

Submission by the
Canadian Society of Customs Brokers (CSCB)
to the
Standing Committee on International Trade (CIIT)
concerning the implementation of the
**Canada Border Services Agency (CBSA)
Assessment and Revenue Management (CARM) system**

February 27, 2024

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Hon. Judy A. Sgro
Chair, Standing Committee on International Trade (CIIT)
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
Canada

Dear Ms. Sgro,

We are writing to convey our deep concern with the Canada Border Services Agency's (CBSA) approach to implementing the CBSA Assessment and Revenue Management (CARM) system.

The proposed “big bang” approach to CARM implementation—which will sever access to existing systems and processes at the same time as CARM is launched in May 2024—jeopardizes processes that enable the flow of legitimate goods across borders and the efficient and accurate collection of duties and taxes. **We seek the committee's support in recommending that the CBSA pursue an alternate approach that allows for voluntary participation in some elements of CARM when the May release occurs, accompanied by a phased transition from existing systems to new capabilities over a period of 12-18 months.**

The Canadian Society of Customs Brokers (CSCB) is one of the most authoritative, respected organizations in the Canadian trade and transportation industry. Every year, customs brokers handle more than 90 percent of import transactions for Canada's 227,000 importers and ensure accurate duties and taxes are submitted for billion of dollars' worth of goods. A key priority for the CSCB is to work with government and private sector partners to develop new, innovative solutions to emerging challenges in international trade.

We have been providing input and recommendations to the CBSA for many years to ensure CARM is implemented with the functionality, connectivity and supporting processes to keep goods flowing and government revenue collected efficiently and accurately, while not unduly burdening traders. The CBSA's approach to CARM implementation does not reflect or address the concerns that we and others have raised.

If implemented as currently proposed, and with low levels of preparedness among both the CBSA and traders, we assess that CARM will have a detrimental impact on border flows and revenue collection for the Government of Canada. Canada cannot afford to implement an IT system with key deficiencies that will impact cross-border flows and force manual processing and workarounds to account for imported goods.

Customs brokers keep trade flowing, at the border and beyond. We are a vital part of Canada's integrated supply chain, and our success in facilitating trade depends on access to stable and functional systems and processes that enable the flow of legitimate goods across borders, and the efficient and accurate collection of duties and taxes. A “big bang” approach to CARM implementation jeopardizes these processes and will have an adverse impact on importers served

by our CSCB members. We encourage the CBSA to reconsider its approach, and to pursue a phased transition to implementation.

More detail about the CSCB's specific concerns—as well as a proposed alternate approach to implementation—can be found in the enclosed submission. We would be pleased to elaborate further during CIIT meetings on CARM, currently scheduled for March 2024.

Respectfully submitted,

A handwritten signature in cursive script, reading "Deborah Osborne". The signature is written in black ink and is positioned above the typed name.

Deborah Osborne, Chair
Board of Directors
Canadian Society of Customs Brokers (CSCB)

CSCB PERSPECTIVES ON CARM IMPLEMENTATION

Summary

The Canadian Society of Customs Brokers (CSCB) assesses that neither the Canada Border Services Agency (CBSA) nor the importing community is adequately prepared for implementation of the CBSA Assessment and Revenue Management (CARM) system in May 2024.

Given this lack of readiness, the CSCB recommends that the CBSA implement an alternate approach that allows for voluntary participation in some elements of CARM when the May 13, 2024, release occurs, accompanied by a phased transition from existing systems to new capabilities over a period of 12-18 months.

During this transition period, the CBSA should provide clear and unequivocal assurances to customs brokers, importers, and other trade chain partners (TCPs) about the application of administrative forbearance (relief of liability obligations) where transitional processes are put in place.

Current Context

CARM Experience Simulation (CES)

Customs brokers, importers and other TCPs have completed phase one of the CARM Experience Simulation (CES) process, and a small group of testers is currently engaged in CES 2.0, which is expected to conclude in March 2024. Reports from both CES 1.0 and CES 2.0 are not encouraging, with concerns about defects in essential processes such as the calculation of duty and taxes. Participants have also expressed dissatisfaction with delayed resolution of service tickets by the CARM client support team, as well as unresolved deep-cycle testing issues. In its CES 1.0 closeout report, the CBSA noted that CES 1.0 decreased, rather than increased, confidence that CARM was implementation-ready:

