WINNING SHIPPING STRATEGIES

Proceedings of the Ninth Annual Shipper/Carrier Conference
Monday, June 17th, 1996

Barry E. Prentice, Wade Derkson and Debby Fiorucci (Editors)

Occasional Paper No. 14

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"WINNING SHIPPING STRATEGIES"

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9th Shipper/Carrier Conference
Winning Shipping Strategies
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Preface

The Annual Shipper/Carrier Conference has become a fixture of Manitoba's transportation landscape. Since 1994 it has been held under the auspices of the Transport Institute, where it continues to flourish. These annual meetings typically address the most important trends in transportation and logistics, and the Ninth Annual was no exception. Shippers, carriers and brokers gathered on June 17, 1996 to discuss "Winning Shipping Strategies," a conference on third party logistics with an international focus.

The morning of the conference was dedicated to the many nuts and bolts of total logistics support. Since leading edge logistics practices are geared to serve the needs of integrated supply chains, as opposed to individual segments, an effective logistics system is characterised by its ability to improve customer service, lower costs and increase market share of firms in the supply chain. In the first session, we heard some success stories on how to achieve all of that and more. Steven Rethoret got the day started with a presentation on Grand and Toy's experience in improving customer service while lowering costs. He was followed by Michael Sprague who gave some interesting examples of third party outsourcing in Canada. Of particular interest were his comments on Wal-Mart. Michael Humphrey of Excel Logistics covered some of the same ground, but also added new food for thought on that old problem, traffic management.

The second session, chaired by David Bibby of Roadway Express, carried the morning's theme forward. The essence of successful logistics practice was nicely summarized by Doug Harrison of Ryder Dedicated Logistics, who gave advice on "Concentrating on Your Customer's Customer." Ken Mark followed with equally good advice on how to do that as far away as Asia. Don McKnight of KPMG wrapped-up the morning session, perhaps fittingly, with a look at the key element of transportation side of the logistics equation - intermodalism.

The luncheon address was given by Reg Alcock, Member of Parliament for Winnipeg South. Mr. Alcock did an excellent job introducing the first afternoon session on Free Trade Zones, which was chaired by Gord Johnstone of Winnport Logistics. The details of the new customs procedures, enshrined in Bill C-102, were fleshed-out by those who know best - Cathie White and Jeff Mills from Revenue Canada, and Margaret Gillis of International Trade and Finance. They provided a wealth of information on duty deferral, NAFTA's affects on duty deferral, bonded warehousing, and "virtual" FTZs. David Frank, of the Vancouver International Commercial Centre, lived up to his "name" when he described the everyday realities of operating a trade centre, thereby injecting some excellent debate into the proceedings. Specifically, his comments on what constitutes an effective "gateway positioning strategy" are as relevant to Manitoba as they are to Vancouver.

The final session of the day was left to the Customs Brokers to discuss the "paperless border." Carol West helped navigate us through these tricky waters, in a discussion of Revenue Canada's ACROSS (Accelerated Commercial Release Operations Support) project, the difficulties of
implementing EDI, and a software solution called Trade Gate. Alison Sunstrom went into greater
detail on EDI, particularly new developments and opportunities with respect to the Internet.
Finally, Barry Fain of Expert Customs Brokers provided some clarifying points on ACROSS and
other Revenue Canada programs such as PARS (Pre-Arrival Review System).

The Transport Institute warmly appreciates the work that went into organizing the conference and,
of course, the presentations themselves. It is hoped that the publication of these proceedings will
be a valuable resource in the ongoing effort to enhance the province's transportation and logistics
activities in the coming years.
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Customer Service, The Grand & Toy Experience

Mr. Steve Rethoret

Grand & Toy

We realized that our suppliers could deliver a competitive advantage to us if we had them deliver directly to our vendors. We have coast to coast service for our customers. About 15 percent of our western branch purchases are still drawn from our warehouse in Toronto. These are very slow moving products where we really cannot get a purchase order together for our vendors. The other 85 percent are shipped direct. This has reduced costs and improved customer service.

We have made vendors accountable for on time delivery. Before, we had no measurement system to determine supplier reliability. We had to make them accountable for on time delivery to achieve higher standards of product availability. To do that, we implemented a vendor performance package that measures the vendor's ability to deliver on time and consistently. It has penalties for problems. If vendors are late, they have to pay. If vendors are on time and consistent, we reward them with more business. We agreed to put a broader offering in our catalogue from those suppliers that deliver on time. After one year of operations, this system has really made a difference.

We encourage our vendors to use preferred carriers to take advantage of volumes and efficiencies. With all suppliers using the same carriers, we can gain better rates. Even though we do not pay the freight (suppliers deliver prepaid to our warehouses), if everybody uses the same carrier, we can lower the costs for our customers' customer.

It is easier to have thirteen or fourteen purchase orders coming in on one truck. Previously, we would have ten or twelve trucks coming and going all the time. Information systems are a lot easier and more reliable if the paperwork is coming from one carrier rather than from ten, or twelve.
We also reduced the number of vendors that we were dealing with. Lots of vendors could supply the same items. We chose vendors that had the best products and were the best performers. We reward our vendors for reducing lead time. If they can reduce lead time, we can improve product availability and reduce our inventory.

We have a vendor certification program starting in Toronto. We are doing the ASN of the EDI so we know exactly what is coming to us. We can receive 50 or 60 items on a purchase order with one swipe of the keypad. Our vendors are all shipping in the right size containers for our warehouse. Equally important, they are in the right configuration to minimize the "put away time." The vendors that ship accurately and on time have saved costs in the receiving and put away process. We balance the superior service with low cost, consistent logistics.

We take measurement very seriously. We measure inventory turns and have a plan to improve them. We have a forecasting system that we are interfacing with our computer that is tracking our demand history. We can also use it with the promotions that we sell through. We have installed tools with promotional planning to make sure that that spike in demand is going to be handled efficiently. From our distribution centre in Toronto, we can ship as many as 6,000 customer orders in one day. We measure how many orders we cannot deliver that day (usually four or five) because the customer was shut down, or the door was locked.

Until two years ago, we did not know what our inventory accuracy was. We had a Kardex system that we kept up to date. In order to check, someone had to run to the shelves to compare it to the card record and hope that all the receiving was processed. Now the inventory record is computerized and we use cycle counting to maintain accurate records. This has also improved the accuracy in picking orders. Both customers and suppliers have benefited from these initiatives.

We had to improve our information system and train our warehouse staff on how to use the computer. This has taken about two years. At the beginning, many staff were afraid to touch a keyboard. We had to get them comfortable with computers and make it part of their daily life.
Now, without exception, everyone knows how to use the system and inventory is online and up to date.

We reduced the time our buyers spend number crunching and provided them with online tools to better do their jobs. This reduced the time and cost of placing a purchase order. About 80 percent of our purchase orders are launched via EDI. The other 15-20 percent are with customers or vendors that are too small to have computer systems in place. We fax the orders to them, but also enters the information into our system.

Our buyers can launch all of their purchase orders by issuing one command to the system. If their inventory levels and order points are accurate, and our forecast is accurate, their recommended orders should also be accurate. This has really cut down on the time buyers spend getting an order out to the vendor.

There is more that can be done to improve the order process. Cycle counting in the warehouse reduces, and may eventually eliminate, physical inventory counts. In the past, we have done as many as six physical inventories in a year at our commercial branches. That really brings the company to its knees; we could not serve our customers during the day we were counting. Now we do an annual inventory and hope to discontinue physical inventory taking.

EDI transactions are used for both receiving and paying suppliers. We use EDI for purchase order launching and the advance ship notice to help the receiving process. We are going to be paying our suppliers off the advance ship notice as well. By fully automating the placing of purchase and replenishment orders, buyers have more time to be innovative and they can work with suppliers to ensure product and service issues are handled. They are doing a better job simply because they have the time.

Although we have week-end reports, our main performance package is monthly. We measure picking accuracy, inventory turns, inventory accuracy, warehouse productivity, and product
availability. Staff performance is also measured, right down to the individual. In Toronto, we have four or five buyers that are working for that warehouse. They have individual measures for inventory turns and for supplier on time delivery. They are individually accountable for product availability items, too. The information systems break down those measurements to each individual.

We reward achievement and where we have issues, we try to apply tools and training. We concentrate on areas that need to improve and give them tools to do it. If we do not measure, we will not improve, but we have to ensure that the measurements are customer focused. The customer at the end of the line (our customer's customer) is really the one benefiting.

We got a little carried away at the beginning and decided that we were measuring too much. We settled on seven or eight key measurements and focus on those every day. What was the result? We reduced our lead time to our branches by two-thirds, from 20 days to less than a week. We improved inventory accuracy by 50 percent. I say 50 percent, but we really did not know what it was before. Now when we do a yearly physical, typically we have a variance that is less than half a percent of our dollars on hand; in some cases is much less.

We are getting better. We reduced operating costs significantly by moving from fourteen to seven warehouses. The closed locations still have very active sales offices. Usually, they still use the same warehouse building. In some cases, we cross dock shipments using the receiving doors and maybe one person. We are saving logistics costs and still giving the customer good delivery service.

Our vendors are also performing better. When we launched the vendor performance program a year ago, approximately 60 percent of our vendors were delivering on time. Now, 90 percent are on time and some are 99 percent on time. With the performance package we now have, vendors are knocking at our door at the end of the month to see their score. They want to address every problem encountered that month. Usually, on big issues they point out that the failure was ours,
and in some cases it was. Either our receiver did not receive the shipment on the day it came in, or something else went wrong. This made us clean up our act. Presently, we have product availability approaching 98 percent. At our Toronto warehouse, which ships some 5000 customer orders a day, we are over 99 percent available. Customers get 99 percent of the line items they order the next day. We increased our inventory turns from eight to sixteen. Basically we are serving customers with half our previous inventory.

The measurement system and accountability checks are in place to guarantee continued performance. This is not a headquarters function that one manager does, however. Instead, measurements are out on the wall where they should be. They are owned by the people who make them happen. Improved information systems have made much of what I talked about today possible. The system now generates the data we need to make our decisions.
Third Party Outsourcing:
Examples from the Tibbett & Britten Group

Mr. Michael Sprague
Tibbett & Britten Group

We are the largest distribution company in Canada, but as we have only a small presence here in Manitoba, I thought I should first explain something about our history. I am then going to go through the reasons people outsource. Finally, I discuss three or four case histories of companies in Canada that have outsourced to us. They are companies you know.

First, I want to talk about who we are, and where we came from, in terms of revenue. We were a management buyout from Unilever, which is Lever Brothers in Lipton. In the early 1980s, Unilever was wondering why it did not make as much money as Proctor & Gamble. Having got consultants to come in and look at the problem, they realized they were in too many businesses. They decided to get out of warehousing and transportation. The European management team tried to buy the whole company, but it was too big. The small company they bought in 1984 had revenues of $60 million (Cdn), had basically one client and was losing money. From that small beginning, when we were in one country with one client having two-thirds of our business, we have expanded to sixteen countries. Last year we did roughly one billion U.S. dollars in revenue. Our example illustrates how the market for outsourcing has grown.

We have 18,000 employees, 17 million square feet of warehousing and about 5½ thousand trucks. (Very few of those trucks have our names on them, that is something that I will come back to.) To give you a sense of scale, last year we distributed about 540 million garments (i.e., pieces of clothing). We are probably the biggest garment distributor in the world. We also did 560 million cases of food, drink, health products and booze. We are a very big grocery distributor. We did about 1.8 million cars. We are the second largest car distributor in Europe. We have 140 million
cases of other consumer goods, including many high value goods such as PCs and TVs. In total, the value of the goods that we distribute at Wheeter are approximately $75 billion (US). We are not quite as big as Wal-Mart, but we are close. Although our revenues on sales are around $1 billion (US), that is actually the distribution cost to our clients.

Let's talk about some Canadian clients. We do all the warehousing and transport for Wal-Mart from coast to coast in Canada. We do all of Ontario for Oshawa Foods, the grocery branch of the Oshawa Group. We are halfway through rolling out Shopper's Drugmart first national distribution operation. When it is complete late this year, we will be doing all warehousing and transport calls from coast to coast. The Overwaitea Group is a very strong grocery distributor from the west coast. We serve part of B.C. and all of Alberta for them. Consumer's Distributing: we run all their warehousing coast to coast. Added to this list on the retail end is Canada Safeway. We took over their largest operation in Canada (the B.C. operation) about six weeks ago.

We also have some large manufacturers as clients. Lever Ponds (used to be Cheese-Ponds-Lever before they merged), Frigidaire, the Perrier groups, and so forth. We run all the warehousing and transport for the Alberta Liquor Board, the first liquor board to get privatized in Canada. At the moment we are an agent of the Crown, so we work for the AGLC, but we are due to be privatized as well. This is not a complete client list, but I do stress that we are rather proud of not having many clients. That seems to be a strange thing for somebody to say. The whole way that we have approached the market is to have a small number of clients, and have a very large part of their business, rather than the other way around.

*The Logistics of Outsourcing*

Looking at outsourcing, and trying to work out what is going on, is very confusing. There are consultants saying that thousands of firms throughout North America are offering outsourcing
services in terms of transport and distribution. Outsourcing has evolved. For a long time, people have outsourced the execution of a simple function. For example, if we want to send freight to Thompson, Manitoba, we are not going to send it by truck because it would not be economic to come back empty. Instead, we work with a for-hire trucking company. The outsourcing of freight, in the simple sense, has been happening for years.

Similarly, public warehouses have been around for a long time to take up seasonal overflows. What began to happen ten years ago in Canada (it happened much earlier in Europe) was the outsourcing of a complex single function. For example, somebody would say okay it is not worth my while to have a regional distribution centre in Manitoba or Newfoundland because I have to maintain staff and management. This is really where public warehouses began to come into their own by holding regional inventories for people. Increasingly manufacturing companies have begun to follow suit. They know a lot about product development and marketing, but not necessarily the running of distribution warehouses.

What has been happening though over the last few years is an understanding that even more complex things can be outsourced. For instance, some car companies have begun to say let's not handle this whole awkward business of getting our supplies delivered on time. Let's let somebody else, like Ryder, do it. The car company is saying "I'm going to focus on getting my costs down; I'm going to focus on marketing; and I don't really care how the supplies get organized as long as the stuff arrives just in time at the production line."

In the companies we deal with, which are predominantly larger, the client is focussing on the core business and is not really concerned with the total supply chain. For example, if you are a retailer, your business is about buying and selling. If you have buyers focussed on buying the right product at the right price, and stores focussed on giving customer service, the bit in the middle, which involves getting the goods from the supplier to the store, is a distraction for you. As long as it goes right, why would you care about it? What we are finding increasingly is that the people are prepared to trust companies like us to take care of the logistics. We give them
service standards that enables our clients to focus on what they are good at, which is the actual buying and selling. There are different kinds of outsourcing and it comes at different levels.

Why Outsource and What It Did for Us

Why do people outsource? Well, I really think it is because it reduces costs. It is unusual for a client to come to me and say, "I know you are going to cost me 20 percent more, but I would love to do business with you". That doesn't happen very often. It is more common for a client to say, "okay as long as you can meet my current cost, I will go with you because there are intangibles that come with outsourcing".

Another reason people use third parties is because they get access to something that they do not have. Sometimes they get access to new systems. Certainly, they get access to experience they lack. For example, in a typical retailer, management of the warehouse is not a good route to become president. The consequence is that the people who want to rise quickly tend to avoid being warehouse manager. Therefore the senior manager usually does not understand anything about warehousing or about transport. By accessing a third party, they can get senior management people who really understand the business of logistics.

Outsourcing can also be a labour strategy. We get calls from people who say, "we have a union in our warehouse and we do not want one. Can you come and do it instead?" We always say no to that. Unquestionably, distribution centres are often a weak point for large companies. Companies can get held at ransom, if there are strikes in distribution centres that paralyse the system. If you are working for a service company, whether you are union or non-union - we are in fact about 6 percent union here in Canada - you cannot afford to let your clients down. It is a very different situation from being in an in-house position. I will come back to that.
If your company is trying to do a number of very complex things: distribution, transportation, product development, and run stores, you have to have quite a management stock. By focussing on the functions that really matter, you do not need this complex management structure. If people use our services, management can get twice as much done with half the number of people.

One of the things that we have noticed is a movement toward long term outsourcing partnerships. Whereas the typical relationship between a shipper and a transport company used to be very short term, we found that for outsourcing to run a tight supply chain, you need a long term relationship. We would like to be able to work with the client over the long term to change the supply chain. We are finding that people are reassured by our request for a ten year contract. Furthermore, the achievable contract length is growing longer and longer.

Now before I turn to the case histories, I want to explain that there are different kinds of solutions, depending on what you are trying to do. You may not realize that traditionally in both transport and warehousing, people have gone to shared solutions. In other words, a transport company will try to have many clients and use their critical mass to bring costs down/service up.

The same goes with public warehouses. Public warehouses are essentially like the hotel business - they are trying to fill their space. The big sell for public warehouses is shared overhead. First, instead of having to have management sitting in Winnipeg or wherever, you can actually leverage off the other people. Second, you can have access to multi-client systems. A public warehouse or transport company typically has a system that will do billing and other functions. If you have this access, you do not need your own system. Third, transport and public warehousing have been a variable cost. This is "closed book" pricing which is good because it is not intellectually demanding. It is so much per case, so much a transaction or whatever, and buyers find it easy to understand. We prefer open book pricing which is much more complex.

Open book pricing and closed book pricing are two quite different approaches. Closed book pricing is a price per transaction. Open book pricing is budget based. I will explain line by line
what occupancy is going to cost, what labour is going to cost, etc. I will explain what happens if the volumes change or the mix changes, because labour cost depends on activity. We will work through a budget and report to you actuals. It is not the same as cost plus. We take responsibility for delivering the productivity standards. If the volume changes, I am tied down to it and if I overrun my budget, I have penalties. If I get under my budget, then I benefit. It is complex; it requires work by both parties. Nevertheless, it is cost effective and results in better service.

