

# Québec focus on jobs

*Shaping an innovative economy*

*Montréal Foreign Trade  
Zone at Mirabel*



Gouvernement du Québec  
Ministère des Finances

*An economic  
development  
strategy  
for job creation*





# SUMMARY

## CONTEXT

In a world of growing openness, more intensive trade and increasing international competition, it is essential for an economy such as Montréal's to be able to rely on all of the assets at its disposal to achieve its full potential, especially from the standpoint of job creation.

The Montréal International Airport in Mirabel is one such asset, which, operated strategically, will help further confirm Montréal's role as a foreign trade centre in North America. Designed from the outset to be one of the world's finest airports, the very quality of Mirabel's infrastructure confers on it the potential to develop in a novel manner the Greater Montréal area's competitive advantages.

Mirabel Airport's facilities offer a number of key advantages for economic development on which we must capitalize:

- **a strategic geographic location** to serve as a gateway between North America and Europe;
- **airport infrastructure that meets the highest international standards** and which can accommodate all types of commercial aircraft;
- **airport operational 24 hours a day**, including customs services, which means, in particular, greater operating flexibility for air freight;
- **absence of congestion**, a critical factor for all-cargo flights, which are not granted priority elsewhere.

Given the congestion prevailing in many airports in the northeastern United States, Mirabel's competitive advantages are such that it is often quicker to have transit through it goods from Europe destined for major American markets than to ship them directly, for example, through New York or Boston.

However, Mirabel's potential is not confined to air freight. Experience abroad shows how an airport can become a focal point of sustainable economic development for a region. This is true, for example, of the Alliance project in Dallas-Fort Worth, where elaborate, efficient

transportation infrastructure, including a new airport built less than 10 years ago, has made it possible to successfully attract numerous enterprises in the logistics and light manufacturing niches. Some 13 000 people now work on a site that, just over 10 years ago, was pastureland.

The Montréal area enjoys advantages that were not even available to Dallas-Fort Worth: an existing airport and the main North Atlantic container port (ahead even of New York), which makes it possible to quickly ship products from Europe to the United States and the rest of Canada. It should be pointed out that more than half the containers handled by the Port of Montréal are already destined for the United States.

Mirabel Airport is one of the key components in the Montréal area transportation infrastructure network. Through synergy between the airport, the port, and the road and rail networks, Mirabel can truly contribute to the economic development of Greater Montréal.

As the Tardif Commission on the development of the Mirabel area, set up by the Québec government and chaired by Guy Tardif, rightly noted, “Mirabel’s future rests on continental and international positioning, not only Montréal’s or Québec’s needs.”

The government is determined to take the necessary steps to enable Mirabel Airport to play the key role it should assume in the economic development of the Greater Montréal area and Québec as a whole.

This is what the action plan that follows is proposing.

## **ACTION PLAN**

### **Creation of the Montréal Foreign Trade Zone at Mirabel**

The Québec government will establish the Montréal Foreign Trade Zone at Mirabel, to be located on a portion of the Mirabel Airport site. The new Foreign Trade Zone will make it possible to attract to the site selected enterprises operating in targeted sectors, according to Mirabel's competitive advantages.

The eligible operations include, first of all, three sectors specifically related to the field of transportation and aviation:

- international logistics, which encompasses, in particular, continental distribution centres, with respect to which the Greater Montréal area offers especially high potential;
- aircraft, navigational equipment and ground service equipment maintenance and repair services;
- advanced aviation training.

Assembling operations will also be eligible provided that they contribute to the development of installations specifically dedicated to airport-related activities and contribute to Québec's economic development.

New and existing enterprises operating there whose expansion projects satisfy the eligibility criteria will have at their disposal an array of assistance measures to:

- facilitate the enterprises' establishment on the site;
- reduce their operating costs in the Foreign Trade Zone;
- help them operate in a customs free zone;
- train and recruit the workers they need;
- attract foreign specialists.

In order to mobilize the stakeholders concerned and ensure dynamic, concerted development of the zone, the government will set up the Société de développement de la Zone de commerce international de Montréal à Mirabel. This streamlined corporation will coordinate the partners' promotional initiatives and offer reception and other services to investors.

Under its mandate, the corporation will:

- act as a multiservice outlet for enterprises;
- help promote the Foreign Trade Zone;
- submit recommendations to the Minister of Finance concerning the eligibility of projects for assistance measures.

### **Guidelines to avoid competing with Montréal**

The action plan has been elaborated with the twofold concern of ensuring that:

- operations allowed in the Foreign Trade Zone do not lead to the displacement of activities already carried out elsewhere in Québec;
- new facilities in Mirabel do not compete unduly with enterprises that are already engaged in the same operations in Québec and, more specifically, in Montréal.

The proposed action plan for Mirabel includes four main guidelines that specify the method of application to ensure that these deleterious effects, in particular from an economic standpoint, do not occur. Specifically, the action plan will include:

- restrictions on the eligible operations;
- clear criteria concerning the nature of the projects accepted;
- stringent supervision of the process of approving projects: only projects that obtain a certificate from the Minister of Finance will be eligible for these assistance measures. This certificate will only be issued if the project does not compete with enterprises established elsewhere in Québec;
- representation from the Greater Montréal area and the Mirabel area on the board of directors of the development corporation responsible for coordinating development initiatives in the Foreign Trade Zone.

## **Summary of assistance measures**

The assistance program will, broadly speaking, apply for a period of 10 years and consist of various components.

### **Investment assistance** on the site will include:

- a refundable 25% tax credit for the purchase or leasing of eligible capital goods;
- financial assistance for the construction of buildings by eligible enterprises when necessary for the completion of the project, without ever exceeding 25% of their value;
- financial assistance for the construction of buildings by third parties, up to the equivalent of 20% of their value, which will be offered for leasing to eligible enterprises in the zone.

### **Operating assistance** for enterprises will include:

- an income tax exemption;
- an exemption on the tax on capital;
- an exemption from HSF contributions;
- a refundable tax credit on the salaries of eligible employees, except the employees of a manufacturing concern. This credit will be 40% this year and next year, 30% over the three subsequent years, and 20% subsequently, until December 31, 2009, subject to a maximum amount per employee.

### **Assistance to operate in a customs free zone** will include:

- access to specialists from the development corporation to help enterprises manage customs duty and sales tax exemption or deferral programs;
- a loan guarantee and interest holiday program to overcome certain shortcomings that do not allow an enterprise to operate fully in a customs free zone pursuant to existing programs in Canada and thus streamline the working capital of enterprises;
- a refundable tax credit on fees paid to customs brokers of up to \$30 000 per enterprise this year and next year, \$24 000 over the three subsequent years, and \$16 000 thereafter until December 31, 2009.



**Assistance for training and recruiting**

An Emploi-Québec office in the Foreign Trade Zone will provide technical and financial assistance adapted to the needs of enterprises in the realms of recruiting, worker training, and human resources management. Emploi-Québec will maintain an office on the same site as those of the Société de développement de la Zone de commerce international de Montréal in Mirabel.

**Assistance to attract foreign specialists**

Foreign specialists employed by an eligible enterprise will be fully exempt from income tax for five years.

## TABLE OF CONTENTS

---

<b>SUMMARY .....</b>	<b>I</b>
 <b>PART I: CONTEXT</b>	
<b>1. MIRABEL: MILESTONES IN ITS HISTORY .....</b>	<b>5</b>
1.1 An airport with a turbulent past .....	5
1.2 The transfer of flights to Dorval in 1997 and its impact.....	6
1.3 The Tardif Commission on the development of the Mirabel area.....	7
<b>2. MIRABEL: STRATEGIC INFRASTRUCTURE FOR MONTRÉAL .....</b>	<b>11</b>
2.1 Top-notch airport infrastructure .....	12
2.2 Clearly underutilized facilities.....	13
2.3 Operating conditions that are especially advantageous for air freight.....	13
2.4 Extensive commercial and industrial lots available .....	16
<b>3. SUCCESSFUL FOREIGN EXPERIENCES .....</b>	<b>19</b>
3.1 Shannon Free Zone .....	19
3.2 Liège, Belgium .....	20
3.3 The Alliance project in Dallas-Fort Worth .....	22
3.4 The Plattsburgh Foreign Trade Zone .....	22
<b>4. ASSETS TO BE DEVELOPED IN MONTRÉAL .....</b>	<b>25</b>
4.1 Montréal, a hub of intercontinental trade.....	25
– The Port of Montréal.....	25
– Rail transportation.....	26
– Road transportation.....	26
– Air transportation.....	26

<b>4.2 The proximity of major North American markets.....</b>	<b>27</b>
<b>4.3 The availability of qualified workers .....</b>	<b>28</b>
<b>4.4 High-technology sectors of excellence .....</b>	<b>28</b>

## **PART II: ACTION PLAN**

<b>5. GUIDELINES TO AVOID COMPETING WITH MONTRÉAL .....</b>	<b>35</b>
<b>5.1 Creation of the Montréal Foreign Trade Zone at Mirabel .....</b>	<b>35</b>
<b>5.2 Guidelines for the action plan.....</b>	<b>36</b>
5.2.1 Eligible operations .....	36
5.2.2 General eligibility criteria .....	37
5.2.3 Issuing by the Minister of Finance of a certificate of eligibility .....	38
5.2.4 Representation on the board of directors.....	38
<b>5.3 A successful approach in the case of the Cité du multimédia,         the CDTIs, and the CFIs .....</b>	<b>38</b>
<b>6. TARGETED SECTORS.....</b>	<b>43</b>
<b>6.1 Four major development sectors .....</b>	<b>43</b>
<b>6.2 International logistics .....</b>	<b>44</b>
6.2.1 Definition of logistics .....	44
6.2.2 The industry and trends therein .....	44
– The reorganization of enterprises in an international perspective .....	44
– Outsourcing of logistics operations .....	46
– Impact on logistics .....	47
6.2.3 The example of the Netherlands.....	48
6.2.4 Mirabel's and the Greater Montréal area's potential.....	48
6.2.5 Typical start-up project: a value-added distribution centre .....	49
<b>6.3 Aircraft maintenance and repair.....</b>	<b>50</b>
<b>6.4 Advanced training in aviation or in fields related to operations in the Foreign Trade Zone.....</b>	<b>50</b>
<b>6.5 Light manufacturing .....</b>	<b>51</b>

<b>7. OPERATING IN A CUSTOMS FREE ZONE: BACKGROUND AND PROSPECTS .....</b>	<b>55</b>
<b>7.1 Customs free zones: definition and background .....</b>	<b>55</b>
<b>7.2 Foreign Trade Zones in the United States .....</b>	<b>55</b>
<b>7.3 Canadian regulations.....</b>	<b>56</b>
7.3.1 Bonded Warehouse Program.....	56
7.3.2 Duty Relief Program .....	57
7.3.3 Duty Drawback Program.....	58
7.3.4 Exporters of Processing Services Program.....	58
<b>7.4 Difficulties in the management of Canadian programs from the standpoint of operating         in a customs free zone.....</b>	<b>58</b>
<b>7.5 Advantages of operating in a customs free zone .....</b>	<b>59</b>
<b>8. ASSISTANCE MEASURES .....</b>	<b>63</b>
<b>8.1 Five measures.....</b>	<b>63</b>
<b>8.2 Eligibility criteria .....</b>	<b>63</b>
8.2.1 General eligibility criteria .....	63
8.2.2 Specific eligibility criteria .....	64
– International logistics .....	64
– Aircraft maintenance and repair .....	66
– Advanced aviation training .....	66
– Light manufacturing .....	66
<b>8.3 Investment assistance .....</b>	<b>67</b>
– Refundable tax credit for capital goods.....	67
– Assistance for building construction .....	67
<b>8.4 Operating assistance .....</b>	<b>68</b>
<b>8.5 Assistance measure respecting the management of customs programs.....</b>	<b>69</b>
<b>8.6 Employment assistance.....</b>	<b>70</b>
Services offered by Emploi-Québec .....	70
– Selection and training of candidates.....	70
– Worker training .....	70
– Human resources management and planning .....	71
<b>8.7 Assistance in attracting foreign specialists .....</b>	<b>71</b>
<b>8.8 Certification of eligible enterprises .....</b>	<b>71</b>

<b>9</b>	<b>TERRITORY OF THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL .....</b>	<b>75</b>
<b>9.1</b>	<b>Advantages of targeting a specific territory .....</b>	<b>75</b>
<b>9.2</b>	<b>Territory of the Foreign Trade Zone.....</b>	<b>76</b>
<b>10</b>	<b>THE SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE INTERNATIONAL DE MONTRÉAL À MIRABEL .....</b>	<b>81</b>
<b>10.1</b>	<b>Mission and mandates .....</b>	<b>81</b>
10.1.1	Provide a single multiservice outlet.....	81
10.1.2	Promote the Montréal Foreign Trade Zone at Mirabel.....	82
10.1.3	Ensure integrated management of investment proposals and business start-ups.....	83
10.1.4	Submit to the Minister of Finance recommendations concerning the issuing of eligibility certificates .....	83
10.1.5	Distinctive signature .....	83
10.1.6	Advise the Minister of Finance.....	84
<b>10.2</b>	<b>Structure of the development corporation.....</b>	<b>84</b>
10.2.1	Board of directors.....	85
10.2.2	Promotion and canvassing coordinating committee .....	85
10.2.3	Industrial development coordinating committee.....	85
10.2.4	Director general of the corporation .....	86
 <b>APPENDIX</b>		
	<b>SUMMARY OF ASSISTANCE MEASURES AND ELIGIBILITY CRITERIA .....</b>	<b>I</b>

# *Part I*

---

## *Context*

# ***1** Mirabel: Milestones in its history*





# **1. MIRABEL: MILESTONES IN ITS HISTORY**

## **1.1 An airport with a turbulent past**

Mirabel International Airport has had a turbulent past. Designed in the late 1960s as Eastern Canada's airport of the 21st century, it was gradually relegated to serving the Montréal regional and Québec market, and ultimately, in 1997, redirected toward charter flights and air cargo, less essential activities.