“While participants agreed that engaging in the CES increased their knowledge about CARM, their overall confidence in CARM decreased after their participation. A number of factors have contributed to this, including challenges with system stability, connectivity challenges, delays in resolving issues, an inability to simulate some processes, defects in TCP systems developed by software providers or customs brokers, and missing/inaccurate reference data which resulted in calculation errors.”¹

In the report, the CBSA also confirmed that it could not test certain key processes because necessary policy decisions had not been made with respect to interest calculations, Customs Self Assessment (CSA) business processes, and financial security providers:

¹ CARM Experience Simulation TCP Closeout Report – July 28, 2023, page 2

“Some processes that were initially planned for CES, specifically [Commercial Accounting Declaration] CAD Cancellations and drawbacks, were de-scoped during CES due to outstanding policy decisions.”²

Problems identified in CES 1.0 are not being remedied in a way that creates the conditions for successful implementation in May 2024, and CARM still lacks functionality to deal with mass adjustments, drawbacks, *Special Import Measures Act* (SIMA) normal values, and processing CADs with more than 500 commodity lines. Again, the CBSA noted these functionality gaps in its CES 1.0 closeout report, but stated that they will not be remedied until after CARM implementation, as part of future enhancements:

“Through discussions with participants, CARM R2 [Release 2] functionality challenges were identified. The current design to convert B3s to CADs, process drawbacks and mass adjustments, and the requirement to manually enter C and V type CADs via the portal were highlighted by many users as having a large impact on their resources. Furthermore, TCPs found that information available to them through the CARM system did not provide an audit trail. This feedback should be taken into consideration as part of the CARM enhancement planning and prioritization process.”³

The CES 1.0 closeout report also highlights the significant amount of client support that is, and likely will be, required for importers, customs brokers, and other TCPs who will need to use CARM. CES 1.0 involved fewer than 80 participants who were supported by the CBSA through thrice-weekly touchpoint meetings, live helpdesk support, and ongoing, lengthy interaction with individual TCPs to resolve myriad issues. While the report states that TCPs were satisfied with the level of support they were provided, it seems unlikely that the CBSA will have sufficient resources to provide this same level of support to all TCPs who require it in the context of a full rollout in May 2024.

It is impractical and unreasonable for the CBSA to require use of CARM as the system of record when the system will not provide TCPs with the functionality they require to comply with legislative and regulatory obligations, and when the CBSA may not be adequately resourced to provide TCPs with timely support.

Readiness for CARM Use

Importers are required to register in the CARM Client Portal to establish their account profile and payment options, delegate access to specific employees, and, if desired, delegate specific responsibilities to customs brokers to manage their accounts. However, importer registration in CARM has remained low in spite of efforts by customs brokers, the CBSA, and others over the past three years to encourage registration and delegation of authority.

On February 1, 2024, a representative of the Canadian Association of Importers and Exporters (I.E. Canada) testified before the Parliamentary Standing Committee on International Trade (CIIT) that only 25 percent of Canada’s importers had registered in the CARM Client Portal. In

² CARM Experience Simulation TCP Closeout Report – July 28, 2023, page 4

³ CARM Experience Simulation TCP Closeout Report – July 28, 2023, page 14

February 8, 2024, testimony before the CIIT Committee, CBSA Commercial and Trade Branch Vice-president Jennifer Lutfallah countered that 57 percent of importers were registered, representing 80 percent of import transactions.

Neither 25 nor 57 percent represent encouraging levels of importer uptake with CARM go-live less than three months away. Equally concerning is the high level of uneasiness among CSCB members about their clients' readiness to implement CARM. The CSCB surveyed its members on four occasions between March 2023 and January 2024. The results from each of these surveys indicate that most respondents remain uncertain about the implementation of CARM and its timeline.

In January 2024, 91 percent of CSCB respondents indicated that they had concerns about CARM implementation (down from 93 percent in October 2023). Survey respondents indicated that, as of January 2024, only 25 percent of their clients (i.e. importers) had registered in the CARM Client Portal and had delegated authority to their customs broker (an increase of one percent from October 2023).

Responses suggest a lack of confidence in the readiness of CARM and the efficiency of certain processes (drawbacks, mass adjustments, C type), along with concerns about the impact on importers, brokers, and the industry. The following are some of the key issues identified by CSCB members in their survey responses:

- Resistance from importers to register due to inadequate information and uncertainties about the requirements for CARM.
- Concerns about the lack of testing and resolution of system defects before CARM going live.
- Worries about the impact on small or irregular importers, as well as difficulties faced by clients in reconciling their accounts and complying with the new rules for financial security.
- Frustration with the registration process, especially for infrequent importers who find the process burdensome.
- Criticisms regarding the lack of support from CBSA, long response times for tickets, and delays in dispute resolution, leading to concerns about the ability of CBSA staff to handle inquiries during and after the transition.
- A call for better communication and transparency from the CBSA, along with a suggestion to simplify the registration process and possibly remove the requirement for clients to have their own financial security.