Our approach has been a great success in Canada. We started in 1989 with 30 people and one very small contract. I joined the business in 1991 on a full time basis. By the end of last year, we were at 3,500 people. We are already over 4,000 this year and we are still growing. We are by far the largest specialist distribution operator in Canada. We have over 7 million square feet of warehousing, and about 1,200 trucks and trailers. Last year we were at $240 million in revenue and we expect to add about $100 million this year. This illustrates how fast the market for outsourcing is growing in Canada.

A couple of things about our business. First, we do most of our business through relatively few clients. We have dedicated distribution centres but a lot of companies are wanting us to run their distribution centres. We have even gone further with dedicated operating companies for some clients. For Wal-Mart, for example, we have a company called XEM Supply Chain Management; its sole purpose is to make Wal-Mart happy. We have several of these companies, with the presidents or general managers of each reporting to me. I only have two questions for them. First question is, is the client happy? The second question is, are we making money? If the answer to the first question is yes, I leave them alone to do what they like. Now that is an oversimplification, but we are trying to really understand our customer’s business. One customer is not like another, and in a multi-client environment you cannot operate as if they were.

Virtually all of our contracts are open book so we do not typically have a cost per transaction or cost per case. Instead, we have real partnerships. You do not get to be handling somebody’s business, a big company’s business coast to coast, unless you have a real partnership. Also, we
are incredibly productive. One of the great things about open book is that we are driven towards higher productivity. It is quite unlike being in the transport industry or in public warehousing, where you say, well it is so much per case this year but next year I am going to build in some kind of inflation factor. In contrast, all of our major Canadian clients have seen improved service and a reduction in unit costs every year since they began working with us. We are driven through the open book to work with the clients to keep the costs down.

**Case Study: Wal-Mart**

In the U.S., Wal-Mart goes to very small towns, like London, Kentucky, that are in the middle of nowhere. They prefer small towns because they like to be a major employer. The mayor and the sheriff are on their side, and they do not have any trouble. They also get very dedicated labour forces. Wal-Mart did not really understand that Canada comes in lumps. Going to a small city in the middle of Manitoba is probably not a good way of distributing in Canada because all the population is located in major centres.

When Wal-Mart arrived in Canada, they announced the buying of Woolco stores in January of 1994 and by the end of January somebody told the distribution guys that they were coming into Canada. They suddenly realized that they had a bit of a problem because seasonal goods are a major part of their market. They had to do something.

They were trying to cope with the geographical differences. They were also trying to cope with funny things like bilingual packaging or bilingual labelling which was totally unfamiliar to them. Furthermore, they had never taken over a complete organization before. They had bought Woolco together with all its buying processes, systems, etc. Wal-Mart quickly realized that they had no interest in Woolco’s distribution centres; they were old, badly organized, and not functional. Consequently, Wal-Mart came to us, to see if we could do a temporary fill-in while they built their own distribution centres.
Wal-Mart builds the best distribution centres in the world. There are twelve volumes of how to build a distribution centre. It starts with "How to Choose the Site", and ends with "How Many Green Pencils And How Many Red Pencils You Order Just Before You Open". It really is as detailed as that. Wal-Mart’s problem, however, was lack of time; they only had three months. We convinced them that we could set up a distribution operation for them in twelve weeks. At the end of twelve weeks, the goods starting flooding in. I won’t say that the distribution operation was pretty, finely tuned, or beautifully honed for the first six months. It was not, but it got them through their first Christmas. Since then, the relationship has got better and better. We have taken further costs out of their system. Parts of our Canadian operation are far and away leaders in North America in terms of quality statistics. We are getting higher quality, and better accuracy than many of their U.S. distribution centres. I believe that we have a very long term relationship with Wal-Mart.

Case Study: Oshawa Foods

The case of Oshawa Foods is a little different. The Oshawa Group grew up as a series of fruit and vegetable wholesalers. They gradually took over wholesale grocery companies across the country: Codville in Winnipeg, Horn and Pitts in Edmonton, Eden and Doletrine in Quebec. In fact, when we first knew them, they had something like five different wholesale companies within Ontario. When we looked at their Ontario operations, we found that there were several different companies that were competing on logistics across the same territory.

Really, what we did with them a number of years ago, was sit down and say okay, let us forget what you have got there for the moment. Suppose Joe Blow came into this market, and let’s say Joe Blow was Wal-Mart. What would it cost Joe Blow to do what you are doing, assuming that they were doing it like you? Now assume they came in with a blank sheet of paper and they did it whatever was the best way. What would it cost to get the same degree of service? They were astounded at how much more they were paying than the market would bear. They were terrified
that Wal-Mart would come in. Wal-Mart did come in, and is achieving the costs we said was possible.

In their main distribution centres, Oshawa Group had a terrible twenty year industrial relationship. The place was often closed down with wildcat strikes. We had to change the culture in these four centres. The culture used to be one of we do the job for you and we are going to screw the company, because we do not trust them. What we had to say was, "okay that's fine, we can work like that but we are all going to be out of a job in three years if we do, because we are in a service business".

Oshawa's employees had a labour contract where you not only got days off, but you got your cat's birthday off. I'm not exaggerating very much. They actually had a vacation bonus. Why did they have a vacation bonus? Because when they are on vacation, they could not earn overtime. We got them onside and have taken out the majority of the questionable practices. We got them to agree to a couple of basic principles, like instead of organizing the work around when people want to do it, we will work out when the work is happening and put people to work when the work is needed.

In addition, we are now doing seven day delivery. It never happened before. We are now restructuring the operation to get perishables through in one day. Instead of having a week's supply of perishables with the main vegetable delivery on Monday, it would be better to have the major delivery of vegetables on a Friday, so you actually have it fresh for Friday, Saturday and Sunday.

We still have a couple of issues with the client. We have situations where we have changed something and the client says "why did you do that; you did not ask me". We respond that it is working better. At the end of the day, the results are good so they kind of let us off the hook afterwards.
Case Study: Shopper’s Drug Mart

Shoppers Drug Mart is a wonderful company. It has just taken over Big V's and now has nearly 900 stores, all franchised. Every store does its own buying and has direct store delivery for most goods. Can you imagine direct store delivery to 3000 square foot stores? Imagine the number of supplies that are coming in the back door, and the number of times that back door opens. You can also imagine the inventory that is sitting in there, because a sales rep will take an order and does not return for six weeks. So at the minimum, on most supplies, there is twelve weeks inventory sitting at the store.

What we set out to do with Shoppers is to create a centralized distribution operation. Most stores have deliveries three times a week, while some big stores have daily deliveries. They do not require more than a few days inventory. They want a bit for luck, but a bit for luck is about a week, because more can be ordered tomorrow or the day after. Also, instead of having hundreds of trucks coming to the door every week, there is only one truck per day. You can plan when it is going to arrive, and make sure the people are there to help unload. The cost savings in terms of inventory and people is enormous.

Final Thoughts on Outsourcing

If you are thinking about outsourcing, what is it you are outsourcing? Are you trying outsourcing as a simple function or is it a complex process? Why are you outsourcing? Companies often call to ask us to quote on their business. We say why and they say, "because my bosses told me". They have not really thought through what it is that they are doing. For us to give a good answer, we have to know why.

What we suggest is first look at the supplier's references. Call them up, and ask them. Look at their experience. If it is simple, maybe they can do it, if it is complicated, maybe they cannot.
You have to think carefully, and I have given you some pluses and minuses on a shared environment versus a dedicated one. What is best for you? If you are large, you have the choice. If you are very small, you probably do not want the overhead of a dedicated environment.

Do you want an open, or closed book environment? This is terribly important. A closed book environment gives you the flexibility; it is a constant price. It does not matter what happens to the volume in a closed book arrangement. In an open book environment, you have to work much harder with your partner to be able to make it feasible.

In a complex environment, allow for proposals not quotations. There is nothing worse than saying, here are the exact specifications that I want you to quote on. What you are doing is putting the outsource supplier in a box. If it is complex, there may be better ways of doing what you want to do. You need to define your expectations. Our recommendation is do it during the proposal process. If you put your service standards too far up front and then ask for a price, you may be overlooking some options.

Allow your suppliers to tell you what is possible. Use consultants if you can afford consultants. Bonafide experts can evaluate different proposals for you. They can help you find out who can do what they say they can do. Be very careful of the straight price quotation, unless they are talking about something really simple. There is a tradeoff between price and service. A lot of people just go for price. You have to balance the two.

If it is a complex situation, if you are asking someone to restructure or re-engineer your supply chain over a period of time, do not expect them to do it in a year and a half. It will be a long term process. Ask yourself, just as if you were looking for a marriage partner, what is this company like and how would I like working with them for the next ten years. Compatibility is very important.
Traffic Management Strategies: The Key Ingredients to Success

Mr. Mike Humphrey
Excel Logistics Ltd.

The theme of today's conference is Winning Shipping Strategies and Manitoba shippers require innovative transportation strategies. There are some complex shipping problems and I would suggest that perhaps one solution is right in your own backyard. How do you manage the logistics of your own business? Whether you are a large company with an in-house traffic department or a small manufacturing or distribution firm with a two or three man operation, the question is the same …..how do you do business? If you can manage your transportation and distribution function effectively, then I think you will do alright in the market place so my topic today really is “What would I do if I were your traffic manager?

The six key ingredients to an efficient traffic department are: 1) to initiate a customer service program, 2) to identify and explore opportunities, 3) to develop a simple inbound and outbound routing guide, 4) to use sound administration principles, 5) to focus on core competency, and 6) to develop logistics management expertise. A successful customer service program should entail both inbound standards to the core company and outbound standards for its customers. In terms of inbound customer service, departments within your company are your customer. A good inward customer service program should meet inventory replenishment deadlines if your firm is a retailer or a distributor. If your firm is a manufacturer, it should meet production schedules. There needs to be coordination. Fellow employees should know what is going on for both inward and outward shipments. It is important that someone is following up with vendors and not always the purchasing agent for inward shipments. Sales staff should be kept abreast of finished product delivery schedules with outward shipments.
Logistics Management

The logistics function is critical. There has to be interaction for a company to operate efficiently. There could be something wrong somewhere but you may not know about it. Hopefully, your competitor will not find out before you do. There has to be an expediting system in place on the inbound. It is imperative the status of shipments be updated in order to adjust to unexpected contingencies. For example, rerouting shipments past warehouses directly to customers is becoming more common. There has to be a system of incoming status reports. Key people responsible for purchasing and sales have to know at all times exactly what is happening with their shipments.

Monitoring service standards and measuring the results is very important. With respect to the outbound customer service program, it is important that notice for delivery schedules be given in advance. For example, the sales department has to know what is coming off the production line and whether it is on the loading dock available for shipping. Production schedules are often delayed. It usually comes down to the “traffic guy” in the supply chain to fix the problem. A logistics management program must take all of this into consideration.

Carrier routings may have to be adjusted from time to time. Customers have to be advised as early as possible that their order may be late. The outbound routing program should meet the predetermined delivery schedules. Two obvious schedules would be overnight delivery from Winnipeg to Regina or fourth day into New York. A company must have service standards. The purchasing and sales departments, and ultimately the customer, relies on them.

Added-Value Servicing

Some companies do not think that their logistics personnel should be communicating to their customers. However, it is very important that there is some type of interaction. Quite often a company’s profile with its customers goes beyond just the sales program. Customers do want to
know that there is a real entity there and not just a salesman coming through once every two or three months looking for business.

A superior logistics management program can bring added value to customers. A simple example of an added value service is the use of a private trucking fleet. The case of a furniture manufacturer in Lethbridge, Alberta, doing business in the interior of British Columbia with a private fleet illustrates this point. Their drivers were delivering to customers, paying invoices and fixing claims right off the back end of the truck. We determined that the company was losing $150,000 a year with its trucking operation. Further analysis showed that the company was able to gain a significant market share because of its services. The drivers were doing such a good job performing marketing functions, we recommended that the cost of the truck operation be allocated to sales.

The traffic manager should strive to always do business better, to continually improve the method of business, and to pro-actively search for more added-value services. A logistics coordinator should not view a border. The paperwork associated with customs clearance should be incorporated into the supply chain management process.

Warehouse Consolidation

In addition, the traffic manager should be looking for short term warehouses, and ways of consolidating (getting shipments to someone's dock either for freight handling purposes, or just holding the freight for a few days having major stock in place for local deliveries.) The consolidation process can work for inward and outward shipments. It is simply the coordination of several shipments into a larger shipment. A consolidation can be multi-modal as well as international in scope. We worked on a project in Russia, in which shipments were consolidated through San Francisco. Our work included air, rail and truck shipments from all points in North America.

Generally speaking, the more volume put through a consolidation process, the more money that is saved. The volume must have sufficient weight and number of shipments to facilitate some critical
mass. For example, if you are consolidating three or four 200 pound shipments you probably are not going to save that much money. The distance between origin and destination is also significant. For example, if you were consolidating shipments from four suppliers in Florida coming to Winnipeg, you may find one place in Florida that they could deliver to and re-forward it to Winnipeg as one shipment.

Another example is if you had 10 two thousand pound shipments from ten separate vendors in the United States going to one manufacturing facility in Winnipeg. Assuming that the weight was 10,000 pounds, the total freight bill when shipped individually to Winnipeg could be $6,000. If you use Chicago as a consolidation location, the freight bills from the vendors would be lower into Chicago because there would be less distance from each vendor to that consolidation point. There would be some handling charges at Chicago, and administration and freight charges for a 10,000 pound shipment from Chicago to Winnipeg. Assuming a total freight charge of $4,650, the savings would be in the order of $1000 per load.

Shipper Alliance Opportunities

There are some shipper alliance opportunities. When Excel Logistics does freight studies we find out that some of our customers have already talked to the chap down the street who ships to Calgary. He has already talked to someone about bringing in two half-loads out of Toronto, consolidating them into one truckload. That is going on all the time. Some of the irregular route truck load carriers do encourage these consolidations. The LTL regular route carriers do not encourage that with smaller shipments.

Another example of a shipper alliance is freight programs. There are a few around North America. We run one through Quattro Freight System, where we have a central dispatch and all of our rates are based on a consolidated volume of the potential mass in our customer base. It is a free flow consolidation. There is not any particular place that things are consolidated. We are located in Chicago and we often consolidate there but if we can get a direct route shipment, say from Florida
into Winnipeg and by-pass Chicago, we will do that. By definition a "consolidation" implies that shipments are being shipped together. However, our consolidation program by-passes the actual shipments placed together. Our customer's reduced rates reflect a consolidation which is most important. We use the term "free flow consolidation". The added-value is strictly the rate. There is no one consolidating shipments across a dock.

Consolidated Billings

A traffic manager should streamline the administration associated with logistic services. Consolidated billings and "outsourcing" of services are possibilities. Why have twenty carriers sending freight bills when you can have them consolidated. This cuts down administration, the audit function and everything else.

Develop a Single Routing Guide

An intelligible routing guide can help cut freight costs, enhance services, and reduce the administration costs. Too many companies have someone looking after the outbound freight, and fifty yards away, someone in purchasing is negotiating with carriers bringing inbound freight from a nearby location. Carriers are making two calls within one company.

Using several primary carriers is acceptable. You generally do not want to put all your eggs in one basket, but do not be afraid to if you are getting good service. It is a myth to think that you cannot do that. Do not spread yourself too thin. Use several primary carriers according to your needs. It is a good idea to include shipping instructions with all the routings, including notations for rush deliveries or delivery by a certain time. Heat requirements, for example, should also form part of a routing guide.

When determining a routing, give consideration to four things. First, determine the service standard required. Second, give consideration to the geographical situation. Some carriers serve certain areas
better than others. Third, give consideration to the size of shipment. Some carriers specialize in LTL, others only want a half load or more. It is not uncommon to pick up 4,000 pounds in Chicago on a direct load on a truck into Winnipeg. It does not have to come with a traditional "LTL carrier". Finally, listen to the vendor’s preference. If, for example, you have a vendor in Cleveland, Ohio, keep in mind this vendor’s priority is probably with American customers. The vendor is doing business all throughout the U.S. He is probably going to mis-route your shipment on occasion and you are going to end up suffering because you are not going to get a discount or the rate that you were expecting.

If possible, work through the vendor’s carriers to see if you can apply their discount to you, even if its collect. The traffic manager should enforce compliance. Follow up with all the shipments and if someone did not follow a specific routing, at a cost to the company, the traffic manager should be on the phone talking to the vendor right away. A claim may not be asked for on the first shipment, but let them know that there would be claims forthcoming if the situation is not rectified. Utilize carriers who understand and comply with your customer service standards. You have to find the carriers that best suit the needs of your company, but unfortunately not all do. Ensure that your service provider can perform to your expectations.

Enforce Administrative Principles

Facilitate sound administration principles. The traffic manager should initiate checks and monitor monitor carrier performance. Measure productivity and initiate ratios on an ongoing basis. For example, compare your costs out of Toronto now versus four months ago. People working on my dock should be monitored for their productivity (how many pounds were moved per man hour of labour, etc.) Devise an effective and serious cost audit program. I would suggest that you just use random sampling on major suppliers. It is also necessary to simplify the traffic accounting. For example, if you are negotiating rates you do not necessarily have to work in cents per hundredweight. If you are more comfortable with a regional rate structure versus a traditional zip code rate schedule, then do it. If it is going to simplify the way you do business, then ask for that in the negotiation
period process. You may be surprised at the answers you get. In short, do what your business needs you to do, not what the carriers want you to do.

Perform ongoing analysis and studies with the consolidation opportunities. When we do studies, we want to know when you are receiving most shipments, and when your vendors are shipping to you. Often suppliers out of Toronto ship to the same customers on Wednesday, on Thursday, and again on Friday. It is all being delivered on one truck Monday. In this example, have your vendor ship everything to you on Friday. Be pro-active. Be prepared and know what you want before you start negotiating. Do not let the carriers come in and tell you what you can have. Do your own homework. Do not believe everything you are told. Sit down and check everything out yourself.

If at all possible, find a better way to do things. Often it is not a case of driving down the rates between point A and point B, but rather finding a new way of doing your own business.

Core Competency

A traffic manager should keep to the firm's core competency. I cannot stress this enough. Too many manufacturers and distributors in the transportation business make furniture, so to speak, like our company in Lethbridge. Somehow companies find themselves in the transportation business and forget their core competency. Do not spend unnecessary financial and personnel resources "re-inventing the wheel".

