



## PBB GLOBAL LOGISTICS – WHITE PAPER

# Supply Chain Strategies: the Advantages of Canada

## Exporting to Canada is cost effective. It can be profitable too.

Canada and the U.S. are each other's largest trading partner, with over \$1.2 billion U.S. crossing the Canada/U.S. border daily. Currently, Canada buys 19% of all U.S. exported goods and services, and supplies 16.5% of all U.S. imports of goods and services. It is the most extensive trading partnership in the world and is the result of the work of both countries to ensure that goods and services flow smoothly and easily across the border.



Both Canadian and U.S. businesses benefited from NAFTA, as many aspects of trade became duty free in 1998. Trade patterns that had traditionally followed an East-West pattern began to reflect the increasing occurrence of North-South trade. This is a trend that is still growing. Many forward thinking companies are looking at the North American market as one single region, without seeing the border as a barrier. In many cases, regional distribution centers, serving areas of both Canada and the U.S. make more geographic and economic sense.

Many savvy companies are looking to Canada as a good place to expand their businesses. The increased ease of shipping into Canada, a competitive Canadian dollar, reasonable wage rates, a tremendous transportation infrastructure and lower business costs in general make Canada a solid place to invest. As America's most significant trading partner, companies cannot afford to overlook the benefits of doing business in and with Canada.

### Advantage Canada

Many U.S. companies are choosing to enter the Canadian market more aggressively. The Canadian economy is strong and

expected to grow 3.4% in 2005. The consumer market in Canada is also growing, leading many companies to consider expanding their businesses north of the border.

In terms of U.S. dollars, Canada is an extremely cost-effective location to set up a branch or distribution center. In recent years, the Canadian dollar has been valued at significantly less than the U.S., and although recent months have seen an increase in

the value of the Canadian loonie, it is below its level of over a decade ago when Free Trade was introduced.

This makes all business costs more affordable, and will add directly to a company's bottom line when compared to the costs of opening up a similar facility in the U.S. Add to that reduced labor costs, lower telecommunication costs, and competitive transportation costs, and it is not difficult to understand why U.S. businesses are considering their northern neighbour as the next step in their expansion plans.

Those companies that have succeeded in establishing a strong presence in Canada have done so seamlessly and without a large

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investment in capital. Updated Canadian Customs regulations, coupled with the strategic use of a third-party logistics provider, have provided these companies with a competitive advantage.

Transborder trade between Canada and the U.S. has become much more transparent and efficient in recent years. NAFTA saw the elimination of most tariff barriers between the two countries. At the same time, customs procedures on both sides of the border have been streamlined through new technologies and automation.

The U.S. Customs Modernization Act (Mod Act) was created in order to modernize the border management process. The plan outlines very clearly the responsibilities of the exporter/importer, the channels through which goods must be cleared and the process for handling disputes. While guidelines are stringent, they are clear-cut and easily dealt with by either in-house or outsourced customs expertise. As well, Canada's Public Safety and Emergency Preparedness Ministry has committed to completing the implementation of the Canada-U.S. Smart Border Declaration, and to examine measures that would increase efficiency at the border for low-risk commercial goods. Efforts to increase the ease of cross-border shipping will continue as an increasing number of U.S. firms make the strategic move to become more global when developing their North American distribution strategies.

### Customs and Trade Cooperation

One of the benefits of NAFTA was the elimination of the old tariff walls, which made importing to the Canadian marketplace very costly and onerous. The new regulations allow for U.S. companies to create a presence in Canada without a capital investment. There is no need to invest heavily in infrastructure, or 'bricks and mortar'. By establishing itself as a Non-Resident Importer (NRI) with the appropriate Canadian agency, a U.S. company can handle the entire Canadian market with sales and customer service representatives, agents, and the strategic use of a third-party logistics provider.

NRI status provides access to Canadian markets in the most efficient and cost-effective manner possible. A NRI allows a company to become both the exporter from the U.S., and the importer of record in Canada. This enables goods to be sold in Canada on a delivered basis, and includes all charges in Canadian dollars. To the customer, there will be no perceived difference

between goods produced locally or those imported from the U.S. It is a simple procedure to register as a NRI, with very few complications. One issue to be considered is the Goods and Services Tax (GST), which is applied to almost all goods imported into Canada. NRI's have the option to register or not, depending on the type of goods and business. However, registering for GST is not a complicated process and should not be seen as a barrier to entry.

