



City of Richmond

Report to Committee

To: Public Works and Transportation Committee **Date:** December 12, 2005
From: Victor Wei, P. Eng. **File:** 03-1240-03-01/2005-Vol
Acting Director, Transportation 01
Re: **PROPOSED FEDERAL GOVERNMENT SURTAX ON IMPORTED BICYCLES**

Staff Recommendation

That Mayor and Council send a letter to the federal government Ministers of Environment, Health, International Trade, Finance, Transport, Sport, and Public Health to advise that the City of Richmond opposes the imposition of the proposed surtax on imported bicycles.

Victor Wei, P. Eng.
Acting Director, Transportation
(4131)

Att. 2

FOR ORIGINATING DIVISION USE ONLY			
ROUTED TO:	CONCURRENCE		CONCURRENCE OF GENERAL MANAGER
Recreation & Cultural Services	Y <input checked="" type="checkbox"/>	N <input type="checkbox"/>	
REVIEWED BY TAG	YES <input checked="" type="checkbox"/> DW	NO <input type="checkbox"/>	REVIEWED BY CAO
			YES <input checked="" type="checkbox"/> GDS
			NO <input type="checkbox"/>

Staff Report

Origin

The following referral was made to staff at the December 14, 2005 meeting of the Public Works and Transportation Committee:

That the Notice of Motion (submitted to Vancouver City Council on October 4th, 2005) regarding a possible surtax on imported bicycles, be referred to staff for comment.

This report reviews the issue and, per a resolution of the Richmond Community Cycling Committee, recommends that Mayor and Council advise the relevant federal government ministries that the City of Richmond opposes the imposition of the proposed surtax on imported bicycles.

Analysis

1. Proposed Surtax on Imported Bicycles

Following the receipt of two complaints filed by the Canadian Bicycle Manufacturers Association in February and March 2005, the Canadian International Trade Tribunal (CITT) completed in September 2005 an inquiry into the importation of bicycles (assembled or unassembled) with a wheel diameter greater than 38.1 cm (15 in) and finished painted bicycle frames (assembled or unassembled). The inquiry determined that the goods were being imported into Canada in such increased quantities and under such conditions as to be a principal cause or threat of serious injury to domestic producers of like goods. As a result, the CITT recommended that the federal Minister of Finance impose a surtax on imported bicycles retailing for \$400 or less, with the surtax to be set at 30% in the first year of application, 25% in the second year and 20% in the third year.

Recent media articles have reported opposition to the proposed surtax (**Attachment 1**, in which two representative articles are reproduced) and the City of Vancouver passed a motion (**Attachment 2**) on October 6, 2005 that “*Vancouver City Council send a letter to the Federal Ministers of Environment, Health, International Trade, Sport, Finance, Transport, Infrastructure, Public Health and Families strongly urging them not to impose this tax.*”

2. Potential Impacts of Proposed Surtax

If implemented, the proposed surtax could have the following negative impacts:

- *Bicycle Purchase Price* – a 30% surtax is likely to be passed on to consumers by importers, thus making lower cost bicycles more expensive to purchase. Bicycles priced at \$400 or less would typically include children’s bikes and entry-level bikes aimed at novice and/or occasional cyclists; a higher price may prohibit families from purchasing a children’s bicycle and/or discourage prospective cyclists. The availability of a full range of bicycle types at various price points would benefit potential cyclists by providing a better opportunity to select a bicycle that closely matches their needs.
- *Greenhouse Gas Emissions* – transportation is the single largest source of greenhouse gas emissions in Canada with passenger cars and trucks responsible for about 18% of Canada’s

total greenhouse gas emissions. In urban areas, vehicle exhaust can account for up to two-thirds of smog producing pollutants. Encouraging cycling and other sustainable modes of transportation can help lower greenhouse gas emissions and support Canada's Kyoto Accord commitments. Government actions that may increase the cost of bicycles for consumers would appear contrary to these environmental goals.

- *Physical Activity Levels* – in June 2005, the City joined the Province of BC, Legacies Now and other BC municipalities in a challenge to be the healthiest community to ever host an Olympics by increasing physical activity by 20% by 2010. Cycling is a healthy activity that can support the City's "Getting Richmond Moving" initiative, however, the proposed surtax may discourage cycling by more residents should the retail prices of bicycles rise to offset the surtax.

3. Consultation with Richmond Community Cycling Committee

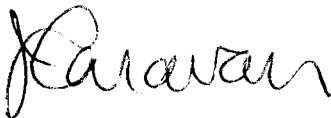
The City's Richmond Community Cycling Committee discussed the proposed surtax at its November 2005 meeting and unanimously agreed to strongly recommend that the City of Richmond send a letter to the relevant federal government ministries to indicate its opposition to the proposed surtax, as the surtax would increase the price of the lowest cost bicycles which, in turn, would counter the Committee's mandate to encourage greater cycling by the community.

