADE ZONE-TYPE PROGRAMS (FTZS)

Canada’s Foreign Trade Zone (FTZ) type programs and measures were created by the Federal Government to facilitate trade and increase the global competitiveness of Canadian based companies.

Some of the benefits of operating within an FTZ environment are obvious. At the very least an FTZ-type facility can help a business defer paying duties and taxes. More often, the company pays lower costs, not only to the Canada Border Services Agency (CBSA) or the Canada Revenue Agency (CRA), but to its bank and insurance company. Retailers can even sell their previously imported products at a lower price for export since they may be eligible for a full refund of import duties, if they export the goods in the same condition as they were imported.

PERMITTED ACTIVITIES IN A CANADIAN FOREIGN-TRADE ZONE TYPE FACILITY

Bonded Facility (Customs Bonded Warehouse Program and Export Distribution Centre Program): disassembling and reassembling; displaying, inspecting, marking, labelling, tagging or ticketing; packing, unpacking, packaging or repackaging; storing or testing.

Manufacturing under bond (Duties Relief Program and the Exporters of Processing Services Program): further processing; display or demonstration in Canada; development or production or storage.

ADVANTAGES OF USING AN FTZ

1. Imports may be admitted and held without paying Canadian import duties and taxes.
2. Customs duties are never paid on goods that are re-exported.
3. Duties are eliminated or reimbursed on goods that have been determined to be obsolete or surplus.
4. Merchandise may be exported without charging duties, taxes and the GST/HST.
5. A full reimbursement of customs duties (Duty Drawback Program) is available to retailers who export in the same condition, previously imported goods to the United States or overseas.
6. Quality control inspections can identify sub-standard goods to be destroyed or returned without having to pay import duties and taxes.
7. No duty or taxes are owed on in-bond transfers from one bonded location in Canada to another bonded location in Canada.

ACTUAL AND POSSIBLE FTZ SCENARIOS IN WINDSOR-ESSEX

- I. **CUSTOMS SUFFERANCE WAREHOUSING** (tax & duty free for up to 40 days) & customs bonded warehousing (tax & duty free for up to 4 years)
Morterm Limited, Windsor, ON

ACTUAL SCENARIO: Morterm Limited currently promotes on their website that it provides a range of material handling services including stevedoring, steel storage and handling, warehousing for an array of goods including project cargoes, bulk products and transshipment operations for steel and other industrial products.

Morterm operates both a customs sufferance warehouse as well as a customs bonded warehouse. Because of its strategic waterfront location, Morterm has direct access to the truck ferry crossing from Detroit to Windsor, the St. Lawrence Seaway vessel traffic as well as access to the Essex Terminal Railway which connects with CN Rail, CP Rail and CSX Transportation. Morterm is authorized by the CBSA to handle and store imported goods on behalf of importers without having to pay duties and taxes. They can also FURTHER THE GOODS anywhere in Canada under bond i.e. ship goods in bond from Windsor to Toronto.

II. **CUSTOMS BONDED WAREHOUSING (tax & duty free for up to 4 years)**

Farrow Logistics, LaSalle, ON - Logistics Management for Catalogue & Internet Order Fulfillment for U.S. businesses shipping door-to-door to Canadian consumers

ACTUAL SCENARIO: Farrow Logistics currently promotes on their website that they offer seamless logistics management services to U.S. based businesses that are selling directly to Canadian consumers. Their services include pick and pack fulfillment, cross-border and domestic transportation, container deconsolidation, customs brokerage and handling of returns.

POTENTIAL SCENARIO: Farrow Logistics could offer bonded warehousing space as well as Catalogue & Internet Order Fulfillment services to Windsor-Essex home-based businesses, small retail businesses, manufacturers and producers. By storing their imported goods these local businesses could then benefit from:

- 1) Deferring the payment of import duties and taxes until they need to remove the goods from the bonded warehouse;
- 2) Not having to pay any duties or taxes if they sell the goods and export them from the bonded warehouse to a location outside of Canada. They could also offer bonded container deconsolidation services to area manufacturers/producers and businesses by:
- 3) Receiving a container load of goods that was shipped in bond from a Canadian or American port, furthered by a bonded rail or highway carrier to Farrow's bonded LaSalle location, and then deconsolidate the container in their bonded facility and store the goods in the bonded warehouse until the Canadian importer needs to take possession of the goods.
- 4) Rather than paying the import duties at the first point of arrival in Canada, this service would permit the Canadian importer to defer the payment of import duties and taxes for a period of up to four years, if the goods remain stored in the bonded warehouse.

