



Trade Without Borders: New Paradigms for Business

Introduction

In 1998, the ten year phase-in process of NAFTA was completed and businesses in both Canada and the U.S. began to enjoy the benefits of one of the most open trade relationships in the world. After NAFTA, trade patterns that had traditionally followed an East-West pattern began to reflect the increasing occurrence of North-South trade. This trend continued to grow as many forward thinking companies began to consider the North American market as one single region, without seeing the border as a barrier. Then came September 11, 2001, and the subsequent disruptions in international trade. Any lax border operations were quickly tightened and flaws in the system became very apparent.

Yet trade between the United States and Canada is critically important to the success of the economy of both countries, and our respective governments have acted to increase security and cooperation while still maintaining a seamless flow of goods across the border. Companies that are looking to expand operations into Canada need not hesitate as a result of border concerns. There are issues that need to be considered and proper planning is essential, as it is in any business expansion, but once the prep work is done, companies can easily enjoy the benefits of servicing a North American market from a Canadian location.

Legislation and Regulation

Transborder trade between Canada and the U.S. has become much more transparent and efficient in recent years. NAFTA saw the elimination of most tariff barriers between the two countries. At the same time, customs procedures on both sides of the border have been streamlined through new technologies and automation. The U.S. Customs Modernization Act (Mod Act) and the Canada Customs and Revenue Agency's Customs Action Plan were both created in order to modernize the border management process. Both plans outline very clearly the responsibilities of the exporter/importer, the channels through which goods must be cleared and the process for handling disputes. While guidelines are stringent, they are clear-cut and can be easily dealt with when the proper customs expertise is accessed. As well, new security guidelines in both countries have been introduced in order to minimize the threat of terrorism to cross border trade. Efforts to increase the security of cross-border shipping and to harmonize customs operations on both sides of the border will continue as businesses put pressure on governments to maximize efficiencies at the border.

Technology and Information Programs

Key to the seamless transportation of goods across the border is the timely exchange of information. Changes in the processes of both Canada Customs and Customs & Border Protection (formerly U.S. Customs) combined with increasing use of information technology have allowed the easier transmission of information among all the players and have resulted in greater harmonization of procedures between the two countries. Electronic Release is possible at all automated ports operated by Canada Customs. Electronic Release shipments are given priority over manual releases. Another system, Pre-Arrival Review System (PARS) allows for the transmission of shipment data prior to arrival at the point of clearance. Through bar code technology, all information is ready and waiting when the goods reach the border. Customs & Border Protection has also made tremendous advances in the use of technology to increase the efficiencies of the border crossings. The Pre-Arrival Processing System (PAPS) is similar to the Canadian PARS program, as all trade data is transmitted prior to the arrival of the shipment at the port of entry. This has helped speed up clearances and reduce traffic congestion at commercial crossings. These technological advances make for an expedited clearance process, eliminating bottlenecks at the border. The rapid and timely exchange of information has become increasingly important in light of the new security programs.

Security Initiatives

Following 9/11, the U.S. began to implement a series of programs designed to increase security at the border. Canada and the U.S signed the 30-point Smart Border Declaration, a joint agreement that the two countries would work together to minimize the threat of terrorism while ensuring the secure trading partnership we have enjoyed in the past. Both countries agreed to adopt similar security standards, to ensure the rapid exchange of trade and security information and to establish common screening standards for cargo. One of the results of this agreement included an expedited release program in the U.S. called Free and Secure Trade (FAST). This program is especially important to businesses operating in a Just-in-Time environment, as it ensures the rapid release of pre-approved, low risk truck shipments. In order to qualify for FAST, it is required that companies participate in another U.S. security program called Customs-Trade Partnership Against Terrorism (C-TPAT).

C-TPAT is an extensive security program that requires participants to conduct thorough assessments of their supply chain security policies and practices. C-TPAT certified businesses will reduce the risk of border delays due to Customs inspections and will qualify for programs like FAST that will help protect their supply chain operations. In Canada, a similar program known as Partners in Protection (PIP) is being refined to meet the same trade security objectives. With border congestion at its peak in recent months, governments and business are working together to create programs that meet the dual objectives of security and efficient trade. As these programs become standard procedure, there should be substantial reductions in backlogs at the border.

The FDA Bioterrorism Act (U.S.)

Another program the U.S. is undertaking comes from the Food and Drug Administration (FDA). The FDA has put new rules in place to protect the U.S. food supply from potential bioterrorism. Companies shipping food products into the U.S. will be required to register with the FDA and new record keeping requirements are in place. The biggest issue however, is the 'prior notice' rule, which requires advance notice of food shipments prior to arrival at the port of entry. This is a concern for fresh produce and perishable shipments although appropriate adjustments in the supply chain should minimize border delays.