I had one client, a trucking company, with a well respected general manager. He was upset when he lost an account because one of his former clients, a meat processor (who now has a private fleet) was out on the streets looking for back haul to subsidize what they were doing. My client said to me "we have to get in the meat business". This is the wrong way for a trucking company executive to be thinking. Why would a trucking company executive get into the meat business? Likewise, why would some companies get into the trucking business?
Management

Finally, the traffic manager should perform studies, assess continuous improvement and develop personnel. There seems to be a real deficiency of logistics knowledge within the business community and often within larger traffic departments. Having four or five people in a traffic department does not necessarily mean that it is run more effectively than a small operator.

Take nothing for granted. Be objective. Base everything upon sound business principles. Logistics is no different than anything else. You have to know what your costs are. You have to know what you want to achieve. Always take the big picture perspective. Ask yourself some key questions: What is happening in the other departments? How is it going to impact other people in your business? Also, what is happening in the marketplace? Look beyond just the traditional carriers. There is more happening than you realize. And last but not least, determine what part of the transportation function should be outsourced. Whether a firm should outsource services is a cost versus level of service decision. Often costs can be reduced and service enhanced.
Concentrating on Your Customer's Customer

Mr. Doug Harrison
Ryder Dedicated Logistics

Our company is a publicly traded company based out of the U.S. and provides services throughout South America, Central America, Europe and North America. We are broken into a number of different segments. The largest segment, and the one for which we are most widely known, is our truck rental and leasing group which has branches in Winnipeg and throughout Canada. The other segments include our international group, which operates outside North America, our auto carrier group, our public transportation group (where we are the second largest operator of school buses next to Laidlaw) and our contract logistics group. Like other large integrated providers of third party logistics, we are experiencing some fairly phenomenal growth rates. In our case, we are growing at about 40 percent a year in North America.

We break up the type of work that we do into a couple of areas. In terms of services, we provide just over a billion dollars worth of logistics services directly. We provide dedicated fleets of trucks and drivers, management computer systems, as well as our inventory deployment services which focus on Efficient Consumer Response (ECR) and Just-in-Time (JIT). This may involve cross docks and other warehousing services.

I would like to spend some time talking about how we interact with the ultimate customer (our customer's customer). To some it is a relatively scary concept, to put a third party in touch with the ultimate customer and work directly with them. However, it is really one of the advantages of a third party. Again, as you have heard, it is a fairly close relationship and very partnership focussed. Our work is a natural extension of that. Some of the direct things that we do in supporting continuous improvement through the whole supply chain is working with our customers on order tracking and order processing, and managing inventory levels. We replenish a customer's inventory before they run out without them needing to order.
We work with our customer and our customer's customer in determining and analysing activity-based costing. Some services or some customers that are being serviced are making money. What is the cost of an additional service, or how can we work together to create efficiencies in the chain. We will meet with the ultimate customer and determine the level of service they need and how we can go about providing that within our customers own arena.

One of the rather unique things that we have done from time to time is sales support. We will go out with our customers and make sales calls in support of their new business development. During a large sales presentation, we may be there to talk about the logistics services that we are providing, how we can provide those back through the chain, and what efficiencies those will bring to the ultimate customer. They are buying the overall quality of the company and the service being offered. We will work with their sales departments to support pricing activities and identify on an activity based costing method, how we can be as effective as possible in pricing the business together.

One of the key areas in working with the ultimate customer and the lead customer is balancing the efficiencies in the total chain. We work with our customers on auditing customer satisfaction levels. In some cases, we do monthly telephone surveys where we are looking at our customer service levels as well as benchmarking our own service to the ultimate customer. We make sure that our people are aware of those levels and bonus our hourly workers as well as our management people on achieving those ultimate goals. We do competitive surveys for some retailers that we work with in order to determine what level of service should be offered to the ultimate customer.

As third parties grow and the relationship develops, people get more comfortable. We make customer visits to assess how the logistics program is working and customer satisfaction. We give the ultimate customer direct access to our computer system on an EDI basis or a voice response system through a telephone network, to determine when their delivery will be made.
You will hear fairly frequently that third party relationships are very customized. There is a fairly broad array of interfaces available to us. For some people we do these things, for others we do not, for some we do some different things. Again, it is all in support of the total chain, and ECR initiatives.

It is a big leap of faith to outsource your business and feel comfortable; it is another leap of faith to allow your supplier or your partner to talk to your ultimate customer. However, as you get to know your partner, you realize that it was the right thing to do. It requires trust, goodwill, and a high degree of communication between both parties.

Outsourcing involves coordination of numerous departments. You are not only working with the sales department, the logistics department, and possibly finance and marketing, but you are dealing through the whole organization. Communication is required to prevent surprises. We talk to our customer's customer up front when we are trying to re-engineer the logistics process. As the partnership matures, we try to drive more efficiencies into it. We do a fair degree of analysis to come up with the most optimum program.

We do not necessarily focus on the logistics cost or the transportation costs. Instead, we focus on the bottom line of the entire company and how to drive efficiencies throughout the company to create a competitive advantage and a better return. In addition, if the customer's customer wants product in one day instead of the current four day lead time, we are able to react quickly and determine what that means to the cost structure.

We spend time assessing the receiving capabilities, the modes that work for the ultimate customer, and the optimal distribution points. If the facility is located in Winnipeg for example, we may find that a regional warehouse in Oklahoma may make sense. We also look at warehouse cross dock initiatives, ECR initiatives, and outsourcing. We have worked with some ultimate customers and taken the product right through the chain without bringing it into their facility.
How do you go about doing this? You really need executive involvement from both partners to make sure that they buy into it. Traditionally, companies look at the decision to outsource and determine it is in support of their strategic plan. It may or may not be cost focused, but it is a strategic initiative. Subsequently, they look at it in terms of whether it supports the overall goals and the logistics strategy of the organization.

Summary Comments

There is more focus on a shorter supply chain, hence one of the growth factors for third party logistics. Everybody is looking to reduce the cycle time and the movement through the chain. You cannot do that independently and drive all the efficiencies, but you can certainly do it as an overall program. There is a greater desire to partner and a greater ability to partner in the nineties with companies that reflect partnership organizations. There are greater synergies to be had. If you are adding inefficient structures, inefficient processes to the chain, ultimately you are making yourself uncompetitive. A third party's role is to act as a catalyst, to bring the partners together, and to encourage dialogue. Finally, why focus on the customer's customer? If you do not, you will lose a competitive edge.
By common consent, it appears that the Asia Pacific region has cornered the marketplace on economic growth. When you step off the plane in any of these countries, with the possible exception of Japan, you ask yourself "what recession?" And China, the market to which I will limit my remarks this morning, has averaged double digit growth for the past 15 years. That is real growth after inflation. Yet people complain that it is a tough market to penetrate. But then I have never heard of an easy one. If you want a piece of the China market, you have to earn it. You don't get it simply by showing up.

While the Chinese are learning to run a market economy, they are also very busy trying to develop the underlying regulations to make it work. That requires a total revamping of their financial, legal, accounting, banking, insurance and other standards. By most accounts, despite glitches and bumps, they have been doing a good job. They are also changing attitudes. Most exporters who compare conditions today with those of 10 years ago are amazed at the changes of mind among bureaucrats. Their view is that China is "ready to do business".

One point I would like to mention is that events in China are changing very quickly. If you or your advisors have not been there lately, it is quite possible that things are very different from what you remember. I returned from my last trip to China just before Easter. My assignment topic was executive travel. One of the things that I discovered was that although a credit card would make life easier for you, there are some stores and small hotels that will only accept Chinese currency. So, one of the questions I asked was "Can you get an advance against your credit card from a Chinese bank?" If you could do it, what would they give you? Would they give you Chinese currency, would they give you U.S. dollars or what? I phoned a major
Canadian bank and talked to an executive who had just spent six months at their branch in Shanghai. He was not sure if you could do this.

Then I phoned the office of a foreign bank whose head office is very close to China. This bank's officer's response was yes, you can get an advance against your credit card, but the bank would give you the money in the form of foreign exchange certificates (FECs), a special kind of currency that only foreigners could hold. My comment was "Weren't these abolished in 1994?" There was a pause at the other end of the phone. He said "I'll talk to my colleagues and get right back to you".

Then I called the Manhattan office of a charge card company. I am sure that many of you have their green, gold or platinum card in your wallet. I asked him the same questions and his response was "Yes you can do it and you get FECs in return". So I said, "Weren't FECs abolished in 1994?". After a slight pause, he said "I will call the Bank of China office down the street and get right back to you".

The upshot of these enquiries is that yes you can get an advance against your credit card with a Chinese bank and they will give you ordinary regular Chinese currency. But one tip that other people have told me is do not do this unless you have no choice because apparently the service charges are very steep.

I was dismayed by the lack of knowledge about this seemingly simple transaction from people whose business it was to know about banking and finance in China. The moral of the story is that it can be very difficult to keep up to date with what is happening in China, and information and doing your homework is absolutely crucial for doing business there.

I thought I would provide some happy stories of marketing successes in Canada. I think Canadians should be very proud of these cases because, having covered these kinds of topics for many years, I know the the word on Canadians has always been "yes you have great products but
you can not market them. Thankfully that is changing, so here are some of the companies, many of them not so big, that are doing very well in China and elsewhere.

Case Study: Canpotex

Canpotex of Saskatoon has pulled off an international marketing triumph. Canpotex succeeded in giving Saskatchewan potash a brand name image for which they charged a 9 percent premium over competing products. In addition, Canpotex commands about 50 percent of the total market for potash in China. In 1995, it shipped about 1.9 million metric tonnes. All over China now, when you mention potash to farmers, they all ask, "do you mean the 'powerful pink potash' from Canada?" Yes, because of the presence of ferric oxide, potash mined in Saskatchewan has a distinctive colour. Canpotex’s success is based on a long term, consistent, well executed marketing strategy. Here is what they did.

Howard Cummer, Canpotex’s Hong Kong-based general manager for China refers to the company’s record as an instant success that took 20 years. Canpotex got in early in China. They participated in a Canadian exhibition in Beijing in 1972. Premier Zhou Enlai walked through the hall and indicated that a number of products from Canada should be imported. One of them happened to be potash and it resulted in the immediate sale of about 40,000 tonnes of the product, approximately a boat load.

With its foot in the door, Canpotex began to talk to Chinese agronomists about the use of fertilizers by Chinese farmers. Canpotex learned that China was in the middle of building 15 world-class nitrogen plants. As a result, the use of urea as a fertilizer was expected to skyrocket, representing a departure from traditional fertilizer sources - nightsoil, manure and straw. The net effect was increased agricultural yields
However, Canpotex, along with other foreign experts in the use of potash and phosphates, together with the Chinese agronomists, realized that China needed to adopt a balanced approach to fertilizer use, rather than just dumping lots of raw nitrogen on the soil. The optimum blend was 10 units of nitrogen, five units of phosphates and about three units of potash. This mixture helped the soil absorb the nitrogen more completely, thereby increasing the crop yields and preventing unabsorbed nitrogen from running off and polluting the water table.

Canpotex introduced field studies to show the advantages of the balanced approach. They commissioned several consumer opinion studies among technicians and farmers about their knowledge of fertilizers and potash, and it became clear that the agronomists who understood the problem had not passed on their findings to the farmers and technicians. So Canpotex began educating farmers and technicians directly. Starting with demonstration plots in some of the coastal areas, they had yield guessing contests. The winner would get three 50 kilogram bags of potash. At the end of the growing season, the farmers and technicians could see with their own eyes increased yields from the plots using potash.

To spread the word further, Canpotex also took out radio ads featuring China's equivalent of Carly Simon to sing a song extolling the virtues of "the powerful pink potash from Canada". As TVs became more prevalent in the countryside, Canpotex turned over miles of film they had shot of these demonstration plots and encounters with farmers to a TV network to make into documentaries. For the past 10 years, Canpotex has created its own TV infomercials broadcast every Sunday at noon for an estimated audience of 500 to 700 million viewers. As a result, among Chinese farmers this "powerful pink potash from Canada" has become the general term for potash, the same way that most of us refer to Kleenex, Xerox and Scotch tape for other products. In another development, Chinese farmers have learned to pay a premium for using this differentiated product.

Canpotex has avoided most transportation problems since it sells product FOB Vancouver. Its consignee takes over from there. Often it uses a non-Chinese shipping line to transport it to China.
Cummer's Tips for selling successfully in China:

1. Find a reliable agent to represent your products, to open doors and to maintain contact with customers.

2. Establish a long term commitment to the market. China is not a place to make a quick buck. The toughest thing to do is try to reassure senior management to hang in as they watch costs go up and sales go down. That occurred in 1986 when China encountered a currency crises. It did not buy anything for an entire year!

3. Be yourself. You should not be doing anything in China that you are not doing in any other market. The same business principles apply there as elsewhere and although this sounds silly, you have to make a profit at the end of the day. The idea is not to give away your product just to get market share.

4. After you have established a market there, it becomes more awkward and difficult to send people over from head office whether it is in Saskatoon or Mississauga to do business in China. You are probably better off using the hotel and airline expense to set up a representative office there. Besides, your customers are probably going to get better service and it is absolutely crucial at this stage that you have Chinese speaking staff in that office.

**Case Study: FeedRite**

FeedRite Limited designs, develops and manufacturers feedlot equipment for livestock and poultry. They create equipment as well as some nutritional components such as the vitamins and minerals that go with it. They make the equipment, ship it to China, install it in the buyers building, commission it and then provide training and technical documentation. It is the classic old-fashioned export sale - make it, ship it, get paid and move on to the next deal.
FeedRite got started with the help of a Hong Kong agent who studied here in Winnipeg, worked with the Canadian Wheat Board for a while, and also had connections back home in southern China. In the mid 1980s, the company sent over feed for pigs. It was a useful marketing exercise for the company and it recognized significant opportunities. At that time, there was little infrastructure to support the use of modern scientific livestock feeding methods. Deals developed slowly. Some of the visits in 1987 and 1988 eventually paid off in 1994 with a letter of acceptance.

According to Dr. Ron McLaren of FeedRite, it takes time for the Chinese to develop a sense of trust with foreign suppliers. Also, both sides need to establish a good working relationship. The Chinese need to develop a better understanding of western business techniques; at the same time, foreign executives need to understand the Chinese.

One way for smaller firms to improve their chances of success while reducing the risks is to join together with other companies in a consortium -- which is a hard-wired partnership among different players. There is a new arrangement called a 'virtual corporation', a looser grouping of non-competing companies that set up temporary arrangements to bid on deals that the individual companies would not likely win on their own. FeedRite, for example, is a member of Agritech Canada. On several occasions, incoming Chinese trade delegations have sought out the consortium.

McLaren suggests working closely with provincial trade types as well as those in the federal Department of Foreign Affairs and International Trade and agencies such as the Canadian International Development Agency (CIDA) to let potential Chinese buyers know who you are and what you do.

Funding or getting paid is critical. China cannot pay for everything it needs on its own. McLaren suggests monitoring the priorities of agencies such as CIDA as well as international financial institutions such as the World Bank and others. Loans available from them can help clinch a sale.
McLaren's tips:

1. Earn their respect by living up to your promises and being totally professional in your dealings.

2. In talks with the Chinese, try to determine who is the decision maker. That is more difficult than it sounds. It can take a lot of time.

3. At the negotiation stage, prove what you are capable of doing and roll with the punches.

Case Study: Sterling Pulp Chemicals

Sterling Pulp Chemicals started marketing in China in 1984. In 1991, it signed its first contract. That was followed by several other contracts as well as the start up of the first chlorine dioxide process plant.

Sterling's business involves some engineering and equipment manufacturing in Canada followed by similar activities in China resulting in Sterling products being used in a pulp mill. It provides additional services through the construction, start up and post-commission phases. Much of what follows comes from several presentations made by Bernie Ford, Sterling's Asian Business director.

1. Build a long-term relationship. It takes time because there are many players involved - end-users, import/export companies, officials from the relevant ministry, those from the Ministry of Foreign Economic Relations and Trade (MOFERT), design institutes, and provincial and county officials. It is a large group but you need to establish strong ties with key people at all levels. In addition, with frequent changes in government policy (i.e., decentralization), the cast of characters is constantly changing. It is tough to keep up.
Try to meet these people on their own turf, not just in Beijing. Also, it is often necessary to invite potential customers to see your offices and facilities in Canada. It is a perk for many of these people since it is a rare chance to travel overseas. Typically, the cost of these visits is built into the final contract price. Their treatment in Canada can leave lasting impressions. It can be helpful to have your own Chinese-speaking staff show them around.

2. Patience. Things in China often take longer. Domestic travel for Chinese is not always easily arranged. If the person at a company or ministry assigned to your file is away, you may have to wait until he or she gets back. As a result, you may have to cool your heels for a few days. Negotiations are in two stages. The first is at the technical level with the end user. They may request changed specs, extra spares, more service, additional training, more trips to Canada. The next hurdle is the financial negotiations with the import/export corporation approved by MOFERT. They earn their keep by squeezing you on price.

3. Price. Despite building up a relationship, having a quality product, and a solid reputation, you can lose the deal simply because of price. It happened to Sterling when they failed to match a competitor’s price.

4. Flexibility. Since you are doing business in China, for the most part, their rules -- building codes, ways of doing business and sense of aesthetics -- prevail. If the code is stronger or weaker than you are used to, business methods strange and the final product ugly looking, you may have to accept them. This is marketing -- selling what your customer wants to buy, not what you want to make.

5. Local Content. More and more Chinese authorities are trying to increase the level of domestic value added to the project. This may result in joint venture, technology transfer, or licensing agreements. They see this as a way of raising their manufacturing standards. It can be difficult since the Chinese have not always appreciated the value of quality. It is changing, however, Sterling enjoys an advantage since its Chief Quality Assurance Engineer is a Chinese-Canadian
who can communicate with them in their own language. Increasingly, the Chinese are looking for ways to import more foreign technology rather than simply importing products. The lack of such opportunities can be deal breakers.

6. Marketing Strategy. As China liberalizes its economy, it has started to adopt more western business practices. Canadian exporters can make use of this trend by exhibiting at international trade shows held in China’s major coastal cities. Like their counterparts around the world, such shows attract most of the major players in a specific industry or sector. As a result, it is possible to meet a large number of potential customers in one place in a short period of time, without having to travel the length and breadth of china to visit them individually.

