



Perimeter Security and Economic Competitiveness Action Plan

Part II:

Trade Facilitation, Economic Growth and Jobs

Report on the Comparison and Review of the Importer Self-Assessment and Customs Self-Assessment Programs

This report was based on information available prior to August 23, 2012.

Introduction

On February 4, 2011, the Prime Minister of Canada and the President of the United States issued *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*. A joint Action Plan was developed to reach the goal of a perimeter approach to security and economic competitiveness. One of the four areas of cooperation identified in the Action Plan is trade facilitation, economic growth and jobs which contains deliverables designed to enhance benefits of programs that help trusted businesses to move efficiently across the border while reducing their administrative burden.

As part of the Action Plan, United States Customs and Border Protection (CBP) in conjunction with the Canada Border Services Agency (CBSA) committed to *“Conduct[ing] a detailed comparison and review of Customs Self-Assessment and Importer Self-Assessment by June 2012, following which the United States will identify and provide expedited border processes and modernized, streamlined accounting processes to tier-two members.”*

The Importer Self-Assessment (ISA) program is built on the knowledge, trust, and willingness to maintain an ongoing CBP/importer relationship that is beneficial to both parties. CBP’s goal is to partner with importers who can demonstrate their readiness to assume the responsibility to manage and monitor their compliance through self-assessment. Importers who are accepted into the ISA program receive tangible benefits, which include the assignment of a National Account Manager, removal from the Regulatory Audit’s audit pool for Focused Assessments; prior disclosure considerations; expedited cargo release and the services provided by the newly erected Centers of Excellence and Expertise.

The Customs Self-Assessment (CSA) Program in Canada is designed for low-risk, pre-approved importers and carriers. Importers who have invested in their systems and processes to ensure compliance with the CBSA’s requirements for trade data and revenue reporting receive the benefits of expedited border clearance, as well as streamlined trade data reporting and accounting processes.

This report will outline findings from the CSA-ISA program comparison and review. Proposed next steps and actions currently underway to address areas where the programs are not aligned will also be explored.

Customs Self-Assessment Program

The Customs Self-Assessment (CSA) Program was implemented as part of the Customs Action Plan in December 2001. Importers who demonstrate a good compliance history with the CBSA, pass a vigorous risk assessment process, and who can demonstrate that their books, records and business systems have, or will have, the necessary internal controls and procedures —

including linkages, controls and audit trails — to support the CSA program can become CSA participants.

Approved CSA importers are responsible for self-reporting related revenues on the importation of goods into Canada to the CBSA. Importers use the data stream from their own business systems to fully self-assess and satisfy customs requirements and no longer need to maintain additional and separate customs processes. Additionally, each importer is assigned a compliance manager to facilitate CSA participation.

There are three main benefits of the CSA Program: expedited border clearance, trade data reporting and corrections, and revenue reporting and payment which will be explored in detail below.

Expedited Border Clearance

One of the efficiencies gained by CSA importers is that when goods qualify for CSA clearance importers do not have to transmit information in advance of arriving at the border. Goods shipped to Canada directly from the United States and Mexico that do not have any Other Government Department restrictions, are eligible for CSA clearance. There are three data elements that must be presented for a CSA clearance: a bar code representing the CSA carrier, one representing the CSA importer's business number and identification confirming that the driver is a member of the Free and Secure Trade (FAST) program. This expedited process represents the potential for significant savings for the importer through reduced administrative costs.

CSA importers who are also members of Partners in Protection (PIP), using a carrier who is a member of both the CSA and PIP programs, are eligible to use FAST lanes or booths where available. Dedicated FAST lanes or booths are available at Canada's busiest commercial border crossings: Windsor/Detroit Ambassador Bridge, Sarnia Blue Water/Port Huron Bridge, Lacolle/Champlain–Quebec/New York and Pacific Highway/Blaine–British Columbia/Washington. Use of the FAST lanes/booths translates into shorter wait times at the border and faster delivery times, which is a competitive advantage for both carriers and importers.

