

U.S. Aerospace Industry and Canadian Export Opportunities

U.S. aerospace manufacturers exported almost \$130 billion worth of goods during 2013, a figure that represents almost 65 percent of all production. The strong global demand for U.S. aerospace products helped fuel a \$70.5 billion positive trade balance, the largest trade surplus of any U.S. manufacturing industry. Those figures are certain to increase as the industry faces a record backlog of orders for new planes – a growing backlog that will take several years to fulfill.

Canada has historically been among the best customers for U.S. aerospace goods. With the world's fifth-largest aerospace industry, Canadian manufacturers have a strong need for high quality products from the U.S. Fifty percent of aerospace products imported by Canadian businesses originate in the United States. Canada's Bombardier, for example, reports 53 percent of its U.S. commercial series jetliner will be sourced from U.S. suppliers.

U.S. aerospace businesses can find great opportunities in the Canadian market, but navigating the complicated customs process can be a daunting experience. The clearance process is complicated to begin with, but strict aerospace regulatory controls exacerbate the process.

Determining Export Eligibility

- The U.S. aerospace industry is heavily regulated, with strict oversight regarding export eligibility. In general, two regulatory codes have jurisdiction over aerospace-related products: the International Traffic in Arms Regulations (ITAR), administered by the U.S. Department of State, and the Export Administration Regulations (EAR), administered by the Department of Commerce. Together, the regulations determine export eligibility and establish reporting requirements for products that are allowed to be sold to foreign countries.
- The U.S. government grants certain "leniencies" for products sold to Canada through a Canadian ITAR Exemption, which allows U.S. suppliers to export certain less-restricted aerospace products without having to obtain a license.
- Canada maintains its own Controlled Goods Program to "safeguard controlled goods and/or controlled technology within Canada." While many of the products on Canada's controlled goods list are identical to those restricted via ITAR regulations, a U.S. business will need to take care to determine if a product is eligible for export to Canada.
- Because Canada exports 80 percent of its total aerospace production, U.S. goods sold to Canada may end up reexported to a third country. This could necessitate an additional layer of compliance protocols for U.S. companies, depending on which compliance processes may be triggered.



Aerospace Exports

Both the U.S. and Canadian aerospace industries rely heavily on export opportunities. U.S. aerospace manufacturers export almost 65 percent of all production, while 80 percent of Canadian aerospace products are exported.

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The above discussion on aerospace requirements is in addition to customs and security mandates enforced by U.S. Customs Border Protection and the Canada Border Services Agency.

Facilitating the Export Process

An aerospace manufacturer also needs to be aware of numerous opportunities to facilitate the clearance process and minimize the impact of tariff obligations and other costs.

- **Duty Drawback:** U.S. businesses are entitled to a refund of up to 99 percent of import duties paid on products that are subsequently exported. The refund is officially called a “duty drawback” and is administered by U.S. Customs and Border Protection. The filing process is very complicated and most businesses do not bother to apply for refunds to which they are legally entitled. In fact, more than \$2 billion in drawback funds go unclaimed each year.
- **Tariff Classification:** Every product entering the United States must bear a 10-digit identifying code, as found in the Harmonized Tariff Schedule of the United States (HTS), which is maintained by the U.S. International Trade Commission. The HTS includes more than 17,000 different product classifications, and code assignments can vary based on slight product variations. Products that are misclassified run the risk of being assessed higher tariff rates than necessary or of missing out on trade benefit eligibility.
- **North American Free Trade Agreement (NAFTA):** A key NAFTA provision is the elimination of tariffs on virtually all originating goods traveling between the U.S., Canada, and Mexico. But determining whether or not a product fits within NAFTA's terms for “origination” can be tricky. To determine if a product is eligible for NAFTA benefits, it is necessary to consult NAFTA's rules of origin, which specify content requirements for all products. Once a product is determined to qualify for preferential treatment, a NAFTA Certificate of Origin must be completed.
- **Trusted Trade Programs:** The United States and Canada administer programs that grant expedited clearance to qualified participants. To qualify, a logistics or transportation provider must apply and undergo a rigorous screening process. These programs include the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) program, Canada's Partners in Protection (PIP), and the joint U.S./Canada program Free and Secure Trade (FAST).
- **Non-Resident Importer Program:** This is a program administered by the Canada Border Services Agency that allows U.S. businesses to compete “on a level playing field” in the Canadian market. U.S. businesses can act as “importer of record,” charge Canadian customers a landed cost at time of purchase, and enjoy a less onerous paperwork burden and clearance process.

To learn more about these and other supply chain innovations, visit www.purolatorinternational.com/whitepapers to download Purolator International's white paper: *Strong Demand Spurs Innovation and Efficiency in Aerospace Industry Supply Chains*.