Conclusion

After hearing all the horror stories about doing business in China (many of which are true!), you might want to ask yourself, "Why bother?" The reason is simple. China is one of the most dynamic economies in the world today. And it is still growing. Companies that can be successful there now have a chance of getting in on the ground floor for future sales. If you can establish a solid track record with Chinese buyers -- future sales will become easier as you gain more experience and exposure in the Chinese market. As a result, doing business there will become easier and more local customers will start seeking you out.

Nevertheless, China is not a market for everyone, particularly those who are looking to make a fast buck. The key is to go there to see for yourself if there is a market for your products. If there is, develop a long-term plan and support it with sufficient resources. If there is no market, go somewhere else - at least you tried.
The context of my presentation will be on intermodal transportation emphasizing rail and road intermodal. The definition of intermodal is the transport of unitized freight from the point of origin to the point of destination using more than one mode of transport. I would like to add the word standardized to that, but the common definition is unitized. I think that it is important that these containers or trailers are standardized. I would also like to distinguish between intermodal and multi modal. There is a big difference. Intermodal is utilizing standard containers or trailers. Multi-modal involves the movement of all freight (not just unitized) using more than one mode of transport.

*The Evolution of Intermodalism*

The evolution of intermodal began in the early fifties. It started off in the early stages improving operating efficiencies and later in the eighties and nineties became more customer focussed. It began in the early fifties with trailer on flat car (TOFC). In the late fifties, Sealand and Matson introduced standardized marine containers.

In the 1960s and 1970s, most growth in intermodal traffic was marine traffic. This was because of the introduction of container terminals at Vancouver, Montreal, and Halifax. On the domestic side, there was not too much growth. Basically, you had marine containers, container on flat car (COFC), moving by the rail mode. Domestic traffic was predominantly TOFC.

In 1979, CP introduced the first domestic containers in North America (a 44 foot, 3 inch container). The real movement started in the eighties with the introduction of double stack and
Road Railer technologies. Double stack was introduced by Southern Pacific who did a lot of the
development work but it was the container lines that pushed it. American President lines in the
U.S. bought their own locomotives, bought their own cars, and introduced technological changes
to the movement of marine containers. Articulated cars that share rail trucks, which cause the tare
weight of the car to lower, and double stacking, create significant efficiencies. The Road Railer
was introduced in 1959 with the Chesapeake and Ohio Railroad, but "Carless technology" became
commercially viable in the late 1980s with the Norfolk and Southern Triple Crown Service. It
has since expanded to involve the Norfolk and Southern, and Conrail.

In the 1990s, container became more competitive with long haul trucking. There are a lot of
containers moving domestically now. A perfect example is J.B. Hunt who will convert its whole
trucking fleet to domestic containers within five years.

Traditionally, intermodal market share was high on import/export traffic, but a low percentage
of domestic traffic. There has been positive growth but intermodal has not really penetrated the
domestic markets even in the less than one-thousand mile range. Trucking still dominates under
this distance. Growth was substantial from 1990 to 1993, when 7 percent real growth occurred.
(This is loadings, not revenues.) In 1994, it jumped 14 percent and as an example, CP revenue
increased 21 percent and CN increased 15 percent. In 1995, there was a drop of 1.2 percent in
traffic. Container volume was up 4 percent, but trailer volume was down 7.8 percent. There
is a lot of competitive pressure in the trucking industry and rate levels have been lowering to the
point that it has been affecting intermodal. About 20 percent of CP and CN revenue now comes
from intermodal.

Current Intermodal Issues: Rates and Competition with Trucking

Some of the issues that are facing intermodal are depressed rates and fierce competition from the
trucking industry. I would like to know if anybody is really enjoying the rates as they are, either
the rail industry or the trucking industry? I think that these rates will be increased eventually for everybody's benefit except maybe some shippers. Door-to-door service, reputation and performance are still a concern.

Finally, there is some question whether intermodal is at the capacity threshold. There are stories now that some of the terminals are not performing well. A perfect example is the CN Brampton Yard in Toronto which has had congestion problems all spring. The proverbial intermodal dilemma is that traffic must pass by a terminal. The competition between rail and intermodal is truck load (TL). There is not too much less-than-truckload (LTL) moving by rail intermodally, although it may in the future. Intermodal containers and trailers must be transported by truck from the shipper to the terminal, moved by rail to a second terminal, and then a final delivery again by truck.

**Rail vs Truck Cost Models**

KPMG have done research on our rail and truck cost models. Truck is more efficient at the shorter distances, less than 500 miles. Double-stack is a bit under 500 miles, Road Railer a bit over 500 miles, and traditional TOFC traffic is more efficient around 700 miles. Rail becomes more efficient as distances increase beyond 700 miles. But service is the other side of the coin. TOFC traffic basically is service and cost competitive at about the same distance - 700 miles. Double stack, although cost competitive around the 500 mile range is service competitive around 900 miles. It takes longer to load a double-stack train, with the right balance of loads. It is just not competitive at the shorter distances. Road Railer is competitive around the 500 mile range but these estimates depend on a number of factors. New technologies may be effective under the 500 mile range.


**Other Challenges Facing Intermodalism**

Intermodal door to door service levels is still an issue with shippers, especially at shorter distances. Terminals location and congestion is a problem. Terminals that used to be in outlying areas of cities are now surrounded by built up areas that create traffic congestion. In some cities, companies like CP have moved facilities to Vaughan Terminal outside Toronto.

In terms of cost, there are a number of causes. One of them is equipment utilization. For example, a rail trailer will probably get about two loads a month, a truck trailer gets around four to five loads a month. These are generalizations, but basically the equipment utilization of trucking is much better. Empty return ratios are another big issue. Rail goes point to point. Trucks use triangulation which is much more flexible in terms of picking up return loads. In general intermodal traffic has trouble generating the return load and that affects their cost.

The railways have expensive terminal handling equipment located at the terminals. They need to reduce the cost inside those terminals. However, rate levels in the trucking industry is probably the key. Right now they are very low. This has been going on for years, but I think 1995 was even worse. KPMG did a major study which was presented to the CTRF at Winnipeg (1996), that showed rate levels are not moving and we do not see much change happening over the next year or two.

**Taxation**

The railways pay about 14 percent of their revenues to tax, while truckers pay about 8 percent. Toll roads are coming on stream in eastern Canada and this may also play a role in making intermodal a bit more competitive.
Overcoming Challenges: Technological Development

Recent R&D intermodal developments have focussed on 1) avoiding the need for elaborate terminals and expensive terminal handling equipment, 2) improved door to door service levels to penetrate shorter haul markets, and 3) smaller train sizes, while decreasing capital operating costs at shorter distances. The smaller the train size, the higher the costs. Ways must be found to reduce costs with smaller train sizes in order to improve service levels.

Road Railer

Carless technologies involves using the same container or trailer on the road and on rail. The "trailer" is basically transferring from road to rail. Road Railer is the most proven carless technology. It uses conventional locomotives, but requires specialized reinforced trailers. Triple Crown Service of Norfolk Southern and Conrail use it for transporting auto parts in the St. Louis/Chicago, Atlanta/Chicago, St. Louis/Detroit corridors. It is also running in Canada between Detroit and Toronto. Road Railer is a proven technology that is making money and has its niches but is not applicable everywhere. It uses conventional locomotives so it needs a lot of trailers in a train to be profitable.

In the Detroit/Toronto corridor, CP is pulling about 40 trailers which is just barely adequate. A 3000 horsepower locomotive can pull about 70 trailers and that becomes a bit more efficient. It is also a closed system, due to the specialized trailers, and so some truckers are adopting it. Schneider International has bought about 500 Road Railer trailers. They can be hooked to the back of a regular train which is an advantage.
The Iron Highway

The Iron Highway technology is scheduled for revenue service in the Chicago/Detroit corridor with Chessie and the Montreal/Toronto corridor with CP Rail. CP is still being a bit hesitant, and has already had some delays. We do not know the whole story, but basically they are having trouble with some of the technology. The important point about the Iron Highway is it transports standard truck trailers and therefore has attracted interest in the truck industry.

Right now they are being tested with conventional locomotives, but the key is to use smaller locomotives. The Iron Highway train is about 1200 feet in length. It has articulated platforms that can load about 24 vans. What happens is it breaks in the middle to unload the trucks. It requires literally nothing in the way of terminal equipment. A truck tractor is the only equipment probably assigned to the terminal. It has tremendous potential and truckers in eastern Canada are heavily involved with CP in the development of this technology.

Eco Rail or 3R International

3R International in the U.S. and Eco Rail in Canada is another technology which is being pushed by CN. It was developed by a Quebec based company called Inntermodal. It employs smaller fuel efficient motor power and moves in combinations of up to ten trailers. Eco Rail is now in limited revenue service between Drummondville, Quebec and Mississauga, ON (again with the cooperation of a few truckers). It operates with a power unit in the middle and a command module in the front. For every ten trailers, it needs a new power unit. Whereas Road Railer needs reinforced trailers, Eco Rail uses a standard truck trailer. A pinning mechanism is required at the back of the trailer as well as the front, but these are the only modifications. The jury is still out on this technology but it is running and has been approved by AAR.
Rail Runner

Rail Runner is similar to the 3R International technology, but it uses conventional locomotives. It is currently being tested by the Burlington Northern/Santa Fe system. The Brant Road Railer Corporation in Regina have developed what they also call a Road Railer. This is a converted truck tractor designed to pull hopper cars on low density branch lines. It can pull up to about 15 hopper cars and it is being marketed world-wide. It is not designed for intermodal, but is working on the Southern Rail Co-op in Saskatchewan.

Container Development

At the present time, most 53 foot containers are stacked on top of a more regular 48 foot or 45 foot container. The railways are trying to design a 53 foot well car. They have designed a 53 foot domestic container with the same interior dimensions as a truck trailer. The trailer and container dimensions moving on the rail have not been the same dimensions. J.B. Hunt has developed a 53 foot trailer with 110 inch height inside which is completely compatible and they use those for intermodal and over the road traffic. It is important to design a 53 foot well car with the versatility to carry various container lengths whether 48 feet, 45 feet, or 40 feet.

There are a lot of other developments going on with specialized domestic containers, larger reefers, automobiles (Auto Railer) etc. Triple stack containers are also being developed. These are six foot, four inch high containers for heavy dense commodities. For example, they are being used to transport potatoes in Minnesota. There is also a 28 foot double stack container being developed for the LTL business. These developments are more customer driven than efficiency driven. The goal, of course, is to improve service levels.
**EDI and Electronic Information Technologies**

EDI is an important development for the intermodal industry in terms of multi modal applications and creating a seamless network. Of course, you are aware of the applications of EDI with invoicing and payment, delivery notices and everything else now being transferred electronically. I think EDI will have an important and positive impact on intermodal. I also would like to mention tracking and tracing, identification technologies, global positioning systems, and automated equipment identification (AEI). AEI is being introduced by the railways across North America this year. All rail car equipment will be identified by transponders attached to the rail cars and readers located at key points across the country. Down the road, transponders will be placed on trailers and containers with world wide tracking of this equipment. The tracking technology and tracing of containers or trailers is available. It is a question of when it will be implemented, given the benefits and the costs of the various transportation systems.

**Conclusion**

What are some of the intermodal frontiers? Significant penetration of the shorter haul truckload domestic markets will require improved service and cost competitiveness. Can they penetrate the shorter haul markets? An accepted design of carless technology is probably the answer. There is still a lot of testing going on, so we are not quite there yet. I think eventually carless technology will prove its worth. Further investments are needed to increase necessary capacity and improve service levels. In addition, more investment has to be made in the intermodal network to reduce congestion and increase the capacity threshold. Further rail/truck cooperation and integration, with more customer focus is essential. Sometimes the railway industry and the trucking industry have a tendency to go after all the revenue without really thinking about the customer. For many reasons, the railway wants to keep the traffic or the trucker wants to keep the traffic. Given depressed rates, this is no great surprise.
As I indicated, the application of electronic and information technologies and the standardization of intermodal equipment designs are other frontiers to be crossed. Rail intermodal definitely has a great potential and a great future. I am positive and bullish about it becoming a big success.
Luncheon Address
Mr. Reg Alcock
MP, Winnipeg South

The problem we have this morning is that I will be sticking much more closely to a text than I might normally which is simply a demonstration of my newness to this particular topic. We get called upon as Members of Parliament to do this kind of thing rather frequently as you can imagine and I received what is possibly the best briefing package and speaking notes I have ever received in my short tenure as a federal Member of Parliament so I intend to share some of that with you. I should point out I say that for two reasons. One is because it is true, the second is because the author Margaret Gillis is in the room with us today and I am sure if you want to know more about this topic than I will provide for you, you can ask Margaret directly.

I do want to start off though by congratulating Barry Prentice on the work that the Institute is doing. It is in part because of two people in this community that I am here and I am currently Chair of the transportation committee. The first is Hubert Kleysen. For those of you who do not know Hubert, he is a somewhat crusty old trucker who shows up in my office rather frequently to belabour me about the importance of Winnport to this town. Barry Prentice took me aside a couple of years ago and pointed out to me that there are more people employed in transportation in this province than there are full time farmers. It is of vital importance to the economy of this province and to the well being of all of us and it is one of the reasons why I sought the chairmanship of the committee. I should add, however, that this has meant that I am spending my summer - that short period of time when Manitobans do not care anything about politics and normally I can relax and play golf - being dragged on a freight train from Toronto to Vancouver, or on a VIA Rail from Toronto to Halifax. I will be taken across most of the bad roads in Canada and I have come to know more about cement than any other human being wants to. But I am here today to share some good news about legislation passed by the government, which brings opportunities to business in Winnipeg and across the nation.

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The Duty Deferral Program

The duty deferral program is good news for a number of reasons. But first and foremost, it lowers input costs for business. That translates into improved competitiveness for Canadian goods in the international marketplace, and improved job opportunities for Canadians. It would be hard to overstate the importance of international trade, and the export sector in particular, to an open economy like Canada's. Last year, exports represented a larger share of GDP in Canada than in any other G7 nation. Over the last three years, we have also led the G7 in the growth rate of our merchandise exports which rose by 55 percent over that period. In 1995, Canada's merchandise trade surplus with the U.S. was $59 billion, up from the previous high of $28 billion in 1994 a rather remarkable increase. This kind of export performance would be good news in any circumstances but it represents an especially important trend in the new global economy. I will not belabour the familiar facts about the globalization of business. Everyone in this audience has heard about the telecommunications revolution, the rise of new, more open markets, and the diminished significance of national boundaries. No one needs to tell you about the importance of competitiveness for seizing opportunities in a global economy.

The federal government is alert to this too, I am glad to say, and we have worked and are working to enhance Canadian competitiveness in a number of key ways. One key is creating a healthy fiscal and monetary climate because high deficits and debt spell higher taxes and interest rates. Another key is expanding our access to international markets through trade agreements like NAFTA and the World Trade Organization. We are also implementing a broad range of structural policies such as reducing input costs through legislation like duty deferral. Duty deferral reflects the governments confidence in the private sector. While the government does not create jobs, it can help create the environment in which the private sector can create jobs. This legislation does just that. It will increase your export opportunities and I am confident that you will turn that into employment opportunities down the line.
Let me now turn to the contents of the duty deferral legislation. As you know, duty deferral programs like free trade zones defer or relieve customs duties on business inputs pending their formal entry into Canada in situations where those inputs are ultimately destined for export from Canada. Exports, of course, are not subject to duty so any duty paid on imports that are ultimately re-exported would normally be refundable but to collect that duty in the first place only to refund it down the road would impose a significant cash flow and administrative burden on Canadian exporters. I doubt whether I need to tell a business audience about the importance of cash flow. That of course is why duty deferral programs exist.

Prior to Bill C-102, Canada had three such programs as most of you are probably aware—duty drawback, inward processing and bonded warehousing. Over the years, business people have asked for improvements to these programs, to make them more competitive with similar programs of our major trading partners. The new legislation responds to that need. It enhances, streamlines and consolidates the existing programs, providing as much up front relief as possible to ease cash flow pressures and reduce input costs on Canada’s exports. I would like to deal more specifically, out of respect for this audience, with some aspects of the legislation.

In general, the proposed changes will allow the ownership of goods to be freely transferrable while under the program. It will provide greater access to the program by small and medium sized business, consolidate all duty deferral programs into the customs curve, allow more freedom of movement between programs without affecting the dutiable status of goods. With regard to the relief provisions currently the inward processing will allow upfront relief of customs duties including anti dumping duties, countervail duties, surtaxes and excise duties and taxes on certain goods. It will eliminate the requirement for an export history, or an export contract in order to access the program. It will eliminate security requirements coupled with a stronger penalty structure which will be put in place for failure to comply with the conditions of the program. It will streamline customs reporting requirements by moving to flexible documentation requirements, reliance on common commercial information systems and post audit accountability. Same conditions goods qualify for the new relief portion of the program. As is currently the case, no
physical barrier will be required. Goods for export are considered to be zero rated under the GST and are subject to the full input tax credit. Imported goods and domestic goods can be used interchangeably in manufacturing without specific identification. Merchandise can be displayed or demonstrated without duties being paid. It will allow duty relief on waste, scrap and consumable goods as long as they do not have a merchantable value and it will allow business, not government to determine where export based industry should locate. Relative to bonded warehouses, there will be a continued deferral of customs duties and the GST. There will be an inclusion of certain types of same condition processing in the list of activities that can take place in a bonded warehouse. Examples of same condition processing include cleaning, trimming, cutting, slitting and dilution so long as such processes do not materially alter the good. Activities currently provided for in bonded warehouse legislation such as storage, packaging and repackaging, labelling, normal maintenance and servicing and complying with any applicable law of Canada and testing or sampling will continue. Goods can be displayed or demonstrated without duties being paid and storage time is increased to four years and can be extended beyond that under certain circumstances. There will be a streamlining of entry processes and deferral of duty is allowed on scrap, waste and consumables again that are not merchantable.

Relative to the drawback provisions, they allow for the refund of customs duties, anti-dumping duties, countervail duties, surtaxes, and excise taxes on imported goods that are subsequently exported and would, with the expansion of upfront relief under the proposed duty deferral program, most likely be used in those circumstances where the importer did not know that the goods in question would be exported and export market is found for goods after or where an export market is found for goods after importation of input components.

