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The Long Road to Recovery



Warren Jestin, senior vice-president and chief economist, Scotiabank

Warren Jestin, senior vice-president and chief economist, Scotiabank, was the opening keynote speaker on April 20, 2009, at I.E.Canada's "Emerging Issues in Customs and Trade Compliance" conference. "The long and winding road to recovery" was the theme of Mr. Jestin's address.

In his remarks, Scotiabank's chief economist discussed recent global

trends and how they are likely to impact Canada. Among his conclusions:

- The U.S. economy is in for a difficult and protracted convalescence.
- Commodity markets will experience lethargic global demand into 2010.
- The 'flight to liquidity' that has been supporting the U.S. dollar and keeping bond yields near historic lows will erode as the global economy stabilizes and investors refocus on the longer-term implications of sky-high U.S. fiscal deficits.
- Emerging trade and fiscal deficits have undercut the Loonie in the near-term, but positive long-term fundamentals point to a rebound in 2010 and beyond.
- The U.S. Fed, Bank of Canada and other central banks will offer unprecedented stimulus and maintain record-low policy rates through much of next year.
- Massive doses of fiscal stimulus will begin to gain traction in North America and abroad during the second half of 2009, with government spending and infrastructural investment becoming the primary engines of economic support.

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A Warm Thank You to Our Sponsors

I.E.Canada is very grateful to the many sponsors, speakers, and trade show exhibitors who made our "Emerging Issues in Customs and Trade Compliance" conference such a success. I.E.Canada's second

largest conference ran from April 20-22, 2009, at the Hilton Toronto Airport Hotel.

"Many of the delegates told us that

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Transfer Pricing



Pierre Bockt, vice-president, tax, Hewlett-Packard (Canada) Co., will share his insights on recent trends in Canada Revenue Agency audits at the transfer pricing conference

I.E.Canada is delighted to confirm Tom Crowe, director, large business and program integration division, and Patricia Spice, director, competent authority services, Canada Revenue Agency (CRA), as speakers at our Transfer Pricing Conference - "Leading Strategies to Boost Your Bottom Line." The two-day event will take place June 3 and 4, 2009.

The conference will be held at the Westin Bristol Place Toronto Airport

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Scotiabank now expects global economic activity to contract by an average of 2.2 per cent in 2009, a downward revision of 0.6 percentage points from early March. For the most part, Scotiabank is continuing to revise down its forecasts for economic activity in the developed world outside of the United States, reflecting the cascading effect of the U.S.-led downturn and credit contagion on trade and capital flows.

The contraction in euro zone output has been lowered by a sizeable 1½ percentage points to an average decline of 4 per cent for this year. Japan's real GDP has been shaved by roughly half a percentage point to a contraction of 4.5 per cent for 2009. These regional counterweights have been increasingly hard hit by the double-barrelled collapse in trade between developed and developing regions around the world. The precipitous decline in net exports, exacerbated by the equally sharp retrenchment in commodity prices and income, has continued to take a bigger bite out of the Canadian economy as well. The spreading aftershocks from the turn-of-the-year plunge in shipments on domestic demand leave output slumping at an annualized rate of 7 per cent in 2009Q1, dragging the national average in 2009 down 0.2 percentage points to 2.6 per cent.

Scotiabank's U.S. real GDP forecast for 2009 has changed microscopically, from a decline of 3.0 per cent to a decline of 2.9 per cent. A number of indicators have registered better-than-expected performances recently, though from exceptionally depressed levels of activity. In particular, U.S. personal consumption is likely to subtract much less from output during the first quarter, a development that potentially shifts more weakness into 2009Q2. Other forecast adjustments include raising this year's average price of crude oil

slightly to US\$54 per barrel, a reflection of OPEC's deep production cuts that have helped put a firmer floor under prices.

Scotiabank's forecast suggests that the largest contraction in output in many of the world's economic drivers, like the United States, and in the case of China and India, the smallest gain during their slow-downs, occurred in the first quarter of 2009. Looking ahead, the rate of decline in economic activity is expected to moderate throughout the developed world in the current quarter, and pick up speed in some of the larger, developing world economies. Much of this deceleration is being fuelled by market forces — lower energy prices, heavily discounted prices for goods, reduced inventory liquidation, and in some cases, renewed currency weakness — in conjunction with aggressive policy easing.

