EASTERN BORDER TRANSPORTATION COALITION

INFORMATION BULLETIN

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SUBJECT: U.S.-Canada Trade: Getting a Line on Cross-Border Shipments

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As borders go, none are longer OR more peaceful than the 5,500 miles between the United States (including Alaska) and Canada. But don't use a lack of drama at the border as a reason to grow complacent. Despite ongoing efforts to facilitate trade, and harmonize laws and processes, there is plenty you need to know about moving goods from one country to the other—and potential pitfalls lie in wait for those without the right expertise.

For example, benefits under the Generalized System of Preference trade program for recovering duties on returned goods have recently expired. To reinstate benefits, the U.S. Congress must pass an act reauthorizing the program. At press time, it was not clear when the government will act, or if it will make the benefits retroactive. Shippers banking on receiving funds may be disappointed.

DOLLAR TO DOLLAR

One factor impacting cross-border trade strategy is currency fluctuation. For the past few years, the Canadian-to-U.S. dollar has been mostly on par, but that balance began shifting in early 2014. The Canadian dollar was equal to 93 U.S. cents at press time. These changes impact the cost of trade and sales.

"When currencies are at par, trade is impacted," says Lance Dixon, vice president of Mexico and Canada for Werner Enterprises, a transportation and logistics provider with headquarters in Omaha, Neb. "An influx of U.S. product moves into Canada, but not much Canadian-produced product moves back into the United States." An ideal currency balance is 87 to 88 cents, which enables products from the two countries to compete on an even playing field.

Shippers cope with this variability in different ways. "Some companies operate distribution centers in both Canada and the United States. Others closed their Canadian DCs, and consolidated in the United States, while still others opened additional DCs in Canada to be close to particular markets, or hold or move certain product lines," says Jonathan Routledge, vice president of sales and marketing for Purolator International, a Jericho, N.Y.-based subsidiary of Purolator Inc., Canada's largest integrated parcel and freight delivery services provider.

"No single model is right for every business," he adds. "It's critical to work with a service provider that has the ability to access multiple networks, and implement a variety of solutions."

As a third-party logistics (3PL) provider, Purolator International can support any shipper approach to balancing cross-border trade via its own assets in a variety of networks. Purolator International specializes in the air and surface forwarding of express, freight, and parcel shipments; customs brokerage; and fulfillment and delivery services to, from, and within Canada. The company's flexibility is key to moving freight consistently, with a high degree of visibility.

SURVEYING THE LANDSCAPE

Canada's geography can also create challenges for U.S. shippers. "The Canadian population is concentrated along the U.S.-Canada border, but that border is long," explains Rolly Uloth, president of transportation and distribution provider The Rosedale Group, headquartered in Mississauga, Ont. "For example, the distance between Toronto and Winnipeg is about 1,500 miles—the same distance as between Atlanta and Winnipeg."

The Rosedale Group started in 1969 with two accounts—one of which it still serves. The company operates 13 facilities across Canada to serve the whole country, and provides truckload and less-than-truckload service between Canada and the United States.

"Most of Canada falls within 100 miles of the U.S. border, so Canadian businesses tend to be more comfortable than U.S. shippers when managing cross-border transportation," Uloth explains. "Our staff stays current on customs regulations so they can guide shippers in preparing compliant cross-border shipments."

To better serve U.S. shippers, The Rosedale Group operates a general freight terminal in Dalton, Ga., outside Atlanta. The company plans to expand into the Dallas and Los Angeles markets.

REGARDING REGULATIONS

Logistics companies providing services across the Canada-U.S. border need a deep knowledge of regulations and compliance, related to the transportation mode as well as the cargo.

For example, Canada maintains stricter requirements for driver background checks than the United States does. A driver with a DUI conviction in the distant past may be allowed to work by U.S. standards because the crime was considered a misdemeanor. But Canada considers a first-offense DUI a felony, and won't permit that driver to cross the border. Similar differences apply to a driver's history of alcohol abuse, illegal firearm possession, or violence. In the midst of a driver shortage, those differences can create a challenge for transportation companies.

Werner Enterprises addresses this issue by maintaining a Zone 7 fleet—a group of about 60 handpicked drivers whose spotless records comply with requirements. These drivers specialize in short-haul, cross-border moves—many through Detroit/Windsor or Buffalo. In some cases, those loads are then tendered to Canadian carriers for final-mile delivery.

The company also maintains a terminal in Detroit, where it can carefully inspect trailers to comply with Canada's stringent maintenance requirements for cracked frames, and problems with tire tread, brake slack, or air lines, conducting necessary repairs on the spot.

Werner staffs its offices in the United States and Canada with expert border-crossing managers trained to spot and resolve problems and keep cargo moving. The company also maintains a large network of carriers.

"We work with our carriers to get loads moved," says Dixon. "Our density gives us a better platform. Because of our relationships with other U.S. and Canadian carriers, we can almost always find shippers capacity into Canada."

Werner also developed a proprietary system, EZ Cross, which enables shippers to comply with both countries' customs requirements—Canada's Advance Commercial Information (ACI) and the United States' Automated Commercial Environment (ACE) system. These programs require documents to be sent to customs via EDI in advance of shipments. The EZ Cross system allows shippers to continue to send documentation to Werner via fax, avoiding the cost of a system upgrade. EZ Cross converts the faxed documents into files acceptable for ACI/ACE filing.

All these resources ease cross-border movement for shippers. "We try to simplify the customs process to eliminate delays at the border," Dixon explains.

