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Outlook to 2008

The following article was written by Mary Anderson, president, I.E.Canada.

This past year was one of celebration, action, challenge and change.

Highlights included the June celebration of our 75th year at a diamond anniversary gala recognizing the achievements of the association and the contributions of our members who have generously given their time and thought leadership for three quarters of a century. Going forward, our vision is to provide a national forum for informing and influencing on issues affecting Canada's global trade.



Mary Anderson, president, I.E.Canada.

This past year saw I.E.Canada expand our conferences and workshops, and partner with other groups and associations in order to advance our advocacy agenda. As well, the Board of Directors, staff and regional chapter chairs participated in a strategic planning session in October to ensure that I.E.Canada is prepared to respond to opportunities and threats.

In 2008, we will continue to present

a united voice to government, especially as concerns the implementation of policy or regulatory changes. We will become the knowledge source for best practices related to international trade issues, and will develop our expertise on compliance, customs issues, and the supply chain to help members mitigate risk and reduce costs. With member input, we will plan for future information, education and advocacy initiatives responding to current and

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The Overheating Global Supply Chain

The following article was written by Claude Germain, executive vice president and chief operating officer, Schenker of Canada Limited.

challenging one for importers and exporters moving finished goods and raw materials into and out of North America. This year we continue to see trends that promise to

This past year has been a busy and

Supply Chain, cont'd on pg. 4

Financial Outlook: The Saga of the Dollar

The following article was written by David Watt, senior currency strategist, RBC Capital Markets.

The Canadian dollar peaked at \$1.1024 U.S. on November 7, 2007. It won't get back to such levels anytime soon. Instead, RBC expects the Canadian dollar to gradually lose altitude throughout 2008, although a return to 2002 levels, near \$0.60 U.S. is not going to happen.

The stunning Canadian dollar rally from mid-August to early November was mostly a tale of the beleaguered U.S. dollar. The summer credit and liquidity crisis peaked on August 15, prompting the U.S. Federal Reserve (Fed) to cut its discount rate by 50 basis points (bp) to 5.75%. However, the sharp downturn in the U.S. dollar did not start until mid-September, when the market sensed that the Fed would soon start cutting its key Fed funds target rate. Sure enough, the target rate was cut by 50 bp to 4.75% on September 18 and by a further 25 bp on October 31. The wild market gyrations on November 7 signaled the end of the peak of U.S. dollar bearishness.

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insider

CBSA- Building a Smarter, More Secure Border

This article was prepared by the Border and Compliance Programs Directorate of the CBSA.

Through new initiatives and program enhancements, the Canada Border Services Agency (CBSA) continues to modernize its commercial processes to build a smarter, more trade-efficient and secure border. Partnerships with industry stakeholders are vital to the success of these initiatives, and we welcome this opportunity to highlight some key projects to be implemented over the next few years.

EDI for Release Purposes

Electronic Data Interchange (EDI) refers to the electronic processes that are gradually replacing the paper processes required for Canadian trade. EDI is essential to the facilitation of several major CBSA programs, including Advance Commercial Information (ACI).

On October 15, 2007, the CBSA implemented the Measures to Increase Electronic Data Interchange (EDI) for Release Purposes (Customs Notice 07-008). The objective of this initiative is to move the commercial program forward by ensuring that clients and stakeholders are better positioned for the final phase of ACI, known as eManifest (<http://www.cbsa-asfc.gc.ca/prog/manifest-menu-eng.html>). This initiative supports the Agency's long-term strategy for protecting the border while managing and facilitating trade, and in turn, helping to achieve a common goal of both government and industry - reducing the number of paper and manual processes.

In order to address client concerns and to provide clients with more time to implement their EDI capabilities, the CBSA announced a six-month transition period in Customs Notice 07-029. Many clients have already readied themselves for the changes, and for the month of October 2007 the percentage of EDI

releases rose to 87.6%.

During the transition period, the CBSA will continue to work with industry stakeholders to monitor progress pertaining to EDI for Release purposes. Additionally, phase-in requirements will be developed and implemented in 2008.