The CSCB Board of Directors has also identified areas of increased cost, complexity and risk that would preclude successful implementation of full CARM functionalities in May 2024 (Appendix A).

Proposed approach to cutover

In February 2024, the CBSA proposed interim processes for the approximately 10-day system cutover period (late April to mid-May 2024) to ease congestion at the border that could result from an insufficient number of importers being registered in CARM. The interim processes

would allow use of a customs broker's business number or an importer's business number to account for imported goods and would apply an assumption within CBSA systems that all importers have the necessary financial security in place to allow their goods to be released for entry into Canada without immediate payment of owed duties and taxes (this is called Release Prior to Payment, or RPP). Subsequent accounting adjustments would be required to ensure that duties and taxes are assessed against, and collected from, the appropriate party (the importer).

Procedurally, these measures could have the desired effect at the border, as they would provide all importers with implied financial security to allow goods to be released upon entry. However, it is important to recognize that the subsequent reconciliation of accounting and payment mismatches will shift the administrative burden downstream and onto traders. What would have been a problem for CBSA at the port of entry will now become an onerous administrative process for customs brokers and their clients as they must adjust and re-submit accounting documentation after the cutover period to ensure the appropriate importer of record is identified and the liability for duties and taxes is assigned appropriately.

The CBSA has not shared any data concerning the expected economic impacts of the proposed interim processes. However, it is clear that these additional processes will represent a resource strain for customs brokers and their clients and will generate additional costs for TCPs to administer. Importers and their clients—that is, Canadian consumers—can expect to see these additional costs reflected in the cost of imported goods. This could be mitigated if the CBSA adopted a more gradual approach that did not require a full transition from existing systems to CARM over a 10-day cutover period.

Proposed approach

As noted above, the CSCB assesses that neither the CBSA nor the importing community is adequately prepared for implementation of the CARM system in May 2024. The proposed “big bang” approach—in which existing accounting and revenue management systems are permanently deactivated and all data and transactions must be processed in CARM—is a risky approach to major IT systems change. With CARM, the situation is further exacerbated because new deficiencies are emerging on a regular basis through user testing.

Given CARM's overall lack of readiness, it is recommended that the CBSA implement an alternate approach that allows for voluntary participation in some elements of CARM when the May 13, 2024, release occurs, accompanied by a phased transition from existing systems to new capabilities over a period of 12-18 months. We recommend that a phased transition should include the following CBSA business decisions and processes:

- Allow customs brokers, importers and other TCPs to use CARM on a voluntary basis when full implementation occurs in May 2024.
- Continue to run existing systems in parallel and provide clear timelines over a 12- to 18-month period for the termination of existing functionality.

- If needed, defer the coming into force of some legislative and regulatory amendments so that importers are not placed in a situation of being unable to meet their legal obligations because CARM functionality is not yet in place to facilitate compliance.
- Give priority attention to completing CES 2.0 and addressing the defects that have been identified in both phases of CES.
- Identify and assign appropriate resources and processes to receive, record, remedy, and report on performance issues identified by TCPs once CARM is used on a voluntary basis beginning in May 2024:
 - Establish service standards and report regularly to TCPs on CBSA performance in meeting these standards;
 - Update and maintain the CARM issue log and question/answer repository, and ensure this information is easily accessible and searchable by all TCPs in a central location accessible via the CBSA website;
 - Assign individual account managers, including program-specific support resources focusing on customs broker functionality;
 - Evaluate whether responsibility for duty/tax calculation and RPP financial security should continue to rest with the customs broker.
- Establish a transition period end date only when there is confidence that CARM will perform as intended and defects identified through CES and voluntary participation have been addressed.
- Commit to meaningful engagement with customs brokers, financial security providers, and other TCPs about what needs to occur in order for CARM to become the system of record.
- Implement an open, two-way consultation on future phases of CARM, and provide TCPs the list of proposed enhancements and timelines in writing to allow meaningful analysis and discussion.
- Provide clear and unequivocal assurances to customs brokers, importers, and other TCPs about the application of administrative forbearance (relief of liability obligations) where transitional processes are put in place.