This transition is not without risks, however, since the global economy has yet to fully escape the grip of recession. Further retrenchment in the motor vehicle sector lies ahead. Across the business spectrum, firms are consolidating against the backdrop of the unrelenting squeeze on earnings, resulting in continuing pressure on employment, business investment, and real estate. Households are expected to remain a weak link in the outlook, with hefty declines in incomes and wealth resulting in more saving and less spending. Moreover, the tourniquet on credit has yet to be completely unwound, with the latest proposals to help stabilize U.S. financial institutions still to be implemented.

Regenerating growth in the second half of the year critically depends upon the thrust provided by unprecedented monetary and fiscal stimulus. Ultra-low short-term borrowing costs are helping to lower onerous debt-service burdens, and raise affordability for households

and businesses. Quantitative easing is geared to ensure that long-term interest rates — mortgages and bonds in particular — that are critical to investment decisions are kept at pro-growth levels. At the same time, public-sector expenditures are progressively ramping up, setting the stage for a multi-year period of intensifying economic support.

CBSA ACI/eManifest Update

The following article was written by Carol Osmond, vice president, policy, I.E.Canada.

Mike Leahy, director, eManifest business design and development, Canada Border Services Agency (CBSA), updated delegates on the latest changes to CBSA's policy decisions relating to ACI/eManifest at I.E.Canada's conference on Tuesday, April 21, 2009.

What is Being Implemented

Building on previous phases of the Advance Commercial Information (ACI) initiative, Phase III, referred to as eManifest, will require the pre-arrival transmission of electronic information from highway and rail carriers as well as freight forwarders. In addition, a separate pre-arrival data set will be required from importers or their customs brokers for all modes of transportation (air, marine, highway and rail). Specifically, eManifest will feature:

- Enhanced automated risk assessment supported by business intelligence technology and a data warehouse;
- Significant investments in the CBSA information technology infrastructure to support increases in electronic data interchange volumes;
- Advance electronic information from highway and rail carriers, freight forwarders, and importers/customs brokers;
- A web portal option for clients to facilitate compliance and;
- An integrated passage system and the incorporation of transponder

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.

Fleet Renewal No-Brainer

When trade goes sharply down, so does the need for transportation and freight rates dive. This truism has rarely been as evident as it is today, with the world shipping industry amongst the biggest casualties of the global recession. The top 20 ocean carriers are facing total losses that could exceed \$4 billion in this year's first quarter alone. At latest count, the idled container fleet totals 506 vessels. Unwanted ships are being scrapped. To reduce surplus capacity, many existing orders for new vessels are being withdrawn or delayed.

Ironically enough, despite the above context, fleet expansion for Canada's domestic carriers on the Great Lakes/St. Lawrence waterway has reached a critical point – recession or no recession. How urgent is illustrated by the fact that 35-years-old is the average age of the domestic fleet of 67 vessels.

Carriers are accustomed to swings in business cycles and, thus, must

adopt a long-term strategy to meet shipper demand. Yet, if you ask Canadian shipping lines what their biggest complaint might be in the regulatory arena, the inevitable reply is a 25 per cent duty imposed on imported vessels. Gerald Carter, president and CEO of Canada Steamship Lines, calls it “an archaic regulation that is a major impediment to fleet renewal.”

Representations made by carrier interests in the past few years for eliminating the duty have failed to budge the Ottawa authorities.

The last time a commercial freighter was built in a Canadian shipyard was in 1985. Thus, regulations seeking to encourage activity at Canada's declining shipyards have not had the desired effect: even with the 25 per cent duty added to the cost, prices charged by Asian shipyards in particular have remained much more competitive.

In the 1990s and up to 2005, the commercial lives of a half-dozen or so self-unloaders were extended through new forebodies or mid-sections installed at the Port Weller yard in St. Catharines, Ontario which has since seen no resumption of such contracts. Canadian shipyards, today employing about 3,000 compared to 12,000 in the 1970s, are surviving mostly on repair and maintenance contracts as well as occasional orders from the Canadian navy.

