

# A concise guide to mirroring your U.S. success in Canada



Customs  
Logistics  
System Solutions  
Global Service



In recent years, Canada's regulatory regime has become complicated and very technical. With over 100 years of experience, Farrow can assist in streamlining the process, helping ensure success north of the border. This guide has been designed to offer companies engaged in the international transfer of goods, services and technology an introduction to the regulatory hurdles that can affect cross-border business.

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**THIS GUIDE INCLUDES INFORMATION ABOUT:**

- Introduction to Customs Compliance
- Cross-Border Security
- Administrative and Licensing Agreements
- Tax
- Trade Associations
- Farrow

# INTRODUCTION TO CUSTOMS COMPLIANCE

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In today's marketplace, performing a trade compliance review of your company's current processes, procedures and risk mitigation strategies has never been more important. Importers need to be more rigorous in their application of laws and regulations in order to optimize profits and mitigate their risk exposure. The best strategy is to integrate regulatory compliance into the basic fabric of your company.

## HOW IS AN EFFECTIVE CUSTOMS COMPLIANCE PROGRAM IMPLEMENTED?

The following six points outline the steps your company should follow:



## 1. Proper Tariff Classification

The problems caused by the incorrect classification of goods brought into Canada can multiply as the supply chain of imports increases. Errors not recognized immediately can snowball, resulting in costly unpaid duty charges and penalties.

A frequent issue U.S. exporters should be aware of is the improper use of HTS U.S. tariff classification numbers. Importers should take care to use proper Canadian HS classifications and review their classification database to ensure correct numbers are being used across the board. Failure to comply can result in tariff redetermination and severe penalty.

## 2. Prohibition, Restriction and Quotas

Importing is a heavily regulated process. Canada has import/export restrictions on specific products and maintains quotas on certain tariff rates. As such, it is essential that your company know whether any goods being imported fall under any restrictions or allocation quotas and that you hold all necessary export and quota allocation permits.

## 3. Canada Border Services Agency's Active Trade Compliance Verification Priorities

CBSA closely reviews the trade compliance programs for all importers of retail and consumer products. Targeted products undergo audits to ensure compliance with classification, valuation and country of origin.

### *Are your goods on their target list?*

CBSA priorities for 2013 include:

- Golf club covers and fresh cut flowers (tariff classification)
- Apparel and footwear (valuation)
- Bedding, drapery, mattress upholstery (HS Origin)

It is important to review CBSA's annual target list in its entirety.

## 4. Trade Preference Agreements, Marking and Labeling Rules

It is important that all companies ensure compliance with NAFTA and non-NAFTA country of origin trade preference agreements. All goods must be labeled in accordance with the rules established by various government agencies and regulatory bodies, including CBSA and Foreign Affairs and International Trade Canada (DFAIT).

## 5. Related-Party Transactions and Transfer Pricing

Is your company up to date on related-party transactions and transfer pricing? Errors can trigger specific obligations that may result in additional duties and taxes.

## 6. Duty Drawback

Are you eligible for a duty drawback refund? You might be. Refunds are often substantial and can add to your company's bottom line. In Canada companies can file drawback claims up to four years from the date goods were released from customs – in some cases up to 100% of duty paid.



## CROSS-BORDER SECURITY — A PROACTIVE APPROACH

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When it comes to shipping and receiving goods across borders, nothing helps streamline the process like taking a proactive approach. As part of your overall strategy for expanding in the Canadian market, it is important to work with a broker partner that understands every angle of the security process and can recommend appropriate programs to help reduce the risk of costly delays.

### **THE RIGHT BROKER PARTNER CAN HELP:**

- Expedite shipment clearance
- Automate accounting procedures
- Reduce border delays
- Develop, implement and enforce global regulatory compliance and supply chain programs

Is your customs compliance provider the right partner for you? Do they use best practices in global customs compliance to benchmark your processes against industry standards? Implementing best practices and industry benchmarks within your trade compliance department has never been more important. Compliance risk elements can affect overall operating costs and affect the way your company makes global sourcing and supply chain decisions. Investing in the proper resources to support trade compliance can help reduce border delays and inspections, rejection or seizure of goods or the implementation of fines and penalties. As an importer, the best practices below are vital to ensuring compliance:

#### **1. Knowledge, Education and Training**

Trade compliance legislation can be complex and daunting. The better educated and trained your customs professionals are, the better prepared they will be to deal with the intricacies of the rules and regulations.

