

# Canada:

## TIES THAT BIND

**The U.S.-Canada cross-border trade relationship remains robust in an evolving regulatory environment.**

**W**hen it comes to U.S.-Canada trade, the hyphen between the countries' names is hardly relevant. So close are these two trading partners—in relation to both their physical proximity as well as their strong spirit of friendship—that their names morph. Neither does it make much difference which country is named first.

While more Chinese goods make their way into the United States, that single chapter in the book of trade doesn't measure up to the overall story of Canadian and U.S. interdependence. "It's the most important trading relationship both countries have," says John Costanzo, president of Purolator International.

For manufacturers on both sides of the border, the difference between success and failure often lies in how economically and efficiently they navigate the crossing. In that regard, companies should not be needlessly concerned about talk of increased costs.

"A lot of saber rattling is going on about tariffs," Costanzo says. "But, long term, all that will settle down."

The value of the dollar is likewise settling down. "There was some market shock with the U.S. dollar in 2016," Costanzo says. "But it's been relatively stable since then. Customers see that instability is behind us; as a result our volume has picked up."

Purolator International is a subsidiary of Purolator Inc., a leading integrated package, freight, and logistics solutions provider that has built one of Canada's most extensive

transportation and logistics networks and supporting infrastructure. Purolator International works with U.S. companies to help manage the array of factors that affect cross-border trade. Based in Jericho, New York, about 25 miles from New York City, the company operates about 30 branches in cities across the United States.

### Cut to the Chase

From that perspective, Costanzo is in a position to quickly sort through perceptions and cut to realities. He says that when a company is fulfilling orders in Canada, for example, what may seem to be an obvious answer may not, in fact, be the ideal solution for them.

“Companies selling products in Canada may feel they need to put a warehouse in Toronto,” he says. “That sometimes may be true, but if they are fulfilling orders across the country, Toronto may not offer the best fill rate and customer experience. Fulfilling orders from U.S.-based distribution centers located across the U.S.-Canadian border is a better option.”

Costanzo also cautions companies to stay on top of changing customs regulations, and to be particularly conscious of the logistics challenges and regulations governing returns. “In e-commerce, the

return rate can be pretty high,” he says. “And a cross-border return can often cost as much as three to four times more than fulfilling the original order. Setting up an effective cross-border returns solution can substantially reduce that expense.”

While the customs process is more easily understood than it is with other countries, it would be unwise to believe the friendly relationship between the United States and Canada translates into no-fuss trade.

“It’s not enough that Canadians speak and sound like Americans,” Costanzo says. “Even with these commonalities, you still have to know how to get through customs properly. Items must be recorded accurately, and all the Harmonized System Codes have to be right to avoid delays and additional expense. It’s important to understand the regulatory environment.”

Purolator International acts as a partner and guide in the border-crossing process. “We’ve been in business in Canada for 60 years and in the United States for 20,” Costanzo says. “We know Canada and the complexities of crossing the U.S.-Canadian border quite well. Whether in the air, on the ground, via courier, expedited freight, or LTL, we understand how to move freight efficiently and effectively.

“The most important thing is to get

through the border without any delay,” he adds. “Rarely do we get stopped or held up.”

Keeping the process smooth is increasingly important in light of the continuing growth of e-commerce. “E-commerce will be the most pervasive factor going forward,” he says. “We see downsizing in brick-and-mortar businesses. That’s a huge change. Brick-and-mortar business isn’t going away, but there is more and more omni-channel fulfillment.”

To answer the demand, Purolator International is upgrading its IT systems at all levels, including creating a more client-friendly portal. “The key is integration across all platforms,” Costanzo says.

At the same time, Purolator International is growing its domestic service. “We’re expediting shipments and offering more same-day deliveries within the United States,” he says.

### Adapting to Change

While Canada and the United States continue to be close in their trade connection, it should come as no surprise that—as with any close relationship—evolutionary changes occur that likely will strengthen their bond over the long term. Given that natural fact, leaders in the logistics field caution their customers not to overreact to the ebb and flow of politics.