In recent years, Canadian shipping lines have invested more than \$1 billion in new vessels built mainly in Asian yards. Those who have done so include Fednav Ltd., Groupe Desgagnés, and Algoma Central Corporation.

“Things have reached a very critical point,” said Bruce Bowie, president of the Canadian Shipowners Association (CSA). “Within 10 years, at least one billion dollars of invest-

ments will need to be made to replace the ageing domestic fleet.”

The import duty of 25 per cent, Bowie noted during an interview, adds more than \$10 million to the cost of each newbuilding and such costs must be passed onto shippers.

He recalled that the domestic shipping lines are not operating on a level playing field with other modes. “We help to pay for the maintenance of the St. Lawrence Seaway, whereas truckers don't pay a cent for road maintenance.”

Moreover, Bowie said, ships are clearly more environmentally-friendly than trucks which in Ontario and Quebec in particular are spreading pollution on congested roads.

The newest state-of-the-art ships being designed will reduce their air emissions and environmental footprints still further. “Renewal will give our fleet a much greener as well as competitive performance,” Bowie said.

Last year, with fewer ocean vessels coming into the Seaway, domestic carriers did not have enough capacity to meet demand. “We had to leave grain on the docks in the fall,” Bowie indicated.

Consequently, when the global economy is nursed back to health, domestic carriers will continue to lack sufficient capacity to respond to shipper requirements – unless Ottawa policymakers heed the financial realities so obvious for an industry worthy of equitable treatment.

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the conference program was outstanding,” says Mary Anderson, president of I.E.Canada.

Delegates were also very impressed with the quality of the conference

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Thank You, cont'd from pg. 3



The Honourable Stockwell Day delivers a speech on day three of I.E.Canada's conference

speakers. In fact, the speakers received extremely high ratings on I.E.Canada's conference evaluation forms.

I.E.Canada lined up an impressive number of high-level government speakers, including the Honourable Stockwell Day, minister of international trade and minister for the Asia-Pacific Gateway; the Honourable Stephen Rigby, president of the Canada Border Services Agency (CBSA); and Jayson Ahern, acting commissioner, U.S. Customs and Border Protection (CBP).

Altogether the three-day event featured 20 business sessions with 45 speakers from government and industry.

"Delegates were very engaged and interested in the sessions," says Carol Osmond, vice president, policy, I.E.Canada. "We are fortunate to have such tremendous support at the highest levels from both CBSA and CBP to bring the latest information to our members and conference participants about developments in customs on both sides of

the border. We also have members and other industry partners with a wealth of knowledge and experience that they are willing to share at our conferences."

Delegates also valued the networking opportunities offered by the trade show, luncheons, breaks, and two receptions.

The conference was generously sponsored by Export Development Canada (EDC); Jensen Customs Brokers Canada Inc.; Livingston International Inc.; RBC Royal Bank; and Canadian Sailings. The event was also supported by AMCHAM, the American Chamber of Commerce in Canada.

ACI/eManifest, cont'd from pg. 2

technology.

Recent Policy Decisions

At the eManifest External Stakeholder Partnership (eSPN) plenary held in Toronto on February 23-24, 2009, key policy decisions were announced relating to:

- In-bond Movement of Goods;
- Importer Admissibility Data (IAD);
- Trip-match Notification;
- Broker/Freight Forwarder Download;
- Amendments to Advance Commercial Information Post-Arrival;
- Release at First Point of Arrival and;
- Examination at First Point of Arrival.

The policy decision papers from the eSPN plenary are available on the members' only section of the I.E.Canada website under "eSPN". At the plenary, the trade community voiced strong concerns about the mandatory IAD data set and CBSA's decision not to allow in bond movements past the First Point of Arrival (FPOA) where the IAD data set (as opposed to the data set required for commercial release) has not been transmitted pre-arrival.

Following the plenary, CBSA officials agreed to revisit these controversial policy decisions. CBSA presented its revised positions at the eSPN End State/Design Working Group meeting held in Toronto on April 14-15, 2009. Materials from this working group meeting are also available on the members' only section of the I.E.Canada website.

