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Redesigning Canadian
Trade Policies for
New Global Realities



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About this chapter

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Redesigning Canadian Trade Policies for New Global Realities, edited by Stephen Tapp, Ari Van Assche and Robert Wolfe, will be the sixth volume of *The Art of the State*. Thirty leading academics, government researchers, practitioners and stakeholders from Canada and abroad analyze how changes in global commerce, technology, and economic and geopolitical power are affecting Canada and its policy.

The Supply Chain Echo and Its Effects on Canadian Businesses

Joy Nott

CANADA HAS MANY STRENGTHS THAT MAKE ITS BUSINESSES MORE COMPETITIVE, BUT it also has a surprising weakness for such a rich country: its international customs procedures. The World Bank's Logistics Performance Index (LPI) is a popular benchmarking tool that compares the "logistics friendliness" of 160 countries (World Bank 2016).¹ In 2014, Canada was 12th in the overall LPI rankings but placed a disappointing 20th in the area of customs. Germany ranked 1st overall and 2nd in customs, the United Kingdom was 4th overall and 5th in customs, while our neighbour to the south, the United States, ranked 9th and 16th, respectively (Arvis et al. 2014). Given its relatively strong overall ranking, why is Canada so weak in the area of customs?

Although Canada's shortfalls in some LPI criteria — such as competitively priced international shipments, where it ranked 23rd — might be attributed to its vast geography and smaller domestic market, customs is an area that is amenable to policy changes. Perhaps this is where Canadian policy thinking and approaches have contributed to Canada's weak ranking. Indeed, there is significant room to improve Canadians' understanding of global supply chains, and to implement policies and procedures that make it easier for companies to do business in, and with, Canada. One big concern from the perspective of Canadian traders is that policy-makers pay insufficient attention to the potentially negative impact that import procedures can have *after* goods have cleared customs — what the Canadian Association of Importers and Exporters calls the "supply chain echo."

Supply chains don't stop at the border

As Jacques Roy shows in his chapter in this volume, Canadian businesses generally are not as concerned with clearance times at border crossings, ports and

airports as they are with what happens “behind the border.” This is because supply chains don’t stop at the border. Unfortunately, much of the thinking in Canadian trade policy mistakenly presumes that the supply chain ends with customs clearance. In reality, the red tape that occurs after firms import is a tangled web of regulations that can feel overwhelming for many Canadian businesses that trade internationally.

The term “supply chain echo” conveys that imports continue to be regulated and can be affected by trade policies, procedures and penalties long after goods have cleared customs and crossed borders. An import file can be dealt with many times after import, often by multiple parties other than the importer. Years afterwards, audits may be conducted, refund claims submitted and requests for further information made, to name a few activities.²

This supply chain echo can increase uncertainty for firms and undermine Canada’s economic success. A company’s chief financial officer does not want to discover years after its goods were shipped and sold that it owes the government money (potentially with interest) because of changes in the interpretation of customs policies. The recent example of importing electronic goods duty free under a special exemption — tariff classification 9948.00.00, sometimes referred to as the “iPod tax” — is a case in point. The Canada Border Services Agency (CBSA) had given some importers written rulings that such items could be imported duty free, but years later that decision was reinterpreted and duties were reassessed retroactively. Many importers have contested this ruling, and although some have successfully resolved their cases, others are still in court. Having such “echoes” in its policy implementation makes Canada a less attractive location for doing business.

Uncertainty can also arise for firms in Canada because of long delays until policy-makers reach final decisions. For example, despite concerns that Canadian companies lag behind those in key trading partners in the use of electronic logistics software, deliberations on the government’s e-manifest project — which would encourage technology adoption by eventually requiring all carriers, freight forwarders and importers to send advanced commercial information about their shipments electronically to the CBSA — have dragged on for decades, and the system is still not fully implemented. When important policy decisions such as these, which affect Canadian traders, are continually postponed, firms have an incentive to delay their purchase and implementation of a specific electronic system until the software and reporting requirements are clearly established.