Other changes will enable regions to market Canada's duty deferral programs more effectively in competition with U.S. free trade zones and thereby help attract and keep investment in Canada. I would like to explain why I believe the revised duty deferral program incorporates most of the positive customs and tariffs features associated with free trade zones and is actually superior because it is available to businesses anywhere in Canada. This means that there is no competitive
lobbying by regions for a zone status and no dislocation of business from one region to another. This even handed approach is consistent with our approach to regional development programs. Under our system, highly motivated communities and businesses like those in Manitoba can couple the benefits of duty deferral with discretionary local incentives.

In a sense, you can have it both ways: the option of zone concepts without the restrictive regional program and the bureaucracy that comes with it. The duty deferral legislation is part of a larger strategy to seize opportunities in a new competitive economic order. The duty deferral legislation makes a significant contribution to that goal by lowering business costs in a fair and fiscally responsible way. This legislation will help ensure that Canada remains a favourable location for producing goods and for investing. Its duty deferral provisions compare favourably with the benefits of U.S. free trade zones. It is a healthy step in the right direction. A review of our tariff regime continues because the process of change and adjustment must be ongoing. It has been said that in business, the competition may bite you if you keep running, but they will swallow you if you stand still. I imagine that this rings particularly true for Canadian business whose international competition is just a stone’s throw away and I am confident that the duty deferral legislation will help keep you up with and in fact stay well ahead of your competitors across the border. Here endeth the lesson on duty deferral. Thank you very much.
New Initiatives In Customs Procedures:
Review Of Bill C-102
Ms. Margaret Gillis, Ms. Cathie White and Mr. Jeff Mills

Today I am going to bring you some good news. I realize that good news from Department of Finance is somewhat of an oxymoron, but the legislation that we are dealing with really is quite significant. My colleagues from National Revenue and I want to explore the issue of free trade zones in a Canadian context.

To state the obvious, Canada competes for investment with many other countries. Competition has been, and will continue to be, intense for investment, particularly in high technology industries with innovative production, marketing techniques and management expertise. To attract industry and investment, industrialized and developing countries have experimented with various free trade zone programs. Our unique free trade zone program, called duty deferral, came into effect on January 1, 1996. It is essentially an amalgamation and streamlining of three different duty deferral relief programs, and it is designed to compete directly with free trade zones across the globe.

I am going to give you a very strict definition of free trade zones because it is important in understanding how our program works. A free trade zone is generally described as a designated geographical area within a country. It is important not to confuse this with free trade agreements like NAFTA, in which economic activities are granted certain customs privileges that are not provided for in business and other areas of the country. So for instance, if Winnipeg were a free trade zone, you would be allowed to defer the duties and taxes here but not in Brandon. Generally, when you think of a zone, it is a specific area within the country. Free trade zones typically allow firms to import duty free goods for assembly, processing, and distribution in export markets, and in some instances, for sale in domestic market. There are approximately 500
of these special areas operating around the world. They are known variously as export processing zones, special economic zones, or free trade zones.

Duty deferral allows for up-front relief of customs duties, anti-dumping and countervailing duties, surtaxes, certain excise duties and taxes, and in some instances the GST. The program saves you money by reducing the cost of production for goods destined for the global market. Like free trade zones, generally duty deferral lessens the amount of paperwork required for controlling the goods while in Canada, since you can use your own commercial information systems. The program is particularly helpful for entrepreneurs who are taking material and components and manufacturing them for export.

Another noteworthy aspect of the duty deferral program is that, unlike traditional free trade zones where the government deems a bit of land to be a duty or tax free zone, it is designed to allow any firm anywhere in Canada to defer or relieve tariff duties. All you have to do is export. There is even an exception to that rule, as a bonded warehouse component has a duty and tax deferral element for goods sold in the domestic market.

Policy

Over the years, government has received requests to set up free trade zones in Canada. In 1992, a special committee of the House of Commons commissioned National Revenue and Finance to look at the issue for Canada. The resulting report recommended not regional-based free trade zones, but an update of Canada's national program. We were worried about setting up a zone program in Canada which would take away from many industries located outside the zones, the sorts of duty deferral and tax relief programs already in place. We also noticed in the American program the tendency for industries to move from one region to another. We wanted a national program. We consulted extensively, in 1993 and 1994, with business on the elements needed to upgrade the program. We made many of the recommendations part of the new legislation.
Our policy approach was three pronged. First, the program had to have the strong economic advantages of similar programs around the world. Business told us they wanted as much up-front relief as possible and minimal paperwork. Second, the program had to be acceptable to small, medium, and large businesses throughout the country. Third, we wanted the program to be flexible enough so that communities or businesses could take it and package it with other business incentives to create free trade zones and capitalize on their own strengths in their particular region. Finally, we had to deal with the impact of NAFTA (which restricts duty deferral programs), the American free trade zone program, and the Mexican Maquiladoras when we were crafting the program in order to ensure competitiveness of our program.

Why is our program competitive? First, we are going to provide similar benefits available to free trade zones in other countries. We are more flexible because we are going to let business choose where it wants to locate. In other words, federal government approval is not required for a zone. All you have to do is to apply to the Department of National Revenue and be in the export business. Duty deferral is designed so that it can be packaged with other specific and economic incentives. If you look at free trade zones around the globe, it is not necessarily just federal programs that make them work. There are a myriad of different elements (services, infrastructure, etc.), unrelated to tax programs, that makes them effective. Of course, transportation is absolutely crucial. Again, our program will allow businesses to take advantage of the natural strengths of each region in the country without providing advantages to some at the expense of others.

Setting Up a Free Trade Zone

Setting up a zone requires doing some homework on the business or the region. A local zone can contribute to an area's commercial attractiveness by utilizing local facilities and business initiatives. A well organized zone can provide immediate services to the area's business space as well as attract new business. You have to answer a number of questions.
Who are my allies and partners in setting up a potential zone? Besides the federal, provincial or local governments, economic development agencies are helpful, as are transportation and industry experts, port and airport authorities.

What are the natural strengths of my business or region? There is an endless list of possibilities, including proximity to natural resources, transportation or communication strengths, which you have in Winnipeg, and an industrial base that can be expanded to create investments and employment. What sort of zone is required? A zone could be one or a multitude of sites, a single building, all or part of an industrial park. It could be a deep sea port or an international airport.

What customers or industries am I trying to attract? Well, it could be manufacturing, it could be agricultural product processing, it is certainly up to the businesses in the community to determine where they think their strengths lie.

What economic incentives would be helpful to attract potential clients to my zone? If you look at free trade zones from different parts of the world you will see some innovative ideas that can be examined, but you can add provincial or municipal tax incentives, affordable land, building infrastructure, training facilities and labour pool. Those are some of the basics.

What service incentives are required? Some of the groups that have been working on these things will add legal services, translation services, banking services and again it depends on the clients you are trying to attract.

What costs are involved? While you do not have to apply to the federal government to set up a zone, you do have research marketing costs, and start up costs. These are costs borne by the individual company, or consortium that was looking to set up a zone.

Finally, who would administer the zone? Once you have established a zone, you can operate it yourself or designate a firm to operate the zone on your behalf. This is generally called the
operator concept and it is a concept they have in the American free trade zones. Generally, an agreement would specify the obligations of each party operating in the zone, and cover all laws and regulations.
Cathie White
Bonded Warehouse Program

One of the reasons the bonded warehouse program was targeted for re-engineering is that it is unique. The number one point is the status of the goods in the warehouse. Basically the goods in a customs bonded warehouse are under customs control. They have not been released into Canadian consumption. They are deemed to have been imported into Canada and they have not been accounted for under the Customs Act. If you are familiar with customs terminology, as soon as we use the term "accounted" you have to pay the duties and taxes. That is one of the main things that we are looking at here and why we targeted this area for expansion. We have also changed the time frame from two years to four years so goods can remain in the bonded warehouse facility for up to four years now.

We are the only national program with the complete deferral of GST. You also defer all customs duties and countervailing, anti dump initiatives, excise duties, and taxes. Anything that is imposed under the Customs Act is automatically deferred until it goes into Canadian consumption, making it very similar to what happens in a free trade zone. The other advantage, also similar to the free trade zone is that you only pay on the portion of goods that you actually leave in Canada. If you re-export the goods, you receive 100 percent of the duties that were imposed upon import. You do not have to pay the federal government one cent when it comes to those duties and taxes.

Also, in the program, we have allowed domestic goods to be stored with imported goods in the same facility. What we are looking for from the customs standpoint is control of the imports. It is irrelevant whether or not domestic goods are sitting right beside them, because we are not controlling those. We are just looking at the imported goods. We have streamlined our entry system. All goods entering a bonded warehouse are documented on a Canada Customs coding document. We consulted with the public and asked them "What do we need to do here?" The answer was go from 37 entry types to six, so we did that.
The next issue is automation. Our entries were not automated, they were manual. As of January 1, 1995, all of our warehouse entries are now EDI compatible. They are CUSDEX and CADEX transmittable. Basically, it means you have your computer set up at your office. You transmit on-line all the customs data directly to our mainframe in Ottawa, and the entries are accepted. Paper does not have to fly back and forth.

Our clients also wanted a reduction in paper work. The old system required warehousing documents to be transaction by transaction. We realized where the industry was going with this and we needed to simplify it even further. What we have developed is a consolidated ex-warehouse procedure. You are allowed to remove the goods throughout the week as you need them. At the end of the week, you present to us one consolidated document telling us what went into Canadian consumption and pay the duty, and one consolidated document telling us what went for export.

Who may apply for it? Basically, anyone. You can be a resident or a non-resident. Any perspective operators who would like to take advantage of the deferral of all duties and taxes is welcome to put in an application. If you already have a bonded warehouse, all we need to know from you is what do you want to do in there now? What kind of activities are you going to be involved in? It is a very simple straightforward process.

*Setting up a Bonded Warehouse*

How do you get a bonded warehouse licence? Basically, you present an application. The application is called an E-401 Application to Operate a Customs Bonded Warehouse. These are available at your local customs office. You need a floor plan (not a blueprint) of a facility that tells us where the bonded goods are going to be found.
If security is required to be posted, you have to post a bond or a security acceptable to the department. The next thing we do is visit your site to review it. To make sure that 1) it exists 2) that the record keeping system that you have is adequate for our needs. The next thing you have to do is pay a licence fee. This is a cost recovery program. The fee includes all costs associated with licensing the bonded warehouse, audit and verification. Once you have met all these conditions, a licence will be issued.

Our goal with the records is not to establish a separate record keeping system. What we want to use are your existing records. Tell us what you use on an everyday basis. We will make that fit our needs. In most cases, the companies that we have been dealing with, the records are straightforward. Again, we are only looking at the records pertaining to imported goods.

If and when you have a third party audit that is conducted at least once or twice a year, (i.e., you hire a company to come in and review your records), that is an opportune time to contact your local customs office for a visit. We do not want to be in there while you are trying to run a business. In fact, I would strongly suggest that when you schedule your audit, contact customs.

Site Plan

Now this is one of the areas that we have gained a lot of flexibility in. One of the advantages now is that we can basically bond anything. If your record keeping system can show us where the imported goods are, we can bond three buildings, a section of an existing facility, the entire facility. What we are looking for, and what I suggest you do in your application, is the identification of a bulk area. That is, an area where the goods come in and are stored until needed.

Then I suggest a work-in-process, or manipulation, area where you do your repackaging, diluting, cutting, splitting, trimming, and packaging and finally, a shipping and receiving area. The
inbound goods are in one of four spots. If you are on ISO 9000, the record keeping system will give exact locations for all of the imported goods that we require for control purposes.

Security

We are in the process of reviewing security requirements under the new legislation. We hope to be finished that study by the fall. We are looking at lowering them all, because we realize that the amount of security we had in the past was inefficient. If you are dealing with low risk commodities, such as conventions, exhibitions and trade shows, there will be no security requirement. Basically, high risk commodities are alcohol, tobacco and firearms. All other commodities fall under low risk.

Display of Goods

Under the old program, display in a bonded warehouse was limited to large recreational vehicles and boats. The good news is that we have had some radical expansion in that area, while still complying with the applicable federal and/or provincial laws. A good example is the Canadian Standards Association sticker that could be put on the goods while in the bonded warehouse, separating defective goods from prime quality goods. You can import goods from all over the world, domestically produce other goods, package them together and guarantee your client, wherever they are in the world, that when that product is shipped to them and they open it up, it will work because you separated defective goods from prime quality. This goes hand in hand with your inspection, sorting and grading. We have had companies dealing with fresh fruit and vegetables, where they are bringing them in, sorting, grading, repackaging and exporting them back to the states. They are creating value-added jobs here in Canada.
Destruction of Goods

If you bring goods in that are less than prime quality, we allow you to terminate their life in warehouse and back them out of inventory. You can also transfer goods from your bonded warehouse to another bonded warehouse as well as transfer between programs, (i.e., between the duties relief portion and the bonded warehouse and vice versa). We also have provisions for ships stores, as all major airlines have customs bonded warehouses which store ship stores. This will continue under the new program.

If you are very familiar with the customs tariff, you will be familiar with General Interpretive Rule 2A, which says that if you bring goods in you may reassemble them if all the parts are included and if they have the essential character of the finished product. What this will allow you to do is load 500 unassembled bicycles on a transport truck for reassembly in the warehouse for domestic consumption. If they were fully assembled, you could only put 250 on board. In this way, the program takes into consideration the transportation industry.

Putting Up In Measured Doses

This area of the program covers things such as imports of bulk sugar. You can package them into the measured doses one finds in a restaurant. Goods may also be sampled in a bonded warehouse.

Activities not permitted in the bonded warehouse are full assembly, other than the reassembly of goods that were originally disassembled, and repair, manufacture and further processing. These categories all fall under the duties relief portion of the program.

One of the areas that is really exciting is the convention/exhibition and trade show market. Basically, we will bond any feasible site. It could be a convention centre, a hotel, or whatever. There are some definite benefits to doing this. The number one benefit is that you will be able
to use a basket tariff item. Its 9819.00.00.00, and it allows you to group all of the goods coming in for exhibition by under one tariff item, and one value; the bonded warehouse operator who is the event organizer, will be the importer of record for those purposes. At the end of the event, everything gets packed up, and lists of all the goods going back out are presented to the broker or to the event organizer. They in turn present one consolidated ex warehouse export entry to customs, in the same format, consolidated B3 under one tariff item, one value. So the goods come in, totally deferred, get displayed, the companies can solicit orders. You can display domestic goods there as well as imported, but we are only interested in the imported goods.

Now, if there are sales for domestic consumption, we require a consolidated domestic consumption entry, where we ask you to change the importer of record to the actual importer. This way they retain all appeal rights under the Customs Act, and you are not losing anything from purchasing at a trade show. So the number one advantage to this is trade facilitation.

If you are an international convention centre, and you are going to be doing this kind of activity on an on-going basis, we suggest you apply for a bonded warehouse licence. No security is required, only a minimum $100 fee, and a floor plan. We issue the licence, the licence goes dormant until you advise Customs that you have an international event. At that point, you can advertise internationally, import goods, defer 100 percent of the domestic duties and taxes, and export them free of customs charges.

The international convention business is a $30 billion industry. We want that money here and we hope that this will help you to that end. We want to work with you. We want business to locate in Canada. We want to facilitate your business and we can make this work. Customs officials went to Las Vegas and were successful in selling the bonded warehouse option, in getting that convention for 1999 for Toronto. This is how you can use it to work to your benefit. We are also producing a guide that should be out by early fall at the latest.
Duties Relief Program
Jeff Mills

Essentially the duties relief program allows goods to come into Canada, free of duties and taxes on the condition that these goods will eventually be exported. Duties include customs duties, antidumping, countervailing duties, excise taxes and duties, and surtaxes.

The one exception is GST which is payable at the time of importation. There are two conditions to remember about the GST. No GST is collected on exports. Generally all the GST paid at the time of the importation is returned through the input tax credit scheme. Another piece of legislation allows, in certain circumstances and conditions, relief of GST at time of importation. The main condition for getting this relief is that the imported goods are eventually exported. This is an export based program. They can be exported in the same condition, or further manufactured and the finished product exported.

It also allows for relief of goods that are used or consumed directly in the manufacture of the product being exported. The program allows full manufacturing in bond for the export market. The one qualifying condition is that the finished product is exported within four years of being imported.

The duties relief program is not really new, but a modification of existing programs. Previously, the inward processing program allowed manufacturing and bond for export but provided only limited relief. Another program called drawback required duties to be paid up front, and then after the goods were exported, a refund claim could be filed. Essentially, with the duties relief program, inward processing and drawback were joined together.

Consumable expendables are imported materials or goods used directly in the manufacturing process that do not enter into the final product. Relief on those goods is paid in relationship to
what is being exported. Equivalency allows imported raw material to be substituted with domestic raw material (that is completely interchangeable) and carry forward the relief.

Previously, an export contract, or a pattern of export sales, was necessary to benefit from the program. It discriminated, therefore, against new companies, or companies just entering the export market that did not have a specific contract or an export history. This is no longer the case. In addition, the requirements to have security and monthly reporting on import and export activity were eliminated under this program. There are no fees or other charges related to this program. Drawback is retained as a fallback mechanism under the new program. There are instances in which duties are paid at time of importation; when those goods are exported, a drawback of duties can be claimed.

Who can apply to this program? Anybody, whether you are importer, an exporter or processor, if you own the goods, or if you are an operator conducting a service for other people. An example is if you import goods and sell them domestically. Although you do not export, the buyer is taking these imports, putting them into a subassembly, manufacturing and exporting. You can still participate in the program. The only catch is that the exporter also has to participate in the program so s/he can transfer the goods between participants. The liability for any duties and taxes also transfers when you transfer the goods. The program requires completion of Form A90, a duties relief application sent to Trade Administration Services.