Thirty years ago, projections for the use of Dorval Airport indicated that it would be bursting at the seams, and air traffic at what was then Montréal's only international airport would pose major problems from the standpoint of the environment and noise.

Considering the constraints of the urban area around Dorval, and the costs—deemed prohibitive—of expansion of the airport, the federal government decided to go ahead with the construction of a new airport facility to meet the perceived medium-term demand. The growing number of intercontinental flights, particularly between Europe and Canada, and the anticipated advent of supersonic aircraft ensured that the Montréal region would have a leading role as a gateway for international passengers travelling into and out of Canada.

In March of 1969, the federal government officially announced that Sainte-Scholastique had been chosen as the site of the new airport, over Saint-Jean, Drummondville and Vaudreuil. Subsequently, a vast expropriation plan placed under federal control some 97 000 acres of top-grade farm land, i.e. about 30 times the current acreage of Dorval Airport and the equivalent of three quarters of the island of Montréal. The farms and homes of nearly 10 000 people were expropriated, leaving a deep rent in the social fabric of the Basses-Laurentides region that is still apparent today.

Designed to gradually take over a large share of Dorval's flights, the new "Mirabel" airport was, according to the plan, to serve nearly 60 million passengers a year with its infrastructure of six runways and six terminals.

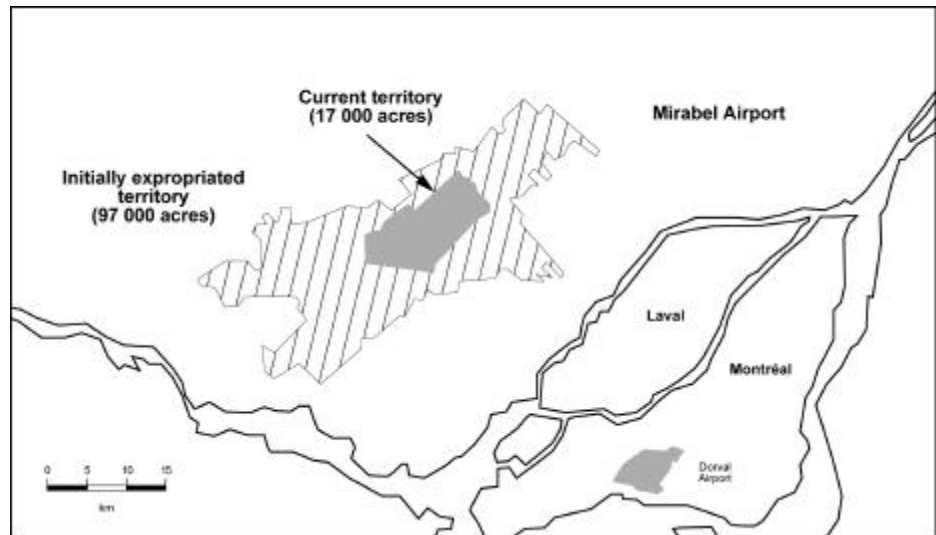
Today, with two runways and one air terminal, Mirabel handles just over a million passengers a year or about one tenth its present capacity. This situation is due to various factors. Firstly, the last 30 years have shown that Dorval Airport is an asset with the potential to handle a

growing number of passengers. Secondly, and probably even more importantly, while Transport Canada initially intended Mirabel to serve as an air traffic hub and gateway for the Northeastern part of the continent, air carriers were granted landing rights in Toronto in the first half of the 1970s. This decision enabled new high capacity transport aircraft to serve Europe directly from Toronto, without having to stop in Montréal.

The history of Mirabel Airport illustrates that, even 20 years ago, it had an acute under-utilization problem, and the many changes in its role did not bring a felicitous solution to this problem.

### **Map 1**

Territory expropriated when Mirabel Airport was established



## **1.2 The transfer of flights to Dorval in 1997 and its impact**

The curtain went up on the last act in the Mirabel drama in September 1997 when Aéroports de Montréal (ADM), the manager of both Dorval and Mirabel airports since July 1992, opened Dorval Airport to airline companies that wished to land their regular international passenger flights at that facility. The purpose of the transfer was to strengthen Montréal's competitive position vis-à-vis competing cities, particularly Toronto, by taking advantage of Dorval's assets for passenger transportation, namely, the proximity of the urban environment and a capacity well below the saturation point.

Mirabel then saw itself confined to charter flights and all freight flights, losing, in the wake of this decision, nearly 60% of its passenger traffic. And since air transportation realities mean that nearly three fourths of air freight flies in the hold of passenger planes, Mirabel has also lost about half its volume of freight.

No need to point out that such a change in the pace of activity has had repercussions on the level of employment and the number of businesses on the Mirabel site. A study conducted by Municonsult and commissioned by ADM<sup>1</sup> estimated that some 1 750 jobs have been lost at Mirabel Airport, roughly two thirds of which were transferred to Dorval. The other third appears to have been eliminated, but it is estimated that an equal number of jobs were created elsewhere in the metropolitan area. Although throughout the metropolitan area, the levels of airport-related activity and of jobs were little affected, it is still true that the immediate area around Mirabel sustained a loss of some 2 000 jobs, taking into consideration indirect economic impact. This was a substantial shock for an RCM that has only about 12 000 jobs.

### **1.3 The Tardif Commission on the development of the Mirabel area**

Having no decision-making authority over the future of Montréal's airports, the Québec government could only indicate, following the ADM's decision, that it was concerned by the economic and social consequences of this decision.<sup>2</sup>

After a one-year period during which stakeholders in the Mirabel area tried in vain to having the ADM's decision invalidated by the courts, the Québec government decided to create the Tardif Commission on the development of the Mirabel area, chaired by Mr. Guy Tardif, former Québec Minister of Transport.

The Commission was given the mandate to:

- (1) prepare an action plan to preserve Mirabel and maximize its economic spin-off in Québec;
- (2) to propose concrete measures to be implemented by all the socioeconomic and government partners concerned.

---

<sup>1</sup> Aéroports de Montréal, *Étude des impacts suite à la libéralisation de l'activité aérienne à Montréal – Impacts économiques*, Municonsult, May 1998.

<sup>2</sup> Press release issued by Jacques Brassard, Minister of Transport, May 1996.

In June 1998, the Commission tabled a report containing a proposed action plan.

The Commission's recommendations were based on a number of key observations:

- (1) Montréal does not need two international passenger airports. Dorval will be the gateway for regular flights;
- (2) Dorval will be sufficient to meet demand in the years to come. It is unlikely that passenger-related activities will resume at Mirabel in the foreseeable future;
- (3) Mirabel is, however, still a top-notch asset that must be preserved and used;
- (4) The future of Mirabel depends on continental and international positioning, not only on Montréal's and Québec's needs.

Attention focused on one particular aspect of the Commission's recommendations, namely the creation of a special exemption zone in Mirabel that would entail a number of benefits, especially tax benefits, for businesses that located there. The report also proposed the creation of a corporation to manage the development of this zone.

Having studied the Commission's conclusions, the Québec government indicated, in November 1998, that it was, in principle, in favour of the establishment of a special exemption zone at Mirabel and the creation of a corporation to manage it.

The government also indicated at that time that the terms for the implementation of these policy directions would be announced in the 1999-2000 Budget Speech.

This paper introduces and explains the action plan.

# **2** *Mirabel: Strategic infrastructure for Montréal*



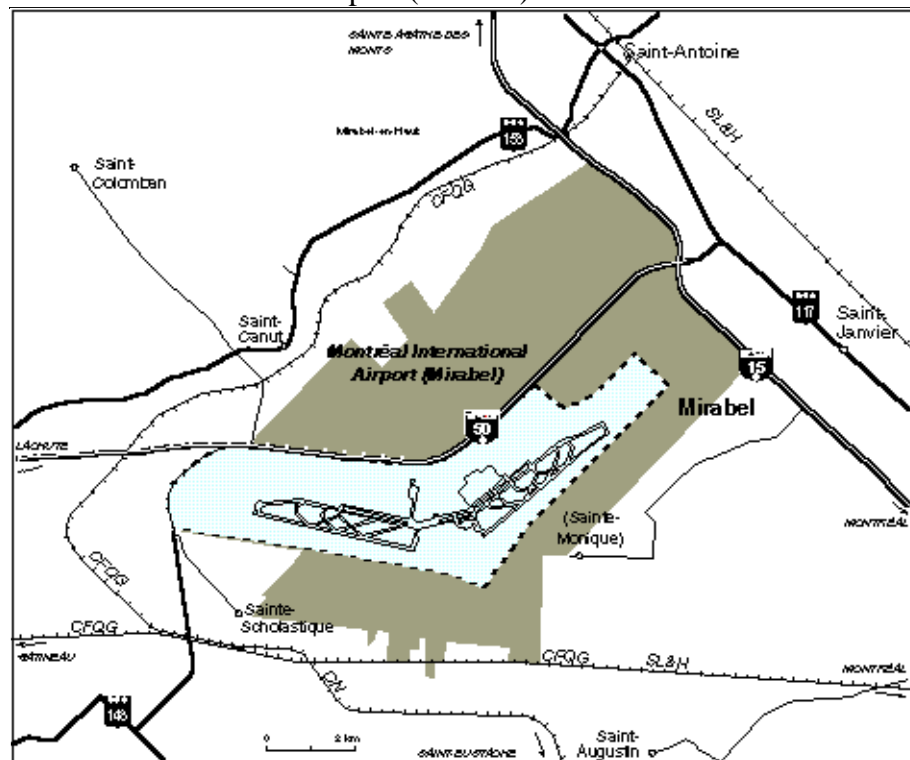
## 2. MIRABEL: STRATEGIC INFRASTRUCTURE FOR MONTRÉAL

Mirabel Airport's facilities are an important strategic asset for the Greater Montréal area. This airport possesses the full range of equipment and can offer all the services of an international airport from the standpoint of passenger and freight handling and aircraft maintenance. Indeed, it is deemed to be one of the finest airports in the world.

The cost of using the airport is highly advantageous, especially for air freight. Extensive commercial and industrial lots with services are available on the airport site. Mirabel Airport possesses significant competitive advantages in relation to its main North American rivals. However, despite its advantages, Mirabel Airport's facilities are clearly under-utilized and it is the entire Greater Montréal area that is penalized accordingly.

### Map 2

Montréal International Airport (Mirabel)



## 2.1 Top-notch airport infrastructure

Mirabel Airport's infrastructure is modern and functional, meets the most stringent criteria of the International Civil Aviation Organization, and is comparable with infrastructure at the leading international airports. First, it has two 3 700-m interconnected runways, each one capable of handling up to 77 aircraft movements an hour and accommodating a fully-loaded Boeing 747, the biggest commercial aircraft. The de-icing centre is centralized and can simultaneously handle two big commercial aircraft. The airport's computerized aircraft navigation and landing control and assistance systems are among the most sophisticated in the world. A complete meteorological information system is available 24 hours a day.

Mirabel Airport is especially well equipped to handle freight. First, it has a unique system of mechanized loading bridges adaptable to all types of cargo aircraft and which make it possible to transport goods deposited on pallets directly from the aircraft to the warehouse. It also has a brand new perishable food handling and storage centre equipped with a 1 400-m<sup>2</sup> (15 000-square-foot) cold-storage warehouse, where food products can be stored in a temperature-controlled environment. The centre has an interior transfer dock that allows for the handling and unloading of goods inside the building, safe from rain, snow, cold, sunlight and heat.

This feature is particularly useful for perishable foods, but also for fragile, vulnerable products, such as electronic components, that must be protected from extreme climatic conditions. Open around the clock, the centre offers its customers a personalized, professional distribution and storage service, and allied value-added services. This new facility gives Mirabel a competitive advantage for the handling of perishable goods.

Moreover, a quarantine warehouse, in which certain goods from foreign markets can be isolated, is also available on the site. Mirabel Airport can handle a broad range of food products, plants and animals whose entry into Canada requires such a facility.

In addition, seven express courier and parcel delivery firms (messenger services and integrators) have chosen Mirabel as a site for their operations. Their presence provides enterprises located near the airport needing to quickly ship goods to foreign markets with considerable flexibility and an important advantage.



Mirabel Airport offers the entire range of support services found in an airport of international calibre, such as Canada Customs services 24 hours a day, a fire station and emergency centre, and an aircraft maintenance complex.

## **2.2 Clearly underutilized facilities**

Mirabel Airport's infrastructure is clearly underutilized. Roughly 1.2 million passengers a year use the airport.

To further illustrate the airport's underutilization, 72 000 metric tons of freight are handled there, set against its current capacity of up to 400 000 metric tons (utilization factor of 18%).

Mirabel has a very high expansion potential, without major additional investment.

## **2.3 Operating conditions that are especially advantageous for air freight**

The operating conditions at Mirabel Airport are among the most advantageous in North America. They are especially favourable for all-cargo flights, which, among other things, demand considerable flexibility from the standpoint of aircraft schedules. For logistical reasons, it is often preferable for enterprises to carry out their flights at off-peak hours.

Unlike Dorval or Toronto, Mirabel is not subject to restrictions on operating hours. It is open 24 hours a day, seven days a week and usually operates in even the most difficult weather conditions.

Furthermore, Mirabel is not congested, so that cargo shippers can obtain operating ranges suited to their operations, which is much less the case in major airports in the Northeastern and Midwestern United States, e.g. New York (La Guardia, JFK or Newark), Chicago, Detroit or Washington. The existing facilities at Mirabel Airport can accommodate much heavier traffic than is now the case.