TOP COMMODITIES

Many goods move across the Canada-U.S. border, but a few stand out for their high volumes. Some service providers specialize in understanding and addressing the requirements and compliance needs of these commodities.

Energy, for example, is a leading industry in Canada—particularly oil and tar sands moving south from the Calgary area. Logistics requirements include not just moving the materials themselves, but also heavy drilling and earthmoving equipment and machinery.

Serving the oil and gas industry is one specialty of A.N. Deringer, a privately held customs brokerage, freight forwarding, transportation, and warehousing and distribution service provider based in St. Albans, Vt. In addition to managing the physical movement of oil and gas products and equipment, the company's experts can address the many customs rules and other government regulations involved in importing into the United States.

"Oil and gas is a complex industry to serve, because even though the oil might be taken right from the ground in Canada, and be 100-percent NAFTA qualified, the U.S. importer is still required to provide proof of NAFTA qualification," explains Amy Magnus, director of customs affairs and compliance for A.N. Deringer. "Unless the importer is actually responsible for the wellhead itself, it might be difficult to obtain and produce evidence for NAFTA. Qualifying for NAFTA is one of the major issues shippers face when importing from Canada."

Agriculture products—both fresh and processed foods— are another high-volume export from Canada to the United States. Shippers must manage not just the physical move, but also ensure compliance with regulations such as the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, and FDA requirements governing facility registration and inspections.

"In the past, importers could just load a truck and head for the border," says Magnus. "Today, importers must have a deeper knowledge of import requirements, which vary depending on the type of merchandise being imported. The new advanced notice of arrival, and additional government agency requirements, have become increasingly complex."

The past few years have seen an influx of U.S. retailers into Canada, including Target, Walmart, Home Depot, Cabela's, and Bass Pro Shops, driving an increase in consumer goods moving across the border. But within cross-border retail, the fastest-growing segment is e-commerce. U.S.-based e-tailers are eager to reach Canada's 35 million residents.

COVERING CANADA FROM PILLAR TO POST

How to most efficiently reach this audience represents a challenge. Purolator addresses it through a new solution called PuroPost, a collaboration with Canada Post that provides business-to-consumer shipping services to all Canadian postal codes.

Here's how it works: Purolator amasses multiple e-commerce shipments at 30 locations across the United States, then moves them to consolidation points to cross the border. The 3PL then breaks down the shipments, and inducts them into either the Canada Post delivery network—providing guaranteed service to residential locations in Canada within eight days or fewer—or the Purolator courier network, for guaranteed delivery in five days or fewer, depending on the service level the shipper chooses.

"Eighty percent of the Canadian population lives within 100 miles of the U.S. border—but that means 20 percent don't," says Routledge. "Residents of far-flung locations have fewer retail options. We offer the benefit of being able to reach them through a courier or postal product."

Reverse logistics represents another area of concern for cross-border shippers. E-commerce generates higher return rates than brick-and-mortar retail, due to buyer's remorse, buying multiple sizes or colors, refused packages, or bad addresses. Purolator offers a service in which returned goods are consolidated on the Canadian side of the border.

Using technology the company developed, and existing data about the shipment's value, Purolator prepares manifests for the return border crossing—and provides all the information the shipper needs for customs duty drawback, if applicable.

KNOWING THE NUANCES

Moving goods between the United States and Canada can involve a multitude of pitfalls for inexperienced shippers. For example, a high volume of goods moves through Canada's active and efficient seaports, often bound for the United States. If these goods did not originate in Canada, anti-dumping measures and countervailing duties may apply.

"It doesn't matter which way shipments are going across the border—to or from Canada," says Uloth. "The shipper needs a customs broker to manage the details and file taxes.

"Each country has its own duty classification, depending on the goods' source country," he adds. "The United States, in particular, limits the countries businesses can source from. Goods coming from Canada that originated in those prohibited countries cannot move into the United States."

Complex legal issues affect goods of all types. "One tricky category is intellectual property products, which could be part of a scheme to bring copyright- or trademark-pirated goods into the United States," says Magnus.

In general, U.S. and Canadian customs regulations are similar, so much so that Canada now accepts U.S. export data for its imports, and vice versa. In contrast, at the Mexico border, paperwork must be filed on both sides. Officials from one country might be doing pre-inspections in the other. "The two countries are working together to harmonize their strategies," Magnus says.

One area currently in development on both sides is advance manifesting requirements. The United States already requires this information, while Canada is still phasing in e-manifest requirements.

The trend toward electronic data transfer is changing the way cross-border shippers manage information. "The door is closing on drivers carrying paper documents and presenting them at the border," Uloth says. "Canada's electronic filing regulations have been evolving over the past few years. By the end of 2014, most shippers will need to be equipped to file electronically."

It may be wise for shippers who are adjusting to the change to consult an expert. "These processes are new for northbound goods," says Magnus. "Companies that aren't sure whether they are in compliance should bring in outside help."

Many shippers need access to expert customs staff, advanced technology, and highly skilled employees to ensure compliance with the myriad regulations. Electronic capabilities are essential to translate, export, and submit data to meet the various filing requirements, as well as apply data analytics to discern patterns in customs transactions.

GOING FOR BROKERS

Electronic capabilities allow customs brokers to gain insight into broad trends that can be tougher for shippers to spot if they only handle limited categories of goods. "Technology capabilities can make or break a company," explains Magnus. "The cost of non-compliance is huge."

Working with privately held brokers can also be an advantage, she says, because they can be more agile and flexible as requirements evolve.

Constantly changing physical and regulatory dynamics are driving many shippers to partner with third-party experts who can ensure goods cross the U.S.-Canada border as quickly and seamlessly as possible.