

**STATEMENT TO  
THE HOUSE OF COMMONS  
STANDING COMMITTEE ON FINANCE  
MAY 31, 2000**

**BY  
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PRESIDENT  
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**INTRODUCTION**

Good evening ladies and gentlemen. The shipbuilding industry appreciates the opportunity to appear before the Standing Committee on Finance in support of Bill C-213, an Act to Promote Shipbuilding. In attendance with me this evening is Mr. Richard Beaupre, President of Verreault Navigation and Chairman of the Board of the Association, Mr. Richard Bertrand, Executive Vice-President of Davie Industries and Mr. Alan Thoms, President and Chief Executive Officer of Canadian Shipbuilding and Engineering.

The Shipbuilding Association of Canada was formed in 1995 and is an outgrowth of the Canadian Maritime Industries Association that ceased operation the previous year. The mission of the Association is the promotion and development of the Canadian shipbuilding, ship repair and associated marine equipment and service industries. The membership of the Association comprises the majority of the large Canadian shipyards situated on the Atlantic and Pacific Oceans and the Great Lakes.

**SOME FACTS ABOUT SHIPS AND SHIPBUILDING**

Canada is a maritime nation. This fact is often lost in our centrist vision of Canada built around the provinces of Ontario and Quebec. Nevertheless, it remains a constant that Canada is charged with the responsibility for the care and welfare of an ocean area greater than its landmass. The Saint Lawrence and Great Lakes waterway represent a marine highway as long as the Atlantic Ocean is wide. Estimates of the oil and gas reserves in Canada's Atlantic offshore continue to be revised upward and exploration continues unabated. Offshore oil and gas is single handedly turning the economy of Newfoundland around. North America's largest ferry fleet services the island communities of British Columbia and in the Arctic Ocean our claims of sovereignty are once again being challenged by our neighbours to the South.

For the foreseeable future, it is projected that in excess of 75% of the world's goods will continue to be transported by sea and that maritime transportation will remain the most cost-effective and environmentally friendly mode of transportation on the planet.

Shipbuilding is known as a heavy manufacturing industry. It is less appreciated as a high technology industry. The same information technology skills that are the foundation of the aerospace and automotive industries are also the keystones of the shipbuilding industry. The number of computer systems on a modern ship exceeds those found in an automobile, an aircraft or the space shuttle.

Shipbuilding plays a key role in the maritime defence of Canada. Our Navy's Canadian Patrol Frigates and Maritime Coastal Defence Vessels are the envy of other maritime nations. This investment by Canadian governments has been repaid many times over in the Battle of the Atlantic, Korea, the Gulf War and the Adriatic.

This is the environment of the shipbuilding industry. This industry supports maritime transportation and the offshore oil and gas industry on three oceans, the Great Lakes and around the globe.

## **THE PLAYING FIELD**

Japan, South Korea and China are expected to continue to dominate the global shipbuilding industry. They presently have about 75% of the world market share. Canada is a very small player in comparison. Federal officials as a consequence tend to write the industry off but this is not an issue of going head to head with these nations for market share. As I have previously indicated, it is our view that Canada needs a viable modern shipbuilding industry to support its domestic maritime requirements. Fundamental to this premise is the requirement for Canadian industry to also be able to compete in the international market place in those niche areas where Canadian technical skills and value-added can be exploited.

Shipbuilding has arrived at its present state not by natural market forces but by political manipulation, normally in the guise of protectionism and subsidization. Free market forces do not prevail in this industry. The nations that dominate the industry have set out to do so. It has been part of a coherent government national strategy. South Korea has been responsible for a significant amount of the overcapacity in global shipbuilding. Expansion for the sole purpose of dominating the market has resulted in Korea dumping ships on the market at prices that are not profitable and that no other country can match. In 1999 prices of ships produced in Korea fell by 20%. This had nothing to do with increased productivity.

European and North American shipyards have been extremely hard hit. The European Commission is threatening to take the Koreans before the WTO. The OECD agreement

to eliminate shipbuilding subsidies worldwide is in disarray, as the United States, the primary sponsor of the agreement, will not now ratify it. Nations appear to be hardening their position on subsidies. Germany has indicated they will continue their direct subsidy program until 2003. The United States remains firmly behind the Jones Act.

