

How to trade with a dragon

By Darryl Anderson
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Momentum to ratify the Trans-Pacific Partnership (TPP) froze thanks to the tone and tenor of President Trump. An “America first” approach driving a renegotiation of the North American Free Trade Agreement and the recent ratification of the Canada-European Union Comprehensive Economic and Trade Agreement are at the forefront.

Prime Minister Trudeau’s January 2017 mandate letter to the newly minted Minister of International Trade, the Honourable François-Philippe Champagne, made brief mention of promoting trade and investment with emerging markets such as China and India. Shippers may be tempted to think that Canada’s international trade and investment agenda with China and other ASEAN countries will lag other priorities.

The appointment of a new Canadian ambassador to China (the Honourable John McCallum) and the news that Canada was amongst the group of 12 TPP countries (along with China and South Korea) to attend a March 2017 Chile Pacific trade meeting have observers speculating that our Asian international relationship may receive heightened attention. The possibilities include a bilateral trade agreement with China.

Pamela Goldsmith-Jones, Parliamentary Secretary to the Minister of International Trade, confirmed, “China is a really important market, and Canada will take a step-by-step approach to exploratory talks and engaging in consultations with Canadians.” Goldsmith-Jones also remarked that our ties with the ASEAN countries are long-standing and are part of Canada’s current trade and investment attraction efforts.

The Parliamentary Secretary recently spoke at the Singapore Maritime Week to promote international investment in Canada and the work of the Vancouver International

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Maritime Centre. She remarked, “the Government of Canada congratulates Vancouver for being recognized among the leading maritime capitals of the world in the Menon Report. As Canada’s Gateway to Asia Pacific, Vancouver is a thriving city for foreign investors looking to establish a North American base of operations. The Government of Canada truly appreciates the valuable contributions to Canada’s marine sector that come from a vibrant international shipping industry. We recognize the importance of the Vancouver International Maritime Centre in attracting foreign shipping companies to establish, expand or retain shipping operations on Canada’s West Coast — and building a strong maritime sector in British Columbia.”

Given the fact that international trade with China is our second largest commercial relationship after the United States, it is fair to ask what Canada’s priorities with China should be and how they relate to China’s ambitions as well as what practical measures shippers can take now as the larger international trade agenda unfolds.

Canada’s trade priorities with China

Cyndee Todgham Cherniak, an international trade lawyer with LexSage, suggests that significant issues in any Canada-China trade negotiation would likely include market access for Canadian goods in China. Sectors of interest include natural resources, softwood lumber, oil and gas, and inputs used to make steel. Market access for services such as insurance, banking, engineering, law firms, telecommunications, and government procurement would also be necessary.

China-specific issues that may be a priority in trade negotiations for Canada, according to Philip Sutter, Director, Strategic Analysis, Global Trade Management, Livingston International, include currency manipulation, protection of intellectual property, importing non-tariff barriers into China, and China’s compulsory certification policy.

Wendy Dobson, in *Canada, China and Rising Asia: A Strategic Proposal* argues that our priorities should focus on penetrating sectors in China that are expected to grow in the years ahead.

The Chinese market segments that hold the most promise for Canadian businesses, according to Export Development Canada’s *Doing Business in China: A Guide for Canadian Exporters*, aren’t necessarily the ones from which Canada currently gleans its highest Chinese export revenues, but rather those in which smaller Canadian companies are most likely to find business opportunities. The agri-food, automotive after-parts, construction materials and technology, environmental product, large infrastructure projects and logistics

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and distribution sectors were amongst the most promising industries.

China's international trade and investment priorities

Sutter stated, "Canada and China share a mutual interest in multi-lateral or bi-lateral trade agreements. China is also concerned with being a full card-carrying member of the world trading community."

Possible priorities for China, in Todgham Cherniak's opinion, would include Canadian recognition that China was a market economy rather than a State-Owned Enterprise. As a result, anti-dumping and countervail measures, along with certification and testing would be on the agenda. Non-tariff, technical barriers to trade and phytosanitary measures would be other relevant topics of interest to shippers, transport and logistics service providers.

Trading successfully with a dragon also requires insight into China's other international priorities.

Sutter observed that China was leading the pan-Asian Regional Comprehensive Economic Partnership (RCEP) that was conceived as a counterweight to the Trans-Pacific Partnership. He noted that international trade experts will be watching closely to see if this initiative would be opened for others to join now that President Trump has expressed a lack of support for the TPP.

In a March 2017 address, Chinese Premier Li Keqiang indicated that China would continue to open its markets to the world through the continuation of the Belt and Road Initiative. Li also said China will speed up the development of overland corridors and maritime hubs and will simplify customs clearance procedures.

