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# Structured Financing Facility (SFF)



For Canadian Built Vessels and Offshore Marine Structures

## SFF PROGRAM ELIGIBILITY GUIDE

*This Guide provides answers to key questions and explains how purchasers, operators and lessees may be eligible for financial support for the construction of Canadian built vessels and offshore marine structures through the Structured Financing Facility (SFF) sponsored by Industry Canada.*

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## 1. WHAT IS THE STRUCTURED FINANCING FACILITY (SFF) ?

### **Background:**

- SFF is a key component of the government's approach to the shipbuilding industry in Canada and has been renewed until March 31, 2011.
- SFF is a market based tool, administered by Industry Canada, that is intended to help ensure capability exists for federal marine procurement by generating Canadian shipyard work.
- SFF benefits are available to both domestic and foreign ship owners.
- SFF is an alternative to the accelerated capital cost provision in the Canadian tax regulations.

### **Objective:**

The objective of the SFF is to help ensure that shipyard capability exists for federal marine procurement and maintenance requirements in keeping with the Buy Canada procurement policy. Additional expected outcomes are:

- Creation of demand for Canadian shipyard work;
- maintenance or increase in number of Canadian shipyard jobs;
- maintenance or development of skill level of Canadian shipyard workers;
- development of innovation, adoption of new technology and improvement of productivity in Canadian shipyards.

### **The SFF is comprised of a single element:**

**Interest Rate Support (IRS)** - this provides an interest rate buy-down of financing used in the acquisition or modification of a Canadian built vessel or offshore marine structure. The support is in the form of a non-repayable contribution made by the Minister upon receipt of an eligible claim and proof that the vessel or offshore marine structure has been delivered and accepted.

**2. IS THERE A LIMIT ON THE LEVEL OF SUPPORT OF PROJECTS OR THE SIZE OF FIRM WHICH CAN BE SUPPORTED BY THE SFF?**

**Level of Support:**

- The maximum loan or lease will be the amount disbursed to or on behalf of the applicant by a lender or lessor and shall not exceed the purchase price of the vessel or marine structure.
- The **Interest Rate Support (IRS)** element of the Program provides an interest rate buy-down of up to a maximum of 15% of the shipyard contract for the purchase or modification of an eligible Canadian built vessel or offshore marine structure.
- When a Canadian applicant receives the benefit of SFF support, the right to the Accelerated Capital Cost Allowance (ACCA) is lost, as specified in Regulation 1101(2c) of the Income Tax Regulations and described in section 1092 of the Canada Income Tax Guide. SFF supported vessels will only be eligible for the standard capital cost allowance afforded to Class 7 assets.
- If the vessel or offshore marine structure is for export, and a fixed-rate loan is used to finance the acquisition or modification, then the interest rate of the loan cannot normally be bought down below the Commercial Interest Reference Rate (CIRR) as defined by the Organisation for Economic Co-operation and Development (OECD).

**Stacking of Program support:**

- The assessment of the required level of assistance will take into consideration the total domestic government assistance (federal, provincial, territorial and municipal assistance) towards the eligible costs supported by the contribution.
- In general, contributions will be conditional upon total government assistance being limited to 75 percent of eligible costs. This provision will not apply to not-for-profit recipients, to aboriginal recipients, to non-commercial projects or where total government assistance is less than \$100,000. In those cases the stacking limit is 100 percent.
- All recipients of financial assistance under the SFF will be required to inform the Minister of any other domestic government (federal provincial/territorial, municipal) financial assistance received or requested for the financing of the vessel prior to the approval of the contributions and during the course of the project.

- The SFF does not preclude applicants from applying for support from other existing programs (i.e. Strategic Aerospace and Defence Initiative, Export Development Canada, Scientific Research and Experimental Development Program (SR&ED) Tax Credits, etc).

**Size of companies:**

While the upper limit to the size of a project may be constrained by the availability of SFF Program and contingency funding, there is no restriction on the size of company which can be supported by the SFF Program.

### **3. WHAT TYPES OF RECIPIENTS, PRODUCTS AND COSTS ARE ELIGIBLE FOR SFF SUPPORT?**

#### **General Eligibility:**

The applicant must be a purchaser or lessee of a vessel or offshore marine structure. The payment for the newly built or modified vessel or offshore marine structure must be financed by a lender or lessor who will receive the SFF contribution to reduce the applicant's interest or leasing costs.

The recipient (lender, lessor) must be proposed through an application filed with the Minister of Industry by the applicant

The applicant must not enter into an irrevocable commitment to proceed with the project in Canada prior to SFF approval.