Trade Data Reporting and Correction

Although the clearance option is restricted, all trade data and revenue reporting, regardless of shipment origin, are eligible for the simplified CSA processes. Reporting is triggered by the CSA importer's books and records which improves compliance and reduces penalties for the company. They are also able to consolidate their trade data reporting and adjustments which results in fewer customs transactions. CSA importers have longer reporting time frames for customs data which improves accuracy and completeness of what is submitted to the CBSA and reduces the number of adjustments required. For example, non-CSA importers must

provide trade data for their high-value shipments within five business days whereas CSA importers report trade data on a monthly basis. Adjustments that are filed by CSA importers are done electronically, while non-CSA importers must file adjustments in paper form.

Revenue Reporting and Payment

CSA importers self-assess the revenues they report and must submit a monthly summary form reporting revenue on the importation of commercial goods into Canada. This is given to the CBSA on a single electronic document that contains a summary of all accounting, adjustment, penalties and drawbacks for the accounting period. Refund and drawback amounts are reported as credits, deducted from amounts owing each month, and payment is made at a financial institution for the net amount owing. This improves cash flow for the importer.

Importer Self-Assessment Program

The ISA program is a voluntary approach to trade compliance. The program provides the opportunity for importers, who have made a commitment of resources to develop and maintain a U.S. Customs and Border Protection (CBP) trade compliance program, to assume responsibility for monitoring their own compliance in exchange for certain benefits. The ISA program was announced in the Federal Register on June 17, 2002 (67 FR 41298), and was opened for participation to all qualified importers beginning June 17, 2002. Office of International Trade (OT), Trade Policy and Programs, Partnership Programs Branch is responsible for administering and managing the ISA program.

To participate in the ISA program, applicants are required to maintain a system of internal controls designed to provide reasonable assurance of compliance with CBP laws and regulations. OT/Regulatory Audit's role in the ISA program is to perform an evaluation of the applicant's internal control to assess the applicant's readiness to assume the responsibilities of the ISA program. The ISA team members (Regulatory Audit and the National Account Manager assigned to the company) evaluate the design of the applicant's internal control, which involves determining if internal control is documented, logical, reasonably complete, and is likely to prevent or detect non-compliances in identified risk areas.

The design of internal control cannot be assessed through the evaluation of individual controls in isolation. Rather, controls are assessed as a group by:

- Obtaining an understanding of the processes and flow of information through the entry process;
- Determining what can go wrong within the entry process; and
- Determining whether the controls are sufficient to address the instances of what can go wrong within the entry process.

The ISA team members then assess the applicant's readiness based on an expectation about the operating effectiveness of the internal control derived from their evaluation of internal control

design. The ISA team members' readiness assessment report is provided to the ISA Review Board that is responsible for deciding whether the applicant will be accepted into the program. Benefits of ISA membership are as follows:

- Exemption from the Regulatory Audit's audit pool
- Expedited cargo release
- Designated National Account Manager
- Expanded benefits for Prior Disclosure
- Mitigated Penalties and Liquidated Damages
- Priority consideration for ISA members to participate in the Centers of Excellence and Expertise
- Expedited internal advice or consultation with Regulations & Rulings
- Importer Trade Activity Data received free of charge
- Opportunity to apply for coverage of multiple business units

Importer Self-Assessment – Customs Self Assessment Comparison

Meetings were held between CBP and the CBSA to discuss the processes, features and benefits of each of the tier two importer programs. These discussions showed that the eligibility requirements for importers to join both programs are aligned, including the residency requirements which will be expanded by each program to allow companies resident in Canada or the United States to apply to either or both of these tier two programs.

The risk assessment measures for applicant companies are very similar between the two programs. Both CBP and the CBSA examine similar criteria to assess the low-risk status of importers.

The programs differ in the benefits they provide to importers. The ISA program provides trade compliance benefits allowing importers to self-audit and report the results and corrective action taken annually. Some of the benefits provided are as follows:

- Participants are removed from the Focused Assessment Audit pool though they may be subject to a single issue audit to address a specific concern
- Reduced Cargo exams
- Entries processed through the Centers of Excellence and Expertise which offers greater uniformity and streamlines the entry process
- CBP provides guidance on best practices, advises on things to consider when designing a system of internal controls, and data analysis support when requested
- Receive on a quarterly basis, entry summary trade data
- If during the evaluation process, CBP identifies non-compliance situations, the importer will be allowed 30 days to submit a prior disclosure without incurring penalties.

