



The Border Story – A North American Steel Industry Perspective

Introduction

The North American Steel Trade Committee (NASTC) is a body in which North American governments and industry work together to identify and address barriers and distortions affecting North American steel markets. Under the aegis of the Security and Prosperity Partnership of North America (SPP), the NASTC is pursuing a North American “steel strategy” designed to enhance industry competitiveness, to facilitate intra-NAFTA trade, and to address external trade issues of common concern.

With respect to intra-NAFTA trade, the strategy mandates the NASTC to explore initiatives to reduce the costs and risks of internal trade through proactive measures to facilitate such trade. In recognition of this goal, the NASTC decided in October 2006 to undertake a comprehensive analysis of border-related trade impediments in an effort to identify concrete actions that might be taken to promote intra-NAFTA steel trade.

This work is intended to complement the border facilitation priorities identified in the 2007 Report to Leaders from the North American Competitiveness Council (NACC), and to reinforce the commitment to smart and secure borders made by the leaders of Canada, the United States, and Mexico at the August 2007 North American Leaders’ Summit.

Further, at the August 2007 meeting of the NAFTA Free Trade Commission, NAFTA Trade Ministers requested that the NASTC identify and make recommendations to resolve specific impediments affecting the flow of intra-NAFTA steel trade.

It is within this context that the NASTC is pleased to present the first step of its analysis: a synthesis of common border-related impediments identified by the Canadian,

American, and Mexican steel industries. After further internal discussion and consultation with SPP Working Groups and appropriate government departments/agencies, the NASTC plans to complete this analysis with assessments and/or recommendations for each of the common impediments.

The Border Story

The steel industries' border issues are broadly representative; there is significant steel trade between the three NAFTA partners, the preponderance of which crosses the border by truck at the continent's busiest land ports, and a high degree of coordination with automotive and other supply chains in each country necessitates a seamless flow of goods in order to meet just-in-time delivery schedules.

Detailed questionnaires were circulated to member companies of four major steel associations – Canadian Steel Producers Association (CSPA), American Iron and Steel Institute (AISI), Steel Manufacturers Association (SMA), and Cámara Nacional de la Industria del Hierro y del Acero (CANACERO) – to identify specific border impediments from a holistic perspective. Responses were summarized into individual “border stories” for Canada, the United States, and Mexico detailing border-related issues faced by respective industries as they engage in intra-NAFTA trade. Based on these presentations, priority issues (i.e. those identified by all three NAFTA industries) have been grouped under three headings: regulatory issues, infrastructure and personnel, and documentation requirements. A number of additional highlighted issues tend to focus on the particular practices of one country or another, including those raised with respect to a fourth area, security compliance. These are discussed more fully in a later section of the report.

Regulatory Issues

Following their August 2007 meeting in Montebello, Quebec, North American leaders asked their respective Ministers to strengthen North America as a platform for global success through enhanced efforts on regulatory cooperation in areas including the transportation sector. Within this framework, the NAFTA steel industries have identified the following joint priorities:

a. Load Limits

One of the most significant cost burdens facing intra-NAFTA steel shippers relates to inter-jurisdictional differences in load weight restrictions for commercial motor carriers. Individual states maintain different gross weight allowances that are generally lower than those in Canada and Mexico (i.e. approximately 97,000 lbs. for a six-axle tractor-trailer). These differences require shippers to conform to the lightest weight allowance and thus to send a larger number of single-truck loads, thereby increasing shipping costs by as much as 50 percent and exacerbating border congestion. A 2000 report by the U.S. Department of Transportation estimated that the associated annual cost to the U.S. economy alone (for shipments of all commodities) was as high as US\$15 billion. A 2002 Transportation Research Board report presented to Congress reached similar conclusions.