For companies that are moving smaller value shipments (i.e. parts manufacturers or catalogue retailers) into Canada, there are also benefits. Many provisions and special exemptions have been made that simplify the procedure for goods crossing the border and reduce the costs to the exporter.

The U.S. and Canada enjoy one of the most efficient borders in the

world. Changes in the processes of both Canada Customs and U.S. Customs combined with increasing use of information technology have allowed for the easier transmission of information among all the players. Electronic Release is possible at all automated ports operated by Canada Customs. Electronic Release shipments are given priority over manual releases. Another system, Pre-Arrival Review System (PARS) allows for the transmission of shipment data prior to arrival at the point of clearance. Through bar code technology, all information is ready and waiting when the goods reach the border. These technological advances make for an expedited clearance process, eliminating bottlenecks at the border. Essentially, as a result of updated procedures and technology, the border has and will continue to become more efficient.

### Thinking Strategically – the North American Market

The basic function of a distribution strategy is to get the goods efficiently to market at the lowest possible cost, while providing the highest level of customer service. Typically, U.S. based companies have solid logistics strategies for their national market, but often overlook this step when entering the Canadian market. Rather than developing a comprehensive logistics plan that optimizes transportation routes, small shipments are made from the U.S. distribution center in response to small orders. This can result in substantial transportation costs and delivery delays. Companies shipping to Canada should consider consolidating shipments whenever possible in order to take advantage of the lowest possible transportation rates. Product should then be linehailed direct to Canada to a regional distribution center,



*Successful NRI's are able to access markets across Canada by partnering with third-party logistics providers that can offer regional warehousing and distribution from strategic locations.*

placing the goods closer to the market and therefore reducing the time from order to delivery. If the company chooses to partner with a Canadian third-party logistics provider, they will have access to strong regional distribution and delivery capabilities, minimizing transportation costs and delivery times and maximizing their customer service.

The use of a third-party logistics provider enables businesses to offer landed cost pricing and to invoice in Canadian dollars, providing a definite competitive advantage. A third-party logistics provider will provide hassle-free inventory management and help to minimize inventory carrying costs. They can also provide timely and flexible adaptation of the important technologies needed to expedite the clearance of goods on both sides of the border.

As a major component of distribution, delivery services need to be considered. Geographically, both Canada and the U.S. are extremely vast countries with diverse regions. In many cases, shipping North-South is more logical than shipping East-West. Canada can offer a tremendous transportation infrastructure, with world class courier and shipping companies. Whether the goods are travelling across Canada, or following the increasing trend of North-South regional distribution plans, there are outstanding transportation links throughout the country. When considering site selection for a distribution center, the border

should no longer be seen as a barrier. Major considerations such as tax rates, labor costs, transportation infrastructure and costs, and access to market should take precedence. It may make more sense to locate a distribution hub in Canada that will service the entire North American market.

**Why NRI?**

- Become an importer of record in Canada
- Sell goods on a landed cost basis: easy and stable pricing
- Set up a comprehensive distribution network without 'bricks and mortar' costs
- Flexible solutions offering rapid speed to market

Forward thinking businesses are thinking outside the box and taking a more global approach to their distribution strategies. The streamlining of regulatory issues and NAFTA have made it easy for companies to ship across the border. It is a logical next step to consider dividing markets into borderless regions, where the North American region is looked at as a seamless whole and the border is not seen as a barrier.

The major issues to consider in selecting a location for a distribution center or branch operation should be business issues, not border issues. Geographic location, the costs of doing business and potential cost savings should be the primary considerations. While it is difficult to break with tradition, it just might make more sense to locate in Canada and service the entire North American market from there. With over \$381 billion in bilateral trade between the two countries, a seamless border with goods passing back and forth with ease is the future. Progressive companies in both Canada and the U.S. see the potential benefits of the North American market concept and are creating new paradigms for business.



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