Mandatory Data Elements

In his presentation, Mr. Leahy reviewed the revisions to the proposed mandatory IAD data element requirements as follows:

- Manufacturer name and address are no longer required for transborder shipments (highway, rail) but remain a requirement for off-shore (marine, air);
- Consignee name and address must now only be provided if consignee number is not provided;
- HS Code (at six-digit level) is not required for every invoice line but is required for every commodity;
- The three data elements relating to fumigation, special handling, and dangerous cargo have been moved from the importer list of requirements and;
- Exporter is only required if different than the vendor/seller.

There are now seven mandatory importer data elements for transborder shipments, eight for air and 10 for marine. These elements have all been mapped to an existing release option (PARS). However, importers remain concerned that the requirement to provide the HS Code for every commodity (rather than for the top five as required today) will, as a practical matter, still require that all invoice lines be rated.

FPOA and Border Processes

CBSA has also made some movement on the FPOA issue. As outlined by Mr. Leahy, CBSA's latest proposal is that when IAD has not been submitted prior to arrival, the shipment will be risk assessed; and:

Thank You

ACI/eManifest, cont'd from pg. 4

- If not referred for exam, if the carrier and driver are members of trusted trader/traveler programs (CSA/FAST or PIP), the shipment can move in bond to a CBSA approved warehouse;
- If not referred for exam, and if the carrier is not a member of a trusted trader program the goods will remain at the border until the information is provided.

While members of the carrier community in particular have welcomed CBSA's latest proposal with respect to FPOA, it raises a number of significant concerns. First, there is the question of whether CBSA will impose an AMPS penalty on the importer if the IAD is not provided pre-arrival and the shipment has to move in bond. The general view amongst the trade community is that the imposition of an AMPS penalty would negate the benefit of being able to move goods in bond past the FPOA where the IAD has not been transmitted prior to arrival. Another issue that has been raised is whether in the case of LTL loads, it will be possible to break the seal on the trailer before the IAD has been transmitted for all shipments in the trailer. If not, shipments for importers that have transmitted the IAD would be subject to delays. In response to questions from I.E.Canada's vice president, policy, Carol Osmond, Mr. Leahy acknowledged that these issues remain to be resolved and are currently under consideration by CBSA.

Importer Position

Prior to CBSA announcing the latest changes to its policies, I.E.Canada together with other trade associations representing importers, sent a letter to Cathy Munroe, vice president, admissibility, CBSA setting out the position of the importing community with respect to Phase III of ACI and mandatory IAD in particular. In that letter, I.E.Canada and other associations expressed their opposition to the implementation of mandatory IAD in any mode of transportation

other than the marine mode. That position has not changed with CBSA's latest policy announcements, a position that was communicated to Ms. Munroe and Mr. Leahy during a private meeting held in conjunction with the conference. A copy of the letter sent to Ms. Munroe is available at www.iecanada.com/members_only/espn/doc/Apr_09/Letter_Cathy_Munroe_eManifest.pdf.

I.E.Canada continues to work with other associations to advocate on behalf of importers with respect to this critical issue, most recently at the Border Commercial Consultative Committee meeting held in Toronto on April 28-29, 2009.

Ms. Munroe and other senior CBSA officials have indicated their willingness to continue to consult with importers about their concerns and to consider alternative solutions.

Key Dates

In addition to addressing the latest changes to CBSA's policies with respect to eManifest, Mr. Leahy presented CBSA's deployment plan and implementation strategy.

The current plan is to implement eManifest in phases with full implementation by **March 2014**.

Key Dates are:

- April 2010 - Highway carriers begin transmission of cargo and conveyance data;
- September 2010 - Rail carriers begin transmission of cargo and conveyance data;
- June 2011 - Freight Forwarders begin transmission of secondary/supplementary data;
- March 2012 - Importers begin transmission of importer admissibility data and;
- March 2014 - eManifest fully implemented.

Implementation Approach

Clients will receive a twelve-month implementation window followed by

a six-month period of informed compliance.