“The current Canadian and American leadership seem, on the surface, to be diametrically opposed on social and some economic issues,” says Mike Flinker, president at FLS Transportation Services Limited. “However, the leaders in both countries recently have concluded that the North American Free Trade Agreement (NAFTA) should be tweaked rather than trashed, for the good of all involved.”

FLS, based in Montreal, Quebec, operates more than one dozen offices throughout Canada, the United States, and Mexico. As one of the fastest-growing third-party logistics (3PL) providers, FLS provides logistics solutions for all sizes of companies across numerous industries.

While its core competency continues to be over-the-road transport, FLS is engaged in providing highly customizable contract logistics services including warehousing, cross-dock, project logistics, and freight management.

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Logistics providers and customers must look beyond political rhetoric and focus on core beliefs. “It may seem like the Trump administration is leaning toward trade isolationism, but there remains a deep understanding of the exponential impact of trade, especially exports, to the economy and job growth,” Flinker says.

“In the long term, this may mean that Canada, which has relied heavily on its trade relationship with the United States, may look to improve its export power with other countries that will agree to increase the purchase of Canadian origin products,” he says. “Canada might look to leverage its involvement with international organizations—specifically those addressing climate change, women’s rights, and other social issues—to increase its trade footprint.”

### Economic Changes

No matter what lies ahead politically, manufacturers on both sides of the border must be vigilant about the natural changes that occur in economics. “Outside of considerations regarding the sale of goods and buyer’s demographics, the primary concern for manufacturers, especially those trading cross border, should be factors impacting cost of labor, materials, regulation, and value of currency,” Flinker says.

While some of the rhetoric may be just political posturing, concerns for the health of the current trade relationship between the United States and Canada remain. “For this reason, some manufacturers and distributors may want to limit their traditional brick-and-mortar investments, and instead look to a 3PL such as FLS,” Flinker says. “We can create a virtual network through which they can easily expand their delivery footprint, and reach new and existing customers without having to make a significant investment in technology, transportation, or other logistics assets.”

If there is any major difference between the United States and Canadian markets for manufacturers, he says, it might exist in their geographical relevance to Mexico, which both countries share as their third-largest trading partner.

“As nearshoring becomes more common—a result of a desire to be more reactive to manufacturing changes, reducing transport cost, and speed to

## U.S.-Canada Trade Facts

■ U.S. goods and services trade with Canada totaled an estimated \$627.8 billion in 2016. Exports were \$320.1 billion; imports were \$307.6 billion. The U.S. goods and services trade surplus with Canada was \$12.5 billion in 2016.

■ Canada is currently the United States’ second-largest goods trading partner with \$544 billion in total (two-way) goods trade during 2016. Goods exports totaled \$266 billion; goods imports totaled \$278.1 billion. The U.S. goods trade deficit with Canada was \$12.1 billion in 2016.

■ Trade in services with Canada (exports and imports) totaled an estimated \$ 83.7 billion in 2016. Services exports were \$54.2 billion; services imports were \$26.9 billion. The U.S. services trade surplus with Canada was \$24.6 billion in 2016.

■ U.S. exports of goods and services to Canada supported an estimated 1.6 million jobs in 2015 (latest data available)—1.2 million supported by goods exports and 36,000 supported by services exports.

Source: Office of the United States Trade Representative

market—U.S. manufacturers seemingly have an advantage over their Canadian counterparts,” Flinker says. “However, a well-planned logistics strategy, and access to technology and transportation insights, will help mitigate additional costs related to several hundred miles of geography.”

The volume of cross-border goods FLS transports—by road or intermodal rail—continues to grow as a result of both an increase in market share win and steady cross-border trade volumes. Recent cross-border volumes are reflective of the trend in trade whereby exports from the United States to Canada outnumber exports from Canada to the United States by almost three-to-one.

“We expect these trends will continue, and while the currency rate creates a more favorable climate for U.S. importers to purchase Canadian exports, we do not see an exponential increase in industrial and consumer goods exports from Canada,” Flinker says.

While certainly mindful of the impact online shopping has on the industry, he says the so-called “Amazon effect” is more about how than why. From that perspective, Flinker says companies such as FLS have a competitive advantage.

