

# **Understanding Import Regulations**

Trading Between Canada and The Philippines

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## **Executive Summary**

Canada and the Philippines are trading partners spanning multiple sectors including the cosmetic industry. Trade relations between the two countries in the recent years have experienced continuous growth. Canada is currently seeking opportunities to do more business with the Philippines.

Different import regulations in each country can pose barriers to successful trade, and thus forgone business opportunities. Government and industry requirements are factors to consider in international trade.

Successful compliance with country regulations will improve trade relations between Canada and the Philippines. Obtaining correct information, having the right expectations, and making adequate preparations are conducive to prosperous trade.

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## **Introduction: Canada and the Philippines as Trade Partners**

Widely regarded as a trading nation, Canada has the majority of its GDP dependent upon international trade (Trading nation, n.d.). To remain competitive in the current globalization market trend, the Harper government of Canada announced a new international trade plan in 2013, named Global Markets Action Plan, with the goal of increasing the presence of Canadian small and medium-sized enterprises (SMEs) in emerging markets (Foreign Affairs, Trade and Development Canada [DFATD], 2013). Under this plan, the Philippines is considered one of the priority emerging markets “with the best potential for Canadian commercial interests” (DFATD, 2014). The two countries currently have good trading relations. Chart 1 shows in million Canadian Dollars (CAD) the growth of total exports and imports between the countries.

Chart 1 also shows that Canadian exports to the Philippines have only increased once from the previous year between 2010 and 2014, and that imports are significantly higher than exports. A possible explanation of this is the differing import regulations of the two countries. Various import regulations encompass different trade sectors, but for the purposes of this report the cosmetic industry, specifically body lotion and hair shampoo products, will be studied and considered as an example.

## **Required Documents**

### **In Canada**

The main source of information of assistance for importing commercial goods can be found in the Canada Border Services Agency (CBSA) website. The necessary items that must be obtained by the importer prior (in green), during (in red), and after (in orange) importation are shown in Table 1.

An import/export account number issued by the Canada Revenue Agency must be tied to a registered Business Number before any importation can be done. Specific permits are needed to bring certain goods to Canada, but body lotion and hair care shampoo do not need such documents.

Canada and the Philippines are currently in discussions of a tariff agreement that would improve access to goods on both markets (DFATD). Meanwhile, applicable tariff treatment can be found in the Most-Favoured-Nation (MFN) Tariff list.

Value for duty is usually the amount paid in the purchase of goods. This value must be declared in Canadian Dollars.

A request to release goods is required when the goods reach the border of Canada. Customs broker handle the documents needed for this transaction but if an importer does not hire one, Table 1 shows (in red) the documents that need to be submitted. Alternatively, if an importer has a special permit approved by the CBSA, the goods may be released prior to submission of documents.

After receiving the goods, it is the responsibility of the importer to declare and inform CBSA of any changes in the accounting. If the importer sells the product commercially, a Notification of Cosmetics

form must be submitted to Health Canada within 10 days of placing the body lotion and/or hair shampoo on shelves (Health Canada, n.d.).

### **In The Philippines**

The Philippine counterpart of the Canada Border Services Agency is the Bureau of Customs (BOC); however, information on exact document requirements are not explicitly stated in the BOC website. The information in Table 1 on the Philippines is taken from an external source. It is possible that this information is not uploaded online by the BOC so importers from the Philippines might have to contact the agency directly for specific document requirements.

As Table 1 shows, there are less requirements to import body lotion and hair shampoo to the Philippines which might attract more companies to import; however, there is a challenge with the availability of these forms online.

There is list of documents pertaining to importation of cosmetics, however. In accordance with the ASEAN Harmonized Cosmetic Regulatory Scheme (see **Industry-specific Requirements: In The Philippines**) the following documents must be submitted (Department of Health, 2005):

1. Any of the following documents:
  - a. Certificate of Free Sale and License to Operate/Manufacture, or
  - b. Certificate of Free Sale and Certificate of Good Manufacturing Practice, or
  - c. Certificate of Origin, or
  - d. Certificate issued by the Board of Health or competent authority
2. The License to Operate / Manufacture or Certificate of Origin that the manufacturing plant meets hygiene, safety and quality national requirements
3. If no regulatory agency present, a recognized association may issue any document

## **Industry-Specific Requirements**

### **In Canada**

Health Canada of the Ministry of Health is the primary agency responsible for regulating cosmetic products sold commercially. Certain labelling specifications must be met before a body lotion or hair shampoo can be sold in the country. Currently, three Acts and Regulations govern the labelling of cosmetics:

1. Food and Drugs Act, Cosmetic Regulations;
2. Consumer Packaging and Labelling Act, Consumer Packaging and Labelling Regulations; and
3. Hazardous Products Act, Consumer Chemicals and Containers Regulations.