Canada cannot afford to implement an IT system with key deficiencies that will impact cross-border flows and force manual processing and workarounds to keep trade flowing. A “big bang” approach to CARM implementation jeopardizes processes that enable the flow of legitimate goods across borders and the efficient and accurate collection of duties and taxes. We seek the committee’s support to urge the CBSA to reconsider its approach, and to pursue a phased transition to implementation.

APPENDIX A: CARM IMPLEMENTATION REQUIREMENTS

In order for CARM to be implemented successfully, the CSCB Board of Directors assesses that the following must be in place:

TRANSITION AND CONTINGENCY PLAN

- A full transition plan from the CBSA in writing, including but not limited to details about the following:
 - portal outages service standards
 - B2/adjustment cutover service standards
 - automation of late accounting waivers not only for system outages but for unknown circumstances where issues are identified once CARM is implemented.
 - What is the plan if the portal is down or not functional? All scenarios must be included in a contingency plan that addresses business needs as well as CBSA requirements.

TECHNICAL

- Envelope identifier of filer needs to be resolved for multiple brokers who use a single service provider. This process is related to the proper sorting of trade data (SOPE).
- All calculation errors must be addressed and corrected in order to proceed with full implementation.

COMMUNICATION

- Customs brokers play, and will continue to play, a key role in the successful implementation of CARM. Customs broker should be referred to as a partner of the CBSA and their role as a key partners should be reinforced whenever the opportunity arises.
- Better records of discussion from TCP meetings should be prepared and distributed; they should clearly reflect action item follow-up and resolution timelines.
- The CBSA needs to notify importers in writing of the requirements for CARM registration and financial security.
- CES updates should be provided to all trade chain partners, not just those participating in the CES.
- Questions need to be answered, and the responses shared, in a timely manner. There are still open questions for which answers are required to allow TCP internal system changes to be enacted.

ARL/FINANCE

- Ensure that outstanding ARL issues are 100 percent resolved.
- Review CARM Help Desk procedures and resources, ensuring the capacity to resolve financial issues.

AREAS OF COST, COMPLEXITY & RISK

- Customs brokers need the ability to transmit V type entries by electronic data interchange (EDI). Submitting them in the CARM Client Portal is not efficient when the database for each client is in the customs broker's database.

- Concerns remain with the lack of ability to correct the business number between the CAD submission and the payment due date.
- Grandfather currently approved Production Certification by Proxy DN & SOAs.
- A solution needs to be developed for pre-CARM transactions, drawbacks, and mass adjustments that is cost efficient for industry and the CBSA.
- CSV download capabilities of all functions, information and data is required.
- A plan is required for importers with C Type entries that are not registered in the portal.
- Duty rate and other rates as well as exchange rate need to display on the CAD.

FINANCIAL SECURITY

- Requirements for surety and other financial instruments need to be clearly communicated and grounded in regulations.
- Explore fully the option of continuing with customs broker security and develop options that de-link financial security from importer of record liability requirements resulting from Budget 2022 amendments to the *Customs Act*.

STATEMENTS OF ACCOUNT (SOA)

- Explore conditions under which customs brokers have access to SOAs.

DELEGATION OF AUTHORITY (DOA) REPORT

- Continue to work with the CSCB on conditions that the DOA report will be made available to customs brokers.

DESIGN

- The importer selection in the CARM Client Portal needs to be bigger.
- Provide notifications with a subject description so the importer is aware if immediate attention is required or to notify their customs broker to take care of it.

About the Canadian Society of Customs Brokers (CSCB)

Canada's customs brokers contribute to the security of our borders while facilitating the movement of low-risk goods across those borders. Customs brokerage companies are licensed by the Canada Border Services Agency (CBSA) and act with legal authority on behalf of Canadian importers and exporters. We are constructive participants in consultative bodies which inform CBSA and other agencies' policies and processes, including the Border Commercial Consultative Committee. We are committed to building the knowledge base of those involved in customs and border management, with more than 1,000 people each year from all parts of the supply chain registered in our e-learning programs, and more than 5,000 people holding our professional designations.

In addition to representing and providing services to customs brokers and their clients in Canada, the CSCB is also well positioned globally. We are active participants and hold leadership roles in the International Federation of Customs Brokers Associations (IFCBA) with members in all regions of the world, and have engaged in capacity building projects on customs modernization in Asia, Africa and the Americas on behalf of the World Bank, the World Customs Organization and the Global Alliance for Trade Facilitation. We also have a very close relationship with our United States and Mexican counterparts, under the umbrella of the North American Customs Brokers Alliance (NACBA).