The absence of congestion, an important advantage for Mirabel, makes it possible to considerably reduce the time that aircraft spend on the ground and the time required to transship cargo. Generally, cargo can be transferred to trucks a few hours after aircraft have landed while, in most competing airports, it may take more than a day for goods to leave the site.

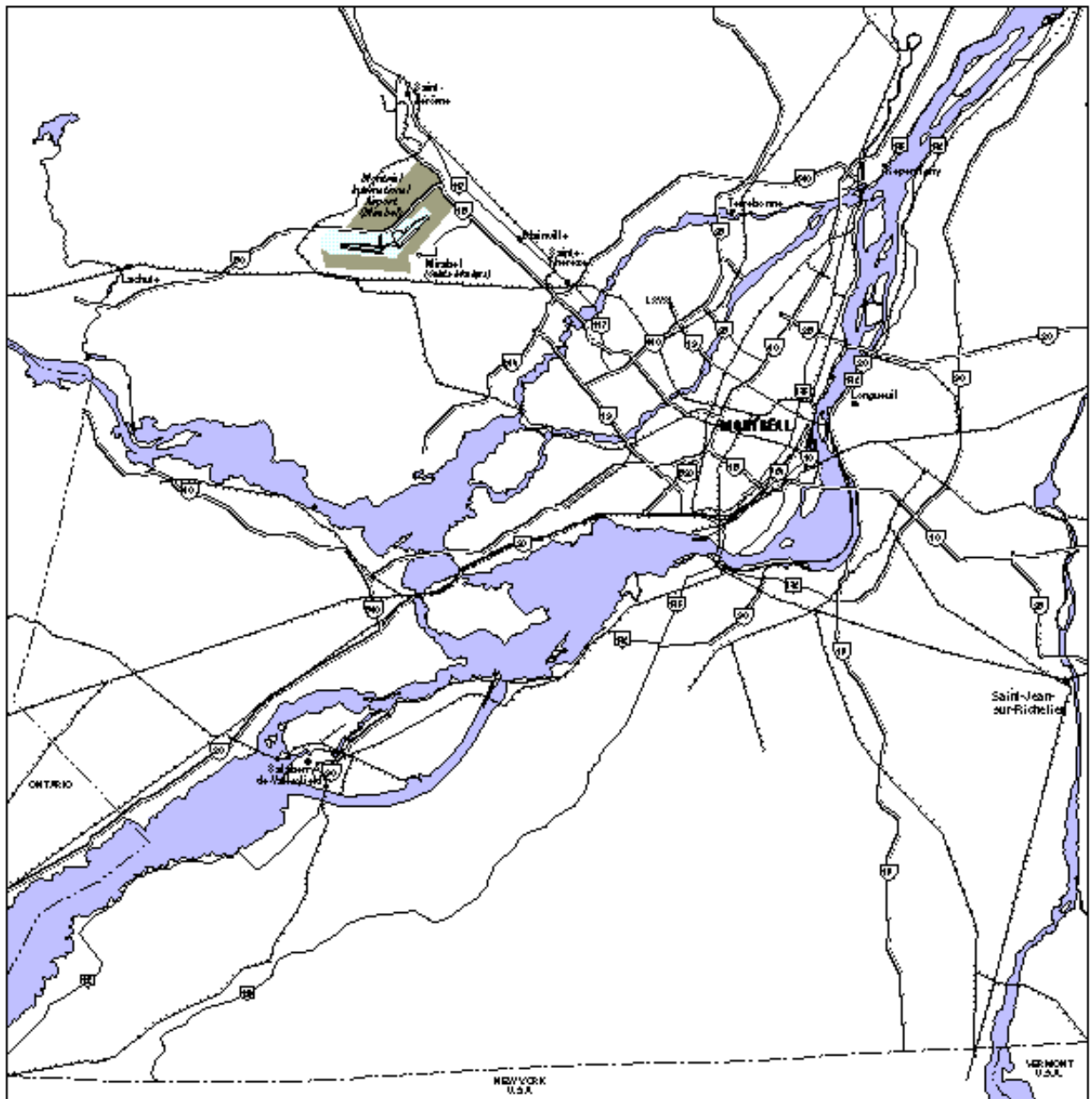
Mirabel Airport is strategically located near a major autoroute, well integrated into the autoroute network in the Greater Montréal area, which is hardly congested. From Mirabel Airport, it is possible to reach by truck the major centres in Ontario and the Northeastern and Midwestern United States in less than 12 hours. Rail lines operated by Canada's two leading railway companies run near the airport and are thoroughly integrated into the North American rail network.

Thus, for example, it is generally quicker to ship goods from Europe to downtown New York and Boston by having them transit through Mirabel than sending them to local airports in either city. Congestion at these airports means that it takes 24 to 36 hours to clear customs there, while from Montréal, the trip by truck takes less than eight hours to New York and seven hours to Boston, including customs clearance at the US border.

Operating costs at Mirabel are highly competitive, especially for all-cargo aircraft, which, under certain conditions, may benefit from reductions in landing fees of up to 80%.

### Map 3

Montréal International Airport (Mirabel) is well integrated into the transportation network in the Greater Montréal area and located near Ontario and the United States



## **2.4 Extensive commercial and industrial lots available**

Unlike most competing airports, Mirabel has a number of lots with services and that are available in the immediate vicinity of the airport, even within the operating zone. Space is also available near public roads outside the airport safety perimeter, for commercial or industrial purposes.

# *3 Successful foreign experiences*



### **3. SUCCESSFUL FOREIGN EXPERIENCES**

Mirabel Airport is not the first such facility to experience difficulties that made it necessary to reposition airport-related assets. Modern airports have traditionally been designed to handle passenger traffic and have gradually accommodated other operations previously considered minor. Indeed, such ancillary operations have come to play a leading role in the development of certain airports, whose original mission was insufficient to ensure their survival.

Three experiences are particularly noteworthy from the standpoint of repositioning Mirabel Airport: Shannon, Ireland; Liège, Belgium; and Dallas-Fort Worth, Texas. The Foreign Trade Zone in Plattsburgh also warrants examination in that it provides valuable information on the importance of a foreign trade zone for Montréal.

#### **3.1 Shannon Free Zone**

In 1945, 80% of North Atlantic air traffic transited through Shannon Airport in Ireland. Shannon was the closest European site to the North American continent and, for this reason, was a compulsory stop for most aircraft at the time crossing the Atlantic, given their limited range.

In 1947, Shannon Airport opened the first duty free shop to growing numbers of visitors in order to maximize the economic spinoff such visitors engendered. The first customs free zone in an airport was born.

This good fortune proved rather ephemeral since the advent of jet aircraft in the late 1950s saw Shannon lose a lot of its traffic. Longer flight ranges meant that it was then not necessary to land in Ireland before flying to the continent or crossing the Atlantic. This situation is similar to the one that prevailed in Mirabel in the early 1970s when the arrival of long-range jets meant non-stop flights between Toronto and Europe.

In 1959, the Irish government established the Shannon Free Airport Development Company (Shannon Development), whose mandate called for it to pinpoint new sources of air traffic and activity at Shannon Airport, from the standpoint of a customs free zone concept favourable to international trade.

Over time, the Irish government introduced a series of mainly fiscal incentives aimed at encouraging enterprises to set up operations in Shannon and take advantage of its infrastructure. Today, the Shannon Free Zone located near the airport encompasses nearly 120 enterprises employing 6 500 people. This is a significant number of jobs in a area that has fewer than 400 000 inhabitants. These jobs are found in such diverse economic sectors as aircraft maintenance, manufacturing that relies on components from around the world of portable computers intended for the European school market, and back-office management centres for E-commerce.

The Shannon Free Zone owes part of its success to the management of the zone by an active, solidly rooted development corporation working in close collaboration with Aer Rianta, the body responsible for managing the airport. Shannon Development is a public development corporation whose shareholder is the Irish Minister of Finance. This commercial corporation:

- (1) publicizes its guiding concept on international markets;
- (2) displays a spirit of initiative, an ability and a willingness to take calculated business risks, especially in the construction of facilities for potential investors;
- (3) disposes of sufficient funds to support its projects;
- (4) is concerned with the public good and aware of its economic development mandate;
- (5) seeks to represent the community but enjoys considerable management autonomy;
- (6) strives to self-finance its operating expenses.

The corporation's mandate calls for it to submit to government authorities recommendations on the issuing of certificates authorizing a business to establish itself in the zone or a specific project.

### **3.2 Liège, Belgium**

Until recently, the Liège-Bierset Airport was a military facility, a link in the NATO defence chain that accommodated F-16 aircraft. The fall of the Berlin Wall altered the geopolitical order to such an extent that in the early 1990s, military operations were considerably reduced in Bierset and the airport was turned over to local government authorities, who in turn decided to use the infrastructure to revitalize the local economy and combat excessive unemployment in an aging industrial base, largely attributable to the former importance of the steel industry.



Liège's geographic position dictated the type of positioning to be emphasized in order to develop the airport. Since the airport is located at the heart of what is dubbed the golden triangle, i.e. Amsterdam/Paris/Frankfurt, through which 66% of European air freight passes, what could be more natural than to target air freight and, more broadly speaking, logistics and freight transportation. For this reason, the airport decided to give priority to all-freight air operators.

Over the past two years, two major air freight operators have set up operations in Liège. A small parcel express delivery firm, an integrator, moved from Cologne, Germany, to Liège its main European operations centre. In Liège, it uses an airport that is hardly congested, open 24 hours a day and offers on the site all of the space needed for its future expansion. The company now has some 750 employees on the site and handles up to 50 000 parcels an hour.

A company specializing in the air shipment of perishable goods, such as fruit and flowers, from the Middle East to Europe, has set up operations at the airport and made Liège its European operating and distribution centre.

SAB, the government corporation that manages Liège Airport, has also decided to take advantage of the transportation infrastructure near the site to encourage the establishment of businesses in the logistics sector. To this end, it has built a multimodal train/truck platform in the centre of the zone, which it calls Liège Logistics. Located at a road intersection offering direct access to France, Germany and Northern Europe, Liège Logistics is a zone dedicated to enterprises wishing to use combined rail/road and road/air transportation. A connection is also planned with the Meuse River, which offers a direct link to major North Atlantic ports in Rotterdam and Antwerp. Liège Logistics can claim to have direct access to the four major modes of transportation. Under the circumstances, SAB has targeted the value-added distribution centres of international firms, which, by setting up operations in Liège, could serve a large portion of Western Europe.

At the same time as it is engaging in logistic positioning, SAB has encouraged the establishment on the site of FOREM, a public agency whose mandates to provide manpower assistance are similar to those of Emploi-Québec. In an innovative move, the establishment of a FOREM office on the site has made it possible, in particular, to offer companies in the start-up phase an array of services ranging from the pre-selection of staff to the elaboration of a training plan. FOREM has also installed at the airport a specialized training centre in logistics aimed at providing training and skills upgrading to employees in this industry.

### **3.3 The Alliance project in Dallas-Fort Worth**

Some 13 000 employees spread over a site totalling 9 400 acres, which, barely 10 years ago, was pastureland northwest of Dallas-Fort Worth, can attest to what an environment in which the main modes of transportation are found, including an airport, can offer from the standpoint of economic development potential.

The Alliance airport project, a subsidiary of Ross Perot's Hillwood Development Corporation, was conceived in early 1988 as an industrial airport where the transportation of goods was given priority. Based on the concept of the Foreign Trade Zone and the close proximity of roads and rail services, Alliance's developers presented their project as an inland port and a hub of international trade.

Over US\$4 billion (or just under C\$6 billion at the current exchange rate) has been invested on the Alliance site since 1988, primarily by Hillwood and by firms established on the site. More than 13 million square feet of warehouses, plants and, to a lesser extent, office space have been built. Hillwood owns roughly half of the space and—this is has been the key to its success until now—builds roughly 1 million square feet a year, which it then leases or sells to the businesses it wishes to attract to the site.

Alliance has succeeded in attracting to Dallas-Fort Worth international enterprises that have made the site their logistic and distribution centre for the United States. Integrators, air freight carriers and aircraft maintenance firms have set up operations there, along with manufacturing concerns that assemble products and engage in light manufacturing, using components obtained the world over and whose finished products are distributed in vast markets.

### **3.4 The Plattsburgh Foreign Trade Zone**

The Plattsburgh region in New York State benefits from the presence of a Foreign Trade Zone (FTZ), which gives the area an edge as an international trading area. Whether in relation to distribution centres or manufacturing centres, in its promotional documents, the Plattsburgh FTZ emphasizes the advantages of Montréal's transportation infrastructure, in particular its international airports.

Through its Foreign Trade Zone, Plattsburgh is competing directly with Montréal, while relying significantly on some of Montréal's key advantages. It is time for Montréal to assume its rightful place as an international trade centre.

# **4** *Assets to be developed in Montréal*



## **4. ASSETS TO BE DEVELOPED IN MONTRÉAL**

### **4.1 Montréal, a hub of intercontinental trade**

Considering its strategic geographic position in North America, Montréal has always been active in intercontinental trade in goods and now possesses outstanding expertise in this sector.

From the time of the fur trade, Montréal, an inland seaport, has served as a gateway between the heart of the North American continent and Europe. During the 19th century, international trade in Montréal developed and diversified, mainly as a result of trade with the British. At present, international trade is conducted primarily with the United States, but the Greater Montréal area continues to be a leading gateway to North America for Europe.

Montréal has all of the expertise required to efficiently organize the shipment and distribution of goods on a broad scale. Numerous specialized firms are found there, such as:

- customs brokers;
- expert advisors in financing and insurance;
- trading houses;
- forwarding agents;
- suppliers of specialized logistic services.

This expertise is a special asset on which the Québec government can further rely to take advantage of the expansion of international trade and thus foster Québec's economic development.