A summary of information that must be displayed on the labels can be found in Table 2. In the same table, some ingredients are listed that are either prohibited or require a precaution on the label.

Proper packaging and label placement of the product should be followed. There are also acceptable and unacceptable claims that can be used on the product. These are all explained in detail in the above Acts and Regulations found on Health Canada's website. It is important that importers fully understand these requirements to ensure that the goods they are bringing to Canada will pass inspection.

### **In The Philippines**

The Food and Drug Administration (FDA) of the Department of Health (DOH) regulates cosmetic products in the Philippines (Food and Drug Administration, n.d.). As an Association of Southeast Asian Nations (ASEAN) member, the Philippines signed an agreement to use the ASEAN Harmonized Cosmetic Regulatory Scheme, effective 2008 (ASEAN Cosmetic Association, 2008). The Member Countries include: Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Lao PDR, Philippines, Singapore, Thailand, and Vietnam.

A harmonized cosmetic regulatory system provides a more open trade in the region. With this scheme, body lotions and hair shampoos approved in one Member Country can be sold in another Member Country without having to undergo a meticulous customs process and product compliance. This also applies to non-ASEAN countries looking to enter the ASEAN market (ASEAN Cosmetic Association, 2008).

Table 2 shows the labelling requirements for cosmetics. The full list of restricted or prohibited ingredients can be found in an annex document of the ASEAN Cosmetic Drive (part of the Harmonized Scheme) which is not included in this report.

## **The Importing Process**

### **In Canada**

Canada Border Services Agency has a step-by-step guide on how to import in Canada, shown in Appendix Five.

The basic formula for the total duties and taxes is found in the CBSA website and is as follows (Canada Border Services Agency, 2015):

$$\textit{Total Duties and Taxes} = \textit{Customs Duty} + \textit{GST} + \textit{Excise Tax (if applicable)}$$

### **In The Philippines**

Importers with a bill of lading, a licensed customs broker, or a proxy for either can bring goods into the Philippines. An entry form must be filed to the BOC within 30 days of the last package discharge from the vessel; otherwise, the goods will be forfeited (Bureau of Customs, n.d.).

The Bureau of Customs (BOC) of the Philippines places a duty on all imported goods. The basic formula for the total duties and taxes is given by the BOC and is as follows (Bureau of Customs, n.d.):

$$\textit{Total Duties and Taxes} = \textit{Customs Duty} + \textit{VAT} + \textit{IPF} + \textit{Excise Tax (if applicable)}$$

For an overview of the importing process in the Philippines refer to Chart 2.

## **Recommendations**

Exporters from each country will benefit from the findings on the similarities and difference between the import regulations between the two countries.

### **Be Aware of Governing Agencies and Their Roles**

Before exporting to either the Philippines or Canada, the exporter must choose a product sector to bring their goods. Identify the government departments, associations, organizations, or regulating bodies that can provide support in bringing the product to the other country. Information such as legislation, duties and taxes, permits, and any other documentation must be researched and obtained before-hand to avoid delays and know the right people to contact.

### **Meet Product Requirements in the Destination Country**

This involves tailoring the product to be exported in accordance with the destination country's regulations. Exporters should ask themselves the questions, "Does my label meet the country's requirements?" and "Is any ingredient or part of my product restricted or prohibited from entering the country?"

### **Consider the Political and Economic States of Each Country**

While Canada is a developed country using best-practices in transparency and availability of information, the Philippines is still a developing country which can pose a challenge to exporters from Canada. The exporter must consider the availability of resource materials and the time it takes to process documentation requirements. Sometimes convoluted information can pose a problem to the ease of transport of goods between the countries. For Philippine exporters, Canada is generally stricter in the goods that are accepted and sold in the country. Bringing quality products to Canada is of utmost importance.

## **In Conclusion**

With the Philippines as a target market under the Global Markets Action Plan, it is especially important for Canadian companies looking to do business with the Philippines to understand the difference between trade regulations in each country. Research, preparation, and knowing the right authorities will be the key to smooth transactions and effective trade with the Philippines.

The Philippines, on the other hand, must strive to improve its current position as a trading partner to Canada. A report from Statistics Canada shows that the Philippines is not a principal trading partner (Statistics Canada, n.d.). Increasing the value of goods traded with Canada will change this. A good opportunity for Philippine exporters is the growth of Filipino immigrants in Canada (Cohen, 2015). This opens up a window and target market for Philippine exporters as demand increases for Philippine commercial products.

