



PBB GLOBAL LOGISTICS – WHITE PAPER

Get Informed on Advance Electronic Information

Call it revolution or evolution, new CBP rules are changing the face of international trade

Two years after Congress passed the *Trade Act* of 2002 and more than a year after Customs and Border Protection (CBP) floated – and then shelved – its highly controversial “strawman” trial balloon, Advance Electronic Cargo Information is now the law of the land. With so much time and debate having gone into the development of the final regulations, the new framework is hardly a surprise to the trading community. Nevertheless, implementation of the new rules is being met with certain apprehension.



New U.S. advance cargo reporting regulations cover all modes of transport, but industry watchers predict that air cargo will be impacted the most.

Advance notification for air cargo followed soon thereafter, on August 13 for airports in 18 eastern states. The rule is now set to expand geographically to cover 20 central states on October 13, followed by the western states on December 13. The advance notice requirements for air cargo depend on the length of any given flight. If the cargo originates in the Americas north of the Equator, cargo data must be submitted at “wheels up”. Otherwise, the data is required four hours prior to arrival. Filing is typically done through CBP’s Automated Manifest System (AMS).

At the heart of the matter is CBP’s focus on collecting advance cargo data to better target high-risk shipments before arrival and release at the border. That’s no small endeavor considering the sheer volume of trade entering the U.S., which each year totals 11 million truck crossings, 7 million imported ocean containers and millions of air freight shipments.

These volumes, together with an effort to minimize disruptions to trade, underlie CBP’s emphasis on receiving all cargo data electronically. To sift through the massive amount of data involved, CBP relies on its Automated Targeting System (ATS), which in turn is supported by several hundred targeting personnel.

The transmittal time frames set out for advance notification are based on the mode of transport and whether goods are imported or exported, as illustrated in Table 1. The final rules came into effect on January 5, 2004, although the actual compliance date was a factor of the mode involved subject to Customs’ readiness at any given port. 24-hour advance notice for ocean imports came into effect on March 4, 2004, while rail reporting – two hours prior to arrival at the border – became effective on July 12.

AECI implementation for road transportation is expected in the near future, as early as November 15, and is being phased in at highway ports. No doubt this will have the most profound effect of all the modes, especially given the delays at many border crossings in recent months. CBP will require truckers to use the Pre-Arrival Processing System (“PAPS”), although as a temporary accommodation it will allow shippers to continue using the Border Release Advanced Screening and Selectivity (BRASS) program if they are a frequent importer (tentatively defined as 50 entries per year) and use a carrier with a FAST-approved driver.

PBB Global Logistics

info@pbb.com
www.pbb.com
1-866-820-0340





Date: October 2004

PBB
Global Logistics



Trade & Regulatory Services • Corporate Audit • Parcel Logistics • International Freight Forwarding • Customs Brokerage • Warehousing & Distribution • North American
 Global Logistics Technologies • International Freight Forwarding • Customs Brokerage • Warehousing & Distribution • North American Transportation • Trade & Regulatory
 North American Transportation • Customs Brokerage • Parcel Logistics • Corporate Travel • Global Logistics Technologies • International Freight Forwarding • Customs Brokerage

Table 1: CBP Advance Notice Requirement

MODE	IN/OUT	TRANSMITTAL TIMEFRAMES
 Vessel	Import	24 hours prior to loading
	Export	24 hours prior to departure from U.S. port where cargo is laden
 Air	Import	At "wheels" up if cargo originates in the Americas north of the Equator; otherwise 4 hours prior to arrival
	Export	2 hours before scheduled departure
 Truck	Import	30 minutes before arrival at border (FAST); 1 hour prior (non-FAST)
	Export	1 hour prior to arrival at border
 Rail	Import	2 hours before arrival at border
	Export	2 hours before arrival at border

Impact of Advance Electronic Information

Shippers and carriers have expressed some anxiety about the impact of Advance Electronic Cargo Information on their supply chains. Increased logistics costs and disruptions to lean manufacturing systems that rely on Just-in-Time inventory are among their chief concerns.

“There’s no doubt that advance notification is bringing about some operational challenges for importers and exporters alike,” says Mike Scott, President & CEO, PBB Global Logistics. “For many, new supply chain strategies will be necessary to accommodate the earlier release of shipment data.”

The magnitude of the impact of the new rules is closely related to mode of transport involved. Whereas ocean freight is not particularly time-sensitive, air and truck transportation are critical to Just-in-Time operations, courier services and other urgent shipments. Furthermore, ocean shippers have already had the “luxury” of a head start, having transmitted 24-hour advance notification to Customs for over a year, under the Container Security Initiative (CSI). That experience led to a tangible increase in cost structure, leading to security surcharges of around \$25 per bill of lading, and for some, a slightly longer supply chain cycle. Likewise, the impact on rail cargo is expected to be minimal, since virtually all railroads are filing electronically already.