Furthermore, Montréal benefits from ready access to the four major modes of transportation, with modern infrastructure and an efficient transportation system. Mirabel is one of the key components of this infrastructure network. It is important to take advantage of the synergy between the airport, the port and the road and rail networks to spur economic development in the Greater Montréal area.

#### ***The Port of Montréal***

The Port of Montréal ranks first in Canada and on the Atlantic seaboard with respect to the transportation of containers between Europe and North America, ahead of the port of New York. Over 20 million tonnes of goods pass through the Port of Montréal every year, 8 million tonnes of which are shipped in containers.

Montréal accounts for some 40% of North Atlantic container traffic destined for Canada and the Northeastern and Midwestern United States, compared with less than 30% for its main competitor, New York. More important still, 55% of the containers that enter the Port of Montréal are destined for the American market. Montréal is already a hub for container traffic between Europe and the United States.

### ***Rail transportation***

The rail network of the two main companies operating in Québec, Canadian National (CN) and St-Laurent & Hudson (StL&H), a new subsidiary of Canadian Pacific (CP) for Eastern Canada, is highly developed and fully integrated into American rail networks. In particular, it includes a series of 36 specialized intermodal terminals. Compared with rail traffic in the other regions of Canada, such traffic in Québec is the most extensively oriented toward the United States: 48% of the goods from Québec are shipped to the US, as against 37% for Ontario.

### ***Road transportation***

A vast, integrated network of autoroutes allows for the rapid transportation of goods by truck. In the Montréal area alone, over 25 000 trucks are used for commercial purposes.

Montréal is located less than 75 km from the US border and it is primarily through its road network that Québec exports its products south of the border. In 1997, nearly 60% of Québec's international exports, worth just over \$30 billion, were shipped by road.

### ***Air transportation***

Montréal has two international airports, Dorval and Mirabel, and an important regional airport in Saint-Hubert.

As we noted in Chapter 2, Mirabel Airport's infrastructure is of international calibre, making it a major asset for the Montréal area.

Dorval and Mirabel airports handle some 9 million passengers and over 200 000 metric tons of air freight a year. By value, exports shipped by air, worth nearly \$6 billion in 1997, account for just over 10% of Québec's international exports.

Montréal offers air services that assure express delivery to the major cities of all of the continents.

## 4.2 The proximity of major North American markets

Given its geographic location, Montréal enjoys an important natural advantage since it is located close to major North American markets.

Through the major road networks, a distributor operating in Montréal can reach in under 12 hours several key North American markets (100 million consumers), e.g. in Boston, New York, Philadelphia, Washington, Pittsburgh, Toronto, Detroit and Chicago.

By rail, a Montréal-based distributor can reach Chicago faster than a competitor operating in New York, because the distance is 120 km less and the port is more efficient.

By air, the entire continent and some 400 million consumers can be reached in a few hours.



### **4.3 The availability of qualified workers**

With a labour force numbering over 1.8 million, the Greater Montréal area has a significant pool of workers whose highly varied traits satisfy all of the needs of business.

Over half of the working population in the Montréal area has postsecondary training and over 20%, university training.

Approximately 50% of Montrealers are bilingual, i.e. they speak French and English, and nearly 15% are trilingual. Moreover, nearly 25% of area residents speak a language other than French and English.

The Greater Montréal area has four universities, two of them French-language and two English-language institutions. Montréal area universities account for 25% of the master's and doctoral degrees granted each year in Canada.

Greater Montréal also has 28 collèges d'enseignement général et professionnel (Cegeps). Some 90 000 students are enrolled in the institutions, 43% of them in technical programs.

Industry, too, benefits from a highly developed training network. This is true, for example, of the aerospace sector, in which institutions train specialized workers, aeronautical technicians, engineers and managers.

Montréal is also noteworthy for low worker turnover rates and the quality of labour relations.

### **4.4 High technology sectors of excellence**

Montréal is at the forefront of technological development. Businesses that set up operations there benefit from an environment that is especially suited to the use of cutting-edge technologies and R&D and, consequently, to their development.

According to a Price Waterhouse study,<sup>1</sup> Montréal has the highest per capita concentration of high technology jobs of any major North American city. It is also one of 10 major North American cities with the most big companies operating in the leading-edge sectors. Over 25% of R&D spending in Canada is carried out in Montréal.

---

<sup>1</sup> Price Waterhouse, *Le positionnement de Montréal en Amérique du Nord dans les secteurs de pointe*, October 1995.



Among the excellence niches found in Montréal, mention should be made of the aerospace, pharmaceutical, biotechnology and information technologies sectors, all of them fields that rely extensively on cutting-edge technology.



# ***Part II***

---

## ***Action Plan***

# **5** *Guidelines to avoid competing with Montréal*



## **5. GUIDELINES TO AVOID COMPETING WITH MONTRÉAL**

### **5.1 Creation of the Montréal Foreign Trade Zone at Mirabel**

The Québec government will create the Montréal Foreign Trade Zone at Mirabel. New enterprises locating there and existing enterprises whose expansion projects satisfy the eligibility criteria will have at their disposal an array of assistance measures.<sup>1</sup>

This program includes measures to:

- facilitate the enterprises' establishment on the site;
- reduce their operating costs in the Foreign Trade Zone;
- help them operate in a customs free zone;
- train and recruit the workers they need;
- attract foreign specialists.

Moreover, the government will establish the Société de développement de la Zone de commerce international de Montréal à Mirabel. The development corporation will promote cooperation and collaboration between local partners, representatives of the Montréal area, and government investment canvassing organizations.

Under its mandate, the development corporation will:

- act as a multiservice outlet for enterprises on the site;
- help promote the Foreign Trade Zone;
- submit recommendations to the Minister of Finance concerning the eligibility of projects for assistance measures.

The board of directors of the development corporation will be made up of the main economic development agents in the Mirabel and Greater Montréal areas and Québec as a whole.

---

<sup>1</sup> The information presented in this chapter and the rest of the document is not a legal interpretation and does not replace the Additional Information on the Budgetary Measures presented in the 1999-2000 Budget.

## 5.2 Guidelines for the action plan

This action plan has been elaborated with the two concerns of ensuring that:

- operations allowed in the Foreign Trade Zone do not lead to the displacement of activities already carried out elsewhere in Québec;
- new facilities in Mirabel do not compete unduly with enterprises that are already engaging in the same operations in Québec and, more specifically, in Montréal.

The displacement of activities and undue competition would constitute a lack of fairness toward the Greater Montréal area. Moreover:

- it would lead to the displacement of jobs without any net gain, either for the Greater Montréal area or Québec as a whole;
- the government would have to support the financial cost of the measures introduced to foster the development of Mirabel Airport's potential, without a net benefit for the Québec economy.

The proposed action plan for Mirabel includes four main guidelines that specify the method of application to ensure that these deleterious effects, in particular from an economic standpoint, do not occur. Specifically, the action plan will include:

- restrictions on the eligible operations;
- clear criteria concerning the nature of the projects accepted;
- stringent supervision of the process of approving projects;
- representation from the Greater Montréal area on the board of directors of the development corporation responsible for coordinating development initiatives in the Foreign Trade Zone.

### 5.2.1 *Eligible operations*

The eligible operations include, first of all, three sectors specifically related to the field of transportation and aviation:

- international logistics, which encompasses, in particular, continental distribution centres;
- aircraft, navigational equipment and ground service equipment maintenance and repair services;
- advanced aviation training.

Manufacturing operations will also be eligible provided that they contribute to the development of installations specifically dedicated to airport-related activities and contribute to Québec's economic development.

In the logistics sector, in particular:

- the local market, i.e. Québec, must not be the source or final destination of more than 20% of the value of goods, by category of goods handled, except in the case of goods that are not already distributed by enterprises already operating in Québec;
- the transportation operations of firms offering air, trucking or rail services will be specifically excluded.

### **5.2.2 *General eligibility criteria***

To be eligible, the projects must satisfy a number of general criteria:

- The enterprise must undertake, in its business plan, not to shift to the Foreign Trade Zone operations that it is already carrying on elsewhere in Québec.
- The expansion project of an enterprise already operating in the Foreign Trade Zone on the day of the 1999-2000 Budget will only be eligible when it is shown that the project largely exceeds the specific case of an expansion due to a slight increase in demand in the normal course of the enterprise's current operations. Moreover, the enterprise must undertake not to transfer its current operations there.
- The enterprise must keep a separate set of books in respect of its operations carried on in the Foreign Trade Zone, to allow for the monitoring of such operations.
- Any niches must be complementary with those of other enterprises in the same sector already operating in Québec, either because they are primarily aimed at new markets or because they cover niches that are not sufficiently represented by enterprises already active in Québec.
- The operations in question must be new, including those of expansion projects pertaining to existing operations, i.e. they must not have been carried out prior to the day of the 1999-2000 Budget.



### ***5.2.3 Issuing by the Minister of Finance of a certificate of eligibility***

In order to ensure that the projects submitted comply with the eligibility criteria, enterprises wishing to set up operations in the Montréal Foreign Trade Zone at Mirabel must first obtain from the Minister of Finance a certificate of eligibility. Generally speaking, the enterprises must submit a business plan to the development corporation containing all information relevant to an analysis of the project.

The Minister may also revoke the certificate of eligibility if, during the course of its operations, the enterprise fails to comply with the criteria in respect of which an eligibility certificate was granted.

### ***5.2.4 Representation on the board of directors***

The composition of the board of directors will reflect the key economic development stakeholders in the Mirabel and Greater Montréal areas and Québec as a whole. To this end, consultations will be conducted with the following organizations: Aéroports de Montréal (ADM), the Centre local de développement (CLD) de Mirabel, Investissement-Québec, Montréal International, the Société générale de financement (SGF), and the Montréal and international business communities.

## **5.3 A successful approach in the case of the Cité du multimédia, the CDTIs and the CFIs**

The action plan for the development of the Foreign Trade Zone is in keeping with a development scheme that is currently enjoying a great deal of success with the Cité du multimédia, the Centres financiers internationaux (CFIs) and the Centres de développement des technologies de l'information (CDTIs). Montréal, in particular, is largely benefiting from this formula, under which it is possible to group together, through specific measures, investors in a designated place. Such groupings make it possible to generate a critical mass of activities, which, in turn, attract other investors.

For example, in the case of the CDTIs, since their inception in the March 25, 1997 Budget, nearly 250 Québec and foreign enterprises have already carried out a project or expressed an interest in doing so in one of the five designated CDTIs in Montréal, Québec, Hull, Laval and Sherbrooke. Over the next three years, accredited enterprises will create thousands of jobs, intended mainly for Québec young people.

The CFI program has also enjoyed considerable success. The number of CFIs in Montréal has increased by half over the past year, i.e. since the implementation of the action plan to foster the development of the financial sector in the 1998-1999 Budget. More than 20 new CFIs have set up operations in Montréal over the past year.



# 6 *Targeted sectors*



## **6. TARGETED SECTORS**

### **6.1 Four major development sectors**

In order to develop, Mirabel must specialize in continental or international niches for which its comparative advantages confer on it an excellent chance for success.

ADM's development plan for Mirabel focuses on three main sectors:

- a vacation airport specializing in charter flights that seeks to capitalize on the development of tourism, especially European;
- an all-cargo hub that takes advantage of anticipated growth in express transatlantic traffic and develops the all-freight and transfer of perishable goods niches;
- the development of airport-related operations through the realization of projects that rely on Mirabel's vocation and capacity, in particular through the establishment of a first active customs free logistics zone in an airport in Eastern Canada.

The Québec government has no intention of supplanting ADM to manage and develop Mirabel Airport. Instead, it wishes to support the development of activities that take advantage of the infrastructure available and the Greater Montréal area's competitive advantages.

The action plan focuses on the development of four major sectors:

- international logistics and continental distribution centres;
- aircraft, navigational equipment and ground service equipment maintenance and repair services;
- advanced training in aviation or fields related to the operations conducted in the Foreign Trade Zone;
- light manufacturing, when the projects develop airport-related facilities and contribute to Québec's economic development.

## **6.2 International logistics**

### ***6.2.1 Definition of logistics***

Broadly speaking, logistics encompasses all of the services and efficient management and control processes governing the movement of goods (supply and distribution).

In addition to the transportation and storage of goods, logistics may include various value-added services pertaining to the distribution of goods, in particular:

- the management of orders and inventory;
- invoicing;
- the splitting and regrouping of lots for transportation;
- light assembly;
- labelling;
- display packaging for sale.

These services may be offered by an enterprise operating on its own behalf or on behalf of a third party.

### ***6.2.2 The industry and trends therein***

The logistics sector expanded rapidly during the 1980s as a result of three major developments: (1) the globalization of the economy and the reorganization of business operations in an international perspective; (2) the growing trend for enterprises to concentrate on several spheres of excellence and to outsource ancillary operations; and (3) the deregulation of transportation.