This one page application identifies the company name, location, the contact person, import/export history, and, goods intended for import. It also tells us whether you are going to manufacture or just export the goods in the same condition? If you are a manufacturer, what are you making? How much of the material that you are bringing in is going into the manufacture of the goods exported? Where are you exporting to or are you selling it to another participant in Canada? It gives us all that basic information. It is forwarded to the TAS office. They review it there and quite probably you will be visited by an officer prior to getting your certificate.
There are two purposes to these visits. First, they confirm that you are eligible for the program. Second, they make you aware of your obligations. What happens if you do not export the goods, or do not sell them to a participant. Do you have to pay the duties back? How are you going to arrive at the duties payable if you are transferring to somebody else? What are the mechanics involved in there?

A unique certificate number is quoted on import entries when the goods enter into Canada. The computer system recognizes participants who do not have to pay the duties and taxes at the time of importation.

Records are very important to this program which operate on a post-audit basis. Audits are undertaken every twelve to eighteen months on average. We try to use the common records that you use every day. We will look at import records, copies of the customs entries, copies of purchase orders to see exactly what you have ordered and compare it to what you say you have imported. If you are a processor, if you are manufacturing these goods, we are going to look at your processing records (whether a bale of material, a recipe, a specification sheet, a blueprint) to determine how much of the imported good goes into the manufacture of what is being exported.

We will look at the receipts showing goods at each stage, from the time of importation, to the finished goods inventory, in order to follow the goods through your manufacturing process. Then we will look at disbursements from your finished goods inventory, to see if you have exported the goods, or sold them in Canada. If you have sold them in Canada, we want to know if you have you sold them to another participant or to a non-participant. In the latter case, duties or taxes on those goods will be owed.
GST Relief

GST is generally payable at the time of importation. There is one exception to that rule, namely, when Excise Tax Act legislation and related regulations operate in tandem with the duties relief program. There are four conditions to get GST relief at time of importation. 1) The goods have to be processed in some fashion. 2) The finished goods have to be exported within four years. 3) The goods come up as customer-owned material. They are shipped free of charge. You do not take ownership of these goods while in Canada. 4) You cannot be closely related to the company from which you are receiving the goods. For example, Ford U.S. cannot send to Ford Canada. So we have to have separate arms length transactions in this instance. If you meet these conditions, you are eligible for relief of GST at time of importation as well as all the other duties and taxes.

NAFTAs Affect on Duty Deferral

NAFTA affects duty deferral programs from all three signatories. The NAFTA agreement defines a duty deferral program to include the duties relief program, bonded warehousing, drawback programs, American free trade zones, and Mexican maquiladoras. This affect takes place in two time frames. Trade between Canada and the United States is already affected as of January 1, 1996. Trade between Mexico and Canada will be affected beginning January 1, 2001. If any other countries become a signatory to the Agreement, they probably will also be affected.

Now the trick to this is determining whether you are affected. Article 303 of the NAFTA agreement is where this restriction on drawback and duty deferral programs resides. It is also in related annexes to Article 303. It is in the uniform regulations as well. You have to conduct a self-assessment of your import and export activity.
You are going to have to determine what you are importing, where you are getting it from. Are you getting it from non-NAFTA countries, or are you getting it from NAFTA countries? If you are bringing it in from a NAFTA country, are you getting a certificate of origin so you can qualify for preferential rates of duty or not? What are you doing with the goods? Are you manufacturing? Where are they going? If they are going to the United States after January 1, 1996, there could be an effect on the amount of relief or drawback that you are entitled to. If you are exporting to countries outside NAFTA, there is no effect. NAFTA does not affect exports to any other country outside the NAFTA agreement.

Exemption from NAFTA Restrictions

Same condition goods are exempt from any restriction under NAFTA. In addition, NAFTA extends the definition of same condition goods to include minor processing. Same condition processes that are exempt include: testing, cleaning, repackaging, inspecting, preserving, trimming, filing, slitting or cutting, putting up in measured doses, packing, repacking, packaging or repackaging, labelling, marking, sorting or grading. Those are the same list of activities that go on in a bonded warehouse and should not be affected by NAFTA. These activities can also occur for people who are in the duties relief program as well. You are still allowed to get full relief or full drawback on these activities. Goods that are deemed exported because they are going to a duty free shop or a ships stores for aircraft or vessels are also exempt. Originating goods come from a NAFTA country under a preferential rate of duty have a certificate of origin and are fully exempt from any restriction under NAFTA.

Lesser of Two Duties Formula

There is a new formula for calculating the amount of eligible relief. It is called the lesser of the two duties formula. You are eligible for the lesser of the total amount of customs duties that you paid or owed on goods upon importation into Canada or the total amount of customs duties paid
to a NAFTA country upon exportation. We look at how much relief you got at the time of importation. How much duty was paid for goods going into the United States? You are eligible for the lesser of the two amounts. Before NAFTA, it was relatively straightforward. You just got relief of the duties at time of importation upon exportation. That relief was continued and you did not have to pay anything back.

Under the new formula, there may be instances where you must pay back part or all the money to the Canadian government. For instance, if you are on the duties relief program, and you got the relief at time of importation, upon exportation to the United States, that amount (and we are just talking customs duties here), is repayable. However, the agreement allows sixty days to come up with satisfactory evidence on duties paid into the U.S. The formula calculates how much was paid or relieved coming into Canada, and how much was paid going into the U.S. If the amount that you paid going into the United States is less than what you got relieved at time of importation, you probably owe us more money.

The best way to illustrate how this formula works is by example. Let's say we are a bicycle manufacturer operating in Canada under the duties relief program. We manufacture bicycles for export to the United States. We import gears from Italy, England or Japan. They come into Canada with a value of $100 and a duty of 10 percent. Therefore, the duty relieved at time of importation was $10. You take those gears and you make your bicycle. That finished bicycle now has a value of $500. We are not looking at the gears anymore.

Now we are looking at the finished $500 bicycle exported to the United States. The rate of duty going into the United States is 5 percent, or $25. You are eligible for the lesser of the two amounts. You got $10 worth of relief on the gears at time of importation, $25 was paid on the finished bicycle going into the United States. You are eligible, in this case, for $10 relief. You do not owe us anything and that ends the transaction.
Take this example and turn it around a little bit. Say bicycles go into the United States duty free. They qualify as Canadian origin because you have met certain origin rules. They qualify for a preferential rate of duty. They go into the United States duty free. There is no duty paid going into the United States. The agreement says you are only eligible for the lesser of the two amounts, in this case, zero. You must repay the $10 that you got relief at time of importation within the sixty day window.

Even if you know at the time of importation that you are NAFTA affected, as in the example above, you can still participate in the program. You can get that relief of the customs duties at time of importation. Those gears could sit in Canada for six months before they get manufactured into that bicycle. The bicycle goes into the U.S., and you get another sixty days before that amount of money is owing. You can get that deferral of the duties at time of importation. NAFTA only clicks in upon exportation.

We took the opportunity to reduce regulatory requirements for the duty deferral program. Previously, we had eight slightly different export drawback regulations. We consolidated them into two. The duties relief regulation which applies to the duties relief portion mirrors the drawback regulation.

At the same time, simplified administrative requirements. We have eliminated the need for security to be posted, but required a more detailed application to be filled out. We will be spending less time with you to learn about the company. We will be able to do our homework before we get out there.

There is no longer monthly reporting requirements. Although people had to file monthly reports all the time (you may still want to continue the same kind of reporting schedule), you no longer have to send it to us. Instead, we will verify that information when we come out to audit you. It is important to remember that you still have to keep the records. You still have to have an audit trail for us to examine when we go out there.
We have improved access for small business and entrepreneurs, by eliminating export contracts or export history as prerequisites for relief eligibility. Small new businesses did not have necessarily a formal contract or a history. Now, you just have to satisfy us that you will be exporting some of the goods that you are importing.

We have taken this as an opportunity to re-engineer the way we operate. This is in fitting with what we call the new business relationship that Revenue Canada has with its importing public. The new business relationship focusses on self-assessment, self-adjustment, and post audit verification. We are trusting you to control the goods yourself. You are responsible for accounting for the goods if they do not qualify anymore. If they enter into domestic consumption, you are to pay the duties. We are allowing you to control those goods. We are going to verify it periodically. We will come out and examine your books and records and determine whether or not you met up with your obligation. The program is going to be cheaper for us to deliver. We are going to have less paper to handle. We have facilitated the current practices of manufacturing in bond for export. The cash flow and administrative savings are flowing to business. You are not going to have to pay that duty upfront. You will be able to get that relief upfront without causing cash flow problems for you to pay upfront.

There is a difference between the drawback program and the inward processing program. Sometimes the same company would operate on both programs. When we meshed them together, we no longer require people to operate on both systems. It is more advantageous for you to operate under the duties relief program instead of paying duty then filing claims.

We think the program is competitive with what is available in other countries. All the programs are packaged. You no longer have to look in the Customs Act for certain programs, the Customs Tariffs for other programs. We have one D memo that has all the duty deferral programs in it instead of having separate ones trying to find out which program is your best bet. We have hopefully created something that can be packaged.
Creating Zones

People are interested in using this program to create a zone for lack of a better word. If you want to create one, this helps but it is not the whole thing. Often you will find that in other countries, they not only have a free trade zone but they package it with various other incentives offered at a specific location.

Two main points related to that - it reduces time and costs for clients. People coming to this area are going to benefit by having goods coming in and going out faster. Providing a variety of services whether it is freight forwarding or customs brokerage, land development, banking, translation services, anything that will help or ease the importation of goods should be packaged as an area.

Success of a zone depends on all these various incentives that you have. You should have a good idea who your clients are. You have to do a marketing analysis to target the people you want to participate in the zone. You should have a strategy of what incentives will attract companies or businesses to an area, whether it is having brokerage or shipping links or whether you can convince the local municipality to freeze or reduce land taxes or the hydro to give industry a break in its rates. Those types of things attract business because it lowers cost for business operating in these areas.

What alliances can you have with people who are interested in moving goods in and out of Canada? Getting all those people to work together as partners makes a zone successful. Define the zone. Is it a warehousing facility where you take imported goods, deconsolidate them and ship them out again, or is it going to take advantage of the duties relief program for manufacturing in bond for export?
There are other questions: Do you want the importer of these goods to take the liability at time of importation for any duties and taxes, or do you want to take no liability? Are you just going to provide a zone, and let companies operate on their own, or do you want to take liability for duties and taxes of these companies allowed to operate in the zone?
Industry Opportunities

Mr. David Frank

Vancouver International Commercial Centre

I hate people who start presentations saying it is an honour to be here today. Giving public presentations is a big pain in the butt. It gets in the way of my day and I am a little jet lagged. I came in from Halifax on the way back home to Vancouver, but it is actually great fun, giving this presentation today, even though I am cursed, thank you Barry, with the late afternoon presentation time slot on a sunny day in a university environment when everyone is asleep.

However, I am here on false pretences. I haven't got a clue how to form a foreign trade zone in this country. In fact, the people in front of you here know a lot better than I do, and yet despite that, people tell us that our company is on the leading edge and is the largest and most successful common user of a so-called foreign trade zone in Canada. We are approaching 24 months old. We are at the Vancouver International Airport in the cargo village and we have a very embryonic operation at the Edmonton International Airport. Revenues have been growing 7½ percent each month for the last 12 months. We now move over 1000 tonnes of freight and are further expanding. We are a debt-free corporation.

In actuality, however, I am not in a foreign trade zone business. I have been, and always will be, in the gateway development business. Horizon Pacific, our consulting arm, has always been helping communities and companies figure out how they fit into the world and how to capitalize on their gateway positioning or link to the gateways near their community. I think much of what you just heard here is misguided. We have been too hung up on the foreign trade zone issue, that this is some magical thing that is going to all make us very wealthy. Yet, only 15 percent of our company's revenues are what people would generally consider foreign trade zone type activities. I believe it is wrong to talk about Bill C-102 and duty deferral in a foreign trade zone context. I
also think it is wrong thinking, very wrong thinking, to compare what we are trying to do in Canada with what they have done in the United States.

But if you are viewing the foreign trade zone type concepts as being in the heart of positioning as a gateway operation, a multi-modal centre or community or company that can bring freight in from all around the world, from the rapidly growing international marketplace, get it through, do something to it, educate your customers about what you are doing, solve all of their needs and get it out again into the rest of the international marketplace, then you are talking about the Bill C-102 that I see. You are talking about the Canada Customs 2000 initiative that has been occurring here. You are talking about how we can all make a lot of money and ensure that Canada maintains its quality of life down the road. That is by being in the gateway development business. So that is what I would like to talk to you about today.

**Foreign Trade Zones: Historical Overview and Analysis**

Historically, foreign trade zones have been little chunks of the world where whoever had the most political pull could get this licence to print money. In those locations, international goods could come in, be processed, and then sent on their way. I am going to tell you what nobody has been saying about the nature of U.S. foreign trade zones and why we should not be mimicking or copying them. They have been around since the 1930s. In the late 1970s, some bright guy got this idea, "you know in the United States, we got this really stupid piece of legislation called inverse tariff laws. It is one of the last few remaining protectionist pieces of legislation in the United States." He said, "in the United States we put a whole mess of duties on all the little parts that make up a car, but if you brought in a full car the duties are a lot lower. So I am going to go get in bed with a foreign trade zone, and bring in a broken down Honda. I am going to build it in a plant there and then I am going to pop it out into the U.S. market when I am done at lower duties and taxes, and I will make lots of money." That is what U.S. foreign trade zones do for
a business. They are using a piece of U.S. legislation to get around a self-destructive, stupid piece of legislation that exists in the United States. This is their core business.

Yet, I go around this country and all I see are people saying "wow, these U.S. foreign trade zones, they are great. We must do what they are doing." We don't have inverse tariff laws in this country. So there is no core business. We cannot be like the U.S. foreign trade zones.

Successful Gateway Operations: Netherlands and Singapore

The Netherlands has been a successful international gateway and logistics supplier for four centuries. They realized from the beginning that logistics is the business of getting international goods from around the world into the Netherlands, and doing whatever the customer wants throughout Europe. They have a high standard of living in the Netherlands. It is not because of the red light district in Amsterdam, or the tulip bulb industry. It is because for four centuries they have got the concept of being a gateway operation right.

Singapore was the next country that has done that and they have done it in forty years. They said, we are in the middle of Southeast Asia. Let's make it real easy for goods to come through here and we will add some little extra services to it and we will do it. Malaysia has been one of the fastest growing economies in the world. Almost all the goods they manufacture go through Singapore. The poor guy who makes rubber gloves outside of Kuala Lumpur does not even know where his goods go past Singapore. Singapore has made a lot of money and has come a long way in just two generations because they have been in the gateway business, not the foreign trade zone business.

Some things that we can do here in Canada and have been doing for a couple of years have been mentioned. Great descriptions were made of repackaging and re-labelling. It sounds really good, but you have to translate this into what a customer wants. For example, we bring in a lot of
fashion goods from Europe and they go off into the shopping malls of the new wealth in Hong Kong and south China, outside of Guam and down into Singapore and the like. These goods come in, the labels are all screwed up, quality control is really key, so these come into our facility. It is all opened up, things are just fine tuned, checked and away they go. There are people in this room who are supplying for some of these really obnoxious contracts now at Hudson’s Bay and Wal-Mart and the like, where they can refuse a shipment if it shows up at the door with the ladies dress padding drooped over the right side of the hangar instead of the left. Well, if this is the guys biggest customer, supplying Wal-Mart, refusal can lead to bankruptcy. We get a lot of these shipments coming through just to clean off whatever lint may be there and making sure the right shoulder is over the back of the hangar and not the front. That comes into our operations and ends mostly feeding into the United States.

Another activity is the international sourcing of parts distribution. Entire containers come in from Singapore and are combined, sorted, checked, and packaged for the final customers. We fulfil those orders and out they go into the United States with a minimum of hassle.

On the airport, our first shipment was not air freight, it was an ocean container. It was a reefer container. And it was not some high tech good or some expensive fashion. It was a forty foot reefer container of frozen fatty eels from mainland China. Frozen fatty eels. Now, not too many people in this room realize this, but frozen fatty eels are a seasonal crop out of mainland China and they are an aphrodisiac. The fattier the eel, the better they are.

What this person could do now that could not be done before was target the different Asian culture markets up and down the coast. Before he would be shipping that product straight to his customer in Los Angeles. There would be a nasty phone call, giving him a hard time saying "hey you sent me skinny eels. Now I want 50 percent off." The guy would have to take his word for it and bargain for 40 percent off and let it go. Now, these eels were going in so he could sit there and say okay I know they are really fatty eels. We are going to mark those ones up. We are going to take photos of them too before we send them down to Los Angeles. We will fix him this time
with complaints about these. You can say, "Hey, I got pictures of these eels here guys, and they are fatty. You are paying full price plus 10 percent for bugging me." For the people in Denver who do not understand fatty eels as well, you send the skinny ones there. There are no duties or taxes on frozen fatty aphrodisiac eels going through Canada. But it was easy to bring them in now, check them out and send them on their way to customers. This was our first high tech airfreight "make us a million dollar" product. Fatty aphrodisiac eels being distributed throughout North America. That is what sampling, inspection and display is really about. So whenever you see that up on slides, sampling, inspection and display, think of aphrodisiac eels.

Market Analysis

I just heard my good friend here saying well you have to know your market, you have to do market analysis. We could market analyze this Act, these new regulations, these changes until we were blue in the face. As I say, I am a simple guy, I don't really know this stuff.

So, instead of analysing this myself, I hired somebody else to do it. It is This guy is going out there and saying Margie Gillis promised we could do these sort of things so I am telling you customer, we are going to find a way to do this, if we have to go write the procedures ourselves. That is exactly the approach we take to Bill C-102, the duty deferral program, and the new attitudes in Canada Customs, and I strongly recommend that your companies in this community take the same approach, because you will go insane trying to understand it otherwise.

Foreign trade zones of a traditional style are dead. Most of them are very boring if you ever go through them. There are a lot of big boxes full of long term storage of things like pablum. It is just sitting there deferring duties and taxes. I argue that companies, warehouses, communities, and economic development initiatives that are not in the gateway business are dinosaurs. They will die over the next ten years. Companies our customers want are one stop shopping.
We cannot do this to just avoid duties and taxes. Anyone can play that game. For example, they could write a piece of legislation in Chile to waive all taxes and duties and instantly be more competitive than us. Also, if the goal is to create quality jobs, the focus should be gateway positioning not just boring old warehousing and duty deferral.