#### **2. Senior Management Buy-In**

Ensuring buy-in and support from senior management is key to implementing a global trade compliance program within any organization.

#### **3. Internal Controls**

Documented processes and procedures within a trade compliance department can mitigate errors in the supply chain. They ensure enhanced communication internally, as well as communication and cooperation between customs service providers and suppliers. Putting the proper procedures and controls in place will save your company money in the end.

#### **4. Audit Check**

Internal and external audit checks should be completed periodically to ensure compliance practices satisfy all applicable rules and regulations.

## CROSS-BORDER SECURITY — A PROACTIVE APPROACH

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Businesses that invest proper resources to support trade compliance will likely face fewer border delays and inspections, rejection or seizure of goods, fines and penalties, all of which can damage a company's supply chain, service and, ultimately, their reputation with their customers. In the final analysis, fewer delays facing a company in its supply chain equates with lower business costs and quicker movement of goods across borders. Performing a trade compliance review of current procedures will allow for an assessment to be done as to where the gaps are in your organization's supply chain.

### **THERE ARE A MYRIAD OF AGENCIES AND PROGRAMS TO CONTEND WITH, INCLUDING:**

#### **FAST (Free and Secure Trade)**

A joint initiative between the CBSA and U.S. Customs and Border Protection. This voluntary program enhances border and trade chain security and reduces commercial delays.

#### **PIP (Partners in Protection)**

A voluntary CBSA initiative that helps secure the trade chain and facilitate legitimate trade across the border.

#### **CSA (Canadian Standards Association)**

A nonprofit organization that tests and certifies products for both the U.S. and Canada, eliminating the need for costly duplicate testing.

#### **C-TPAT (Customs-Trade Partnership Against Terrorism)**

Voluntary membership in C-TPAT, a program of the U.S. Department of Homeland Security, shows that your company is helping safeguard international trade from terrorism and maintaining the health of the North American economy.

## ADMINISTRATIVE AND LICENSING AGREEMENTS

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Another important step to consider in minimizing delays at the border is to ensure that all licensing agreements are signed, sealed and delivered to all stakeholder agencies.

### **THIS INCLUDES ENSURING YOUR COMPANY IS COMPLIANT WITH LABELING REQUIREMENTS FROM ALL REGULATORY BODIES AND GOVERNMENT AGENCIES:**

- CBSA (Canada Border Services Agency)
- CFIA (Canadian Food Inspection Agency)
- CSA (Canadian Standards Association)
- DFAIT (Foreign Affairs and International Trade Canada)
- Canadian Nuclear Safety Commission
- Department of Finance
- Department of Fisheries and Oceans
- Environment Canada
- Health Canada
- Industry Canada (Department of Industry, Trade and Commerce)
- NRCan (Natural Resources Canada)
- Public Health Agency of Canada
- Transport Canada

**As well, it is essential that your company be fully compliant with NAFTA and non-NAFTA country of origin marking requirements and hold all applicable import, export and quota allocation permits.**



## TAX — PROTECT YOUR BOTTOM LINE BY STAYING ABOVE BOARD

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It goes without saying that compliance with tax regulations is one of the most important components of successfully operating any business. Failure to comply can result in reassessments from the Canada Border Services Agency and Canada Revenue Agency resulting in payment of additional duties, taxes, interest payments and penalties.

### **TAX AND CUSTOMS TRANSFER PRICING**

Any Canadian company doing business across the border must be compliant with transfer pricing legislation.

- Minimizing income tax exposure
- Streamlining operational costs
- Streamlining customs and duty costs

**On the upside, compliance can have many financial benefits for your company.**

### **GST/HST**

Provided you meet the requirements, every importer registered with the CRA (Canada Revenue Agency) must pay GST unless imported goods are exempt. The importer must charge their Canadian customer GST/HST, based on the 'place of supply rules' and subsequently file input tax credits to account for the difference.

