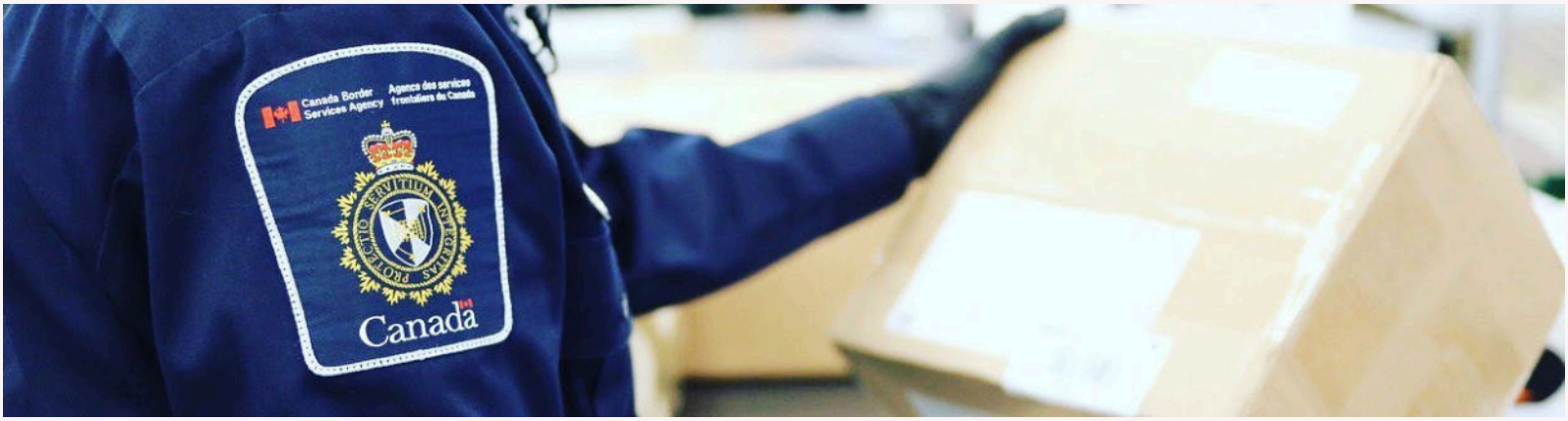
CARM | CANADA'S FIRST STEP TO CUSTOMS ENFORCEMENT

EXECUTIVE BRIEFING



Canada's Current Import Landscape

Chris Bachinski - President, GHY

The Canadian economy is strong and enjoys an active, flourishing trade scene. And while Canada is a world leader in trade and economic integration, the same cannot be said when it comes to systematically evaluating trade risks, verifying goods classification, or administering trade compliance. This is, in part, due to weak and fragmented relationships between different parties within the Trade Chain ecosystem.

The Problem: Breaches in Classification and Compliance

In 2020, **Canada imported US$405 billion worth of goods** from foreign suppliers. Despite customs duties and taxes being a major contributor to the country's economy, we've seen severe inaccuracies with the reported and collected duties on imported goods. The problem is: not all imported or diverted goods are fully reported or accurately classified, not all customs duties are reflected or collected by the CBSA, and not all importers are compliant with Canada's import rules and regulations.

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The Facts

An audit performed by Canada's Office of the Auditor General (OAG) concluded that the CBSA failed to accurately assess all customs duties owed to the government. The OAG also stated, **in a report,** that:

- Throughout the past 15 years, the Canada Border Services Agency (CBSA) identified that importers misclassified their imported goods **over 20 percent of the time.** This frequently led to customs duties being underpaid or overpaid.
- In an audit of 1.4 million transactions, **74% did not** convey sufficient information to **accurately assess tariff classification.**
- An estimated **$169M** in GST was **not collected** by the CBSA. An estimated **$42M** of which was **due to** the **misclassification** of imported goods.

The OAG recommends CBSA crackdown on misclassifications and noncompliance, which necessitates that Importers of Record (IORs) work very closely with Compliance Professionals.