Gateway Positioning Strategy

We cannot compete on cost with cheap labour places like Malaysia, southern China, and the like. We have to follow a much smarter full service gateway strategy in which speed and quality are the key. Because of these trends, the traditional foreign trade zone is becoming increasingly obsolete. The gateway development business is the next generation.

You have to know where you fit in the world, you have to figure out how to do this private/public sector team building and, at the end of the day, you have to be very competitive and learn the full service logistics business. We have computer software that generates centre of the world maps for a location. This is a simplified version for Vancouver. I recommend that everyone plot the non-stop air linkages and same-plane air linkages for your "centre of the world map."

The map illustrates why Vancouver is in the Asia Pacific gateway business. It is a straight line from Singapore, Hong Kong, Taipei, Osaka, Ngoya, and Tokyo, into Vancouver and then down into NAFTA. We are two hours closer than Los Angeles is to all these points. All of Canada is brilliantly positioned to be the gateway between the European Union, the fastest growing economy in the world (Asia) and the world's largest and most competitive market, the United States. The challenge is to figure out how to capitalize on it.

Understanding that is core to what we are doing in our foreign trade zone in Vancouver. We cannot do it alone. We move a thousand tonnes of freight with only five full time people in our shop. We have a lot of partners and we have a lot of friends. We own 100 percent of it because
a lot of these sort of groups have bad institutional barriers to owning things but we would not exist if it were not for the Vancouver Airport Authority, the Edmonton Airport Authority, our consulting firm, Horizon Pacific, and international aviation terminals. They are here at Winnipeg as well. I think they are the most pro-active air cargo terminal developer landlord in the world. We would not exist if it were not for some very brave and progressive Canada Customs people in Vancouver.

But you have to go beyond that. This is what Winnport has been doing, what the airport authority initiative has been doing, what Transport Canada has been doing running the airport. You have to pull in your Boards of Trades and Chambers of Commerce, and your transportation company.

You have to have strong educational institutions. What the Transport Institute has done for this province over the years is absolutely phenomenal. The fact that this conference is being held here, in an academic setting, is excellent.

You need the ports, foreign consulates, sales representatives, and the media to be onboard. You have to build a strong private/public sector alliance. We are targeting a solid dozen forwarders and brokers to be strategic allies with us. We are a common user facility, but we are targeting that within twelve months, we will have a dozen forwarders and brokers who we jointly develop confidential market development plans with. This gives us an amazing amount of horsepower and diversity. We are very proud of that because normally forwarders and brokers have a strong animosity.

**Logistics**

The core of a next generation trade zone is the competitive logistics business. We have a long way to go in domestic logistics. We have further to go in international logistics. What these people are trying to push through in Ottawa, and what we are trying to do as a company, is get
the logistics systems that lowers the delivered consumer price. I think logistics costs in the international marketplace could be 10 to 15 percent lower. As a company, we forget that our customers will gain a 5 to 15 percent delivered retail price advantage because they have been working with our team.

**Why Airports?**

Finally a little bit on theory. Why would you want to have a next generation trade zone at an airport? Because airports reflect the increasing reach of business in the global economy. We hear all these buzzwords about globalization, and the economic growth rates of southeast Asia and the development of trading blocks. Telecommunications and transportation are the connectors of this global economy. Other than moving some software products, it is difficult to move goods through the Internet. In a high speed world, more goods are moving through airports.

Airports connect us into Europe, Asia and Latin America. Airports provide and define our geographic positioning even more than ports, because the changing market places respond most quickly by airfreight. Also, there is an increasing need for quality and speed. We believe, to fully capitalize on these trends around the world, you need to be located on an airport or be very closely tied to it. In terms of job creation, 25,000 square feet of humming facility at an airport can support over 700 jobs in the region. We are already one-third of the way there at Vancouver International Airport.

In the last 2 years, we have developed a small shippers program targeted for first time importer/exporters, who can bring their goods in and we walk them through all the stages. We train people they get all the benefits of the new legislation and new techniques. We spend about six hours with those people and we charge them $35. About four of those customers, who were saved cash flow, and steered in the right direction, are now bringing full container loads through our facility. These were people who were known to walk across the street for a cent a pound.
They are insisting to their forwarder or broker partners that things go through our operation because we spent that time. We are very proud of that program and we put a lot of work into it.

Now, I will turn to NAFTA export consolidation. Goods made throughout Canada and the United States are being combined and then shipped out at our facility. Historically, those things have been hitting somewhere on the west coast and then going up and down the I-5 until they find enough airlift capacity to go off into Asia. Those are now being consolidated, pulled up into Vancouver. Everything is finalized and flown out as a package into Asia or Europe.

We have developed the fastest customs cleared and most cost competitive less-than-container load ocean linkage from Hong Kong into NAFTA - thirteen days even though products go into the port of Tacoma first, not the port of Vancouver. We have just hooked that into Edmonton and Calgary, so that on this side of the Rockies, they are five days faster than the nearest competitor for less-than-container load freight. It is mostly because of the attitudes we developed in trying to solve foreign trade zone products. It has nothing to do with foreign trade zones.

We are about to launch a new service with Reno Air which is a new entry carrier to Vancouver. Reno Air comes in twice a day and has the same cost structure as Southwest Airlines. Unlike Value Jet, their planes are all five years old or less. Members of the Richmond Chamber of Commerce, the Vancouver Board of Trade, and 7,000 companies, will be able to fly business class anywhere in Reno Air's western NAFTA network for a $100 return. This is the largest economic development program ever launched by an air carrier perhaps in the world. Canadian Airlines is very proud that they send ten people a year off to Asia. We are going to do 7,000 companies.

We have been rerouting transborder airfreight services. About six months ago, we heard how integrated carriers were going to destroy the air cargo services of air carriers. We have attracted Alaska Airlines, Horizon Airlines and Reno Air Cargo to our operation. We are now hooking that up with the Greyhound courier products so that Greyhound Courier is in the western NAFTA
transborder business with a same day product customs cleared. This is more competitive than the service offered by the integrated carriers.

We have been working with the provincial governments and others to attract investment and setting up the businesses from Hong Kong and Taiwan. Vancouver has done very well attracting money and homes. It has been pathetic at attracting their businesses here and we are hoping to change that.

We define where the seafood producers in British Columbia can export product. Their product comes out of the ocean very early in the morning (at about 2 am) and it is being consumed as an airfreight fresh product at dinnertime in Las Vegas, Reno, southern California and the like.

We are now positioning to be the foreign trade zone for the port corporation even though we are located at the airport. We plan to capitalize on the new DeltaPort Container project that is coming to fruition. We are very excited about that.

These institutions have very little to do with Free Trade Zones. In fact, none of this has anything to do with traditional foreign trade zone development. We see ourselves as the ring of logistics support services outside the traditional foreign trade zone in the middle. We attempt to provide a complete set of services that our customers, be they forwarders, brokers, or direct customers, really want from a transportation gateway.

*Barriers to Gateway Development*

The biggest barriers to gateway development are the cargo carriers and the import/export community. They have failed to communicate the importance of the industry in the media, the general public and especially Ottawa. Too often communications involve whining about things,
rather than trying to say how it really works. We have to develop two-way communication, like we have at the conference, to keep this momentum happening.

Open Skies

Canada hit a home run with the Open Skies agreement. It has been such an amazing boon, but there are still people in Ottawa who think these agreements are evil. We should have an "open skies" agreement with Mexico and this community should lead it. I don't know if people in this community realize just how many flights down into Mexico and the Gulf of Mexico leave from Winnipeg. I think it is about number three or four in Canada including those little places like Toronto and Montreal and Vancouver. So any community that wants to really benefit from an open skies with Mexico, and heaven forbid, a progressive agreement with the Central American and Caribbean nations, would capitalize on it. Open skies with Mexico would help provide the critical mass necessary to position yourselves as a gateway.

I am a big fan of Transport Minister David Anderson and his predecessor, Doug Young. Doug Young had enough vision to change his mind on open skies, as he was originally against it.

We need a world leading trade zone gateway approach and I believe we will pull this off. With almost every other piece of legislation, the government seemed to have an attitude that "the book is closed, now we just regulate". They have not done this in Ottawa. They honestly view this as just one step in the process. The big changes are the Canada 2000 initiative and the culture change that has happened at Canada Customs.

Bill C-102 does not deal with all the regulatory problems. We are trying to be an international, intermodal, cargo business but in this country, it is illegal. I cannot bring international ocean, truck and air and rail freight into my facility. You need different sufferance forms. This has to be changed.
Bill C-102 is just one step; we can do a lot more. Our goal should be to review every single piece of legislation and assess every single regulation and trade barrier to make sure that Canada is positioned as the leading gateway to global markets.

Some of the first taxes that should be reviewed are ones that impact the international transportation business because they reduce trade. These are taxes on job creation. These are the potholes in the path to developing global trade zones in the country.

I would like to finish off with three quick points. 1) Let us stop talking about foreign trade zones. Instead, talk about positioning your company, your community, your economic development initiatives, etc., as part of your gateway development business. The real business of this Act should be international gateway development. We should "grade" this Act on how much it goes towards helping us. 2) Our company is open for business. This is not a commercial. We are looking for our Winnipeg partner. We practice what we preach. I believe that there are about eight or nine communities across Canada that can be in this gateway business. Winnipeg has a lot of work to do to be in that business, but if all the parties are focussed, they can pull it together. We would like to at least have a small role in that. 3) Let me stress this position in parallel with what you are doing at Winnport, especially the need for open skies with Mexico and Latin America. Target Denver as a new transborder route with Air Canada, United, and Salt Lake City with Delta. You have to get those air linkages, those critical masses happening to help drive your connections into Europe, so you are firmly entrenched in the gateway business.

I want to wish this community the best of luck. I think there is a very bright future ahead of Winnipeg. If I didn't think that, I wouldn't be here today. A gateway business is how we are going to keep our quality of life up in Canada, and make sure that our sons and daughters, have a high quality international job rather than serving coffee in a hospitality industry. That is very important to me as I am sure that it is to all of you in this room. Thank you very much.
The Gateway Project: Paperless Border Documentation
Ms. Carol West
Canadian Society of Customs Brokers

Although I wasn’t able to be with you all day, I think that some of the themes running through this conference are particularly appropriate for what we want to talk about in this presentation. The competitiveness of Canadian business, the need for strategic partnerships and alliances, and the importance of leadership, commitment and risk taking, have all been taken into consideration in the development of our gateway project.

First, let me talk a little bit about the customs process. I do not want to weigh this presentation down with procedural details because many of you are familiar with the customs process. This process, up until very recently, has been very heavily paper based and those of you who are involved in this process know that to be the case. Even though on the accounting side of the customs process, (the broker or importer - Revenue Canada connection), we have had a CADEX system (an EDI proprietary system) since 1988, the release portion was still paper. What we have tried to do with the gateway, and what Revenue Canada has tried to do with its ACROSS project is get rid of some of that paper and move forward with EDI and electronic processes.

A Revenue Canada Perspective on ACROSS

I want to make a couple of points about ACROSS because it provides the framework for what we are trying to do with Gateway. ACROSS is an electronic commerce based system that will assist Revenue Canada in reducing the cost of processing commercial shipments. It also assists the importing community and the brokerage community, in improving its competitive position by facilitating trade and reducing costs. The objective from government’s point of view is quite
simply to save money and cut costs and that is what ACROSS is designed to do. However, a
spinoff effect of ACROSS may be transfer of cost from the public to the private sector.

Savings and benefits with ACROSS

Revenue Canada expects that it will save $4 million annually by 1998/99 primarily because the
submission of release data in electronic format will eliminate clerical handling and customs
inspector keying. They will also incorporate machine release into ACROSS which is the release
of goods with no human intervention. They will use the system for enhanced targeting to facilitate
the faster release of low risk goods. Single window processing for all import requirements (i.e.,
other government departments) is also a very important point of ACROSS, especially for us in the
private sector.

Electronic processes will allow Revenue Canada to do more on a seven day a week, 24 hour a day
basis. You cannot do that with paper and centralized processing of release documentation. That
is something that Revenue Canada calls its inland alternate service initiative. They are closing
ports, they are trying to rationalize their service levels. With electronic processes, they can move
the work and not have to move paper.

Savings For The Importing Community

It is presumptuous for Revenue Canada to assume that the private sector would save anything
because of the ACROSS process, let alone millions of dollars. It is true that ACROSS does
provide the importing community with the opportunity for electronic commerce submission of
release data, potentially eliminating clerical handling, document preparation, runner costs, and
other manual processes. It also eliminates the requirement for the broker or the importer to be
present at the point of release and also permits the centralization of release processing. However,
it is only beneficial if importers and brokers can get more and more documentation electronically
from source.
Future Steps and Goals in Electronic Release

Revenue Canada wants to increase participation in electronic release to over 80 percent in the long term. Let me put that in perspective. Today, there are 32,000 to 36,000 releases in the customs system every day. Less than 5 percent of those are electronic release. Now, granted the system has only been in place and available for use since April 22, 1996, but less than 5 percent of shipments are using electronic release.

These are three sites that were involved in a pilot program in the year leading up to April 22, 1996: Pearson International Airport in Toronto, the Ambassador Bridge in Windsor and Fort Erie. These three locations account for 30 to 35 percent of the total volume. Emerson, Manitoba is in the top ten for use of electronic release, but still only accounts for about 5 percent of processes at this point.

Revenue Canada also wants to expand ACROSS to include other government department requirements beyond import permits. ACROSS provides a platform for something that is called EXCAPS which is requirements for import permits under the Department of External or Foreign Affairs and International Trade under the Export and Import Permits Act. However, we are also having some really interesting discussions with the Department of Agriculture about using ACROSS as a platform for agriculture requirements. This is the beginning of all government departments getting into doing business electronically and that is a very positive step for both government and the private sector.

Revenue Canada also wants to expand EDI cargo to include freight forwarders and motor carriers. You may be aware that today they have EDI cargo reporting for rail and for marine shipments. We are not sure it is a realistic and achievable goal because we are not sure how committed Revenue Canada is.
Finally, Revenue Canada is exploring ways of simplifying the release processing even further for low risk importers, commodities, carriers, etc. They want different solutions for different kinds of importers and different kinds of clients. If you are low risk, have a good performance, import the same things over and over again, your processes can be streamlined.

**Implementing EDI: The CSCB Gateway**

When we looked at ACROSS, we were concerned that EDI use in transportation and trade was very low in Canada. We did a little bit of analysis of the problem before we developed our Gateway solution. What we have in the trade and transportation system are multiple partners making it difficult and costly to implement EDI. The enormous cost is because usually they are proprietary systems. As a result, the return on their investment has been limited up to this point. To date, there has not been a single easily accessible solution for implementing EDI. That is what the CSCB Gateway project is all about.

**Electronic Standards**

The CSCB Gateway addresses the problem of limited use of EDI in transportation and trade. It is not just a solution for customs brokers. It is a solution for customs brokers and all of their trade partners in the marketplace. It provides a single electronic point of access to those trade partners. It provides the software solution and Edifact standards and it provides a network of choice. The Edifact standards issue is not without controversy. I was at a conference many years ago in St. Louis and I remember a discussion about X-12 and Edifact, (when Edifact was a relatively new standard). Someone argued that the standards issue should not be an obstacle to implementing EDI. I also thought that was the case, and so I did not think Edifact would be a big deal until I went to speak to the American Trucking Association, where I became convinced that Edifact was the solution. We are committed to Edifact. It is the position of both the Canadian and American governments that Edifact is the standard. It is also the standard being used in the North American
trade automation prototype which is an attempt to streamline trade documentation and processes between Canada, the U.S. and Mexico. However, we are not exclusively committed to Edifact. If we can implement an X-12 solution as well, which will bring more partners on board and get more participation, we are certainly prepared to do that. In fact, we have already had some discussions with both CN and CP rail to do exactly that.

**Single Point of Access**

Let me elaborate on what a single point of access means. We felt as customs brokers that we needed to provide a solution for carriers and shippers to be able to deal with all customs brokers in Canada. We realized that we had to make the industry EDI-capable overnight and that was an enormous challenge. What we are doing with the Gateway is providing a single industry wide solution so that there is no longer any need to develop and manage separate EDI relationships. We thought that the need was to have a relationship between exporters, carriers, freight forwarders, couriers, and customs brokers. The private sector partners needed something that would cement their strategic partnerships and allow them to do more business using EDI.

**Network Support and Network Choice**

We also developed and identified a network of choice. This was a real lesson for me in trying to interpret some of the proposals that we had from the major value added networks in this country. As an association, we felt that at minimum it was our responsibility to do some negotiations for volume discounts for our members. As it turns out, the Gateway has gone far beyond that. We have full network support for the CSCB Gateway from AT&T EasyLink. As you may know, they are a global network. They have interconnectivity with everybody we need to be connected with. Even though we know that the Gateway is an almost irresistible solution, we also know that people will continue to do business using other major value added networks. We are fully connected with all those networks and AT&T does not charge for interconnects. As part of the deal, we also have no addressing fees, no mail box fees, no session fees, no administration fees, no
service/installation fees, and no software fees. We are in the process now of designing EDI addresses for all of our members who represent about 80 percent of customs brokers in Canada.

Independent Software Development

Making an industry EDI-capable overnight is an enormous challenge and as part of this we developed a software solution. This solution was less than $400 and we think that it is a very easy way for people to start doing EDI. Understanding that some people do not have PC based systems, we have made implementation guides widely available for the documents that we have in the software package. We made a business decision to develop our software independent from our network. We know that some other projects in the community have their software tied to the network. We wanted flexibility with both of those options. We have developed our software in partnership with a company called ASEC systems. It is called Trade Gate.

The Trade Gate Software

Our Trade Gate software is comprised of 4 electronic documents. We have a purchase order, a Canada Customs invoice, a bill of lading and a cargo control document. One of the big difficulties with ACROSS is the concept of release notification. When you are doing electronic release, the release process changes. We have had a terrible time, where carriers and warehouse operators who are not on release notification were just not accepting broker notification of release. Releases were delayed and storage charges were accrued. We felt that if we could get more carriers and warehouse operators on RNS and PARNS release notification through our trade gate software, they could connect to Revenue Canada and they can get RNS electronically.