For the 7.5 million net tons of steel that exited the United States to Canada or Mexico by truck in 2007 (including through shipments from Canada to Mexico or from Mexico to Canada), NAFTA steel industries estimate that weight limit discrepancies between various states for six-axle tractor-trailers cost between US\$300 million and US\$400 million in additional shipping costs. This issue has been a consistent focus of the NASTC agenda over the past few years. NASTC industry officials raised this issue with U.S. Department of Transportation officials at the May 2006 meeting of the NASTC, and NASTC government officials signed a joint letter bringing this issue to the attention of respective SPP coordinating officials and SPP Transportation Working Group members in advance of the August 2007 North American Leaders' Summit.

b. Trucking Hours of Service Rules

Trucking is the predominant mode of shipping used by North American steel exporters, accounting for an estimated 750,000 border crossings by truck each year (upwards of 80% of all U.S. exports alone are shipped by truck). NAFTA steel industries agree that divergent hours of service rules including minimum rest periods and maximum driving and work periods in various states and provinces, drive up

carrier costs, which are then ultimately passed along to shippers in the form of higher freight costs.

c. Rail Issues

Nearly 3.5 million net tons of steel (approximately 15-20% of total intra-NAFTA shipments) are delivered by rail each year, as rail is particularly cost effective for large shipments over long distances. Of course, the use of rail is limited by certain physical restrictions; customers must have railway sidings, and delivery is often delayed in order to consolidate multiple shipments, thereby resulting in additional “demurrage” charges. On top of these restrictions, industry representatives in each country have indicated that limited rail competition further reduces shipping flexibility, particularly with respect to pricing. Issues were also raised with respect to the effectiveness of communications between customs officials and rail operators in each country.

Infrastructure and Personnel

The initial recommendations of the NACC highlighted border facilitation as an important policy priority for North American governments, with a particular focus on expansion and improvements to border infrastructure. To complement these recommendations, the NASTC offers the following observations:

a. Infrastructure

The most widely used ports for intra-NAFTA steel shipments are those located in the Great Lakes Region (Buffalo-Fort Erie, Cleveland, Detroit-Windsor, Chicago), the Pacific Northwest (Blaine-Surrey, Seattle/Tacoma, Portland), and Texas/Nuevo León/Tamaulipas (Brownsville/Harlingen-Matamoros, McAllen-Reynosa/Hidalgo/Rio Bravo, Laredo-Nuevo Laredo, Eagle Pass-Piedras Negras, Del Rio-Ciudad Acuna).

Steel shipments sometimes wait as long as 5-6 hours to cross the border during peak periods at these crossings. NAFTA steel industries estimate that wait times for Canada and Mexico-bound shipments alone (excluding those attributable to documentation errors and/or broker communications issues) are responsible for

between US\$300 million and US\$600 million in additional annual shipping costs, and have identified both inadequate pre-border infrastructure (e.g. service roads leading to bridge crossings) and an insufficient number of primary inspection lanes as the principal causes of border congestion.

NAFTA steel industries welcome and encourage further work on projects such as the ongoing addition of nine new lanes on the United States side of the Laredo-Nuevo Laredo World Trade Bridge as well as the efforts of the Bi-National Partnership, a 30-year transportation strategy agreed to by the Governments of Canada, the United States, Ontario, and Michigan, aiming to address various challenges at the Detroit-Windsor gateway, including the construction of a new international crossing. NAFTA steel producers further urge the construction of a new access lane on the Mexican side of the Laredo-Nuevo Laredo International Bridge 3 in order to relieve traffic congestion into the United States.

b. Personnel

In other instances, NAFTA steel industries have indicated that more personnel are required to adequately service existing physical capacity. Even at peak hours, primary inspection lanes often remain closed to traffic because of a lack of manpower to staff them. For example, entering Mexico in Laredo-Nuevo Laredo, only 10 of 19 fully equipped inspection gates operate on a full-time basis, leading to acute problems during peak operating periods.