Financial Impact

None to the City.

Conclusion

The proposed surtax is likely to result in a higher price of the lowest cost bicycles for consumers. In turn, a higher price may discourage greater cycling, which would work against the City's past and planned investment in cycling infrastructure and is counter to local, regional, provincial, and national goals to decrease greenhouse gas emissions and increase physical activity levels of Canadians. Staff therefore recommend that Mayor and Council send a letter to the relevant federal government ministries to advise that the City of Richmond opposes the imposition of the proposed surtax on imported bicycles.



Joan Caravan
Transportation Planner
(4035)

JC:lce

Bicycle surtax could hurt Canadian exports: Proposed tax may trigger retaliatory duties

Vancouver Sun, September 6, 2005, p. E1.

A proposed surtax intended to protect Canada's bicycle manufacturers could do serious damage to the nation's overall economy, industry experts warn.

If a duty is imposed on foreign bicycles, as recommended by the Canadian International Trade Tribunal last week, Canada's trading partners would also be entitled to impose their own duties on exports out of Canada, said Toronto lawyer Jesse Goldman, who represented the Retail Council of Canada at the tribunal hearings. That means countries like China, where almost half of bicycle imports to Canada originate, could slap duties on such things as building products from British Columbia.

"So Canada will in effect be trading the interests of a floundering and small domestic industry for the interests of very successful Canadian exporting industries," Goldman said in an interview.

The tribunal recommended the surtax in response to complaints filed by the Canadian Bicycle Manufacturers Association that their members were unable to compete with cheap imports that have doubled in volume over the past five years.

If implemented, bicycles imported for under \$225, which roughly equates to a retail price of \$400, would be subject to an additional 30-per-cent levy in the first year, a 25-per-cent levy in year two, and 20 per cent in the third year.

"The consequence is that children's bicycles will become considerably more expensive, which is ironic because Canadian producers don't really produce children's bicycles," Goldman said.

The Retail Council of Canada opposed the tax, arguing that the troubles of the two large manufacturers behind the complaints were caused by bad business decisions and not increased imports. The council also argued that it would be retailers and consumers that would be hurt.

Consumers have price points, and if they were looking for a \$300 bike with certain features, they are not going to suddenly look at \$400 bikes because of the tax, Goldman said. They will either not buy a bike or they may travel to the United States, where bikes have traditionally been cheaper.

Bicycle importer A. Mordo and Son Ltd. also opposed the tribunal's order. The Vancouver-based company designs bicycles that it has manufactured overseas and imported to Canada for sale through retailers such as Sport Chek, Costco and Zellers. The company makes between 300,000 and 400,000 bicycles a year, half of which retail for under \$200. Company CEO Alex Mordo estimates that the additional tax will amount to about \$40 to \$50 for children's bikes and \$100 for adult bikes, once sales taxes are added on top of the new tax.

"For a few jobs that have to be protected, you are going to punish 1.2 million bicycle riders a year. You are punishing the single mothers; you are punishing the guy who is using that as the cheapest mode of transportation," Mordo said.

Increasing prices will dramatically reduce the number of bicycles purchased because the price point -- the price at which people are willing to buy -- will be lost, and that will have ripple effects throughout the economy.

"If there are less bikes that are going to be sold, there is going to be less transportation [to deliver the bikes], less mechanics [to assemble the bikes] and less sales people to sell those products. So the end effect will be thousands of jobs lost in Canada," Mordo said.

Add to that the cost to the environment.

"Here we want to be green, we want to be against pollution. And there goes three or four hundred thousand bikes out of the market," Mordo said.

It is now up to the federal finance ministry to decide whether to follow the recommendations of the tribunal.

"Retailers certainly hope that the minister and his office consider the tribunal's recommendations very carefully, that they consider the evidence before the tribunal and that they particularly pay attention to Canada's obligations internationally when it comes to effecting safeguard legislation," Goldman said.

Bicycle surtax faces rocky political ride

Vancouver Sun, September 27, 2005, p. A3.

OTTAWA -- A divisive political battle that straddles party lines looms as the federal government considers whether to slap a huge surtax on cheap bicycles from China and other low-wage Asian countries.

The emergency protection tariffs, recommended in a recent ruling by the Canadian International Trade Tribunal, would protect jobs at two money-losing Quebec plants located in key ridings targeted by the Liberals in the upcoming election.

But the higher charges would hurt consumers and damage Canada's credibility as a champion of free trade and a cleaner environment, say such opponents as Liberal MP Don Bell, chairman of the B.C. Liberal caucus.

