



PBB GLOBAL LOGISTICS – WHITE PAPER

Advance Commercial Information

New regulations are slowly being phased in. When complete, importing into Canada will be radically different.

Customs Self Assessment (CSA) and the Administrative Monetary Penalty System (AMPS) are now firmly in place. Canada Border Services Agency (CBSA) is turning its attention to the third and final prong of its ambitious Customs Action Plan, which was conceived several years ago to help modernize Canada's border processes.

This final element is known as Advance Commercial Information (ACI). Originally named "Carrier Re-engineering," the program was refocused after 9/11 to deal with new security and terrorist threats. The result is an initiative that will affect more than just carriers; it will also impact importers, customs brokers and other service providers.

In fact, for the majority of importers, ACI is shaping up as the most significant change stemming from the Customs Action Plan. By the time the last of ACI's three phases is in place in 2006, Canadian customs processes will be radically different from anything importers were used to just a few years ago.

Mandatory pre-arrival shipment data

In step with new advance notification regulations introduced in the U.S., ACI emphasizes the requirement for electronic pre-arrival shipment data.

The time frames in which shipment data must be reported depend on the mode of transport used (see Table 1), and are somewhat different from the U.S. requirements. 24-hour advance notification



ACI's electronic emphasis fulfills two of CBSA's primary objectives: better information for screening shipments and more accurate customs data.

for ocean cargo has been in effect since April 2004. Reporting for the air mode of transport is scheduled for December 5, 2005, followed by rail and highway (Phase 3) in 2006.

Regardless of the mode involved, shippers should begin preparing today for the new world of advance notification:

- Manufacturers need to review their operations to ensure that shipment data is available to transmit within the prescribed time frame. If relying on a third party service provider to transmit the data, they will probably require the information ahead of the time frames spelled out under ACI.
- Carriers, customs brokers and other supply chain partners should be consulted to ensure they too are prepared, and their systems and procedures are compliant.
- Inventory and safety margins may even need to be increased, as insurance against delays in the event of complications with the new rules at the border.

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- Importers should consider signing up for Canada's Partners In Protection (PIP) program, a voluntary program designed to encourage businesses to take interest in supply chain security. Participation in PIP may become an important criteria when CBSA targets incoming cargo for possible examination.

Mandatory 10-digit HS codes

In keeping with its emphasis on electronic information, CBSA is clearly moving forward in its march towards full HS reporting, a major component of ACI when fully implemented. Importers should also become proactive in updating their tariff information to ensure that 10-digit HS classifications are available for all products.

On May 3, 2004 all Canadian electronic and paper releases began requiring 10-digit HS classification on at least five lines of the Canada Customs Invoice. CBSA estimates that the five HS code requirement will address 93 percent of all release transactions. It applies to all RMD and PARS transactions that are over \$1,600 CAD in total value.

To determine which five items need to list the full HS codes, shippers must ensure that the highest value invoice line of the shipment contains a 10-digit code. Beyond that there are no other criteria for the other four codes reported, as long as all five HS codes are unique.

CSA/FAST vs. ACI

Where Canada's ACI differs significantly from the U.S. rules is in the availability of an alternative processing stream. Under current policy direction, importers who are enrolled in CBSA's Customs Self Assessment post-release reporting program will be exempted from ACI rules. There are no such exemptions under the American advance notification regulations.

CSA importers are eligible for the Free And Secure Trade (FAST) program, designed to move shipments through customs more quickly, with fewer delays and examinations at the border. It is currently offered at 12 border crossings between Canada and the U.S. (some even offer dedicated FAST truck

lanes), with plans to expand to all major commercial crossings down the road. In addition to supply chain improvements, CSA also generates considerable administrative efficiencies, a result of CSA's periodic reporting and payment mechanism.

Qualifying for CSA may require considerable investment in technology and possibly some re-engineering of internal systems and processes. However, it has the potential to bring about an attractive Return On Investment (ROI), through enhanced efficiency and accuracy across a number of corporate trade functions, from customs management to accounting.

Large Just-in-Time manufacturers and frequent importers are among the types of businesses who often find CSA worthwhile, specifically because of its ability to improve timeliness and predictability at the border,

while also streamlining many accounting and other internal processes.

As of January 2005, 164 importers had applied for CSA, of which 19 have completed the necessary approval process. As businesses come to appreciate the potential ROI of CSA, it is anticipated that the number of participants will ultimately increase, particularly as importers realize the program's value as an alternative to ACI.





Release at first point of arrival

In the first two phases of ACI, electronic shipment data is required solely for admissibility purposes, that is, to determine if the goods are physically permitted to enter the country. Advance notification helps Customs better target and screen shipments for contraband, health and safety risks or terrorist threats.

Meanwhile, customs release (i.e. the goods have been presented to customs with proper documentation and all duty and taxes paid) is effected independently through parallel electronic systems.

In Phase 3, subject to a final decision by CBSA, ACI data may be used for purposes of both admissibility and release at the first point of arrival. FIRST and PARS will be discontinued.

Table 1: CBSA Inbound Advance Commercial Information

MODE	EFF. DATE	TRANSMITTAL TIMEFRAMES
 Vessel	April 2004	24 hours prior to loading
 Air	December 2005	Flights less than 4 hours: "Wheel's up", at time of take off; Flights greater than 4 hours: 4 hours prior to arrival.
 Truck	2006	Non-FAST shipments: 1 hour prior to arrival at border FAST shipments: No advance notice requirement
 Rail	2006	2 hours before arrival at border

*With ACI, FIRST and PARS
will be discontinued.*

With Phase 3 still under policy development, it raises a number of questions and challenges to importers and carriers. This is particularly true if CBSA proceeds with customs release at first point of approval through ACI. Will bonded warehouses be required under the new system? Without this ability to move and/or inspect uncleared goods at an inland location, what will happen to traffic congestion at our already busy border points?

These are just some of the many questions that remain unanswered in the early stages of ACI. Over the next few months, the CBSA will be consulting with industry stakeholders as it further develops its Phase 3 policy.

In the meantime, even though full implementation is still a year away, knowledge of the upcoming rules is always the best asset

ACI Checklist:

- Understand the three proposed phases
- Review your operations to ensure that shipment data is available to transmit within the prescribed time frame
- Adapt inventory and production processes if necessary
- Ensure your supply chain partners are fully compliant

in helping shippers prepare for the future. By the time ACI is in full effect, the everyday cross-border procedures that thousands of shippers have become accustomed to will be radically different. The sooner that the trading community is prepared for tomorrow's customs environment, the fewer obstacles it will encounter.

PBB's Trade & Compliance Services experts are available to assist importers in preparing for ACI and can be reached

toll free at 1-866-820-0340 or by email at aci@pbb.com.

Another good source of information is www.pbb.com/cap/, which offers regularly updated information on all aspects of the Customs Action Plan, including ACI, CSA, AMPS and FAST.

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