Operating hour differences between ports on either side of a given crossing are also pointed to as negatively impacting the flow of traffic at North America's land borders. NAFTA steel industries similarly note the importance of consistent operating schedules for other government departments/agencies that support customs operations at the border (e.g. agricultural inspection agencies). Trade is effectively stopped when these operations are closed, irrespective of the level of customs personnel.

NAFTA steel industries also indicate that poor communications between customs officials and brokers often result in unnecessary delays and encourage greater outreach/collaborative training efforts on part of both parties.

Documentation Requirements

By nature, intra-NAFTA steel trade, nearly all by truck and rail, is different than that arriving by ship from outside the region. Whereas one shipload with a volume of goods equal to well over one thousand truck shipments requires a single customs transaction, so too does each land shipment. A typical truck shipment carries roughly 20 tons of steel, whereas one shipload can carry as much as 30,000 tons. This adds a significant administrative burden to NAFTA producers vis-à-vis offshore competitors, creating a “NAFTA disadvantage.”

The border facilitation recommendations of the NACC provide a telling example in the context of automobile production; a typical shipload of 4,000 cars being imported into North America faces a single customs transaction, while an equivalent number produced and sold within the region would face as many as 28,200 transactions. NAFTA steel producers estimate that resulting documentation errors and/or broker communications issues cost the industry approximately US\$50 million annually on top of the associated administrative burden.

While NAFTA steel industries recognize that the NAFTA disadvantage must be examined in light of the “NAFTA advantage” that brings it about (i.e. the proximity of markets, the ability to engage in just-in-time delivery, and the benefits and flexibility associated with truck and rail shipments), specific areas where negative effects might be minimized are outlined below:

a. Steel Import Permits and Licenses

NAFTA steel industries have long urged the governments of Canada, the United States, and Mexico to take steps to streamline the requirements/costs of import permits and licenses for intra-NAFTA steel trade. Industry members of the NASTC raised this as a priority issue during the second meeting of the NASTC in May 2004

and the issue is highlighted as a specific area where the NASTC will provide recommendations in the context of the steel sectoral initiative announced by NAFTA Trade Ministers at the NAFTA Free Trade Commission meeting of August 2007.

Steel import permits represent an annual cost of several million dollars to North American steel importers. Canada alone issues over 235,000 permits per year, 99 percent of which are for shipments weighing less than 125 tonnes that represent 60 percent of all imports. These are primarily for intra-NAFTA truck and rail shipments. The remaining 40 percent of imports, which are primarily for offshore shipments, account for only 1 percent of issued permits, a clear demonstration of the NAFTA disadvantage. Further, whereas U.S. and Mexican permits are free of charge, Canadian permits have a direct administrative fee.

The United States issues roughly 425,000 import permits per year. Mexico issues close to 453,000 “pedimentos.” In both cases, most of these documents are also for intra-NAFTA shipments, and although they are issued free of charge, there is an indirect administrative cost associated with having to fill out and apply for each permit, particularly when done through an import broker.

b. Harmonized Tariff System (HTS) Codes

NAFTA steel industries find that discrepancies in HTS codes at the 8-digit level between the three countries often cause brokers and customs officials to make incorrect tariff schedule classifications and have identified harmonization at this level as a possible solution. Lack of experience and training has also been identified as a cause of improper classifications. While the tariff schedules for steel are detailed and complex, they are relatively straightforward when compared to the schedules of many other products. Long-standing industry-led training efforts have demonstrated the tangible benefits of appropriate training for brokers and customs officials.

c. Data Consistency

Electronic Data Interchange (EDI) and bill of lading requirements (e.g. forwarder/customs broker information entry) are different for Canadian, U.S., and

Mexican carriers doing interline shipments. NAFTA steel industries have found that carriers are generally not helpful in resolving these issues. The industries believe that the development of standardized forms, formats, and entry information requirements would reduce confusion, errors and delays, and improve the efficiency of interline shipments. Similarly, border warehousing and transfer points do not have consistent standards, including claims procedures.