"This is discriminatory, it's not in the public interest," said Bell, who plans to enlist the support of other western Canadian MPs and senators before taking the issue to national caucus.

The tariffs, which would start at 30 per cent and affect bikes priced in the \$600-\$700 range, will hurt retailers and consumers -- especially kids and Canadians considering the option of biking rather than driving to work, he said.

"We're talking about entry-level commuters at a time when gas prices are high. We should be encouraging it rather than discouraging it," Bell said Monday.

Conservative trade critic Ted Menzies said the Liberal government, now blasting American protectionism on softwood lumber, can't start protecting Canadian firms that can't compete.

"It's a very difficult decision. I know there's people's jobs, people's livelihoods, within Canada that are on the line," Menzies said, noting that Canadian manufacturers of barbecues and textiles are also expected to demand special tariff protection. "If we decide to put a tariff on this, where do we stop?"

But Quebec Liberal MP Claude Drouin, while acknowledging the danger of putting up barriers to trade with China, said his riding would be hurt badly if one of the two companies seeking protection, Procycle Group Inc., had to shut down.

"If we don't do something and we lose all the jobs here, it's not good," said Drouin, who narrowly beat the Bloc Quebecois candidate in the Beauce riding. "If we don't have another [option], we will take this one," he said of the tribunal's call for a hefty surtax.

Opponents of emergency tariffs have been pressuring MPs, hiring lobbyists, and flooding journalists with news releases since the tribunal's ruling.

They got a potential boost Monday when a key Quebec Liberal cabinet minister said he's opposed to protectionist measures.

"I'm very worried about tariffs," said Jacques Saada, minister responsible for Quebec economic development. "As soon as you impose tariffs, you allow the other party to do the same thing, and we are a trading country."

Saada said the government can only help companies struggling to compete against low-wage foreign exporters by helping them to diversify by producing higher-end or value-added products.

One government official said the decision, the responsibility of Finance Minister Ralph Goodale, could end up being a temporary surtax that will only be applied until the two companies -- Procycle and Raleigh Canada Ltd. -- make a move away from low-end bikes that compete directly with firms based in China, the Philippines, Thailand and Vietnam.

But that temporary measure wouldn't please groups like the Independent Bicycle Retailers of Canada, which issued a news release Monday saying it's "absurd" to consider a surtax.

"It's outrageous that Canadian cyclists, my business, my staff's jobs, the health of our nation and the environment are all up for sacrifice, to bail out two globally uncompetitive businesses that have failed to adapt despite 15 years of trade protection," said Mike Theil, an IBRC spokesman and owner of four bicycle stores in B.C.

Mass retailers such as Costco, Wal-Mart and Zellers are also opposed to tariffs and are expected to get into the lobbying act.

The federal government's tribunal decided earlier this month that Procycle and Raleigh Canada Ltd. successfully proved that they suffered "serious injury" because of cheap imports.

Procycle is owned by Raymond Dutil, brother of well-known Quebec business leader Marcel Dutil, an ardent federalist who contributed more than \$5,000 to Liberal MP Drouin's riding association in 2003.

Raleigh Canada Ltd. is based in Oakville, Ont., but manufactures its bikes in Waterloo, Que., in the Bloc Quebecois-held Shefford riding in the Eastern Townships.

City of Vancouver
Standing Committee of Council on City Services and Budgets
Minutes, October 6, 2005

B. Motions on Notice

1. Surtax on Imported Bicycles (File 5553)

MOVED by Councillor Ladner
SECONDED by Councillor Green

THAT WHEREAS:

1. the Canadian International Trade Tribunal is recommending that the Canadian government impose a 30% surtax on imported bicycles with a wheel size of 15" or greater with a F.O.B. factory price of \$225 or less, to protect jobs for two bicycle assembly companies in Quebec;
2. And whereas this surtax is on top of existing tariffs of 8.5-13% on all imported bicycles, as well as anti-dumping duties;
3. And whereas this surtax is strongly opposed by all but two Canadian cycle manufacturers and by nearly 1,000 independent specialty retail bicycle stores across Canada;
4. And whereas these dealers estimate that this tax would add an estimated minimum of \$50 to the price of all imported bicycles selling for less than \$600, making a first bicycle purchase less affordable;
5. And whereas cycling is:
 - a transportation priority for the City of Vancouver,
 - a key factor in reducing youth obesity,
 - essential for Vancouver meeting its Kyoto GHG targets; and
 - a vital element of a healthy city.

THEREFORE BE IT RESOLVED that the Vancouver City Council send a letter to the Federal Ministers of Environment, Health, International Trade, Sport, Finance, Transport, Infrastructure, Public Health and Families strongly urging them not to impose this tax.

CARRIED UNANIMOUSLY