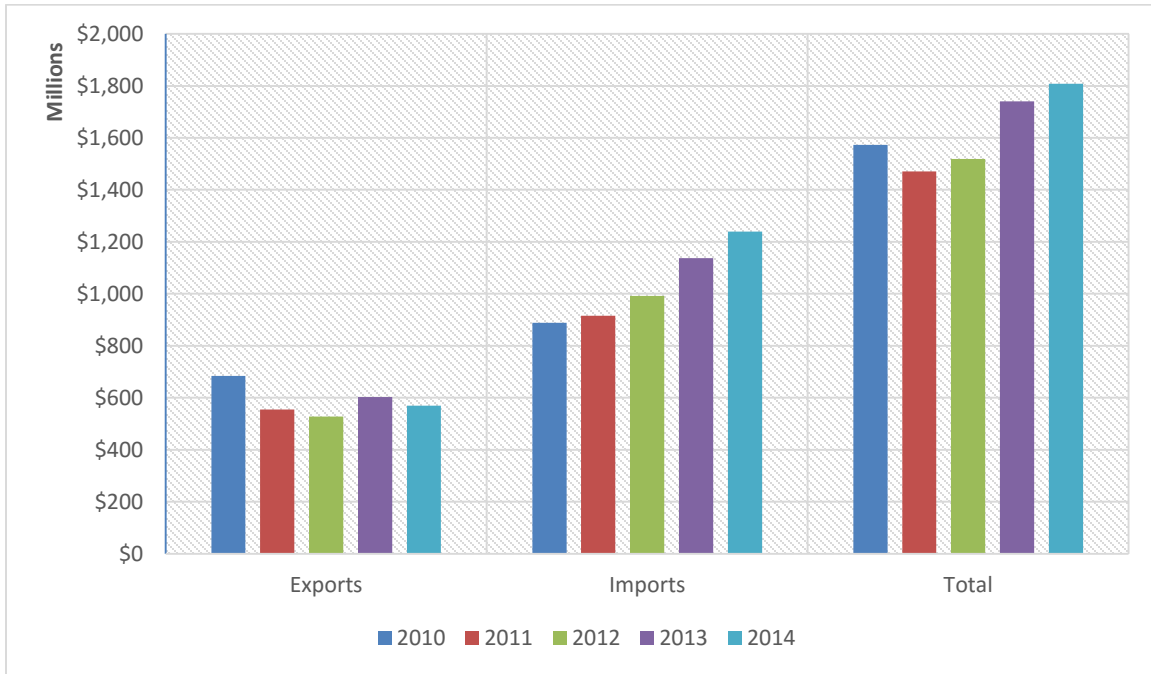
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## **Appendix One – Chart 1**



### **Bilateral Product Trade (Canada-Philippines) | 2010-2014**

- (Embassy of Canada in the Philippines, 2015)

**Appendix Two – Table 1**

Canada		Philippines	
Required Item	Source	Required Item	Source
Business Number	Canada Revenue Agency	Import Permit	Bureau of Customs
Proof of Origin	various	Certificate of Origin (if requested)	vendor
Tariff Classification Number	Canada Border Services Agency		
Applicable Tariff Treatment	Canada Border Services Agency		
Value for Duty (in CAD)	vendor	Commercial Invoice / Pro forma invoice	vendor
Canada Customs Coding Form	Canada Border Services Agency	Customs Import Declaration	Bureau of Customs
Cargo Control Document x 2	carrier	Packing List	
Canada Customs Invoice x 2		Bill of lading (sea) or air waybill (air)	
Canada Customs – Adjustment Request	Canada Border Services Agency		
Cosmetic Notification Form	Health Canada		

**Required Items for Importing in Canada and the Philippines**

- (Canada Border Services Agency, 2015)
- (SME Toolkit United States, n.d.)