Other – General

In addition to the common impediments identified in the border stories of all three NAFTA industries, the following issues were raised by specific industries in relation to the particular practices of one country or another:

a. Automated Commercial Environment (ACE)

ACE is a comprehensive redesign of all U.S. customs systems and processes. As of May 2007, all trucks arriving at U.S. ports of entry are required to electronically transmit inward cargo manifests in advance of physical arrival. For those carriers choosing also to submit customs information electronically, notification is required at least one hour prior to border arrival (half an hour in the case of Free and Secure Trade – FAST – shipments). This sometimes results in departure delays for steel companies in close proximity to the border. At the same time, the costs of ACE implementation, while borne directly by carriers and brokers, are being passed along to shippers. In Mexico, for example, US\$14 is added to the cost of each shipment. Further, according to NAFTA steel industries, ACE implementation is proceeding slowly with frequent system crashes causing long delays while documentation is resubmitted.

b. Cargo Insurance

U.S. and Mexican steel producers indicate that U.S. and Mexican requirements to carry cargo insurance in each other's jurisdictions increase shipping costs and introduce an additional layer of documentation. Mexican steel companies alone estimate additional annual costs between US\$100,000 and US\$200,000.

c. Classification/Rules of Origin

In order to qualify for the NAFTA exemption from the U.S. Merchandise Processing Fee (MPF), Canadian and Mexican exports to the United States require a NAFTA Certificate of Origin despite the fact that they receive no preferential duty rate on steel products (i.e. the MFN rate on most products is zero). Although blanket certificates are issued on an annual basis, steps might be taken to automate/streamline the certification process.

Similarly, confusion is often created by differences among the NAFTA Rules of Origin, general Rules of Origin, and those for U.S. steel marking requirements. This can result in the declaration of different countries of origin for the same product, and lead to increased border delays while documents are verified.

d. Freight Forwarding

Under Mexican law, only a licensed Mexican broker can clear products for import. As a result, Mexican customs brokers have established a forwarding system that requires all inbound shipments to stop at facilities on the U.S. side of the border for classification and other verification activities. At this juncture, Canadian and U.S. carriers are required to offload their cargo to a Mexican forwarder, who then proceeds across the border to a designated transfer lot, where a Mexican carrier picks up the trailer for final shipment. The same situation applies to Mexican exporters, whose shipments undergo the same process on both sides of the border when entering the United States. Within U.S. borders, Mexican trucks are not allowed to travel beyond a 25-mile "border commercial zone." As a result, multiple trucks and drivers are required for each truckload of Mexican cargo exported to the United States. When a Mexican long-haul truck approaches the border, its cargo must generally be divided and loaded onto smaller "drayage" vehicles known as transfers. Once across the border, the cargo is again consolidated onto a single long-haul vehicle for delivery to its final destination. In aggregate, the process takes between 4 and 8 hours, and results in incremental costs of more than US\$400 million per year. The Mexican steel industry indicates that though there is currently a demonstration program in place to streamline this process, it has yet to deliver

substantive results. The issue affects a trucking system that carries US\$330 billion or roughly 70% of total Mexico-U.S. trade.

e. Mill Certificates

The Mexican tariff requires coil-specific mill certificates with each shipment. In Canada and the United States, these are generally provided only upon customer request.

f. Pedimento de Importación

Entering Mexico, the required customs invoice, the pedimento de importación, and all other documentation, duties, fees, and taxes must be forwarded to customs before a shipment can cross the border. This requires that all documents be prepared prior to shipment – up to thirty days in advance depending on the shipping mode and location of the exporter – and leads to lost interest accumulation as high as US\$20 million annually while goods are en route to Mexico.

g. Trade Remedy Accounting

Companies subject to anti-dumping and countervailing duty payments are issued notices of duties owing or refunds owed by U.S. Customs following the results of periodic administrative reviews. Companies are sent separate notification letters for each transaction in a given review period (usually at least 18 months). Canadian steel producers indicate that in the absence of summary accounting, this can result in hundreds of separate demands for payment or refunds (depending on the number of subject transactions) creating an unnecessary administrative burden.

h. Western Hemisphere Travel Initiative (WHTI)

Upcoming WHTI implementation at U.S. land ports will require all travellers, including Canadian, U.S., and Mexican citizens, to present a passport or other accepted document for land entry into the United States. While this is not a problem for most commercial drivers, the requirement may, nonetheless, worsen border congestion as processing times are likely to increase for both commercial and non-commercial traffic to validate documents at primary inspection booths.