For Canadian exporters, a bi-lateral trade agreement with China could help offset both NAFTA-related trade challenges and address China's One Belt, One Road policy of building stronger economic ties with Euro-Asian and African countries since these developments have the potential to influence Canada's maritime trade. If China focuses more on Asia and the Indo-Pacific basin for its commodity needs, this could reduce demand for Canadian exports.

Practical insights on trading with Asian countries

Regardless of the shifting global economy, shippers are also concerned with practical matters on how to trade with a dragon.

The Canada China Business Council advises that Canadian exporters should be aware of technical barriers to trade that may exist. Since the implementation of China's Food Safety Law in 2009, agricultural products could subject to additional costs for Canadian exporters. Also, China's sanitary and phytosanitary standards do not always conform to Canadian standards and are not always in line with international standards. Chinese ports have been known to apply phytosanitary standards differently, thus container industry consolidation, new shipping alliances and their port choices in China have the potential to disrupt supply chains in Canada.

When Todgham Cherniak was asked what practical insights she would give to an exporter or importer engaged in merchandise trade with Asia, she quickly responded, "small and medium-sized Canadian businesses importing goods from

China often appear to 'buy first and ask questions later.' For supply chain fluidity and to prevent costly delays, "importers need to ask themselves if they have done everything they need to do to be ready to receive the shipment. Examples of issues that can arise include missing Health Canada approvals, or receiving shipments on pallets that need fumigation."

Export Development Canada suggests that, for most Canadian exporters, shipping goods to China and dealing with Chinese Customs is a process better handled by customs brokers and freight forwarders. For example, a licensed customs broker or trade advisor based in Canada can work with an agent located in China. Freight forwarders are primarily responsible for moving goods, although many offer customs brokerage services as well. Consequently, shippers can select from various service providers, or have the company manage the whole process, starting at their loading dock and ending on your customer's doorstep.

Livingston International's Sutter identified critical success factors for clients engaging the services of outside experts. Besides bringing subject matter expertise, a relationship will be more beneficial when the following processes are proactively managed: transaction details, specific regulations and data needed to support the international movement of the goods.

Choosing a freight forwarder requires its own brand of due diligence. The most important thing to find out is whether the forwarder is experienced in clearing goods into China. Even if it passes this test, shippers should also:



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INTERNATIONAL TRADE

Moving beyond the present tense to a future that is friendly to increasing international commerce and investment requires both a strategic and practical perspective.

- Ask the forwarder for a list of customers and ask those customers about the forwarder's quality of service;
- Check the forwarder's credit references;
- Find out if the forwarder is experienced in handling your type of product; and
- Make sure the forwarder can handle the volume of shipping you expect.

For shippers, a positive development is that the new Ocean Alliance which commenced operations on April 1, 2017, includes the ports of Vancouver and Prince Rupert on their Pacific Northwest service strings and Halifax on their Asia-East Coast North America and U.S. Gulf services.

Before shippers take advantage of container shipping services, it is important for them to get all their paperwork in place according to a leading international trade lawyer. Cherniak noted that transport companies are witnesses to many of the issues or problems that arise when importing goods from China and other countries. They are often well placed to offer guidance to a client. Lessons learned from past bad experiences provide valuable insights into how much money and time can be lost in the import process when problems arise because of a lack of planning.

Trade and investment with Asia: present tense, future friendly?

Our trade and investment outlook with ASEAN countries and China, along with container line consolidation and alliances, influence Canada's port and gateway trade flows and infrastructure requirements. Canada's relationship with Asian countries benefits from political leadership at the highest levels as the recent efforts of the Parliamentary Secretary to the Minister of International Trade demonstrate.

Moving beyond the present tense to a future that is friendly to increasing international commerce and investment requires both a strategic and practical perspective. To overcome the challenges of moving goods to markets requires focusing our efforts on identifying areas that would allow each party in our international supply chains to thrive.

The lesson from Brexit and the American election is that a failure to tangibly demonstrate the benefits of international commerce has the possibility to lead to an outcome that is detrimental to a small open economy like Canada. Recognizing that Canada is at the early stages of a possible new trade and investment relationship with China, shippers, and transport service providers have an important voice to contribute to the discussions. Thus, it is incumbent on everyone to learn how to trade with an ASEAN, or China dragon.

Darryl Anderson is a strategy, trade development, logistics and transportation consultant. His blog Shipper matters focuses on maritime transportation and policy issues. <http://wavepointconsulting.ca/shipping-matters>.

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