Overall, the importer enjoys greater business certainty because of their effective system of internal control which helps to ensure compliant transactions. The CBSA has an equivalent

program, Partners in Compliance (PIC), which is currently in pilot status. This program began in 2004 but has not been expanded past the eight original companies due to lack of funding.

In contrast to the ISA program, the CSA program offers importers expedited border processes using a CSA Clearance. This expedited border processing for low-risk goods allows the CBSA to focus its resources on shipments of high or unknown risk, and provides greater certainty at the border for the importer.

Additionally within the CSA program, streamlined accounting and trade data reporting processes are used for all goods imported. A monthly revenue summary form with payment is given to the CBSA by CSA importers. This summary allows the importer to make corrections, offset any adjustments and a net payment is made to the CBSA.

To meet the CBSA's commitments under the Action Plan and align benefits of tier two programs with CBP, the CBSA will implement a trade compliance benefit program.

Next Steps

CBP

While the CBP's and CBSA's self-assessment programs are similar in how companies are vetted, evaluated and accepted into the program, the benefits provided are not aligned. In an effort to align ISA to the benefits provided to CSA trusted traders, CBP worked extensively with internal and external stakeholders to develop additional benefits such as expedited cargo release and simplified accounting processes.

We are pleased to report that CBP has recently offered additional ISA benefits by removing the trusted traders from the Stratified Compliance Exam pool; inbound shipments will also be exempt from Security Cargo Exams. These value-added benefits will significantly enhance and promote trade facilitation participation.

Additionally, the Centers of Excellence and Expertise, designed to increase uniformity of practice across ports of entry, facilitate the timely resolution of trade compliance issues, promote maximum efficiency and streamline trade processing. The Centers will also serve to modernize trade processes and increase participation in the ISA program. CBP is currently drafting a Federal Register Notice to formally announce that non-resident Canadian and U.S. importers will be eligible for participation in the ISA program.

CBP has been collaborative and continues to work with the trade community to identify enhanced processes that would be beneficial and of value regarding a simplified summary option. Simplified summary was designed to align with CSA's simplified accounting which allows for monthly payment of duty options and access to an importer's trade data. Existing statutes provide limited flexibility at this time. CBP is looking at other opportunities such as

Periodic Monthly Statement that allows for extended payment of duty and making the necessary adjustments to offer quarterly payment of duty options for trusted traders.

CBSA

The CBSA has a program in pilot status, Partners in Compliance (PIC), which offers trade program compliance benefits. This program began in 2004 but has not been expanded past the eight original companies due to lack of funding. The benefits of PIC include the participant's removal from the post-release verification pool, though the CBSA retains the right to perform verifications on high-risk or sensitive issues. Additionally, if there is an occurrence of trade program non-compliance, the CBSA may not issue monetary penalties against the participant as its first response provided that (i) the participant takes timely remedial action to address and correct the non-compliance to the CBSA's satisfaction, (ii) the non-compliance is not the subject of an ongoing post-release verification/investigation of which the participant has knowledge, and (iii) the non-compliance is not fraudulent in nature.

As part of the Action Plan the CBSA has a separate deliverable to fully implement PIC by September 2012:

“Align Canada’s Customs Self-Assessment and the United States’ Importer Self-Assessment programs to the greatest extent possible, while enabling members the flexibility to select the benefits that meet their business needs, and extend new benefits to tier-two members, such as expedited border and accounting processes and further reductions in risk-based examination rates. Canada will fully implement its Partners in Compliance program by September 2012.”

The implementation of the PIC program from pilot status allows the CBSA the opportunity to more efficiently design the program so it can be offered to a larger number of importers. Following the review and analysis of the ISA and CSA programs the CBSA observed many best practices in the design of a trade compliance benefits program. The ISA application and approval process will serve as a guide for the CBSA's implementation of trade compliance benefits as part of the CSA program. The CSA: Trade Benefits option will be designed so the importer will be required to provide all necessary information at the time of application, thereby streamlining the application process. This will reduce both the time and effort required to approve a CSA client for trade compliance benefits, allowing all CSA importers the opportunity to apply for these benefits.
