

NORTH AMERICAN FREE TRADE: WHAT'S NEXT?

Angela Collins

Chair, Canadian Society of Customs Brokers



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INTRODUCTION

- ▶ Customs brokers manage most commercial importations into Canada. Importers rely on our expertise and our systems to ensure compliance with the relevant requirements.
- ▶ On July 1, 2018, Canada implemented retaliatory tariffs on certain United States goods which created a significant compliance burden for Canadian business.
- ▶ It is fair to say that implementation of this surtax created significant challenges.
- ▶ We had 36 hours between implementation and the issuance of the final list of products (more than 500 tariff items affecting goods valued at more than \$16 billion per year) and the publication of the Customs Notice indicating how this surtax was to be applied.
- ▶ There were still outstanding policy questions at that time. Implementation was over a weekend – and Canada Day long weekend, at that.

IMPACTS

- ▶ **IT departments** had to shift priorities to manage programming and testing to accommodate this change, within a very tight timeframe.
- ▶ **Client service departments** pored over database reports of clients to determine which clients were affected. This then had to be validated immediately prior to implementation, on a long weekend, since the final list was available only hours in advance.
- ▶ Clients were contacted to discuss the financial implications of the surtax, including surety bond arrangements and deposit requirements. Many clients had no idea they imported products affected by the surtax.
- ▶ Importers who had never paid duty because their goods were duty free under NAFTA now face a very different financial reality.

IMPACTS (CONT)

- ▶ **Credit departments** of our members had a major challenge to assess and manage the financial impacts of the surtax, including discussions with surety partners. There were internal client reviews analyzing terms of payment and liaison with clients to put into place financial deposits or surety bonds. There have been repeated follow-ups with clients, and system updates with new credit thresholds. This is ongoing work as importers assess their next steps, often looking for alternate suppliers to reduce their financial exposure.
- ▶ **Senior management** of our member firms has also been affected by this change. CEOs and company presidents have been making personal calls to clients explaining financial impacts and options not only with respect to the Government of Canada but with respect to the broker-client relationship. Management has also been reviewing bond requirements and credit policy and reaching out to banking contacts because of potential impacts on the company's cash flow.
- ▶ We will be closely watching the impact on the **operations departments** of our members.

RECOMMENDATIONS

- ▶ We must improve the quality and timing of information made available to the private sector. In this instance, we heard that there was “not enough time” to consult on the details of implementation. As a result, many important procedural and policy questions could not be answered until after the surtax was in place.
- ▶ Because of the financial impacts of the surtax, we have made a couple of recommendations with respect to financial security. Keep in mind that these goods were previously covered under NAFTA – duty-free, and, overnight, some importers were owing millions of dollars in surtax.
- ▶ We have encouraged CBSA to implement a mandatory direct importer security program as a means of clarifying liability and immediately implement efficiencies in the administration of current financial security programs.
- ▶ The Government of Canada must rescind the application of these retaliatory measures to goods under \$20, the Canadian de minimis level).
- ▶ This is also inconsistent with a “North American” approach since we know that the United States has exempted goods under its de minimis amount from retaliatory tariffs.
- ▶ We believe that visits to the office of a customs broker should be mandatory for CBSA staff at senior levels who have responsibilities for commercial processes. In our view, this is a small investment to make to support compliance and foster relationship-building and communication, especially in today’s environment when there is increasing uncertainty in the world of global trade.

WHAT'S NEXT

- ▶ If we are going to continue to have “tariff wars”, we must learn from the errors made with this surtax and not repeat them. There is a regulatory burden to business in administrative and compliance costs, and we have seen that it is not only large business that is affected, but also many SMEs.
- ▶ From our perspective, the uncertainty of the international trade world will only continue to grow in the months ahead. And business hates uncertainty. Whether it is the sobering experience of Canada in the “new NAFTA” negotiations, or the back-and-forth between the United States and China, we fear that global trade is at increased risk and that will be detrimental to the well-being of our three countries and our citizens.