Increasing demand for U.S. goods in Canada represents a positive sign for the economies of both countries. But keeping cross-border shipments moving requires building smart and savvy logistics partnerships.
Economic recovery in the United States may not yet be complete, but signs of improvement are present along the U.S./Canada border. The steady stream of goods passing north and south across the nearly 4,000 miles of border that separate Canada and the contiguous United States is evidence that the economies of the two countries are moving in the right direction.

While the U.S. economy remains stagnant, the Canadian economy is expected to grow 2.25 percent in 2012, and 2.5 percent in 2013, according to the Organization for Economic Cooperation and Development.

“The Canadian economy is booming,” says Bob Poulos, vice president of sales at Chattanooga, Tenn.-based transportation solutions provider U.S. Xpress Enterprises. “Demand for southbound and, especially, northbound freight is increasing. Opportunities are developing coast to coast.”

“The unemployment numbers don’t show it yet, but the transportation industry in Canada is definitely up,” agrees Mike Said, president of operations for Clarksville, Tenn.-based transportation provider Continental Expedited Services.

Canada’s push toward economic recovery spells good news for the United States, too. The strength of the Canadian economy has led to an upswing in the number of U.S. companies attracted to Canada as a budding market. Canada is the United States’ biggest trading partner—in 2011, U.S.-Canadian trade totaled $597 billion, accounting for 16.2 percent of all U.S. international trade—so good news on one side of the border is good news for the other side, too.

The value of the Canadian dollar is one factor contributing to the flow of goods north. The value of goods in U.S. surface trade with Canada increased 13.7 percent year-over-year in February 2012, according to the Bureau of Transportation Statistics.

“Goods shipped north are cheaper for Canadian consumers,” says Derek Leathers, president and chief operating officer of Omaha-based global transportation provider Werner Enterprises. “Changes in the exchange rate have affected the import/export dynamic substantially, and are promoting the flow of imports into Canada.”

Businesses in Canada are reaping the benefits. “We opened a new warehouse in January 2012, and it’s almost full,” says Andrew Kirkpatrick, director of sales and marketing at Sherway Group, an asset-based, full-service, customized logistics and supply chain solutions provider based in Mississauga, Ontario. “Companies are looking to seize opportunities and improve efficiencies, which translates to an upswing in business demand on both the U.S. and Canadian sides of the border.”

Ten to 15 years ago, the bulk of U.S.-Canada trade flowed north to south. But as the dollar depreciated...
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over the past several years, manufacturing in Canada and exporting goods into the United States decreased as well. Today, the trend has reversed, and south-to-north shipments have increased substantially.

Simultaneously, a jump in Canadian consumer goods prices has translated to yet another spike in cross-border sales. The price gap—which accounts for some products costing as much as 40 percent more in Canada than in the United States, according to the Canadian Senate Finance Committee—has occurred despite the strength of the Canadian dollar.

While U.S.-based businesses are benefiting from the current price spike, Canadian citizens are not as pleased. Pressure from Canadian consumers recently pushed the Canadian Senate Finance Committee to launch an investigation in an attempt to understand the reasons behind the price increases. Supply management is one reason cited. “If the committee is going to look at factors that contribute to the differences in pricing between Canada and the United States, it would be remiss in not addressing supply management in some way,” says Diane Brisebois, president of the Retail Council of Canada.

RISING DEMAND

The volume of northbound shipments places greater demand on cross-border carriers. “U.S.-based shippers are more frequently asking for solutions in Canada,” says Poulos. “While that’s good news, it also means we are pushing hard.”

An auto industry rebound is another catalyst in the improving economic landscape. The Canadian auto industry is closely linked to the United States, due to the Automotive Products Trade Agreement and the North American Free Trade Agreement. Roughly 540 U.S. companies make automotive parts for original equipment manufacturers (OEMs) and their suppliers in Canada. As U.S. demand for automobiles has increased faster than expected, OEMs in Canada have seen a corresponding uptick.

“The auto industry has always been a leading economic indicator, and, in 2012 to date, it represents a positive trend,” says Poulos.

But the uneven pace of economic recovery in the United States and Canada has led to challenges as well. The number of trucks hauling freight into Canada and returning to the United States partially or totally empty is on the rise. Part of the reason can be attributed to the imbalance in hauling capacity between the countries, but most of it can be traced back to exchange rate issues.

“The increased trade imbalance presents a big challenge,” says Leathers. “The Canadian dollar’s strength created more demand for products going into Canada than in the other direction. U.S. exporters are faced with a higher rate structure, and often have to return empty trucks from Canada, which makes the trip more expensive for them. It’s all because of lower demand for goods coming from Canada.”