“We foresee the Amazon effect having less impact on volume of trade, and more impact on how, what, and where we trade,” he says. “The negative influence online shopping has had on brick and mortar has already started in the United States.

“While Amazon and other online retailers might attempt to vertically integrate logistics into their business, as a 3PL we see this as an opportunity to be rewarded for our investment in technology, integration across multiple applications, and ability to operate contract logistics solutions efficiently with the customer experience in mind,” he adds.

### Continued Cooperation

Jake Holzscheiter, president and CEO of A.N. Deringer, Inc., the largest privately held customs broker in the United States, describes the U.S.-Canada trade relationship as a kinship. Despite some current concerns, he says that relationship is not likely to end any time soon.

“Due to the new administration, many have expressed concern regarding NAFTA, as well as continued specific industry concerns such as softwood lumber and agriculture,” he acknowledges. “Beyond that, Canada is the second-largest U.S. trade partner, and we anticipate this to continue for many years to come.

“The long-established cooperation between the countries, proximity to each other, and ease of commerce will ensure the continued growth of trade relations,” Holzscheiter adds.

Headquartered in St. Albans, Vermont, A.N. Deringer combines more than 30 U.S. offices with a global agency network to facilitate the movement of cargo throughout the world. The company is a



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From that comprehensive logistics vantage point, Holzscheiter sees the issues ahead more from a compliance perspective than concerns over the ongoing partnership between the two countries.

“The demand for additional data and new regulations from various U.S. government agencies, as well as the continued transition to the Automated Commercial Environment (ACE) program, are major challenges for manufacturers,” he says.

Holzscheiter specifically points to the requirements contained in the Trade Facilitation and Trade Enforcement Act (TFTEA), the USDA’s upcoming new data requirements referred to as Animal and Plant Health Inspection Service (APHIS) Core, and the FDA’s Foreign Supplier Verification Program (FSVP).

“The government is rolling out TFTEA, which is a new, broad-sweeping trade regulation,” Holzscheiter says. “It will have a big impact on many shippers in areas such as duty drawback, low-value shipments, anti-dumping and countervailing duties, and general trade enforcement. At

the same time, the FDA is enforcing the FSVP and the USDA is making way for the new APHIS Core data set.”

#### **Drawing an ACE**

A.N. Deringer is ideally suited to help shippers deal with the new demands, according to Holzscheiter.

“We serve on government committees and industry boards, which puts us in a unique position to help shape trade policy and give manufacturers an early heads-up about new trade requirements,” he says.

“As an example, ACE has been rolling out for more than one year now, and sometimes new requirements have changed or come quickly,” Holzscheiter says. “Shippers need to know about these changes as soon as possible because they can necessitate computer program updates, or additional information from suppliers. And, for large importers, new trade requirements may mean process changes across numerous locations.”

Shorter transit times for goods crossing the border, compared to ocean cargo, add increased urgency to the trade process. “It means cross-border shippers have to plan ahead and act fast to ensure the seamless transit of their goods,” Holzscheiter says.

“The increased U.S. Customs and Border Protection and Partner Government Agencies enforcement initiatives are driving a need for importers to further

develop—or enhance—their trade compliance programs and procedures,” he adds.

“One initiative we’ve found most helpful to our customers is the flexibility that we provide via customized processes, increased visibility for active shipments, compliance monitoring, real-time data mining, and new technologies based on their needs and priorities,” he says.

“We’ve built customer-facing tools, increased our EDI capacity, and developed processes that provide customers with tangible efficiencies,” Holzscheiter notes. “In addition, our cross-border trucking program, distribution, and freight forwarding services are examples of how we provide seamless service by acting as a single-source provider.”

#### **Vibrant Trade**

While the job becomes more complicated year after year, Holzscheiter is confident that trade between the U.S. and Canada will remain vibrant.

“We continue to see strong trade growth between the United States and Canada,” he says. “Over the years, the nature of the business has shifted. While commodities and agricultural products are still Canadian-origin goods imported in large volumes, Canadian shippers are also importing into the United States from overseas. We can expect this balance to continue.” ■



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