Meanwhile, Canada's relatively unprotected shipbuilding industry finds the United States market remains closed to it in spite of North American free trade and continues to face restrictive trade practices in other markets with no end in sight. At the same time, Canadian ship owners are going abroad to build ships and to take advantage of the lower subsidized prices offered by our competitors. Canadian shipbuilders do not wish to force Canadian owners to build in Canada but they would like the opportunity to fairly compete for the business.

### **BILL C-213**

Bill C-213 is intended to assist the industry to combat the protectionist measures that it faces. The measures in this bill are not intended to match those provided by other countries. The bill proposes assistance measures that we believe are in keeping with the mandate of Industry Canada to promote and assist Canadian industry. They are, in our view, in keeping with incentives provided to other Canadian high-technology manufacturing industries.

Bill C-213 proposes three measures to promote shipbuilding in Canada. These are:

Establishing a program providing federal loan guarantees to purchasers of commercial ships built in Canadian shipyards.

Amending the provisions of the Income tax Act and regulations to improve the attractiveness of lease financing for the purchase of ships built in Canadian shipyards.

Amending the provisions of the Income Tax Act and regulations to allow a refundable tax credit for a portion of the costs related to ship construction, conversion or refit in a Canadian shipyard.

The shipbuilding Association of Canada commissioned the respected consulting firm KPMG to analyze the measures proposed in Bill C-213 and estimate the impact of these incentives on the orders, sales, employment and economic activity in the Canadian industry. This study will be completed in one week from today and will be forwarded to the committee at that time. While we do not have the final results of the study we do have enough information to apprise the committee in general terms of some of its findings.

## **THE LOAN GUARANTEE PROGRAM**

The creation of a Loan Guarantee Program patterned after the United States Title XI program, would allow purchasers of Canadian built ships to obtain financing that matches the useful life of the asset. Particularly for owners who need to finance on the basis of the asset itself, this would significantly enhance the attractiveness of Canadian-built ships. Calculations suggest this might improve the price competitiveness of Canadian-built ships by 10% to 15% when financed under the loan guarantee program.

## **THE LEASING PROVISIONS**

Canadian purchasers of Canadian built ships benefit from the rapid write-off of the value of the asset for tax purposes, currently available under Canadian tax law. However, the specified leasing rules in the regulations severely restrict the ability of the Lessor to take advantage of this accelerated capital cost allowance. Accordingly, leasing is effectively not an option for financing Canadian-built ships. The proposals in the Bill would remove Canadian-built ships from the specified leasing rules. Calculations suggest that this would improve the competitiveness of Canadian- built ships by 10% to 15% when leased financed.

## **REFUNDABLE TAX CREDIT**

The third provision in the Bill mirrors an existing provision in the Quebec tax regime. It would provide credits for a portion of the cost of constructing or refitting a commercial vehicle in a shipyard located in Canada, or the conversion of a ship in such a shipyard. The provision is intended to offset some of the learning curve costs associated with producing a new product. Indications are that this provision would have the effect of reducing the overall cost of a series of ships by about 6%.

## **IMPACT**

At the close of 1999 there were 26 ships on order for Canadian interests. Sixteen of these were being built in foreign yards. It is reasonable to assume that four to six of these of ships could have been competitively quoted and won in Canada had the provisions of Bill C-213 been in place. Add to this the potential for renewal of Canada's Great Lakes Fleet and the growth in Canada's Atlantic offshore industry and the projection for job growth and economic impact is expected to be significant.

## **CONCLUSION**

The shipbuilding industry in Canada can benefit the Federal Government by providing advanced technology jobs for Canadians, many of those in regions where they are most

needed. It can be a significant contributor to the wealth of the nation. The industry has been positioning itself for sometime to be more competitive in the international market. There is no reason with the industry and government working together this cannot happen.

Bill C-213 is a significant initiative and provides the right kind of incentives for the industry. The shipbuilders of Canada urge you to support the proposals in Bill C-213.