More generally, although the previous Conservative government implemented arguably one of the most aggressive trade agendas in Canadian history, its Global Markets Action Plan was too one-sided and focused almost exclusively on export promotion. An international trade strategy that is silent on imports has a major gap. Policy-makers need to work hard to counter all-too-common mercantilist perceptions that exports are good for the economy, but imports are bad. A significant share of companies are two-way traders because the reality is that technologically advanced finished goods usually require multiple imported intermediates (for firm-level Canadian evidence of this, see Baldwin and Yan's chapter on global value chains and manufacturing, in this volume). This suggests that exports and imports are often better viewed jointly as part of a larger, circular process, rather than as distinct linear transactions. Canada's trade policies need to better reflect this reality, and to support the import of goods and services just as they support their export.

One policy adjustment in line with this view would be to deal with imports and exports in a single federal ministry, rather than in multiple departments in multiple ways. Import administrative policy, for example, is the responsibility of the Minister of Public Safety (administered through the CBSA); export policy is handled by the Minister of Foreign Affairs; international trade negotiations fall under the portfolio of the Minister of International Trade; and the Department of Finance monitors Canada's overall tariff regime and policies. This siloed approach often results in a disconnect between those who develop policies and those who implement them, with unintended consequences. If, instead, a single federal ministry were to deal effectively with the entire supply chain, more equal consideration would be given to imports and exports, and Canadian businesses would benefit from a truly innovative and forward-thinking approach to international trade policy.

We need simpler, more consistent regulation

Canadian trade policy needs to take a more business-oriented view of import-export processes. The previous federal government's aim to reduce the regulatory burden on businesses is a good one, but it is only part of the answer. Such red-tape reduction often takes the form of a one-for-one rule, whereby one regulation must be removed before a new regulation can be added. Unfortunately, this straightforward rule misses an important point: it is not the *number* of regulations

that businesses struggle with, but their *complexity*. Tackling the tangle of regulations would be more successful if policy-makers focused on making simpler rules, rather than fewer rules.

Simpler rules would give businesses more clarity and certainty. Canadian regulations often include shades of grey that impose additional bureaucratic burdens. Consistency should be an important aim when it comes to rules that affect supply chains. Canada and other countries should want to be boring in this area — because importers and exporters then could expect to experience essentially the same outcome every time their goods arrive at the border. They should expect the same treatment and determinations at all ports, border crossings and other points of entry, and that the process will always take roughly the same time, resulting in a tighter range of expected overall landing costs for their shipments.

Businesses want consistency and simplicity, which means that inconsistency at the border discourages trade and business investment in Canada. Some businesses actually prefer a consistently higher tariff than a tariff-free environment with inconsistent outcomes. One member of the Canadian Association of Importers and Exporters said that a bad but consistent regulation is better than a good, inconsistently applied one. Companies want to know that the rules will not change because this allows them to budget and plan for the long term.

Conclusion

Changes to Canada's policy thinking and regulatory approach could significantly improve the global competitiveness of Canadian firms. Policy-makers need to be aware of the unintended supply chain echo, and to take steps to mitigate its negative effects on businesses. Our thinking needs to combat outdated views that imports are bad and exports are good, and it should evolve to appreciate the interconnected relationship between the two. As such, I recommend that Canada's import and export portfolios be merged under one ministry. And in our approach to designing regulations and reducing red tape, we should not necessarily seek fewer rules, but work toward simpler ones with more consistent outcomes. With these changes, Canadian trade policy would better support Canada's international traders — both exporters *and* importers — for the highly competitive global business environment of the twenty-first century.

Notes and References

1. This assessment consists of six categories: the efficiency of clearing customs; quality of trade and transportation infrastructure; ease of arranging competitively priced shipments; quality of logistics services; ability to track shipments; and whether shipments reach their destinations on time.
2. According to Canada's *Customs Act*, the Canada Border Services Agency can verify and adjust commercial importations for up to four years after importation, and that records must be kept for six years. Accounting and filing errors discovered by the importer can be corrected at any time, but money owing must be submitted within 90 days of discovering an error, and failure to report errors can result in penalties. And although Canadian importers are subject to prescribed timelines for these actions, CBSA officials are not. Because the *Customs Act* contains no specific timelines for post-importation appeals, importers who file appeals do not know when they can expect a response from the CBSA.

Arvis, J.-F., D. Saslavsky, L. Ojala, B. Shepherd, C. Busch, and A. Raj. 2014. *Connecting to Compete 2014: Trade Logistics in the Global Economy*. Washington, DC: World Bank.

World Bank. 2014. "Logistics Performance Index." Accessed February 1, 2016. <http://lpi.worldbank.org>