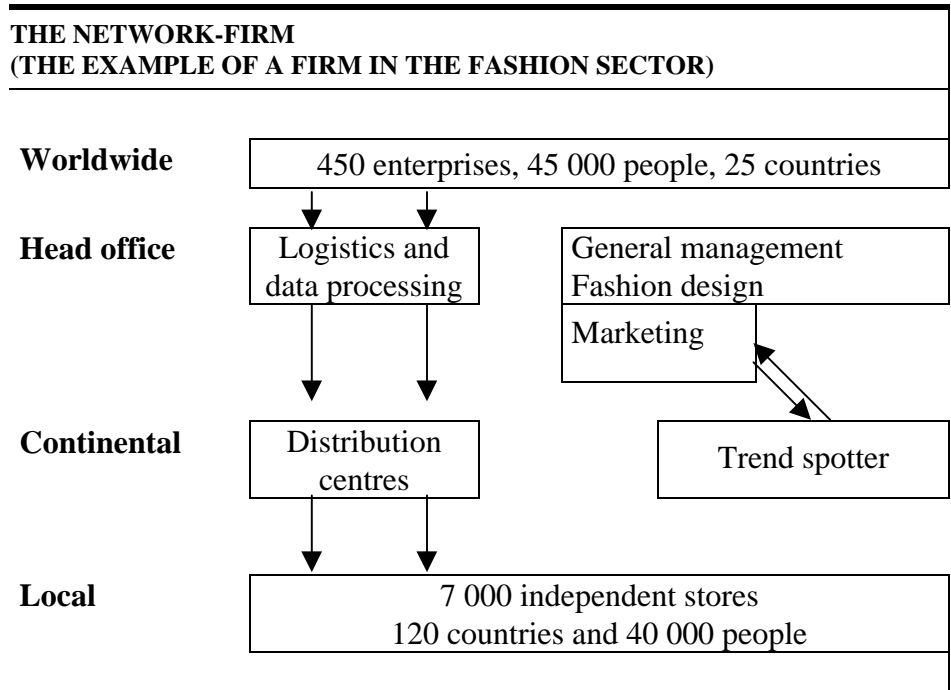
#### ***The reorganization of businesses in an international perspective***

Markets now span the planet, especially in the wake of the extension of freer international trade. At the same time, the two leading Western markets, Europe and North America, have stepped up their commercial unification.

The globalization of the economy has been largely spurred by the spectacular development of the new communications and information technologies. It has led to the reorganization of business operations.

Production is now envisaged on a planetary scale. It is carried on in several countries where production costs are the most advantageous. These changes have encouraged businesses to review their transportation needs and, more importantly, to develop tools that increase the efficiency of operation of the entire supply chain.

A typical enterprise in the global economy is a network-firm as the following diagram illustrates in respect of a company in the fashion industry. This example reveals the extent of globalization of production and consumption and the role played by continental distribution centres, whose logistic role is coordinated at the head office. The network-firm's production and sales jobs are thus highly scattered in several countries. This organization poses enormous problems with respect to distribution, which must be organized on a continental basis.





It is here that logistics comes to the fore. Its primary role is to ensure the comprehensive or partial management of the supply chain, from the initial order and delivery of raw materials to the distribution of finished products at their points of consumption.

### ***Outsourcing of logistics operations***

In order to be competitive, companies today must engage in the integrated management of various components of the supply and distribution chain. Such management can be conducted in-house, i.e. within the enterprise. However, to take advantage of specific expertise, enhance the quality of customer service, achieve economies of scale, and refocus their efforts on their core business, many enterprises are subcontracting all or part of their supply and distribution operations. Such subcontractors can be major international distribution centres or other suppliers of logistics services.

This situation has encouraged the emergence of enterprises specialized in this sector, a number of them in the transportation industry. Third party logistics providers (TPLs) play a key role in that they strongly influence the location of distribution centres.

Logistics is a field whose development potential is still largely untapped, especially in North America. According to a study conducted by Mercer,<sup>1</sup> growth among third party logistics providers should reach 23% annually in North America over the next three years, almost double the anticipate average annual growth rate in Europe. Some 69% of North America's 500 biggest manufacturers outsourced part of their logistics operations in 1998. This fraction represents, on average, 22% of their total logistics budget. This proportion is expected to reach 30% within three years.

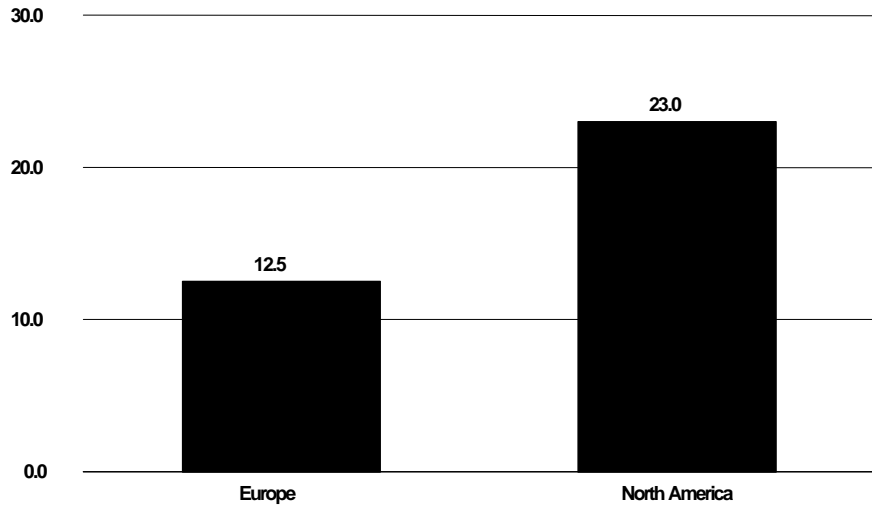
---

<sup>1</sup> Mercer Management Consulting, October 1998.

GRAPH 1

**GROWTH PROSPECTS AMONG THE SUPPLIERS OF LOGISTICS SERVICES OVER THE NEXT THREE YEARS**

(average annual growth rate)



Source: Mercer Management Consulting, October 1998.

According to a survey conducted by KPMG,<sup>2</sup> focusing on 500 enterprises in the key industrial sectors in 25 countries, 41% of enterprises resort to the suppliers of logistic services pertaining to transportation, 20% in the case of information technologies, and 17% in the case of warehousing.

***Impact on logistics***

These changes have engendered a sweeping review of distribution centre location strategies. Enterprises have concentrated distribution operations. The trend that seems to be gaining momentum, at least in those sectors where logistics is growing rapidly, is to establish one distribution centre per continent.

This trend is bolstered by the unification of continental markets that has occurred over the past 10 years. The establishment of a single European market and the North American Free Trade Agreement have encouraged the development of big regional markets and set the stage for the reorganization of distribution networks.

<sup>2</sup> KPMG Management Consulting, *Global Supply Chain Survey*, 1997.

### **6.2.3    *The example of the Netherlands***

Europe offers a vivid illustration of this change. The establishment of a single market has spurred European enterprises to structure themselves from a continental perspective. Similarly, foreign enterprises have had to rethink their distribution networks in light of this new economic space.

Several countries have adopted tailor-made support strategies in respect of this sector, usually by means of the taxation system.

In Europe, the Netherlands is the country that has succeeded best, having become one of the key hubs for European distribution centres over the past decade. To this end, it has relied on its strategic geographic position, the proximity of a market of 170 million consumers, access to the four main modes of transportation, and the assistance and promotion strategies formulated by the Holland International Distribution Council, set up in 1987, and the Netherlands Foreign Investment Agency.

While its economy accounts for only 5% of the economy of the European Union, over half of the distribution centres established in Europe between 1990 and 1997 were set up in the Netherlands. In 1997, 57% of the 611 American distribution centres and 56% of the 344 Asian distribution centres in Europe were located in the Netherlands, compared with less than 40% in 1990.

This striking growth was confined almost entirely to the distribution centres managed by third party logistics providers. Such suppliers operate 74% of the European distribution centres located in the Netherlands.

Rotterdam and Amsterdam, two of the leading sea and air gateways to Europe, are benefiting largely from this reorganization of distribution centres. The transportation and distribution sector engenders over 400 000 jobs and more than 8% of the Netherlands' GDP.

### **6.2.4    *Mirabel's and the Greater Montréal area's potential***

As we noted earlier, the Montréal area is one of the leading gateways to North America, above all with respect to serving major markets in the Northeastern and Midwestern United States.

The region's strength is that it is already an important transit centre for containers destined for the American market. Its strategic location is all the more striking in that the level of concentration of continent-wide

distribution is less advanced in North America than in Europe. Enterprises are starting to reorganize in light of the North American market. The time is ripe to take advantage of this new niche.

Mirabel has four specific advantages in this field, which bolster its regional assets:

- an international airport where aircraft can land at any time of the day or night and whose infrastructure is particularly suited to the handling of goods;
- the availability on site of customs services, since Mirabel is one of the few international entry points in the Montréal area;
- the presence on the site of major integrators, i.e. express mail and parcel delivery companies, which significantly boosts the operating flexibility of a distributor wishing to offer its customers next-day delivery service;
- the availability of a great deal of space to build value-added distribution warehouses, a type of facility that requires large surface areas at low cost.

While Mirabel and the Montréal area cannot claim to replicate the Netherlands model, there is every reason to be optimistic about their ability to further capitalize on the development of international logistics.

### ***6.2.5 Typical start-up project: a value-added distribution centre***

A typical start-up project in the Montréal Foreign Trade Zone at Mirabel could be the distribution centre of a European company wishing to serve the major North American markets, especially those in the Northeastern and Midwestern United States.

- The goods would be shipped to Montréal by sea and by air.
- They would then be warehoused in Mirabel and split up into separate or consolidated lots to make up other lots. Not only would the warehouse be used to group together goods that were manufactured upstream, it would also, and above all, serve as a value-added centre finishing products according to the markets and the customers for whom they are intended, by assembly, packaging, labelling, testing, bar coding and other services, after which the goods could be shipped to their final destination.

- The goods could be delivered by truck, the same day if need be. More valuable goods or those demanding rapid delivery over greater distances could be shipped by air. The presence at the airport site of major integrators would enable the distribution centre to guarantee delivery the next morning anywhere in North America, even in the case of orders placed in the evening.

### **6.3 Aircraft maintenance and repair**

All aircraft undergo periodic preventive maintenance, based on the number of hours of flight and the number of take-offs and landings the aircraft has effected.

The worldwide aircraft maintenance market is worth an estimated US\$20 billion. Maintenance expenses represent roughly 15% of the operating expenses of the airlines. The market is considerable.

The Greater Montréal area enjoys special expertise in this realm, since it is already highly developed there, including at Mirabel. The region is well placed, has qualified workers, ranging from specialized aeronautics workers and technicians to engineers and managers, trained in several specialized aeronautical educational institutions.

The Québec government is banking on these assets and will encourage centres specializing in aircraft maintenance, repair, adaptation, conversion and recycling services to set up operations there. Service centres devoted to navigational equipment and ground service equipment are also targeted niches.

### **6.4 Advanced training in aviation or in fields related to operations in the Foreign Trade Zone**

The training of workers in the aviation field could also contribute to the establishment of a critical mass of activities at Mirabel Airport.

Training would focus on a broad range of specialties. It could encompass navigating personnel, i.e. pilots, flight attendants and flight mechanics, and airport staff, including, among others, firefighters, de-icing crews, air traffic controllers, investigators, air safety managers and ramp agents.

Québec's main needs in this field are already met, by and large, except in specific niches, such as the training of pilots on flight simulators for wide-body jets.

The Québec government will encourage private-sector projects in the realm of aviation training or in any other field deemed relevant in light of the operations conducted in the Foreign Trade Zone. However, these projects must complement other activities already found in Québec or be intended to satisfy needs from outside Québec that are not already satisfied.

## **6.5 Light manufacturing**

To support the positioning in the field of logistics of the Foreign Trade Zone, the Québec government will also encourage manufacturing concerns to do business on the site. However, such projects will be examined carefully before being approved to ensure that they do not unduly rival existing facilities in Québec serving the same markets. We must ensure that each proposed investment contributes to Québec's economic development, without causing dislocations or undue competition.

These projects must also take advantage of one or more of the following factors:

- proximity of an international airport;
- operation in a customs free zone;
- ready access to the four major modes of transportation;
- a large business start-up area.

Moreover, goods manufacturing operations will be eligible only when local content, i.e. the value added at the time of manufacturing and the cost of the components purchased in the Foreign Trade Zone, does not exceed half the total value of the manufactured products.

From the standpoint of start-up and development, these manufacturing centres can take advantage of the availability of qualified workers, particularly in several high-technology industries such as aerospace, telecommunications, auto parts, pharmaceutical products, electronic equipment and information technologies.



# **7** *Operating in a customs free zone: background and prospects*





## **7. OPERATING IN A CUSTOMS FREE ZONE: BACKGROUND AND PROSPECTS**

### **7.1 Customs free zones: definition and background**

Generally speaking, a customs free zone is a neutral territory within a country where goods may be imported duty free and exempt from sales tax. For all intents and purposes, it is deemed to be outside the country's customs territory. Duty is only payable when the goods leave the customs free zone to enter the domestic market. No duties are usually levied if the goods are reexported.

Customs free zones usually allow enterprises to import goods duty free in order to warehouse them until they are sold, to sort them, show them to potential customers, or assemble, process and subsequently distribute them. The duties are only paid when the goods leave the customs free zone for sale to consumers on the domestic market.

Customs free zones have been used since ancient times to promote international trade, although they have proliferated over the past 50 years. Such zones are found in many recently industrialized countries, numerous developing nations, and in most of the Eastern European countries, which see them as a key to their integration into the world economy.

Of the greatest significance to Québec is the growing presence of customs free zones since the early 1960s in most of the industrialized nations, including the United States, the United Kingdom, Germany, France, Belgium and the Netherlands.

In the United States alone, there are some 230 customs free zones and 420 sub-zones located in 49 states.

### **7.2 Foreign Trade Zones in the United States**

US Foreign Trade Zones are clearly defined territories subject to limited access placed under the surveillance of US Customs. The zones are deemed to be outside the customs territory of the United States and goods imported therein are exempt from customs duties and taxes, whether or not they are subject to processing.

American legislation allows two types of zones, i.e. FTZs and sub-zones. FTZs are usually located near US Customs facilities, which in turn are usually found near a port or airport. Sub-zones, which are technically attached to FTZs, are usually plants engaged in large-scale manufacturing operations, notably in the automobile sector.

The operation of American FTZs and sub-zones relies on the centralization of operations in the hands of the operator of the zone, usually a private company, e.g. Miami Free Zone in Miami and Trans-Border Customs Services in Plattsburgh, and on the shifting of administrative responsibilities. Customs inspectors oversee the inspection and control of all goods entering and leaving the customs free zone.

