



Trade reliant, trade compliant

By Darryl Anderson
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British Columbia annually trades with the world about \$74.4 billion in goods: exports account for around \$31.7 billion and imports \$42.7 billion. As a result, 34 per cent of provincial gross domestic product directly relies on merchandise freight and the international supply chains, transportation services, port and logistics infrastructure that underpins this constantly pulsating flow of traffic moving across our entire province.

The results of the *Surface Transportation Annual Review 2014* survey revealed that increasing export growth and support for sales channels were important logistics priorities. Increasing trade reliance results in a corresponding duty for logistics service providers and companies to be trade compliant. A clear understanding of the rules that govern international trade is beneficial since failing to comply with the trade rules, even accidentally, can lead to serious consequences. This article will touch on some of the issues influencing maritime trade compliance and highlight best practices that may offer insights to shippers as they seek future growth opportunities.

Issues influencing maritime trade compliance

The changing face of trade compliance requirements can significantly impact exporters, importers and their maritime logistics partners. "It is unprecedented to have so many major trade regulation changes implemented at the same time," said Matt Goodman, vice president of global trade management for Livingston International. He cited e-Manifest (Canadian Border Service Agency), the Canadian Food Inspection Agency Inspection Modernization Program (Canada),

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Food Safety Modernization Act (U.S.) and the Single-Window Initiative (U.S., Mexico and Canada) as major issues driving trade compliance initiatives in 2014.

In the shipping and port sectors, trade-related regulatory compliance issues often arise from the health, safety and security issues that are associated with the movement of cargo. Rising trade volumes, new rules, procedures, inconsistency of government enforcement, or cost-recovery initiatives all present situations where problems could arise. Stephen Brooks, president, Chamber of Marine Commerce noted that with increased global competition a lot of trade disputes worldwide arise from some form of technical regulation. Top advocacy issues for his organization include the implementation approach to the North American air emission regulations, ballast water regulations and government cost recovery initiatives such as Canadian Coast Guard user fees and others that originate in the United States.

In June 2014, the Canadian-based Chamber of Maritime Commerce made a submission to the U.S. Department of Agriculture, Animal Plant Health Inspection Service in response to a proposed increase in user fees. The fee would jump from \$496 to \$825 per inspection and the revised regulations would eliminate the annual fee cap of charging the user fee a maximum of 15 times per vessel. For Canadian Great Lakes / St. Lawrence shipping, the change could increase their annual inspection costs by as much as 238

per cent. Mr. Brooks stated, "these staggering fee hikes fly in the face of President Obama's oft spoken commitment to the efficient flow of goods between our two nations." Stephen observed that the United States' broad-brush approach to this user is inherently unfair because the regulations apply to all types of cargo, even to marine shippers of bulk raw materials that are not susceptible to biological infestation.

Bonnie Gee, Vice President, Chamber of Shipping of British Columbia stated that her organization has had some partial success in influencing on either how a maritime trade compliance measure is to



Stephen Brooks, President, Chamber of Marine Commerce

CARGO LOGISTICS

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be implemented, or educating their members to reduce the financial impact of the rules. When fully implemented, e-Manifest will require carriers, freight forwarders and importers in all modes of transportation to electronically transmit advance commercial information to the Canada Border Services Agency (CBSA) within prescribed mode-specific time frames. CBSA's approach to the marine sector required the Chamber to raise significant concerns in regard to the new requirements for a CBSA-issued carrier code, proof of the vessel operator existence and the length of time needed to obtain a carrier.

The Chamber advised CBSA officials that if these marine e-Manifest implementation issues were not addressed, Canada's supply chains would suffer numerous interruptions and significant delays, resulting in millions of dollars of extra costs for additional freight and warehousing expenses as well as penalties for missed deliveries. Bonnie stated, "as a result of the Chamber's efforts, the e-Manifest process for shipping has been simplified" from what was originally proposed. Nevertheless, the CBSA's desire for a uniform administrative approach does not always recognize the realities of maritime shipping. Going forward the Chamber is actively working to address the issue of "in transit cargo" that is impacting segments of the market such as grain shipments when vessels coming from

the U.S. are required to go to anchorage rather than directly to the marine terminal berth because of congestion or other delays.

Trade compliance best practices for shippers

In this section we see how some British Columbia companies provide best practice solutions for importers and exporters.

Keeping clients up to date on agreements and the current rules is a best practice and prime area where customs brokers service the needs of small and medium-sized businesses and larger shippers. "Our role is to understand government rules and regulations and ensure that our clients comply," says Greg Timm, CEO of Pacific Customs Brokers.

Being in compliance often involves adapting to new processes and procedures. Timm observed that a pressing issue for Canadian customs brokers and importers was the new electronic system — the e-Manifest — a process of notifying customs officers about goods ready to cross the border. "The United States implemented it approximately six years ago," he said, noting that Canada was following suit. "But Canada has had a tough time implementing it. The dates keep getting put off. It's been three years in the making now."