The software solution was developed because in order to get through the gateway you need a key. Now, the key is the standards that the software is built on and the implementation guides that we can hand over to organizations that are capable of doing EDI on their own. But for a large
number of organizations, lack of resources, technical capabilities, or time, inhibit the investment necessary to make the gateway accessible.

Trade Gate provides the turnkey solution to open the doors to electronic trade. As the Trade Gate and gateway evolves, more and more documents will be added. We have gone through the first step. The first step in any transaction is pushing a purchase order through. Now it is being faxed or placed by a phone call. All that takes time and costs money. What we are doing with Trade Gate is providing an electronic solution to move those purchase orders from importers. It is a way of getting that information to the actual shipper of the goods or the actual manufacturer of the goods.

In the software, we also have turnaround documents because part of the benefit of EDI is to eliminate rekeying. In this case, the exporter can receive a purchase order, perform what is called a turnaround at the click of a button and create the basis for their invoice, be it commercial invoice, Canada Customs invoice/packing list, etc. You can turn that invoice around and create a bill of lading which will then be sent on to the carriers so that they know what they have to pick up. We have included the cargo control document so that we can then merge the invoice that we have received from the shipper with a carriers cargo control document and push through an electronic release using ACROSS.

By eliminating rekeying alone, you are saving costs, and increasing your internal competitiveness. That is very important if we are going to get small users involved with the gateway. We are also improving the speed and accuracy of those documents; they are getting into your partners systems much faster so they can be processed that much faster. Because you are eliminating the rekeying process, you are taking the human error (some estimates will run as high as 10 percent) element out of the chain.
Final Comments on EDI

The gateway project is a starting point for the full integration of electronic commerce processes. It also allows customs brokers, our membership, to truly provide value added service.

We have also talked about how it streamlines the trade process in general. It leads into ACROSS. We get that information more from source. It allows people to do business more cheaply and that is good for everybody in terms of the competitiveness of Canadian business. We also talked about strategic partnerships and the importance of carriers, shippers, all of our partners in the trade process having this opportunity to become EDI capable and to give and receive information electronically. We are fortunate in that we have an association that has been able to provide a safety net for many of its members, and take leadership on the issue of standards and software. It is a step forward in making the whole trade and transportation industry more competitive in this country. Thank you.
Strategic Alliances Enabled by Electronic Commerce

Ms. Alison Sunstrum

Alternative Solutions

Overview

The electronic exchange of data has been occurring since the end of the second World War. The Canadian business community did not embrace the electronic data interchange concept until the 1980s, although isolated segments began test and prototype developments prior to this time. In 1987, the EDI Council of Canada estimated that 120 Canadian companies were using EDI. The purpose of this paper is to define Electronic Commerce, explain how it can be used to manage a strategic partnership, and assess its future.

Partnerships are the best route to success. Combining resources, talents and energies may prove more productive. Sharing losses may seem more bearable. In the future, the distinction in what constitutes a specific industry will be blurred by rapidly changing roles and responsibilities. The relationships between companies will be shaped by the emerging systems of Electronic Commerce.

The exchange of a purchase order is one episode in an entity's life. A strategic partnership seeks to coordinate the entire procurement function. In the future, and indeed it is occurring now, the purchaser may allow the supplier to manage inventory and supply, without specific purchase orders, on the basis of forecasting and historical information.

The objective of a strategic alliance is to develop a synergy - the simultaneous action of separate agencies, which together have greater total effect than the sum of their individual effects. The ideal attribute of a successful partnership is the win-win philosophy with fairness to all partners in the relationship. Electronic commerce cannot make something from nothing. If the potential
for a partnership exists, however, electronic commerce can ensure that the parties communicate in a rapid and economical fashion. Through the use of Electronic Commerce Strategies, corporations can re-define the way they do business with each other.

EDI might be considered the single most important tool to effectively manage a strategic partnership. EDI is not an add-on or bolt-on technology. It is the foundation of all current strategic ECOMM initiatives.

**EDI Technical Processes**

In the case of a purchase order - the buyer inputs the purchase order information into his application software. Rather than printing the data in paper format, a stream of data is created from the company database and is transferred to the EDI translation program. The EDI translation program formats the data into a standardized EDI format. The EDI formatted data is then transmitted directly to the seller or a value added network (VAN). The value added network acts as an electronic mailbox and provides communication assistance, message acknowledgement, and other services. Finally, the EDI formatted data will be translated into the format used by the seller's order entry application software. Theoretically, this process should require no human intervention.

The benefits of an integrated EDI business process are many and can be illustrated by examples. A Canadian firm that I have consulted for has an average paper order cost of $70.00. (This is their average cost to receive an order from their client by fax and process the order through their system.) Their average processing time varies from 15 minutes to 45 minutes. Meanwhile, the estimated cost of their EDI order is $5.00 per order. Processing time is more or less instantaneous. It is conceivable that they will be able to lower these EDI costs even further. K-Mart, through aggressive streamlining and process re-engineering have been able to reduce their paper purchase order costs to $2.00. Their EDI order costs are 18 cents.
The United Nations estimates that the cost of a commercial invoice in paper form is approximately $64.00. The EDI invoice is estimated to cost $6.11. The number of documents required to move an internationally consigned shipment begins at 20 and may exceed three figures when all copies are included. (Over 100 pieces of paper). It is estimated that paper administration costs may account for approximately 7 percent of the total consignment value.

There are several Canadian EDI success stories, but Canadian companies in general lag behind their U.S. counterparts in EDI usage and readiness. In a recent study, I attempted to determine the EDI capability of the Canadian trucking industry. The most concerning outcome of my research was my inability to readily discern the overall EDI ability of the Canadian trucking industry.

On the other hand, I received an immediate response to my request for information from the American Trucking Association. The ATA keeps statistics of all of their EDI enabled Carriers including documents they are currently transmitting. The ATA provides in-depth EDI education and implementation conventions to their members.

**Obstacles to EDI**

In my opinion, the greatest obstacles to EDI are neither technical nor the costs of implementation, but rather standards. The fundamental premise of EDI is that data will be exchanged in a standard format. Standards currently in use include the rules for the format, content and order of information in electronic business documents. However, standards do not define how trading partners will connect or exchange their data. A corporation undertaking international EDI is faced with a jumble of standards and implementation conventions.

The strength of an alliance is that parties may determine their implementation conventions to exchange EDI documents. Participants in the alliance agree to these conventions and exchanges
occur in standard format according to the conventions. In essence, an implementation convention is a standard to implement a standard.

I have listed several perceived barriers to EDI usage. These are not unique to the electronic business environment. You will find many if not all of these challenges in the paper based environment. The most significant limitation to EDI adoption may be the lack of support from senior management. Electronic commerce programs cannot be driven by middle management. Senior management must be fully committed to EDI programs.

With EDI, costs come first and benefits later. Costs of traditional paper documents are rarely itemized within an organization. EDI costs can be easily determined on a per transaction basis. Several of the limitations to EDI can be addressed through the formalization of trading partner agreements and adherence to maintenance of adequate audit trails. A paper document mentality has been maintained by standards developers and EDI users. Several standards and implementation conventions call for use of data segments which allow for free form data information. Such free form fields are not machine processable and human intervention is required to process this information.

One Canadian company that I know of programmed their standard advice to carriers within their EDI message. This information never changed, an EDI clerk was required to process it, and the actual carrier never saw it. These transmissions were costly, and in an electronic environment, redundant.

*Potential of New EDI*

However, EDI is on the brink of radical change. What impact the evolution of the current EDI process will have is a hotly contested topic amongst EDI professionals. New EDI will seek to expedite trading partner relationships by standardizing all business processes not just documents.
The new model of EDI standards development will focus on business analysis and definition of requirements rather than the current concentration on data and how it is arranged into messages based on the paper model.

Several of the developing ECOMM strategies such as quick response and vendor managed inventory have more or less the same objective. They are coordinated partnership initiatives wherein product is never warehoused but is in continuous movement with the least number of handling steps.

Quick response is based on four key components:

- Full EDI
- Continuous replenishment
- Flow Through Distribution
- Effective Product Category Management

Every business entity should be developing a corporate strategy to implement full EDI. Regardless of the outcome of the EDI process debate, the underlying structure of trading partner alliances and agreements will be required to enable any EDI program.

Continuous replenishment can only be successfully achieved if forecasting information is accurate. The EDI point of sale data may be easily transmitted. It is a greater challenge to warehouse this data and use it efficiently. The challenge in continuous replenishment is the creation of consensus forecasting software which will adequately set model order and fulfilment targets.

**Role of Internet**

The Internet may impact the evolution of electronic commerce more than any standard or given initiative. The greatest immediate impact is in reducing the cost of EDI and re-defining the role of value added networks.
The Internet is currently used predominately to market and provide product information. It has proved a useful tool to enhance customer service and can provide a wealth of information to monitor competition and industry activity. A Manitoba Internet user has access to sophisticated databases, international markets and global information sources.

It is possible to read current publications which state that financial transactions over the Internet will not be possible due to lack of security. Security remains the primary concern when utilizing the Internet. However, EDI financial transactions at the pilot stage are proving successful.

A joint pilot project undertaken by Bank America and Lawrence Livermore commenced all electronic financial EDI over the Internet in August 1995. The goal of the pilot was to demonstrate how Internet EDI can provide real time data in a reliable and secure manner. Early reports indicate that this pilot project has been a qualified success. This project is one of the first large trials that may dictate the future of EDI.

The greatest challenge to creating a strategic alliance is reviewing the existing relationship and determining the new model of the partnership. Partners must enter the arrangement as equals and mutually benefit from the association. The definition of a Channel Partnership given by the Sloan Management Review (1995 Spring) defines the traditional process and the new paradigm in a manufacturer and retailer relationship.

There are several examples of unique initiatives on the World Wide Web. A site of particular interest to shippers and truckers is the Internet Truck Stop, which enables registered users to post and search loads. However, it is in its infancy and the technology is not yet fast enough to be considered user friendly. It also lacks integration to allow for scheduling and provides only on/off service, however it is an exciting initiative.

The concept of an Electronic Freight Marketing Board is being discussed amongst several transportation professionals in Manitoba. If undertaken in a standard format, it could forge an
alliance between shippers and carriers which would translate into new markets and reduced costs for all participants.

The roadmap for a Canadian Shipper and Carrier Alliance has yet to be drawn. The agile corporation which can define its role in the marketplace, forecast its future and develop cooperative business strategies may well determine the roadmap.

The development of an IT strategy is as important as establishing business goals and sales targets. The IT architecture should be consistent with business goals and allow for the use of emerging technologies. EDI and Electronic Commerce Initiatives are not technologies to be managed by the IT Department. These are business processes that should be managed accordingly.

Conclusion

The final comment I would like to make is that business process evolution is already beyond first generation EDI. If you are not yet exchanging information with your trading partners electronically, you will be soon. So, when you define your information technology needs, do so outside of the paper model. My challenge to you is – Do not issue purchase orders. Do not create Bills of Lading. Do not invoice. Do not write cheques. Thank you.
The Across Project
Mr. Barry Frain
Expert Customs Brokers, a Division of TransX

We are the first locally owned customs broker to be up and using ACROSS. We were using it for clearing shipments in Fort Erie, Ontario.

There is a prevailing myth in the media that these new customs EDI initiatives constitute "pre-clearance". In fact, they are "pre-review". The shipment does not clear until the carrier presents the goods for examination and release. The Winnipeg Free Press last week, and many other articles, give the wrong impression that goods were cleared on the other side of the border.

When I prepared this presentation, I tried to think in terms of what you would like to know as a shipper, importer, or bonded warehouse operator. Why would you like to know about ACROSS? You might like to know about ACROSS because it is going to effect every one. It is going to effect you because it will effect the speed of customs clearances, and it is going to effect you whether or not you are on EDI.

What is ACROSS? ACROSS is an EDI program which allows importers and customs brokers to obtain electronic releases at any automated port ACROSS Canada on a 24 hour a day, 7 day a week basis. The program will allow customs brokers and importers to prepare and transmit these releases potentially from a single site. So that means from my PC, I can release a shipment in Moncton NB, Pacific Highway, Fort Erie, Emerson, Winnipeg International Airport, etc.

Shipments which have their releases transmitted via EDI after business hours would get examined the next business day (if called up). Shipments which are to be released at a non-terminal office, (defined as an office that does not have a computer or has been de-staffed by customs), will get processed in regional centres.
What kind of shipments can be cleared on ACROSS? At present, any kind of shipment can be cleared as long as it does not involve another government department. Carol spoke about some of the customs initiatives that may be coming with ACROSS Phase III. At this time, all you can do is the standard releases. As of July 8, when XCAPS is introduced, you will be able to release textiles, clothing, and steel using ACROSS in combination with XCAPS.

What kind of changes can you expect in the future? The most notable change is machine release. Machine release is by application only. The importer has to have a good compliance record and repetitive products. For example, if you bring in thousands of identical goods per year, and you have machine release privileges, you may get a machine release. The customs inspector will not even intervene in that transaction. The broker or the importer's software will send an EDI release to Ottawa. If the computer in Ottawa recognizes the tariff, the vendor, the importer, and they have a good compliance record, the computer will send the release right back to the people who are hooked up to the RNS system, and to the customs broker.

How does ACROSS work? I think to explain how ACROSS works I have to touch a little bit on the release system. Any RMD process is a series of events. Between these events, delays occur. First the international carrier primarily reports the goods to customs. That is out at Frontier, or International Airport, or at the coast for marine shipments. Then the carrier or freight forwarder forwards the paper based documentation to the customs broker or importer of record. There is delay in that transaction. The importer or customs broker prepares the release package. If I have 30 or so on my desk, that particular release will again join another queue. I prepare, and send a manual release, or paper based release package to customs, who reviews and determines whether to release, examine, or reject the release package. If the customs officer rejects the release package, it goes back into another bin or a mail box, back to us, or to the importer, and it continues that loop until customs releases the shipment. Once the customs officer releases the shipment, a release notification message, which is what Carol also talked about with regard to Trade Gate, is sent to the warehouse operator or carrier. Essentially all ACROSS does is prepare and present the release package. That function is now an EDI capable operation.
PARS is slightly different than the RMD process in that the carrier provides the customs broker or importer the paperwork in advance of the shipment arriving. Many of the Customs 2000 initiatives are PARS initiatives; if a carrier really wants to expedite the release of his goods he will need to use a PARS procedure. In the PARS procedure, the carrier or international freight forwarder, forwards the PARS documentation and invoices to the importer or broker. The importer or broker prepares and presents a release package to customs. Customs either makes a release recommendation, (it is not a pre-clearance), or they reject the package back to the importer or customs broker, for review and return to customs. Once the carrier arrives in Canada, he reports the goods, again either at the frontier, at the airport or at the coast. Then the carrier can move the goods inland or he can clear them at the border using the PARS system. To clear the shipments the carrier either reports the goods to customs by EDI or by paper. Paper-based would essentially be PARS, AIRPARS, MARINE PARS, and INPARS. The EDI-based system is PARNIS. The EDI based system allows carriers to obtain releases on a 24 hour basis, seven days a week. Once they report the goods to customs, they use an EDI system to send an arrival message to Ottawa. A flag is changed in the computer, and the computer will then send the carrier the release information. Either the shipment will be called up for exam, released, or the carrier advised that no release information is available. At the frontier, the customs officer will either examine the goods, or stamp the PARS bar coded document and return it to the carrier.

Essentially I have covered how the entire cargo and release process works. The ACROSS program is one crucial step in this process. The program reduces the potential delay of obtaining a release by ensuring the electronic release meets minimum standards. Every transmission, regardless of the cargo release type, must first pass computerized syntax and conformance checks before the release is reviewed by a customs inspector. Syntax and conformance checks are processed by Revenue Canada's Local Area Network in less than an hour. Processing electronic releases by customs inspectors is supposed to take less than two hours at designated ports. If it is a non-terminal port or if you are doing your electronic release after hours, you can have a longer queue. I would like to point out that since we have been up and using ACROSS, we have
typically obtained releases in less than an hour, and in some cases - like in Moncton NB - in 15 minutes.

Who benefits from the program? Revenue Canada will receive the greatest benefit from the program. They get information for targeting, they save a lot of keying, they are going to require less clerical staff, and paper document storage. International carriers, freight forwarders, and suffersance warehouses operators and bonded warehouses will also benefit. But to benefit they need to be on release notification system. Carriers should be able to obtain a more consistent in-transit time. There is also another little ACROSS PARS perk. I do not know if too many people know about this, but if I submit a PARS release using ACROSS for a shipment that supposed to clear at Niagara Falls, and the driver decides to go to Fort Erie, using the paper based system, I would have to do a manual release at Fort Erie. On the ACROSS system, Customs will just change the port of clearance and the truck will clear and be on its way without a significant delay.

Importers and customs brokers also benefit. They will be able to reduce their paper burden, fax costs and courier costs. They should also reduce their release rejections but that depends on their software. Outport and runner costs will also be reduced, and customs brokers and importers should be able to obtain a more timely release of goods. Many of the customs brokers and importers may have to re-engineer the way their office works to realize these potential benefits.

What may be some of the effects of the ACROSS program for carriers or importers, customs brokers and warehouse operators? Some of the customs brokers and importers will centralize their operations. They will ask carriers and freight forwarders to fax their paperwork to central locations for processing. There should also be a greater number of PARS releases in the long run as customs brokers take more initiative to ensure that PARS releases are set up with vendors and carriers. You might also see more importers doing more of their own releases. I think you will see customs brokers promoting EDI to expedite the releases.
Drop shipping or third party shipping patterns will be easier to do with this new system because the importers will be able to obtain and control their paperwork. One of the problems with drop shipping an international shipment right now is that sometimes an incorrect customs broker or importer obtains the paperwork. The real importer did not want that consignee to know the value, which leads to disputes.

Revenue Canada projects that there will be an 86 percent participation rate in the ACROSS program within two years. In my opinion, the ACROSS program’s success will depend on their ability to involve other governmental departments like Agriculture Canada, Health and Welfare Canada, Foreign Affairs and International Trade Canada, etc. It will also depend on the utilization rate of PARS. The more carriers that use PARS, the easier it is to use ACROSS. It will also depend on the warehouse operators participating in the RNS program. In conclusion, everyone will benefit from this program.
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