Other factors complicate the Canadian shipping market. “Two big issues are government restrictions on importing certain goods, and the cost and availability of quality carriers to haul into Canada,” says Richard Patenude, director of client integration and development for The Wheels Group, the shared-services division of The Wheels Group of Companies, which also includes Wheels Clipper, a 3PL based in Toronto and Chicago, and international freight forwarding division Wheels Synergex.

“The inefficiencies of shipping large volumes to and from Canada through carriers that lack a significant Canadian presence can add considerable expense,” adds Jon Routledge, vice president of sales and marketing at New York-based integrated parcel and freight delivery services company Purolator. “Fuel price fluctuation in the United States and Canada is another
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factor affecting cross-border transportation. Rising fuel costs over the past several years have affected day-to-day dynamics, and dramatically influenced business—and not in a positive way.”

While Canada is often viewed less as a foreign country and more as the United States’ friendly neighbor to the north, shipping and logistics between the two countries has never been simple. While the current economic outlook in Canada tempts U.S. exporters, companies that don’t understand the system and how to navigate it properly can end up paying exorbitant fees for engaging in cross-border business.

**BIG BOX, BIG PROBLEMS**

Logistics service providers can help U.S. companies understand the Canadian market and its dynamics before diving in. “A few big-box store retailers that have penetrated the U.S. market see Canada as a place to grow their business,” Poulos says. “They are looking to expand their presence there significantly, but don’t understand the market. They don’t fully grasp the difficulties of cross-border issues, such as clearing Customs.”

“**It’s critical for manufacturers and retailers to engage trusted partners to help with all the challenges cross-border shipping presents.**”

—Bob Poulos, vice president, sales, U.S. Xpress Enterprises

Managing customs clearance is a critical component of cross-border shipping — and one shippers find increasingly complex. “Enhanced border security since the terrorist attacks of Sept. 11, 2001, is definitely a concern,” says Amy Magnus, director of customs affairs and compliance for A.N. Deringer Inc., a St. Albans, Vt.-based 3PL. “Keeping the flow of legitimate trade moving supports both the U.S. and Canadian economies.”

Over the past decade, several requirements have been put in place for advance delivery of shipment information. Often, when cargo arrives at the border, a decision has already been made as to whether or not it will be inspected. “The U.S. government has visibility into what shipments are coming in at least one hour before they arrive, which has created efficiencies,” says Magnus.

But if data is inaccurate or incomplete, shipments can be delayed, held by U.S. Customs and Border Protection (CBP) or other government agencies, or refused entry. “It pays for shippers to have all their data organized so shipments can be processed correctly the first time,” Magnus says.

While border delays are common today, the U.S. and Canadian governments are dedicated to improving them in the future. On Dec. 7, 2011, President Barack Obama and Prime Minister Stephen Harper unveiled the Beyond the Border Action Plan and the Regulatory Cooperation Council Action Plan. The two initiatives were designed to “ensure that the vital economic partnership that joins our two countries continues to be the cornerstone of economic competitiveness and security,” according to Canadian Defense Minister Peter MacKay.

The Beyond the Border Plan states that the United States and Canada “intend to pursue a perimeter approach to security, working together within, at, and away from the borders of our two countries to enhance our security and accelerate the legitimate flow of people, goods, and services between our two countries,” according to a declaration by Obama and Harper. “We intend to do so in partnership, and in ways that support economic competitiveness, job creation, and prosperity.”

Beyond the Border may relieve some existing trade barriers and improve access to information for shippers and service providers. “The plan could give both sides more reliable data; make the rules about the timing and amount of data required more consistent; and involve government agencies in harmonizing the data they need so the entire process will eventually be less burdensome for all trade partners,” Magnus says.

Electronic information exchange is one way to ease bottlenecks at the border. For example, the Free and Secure Trade (FAST) program is a joint initiative between CBP and the Canada Border Services Agency that enhances border and trade security while simplifying cross-border commercial shipments and minimizing delays. FAST allows properly credentialed trucks to move through an express lane, where pre-approved, low-risk travelers have the ability to bypass the traditional CBP inspection process and use automated kiosks to expedite entry into the United States. The program enables CBP to focus its resources and security efforts on travelers of high or unknown risk.

**AN ACE UP THEIR SLEEVE**

Meanwhile, the Automated Commercial Environment (ACE) electronic manifest system is mandatory for cross-border shippers, creating a secure and streamlined environment for processing and releasing cargo at the land borders. These electronic truck manifests have helped improve efficiency and eliminate redundancies.

