



PBB GLOBAL LOGISTICS – WHITE PAPER

Challenges Facing North American Traders

Businesses develop new strategic approaches to managing their global supply chains

Since 9/11 North American companies have seen an increase in security and customs regulations. Coupled with this has been an explosion in international trade, particularly in goods coming from and going to South East Asia. It's the 'perfect storm' for businesses involved in global trading. Only smart planning, long-term strategic vision, and total compliance will see businesses stay afloat in the challenging waters of international trade.



(see Table 1, on page 2). Companies with the internal and external resources are taking advantage of Customs' incentives. Participation in voluntary security programs reduces the likelihood of being targeted for examination and eases requirements under advance reporting. It can also streamline the clearance process, offering expedited clearance at 12 major border points through the Free And Secure Trade (FAST) program.

Supply Chain Security

There are several trends in supply chain management, including global sourcing, visibility, integrated technology and logistics outsourcing, which have been affected by the new security environment. This adds a new degree of complexity to global sourcing and is requiring businesses to take a proactive approach to supply chain security.

In the spring of 2005, the World Customs Organization (WCO) adopted the Framework of Standards to Secure and Facilitate Global Trade. The Framework establishes minimum security standards for customs organizations around the world. At the customs level, the Framework encourages information sharing and harmonized systems among consenting countries to improve the ability of customs organizations to detect and deal with high risk shipments. At the business level, the aim of the Framework is to push the security of cargo and containers further back in the supply chain, encouraging shippers to guarantee security procedures at the point of origin.

In North America, the past three years have seen initiatives put forth by governments on both sides of the border

All these measures place responsibility squarely on the shoulders of the importer/exporter. These new regulations reinforce the importance of visibility - never before has it been so critical to know who you are doing business with, what your partner's business practices are, and to communicate effectively and efficiently with both your business and logistics partners. It is important to ensure that systems are integrated across all supply chain partners if total visibility is to be achieved.

These new regulations are resulting in increased costs to companies trading globally. There are increases in port user fees to off-set increased security costs, and increases in technology investments in order to comply with the advanced

By: Robert (Bob) J. Armstrong

Senior Vice President,
Government Affairs,
PBB Global Logistics &
Director, I.E.Canada

Email: barmstrong @pbb.com
Telephone: 1-800-581-6738

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notification requirements. Smart companies are making use of some of the more advanced technological capabilities (such as Radio Frequency Identification (RFID) and SMART containers) that can help streamline the flow of goods. Technology in containers is a key weapon in the security arsenal. SMART containers carry a sensor that can determine if a container has been opened; these sensors can also access other monitors inside the container that are able to report on the condition and integrity of the goods being shipped. Companies that invest in and improve their technological capabilities will benefit.

Security is and will continue to be a prime focus of governments around the world. Businesses that expect to continue to trade globally will look strategically at their entire supply chain, to ensure the safe and secure flow of goods to their operations and their customers.

Compliance

With security measures comes the issue of compliance and governments around the world are penalizing those companies that fail to measure up. The WCO Framework aims to coordinate security and enforcement measures at an international level. Businesses that meet the security requirements will minimize their inspection levels, have fewer delays and therefore more predictable shipping costs, and see streamlined release and reporting. Companies that fail to comply with the standards will see penalties, restrictions and increased examinations. They may also be denied access to the countries to which they wish to ship.

In North America, both CBP and CBSA are focusing on enforcement. In Canada, Administrative Monetary Penalty System (AMPS) is assessed to companies that have omissions or errors on their customs invoices with penalties up to \$25,000. It is critical that companies ensure all imported goods are classified, their trade databases are accurate and the information is kept current. In addition to monetary penalties, companies face delays and possible seizure of goods that are non-compliant. The business costs of these delays, particularly for companies operating in a Just-In-Time (JIT) environment, can be significant.

Non-compliance is being measured and tracked through examination of shipments - both random and targeted - and through on-site customs audits. The move from transactional, shipment inspections to on-site internal customs audits is giving customs officials, on both sides of the border, a better

idea of the nature and level of risk across customs programs. Companies need to be aware of the customs regulations, and must ensure that they have policies and procedures in place that guarantee compliance.