#### **Eligible Applicants:**

- Eligible applicants are firms, organizations or institutions which can demonstrate their ability to achieve the stated objective of the government's strategy for Canadian Shipbuilding and Industrial Marine Industry by means of the proposed project.
- Eligible applicants must be legal entities and may be incorporated entities, partnerships, cooperatives, or any trustee or legal representative thereof, or groups or alliances.
- Federal Crown Corporations listed in Section 85 or Part 1 of the Schedule III to the *Financial Administration Act*, may also be eligible to receive assistance where, in the opinion of the Minister, it is justified in terms of the economic benefits generated. Approval of the Treasury Board Secretariat will be sought before any of these entities are beneficiaries of the SFF program. In addition, due diligence will be exercised to ensure that any contribution is not used for financing a Crown corporation's ongoing operating or capital expenditures.

**Eligible Products:**

Eligible products are new vessels or marine structures and existing vessels and marine structures undergoing major refurbishment, conversion or other major modification and done in a Canadian shipyard. The following additional criteria apply:

- The vessel is not constructed mainly of wood or fibreglass and is not a wind powered craft.
- The vessel is at least 25 metres in length.
- The price paid for the shipyard work is at least \$5 million.
- The vessel is solely intended for commercial use and not any private use.
- If it is a marine structure, it must be one used in the development or exploitation of offshore oil, gas and/or mineral resources.
- The vessel or marine structure will be constructed and delivered by March 31, 2011.

Pleasure craft, as defined in the *Canada Shipping Act*, are not included.

**Eligible Costs:**

- The eligible costs are the overall interest costs and bank fees of financing the vessel.
- The eligibility start date shall not be before the date in which a completed formal project proposal is received.
- The applicant's direct and indirect operating costs related to the purchasing activity associated with buying the vessel or offshore marine structure are not eligible.

Note that any capital contribution by the purchaser, operator or lessor to the vessel (e.g. applicant supplied equipment, labour or components) will not normally be included in the value of the ship when calculating the maximum level of support available for IRS. The critical amount is the price paid to the shipyard pursuant to a shipyard construction contract.

**Additional Eligibility Considerations:**

- A Canadian SFF Program applicant may not execute a final purchase Agreement to buy or lease a vessel or marine structure prior to approval by the Minister;
- Eligible shipyards must be located in Canada on a waterway accessible to ocean going traffic;
- In instances where a purchaser is buying from its affiliated Canadian shipbuilder the applicant and Canadian shipyard must demonstrate, to the satisfaction of the Minister, adherence to all program criteria. Thus agreements among affiliates are eligible as long as all eligibility criteria of the Program are satisfied;
- The provisions of the *Canadian Environmental Assessment Act* and the *Canadian Environmental Protection Act* will apply to the SFF;
- The Minister of Industry Canada shall have the sole discretion to determine the acceptability of an applicant, a recipient or a lender, a lessor, and a shipyard or marine fabrication facility;
- The Minister may, from time to time, make policies regarding acceptability and available funding.

**4. WHAT ARE THE STEPS TO FILE AN APPLICATION:****Step 1.            Eligibility Self-assessment**

You should assess your company and project against the eligibility criteria identified above to determine whether you should proceed to the next step. The following checklist is provided to assist you in this exercise.

	<u>Yes</u>	<u>No</u>
1. Do you intend to acquire or significantly modify a vessel or offshore marine structure?	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the vessel/offshore marine structure fit the criteria for eligible products (above)?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you intend to lease or debt finance the acquisition or modification of the vessel/offshore marine structure?	<input type="checkbox"/>	<input type="checkbox"/>
4. Would you consider a Canadian shipyard for this construction if you were to receive SFF support?	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the proposed Canadian shipyards on a waterway accessible to ocean going traffic.	<input type="checkbox"/>	<input type="checkbox"/>
6. Is it true that you have not yet executed a final purchase agreement to buy the vessel or marine structure, and do not intend to do so prior to the signing of a contribution agreement by the Minister.	<input type="checkbox"/>	<input type="checkbox"/>
7. Is it true that, in the absence of SFF support, you would not purchase/lease the Canadian made or refurbished vessel/offshore marine structure, or that the project would continue in Canada but would either be delayed and/or be of smaller scope.	<input type="checkbox"/>	<input type="checkbox"/>
8. Is it true that you are up to date in all obligations to Industry Canada and to the federal government.	<input type="checkbox"/>	<input type="checkbox"/>

**Step 2. Project Financing Proposal**

- If you have answered yes to all the questions in the eligibility checklist, you should get in touch with an SFF project officer (see contact list at the end of this guide).
- Be prepared to provide a full description of your project: where the vessel or offshore marine structure will be built/refurbished; how it will be financed; what will be the benefits to Canada; and, why SFF support is needed.
- If your project appears to be eligible and consistent with SFF program objectives, the SFF project officer will provide you with a Project Financing Proposal Outline that includes instructions on completing a Project Financing Proposal.
- The Project Financing Proposal serves as the application for Interest Rate Support (IRS).