Using RFID technology, ACE can identify trucks and drivers from a distance, then retrieve manifest and entry data for CBP officers. In September 2012, vessel and rail ACE manifests will also become mandatory.
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“The e-manifests, which are electronically submitted by carriers, enable both CBP and the Canada Border Services Agency to pre-screen the crew, conveyance, equipment, and shipment information before a truck arrives at the border,” says Magnus. “It is an enormous project that has experienced bumps along the way, but it reflects the way we’ll be doing business in the future.”

ACE makes discrepancies easy to spot, but shippers who don’t organize their data could face delays. This could be especially challenging for less-than-truckload (LTL) carriers. One manifest covers an entire trailer, but the customs declarations come from multiple LTL shippers.

“New technology is making the customs process easier,” notes Said. “As long as data is organized, clearance shouldn’t be a problem.”

CONSTANT CHANGES

New regulations and requirements affecting cross-border trade arise regularly, keeping all parties on their toes. For example, the U.S. Lacy Act, which was passed in 2008, prohibits importing illegally logged timber into the United States. “Every new law requires new information gathering and data requirements,” says Magnus. “As more data is required, it becomes burdensome on trade.”

A.N. Deringer boosted internal staff training to help shippers comply with new requirements and avoid delays. “Legitimate goods need to flow freely. If they don’t, serious economic consequences can result,” Magnus says. “Assembly lines can slow down or shut down, and workers can be sent home. Delays are costly for all parties.”

The vast and varied requirements for crossing the border can be a particular disadvantage for smaller carriers that may not have the proper technology systems in place. “For large companies, the technology investment is reasonable, but for small carriers those hurdles may be too difficult or expensive to overcome,” says Leathers. “That can result in fewer carriers interested in crossing the border. Anything that limits the system’s capacity has a net effect on the cost of shipments crossing the border, and will ultimately affect the rate structure.”

Maintaining compliance with changing rules can be an especially daunting challenge when dealing with perishable shipments.

“Increased legislation and controls for consumables is an issue,” Patenude says. “The fines and penalties for failing to meet those requirements are increasing. The government is tightening the processes and making it harder to get around them. Significant
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To help comply with new and existing regulations, and tight security measures, shippers often look to align themselves with experienced logistics and supply chain providers.

“Shippers should work with carriers that can overcome these challenges so their freight moves with fewer issues and delays,” says Leathers. “A qualified logistics provider can handle electronic filing, has experience operating in Canada, and maintains resources there. Most importantly, companies should work with flexible providers that can design solutions to fit their needs, and work with them collaboratively.”

**DRIVERS IN DEMAND**

As the United States struggles to keep up with Canadian demand, a shortage of available truck drivers in North America presents another challenge. Despite a high national unemployment rate, drivers have become increasingly difficult to find.

Major trucking firms recorded a 90-percent driver turnover rate during the first quarter of 2012, compared to 75 percent in 2011, according to *USA Today*.

A lack of drivers is forcing carriers to raise shipping rates, which are expected to increase up to five percent in 2012. The driver shortage could worsen as the federal government enforces strict limits on the hours drivers can spend behind the wheel.

In addition, requirements enacted in 2009 mean drivers who want to cross the U.S./Canada border must shell out roughly $100 for a passport. Though not a huge hurdle, logistics companies say it’s just one more impediment they encounter.

Tennessee-based transportation provider U.S. Xpress Enterprises partnered with a Canadian trucking company to facilitate its cross-border shipments.

“It is challenging to find drivers who want to go into Canada,” says Poulos. “Passport requirements are a deterrent. And a perception exists among drivers that if you go to Canada, you get stuck there.”

U.S. Xpress is addressing this issue by partnering with a Canadian company that can help get its trucks back to the United States more quickly. Meanwhile, some Canadian transportation providers have made efforts to facilitate cross-border shipments by establishing a U.S. presence.

Geodis Wilson Americas, based in Iselin, N.J., expanded its North American network through acquisition. Part of the Geodis Group, a global logistics provider with some 30,000 employees in a network spanning 120 countries, Geodis Wilson enhanced its position in the U.S. market by acquiring Minneapolis-based domestic transportation specialist One Source Logistics.

“The acquisition is a strategic fit for Geodis Wilson,” says John Gallahan, regional vice president, Geodis Wilson Americas. “One Source Logistics significantly strengthens our capabilities. It accelerates the growth of our domestic product offerings and cross-border trucking services throughout North America.”

One Source Logistics offers specialized domestic transportation services with a focus on truckload and LTL shipments. The company currently supports transportation, logistics, and distribution services networks throughout the United States. The new access One Source Logistics provides to a broader local
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“One Source excels at solving complex domestic issues with Mexico and Canada,” says Gallahan. “It has the ability to bring clarity, structure, and form to supply chain management.”