For more information on this initiative, please visit our website at: <http://www.cbsa-asfc.gc.ca/publications/cn-ad/cn07-029-eng.html>.

Moving towards a single window reporting system

The aim of the Other Government Department (OGD) Single Window initiative is to implement a streamlined and fully paperless approach to the electronic collection, use and dissemination of commercial trade data required by government departments.

Key components of the initiative include:

- single point of contact (eliminate duplication);
- advance information, streamlined release of goods;
- better risk management to assess potential health and safety security threats, while facilitating legitimate trade.

Currently, there are 11 government departments and agencies participating in the initiative, including the Canada Border Services Agency, the Canadian Food Inspection Agency, the Department of Foreign Affairs and International Trade, and Transport Canada.

For I.E.Canada members this means a new way of doing business, wherein:

- electronic commerce is used to mutual advantage;
- service to business is improved;
- Government of Canada operations are streamlined and harmonized.

The OGD Single Window Initiative

will contribute to a strengthened, smart border that is ready to meet the challenges of the future. Ongoing consultations with the trade community will help to ensure the success of this initiative. For additional information, please refer to the following link: www.cbsa-asfc.gc.ca/eservices/ogd-amg/menu-eng.html.

Enhancing the Agency's penalty system

In 2008, the CBSA will be revitalizing its penalty program, known as the Administrative Monetary Penalty System (AMPS), following a review of its effectiveness.

Some of the changes will be evident to clients, including the following:

- a 50 percent reduction in the number of contraventions;
- the introduction of a graduated, tiered penalty system that will assign penalty amounts based on risk;
- the development of new and clearer guidelines;
- input into the Brokers' Review and other initiatives regarding penalties to third parties;
- the development of solutions for monetary penalties imposed on large-volume clients;
- web-based quarterly reports that will provide statistical information and trend analysis of both penalties issued and appeal results.

Other changes will improve the CBSA's processes. These include upgrades to its automated system for issuing penalties and monitoring clients' compliance histories. The CBSA will also introduce a national monitoring framework and regional review processes to ensure that penalties are imposed consistently and accurately.

The CBSA will implement quarterly reporting, the national monitoring framework and regional review processes as soon as they are finalized. The other improvements will

Shipping and Trade Horizons



Leo Ryan

Shipping and Trade Horizons, a Tradeweek column, is produced by Leo Ryan. The column addresses Canadian industry issues and trade developments of interest to our members.

Upbeat Outlook for Canadian Ports

The year that is coming to a close has certainly been an eventful and generally positive period for Canadian ports, especially for those depending on a healthy growth of the Asian and Atlantic trades in bulk and container cargo. On the Great Lakes, however, traffic has suffered from a sharp downturn in steel imports from Europe and elsewhere. The New Year will herald two key developments: the establishment of a super-port on the West Coast through the merger of the ports of Vancouver, Fraser River and North Fraser, and likely regulatory changes that will significantly improve the borrowing and funding regimes for Canadian maritime gateways.

As confirmed in the latest analysis by the United Nations Conference on Trade and Development, global seaborne trade is expanding by 4.3% while world container port throughput remains characterized by double-digit growth. Closer to home, the Canadian economy is outperforming its U.S. counterpart,

with GDP growth in the 3% range. Taking various trade and transportation trends into consideration, the outlook for leading Canadian ports in 2008 looks generally healthy.

On the West Coast, 2007 marked the advent of a new container port at Prince Rupert in northern British Columbia, with the inauguration of a terminal offering initial capacity of 500,000 TEUs. But the Port of Vancouver, Canada's largest, is pursuing major expansion to meet the target of tripling container cargo (presently 2 million TEUs annually) by 2020.

In Eastern Canada, Montreal is continuing to show brisk growth in total and containerized cargo. The Port of Quebec will possibly achieve a record 26 million tonnes. The deepwater Port of Sept-Îles is similarly enjoying brisk bulk business. The Bay of Fundy Port of Saint John, like Halifax, is going after emerging markets in India and China and also developing shortsea services with New England. Carrier restructuring, however, has hurt the Port of Halifax, whose container cargo was down nearly 3% in the first six months of 2007.