Supply chain collaboration is also a best practice for addressing trade compliance issues. "Although it is a carrier function,


the broker is usually the one that is open with the light on when the truck arrives at the border and encounters a problem. We've taken the approach that we're going to help carriers with this," says Cherie Storms, Assistant Operations Manager at Pacific Customs Brokers.

"This is not normally what falls into the stream of what customs brokers do but we're going to take this on. We've run seminars and we've educated our staff, so that we understand some of the problems carriers are going encounter with e-Manifest. We want to be able to provide some kind of guidance and solutions to our clients." Timm adds, "we have developed our Global Trade Concierge System, which will give the shipper a view electronically of their shipments. Clients will be able to go to our web site with their password and see the status of their goods."

Another best practice is to apply both strategic and tactical thinking to improve trade compliance results. "We used to operate almost exclusively at a transactional level," says Timm. "Now we speak to in-house corporate counsel at head offices through video or telephone conferencing in places like Chicago or Toronto, so they understand the risk assessment and the consequences of doing something wrong. In many cases companies haven't adjusted their business model so that they still have a person that is untrained in customs crossings doing the documentation without any understanding of what the consequences or implications are."

The adoption of new technology to improve business processes is another best practice to address trade compliance issues. For example, Kevin Price, a systems engineer originally from the Waterloo region created Burnaby based Chimpkey in 1999 to provide an improved method for "product labeling" for the export market. A potential client had a large volume of vehicles being shipped south of the border, he recalled. "He wanted to know if there was any way software could be written to help with the mountains of paperwork they had to file to get a vehicle cleared by Canada Customs." Within six months, Chimpkey released the software to handle export labels in the vehicle sector.

When the Canadian dollar drastically improved compared to the U.S. dollar in the mid-2000s, Chimpkey's business servicing the vehicle export sector began to weaken. It was clear that the company needed to develop software to handle more



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than the vehicle export market.

Kevin wanted software that worked for any product. He then created new software and, in the process, began working with customs brokers and logistics companies. The key business problem that Chimpkey made its mission to solve was the movement of data from one business form to another into a digitized database. Manually entering data not only creates duplication work, but also increases the incidence for human error.

As a best practice, Chimpkey developed a pilot project in 2006 that was designed specifically to pull information off a PDF document — a major electronic business form for inter-company transactions in North America — and deliver it in a digital format to customs brokers.

The company has since moved to working directly with customs brokers. In the last two years they have been targeting the European market. The firm is now doing work with two Danish companies — Lego and Karlsson Beer — processing financial documents.” As an example of frequently changing trade compliance requirements, Price pointed to the US Federal Food and Drug Administration’s (FDA) regulations. And closer to British Columbia’s economic concerns, there was the 2008 amendment of the *U.S. Lacey Act* that required extra information being filed for wood shipped across the border. “Shippers have to provide more information by completing electronic forms for the U.S. and Canadian governments,” said Price.

Conclusions

All supply chain participants have a vested interest in international trade compliance issues. How well companies observe the laws and regulations that govern their international business operations, and how well logistics service providers and regulators respond to new challenges, ultimately impacts the Asia Pacific Gateway’s reputation for fluidity and effectiveness. *BC Shipping News* readers are encouraged to follow trade policy developments and support the important work that our industry associations do to ensure the continued competitiveness of Canada’s maritime commerce.

In terms of best practices, small and medium-sized importers and exporters would be well advised to not even think about logistics options until after they have figured out how to address trade compliance issues. Timm observed that, in his

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experience, clients just want to do the right thing. “We have hardly ever seen clients trying to do something fraudulent. Sometimes they don’t pay enough attention and they don’t follow process. But just about 100 per cent are trying to do it honestly, just conducting their business. Doing what they think they should do and sometimes they’re wrong.” It can be a costly mistake to adopt a ‘ship first and worry about trade compliance later’ approach.

With a rising economic outlook and the need to support new sales channels, supply chain professionals will need to deftly navigate trade compliance shoals using both a strategic and operational perspective. Pilot projects, collaborating with others to assess and adopt new technology, and including subject matter experts on your team are all best practices that can be used to chart a successful course.

While every country with which Canada signs a free trade deal may represent an increased opportunity for further trade development, success will require the early adoption of trade compliance best practices. Competitiveness depends on shifting the topic of trade compliance from being more than an afterthought to transportation infrastructure development.

Darryl Anderson is a strategy, trade development, logistics and transportation consultant. His blog, Shipper matters, focuses exclusively on maritime transportation and policy issues. <http://wavepointconsulting.ca/shipping-matters>. Special thanks to Beverly Cramp for initiating thoughts on the topic, research collaboration and the interviews used to support the best practice examples cited in the article.



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