Many businesses have come to rely more on their third party logistics providers to help them ensure that they are compliant with all the necessary regulations, and to help make strategic business decisions that will provide the most efficient and reliable flow of goods.

Capacity Issues

The massive surge in goods being shipped to and from Southeast Asia has caused a capacity crunch at ports along the Pacific Northwest. At one point last summer, reports were that containers being unloaded in Vancouver, Canada were delayed for up to three weeks due to a shortage of equipment and the poor state of the inland infrastructure. This problem is further exacerbated, as ports in the U.S. look to Canada to help address their congestion problems.

Table 1: Canadian and U.S. Customs' Initiatives

	Canada's Customs & Border Services Agency (CBSA)	U.S. Customs & Border Protection (CBP)
Advance cargo reporting (mandatory)	Advance Commercial Information	Container Security Initiative Advance Electronic Cargo Information
Self assessment (voluntary)	Customs Self Assessment	Importer Self Assessment
Supply chain security (voluntary)	Partners in Protection	Customs-Trade Partnership Against Terrorism

As well, container ships are continually growing in size. Post-Panamax vessels (ships that can carry more than 13 containers abreast) are becoming increasingly popular, but require wider and deeper channels, higher bridges and additional cranes for off-loading. U.S. ports are already spending over \$3 billion annually on infrastructure improvements to accommodate these ships, but growth in trade is happening faster than construction. World container port traffic is expected to increase 350% in the next 20 years. Not all of this growth will happen on the west coast; eastern ports have seen an increase in container traffic as well, although the growth has been more controlled.

The bottlenecks at the ports are intensified by security measures. Seaports have been dealing with advance notification for approximately two years, with the number of examinations of containers doubling at the same time. In the summer of 2004, the International Maritime Organization introduced the International Ship and Port Facility Security (ISPS) code, its mandatory security measures for ports around the world. Ports must now demonstrate that they are implementing appropriate risk management procedures to protect against security threats. As a result, the Canadian government has allocated \$155 million over three years for

port security measures, leaving even less to invest in increased port capacity.

The problems at the ports are not limited to ocean travel. Goods arriving at the terminal need to be shipped out by rail or truck. Railways have made significant improvements in the last decade, but there is an insufficient network in place to deal with the ever-increasing demands. The situation is even worse on North American highways.

Approximately two thirds of Canada's trade with the U.S. crosses at only five bridges, structures that are unprepared to handle today's volumes. The impact of slow border crossings is further compounded by delays from accidents, customs slow downs and security alerts, ultimately increasing carrying costs to businesses.

Shippers will bear the brunt of increased security costs and for the additional transportation costs due to delays. Some ports have already implemented user fees for containers being moved during peak activity periods. Tight capacity in the trucking industry has allowed transportation companies to pass along increases in fuel charges and costs of border delays on to their customers through security charges and other fees ranging from \$8 to \$30 per shipment.

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Businesses are now looking to alternate routes when bringing goods to market, using multiple ports for inbound shipments, and looking to alternate modes of transportation. Air freight, long considered an extremely high cost alternative, is becoming increasingly popular for the shipment of higher value goods. As well, companies that operate in a JIT environment are hedging their bets by increasing their safety stocks in order to minimize the risk of delays.

While smart businesses rely on their third party logistics partners to provide up-to-date information on all customs and security rules, they also know that they must accept ultimate responsibility for compliance with security and customs regulations. As a result, North American importers and exporters are being forced to develop an entirely new strategic approach to managing their global supply chains. Clear guidelines on responsibility and accountability are extremely important. Businesses must know all the partners in their global supply chains, and be aware of what their partners are doing. It is critical that global traders have effective, efficient information systems, and must be aware of their responsibilities in ensuring compliance with the customs rules and regulations of the countries with whom they are trading.



Supply chain solutions in a world of international trade
1-866-820-0340 www.pbb.com info@pbb.com