### **7.3 Canadian regulations**

Unlike other countries, Canada does not have specific regulations governing customs free zones. In order to engage in activities related to a customs free zone, enterprises must use a number of customs programs<sup>1</sup> separately or simultaneously, i.e. the Duty Drawback Program, the Customs Sufferance Warehouse Program, the Bonded Warehouse Program, and the Duty Relief Program. In addition, the Exporters of Processing Services Program allows eligible enterprises to be exempted from the GST, although it only applies to specific cases.

#### ***7.3.1 Bonded Warehouse Program***

The Bonded Warehouse Program applies solely to goods that will not be processed in any manner that alters their customs classification. It has been designed primarily to allow importing firms to defer all duties, including the GST and the QST, in respect of goods not customs cleared that are placed in Customs Canada-approved warehouses, prior to consumption on the domestic market. The maximum warehousing period is four years or until such time as the goods are cleared for domestic consumption. If the goods are reexported, the duties and taxes do not have to be paid.

In addition to the deferral of duties on imported goods destined for domestic consumption, this program also helps enterprises that:

---

<sup>1</sup> These customs programs were revised in 1995 when the federal government adopted Bill C-102. At that time, they were regrouped under the Duty Deferral Program and certain administrative procedures were streamlined to facilitate their simultaneous use.

- group together imported goods and domestic goods destined for export. An exemption from duties on imported goods intended for reexporting applies for a maximum of four years or until the goods are reexported;
- temporarily import goods for display purposes at conventions, exhibitions or trade fairs;
- engage in certain operations that do not alter the properties of the goods. Only the following operations effected in respect of the goods are allowed:
  - disassembly or reassembly when the goods have been assembled or disassembled for the purpose of packing, handling or transportation;
  - the display, inspection, marking or labelling of the goods;
  - the packing or unpacking, packaging or unpackaging of the goods;
  - removal from the warehouse of a small quantity of a material, a portion, a part or a separate item representing the warehoused product, solely for the purpose of obtaining orders for products or services;
  - warehousing;
  - testing;
  - cleaning;
  - any operation required to ensure compliance with any applicable federal or provincial statute;
  - dilution;
  - normal maintenance and repair services;
  - preservation;
  - the separation of defective from sound goods;
  - sorting or grading;
  - trimming, matching, slitting or cutting.

### **7.3.2 *Duty Relief Program***

The Duty Relief Program specifically covers “the manufacturing in bond” for the export market. It applies to goods that are to undergo processing that will alter their classification or that will be absorbed as inputs in the production of goods destined for export. The program makes provision for exemption from customs duties, antidumping and countervailing duties, and excise tax. However, it does not include an exemption from the goods and services tax (GST) at the time of importing, although enterprises may subsequently obtain a refund of the GST on goods that have been used as inputs.

### ***7.3.3 Duty Drawback Program***

The Duty Drawback Program is intended for enterprises that do not know, at the time of their importing, the final destination of goods. Importing enterprises must pay all duties at the time of importing, although the program allows them to subsequently obtain a reimbursement when the imported goods are reexported or when they are used to produce goods that are exported.

### ***7.3.4 Exporters of Processing Services Program***

The program for the exporters of processing services makes provision for exemption from the GST at the time of importing, when the goods are imported for the purpose of being processed and reexported within four years, provided that the following conditions are met:

- the importer is an enterprise registered in the GST registry;
- the importer has no right of ownership on the goods imported while they are in the national territory;
- the importer must maintain an arm's-length relationship with the non-resident on behalf of whom the processing is effected.

Processing services pertaining to goods include packing or repacking, modification, assembly and manufacturing.

To take advantage of this program, the importer must obtain an import certificate from Revenue Canada, through the Trade Administration Services of Customs Canada.

## **7.4 Difficulties in the management of Canadian programs from the standpoint of operating in a customs free zone**

Canadian customs duties and sales tax exemption or referral programs are fairly complex to manage for enterprises, especially for foreign enterprises that are scarcely accustomed to the system and that do not wish to invest in understanding Canadian regulations. Under the regulations, importers must maintain accounting records, which demands some degree of expertise. The books must be complete so that customs officials can conduct periodic audits, at least once a year.

These programs do not allow for exemption from the GST at the time the goods are imported when such goods are to be processed in Canada prior to reexporting, except in specific instances.

In order to overcome these shortcomings, facilitate operations in a customs free zone and simplify the management of these programs for enterprises wishing to set up operations in the Foreign Trade Zone, the action plan will make various measures available to them (see Chapter 8).

## **7.5 Advantages of operating in a customs free zone**

In North America, considering the elimination of customs tariffs under NAFTA, the traditional advantages of customs free zones from the standpoint of the payment of customs duties and taxes are limited, above all if the trade is effected solely between Canada, the United States and Mexico. Such advantages are confined primarily to an exemption from the sales tax, when the goods are imported into the customs free zone, on goods reexported without processing.

An entirely different situation prevails with respect to trade between enterprises in North America and in non-NAFTA countries, which is subject to the levying of customs tariffs. The presence of a customs free zone would, for example, allow a European enterprise to serve major North American markets from Mirabel without having to pay customs duties and sales taxes in Canada on reexported goods, except when the goods underwent processing in Canada.

However, the advantages of operating a customs free zone supercede regulatory issues alone. As the growing number of customs free zones in the world attests, such zones offer several other economic or commercial advantages which, in themselves, can afford competitive advantages to the enterprises that set up operations in the zones. Specifically, mention should be made of:

- sophisticated inventory control systems and leading-edge information processing technologies;
- a global distribution and sophisticated expertise network in international trade that can lead to economies of scale;
- cutting-edge goods processing technologies.

- access to specialized workers who can offer ancillary services at the end of a product's production cycle in light of the needs of the main markets served;
- operating instruction booklet translation services;
- quality standard certification services;
- regulatory verification services, e.g. with respect to documentation pertaining to the rules of origin (North American content for the application of NAFTA), management of which is especially complex;
- the possibility of using a public warehouse and thus of paying on the basis of variable cost;
- accelerated authorization procedures;
- a dynamic industrial environment;
- a controlled, secure environment for enterprises, which can reduce insurance costs.

Customs free zones are recognized the world over as a winning formula among foreign investors. The Canadian model has not produced the anticipated results until now among such investors. It is easier to promote an integrated, concrete concept centred on a specific territory offering an array of allied services than to promote abstract government programs.

The Montréal area needs this strong economic signature. The establishment of the Montréal Foreign Trade Zone at Mirabel will send a clear signal to investors that the Québec government is determined to help them operate in a customs free zone.

# 8 *Assistance measures*





## **8. ASSISTANCE MEASURES**

While the quality of Mirabel Airport's infrastructure and the assets of the Greater Montréal area are convincing arguments for the establishment of enterprises, international competition is nonetheless fierce and it is important to be well equipped in order to face it.

The vigorous program proposed below will make it possible to better position Montréal and Mirabel in the international arena. The proposed measures are designed to facilitate the quick start-up of projects with a view to promptly creating a critical mass of activities that will subsequently encourage other enterprises to set up operations.

### **8.1 Five measures**

When start-up or expansion projects satisfy the eligibility criteria, enterprises can take advantage of an assistance program centred on:

- investment;
- operating costs;
- the management of customs programs;
- worker training and recruiting;
- the attraction of foreign specialists.

The program will apply, broadly speaking, for a period of 10 years.

### **8.2 Eligibility criteria**

#### ***8.2.1 General eligibility criteria***

To be eligible for the assistance measures, an enterprise must keep a separate set of books with respect to operations carried out in the Montréal Foreign Trade Zone at Mirabel.

To be eligible, the projects must satisfy the following criteria:

- at least 90% of the operations conducted inside the zone must relate to one of the following sectors: international logistics, aircraft maintenance and repair; advanced aviation training, and light manufacturing;

- the operations must be carried out in niches that complement, as the case may be, those of other enterprises in the same sector already operating in Québec, either because they will mainly serve new markets or niches that are not sufficiently represented by enterprises already operating in Québec;
- the operations must be new, including proposals to expand existing operations, i.e. they must not have been carried out prior to the day of the 1999-2000 Budget Speech;
- the expansion projects of enterprises already operating in Québec will be eligible provided that the enterprises undertake not to shift to the zone operations already carried out elsewhere in Québec. Similarly, the expansion project of an enterprise already operating in the zone on the day of the 1999-2000 Budget Speech will only be eligible when it is shown that the project largely supercedes the specific case of an expansion due to a slight increase in demand in the normal course of the enterprise's current operations. Moreover, the enterprise must undertake not to transfer to the zone its current operations;
- each project must generate at least \$400 000 in total payroll, i.e. equivalent to roughly 10 jobs, once the production unit is in operation.

Furthermore, a project may be eligible if it is of particular interest to Québec.

## **8.2.2 *Specific eligibility criteria***

### ***International logistics***

For the purpose of administering the assistance measures, logistics refers solely to operations carried out in the Montréal Foreign Trade Zone at Mirabel and which are closely linked to the international distribution of goods.

More specifically:

- the local market, i.e. Québec, must not be the source or final destination of more than 20% of the value of the goods, by category of goods handled, except in the case of goods that are not already distributed by enterprises already operating in Québec;
- the transportation operations of enterprises offering air, trucking or rail services will be specifically excluded.

The ground operations of air carriers conducted in the zone will be eligible for the assistance measures, provided that such operations are directly related to the transshipment, sorting or warehousing of the goods. For example, the operations of the sorting and transshipment centre of an express mail and parcel delivery company will usually be accepted.

Moreover, the operations of international distribution centres other than transportation operations that add to the value of the goods will usually be accepted. The eligible operations of an international distribution centre include:

- warehousing;
- the management of orders;
- invoicing and recovery;
- bar-coding;
- price labelling;
- display packaging for sales;
- light assembly and the reconfiguration of products;
- verification of compliance with the standards of client regions and product testing;
- the choice of modes of transportation and the preparation of shipments (packaging, boxing, splitting or grouping of lots, marking, and so on);
- documentation, insurance and the financing of shipments;
- responsibility for administrative and regulatory formalities, such as customs duties, sales taxes, and so on;
- tracking of deliveries during shipping;
- the installation of equipment delivered to customers' premises;
- customer service, the handling of returned goods and product maintenance and repair;
- the management of inventories;
- the operations of a call centre;
- the distribution of goods through E-commerce;

- planning and consulting services pertaining to more efficient management of the supply, transportation, warehousing and distribution system.

In addition, when the operations of a logistics enterprise include assembly operations, the local content, i.e. the value added at the time of assembly and the purchase of components in the zone, must not exceed half the overall value of the products shipped.

### ***Aircraft maintenance and repair***

The maintenance and repair of aircraft, navigational equipment and ground service equipment carried out in the zone will be eligible for the assistance program.

### ***Advanced aviation training***

The training activities of an enterprise that complement those found in Québec or that contribute primarily to the training of flight or airport personnel not residing in Québec will be eligible for the assistance program.

### ***Light manufacturing***

Manufacturing operations will be eligible if they:

- comply with the objective of developing facilities dedicated to airport-related operations;
- contribute to Québec's economic development;
- comply with the requirements of international trade agreements.

Moreover, the projects must show that one or more of the following factors are decisive as regards the enterprise's establishment in the zone:

- proximity to an international airport;
- customs free zone;
- ready access to the four main modes of transportation;
- a large surface area at the time of start-up.

Projects will only be accepted when the local content, i.e. the value added at the time of manufacturing and purchases of components in the zone, does not exceed half the overall value of the manufactured products.

### **8.3 Investment assistance**

Enterprises wishing to set up operations in the zone by December 31, 2009 and which have obtained an eligibility certificate from the Minister of Finance may take advantage at the time of the investment of:

- a refundable tax credit for the acquisition or leasing of capital goods;
- financial assistance for the construction of buildings.

Assistance is also available for the reimbursement to the eligible enterprise of not more than 50% of the cost of a feasibility or profitability study pertaining to the project, up to a maximum of \$100 000.

#### ***Refundable tax credit for capital goods***

Enterprises that install a new production unit in the Foreign Trade Zone may benefit from a 25% refundable tax credit on the capital goods that are used in conjunction with an eligible activity.

Capital goods may be purchased or leased, provided that they are amortizable fixed assets other than intangible assets and that they are not subject to a specific exclusion, indicated below:

- Eligible equipment does not include office equipment or equipment intended for general use, such as photocopiers and fax machines. Similarly, equipment used by employees who perform administrative or support duties is not deemed to be eligible.
- Moreover, aircraft, vehicles, such as cars and trucks, or rollingstock, except for equipment used for the transshipment or handling of goods inside a warehouse, a hangar or a manufacturing plant, will not be eligible.

#### ***Assistance for building construction***

Enterprises can also approach the development corporation to obtain assistance for the construction of buildings in the Foreign Trade Zone.

Financial assistance will be available for the construction of buildings by enterprises that have obtained an eligibility certificate or by third parties for the purpose of leasing to eligible enterprises. The financial assistance will take the form of:

- a repayment guarantee of not more than 70% on the net loss pertaining to a financial commitment that may not exceed 75% of the building's value;
- coverage of the interest on a loan;
- a refundable or non-refundable contribution.

The financial assistance must take into account international trade agreements and be limited to the amounts needed to ensure the realization of the project. The budgetary impact of the financial assistance offered may not exceed 25% of the value of the building subject to an assistance measure. However, when a third party carries out the construction, the budgetary impact of the financial assistance will be limited to 20% of the building's value.

The government will assume losses related to the financial assistance granted under this measure. When the financial assistance is granted in the form of a loan or a loan guarantee, the government must record an expense as a provision to cover eventual losses. However, the usual guarantee fees will be charged to the client.