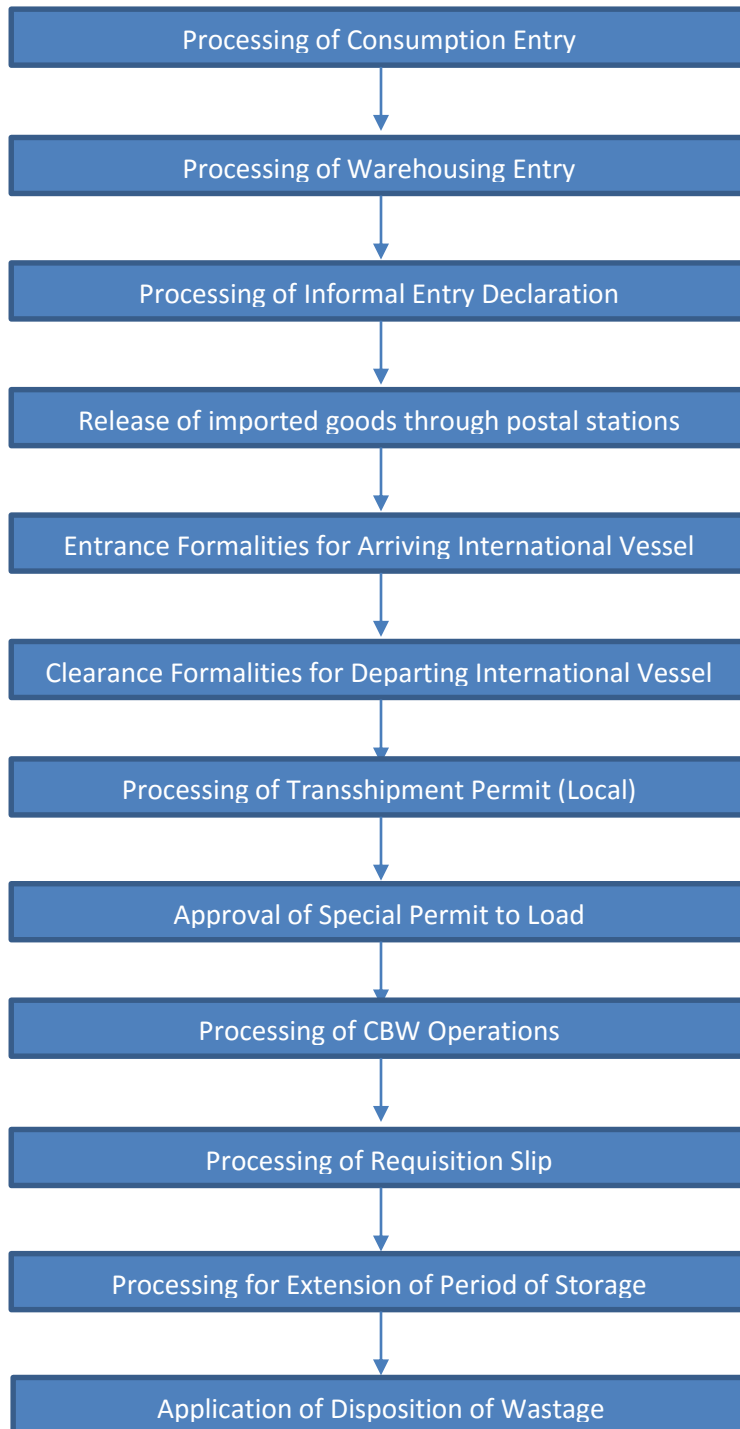
**Appendix Three – Table 2**

		<b>Canada</b>	<b>Philippines</b>
<b>Product information that appear on labels</b>	product identity (name)	✓	✓
	manufacturer's name and address	✓	✓
	manufacturer's batch number		✓
	dealer's name and address	✓	✓
	list of ingredients	✓	✓
	avoidable hazards and cautions	✓	
	expiry date or manufacture date		✓
	composition of product	✓	
	proposed use of product	✓	✓
	instructions for use	only mandatory if product can pose a hazard	✓
	net quantity	Metric	Metric only or Metric/Imperial
	language	English and French	English and/or language understood by consumers where product is marketed
<b>Restricted ingredients</b>	para-phenylenediamine	✓	N/A
	mercury and its salt derivatives	✓	N/A

**Cosmetic Product Requirements**

- (Health Canada, 2006)
- (ASEAN Cosmetic Association, 2008)
- (ASEAN Cosmetic Association, 2007)

## **Appendix Four – Chart 2**



### **Import Transactions**

- (Bureau of Customs, n.d.)

## **Appendix Five – List 1**

### Preparing to Import

1. Obtain a Business Number
2. Identify the goods you want to import.
3. Determine if you will use the services of a licensed customs broker.
4. Determine the country of origin for the goods you are importing.
5. Ensure the goods you wish to import are permitted into Canada.
6. Determine whether the goods you intend to import are subject to permits, restrictions or regulations by the CBSA or other government departments.

### Classifying your goods

7. Determine the 10-digit tariff classification number for each item you are importing.

### Determining duties and taxes

8. Determine the applicable tariff treatment and rate of duty.
9. Determine if your goods are subject to the goods and services tax (GST), excise tax or excise duty.
10. Determine the value of the goods you are importing.
11. Estimate in advance how much duty and taxes you will be required to pay.

### Shipping, examining and reporting

12. Place your order and select a method of shipping.
13. Report your goods.

### Getting your goods released

14. Obtain release of your goods.

### After your goods are released

15. Adjusting errors in the accounting information you submitted.
16. Keep all records pertaining to the import for six years.
17. Be aware that your importations may be verified and adjusted by the CBSA.

## **Step-by-Step Guide to Importing Commercial Goods into Canada**

- (Canada Border Services Agency, 2015)