Other – Security Compliance

This analysis fully recognizes and embraces post-9/11 security realities. At the same time, NAFTA steel industries recognize the competitive challenge of ensuring that North America's borders remain open to trade in the face of evolving threats. In recognition of the dual imperatives of physical and economic security, NAFTA steel industries offer the following comments, primarily aimed at improving the benefits of participation in voluntary security programs:

a. Free and Secure Trade

FAST offers expedited border clearance through the use of dedicated lanes to exporters, carriers, and importers enrolled in Partners in Protection (PIP) (entering Canada) or the Customs Trade Partnership Against Terrorism (C-TPAT) (entering the United States). Despite anticipated border facilitation benefits, North American steel industry participation is low (e.g. only one Mexican exporter participates in C-TPAT). NAFTA steel producers note a number of limiting factors given that compliance costs can range into the hundreds of thousands of dollars.

First off, personnel and resource shortages for certifying participants can unnecessarily lengthen the period of time that it takes for a company to become certified. From start to finish, the process can take from one to two years.

Next, it is well documented that an aging population and recruitment challenges limit the availability of qualified truck drivers throughout North America. Nonetheless, this problem is potentially exacerbated by stringent FAST driver requirements.

Third, the number and operation of FAST lanes at major ports of entry is often insufficient. Moreover, while certain ports may have an appropriate number of efficiently operating FAST lanes, truck access is often blocked by congestion at regular inspection booths (e.g. the Ambassador Bridge connecting Windsor and Detroit).

At the regulatory level, steel shipments into Canada are generally prevented from using FAST lanes due to import permit requirements. Importers authorized to use FAST lanes into Canada must participate in Partners in Protection (PIP) and be a Customs Self Assessment (CSA) approved importer. CSA provides expedited release and allows for monthly reporting and accounting. However, as import permits must be presented at the time of entry, U.S. and Mexican steel exporters cannot have their goods released by CSA and therefore do not have access to FAST lanes.

b. Risk Assessment

The recent removal of Canada's exemption from the U.S. Department of Agriculture Animal and Plant Health Inspection Service (APHIS) user fee on all U.S.-bound shipments and airline passengers is expected to cost Canadian businesses and travelers as much as US\$75 million per year and increase border transit times as the result of on-site fee collection.

Entering Mexico, secondary inspection is determined on a random basis. Estimates suggest that as many as 10 percent of trucks are selected for intensive inspection, a process which can take many hours. Entering Canada, U.S. steel producers indicate that as many as 25 percent of shipments are detained for secondary inspection, despite the fact that few, if any, are ever rejected, and that inspections seem to disproportionately target Canadian-based carriers for no apparent reason. Entering the United States, Mexican steel producers estimate the average annual cost of secondary inspection delays to be as high as US\$30 million.

This is not to suggest that secondary inspection is wasteful or unwelcome. Rather, these figures should demonstrate that secondary inspection is a timely and cost-intensive process that should occur only on the basis of robust risk assessment.

Conclusion and Next Steps

As noted by leaders at the August 2007 North American Leaders' Summit, our borders must be both efficient and secure if we are to continue to enhance prosperity, security

and quality of life in North America. It is the hope of the NASTC that this work can contribute to this goal.

After further internal discussion and consultation with SPP Working Groups and appropriate government departments/agencies, the NASTC plans to complete this analysis with detailed assessments and/or recommendations for each of the common impediments.