## 8.4 Operating assistance

Between now and December 31, 2009, eligible enterprises may take advantage of the following tax benefits:

- an exemption from income tax;
- an exemption from the tax on capital;
- an exemption on contributions to the Health Services Fund (HSF);
- a refundable tax credit on the wages of eligible employees, except those working for a manufacturing concern. The credit will be:
  - 40% until December 31, 2000, with an annual maximum of \$15 000 per employee;
  - 30% from January 1, 2001 to December 31, 2003, with an annual maximum of \$12 000 per employee;
  - 20% from January 1, 2004 to December 31, 2009, with an annual maximum of \$8 000 per employee.

For the purpose of the refundable tax credit on salaries, only the salaries of full-time employees whose employment contract stipulates at least 26 hours of work per week for a minimum of 40 weeks will be eligible.

## **8.5 Assistance measures respecting the management of customs programs**

As we noted in the previous chapter, unlike other countries, Canada has not adopted regulations devoted specifically to customs free zones. In order to engage in operations related to customs free zones, enterprises must separately or simultaneously rely on several customs programs.

To help enterprises operate in a customs free zone environment that is as streamlined as possible, three specific measures are being implemented. These measures offer enterprises:

- access to specialists to help them manage customs programs;
- a loan guarantee and interest holiday program that makes it possible to finance in the short term payments of refundable taxes;
- a refundable tax credit on customs brokerage expenses.

The Société de développement de la Zone de commerce international de Montréal à Mirabel will make available to eligible enterprises, especially when they set up operations in the zone, experts in the management of Canadian customs programs. These experts can offer advice on the most efficient ways of combining existing customs duties exemption and deferral programs.

The development corporation may also offer a program to lessen the impact on the enterprise's working capital of the payment of sales taxes when the latter are to be reimbursed subsequently. This program will include two sections:

- a loan guarantee on the credit margin contracted by an eligible enterprise intended solely to pay sales taxes (GST and QST), which subsequently result in reimbursement;
- coverage of interest on the credit margins granted.

The Québec government will assume losses related to financial assistance granted under this measure. The government will record an expense as a provision to cover eventual losses.

A refundable tax credit may be requested by an eligible enterprise in order to recover a portion of the fees paid to customs brokers. This credit will enable eligible enterprises to rely on outside consultants to manage customs programs. The amount of the refundable tax credit on customs brokerage expenses has been set to allow an enterprise to



obtain assistance equivalent to what it would have obtained to hire two full-time employees receiving the maximum eligible salary. The assistance will be equivalent to:

- 40% of the expenses incurred prior to January 1, 2001, up to an annual maximum of \$30 000 per enterprise;
- 30% of the expenses incurred from January 1, 2001 to December 31, 2003, up to an annual maximum of \$24 000 per enterprise;
- 20% of the expenses incurred from January 1, 2004 to December 31, 2009, up to an annual maximum of \$16 000 per enterprise.

## **8.6 Employment assistance**

Enterprises can also take advantage of personalized technical and financial assistance adapted to their recruiting, training and human resources management needs. To this end, an Emploi-Québec office will operate on the Mirabel Airport site.

### ***Services offered by Emploi-Québec***

#### **Selection and training of candidates**

When enterprises so desire, Emploi-Québec will pre-select candidates according to the criteria and requirements that the enterprises specify. Emploi-Québec can also partially finance the services of headhunting firms.

Unemployed candidates may take advantage of training programs prior to hiring, through which they can acquire the skills and qualifications sought by the recruiting enterprises and geared to the requirements of the positions to be filled.

#### **Worker training**

Emploi-Québec will offer technical and financial assistance to enterprises in respect of worker training and skills upgrading.

Specifically, enterprises can:

- take advantage of financial assistance for the training of new workers hired to fill long-term positions;
- obtain a detailed analysis of their training needs in respect of their entire staff or, more specifically, for a specific profession or trade (elaboration of training specifications);

- obtain assistance for the designing of training programs and the elaboration of course plans. Emploi-Québec may even seek out and recommend educational institutions and the appropriate teachers and trainers.

A detailed timetable and an exhaustive cost analysis will be submitted to the enterprises at the outset of training. Moreover, space and computer equipment will be made available to the enterprises in Emploi-Québec's office at Mirabel. Follow-up to and the evaluation of teaching and training carried out in conjunction with these programs can also be effected.

### **Human resources management and planning**

Emploi-Québec is also in a position to advise enterprises with regard to their main everyday human resources management and planning operations, such as the organization of work, employee performance appraisals, remuneration and job descriptions.

## **8.7 Assistance in attracting foreign specialists**

Foreign specialists who, because of their expertise, are deemed to be strategic staff for an enterprise eligible to operate in the Foreign Trade Zone, may benefit for five years from a total exemption on income tax.

To be recognized as foreign specialists, the managers or professionals must have a level of expertise that is widely recognized by their peers. To this end, a list of persons who may qualify as the foreign specialists of the eligible enterprise must be submitted to the development corporation, which will make a recommendation to the Minister of Finance concerning the specialists' eligibility certificates.

## **8.8 Certification of eligible enterprises**

Enterprises wishing to set up operations in the Montréal Foreign Trade Zone at Mirabel must first obtain from the Minister of Finance a certificate of eligibility in respect of the measures proposed. Broadly speaking, the enterprises must submit a business plan to the development corporation containing all information relevant to an analysis of the project.

Development corporation staff can provide enterprises with information and support. If meetings are necessary with the government or other organizations, the development corporation can accompany the promoters.

The development corporation will analyse the investment projects and will subsequently submit recommendations to the Minister of Finance concerning the projects' eligibility for tax credits, tax exemptions and other assistance measures from the standpoint of start-up criteria. Ultimately, it is the Minister of Finance who will certify the eligibility of projects.

# 9 *Territory of the Montréal Foreign Trade Zone at Mirabel*



## **9. TERRITORY OF THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL**

### **9.1 Advantages of targeting a specific territory**

Most foreign customs free zones that have enjoyed prompt, sustained success are located within a circumscribed, readily identifiable territory in which at least one strategic transportation facility, such as an airport, is found. This success is attributable to several factors:

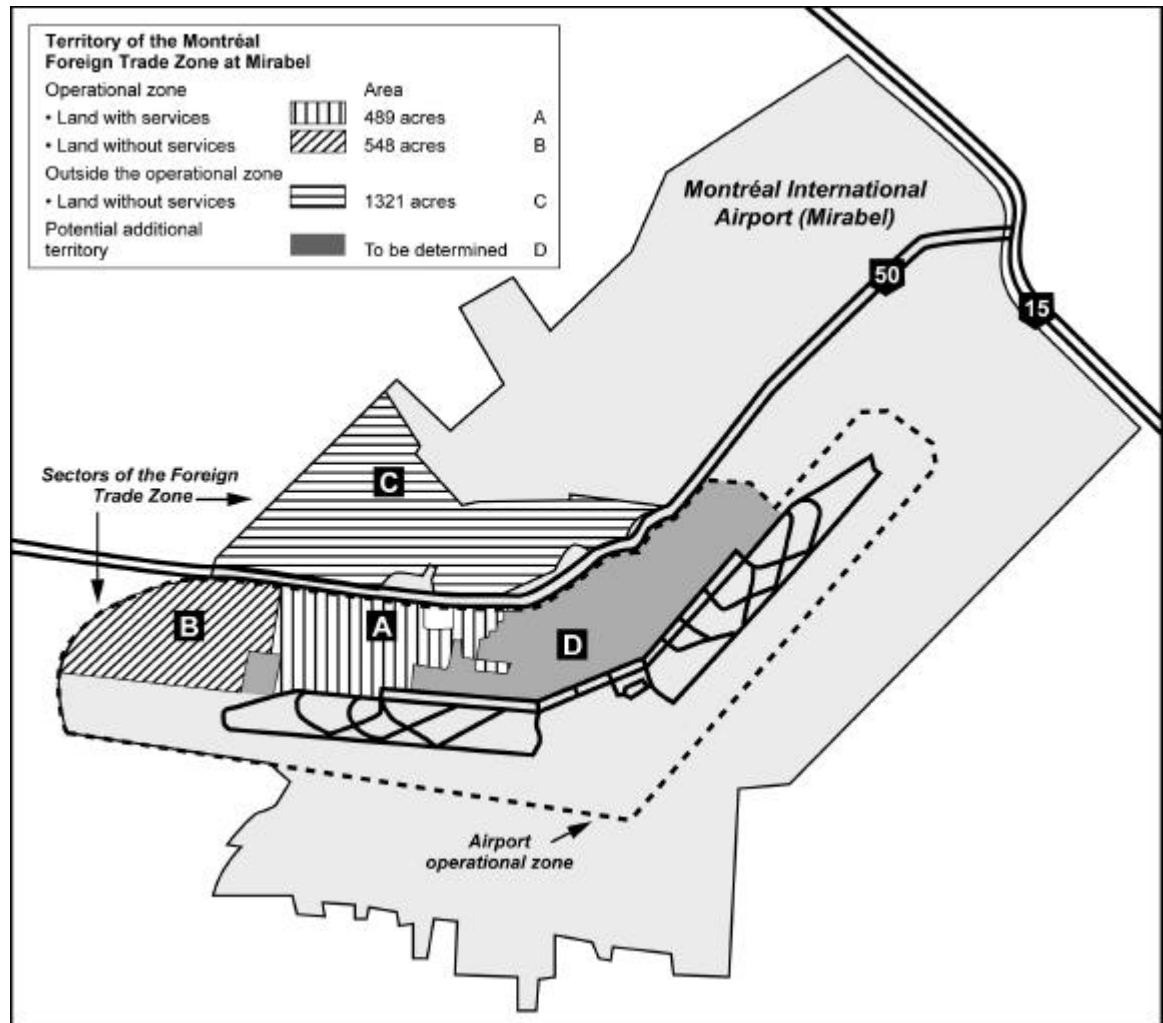
- an approach through which projects can be centred on specific assistance measures and strategic transportation infrastructure, which are decisive factors for a number of investors wishing to establish themselves on foreign markets;
- the ease with which domestic investment canvassing organizations can promote an integrated, soundly structured economic development project;
- foreign experiences have shown that enterprises in a specialized sector tend to cluster geographically in order to take advantage of a number of positive external effects, such as the availability of specialized infrastructure and workers, while encouraging in some instance linkages between enterprises;
- the grouping together of enterprises within a confined territory makes it possible to offer the enterprises personalized technical and financial assistance adapted to their needs;
- the application of assistance measures within a restricted zone or area is also beneficial for the government organizations offering services to the enterprises. It is easier to oversee the assistance measures and compliance by the enterprises with the application criteria;
- significantly, the delineation of a fairly small territory makes it possible to fairly quickly achieve a critical mass and to engender a growth dynamic in the operations that ultimately becomes self-sustaining.

## 9.2 Territory of the Foreign Trade Zone

The Montréal Foreign Trade Zone at Mirabel will be located on the site of Mirabel Airport at the western end of the airport zone. It will encompass a portion of the operating zone and a portion of the airport's territory that is not being used for agricultural purposes (Map 4).<sup>1</sup>

**Map 4**

Montréal Foreign Trade Zone at Mirabel



<sup>1</sup> The Minister of Finance will make public shortly a precise technical description of the Foreign Trade Zone.

The Foreign Trade Zone will extend over more than 2 300 acres and will encompass numerous sites with services (489 acres, Sector A above), including a section of the operating zone located inside the fenced perimeter of the airport leading to the runways. Aircraft will have direct access from the runways to the enterprises' buildings, a location factor that is especially sought after by several types of enterprises, in particular integrators and aircraft maintenance workshops.

Additional space without services with an area of nearly 500 acres will also be available elsewhere in the operating zone (Sector B). Furthermore, other lots east of the airport operating zone (Sector D) could be added to the Foreign Trade Zone. A feasibility study is under way on their integration.

The Foreign Trade Zone will also include over 1 300 acres outside the operating zone, but on land adjacent to the airport, just north of autoroute 50 (Sector C).





# *10 The Société de développement de la Zone de commerce international de Montréal à Mirabel*



## **10. THE SOCIÉTÉ DE DÉVELOPPEMENT DE LA ZONE DE COMMERCE INTERNATIONAL DE MONTRÉAL À MIRABEL**

In order to assist investors in setting up operations, oversee government intervention in the Foreign Trade Zone and ensure dynamic, concerted development, the Québec government is establishing the Société de développement de la Zone de commerce international de Montréal à Mirabel.

The development corporation, a streamlined organization, will mobilize the partners and coordinate their initiatives in order to facilitate the attainment of the proposed Foreign Trade Zone's economic development and job creation objectives.

### **10.1 Mission and mandates**

The general mission of the development corporation will be to contribute to the economic development of the Greater Montréal area and Québec as a whole by means of the development Mirabel's airport and airport-related infrastructure by encouraging the establishment of enterprises in the Montréal Foreign Trade Zone at Mirabel. To this end, the government has assigned to the development corporation six mandates:

- a single multiservice outlet;
- promotion and canvassing;
- integrated management of investment proposals;
- recommendations to the Minister of Finance concerning the certificate of eligibility pertaining to projects;
- land use planning and development;
- advice to the Minister of Finance on the development of the zone.

