



Ottawa, July 11, 2005

MEMORANDUM D13-3-4

In Brief

PLACE OF DIRECT SHIPMENT (*Customs Act, Sections 48 to 54*)

1. This Memorandum has been updated to reflect the information contained in Customs Notice N-557 dated March 17, 2004. The memorandum does not contain any policy or procedural changes but contains additional guidelines.
2. You will note that this Memorandum often refers to Memorandum D13-3-3, *Transportation and Associated Costs (Customs Act, sections 48 to 54)*. You may wish to consult Memorandum D13-3-3.



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Ottawa, July 11, 2005

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PLACE OF DIRECT SHIPMENT (*Customs Act*, Sections 48 to 54)

This Memorandum explains how the place of direct shipment is determined under the value for duty provisions of the *Customs Act*.

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Legislation

For the Regulations governing the guidelines and general information contained in this Memorandum, refer to Memorandum D13-1-2, *Direct Shipment of Goods Regulations*.

GUIDELINES AND GENERAL INFORMATION

1. The valuation sections of the *Customs Act* (sections 44 to 56) require that the transportation costs of the goods be determined to properly apply all methods of valuation. To determine how the costs are treated under all methods of valuation, you must establish the place of direct shipment. You will find the definition of “transportation and associated costs” in Memorandum D13-3-3, *Transportation and Associated Costs – (Customs Act, Sections 48 to 54)*.

PLACE OF DIRECT SHIPMENT

2. The extent to which transportation charges will be part of the value for duty depends on what is called “the place of direct shipment to Canada.” To establish the “place of direct shipment,” it may be helpful to examine the three following elements that are involved in the transportation of goods: the “event,” the “time,” and the “place.”

Event

3. Some type of event will have occurred to cause the goods to be shipped to Canada. In cases where the goods are sold for export to Canada, the sale for export would usually be the event which caused the goods to be shipped to Canada. The event will be based on each particular situation.

Time

4. The time is the specific moment the goods begin their journey to Canada. It will be the moment when Canada can be established as the specific destination for the goods. It is also from this time that the date of direct shipment is determined for purposes of calculating the value for duty in Canadian dollars.

Place

5. The place will be the physical location of the goods when the event and the time coincide.

Establishing the Place of Direct Shipment

6. The place of direct shipment is the physical location of the goods, following an event, at the point in time when the goods begin their direct and uninterrupted journey to a specific destination in Canada. This will usually be the location where the goods are loaded onto the carrier with Canada identified as the destination.

Example

7. A Canadian firm purchases 5000 jewellery boxes from a Mexican manufacturer. The jewellery boxes are manufactured and painted in Mexico City, they are packed in cartons and transported by truck directly from the manufacturer’s plant in Mexico City to Canada.

8. The sale between the Canadian importer and the supplier in Mexico is the **event** which caused goods to be shipped to Canada. The **time** is the moment the cartons containing the jewellery boxes are identified as being destined for a specific Canadian location. The coincidence of the event and the time serve to establish the **place** of direct shipment. Given these facts, the place is likely to be the manufacturer’s plant in Mexico City.

Transshipment

9. For a number of reasons, goods which are shipped to Canada may stop at a point along their route. If the journey is broken temporarily because the goods must change carriers, the goods are said to be transhipped. This point along the route is a transshipment point. Transshipment also occurs when goods are consolidated or deconsolidated to make shipping easier, more convenient or more cost effective. This type of stoppage along the way is not considered to interrupt the direct journey to Canada of the goods. Minor operations at the transshipment point, such as adding extra packing needed to protect the goods on the second carrier, are also not considered to interrupt the direct journey to Canada of the goods. In these cases, the transshipment does not affect the place of direct shipment.

10. It should be noted that activities at a point along the route which change or enhance the goods, or add extra value to them, might very well cause this second location to be considered the place of direct shipment. Also, if the goods are warehoused at a point along the route, for reasons other than transshipment, the warehousing point would be considered the place of direct shipment. This presumes that the goods are not again interrupted further along their route to Canada.

First Example

11. A Canadian importer located in Vancouver wishes to purchase plywood sheets. A Denver, Colorado company manufactures plywood sheets. Purchase orders are received by the company in Denver, from both American and Canadian customers. Once orders are received from the Canadian importer, the necessary amount of sheets are bundled together at the factory in Denver and shipped by truck to a reloading centre 100 kilometres from the company offices in Denver. The sheets are taken off the truck at the reloading centre and stored until they are shipped via rail to their Vancouver destination. The freight invoices show Vancouver as the destination of the goods. They also indicate the importer's commercial invoice number. The commercial invoice lists the importer as the Canadian buyer and shows the date of direct shipment. It also states that the goods are to be delivered to the importer in Vancouver.

12. The **event** that took place is the sale for export to Canada that caused goods to be shipped to the importer in Vancouver. The commercial invoice and the freight invoices show that Vancouver was identified as being the destination of the specific bundles of goods at the **time** the goods were shipped from the Denver factory. The reloading centre is only a transshipment point as the bundles are merely awaiting a carrier change. The coincidence of the event and time serve to establish the place of direct shipment. In this example, that **place** is likely to be Denver.

Second Example

13. Here is a situation, similar to the one described in the first example, except that the Denver company continually produces plywood sheets regardless of the orders that are received. Once the sheets are produced, they are immediately shipped to the reloading centre. Purchase orders are received by the company in Denver, from both American and Canadian customers. On March 15, the Canadian importer sends a purchase order to the plywood company in Denver requesting them to ship 2,000 sheets of plywood to its Vancouver warehouse. On March 17, at the reloading centre, 2,000 sheets are loaded onto a rail car. The ultimate destination of the plywood is shown as the importer's warehouse in Vancouver.