Meanwhile, many Canadian ports are looking forward to taking advantage of Ottawa's recently proposed amendments to the 1998 Canada Marine Act (CMA) that would put existing borrowing regimes and access to funding for infrastructure projects on a more competitive footing with U.S. and other foreign ports.

The announcement in November was welcomed by Gary LeRoux, Executive Director of the Association of Canadian Port Authorities (ACPA). In view of a crowded parliamentary agenda, the Bill amending the CMA is not likely to be passed before the first quarter of 2008. But LeRoux is optimistic "in light of widespread political consensus in support of

trade and transportation gateways."

The amendments respond to several, but not all, of the key regulatory changes long urged by ACPA members. Original proposed changes died in the order paper on several occasions in the past few years due to the calling of federal elections.

On borrowing limits, a tiered approach will be implemented that would allow the bigger ports - those with \$25 million in operating revenues for three consecutive years - to move to a commercially-based borrowing regime.

For new infrastructure projects, Canadian ports have not benefited from financing alternatives such as tax-exempt bonds used extensively by U.S. ports. This does not unduly concern LeRoux who notes: "Our ports will be able to access huge infrastructure programs, and they will be able to use credit rating to raise more funds."

But will things go according to the best-case scenario on the political front? The opposition Liberal Party has lately been making noises of provoking an election by engineering a defeat of the minority Conservative government this winter...which could potentially kill another CMA reform on the order paper.

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emerging needs.

Highlights from 2007 January

I.E. Canada was present with Minister Stockwell Day in Windsor to announce funding for CBSA to expand financial support to enhance ACI/eManifest, border contingency planning and Partners in Protection (PIP) program.

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Supply Chain, cont'd from pg. 1

have a major impact on our industry moving forward.

An increasing number of North American manufacturers focused on sourcing product from low-cost countries of origin. As well, many turned their energies to leveraging the supply chain as a means to add value. We also saw a growing strain on the supply chain infrastructure with overburdened ports on both sides of the Pacific, a shortage of ships and rail lines, and tie-ups at the border. Finally, the complexity and sheer volume of goods moving worldwide has led many companies to seek the advice and assistance of global logistics service providers rather than dealing directly with transportation carriers.

The offshore challenge

The growth in offshore manufacturing is having a major impact on supply chain activities today. China has now overtaken Canada as the United States' biggest trading partner. For example, China now manufactures 75% of home computers, 67% of DVD players and 50% of the cameras destined for the North American market.

With production migrating offshore, North American manufacturers are naturally shifting their attention to merchandising, procurement and supply chain efficiencies. A lot of energy and focus has gone into merchandising and procurement, but now these companies are realizing that streamlining the supply chain is the next step in increasing product value.

Effective management of the global supply chain has become critical to the success of many firms. While it is difficult to predict the exact future patterns of trade with complete certainty, if this pace of offshore outsourcing does not slow, we can expect to see continued and significant strain on the supply chain infrastructure in 2008 and beyond.



Claude Germain, executive vice president and chief operating officer, Schenker of Canada Limited.

The infrastructure challenge

According to a recent study and forecast done by Journal Of Commerce Trade Horizons on U.S. ports from 2004 out to 2020, the major North American port gateways will experience significant growth. The Los Angeles area alone is expected to see enormous growth from just over 10M container units to more than 40M units annually by 2020.

While it is difficult to predict whether these estimates will hold true, we do know that the growth we are seeing in the Los Angeles/ Long Beach region is simply not sustainable. In fact, an alarming 75% of the sixteen U.S. ports that were studied will have significant capacity problems by 2010-2012.

Congestion is being felt both at origin and at destination. Companies are seeing continued shipping delays due to rail slowdowns, space shortages, port bottlenecks, rail backlogs and trucking gridlock. This is also causing large general rate increases, as was seen this year with some inland rates going up by as much as 40%.

What it all means

What do these trends mean for importers and exporters? Ultimately, it means that adopting solutions to

improve the management of the supply chain can unlock tremendous value. Companies are sharply focused today on reducing supply chain costs, improving the purchasing of logistics services, reducing operating risks and driving continuous improvements in their supply chains.