III. **DUTY DRAWBACK PROGRAM (refund of duties on imported goods that are re-exported within 4 years)**

Vistaprint Canada, Tecumseh, ON

ACTUAL SCENARIO: Vistaprint is a Dutch company with regional headquarters in Boston, MA, Barcelona, Spain and Sydney, Australia. Vistaprint possesses four manufacturing facilities worldwide, including one in Windsor (Tecumseh), ON.

Aside from the manufactured products that may include business cards, calendars, greeting cards, invitations, labels, stickers, magnets and other marketing materials that it produces locally, the Windsor facility imports several other type of products such as corporate gifts, clothing and bags which they customize and resell to customers. These imported products may include raw materials used in the

manufacturing of cards, labels, stickers, magnets, etc. or they can be finished consumer goods such as mugs, pens, mouse pads, USB flash drives, can coolers, letter openers, t-shirts, polo shirts caps, hoodies and bags. Many of these imported products are subject to import duties and taxes. When Vistaprint re-exports some of these products to the US or overseas, they are eligible to a complete refund of customs duties. The simply must fill out a duty drawback claim and submit it to the Canada Border Services Agency.

POTENTIAL SCENARIO – Depending on the volume of their export sales, Vistaprint could qualify to participate in the Duties Relief Program rather than using the Duty Drawback Program. The Duties Relief Program which allows for the same activities as the Duty Drawback Program, relieves the importer from having to pay the customs duties at the time of importation and then having to ask for a refund through a duty drawback claim when they export the previously imported goods.

IV. IMPORTING INTO A CUSTOMS BONDED WAREHOUSE

Companies participating in the Customs Bonded Warehouse Program may qualify for a complete deferral of duty and taxes. If a company qualifies, it will only pay the duty and taxes on the portion of the goods that will be entering the Canadian market for further processing or consumption. If the company exports an unutilized portion of the goods from the bonded warehouse, no duty or taxes will be owed to the Government of Canada on those goods.

EXAMPLES OF HOW THE CUSTOMS BONDED WAREHOUSE PROGRAM MAY BE BENEFICIAL FOR CERTAIN BUSINESSES:

EXAMPLE 1 – TOMATO JUICE - BOTTLING OPERATIONS

A local tomato juice producer and distributor has agreed to produce and distribute a private label brand of tomato juice on behalf of a large U.S. based food and beverage company.

The U.S. Company will ship a variety of different sized and shaped U.S. made aluminum cans, plastic bottles, glass bottles and labels for the bottles to the Canadian tomato juice producer. The Canadian producer will in turn produce and supply the tomato juice as well as supply the pre-printed shipping boxes that will be used to package and ship large quantities of canned and bottled tomato juice.

90% of all the private label tomato juice products that will be produced and packaged for the U.S. based food and beverage company, will be exported to the United States. The remaining 10% of the production will be shipped to Canadian wholesalers and retailers directly from the production plant.

All the American made supplied goods will enter Canada on a duty-free basis. However, these supplies are subject to the 5% Goods and Services Tax (GST). Because 90% of the production will be exported to the USA, and that Canadian businesses do not charge GST on export sales, the GST paid on the imported supplies cannot be recovered through Input Tax Credits. The producer must submit claims to the Canada Revenue Agency to get a reimbursement of the GST that was paid on the imported supplies.

Customs Bonded Warehouse (CBW) Option

However, the option of performing its bottling operation under the Customs Bonded Warehouse Program would be extremely viable and financially beneficial for the Canadian producer. In this scenario, the Canadian producer would obtain an authorization from the Canada Border Services Agency to bottle tomato juice under bond, and not have to pay the GST on all the American made supplies that will be re-exported out of Canada. The Canadian producer would only have to pay GST on the remaining 10% of supplies that will be shipped to Canadian wholesalers and retailers.

EXAMPLE 2 – INTERNATIONAL EXHIBITOR IMPORTS GOODS TO BE SOLD AT A LOCAL TRADE SHOW

An American vendor will be exhibiting at a local Windsor-Essex trade show next month. The vendor wishes to bring goods for resale at the show, but does not want to pay the GST at the border because he is unsure if he will be selling some or all his goods.