NAFTA and low Value Shipments

Should a U.S. company decide to establish a presence in Canada, it is a relatively simple process to fill orders and ship back into the U.S. Thousands of courier shipments are delivered daily from Canada in to the U.S. With new, expedited processes, even high-value shipments can be delivered overnight. The benefits of NAFTA continue as goods travel seamlessly back and forth across the border. By consulting the proper customs experts companies can determine which goods are NAFTA eligible, ensuring that qualifying goods coming into the U.S. will receive the reduced rates, ultimately reducing the delivered price of the product.

In addition to NAFTA, there are many other programs in place with U.S. Customs that will ensure the expedited release of goods. Provisions and special exemptions have been made that simplify the procedure for goods crossing the border and reduce the costs to the exporter. For example, goods travelling from Canada into the U.S. valued at less than \$200 that are not subject to the rules of another agency (such as the FDA) do not require a customs entry, according to Section 321 of the U.S. Customs Act.

The enormous amount of goods crossing the border have led both the Canadian and American Governments to put in place programs that will ensure the security of both nations while continuing to support the trade that is so critical to the economies of both countries. Essentially, Customs agencies in Canada and the U.S. are looking to push the border back to the point of origin, avoiding surprises at the border and continuing the free flow of goods across a seamless border.

Logistics and distribution strategies

Shipping to the U.S. sounds complex, but need not be so with the proper planning and groundwork. Strategic preplanning and outsourcing are important considerations. The basic function of a distribution strategy is to get the goods efficiently to market at the lowest possible cost, while providing the highest level of customer service. Recent changes at the border are designed to increase security by implementing more stringent guidelines pertaining to the entire supply chain. The hope is that all the work will be done prior to arriving at the border so that a seamless border may be maintained. Given the many cost

advantages to locating a distribution site in Canada, it's quite possible that efficiencies and cost savings could be seen by serving clients in both countries from a northern location. This has the potential to produce substantial transportation cost savings and expedited delivery services to the entire North American market.

Over the years, many companies have taken advantage of the Just-in-Time concept and the significant savings to be found in reducing inventory levels. After 9/11, it became very apparent that there were risks to this strategy as well. Should borders close and airlines shut down for any reason, production could grind to a halt. As a result, many companies are now looking to a Just-in-Case/Just-in-Time concept, where inventory is repositioned closer to the client or production facility often with a safety supply built up as extra insurance. Locating a distribution centre in Canada is a logical choice for businesses concerned about maintaining the supply to their Northern clients.

Companies stocking a warehouse in Canada from a U.S. location should consider consolidating shipments whenever possible in order to take advantage of the lowest possible transportation rates. Product should then be linehauled direct to Canada to a regional distribution centre, placing the goods closer to the market and therefore lessening the time from order to delivery. If the company chooses to partner with a Canadian third-party logistics provider, they will have access to strong regional distribution and delivery capabilities, minimizing transportation costs and delivery times and maximizing their customer service.

The use of a third-party logistics provider enables businesses to offer landed cost pricing and to invoice in Canadian dollars, providing a definite competitive advantage. A third party logistics provider will provide hassle-free inventory management and help to minimize inventory carrying costs for those businesses looking to reposition their inventory. Third-party logistics providers can also provide the timely, flexible adaptation of the important technologies needed to ensure the expedited clearance of goods on both sides of the border.

As a major component of distribution, delivery services need to be considered. Geographically, both Canada and the U.S. are extremely vast countries with diverse regions. In many cases, shipping North-South is more logical than shipping East-West. Canada can offer a tremendous transportation infrastructure, with world class courier and shipping companies. Whether the goods are travelling across Canada, or following the increasing trend of North-South regional distribution plans, there are outstanding transportation links throughout the country. When considering site selection for a distribution centre, the border should no longer be seen as a barrier. Major considerations such as tax rates, labour costs, transportation infrastructure and costs, and access to market should take precedence. It may make more sense to locate a distribution hub in Canada that will service the entire North American market.

Conclusion

Forward thinking businesses are thinking outside the box and taking a more global approach to their distribution strategies. The streamlining of regulatory issues and NAFTA have made it easy for companies to ship across the border. While the events of September 11 have resulted in tighter security measures, both Canada and the U.S. are working to ensure the continued, expedited flow of good across the border. Concerns over border issues should not hinder companies that are considering the division of markets into borderless regions, where the North American region is looked at as a seamless whole.

The major issues to consider in selecting a location for a distribution centre or branch operation should be business issues, not border issues. Geographic location, the costs of doing business and potential cost savings should be the primary considerations. While it's difficult to break with tradition, it just might make more sense to locate in Canada and service the entire North American market from there. With over \$381 billion in bilateral trade between the two countries, a seamless border with goods passing back and forth with ease is the future. Progressive companies in both Canada and the U.S. see the potential benefits of the North American market concept and are creating new paradigms for business.

by Bob Johnson, President, Purolator Courier Ltd., with information provided by Purolator Trade Solutions, a joint venture between Purolator Courier Ltd. and PBB Global Logistics.