It is not enough to manage the visible costs - that is, the transportation costs/rates, warehousing costs, and in-transit inventory. There are significant hidden costs that can lead to inconsistencies and uncertainties, shipment delays and lack of control. Many of these arise from a lack of visibility into delivery cycles and inefficient processes. As a result of these inefficiencies, companies must carry higher safety stock, force expedited shipments on airfreight, pay customs non-compliance penalties, lose sales and risk the potential erosion of customer relationships.

To help manage these costs, more companies are outsourcing their supply chain management to logistics services providers. There are many advantages to this approach, including the ability to take advantage of global purchasing power, greater shipment visibility through sophisticated information systems, more flexibility in routing and extended insurance to cover overseas carriers.

To reduce operating risks, companies and their logistics partners are investing heavily in shipment visibility and tracking offerings. These help control the supply chain and reduce those hidden costs. The offerings include multimodal supply chain visibility and event management; proactive alert status and exception handling; full purchase order management down to the line level; customized report generation; and simple user interfaces for fast adoption through one web-based portal to manage all shipping and

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Financial Outlook, cont'd from pg. 1

However, the story of the Canadian dollar is much richer than a cursory story of U.S. currency weakness. In particular, much of the move this year from March to August was a Canadian story. Earlier this year, core inflation readings in Canada began to consistently surprise the market, heading upward toward 2.5% year over year rather than declining, as had been anticipated. The surprisingly firm inflation readings eventually prompted the Bank of Canada to raise rates by 25 bp to 4.5% on July 10. That was just before markets were roiled by the onset of the summer of financial market discontent that led to sharp cuts in U.S. rates.

Thus, while one can't usually talk about the Canadian dollar without several references to oil, and the broader, though well trodden strength in commodity prices, one should not ignore that the rate back drop proved a strong source of support for the loonie as it strengthened from near \$0.85 U.S. cents in the spring to November's \$1.10 U.S. This run included the first crossing of Canada-US dollar parity since late 1976 on September 20, which was cause for cheers in some quarters and tears in others.

The cheers were largely from Canadian consumers. The crossing of parity sparked a run on retail currency brokers as Canadians snapped up greenbacks for cross border shopping trips. However, physical cross border shopping trips are nowhere near the levels they hit in the early 1990s. While there were 2.1 million same day car trips to the U.S. in September, this is still below levels from before September 11, 2001 and are a far cry from the 5.3 million trips in November 1991 when the Canadian dollar was a then lofty \$0.88 U.S. On-line shopping makes up some, but not likely all of the difference.

The tears largely came from Cana-

dian manufacturers and exporters. Whereas Canada's factory sector had a 20% labour cost advantage relative the U.S. in 2002, the surge in the Canadian dollar created a 20% cost disadvantage by 2006. The run to parity only piled on the pain. Not surprisingly, there have been heavy manufacturing job losses. There have been 298,200 factory sector jobs lost from their peak in November 2002. Ontario and Quebec have suffered the greatest losses, with a combined total of 306,500 manufacturing jobs lost since November 2002, or basically since the Canadian dollar started to rally. As it takes about two years for currency movements to hit manufacturing employment, past Canadian dollar strength suggests that the country could lose another 300,000 manufacturing jobs over the next few years. Many of those job losses would be in Ontario and Quebec.

The loss of manufacturing jobs has been a very powerful story, but is has been overshadowed, even in Central Canada. As the factory sector was shedding workers, the rest of the economy was more than making up the difference. Ontario and Quebec have added 1 million jobs in other sectors since November 2002, for a net job gain of 700,000. This explains why the unemployment rate in Canada has continued to decline and rests below 6%, near 33-year lows. The balance however, is tilting and the weaknesses are starting to take precedence. This is a key reason the Bank of Canada cut rates on December 4 to 4.25%.