To successfully implement eManifest, the CBSA will provide client support that includes:

- **Structured outreach**, including newsletters, information kits/brochures, fact sheets, web content, trade show participation, general information sessions and speaking opportunities;
- **General client support**, with officers available through telephone or email to answer policy or operational questions on a 24/7 basis throughout the implementation period and;
- **Detailed technical support**, with EDI and Portal support officers available via phone or email to provide clients with documentation on technical requirements and technical assistance, including eManifest Portal and transponder support on a 24/7 basis throughout the implementation period. Technical support will continue to be available once the project is fully implemented.

Learning from the U.S. Experience

eManifest is harmonizing electronic commercial processes between Canada and the U.S. to the greatest extent possible.

Examples include:

- Lessons learned on approaches to client support and outreach – preparing for deployment in high volume modes and lessons in supporting new technologies such as web portal;
- Ongoing information sharing on advance technologies such as radio frequency/transponder technology;
- Balancing national requirements and harmonizing data elements, to the extent possible, with the U.S. and other international partners;
- Developing Broker Download and Trip-Match Notification features that are similar to those in the U.S. and;
- Using the U.S. CBP's Automated Commercial Environment (ACE) Se-

I.E.Canada's Annual General Meeting

Notice is hereby given that the annual general meeting of I.E.Canada members will be held on Wednesday, June 3, 2009, in Toronto, at 4:30 p.m. Eastern Standard Time. The meeting will take place at the Westin Bristol Place Toronto Airport Hotel located at 950 Dixon Road for the purpose of:

- (1) Receiving and approving the minutes of the annual general meeting of the association, held in Toronto on June 12, 2008;
- (2) Receiving the financial statements of the association for the year ending February 28, 2009, and the auditors' report therein;
- (3) Receiving the reports of the chairman and the corporate secretary;
- (4) Receiving the report of the nominating committee and electing directors;
- (5) Appointing auditors and fixing their remuneration;
- (6) Transacting such other business as may properly be brought before the meeting.

By Order of the Board

Members in good standing who are unable to attend the meeting and who wish to have another member in good standing represent them at the meeting are requested to complete the form of proxy, which can be obtained from the association office. Please note that a member in good standing is a member who has fully paid the annual dues on or before June 3, 2009, and that such a member who is unable to attend may only appoint as their proxy another member in good standing of the association, not just the representative of such member, on the

proxy.

Nominations to the Board

In preparation for the June 3, 2009, annual general meeting of I.E.Canada, nominations are now being accepted to fill vacancies on the association's board of directors. The association's board of directors has formed a nominating committee to seek nominations to fill vacancies on the board. Nominations of individuals who have consented to be nominated for election as directors may be sent by any association member to the association office, to the attention of Ms. Carol Buckton, corporate secretary. Please send your e-mail to Amesika Baëta at: abaeta@iecanada.com.

Conference, cont'd from pg. 1

Hotel located at 950 Dixon Road, which is close to Toronto Pearson International Airport.

Top international tax experts from Canada and the United States will give practical advice on:

- The latest developments in transfer pricing from a Canadian, an American, and an Asian perspective
- Transfer pricing analysis in the current economic environment
- The transfer pricing aspects of reorganizing business in today's economy
- How to manage other extraordinary market situations including tax treatment of foreign currency gains and losses
- Intangible migration opportunities in an economic downturn
- Recent trends in CRA audits
- How to win in competent authority and resolve global tax conflicts

- Making the link between Customs, tax and commodity tax

There will also be a highly interactive case study workshop on how to perform a transfer pricing study and prepare for proper audit support.

Early bird and group discounts are available. The complete conference program and other details are now available at www.iecanada.com.

We look forward to seeing you **June 3 and 4, 2009.**

ACI/eManifest, cont'd from pg. 5

cure Data Portal as a model for the development of the CBSA's eManifest Portal.

eManifest - Next Steps

- Ongoing consultations with trade;
- April 2010 - Highway carriers begin transmission of cargo and conveyance data and;
- April 2010 - Roll out of eManifest web Portal.

Members with any questions or concerns with respect to ACI/eManifest are encouraged to contact Carol Osmond at cosmond@iecanada.com.

Our Chapter Seminar Series

I.E.Canada's "Customs Updates and Case Studies" chapter seminar series will take place on the following dates: May 25 in Calgary; May 28 in Vancouver; June 1 in Moncton; and June 2 in Winnipeg.

For details, visit www.iecanada.com.

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