CBW Option

The trade show organizer can have a portion of the Canadian event site licensed by the CBSA as a customs bonded warehouse. Once the event site is authorized as temporary CBW site, imported goods for sale will move directly into the bonded warehouse area and the GST will be deferred until the goods have been either sold or re-exported.

EXAMPLE 3 – HOME-BASED ONLINE PERFUME SHOP

A businesswoman intends to import fine perfume from Europe. She began importing perfume products which she then re-sold online through her website and other web applications. She was aware that all the customs duties that were paid to the Government of Canada for her imported products, would be recovered by way of a Duty Drawback claim, if she re-exported some of her products within four (4) years.

As her business grew, she decided that she needed to hire a third-party logistics services provider that could receive her imported products, store and maintain her products in good quality, and then re-pack and ship her products whenever she made a sale.

CBW OPTION

The home-based online perfume business was doing very well. In fact, she exported well over 80% of her previously imported products, right across the river into the USA. The paper burden of filling drawback claims and submitting proof of import into the United States was getting to her and so was the fact that a lot of cash was held at the CBSA for long periods of time, i.e. from the time she imported products to the time her goods were sold and the drawback claims were prepared, submitted, processed and government cheques were received.

A competing third party logistics provider offered similar services to those of her current service provider, but with one huge difference, his services were offered under a customs bonded warehouse license. Therefore, the new service provider could help her avoid cash flow problems and save her a lot of time and paperwork, by performing all the logistics services in a customs bonded warehouse. Then, the entrepreneur would only have to pay customs duties and GST on goods that were “actually” entering the domestic market of Canada for consumption.

EXAMPLE 4 – IMPORT AND DISTRIBUTION OF PRODUCTS THROUGHOUT NORTH AMERICA

After signing an exclusive distribution agreement for Canada and the United States, a local businessman is searching to rent a warehouse/distribution centre that will allow him to import solar powered catamarans and then sell them to retailers across Canada and the United States.

The businessman knows that the catamarans will arrive by ocean vessel at the Port of Montreal monthly, and estimates that 50% of his products will ultimately be exported into the United States.

CBW OPTION

After signing a rental agreement to lease a warehouse in the Windsor-Essex region, the businessman applies to the CBSA for a customs bonded warehouse license. The license will allow the businessman to import the catamarans without having to immediately pay the 9.5% customs duties and the 5% GST. After receiving his container load of catamarans, the businessman installs the solar panels on the boats, cleans and preps them for sale. Occasionally, he will remove some models from the CBW, and bring them to boat shows throughout Canada and the USA.

The businessman also pays duties and taxes on one of each different model of catamarans, to keep them as floor models for his showroom. Finally, the businessman will not pay any duties or taxes on the catamarans when they are exported to the USA.

EXAMPLE 5 – A SLEEPING BAG MANUFACTURER IMPORTS RAW MATERIALS FROM ASIA TO PRODUCE HEAVY DUTY SLEEPING BAGS FOR WINTER CAMPING FOR SALE IN THE CANADIAN AND EXPORT MARKETS.

The manufacturer imports raw materials from Asia. Some of the materials are subject to both customs duties and the 5% GST while other materials are only subject to the GST.

CBW OPTION

The manufacturer has obtained a CBW license from the CBSA to store the imported raw materials in his manufacturing facility. While manufacturing in a CBW is prohibited by Canadian law, a manufacturing facility can contain a CBW area to store its imported materials as well as its finished products that are deemed for export.

The imported materials are “customs released” when the manufacturer is ready to take them out of storage to enter the production line. The manufacturer will have the usual five (5) days to pay the customs duties and GST on those manufacturing inputs. The manufacturer usually takes about eight hours to produce 120 sleeping bags, so he usually “customs releases” enough materials to last one full working day.

Once the sleeping bags have been produced, he is ready to pack and ship them to his customers. If some of those sales are for export markets such as the USA or other overseas destinations, and he will not be exporting them immediately, he can store his finished sleeping bags in his CBW. The sleeping bags are now considered to be “deemed exported”, which means he may immediately begin the process of claiming back his customs duties paid on the importation of the raw materials by way of a duty drawback claim.