> *...becoming a trusted importer – or trusted customs client – for the CBSA is based on your compliance score that is primarily based on your Importer Track Record.*

The Solution: Introducing CARM & CBSA's Trade Risking Modelling Strategy

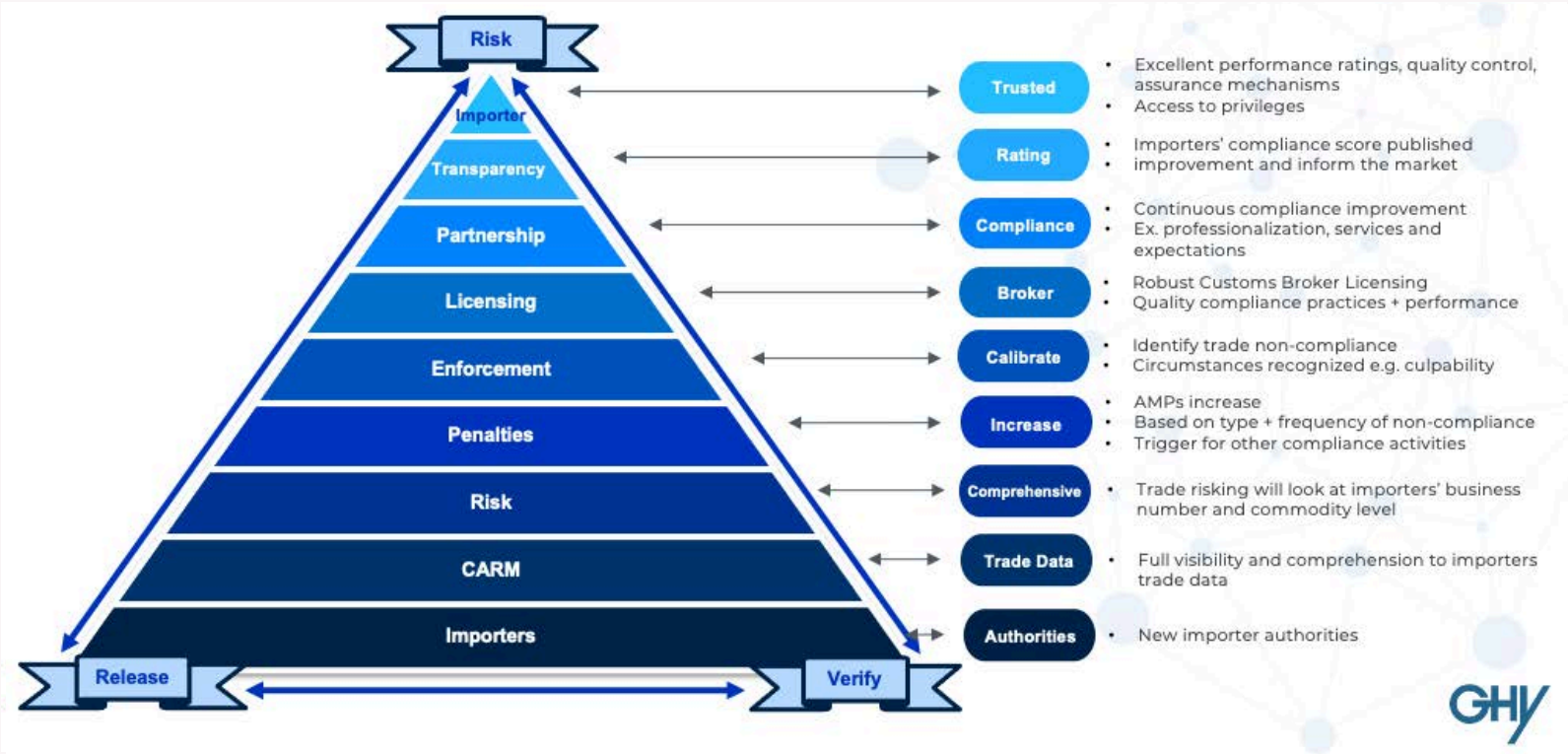
In its efforts to curb the current issues in reporting, classifying, and collecting customs duties, the CBSA has laid out a strategy to significantly improve trade risk modelling. The strategy includes reforms in Customs Broker licensing, higher Administrative Monetary Penalties (AMPs) for non-compliant importers, and a better ability for the Agency to target non-compliant importers. The CBSA Account Revenue Management (CARM) initiative serves as the foundation that will enable the Agency to apply these changes.