Effect on Trucking: The Jury is Out

Over 80% of the motor carrier industry consists of carriers with five or fewer trucks, which generally rely on less-

sophisticated technology than the major trucking firms. This technology gap could impact cost structures, the nature of competition and carriers’ level of readiness for the new rules, at least in the short term. Beyond these industry-wide impacts, shippers with Just-in-Time processes will be the most affected by the new rules, thus the incentive to qualify for Free And Secure Trade (FAST) status, which reduces the advance notice requirement from 1 hour to 30 minutes before arrival.

New trucking Hours of Service rules (in effect until Congress passes new legislation following a federal appeals court order) are likely to complicate compliance with truck AECI, effectively shortening the carrier’s delivery coverage even further. Under AECI, carriers may need to allow a minimum of 2 to 3 hours for paperwork and/or border delays. LTL carriers may have an advantage

over their truck load counterparts since they often collect their freight and bring it to a local terminal, where they will fax shipment details to the brokers hours prior to arriving at the border. In contrast, truck load carriers typically fax their PAPS labels from either the shipper’s location or from their dispatch location and then proceed immediately to the border. Come November 15, this may not be enough time to meet the AECI time frames and as such, may cut into their hours of service.

CBP estimates that the trucking sector will actually save \$78 million with fewer delays, reduced congestion and fuel savings, which if true, should benefit shippers positively in the long run. Many are skeptical of this claim, but even ignoring the issue of supply chain security, there is little doubt that technology and automation is where cross-border trade was heading anyway. CBP’s much-anticipated Automated Commercial Environment (ACE), which has been in development for several years, is proof.

Air Cargo Faces the Greatest Challenge

Of all the modes, air cargo is probably the most inconvenienced by the new rules, particularly in its courier segment. Even Customs acknowledges a significant increase in net cost of anywhere up to \$2.2 billion, compounding the many challenges already facing the industry. Much of this cost is attributed to new investments and improvements to electronic filing systems, which were originally developed to file master bill information rather than individual shipment data. The “wheels up” notification deadline for cargo originating from the western hemisphere north of the Equator also opens a gap for delays and service degradations.



As a result of these factors, increased costs are a strong possibility – many airlines have already introduced new fees for processing shipment data that is received manually. In the long term, one might reasonably expect some diversion of air cargo to trucking, particularly if recent logjams at major road ports of entry subside with improved advance targeting by Customs.

Advance Preparation for Advance Notification

For all modes, CBP says it will adopt a phased-in enforcement process, similar to its roll-out of the maritime 24-hour rule. This transition period will help educate industry and encourage compliance, with penalties only for egregious violations. Nevertheless, shippers should already be thinking about their supply chain and take actions now to avoid disruptions later:

- **Review your operations to ensure shipment data can be made available** within the prescribed timeframe, but make a concentrated effort to exceed the rule. Your logistics service provider may require the data in advance of the CBP timelines to give it sufficient time to transmit the information to Customs.
- **Consult with all your supply chain partners** to ensure they are taking measures to prepare for the advance notice framework.
- **Consider increasing safety margins** for any goods that are deemed critical to your operations, particularly when close to the key enforcement dates when border delays may arise. This may require a second look at inventory strategies, especially if existing warehousing capacity is limited on either side of the border. Alternatively, allow yourself extra order time in the supply cycle to offset potential delays.
- **Be vigilant and be prepared to act.** If air cargo delays and cost increases do in fact materialize, consider using other modes of transport, such as expedited trucking.
- **Look carefully at the costs and benefits of enrolling in supply chain security programs** such as the U.S. Customs-Trade





Partnership Against Terrorism (C-TPAT) and Canada's Partners in Protection (PIP). Your status in these voluntary programs will be a criteria used by CBP to target incoming cargo for examination. Furthermore, participation makes you eligible for the FAST release program in the U.S. (in Canada, participation in the Customs Self-Assessment program is required). As FAST expands in scope and coverage along the border, this consideration becomes all the more important.

Advance notice regulations are coming into play in other jurisdictions as well, as governments seek to protect trade interests and secure international supply chains. Of

particular relevance because of the magnitude of trade between the U.S. and Canada, the Canada Border Services Agency (CBSA) is implementing its own advance reporting program for inbound cargo. Known as Advance Commercial Information, the new framework is already under way (see Table 2). Similar regulations in other countries are bound to impact global logistics everywhere.

Advance notification is here to stay. There will certainly be initial challenges as CBP and other national customs agencies ramp up enforcement. But there may be a silver lining in the long run, in addition to safer, more secure trade. Ultimately, the strong emphasis on electronic and online systems could pay dividends to the trading community through increased efficiency.

Table 2: CBSA Inbound Advance Commercial Information

MODE	EFF. DATE	TRANSMITTAL TIMEFRAMES
 Vessel	April 2004	24 hours prior to loading
 Air	May 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	Fall 2005	Non-FAST shipments: 1 hour prior to arrival at border FAST shipments: No advance notice requirement
 Rail	Fall 2005	2 hours before arrival at border



Supply chain solutions in a world of international trade