Enabling Greater Productivity and Competitiveness in Canada

Submission to the Pre-Budget Consultations in advance of the 2018 Federal Budget

UPS Canada

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With almost 110 years of experience in the transportation and delivery of goods, and over 42 years of service in Canada, UPS has observed and contributed to the evolution of Canada's role in international trade, changing trends in parcel delivery, and the development of sustainable transportation policies. As a company which partners with businesses of all sizes wishing to grow and reach new markets, and which works to serve the needs of individuals in an increasingly digital world, UPS Canada shares the Government of Canada's commitment to help Canada realize its innovation, growth and prosperity goals.

As the Government of Canada consults in advance of the 2018 federal budget, UPS Canada respectfully submits the following three recommendations which we believe will enable a more productive and competitive environment for businesses and consumers across the country:

1. Invest in world-class customs and border infrastructure, to reduce trade barriers and remain competitive.

2. Accelerate the transition to alternative fuels with financial incentives, to support a competitive and sustainable growth economy.

3. Adopt a "one parcel, one policy" commitment for all of Canada's postal and parcel delivery services, to ensure that applicable duties and taxes are collected on imports in to Canada regardless of the carrier, and avoid lost public sector revenue.

1. Invest in world-class customs and border infrastructure

At a time when international trade faces both challenges and opportunities in bilateral, regional and multilateral contexts, UPS Canada encourages the government to consider Canada's important role in preserving and improving the capacity of Canadian businesses to compete in the global marketplace, and to ensure that this is reflected in Budget 2018.

In order to achieve the Government of Canada's stated priority of getting Canadian products to global markets, Canada must invest in world-class trade infrastructure to remain competitive. Upgrading and adapting physical infrastructure at points of entry and exit to meet current and future demand of international trade flows, and modernizing customs processes and related information technology systems is vital to improving the cost and time efficiency of cross-border trade.

These priorities are particularly timely in the context of the forthcoming renegotiation of the North American Free Trade Agreement (NAFTA), as well as Canada's ongoing and exploratory trade discussions with other global partners. Sustaining investment to update physical infrastructure along the Canada-U.S. border, including through public and private sector partnerships, will be critical to improving the flow of goods between Canada and its largest international trading partner. The Gordie Howe International Bridge initiative is a good example of a shared infrastructure project which has the potential to improve both productivity and competitiveness, and which will require continued financial commitment from the Government of Canada.

A somewhat less tangible yet equally critical aspect of the efficient movement of goods is that of customs processes at the Canadian border. Businesses relying on imports for the production of goods in Canada are dependent on efficient customs processes in order to remain competitive. A commitment of appropriate funding for the Canada Border Services Agency (CBSA) should form an integral part of federal measures to improve the productivity of goods manufacturers and service providers in Canada. The evolving landscape of international trade agreements and ever-increasing flow of e-commerce goods require a robust customs agency, equipped with the technological capacity to process and clear goods efficiently and effectively.

2. Accelerate the transition to alternative fuels with financial incentives

Every day, UPS is faced with a complex challenge; how do we deliver more, while using less? In Canada, UPS has a fleet of 2,880 package cars, tractors and shifters, approximately 40 per cent of which run on low-emission propane. Our commitment to alternative-fuels in Canada extends beyond vehicles to fueling station infrastructure, licensing as well as personnel training.

The government of Canada has been clear and action-oriented in its intention to play a leadership role in uniting the provinces, territories and municipalities around a pan-Canadian climate change strategy consistent with Canada's international obligations, an approach which UPS Canada supports. As the Government of Canada shapes its newly-mandated climate change and infrastructure strategies, and as

Transport Canada focuses the Building Canada Fund to make greater investment in Canada's transportation corridors, UPS sees tremendous opportunity for collaboration and shared investment between the public and private sectors.

To date, the most successful examples of UPS investments in alternative-fuel vehicles have been in jurisdictions with supportive government policies and financial instruments which enable investment in both alternative-fuel vehicles and related infrastructure. Similar collaborative projects could be funded in Canada with a dedicated focus and commitment to shared investment. A low-emissions vehicle voucher program or similar financial incentives for the transition to alternative-fuels including propane, liquefied natural gas (LNG) and compressed natural gas (CNG) would provide momentum for Canadian companies to invest in cleaner fuel fleets, and encourage a broader range of economic investments which would benefit the manufacturing and automotive sectors, and support Canada's burgeoning green economy.

As both the government and large-scale transportation service providers such as UPS Canada align in their commitment to transitioning to a more sustainable future, UPS Canada encourages the allocation of financial resources to enable committed industry partners, including those in the delivery services sector to accelerate their shift to alternative-fuels.

3. <u>Adopt a "one parcel, one policy" commitment to avoid lost public sector revenue</u>

Despite advances in transportation networks, the steady increase in international cooperation between governments and border agencies and the impact of technology and rapid data flows, international trade today is more complex than ever before. Goods are now made in multiple countries as opposed to one. Consumers can browse, purchase and return products to their local shopping mall, a "click and mortar" store on the other side of the world and virtual marketplaces online.

In this time of rapid e-commerce expansion, it is important for the Government of Canada to ensure that all imported goods are subject to the same rules and regulations, regardless of the carrier, and to safeguard the efficient collection of duties and taxes. An independent study[1] recently commissioned by UPS found an alarming difference in the collection of duties and taxes on e-commerce purchases entering Canada, depending on whether the goods were delivered by national postal services, or private express carriers. This inconsistent policy results in a significant loss of revenue for the Government of Canada:

- There is a significant gap in tax collection (Harmonized Sales Tax and Provincial Sales Tax) for goods purchased online and imported into Canada via national postal services when compared with goods imported via express carriers.
- Import duty is collected on only 6% of postal shipments imported into Canada, whereas express operators collected on 98% of shipments.
- Sales tax is collected on only 25% of postal shipments imported into Canada, whereas express operators collected on 100% of shipments.
- It is estimated that this incomplete collection results in up to $1.3 billion in lost revenue for the Government of Canada.

The inconsistent collection of duties and taxes by national postal operators compared with express carriers harms both competitiveness and productivity in Canada. Domestic Canadian retailers struggle to compete with international exporters who use national postal operators to deliver their goods. Applicable taxes are consistently applied to goods bought domestically, however e-commerce purchases may not be subject to duties and taxes, due to inconsistent treatment of imports at the Canadian border depending on the carrier used.

A commitment by the Government of Canada to address this counter-productive loss of public sector revenue, and ensure appropriate resources to enforce consistent collection of duties and taxes on imports into Canada would constitute an important step towards leveling the playing field and improving competitiveness, both for delivery service providers and domestic Canadian retailers.

Conclusion

As the government continues to consult on Federal Budget 2018, UPS Canada stands ready to provide further insights based on our continued investment and operations in Canada, in the aim of achieving a more competitive, sustainable and productive economy to the benefit of all stakeholders.

[1] https://www.copenhageneconomics.com/dyn/resources/Publication/publicationPDF/9/379/1488463673/copenhagen-economics-2017-e-commerce-imports-into-canada-sales-tax-and-customs-treatment.pdf

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