**Note:** *SFF support is not made on a first-come first-served basis. Rather, proposals are reviewed as they are received and prioritized according to the extent to which they achieve the objectives of the program [see “objective” above] and provide maximum economic, industry specific, and regional benefits for Canada. After your eligibility is determined, your proposal must compete for relatively scarce resources. Throughout the process we will endeavour to keep you informed on the feasibility of your proposal being approved.*

**5. WHAT ARE THE CRITERIA THAT INDUSTRY CANADA USES IN SELECTING PROJECTS FOR SFF SUPPORT?**

Project Financing Proposals are assessed in the context of their relevance to the objectives of the SFF, namely the extent to which they demonstrate that:

- the project contributes to the strategic objectives of the government with respect to promoting the capabilities of Canadian shipyards for government procurement requirements, and provides net economic benefits to Canada (increasing economic growth, creating jobs and wealth, and supporting sustainable development, etc.);
- the project is financially and technologically feasible, and that the applicant and candidate Canadian shipyard possess, or can reasonably be expected to secure, the requisite financial, technological and managerial capabilities to achieve the stated objectives of the project;
- a contribution under the SFF is necessary to ensure that the project (either individually or as part of a portfolio of related activities of the applicant and Canadian shipyard) is viable or proceeds within the desired scope, timing or location; and,
- the requested SFF support will be consistent with Canada's international agreements.

## 6. WHAT ELSE DO I NEED TO KNOW ABOUT THE SFF ?

The following additional information on the SFF may be helpful to you as you consider requesting SFF support:

- *Work in Canada:* The awarding of SFF contributions is not contingent on achieving thresholds of Canadian content. However, since the project must be conducted at a Canadian shipyard, it is expected that the value of the work will be predominantly Canadian.
- *Other Government Obligations:* It is Industry Canada (IC) policy not to support projects if applicants are not current in their obligations to the federal government. IC verifies that applicants are up-to-date in any obligations within Industry Canada. Also, IC requires that companies certify that they are current in their obligations to all other parts of the federal government.
- *Funding from other Government Sources:* You must identify all sources of government funding obtained for the project, including federal, provincial or municipal government assistance. If funding from any sources, other than federal and provincial tax credits, becomes available during the course of the project, you must inform IC and IC will have the right to reduce its contribution during the course of the project to the extent of any such assistance.
- *Monitoring and Reporting:* Throughout the construction of the vessel or offshore marine structure, the shipyard will be required to report on the benefits of the project. The lending or leasing institution may be required to submit financial records relating to the loan or lease during the duration of the agreement with Industry Canada, and be prepared to allow government officials or their designated representatives access to their premises and data in order to audit the progress of the project and reports submitted.
- *Environmental Certification:* Before funding for your project can be approved, an environmental screening will be completed including the Canadian shipyard(s) location(s) to ensure compliance with the *Canadian Environmental Assessment Act* (CEAA) and the *Canadian Environment Protection Act*.
- *Confidentiality:* No commercially confidential information which you submit to us will be disclosed unless otherwise specified by you and the Canadian shipyard(s); or is required to be released by law; or is required by the Minister of Industry to be released to an international or internal trade panel for the purposes of the conduct of a dispute in

which Canada is a party or a third party intervener. Information on the federal government's *Access to Information Act* is available on the following Web site: <http://laws.justice.gc.ca/en/A-1/index.html>. Any information that you wish to be considered as commercially confidential should be marked accordingly.

- *Announcements:* IC has the right to formally announce any project to which it provides financial support, and your company may not announce it in advance of such an event. The announcement will not disclose the percentage of program contribution. It is IC's policy to make all projects public.
- *Lobbyists:* You will be required to declare if you have used, or intend to use the services of a lobbyist for the purpose of obtaining funding from Industry Canada. Use of any lobbyist engaged for this purpose will have to be in compliance with the *Lobbyist Registration Act*.

## 7. WHO SHOULD I CONTACT TO ANSWER ADDITIONAL QUESTIONS ?

For additional information or guidance, please contact us at:

### **Ottawa:**

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