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Evaluation of the Duties Relief and Duty Drawback Programs: External environmental influences [redacted]

[← Previous page](#)[Table of contents](#)[Next page →](#)

In this section

- [2.1 Transition of supply-managed goods](#)
- [2.2 2017 OAG Audit on Customs Duties](#)
- [2.3 U.S. imposition of tariffs in 2018](#)

Prior to 2018, there were a number of significant events that affected the Programs, including the transition of supply-managed goods (SMGs) ² into the Programs beginning in 2011; the OAG audit on Customs Duties in 2017; and, the imposition of tariffs on steel, aluminum and other products by the United States (U.S.) in 2018. All these changes impacted program performance, which will be examined later in the report.

2.1 Transition of supply-managed goods

According to the program, the DRP and Drawback Program were originally designed for use by the manufacturing industry. Importers and supply chain partners of SMGs began transitioning into the Programs in 2011. The use of the DRP accelerated in 2017, when SMG importers switched from the Import for Re-Export Program (IREP) administered by Global Affairs Canada (GAC) to the DRP, as it was considered a more straightforward and accessible program. The increased use of the DRP by some SMG importers required adjustments in program delivery.

2.2 2017 OAG Audit on Customs Duties

The 2017 OAG audit found weaknesses in the control framework for the DRP, which allowed some SMGs to be diverted into the Canadian market without the applicable duties being paid. The OAG determined that:

- The CBSA had few controls to ensure that goods imported duty-free under the DRP were, if not subsequently exported, reported to the Agency and that applicable duties were paid within 90 days of the date of diversion into the Canadian market, as required by the program; and,
- The Agency did not use some controls – such as requiring a financial deposit to participate in the program and having renewable licences for importers – to create more incentives for the importers to comply with rules.

2.3 U.S. imposition of tariffs in 2018

In June 2018, the U.S. government imposed tariffs on steel (25%) and aluminum (10%) imported from Canada in accordance with Section 232 of the *Trade Expansion Act*. In response, in July 2018, Canada imposed retaliatory tariffs by levying surtaxes on steel, aluminum and other products imported from the U.S. This led to an increase in the use of the DRP by Canadian importers for goods subject to surtaxes that were previously duty-free.

Footnotes:

- 2 Supply-managed goods – Dairy, chicken, turkey, and specific types of eggs. Supply management is the production and marketing system under which these goods are produced in Canada. The principle behind supply management is to ensure domestic demand is met while ensuring revenues for producers and stable prices for consumers. The system is based on three pillars: production controls, import controls, and price controls. (The 2017 Spring Report of the OAG on Customs Duties).

[← Previous page](#)[Table of contents](#)[Next page →](#)

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