Canada's trade performance is another great source of anxiety. Canada's nominal trade surplus fell to C\$2.6 billion in September 2007, the lowest reading since December 1998, but the real Canadian trade story has been dismal for quite some time. Basically, since 2003, Canada's entire trade surplus has been due to energy prices, which

has masked a dramatically increasing trade deficit in real or volume terms. This is weighing heavily on GDP growth. Although Q3 GDP growth was 2.9% q/q, saar (quarter over quarter, seasonally adjusted annual rate), this occurred despite net exports slicing 4.7 percentage points off headline growth. Hence, growth would have been nearly 7%, apart from trade. Net exports are likely to hit Q4 at least as hard as Q3. As Canadian domestic demand has been growing at a robust pace for 21 straight quarters, and with downward pressure on many commodity prices owing to slowing global growth, the underlying weakness in manufacturing and trade is increasingly evident.

These concerns have set the Bank of Canada on a course to offer modest rate relief, and suggest that the Canadian dollar will head down toward 90 cents through 2008.



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I.E.Canada participated in the launch of the External Stakeholder Partnership Network (eSPN) in Ottawa. I.E.Canada has played a leadership role as consultations have unfolded, with members serving on the eSPN steering committee and working groups.

February

I.E.Canada participated in a joint meeting with the American Association of Exporters and Importers (AAEI), held in Washington, to examine the impact of new customs programs on both sides of the border. Members of I.E.Canada also met with members of the U.S. Senate and House of Representatives.

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in-transit cargo information. Logistics services providers will also offer well-architected contingency plans such as expedited delivery channels like air, and more flexible routing such as the option of using East Coast ports.

In addition, third parties can help push some value added services, such as labeling and kitting, back to the point of origin, often at a greatly reduced cost.

Handling and customs

Another trend is that 40% of ocean containers go inland to reduce product handling. It stands to reason that the less a product is handled, the more value it retains at the end of the line and the lower the risk of damage or loss to the importer. As a result, we are seeing more consolidation of shipments at the point of origin. In the furniture industry for example, we are now packing container units in our warehouse facilities in China which are not unloaded until they reach the end of the supply chain at the retailer level in Toronto.

Finally, there are the customs considerations. With dedicated teams of customs experts, logistics service providers can provide customs pre-clearance to move product much more quickly.

A good logistics partner knows a company's entire supply chain from an objective, 50,000-foot level right down to the details and will look for deficiencies, recommend cost-effective alternatives, and manage the entire process so that the customer has one point of contact.

Logistics services companies know that providing better and more cost-effective services starts with taking greater control of the entire supply chain - from point of origin to the end customer. This awareness has led to a great deal of industry consolidation in recent months.

We anticipate even more consolidation of the big players as they look to establish or increase their global presence. The recent merger of Schenker and Bax Global for example will deliver better value for customers through greater economies of scale, more control over resources and greater visibility of shipments, and a higher level of service for importers and exporters.

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I.E.Canada presented priorities for the budget to the Minister of Finance in a pre-budget consultation.

March

I.E.Canada was invited by the Minister of Trade to participate in Canada-Mexico Partnership meetings in Mexico City. Mary Anderson addressed the opportunities for expanded relationships at the Canada-Mexico Chamber in Mexico City.

April/May

I.E.Canada hosted the Emerging Issues in Customs conference.

I.E.Canada presented to the Standing Committee on International Trade of the House of Commons about the Security and Prosperity Partnership of North America, focusing on ways to facilitate the movement of low risk goods and

persons across the Canada-U.S. border.

I.E.Canada launched a new project focused on expanding the relationship between Canada and Brazil.

June

I.E.Canada celebrated its diamond anniversary with a Gala celebration themed "Greening Your Business: The New Competitive Advantage."

September/October

CBSA announced the new PIP initiatives at I.E.Canada's Conference.

Members of the C&L executive met with CBSA officials in Windsor to discuss CBSA initiatives and concerns from both sides. Another joint meeting took place in Detroit with AAEL where members shared information and perspectives on border-related issues and identified areas where they could work together.

November/December

I.E.Canada was in China to discuss food safety and recall programs.

I.E.Canada hosted a joint meeting of importer associations to raise awareness and seek input on the ACI/eManifest consultations.

I.E.Canada submitted comments to CBSA as part of the consultations on its Commercial Vision 2017.

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follow once the changes to the automated system are completed. The CBSA expects to implement all of the recommendations by the spring of 2009.

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