When the CBSA first announced they would launch the CBSA Account Revenue Management (CARM) initiative, there was a lot of speculation and ambiguity around it. The goal of this initiative goes beyond providing a self-serve portal for Trade Chain partners to submit their import forms, track their activities, and pay their customs duties. In fact, the main idea is to tighten the Agency's control over Importers of Record (IORs) and identify areas of poor compliance and underpaid customs duties.

With CARM, becoming a trusted importer – or trusted customs client – for the CBSA is based on your compliance score that is primarily based on your Importer Track Record. The main change for Importers, as the new risk modelling strategy unfolds, is that they must become more involved in their compliance. As such, IOR's will need to make compliance part of your Supply Chain Strategy to ensure your trade activities are not delayed and your business is not incurring unnecessary audit charges or penalties. In fact, to ensure this accountability CBSA has changed from a streamlined trade model where a broker could support with providing security to mandating that each importer must post security and be registered on a portal.

An Improved Trade Risking Model for Importers

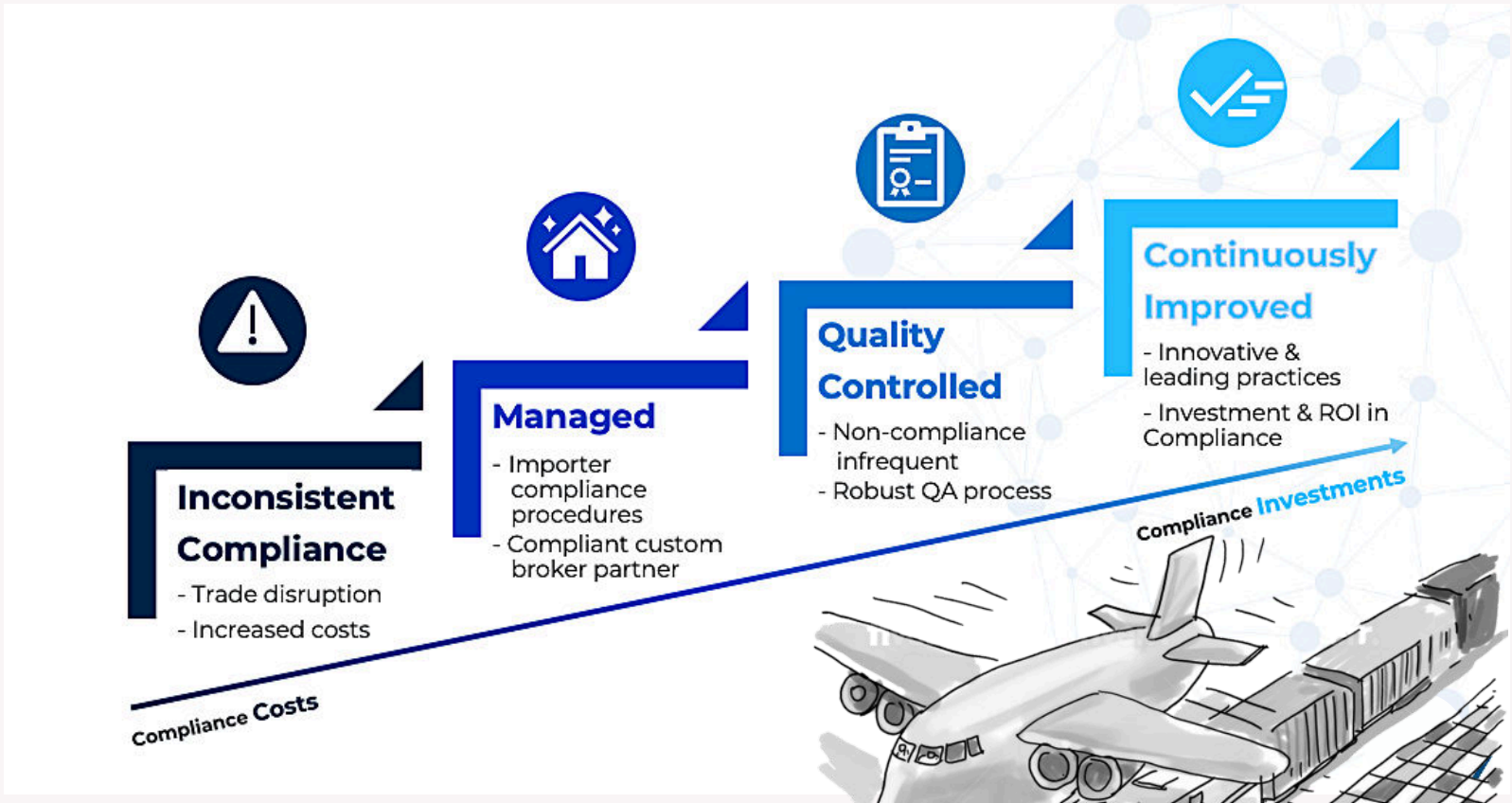
The CARM initiative will offer an improved Trade Risking Model that tightens the CBSA's control on importers' compliance and offers better insights into the activities of each Importer of Trade (IOR). The new model will enable the CBSA to identify businesses with poor payment risk scores and enforce penalties on non-compliant importers. The CBSA will be assigning a score to an IOR based on the latter's track record of compliance and payment in addition to their responsiveness to inquiries.