### **Harmonized Tariff Classification**

Determining the correct classification has a direct correlation to your duty rates and determining whether your goods qualify under NAFTA.

### **Duty Deferral and Relief**

Duty deferral and relief programs implemented by the CBSA are designed to help businesses lower costs and improve cash flow. If you qualify, you may be able to do the following:

- Bring goods into Canada and store them tax- and duty-free until delivery
- Receive duty refunds for goods that have been exported from Canada

**A good broker partner can help you implement and maintain an effective policy to ensure your company stays on the right track.**

## TRADE ASSOCIATIONS – A COMMUNITY-MINDED APPROACH TO BUSINESS

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As in the United States, there are numerous trade associations devoted to facilitating trade and business you may wish to become a member of. Alternatively, you may ask your broker partner to serve as a liaison between you and these associations to ensure you are current with Canadian trade information and that your company has a strong voice during customs and trade policy development initiatives.

### KEY ASSOCIATIONS INCLUDE:

- PIP/C-TPAT/Air Cargo Security
- Canadian Society of Customs Brokers (CSCB)
  - Board of Directors and Executive Committee
  - Member of Customs Broker 20/20 Committee
  - Participants in Standing Committees at Sarnia, Fort Erie and Windsor
  - Member of Value, Image & Promotion Committee
  - Members of System Design Committee
  - Members of AMPS Review Subcommittee
- Canadian Courier & Logistics Association (CCLA)
- IE Canada
  - Participants on Customs & Legislative Committee
- Canadian Produce Marketing Association (CPMA)
  - Customs Task Force Committee
- Canadian Snack Food Association
- Canadian Apparel Federation and Apparel Ontario
- Canadian Textile Association
- Toronto Board of Trade
- Brantford Traffic Club
- London District Transportation Club
- Windsor Chamber of Commerce
- Windsor Transportation Club
- Detroit Customs Brokers and Forwarders Association
- Global Ocean Agency Lines (GOAL)
- International Compliance Professionals Association (ICPA)

**If you have questions about which associations are right for your company, ask your broker partner.**



## FARROW — YOUR PASSPORT NORTH OF THE BORDER

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Managing an international business can be a challenge at the best of times. When your business crosses borders, even more so. Farrow understands, because for over 100 years, we've been helping American companies like yours establish and maintain a successful presence in Canada. During the past century, we've developed a deep knowledge of the pitfalls you may encounter, and formulated comprehensive strategies for dealing with them.

### **WHY DO MANY OF AMERICA'S TOP COMPANIES TRUST US?**

**More than just an expert customs broker, we do our best work in partnership with the many companies we've helped over the years.**

- Personal attention — no matter what the size of our customers
- Expert advice at all levels — 40% of all of our employees are licensed customs brokers or hold a professional designation
- State-of-the-art industry leading software

**Our company thrives in helping guide your organization through every step and issue detailed in this guide.**

## MORE THAN ONE MILLION CLIENT TRANSACTIONS PER YEAR

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As Canada's largest independently owned broker, our organization's proactive, get-it-done culture gives our clients the agility they need to thrive in the Canadian marketplace. No job is too big or too small.

### **SOME OF THE COMPANIES WE'VE WORKED WITH:**

- American Eagle Outfitters
- Bass Pro Shops
- Costco
- Disney
- Home Depot
- Johnson & Johnson
- John Deere
- L.L. Bean
- Lands' End
- Nestlé
- Target
- Toyota
- Sony
- Siemens

# Partner with Farrow

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Managing your supply chain across borders can be an incredible challenge. With the right strategy in place, however, the rewards can be great as your brand and physical presence grow in untapped new territory.

Farrow is here to help. As a broker partner, we're ready to streamline the process and help you expand your business into Canada.

**Are you ready to talk seriously about expanding your business north of the border?**

**PUT OUR EXPERTISE TO WORK TODAY.**

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