A VAST TERRITORY

Another challenge unique to Canada is the country’s geography. The majority of the Canadian population lives within 100 miles of the U.S. border. Yet in terms of territory, Canada is the second-largest country in the world after Russia. While the immense population base near the border is easy to reach in terms of distance, the vast area beyond also needs to be served. That’s another reason working with smaller Canadian carriers can be beneficial—and often necessary.

“The fact that the United States and Canada are joined by a huge land mass, with a heavy population base near the border, means many commercial businesses can successfully serve Canada from the United States without building a physical location there,” says Routledge. “They generally need help from carriers, however. A good logistics partner can make cross-border transportation seamless.”

One potential avenue to growth in U.S./Canada cross-border trade is e-commerce. “The Canadian market is about five years behind the United States in terms of the e-commerce adoption cycle,” Routledge notes. “Major U.S. e-tailers can look to Canada for more opportunity, as long as they are prepared to meet the challenges.”

Some major U.S.-based e-commerce retailers have given Canada a try, only to become frustrated and eventually back out. As one example, U.S.-based shoe retailer Zappos recently pulled out of Canada as a result of problems with customs and other issues.

“Product selection on canada.zappos.com is limited due to distribution agreements with the brands we sell in the United States,” the company’s Web site states. “In addition, we have struggled with general uncertainty and unpredictability of delivering orders to our Canadian customers, given customs and other logistics constraints.”

“The challenge was the way Zappos was navigating the border,” explains Routledge. “Part of achieving success in Canada is understanding the consumer experience you are trying to deliver. Retailers have to account for how they will physically move products. It’s not for everyone. But if a company chooses the right partner, its chances of success improve.”

“It’s critical for manufacturers and retailers to engage trusted partners to help with all the challenges cross-border shipping presents,” says Poulos.

FLEX WITH DEMAND

Flexibility is crucial as well, because of constantly changing regulations and requirements. “We always keep in mind that shippers are in a changing marketplace, so it’s important that we be adaptable and flexible to meet their needs,” says Kirkpatrick, who notes that Sherway Group’s expertise with retailers such as Walmart and grocery store chains adds significant value.

Others see information technology investments as key to the future of smooth and successful U.S./Canada cross-border trade. “We’ve invested heavily in systems and technology to make it easier for our employees to manage information,” says Kirkpatrick. “Accurate data is critical. We have invested in warehouse and
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“More infrastructure capacity between the two countries is essential. Trucks must be able to get through border crossings faster so carriers can keep up with demand and ensure goods are flowing.”

— Derek Leathers, president and COO, Werner Enterprises

transportation management systems, and we are now making sure they are all integrated. Shippers can use Web-based tools to easily track shipments, and gain visibility into the entire transportation stream.”

LOOKING AHEAD

Canadian demand for U.S. products doesn’t appear to be slowing. Yet given the challenges of cross-border trade, frustrations are likely to grow, if not worsen. Looking ahead, new infrastructure projects may help alleviate some headaches.

Currently, 70 percent of trade between the United States and Canada crosses the border by truck, according to the U.S. Commercial Service. Improving bottlenecks may help trucks move more quickly. Plans are currently in place to upgrade facilities at some of the busiest land crossings between the two countries.

“Choosing different mode options can help ease some of the pressure, especially as prices rise due to higher fuel costs and driver shortages,” says Patenude. “Shifting some freight to rail, and using intermodal resources, helps avoid problems, slowdowns, and costs.”

A long-rumored second bridge connecting Detroit and Windsor, Ontario, could help alleviate costly delays at the border (see sidebar, page 204). The Ambassador Bridge has long been a source of significant bottlenecks.

“A second bridge would definitely help reduce congestion,” says Leathers. “But it’s also a great redundancy in case of an unforeseen problem with the current infrastructure.”

The proposed new span would be a cable stay bridge that could accommodate the bulk of cross-border traffic, with the original span used for overflow traffic.

“More infrastructure capacity between the two countries is essential,” says Leathers. “Trucks must be able to get through the border crossings faster so carriers can keep up with demand and ensure goods are flowing.”

Meanwhile, one project recently completed on the U.S. side of the border is helping improve some congestion. A new highway connector leading to the Ambassador Bridge means vehicles no longer have to negotiate Detroit’s surface streets. A federal law that prohibited Michigan from directly linking the privately owned bridge to the interstate system was changed a few years ago. Today, the bridge links directly to Interstate 75, vastly improving traffic flows.

While U.S. and Canadian cross-border trade presents challenges, transportation and logistics providers continue to innovate with new products and services that meet demand. By managing border-clearance issues, maintaining a network that services all areas of Canada, understanding the differences between the two countries, and providing seamless service without compromising the consumer or business experience, smart and savvy transportation and logistics service providers will continue to thrive.
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