...will enable the CBSA to...enforce penalties on non-compliant importers...assigning a score to an IOR based on...track record of compliance and payment in addition to their responsiveness to inquiries.

Trade Culpability Framework to Push Compliance and Risking Upstream

The CBSA's Trade Risking Model aims to strengthen trade compliance by pushing compliance and risking upstream and measuring business' compliance performance, in addition to enforcing higher Administrative Monetary Penalties (AMPs) and other measures. Using a Trade Culpability Framework within this model, the CBSA will be able to target IOR's intentionally rather than randomly and push risk assessment ahead of the arrival of goods at Canadian borders.



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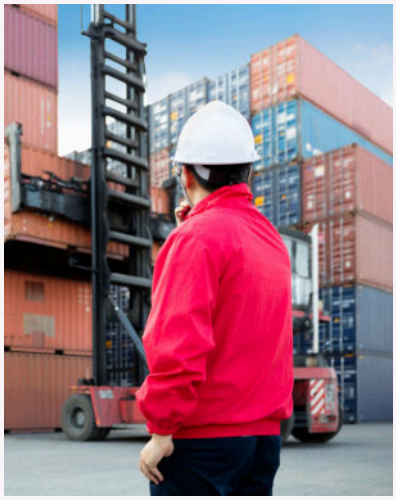
Strengthening Trade Chain Partnerships



Today's Canadian import landscape and move to rollout CARM require Importers to work closer with their Trade Chain partners, especially Customs Brokers and that by doing so, working closely together and in unity, they will be able to close the gaps in compliance. Now, more than ever, the CBSA is mandating that importers take ownership and responsibility for their trade activities and duties. Tighter controls are being executed and stricter Administrative Monetary Penalties (AMPs) are applied to importers who fail to comply with Canada's import rules and regulations.

The Importance of Working with a Customs Broker

Trade regulations are in constant change! Customs Brokers employ certified, licensed compliance professionals, who focus exclusively on these changes to ensure compliance with all trade regulations. Customs Brokers recognize that audits often occur years later with large retroactive duty assessments.