14. The **event** which caused 2,000 sheets of plywood to be shipped to the importer was the sale between the importer and the Denver, Colorado company. The **time** is March 17, which is the moment the loaded rail car identified by a "destination tag" to Vancouver begins its direct and uninterrupted journey to Canada. Again, the coincidence of the event and the time serve to establish the place of direct shipment. In this case, the reloading centre is the **place** as it is here only that the goods begin their direct and uninterrupted journey to Canada.

15. The plywood sheets may have been produced the day before, the day after, or the same day that the order was received. It is not important to know when the plywood sheets were produced or when they were shipped to the reloading centre. The key point to consider is that it is impossible to link the order with any specific sheets of plywood leaving the factory until the moment in time the plywood sheets are identified with a "destination tag" or other type of documentation such as a bill of lading, a waybill, or an invoice showing the importer's warehouse in Vancouver. When the plywood sheets leave the Denver, Colorado factory, it is not known at that time which specific sheets are destined for Canada. Denver, Colorado is therefore not the place of direct shipment.

Third Example

16. A Canadian importer negotiates a supply agreement with a Japanese manufacturer to purchase a certain amount of chain-saws, for a fixed price, over a one-year period. The importer does not have sufficient space in Canada to warehouse the chain-saws all at once. The manufacturer produces chain-saws regularly and transports them to its warehouse in Japan. The Canadian importer will issue release orders once a month for a specified number of the chain-saws. As per the agreement, the importer will pay on a monthly basis for the chain-saws shipped during the month. All orders received in Japan from various purchasers, including the orders received from the Canadian importer, are filled from stock in the warehouse.

17. The monthly release orders represent the **event**, not the supply agreement, since that agreement has not caused goods to be shipped to Canada. Each time a release order is issued by the importer, the specified number of chain-saws is prepared, identified as being destined to Canada, and shipped, therefore establishing the **time** upon which the goods will begin their continuous journey to Canada. It is the coincidence between the event and the time that causes the warehouse to be the **place**, and not a point of transshipment. Given these facts, the place of direct shipment is likely to be the warehouse located at the Japanese ocean port, not the manufacturer's premises.

Documentation Needed

18. In support of the value for duty declaration, an importer must possess documentation that indicates the place of direct shipment and the date of direct shipment (the date the goods began their continuous and uninterrupted journey to Canada). It should be noted that there is no prescribed requirement that only a specific document(s) is acceptable. Place and/or date of direct shipment may be identified on commercial invoices, confirmations of sale, destination tags, and freight invoices. A bill of lading may also be an acceptable source of information. Sometimes, however, a bill of lading may only cover the shipment from the seaport in the country of export to the Canadian destination. An inland bill of lading may also be needed to substantiate that the Canadian destination of the goods was known at the place and at the time the goods began their journey to Canada.

19. Documentation should also identify the event that caused the goods to be shipped to Canada. It may be necessary for importers to obtain this information from sources other than the vendor (e.g. agent, exporter, transportation company).

Example

20. An importer of clothing in Winnipeg places an order for cotton shirts with a manufacturer in Hong Kong. The importer instructs the manufacturer to ship the goods by boat to San Francisco. The importer makes arrangements to unload the goods at San Francisco where they are consolidated with other goods by a trucking company who will deliver them to the importer in Winnipeg.

21. The **event** which caused the goods to be shipped to the importer in Winnipeg was the sale between the importer and the Hong Kong manufacturer. The purchase order and the commercial invoice may document this. The **time** is the moment the goods left the manufacturer's plant in Hong Kong to begin their direct journey to Canada. The purchase order and commercial invoice should show that Winnipeg was the Canadian destination when the goods left the manufacturer's plant.

22. The coincidence of the event and time serve to establish the **place** of direct shipment. Given these facts, the manufacturer's plant in Hong Kong would be the place of direct shipment. San Francisco is only a transshipment point. As the goods changed carriers and were consolidated in San Francisco, the direct journey to Canada was not interrupted. Hong Kong could remain the place of direct shipment. The type of documentation required by the importer to prove that Hong Kong is the place of direct shipment might include the purchase order and the commercial invoice as well as the bill of lading and any freight invoices.

Currency Conversion

23. If any element of the value for duty calculation is expressed in a foreign currency it must be converted to Canadian funds using the exchange rate that is recognized by the Canada Border Services Agency for the foreign currency on the date of direct shipment. The CBSA's on-line currency converter tool can be accessed at www.cbsa.gc.ca/cgi-bin/currency.cgi.

ADDITIONAL INFORMATION

24. For more information on the place or date of direct shipment or currency exchange rates telephone the CBSA's Border Information Service at 1-800-461-9999 for service in English or 1-800-959-2036 for service in French. Additional information is available from the CBSA's Small and Medium-size Enterprises Info Centre at www.cbsa.gc.ca/sme/menu-e.html. A list of regional client services offices can be viewed at www.cbsa.gc.ca/general/amps/cservices. This memorandum and all other D13-series Memoranda are available at no charge from Internet site www.cbsa.gc.ca/import/methods-e.html.

REFERENCES

ISSUING OFFICE – Origin and Valuation Division	HEADQUARTERS FILE –
LEGISLATIVE REFERENCES – <i>Customs Act</i> , Sections 48 to 54	OTHER REFERENCES –
SUPERSEDED MEMORANDA “D” – D13-3-4 dated January 24, 2000	

Services provided by the Canada Border Services Agency are available in both official languages.