#### ***10.1.1 Provide a single multiservice outlet***

The development corporation will act as a single multiservice outlet from which enterprises can obtain information or technical and financial assistance in conjunction with the investment projects they wish to carry out, or operations conducted subsequent to their establishment in the zone, in accordance with the conditions governing projects in the

Foreign Trade Zone. The following services will be offered to potential investors and enterprises established within the Foreign Trade Zone:

- reception and information services, especially concerning eligibility criteria, assistance measures and the services available to enterprises in the zone;
- assistance for enterprises setting up operations. The development corporation will liaise with government organizations and can, if need be, accompany the enterprises if meetings are necessary with public or private agencies. Assistance will also be available to write up a business plan or prepare administrative forms;
- access to Emploi-Québec specialists sharing office space with the development corporation to obtain worker recruiting and training assistance. Technical and financial assistance in the realm of worker training and skills upgrading, adapted to the specific needs of enterprises, will be available;
- customs program management experts can also support enterprises, especially during the implementation and start-up phase. Such enterprises can take advantage of advice on how to make the most efficient use possible of Revenue Canada's customs duties exemption programs in order to operate in an environment resembling foreign customs free zones;
- a general assistance service, accessible to enterprises established in the Foreign Trade Zone, will be available. The development corporation can act as an intermediary with respect to private-sector suppliers of business services or different levels of government. In particular, the development corporation can facilitate the obtaining of various permits and authorizations required from different levels of government.

### ***10.1.2 Promote the Montréal Foreign Trade Zone at Mirabel***

The development corporation will be responsible for promoting and broadening the visibility of the Foreign Trade Zone among potential investors. It will work closely with its partners to ensure that various promotional initiatives are coordinated and complementary. The development corporation will set up a canvassing coordinating committee.

In collaboration with Québec promotion and investment canvassing stakeholders, the development corporation will meet with promoters and enterprises likely to set up operations in the Foreign Trade Zone. It will periodically produce documentation, either printed or disseminated on its Web site, and will participate in trade fairs, colloquia and conventions.

### ***10.1.3 Ensure integrated management of investment proposals and business start-ups***

The development corporation will coordinate the process of setting up businesses in the Foreign Trade Zone. It will be responsible for receiving proposals from enterprises, collecting from them all of the necessary information and, if need be, accompanying them if meetings are necessary with other organizations.

The development corporation will have an industrial development coordinating committee on which will sit stakeholders who are likely to offer financial or technical assistance to enterprises operating in the Foreign Trade Zone. Committee members will jointly analyse investment projects and propose ways of assisting and supporting enterprises that are setting up operations.

### ***10.1.4 Submit to the Minister of Finance recommendations concerning the issuing of eligibility certificates***

The development corporation will also be responsible for submitting to the Minister of Finance recommendations concerning the eligibility of projects for various measures under the program, in particular those pertaining to a tax exemption, tax credits, and investment assistance measures.

### ***10.1.5 Distinctive signature***

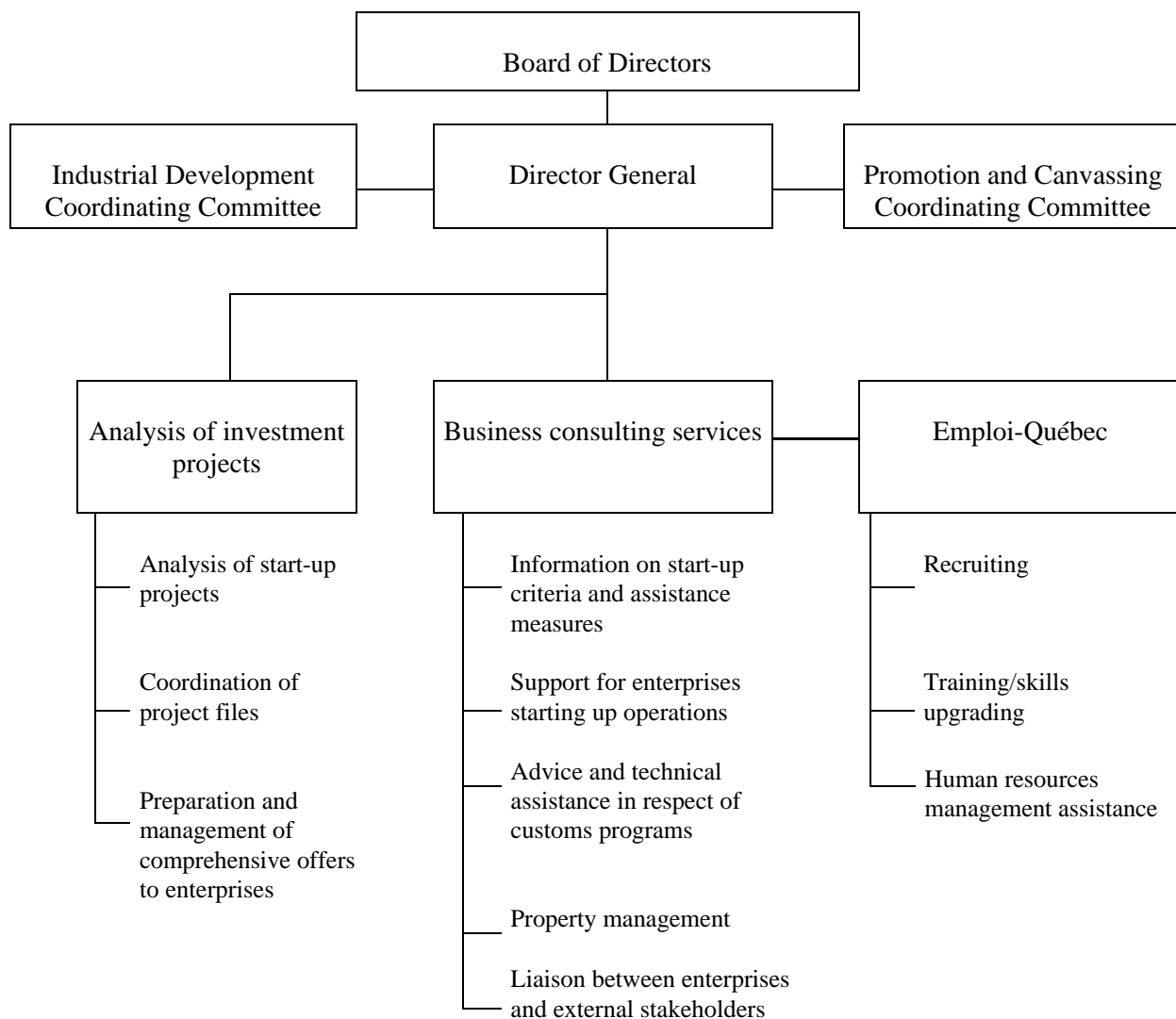
In collaboration with its partners, the development corporation will ensure that the zone is developed harmoniously and homogeneously. To this end, a land use planning and development plan will have to be drawn up, in collaboration with ADM. Such a plan will make it possible, among other things, to specify the general architectural standards applicable to buildings and the key land use planning and development parameters, with a view to creating a distinctive signature for the zone.

### 10.1.6 Advise the Minister of Finance

The development corporation may also advise the Minister of Finance on any initiative that it deems appropriate to the development of the Foreign Trade Zone.

## 10.2 Structure of the development corporation

The development corporation will report to the Minister of Finance. Its organization will be simple and flexible and allow it to respond rapidly to requests for assistance from investors and to adapt its services to the changing needs of enterprises.



### ***10.2.1 Board of directors***

The board of directors will assume the following key mandates:

- elaborate the development corporation's main strategic guidelines in order to ensure its development. To this end, the board must submit to the government a three-year development plan. It must also submit each year a budget, including a capital spending budget, and annual financial statements;
- foster the establishment of networks with local stakeholders, representatives of the business community and Québec organizations dedicated to canvassing foreign investors. The objective will be to foster to the utmost the synergy of their initiatives.

The composition of the board of directors will reflect the dynamic forces in economic development both from the Mirabel and Greater Montréal areas and Québec as a whole. Consultations will be conducted with the following organizations: ADM, the CLD de Mirabel, Investissement-Québec, Montréal International, the SGF, and the Montréal and international business communities.

### ***10.2.2 Promotion and canvassing coordinating committee***

The promotion and canvassing coordinating committee will be responsible for planning and coordinating investment promotion and canvassing initiatives pertaining to the Foreign Trade Zone. This will ensure the complementarity of canvassing initiatives aimed at the zone.

Representatives of the main organizations in this sector in Québec and the region will be asked to participate. ADM, Montréal International, Investissement-Québec and the SGF, among others, will be consulted.

### ***10.2.3 Industrial development coordinating committee***

The industrial development coordinating committee will oversee the start-up of enterprises in the Foreign Trade Zone. In particular, each of its members will be responsible for pinpointing assistance measures and the services that the organization that it represents may offer to an enterprise wishing to set up operations in the Foreign Trade Zone.



Moreover, in collaboration with the development corporation's analysts, members of the industrial development coordinating committee will examine investment projects and submit an opinion to the development corporation, in anticipation of an eventual recommendation to the Minister of Finance concerning the issuing of an eligibility certificate. They will also be responsible for advising the director general of the development corporation on the services to be offered to enterprises established in the zone. The committee will be made up of the director general of the development corporation and the members of organizations offering services to enterprises on the site, i.e. ADM, Emploi-Québec and the CLD de Mirabel. Investissement-Québec and the SGF may be asked to collaborate when start-up projects require their participation.

#### ***10.2.4 Director general of the corporation***

The director general will oversee all of the development corporation's operations. He will coordinate the initiatives of the corporation and those of the two committees and the Emploi-Québec office on the site. He will also coordinate the intervention of all external partners in order to incorporate their analyses into those the corporation prepares.

In addition, he will be responsible for promptly submitting files and transmitting them to the Minister of Finance for the purpose of obtaining an eligibility certificate. If need be, he will also submit an integrated assistance offer to enterprises. He will supervise the activities of consultants made available to enterprises by the Société de développement de la Zone de commerce international de Montréal à Mirabel.

# ***Appendix***

---



## **SUMMARY OF ASSISTANCE MEASURES AND ELIGIBILITY CRITERIA**

### **1. GENERAL ELIGIBILITY CRITERIA**

- At least 90% of the operations in the zone must be related to any of the following sectors: international logistics, aircraft maintenance and repair, advanced aviation training and light manufacturing.
- Niches distinct, as the case may be, from those of other enterprises already operating in Québec.
- No displacement of operations already conducted elsewhere in Québec.
- New operations or the significant expansion of the enterprise's current operations, conducted following the day of the 1999-2000 Budget Speech: each project must generate a total payroll of over \$400 000 once the production unit is in operation.
- In the case of an enterprise already operating in the zone on the day of the 1999-2000 Budget Speech, the expansion project must constitute more than expansion due to a slight increase in demand in the course of the enterprise's normal operations. Moreover, the enterprise must undertake not to transfer to the zone operations that it is conducting elsewhere in Québec.
- The enterprise must maintain separate books in respect of the operations conducted in the zone.

### **2. OPERATIONS ELIGIBLE FOR ASSISTANCE MEASURES PERTAINING TO THE FOREIGN TRADE ZONE**

- **International logistics**

- Operations are confined to those conducted in the zone and closely tied to the international distribution of goods.
- The local Québec market must not be the destination or source of more than 20% of the value of goods, by category of goods handled, except in the case of goods that are not distributed by enterprises already operating in Québec.
- The transportation operations of a company offering air, trucking or rail services are specifically excluded.

- **Aircraft repair and maintenance**

- No specific criteria apply, aside from the general criteria stipulated in section 1.

- **Advanced training in aviation or fields related to operations in the Foreign Trade Zone**
  - The enterprise's training activities must complement those already found in Québec.
  - Or, the activities must contribute mainly to the training of staff not residing in Québec.
- **Light manufacturing**
  - The operations must fulfil the objective of developing facilities dedicated to airport-related operations and contributing to Québec's economic development.
  - One or more of the following factors must be decisive in the start-up project:
    - the proximity of an international airport;
    - customs free zone;
    - ready access to the four main modes of transportation;
    - a large surface area for the start-up project.
  - The value added during manufacturing and the purchases of components in the zone must not exceed half the total value of the manufactured products.

### **3. SUMMARY OF ASSISTANCE MEASURES**

- **Broadly speaking, the assistance program will run for 10 years.**
- **Investment assistance**
  - A 25% refundable tax credit for the purchase or leasing of eligible capital goods.
  - Financial assistance for the construction of buildings by eligible enterprises, when necessary for the completion of the project, without ever exceeding 25% of their value.
  - Financial assistance for the construction of buildings by third parties, up to the equivalent of 20% of their value, which will be offered for leasing to eligible enterprises in the zone.
- **Operating assistance for enterprises**
  - An income tax exemption.
  - An exemption on the tax on capital.
  - An exemption from Health Services Fund contributions.
  - A refundable tax credit on the salaries of eligible employees, except the employees of a manufacturing concern:
    - 40% until December 31, 2000, with an annual maximum of \$15 000 per employee;
    - 30% from January 1, 2001 to December 31, 2003, with an annual maximum of \$12 000 per employee;

- 20% from January 1, 2004 to December 31, 2009, with an annual maximum of \$8 000 per employee;
  - for the purpose of this tax credit, only the salaries of full-time employees whose work contract calls for at least 26 hours of work per week over a minimum of 40 weeks will be eligible.
- **Assistance to operate in a customs free zone**
  - Access to specialists from the development corporation to help enterprises manage customs duty and sales tax programs.
  - A loan guarantee and interest holiday program to overcome certain shortcomings that do not allow an enterprise to operate fully in a customs free zone pursuant to existing programs in Canada and thus streamline the working capital of enterprises.
  - A refundable tax credit on fees paid to customs brokers:
    - 40% until December 31, 2000, up to an annual maximum \$30 000 per enterprise;
    - 30% from January 1, 2001 to December 31, 2003, up to an annual maximum of \$24 000 per enterprise;
    - 20% January 1, 2004 to December 31, 2009, up to an annual maximum of \$16 000 per enterprise.
- **Employment assistance**
  - An Emploi-Québec office on the site can provide assistance adapted to the needs of enterprises in the realms of recruiting, worker training and human resources management.
- **Assistance to attract foreign specialists**
  - Total exemption for five years from income tax of eligible foreign specialists.