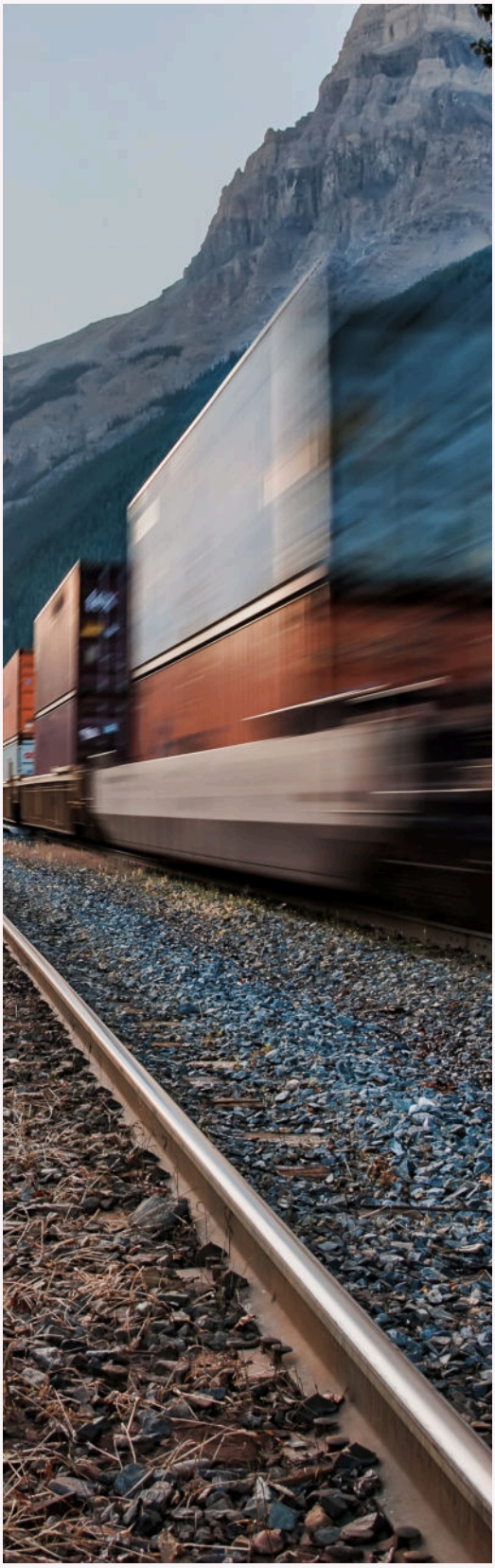
Customs expect that importers are validating each declaration for accuracy, as declarations use the importer business numbers. As most goods can be classified in multiple ways, it is essential that importers who use more than one Customs Broker validate each declaration, to ensure accuracy and consistency.

Often businesses allow couriers or carriers to process shipments with the belief that it may be more expedient or cost effective; however, it's important to be aware that the primary focus of a courier or carrier is 'moving freight from point A to point B efficiently'. What may appear to save time or money in the short-term, could result in significant retroactive financial assessments and penalties in the long-term.

Executives and directors have a fiduciary responsibility when it comes to duties, taxes, and regulatory compliance. CBSA's role is of trade enforcement that spans more than 90 government acts and the associated collection of revenue. Custom Brokers provide insight and guidance to ensure cross border trade is part of your competitive edge.

...your Customs Broker can provide a full compliance plan and streamline SOPs for your business.

Conclusion: Action Steps for Canadian Importers



The CBSA cannot provide the full picture or in-depth insights on your trade activities and tell you how to reduce your trade risk. But we, at GHY International, can. Working closely with your trade, legal, and compliance teams, we can provide you with an end-to-end compliance process, in addition to full visibility and deep insights about your trade activities and opportunities.

We will help you classify your goods more accurately and ensure your business is fully compliant with Canada's import rules and regulations. But, most importantly, we will help you establish and maintain a good Trade Compliance Score through the Trade Risking Model. This score depends mainly on your Transaction Risk, Compliance Performance, and Payment Risk Score. And we're here to help you navigate through the challenges of the new compliance regulations that are soon to be commenced by the CBSA.

GHY is more than just a Customs Broker, we are a business partner for Canadian importers who are looking to ensure compliance, secure trade risks, increase their bottom-line, and realize more business opportunities through trade. We're always happy to build and strengthen our business relationships with importers like you.

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