



Ottawa, April 28, 2015

Memorandum D13-3-4

Place of Direct Shipment

In Brief

This memorandum has been updated to include information on the identification of the place of direct shipment to Canada of goods transported through an intermediate country before they are imported to Canada.

This memorandum explains how the place of direct shipment is determined under the value for duty provisions of the [Customs Act](#).

Legislation

[Customs Act](#)

[Direct Shipment of Goods Regulations](#)

Guidelines and General Information

1. Sections 44 to 56 of the [Customs Act](#) (the Act) require that transportation and associated costs of imported goods be determined to properly apply all methods of valuation. To determine how these costs are treated under all methods of valuation, you must establish the place of direct shipment. For more information on transportation and associated costs, refer to [Memorandum D13-3-3, Transportation and Associated Costs](#).

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. The event will be determined based on the circumstances of the importation. For example, in a case where goods are sold for export to Canada to a purchaser in Canada and the goods are shipped to Canada directly from the foreign vendor’s premises, the sale would be the event which caused the goods to be shipped to Canada.

Time

4. The time is the specific moment the goods begin their journey to Canada. It will be the moment when Canada can be identified as the specific destination for the goods. It is also from this time that the date of direct shipment is determined for the purpose of identifying foreign currency exchange rates so that the value for duty of the goods can be expressed 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 a specific location in Canada identified on transportation documents as their destination.

7. For example, a Canadian firm purchases 5,000 jewelry boxes from a Mexican manufacturer. The jewelry boxes are manufactured, painted, and packed in cartons at the manufacturer's plant in Mexico City and transported by truck directly from the plant to the firm in Canada.

8. The sale between the Canadian firm 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 jewelry 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 of direct shipment is the manufacturer's plant in Mexico City.

Transshipment

9. The [*Direct Shipment of Goods Regulations*](#) require that the direct journey of goods exported from another country with a Canadian destination that pass through an intermediate country must be uninterrupted. However, for a number of reasons, goods which are shipped to Canada may stop at some place 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 of the goods to Canada. Minor operations at the transshipment point, such as adding extra packing needed to protect the goods on the next carrier, are also not considered to interrupt the direct journey to Canada of the goods. In these cases, the transshipment does not affect the identification of the place of direct shipment.

10. It should be noted that activities at an intermediate point along the route, even if the goods remain under foreign customs control, which change or enhance the goods or add extra value to them will cause this intermediate point to be considered the place of direct shipment. If the goods are warehoused at a location along the route for any reason other than transshipment, even if they remain under foreign customs control, the warehouse would be considered the place of direct shipment. This presumes that the journey of the goods to Canada is not interrupted again along their route.

First Example

11. A Canadian firm located in Vancouver wishes to purchase plywood sheets. A Denver, Colorado company manufactures plywood sheets. Purchase orders from American and Canadian customers are all submitted to the factory in Denver. Once orders are received from the Vancouver firm, the requested amount of sheets are manufactured at the factory and shipped in bundles by truck to a reloading centre 100 kilometers from Denver. The commercial invoice prepared at the factory indicates the Vancouver firm as the purchaser, the date the bundles are transported to the reloading centre, and that Vancouver is the ultimate destination of the sheets. These bundles are taken off the truck at the reloading centre and stored there until six days later, when they are loaded on a single railcar and shipped to their Vancouver destination. The freight invoice from the rail carrier shows Vancouver as the destination of the sheets, and references the vendor's commercial invoice number.

12. The event that prompted the shipment of the sheets to Canada is the sale between the Denver vendor and the Vancouver. The commercial invoice indicates that Vancouver was identified as the destination of a specific amount of bundles of sheets 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 Denver.

13. In this example, assuming the requirements of the transaction value method are satisfied, any charge borne by the Vancouver firm to transport the goods from the place of direct shipment and invoiced separately is not to be added to the price paid or payable of the imported sheets. Any charge included in the invoice price to recover the

vendor's actual cost to transport the goods from the place of direct shipment may be deducted from the price paid or payable of the imported sheets.

Second Example

14. In a situation similar to the one described in the first example, the Denver company continually produces plywood sheets regardless of the orders that are received. Once the sheets are produced and bundled, they are immediately shipped to the reloading centre. On March 15, the Vancouver firm sends a purchase order to the Denver factory requesting them to ship 2,000 sheets of plywood to Vancouver. On March 17, 2,000 sheets at the reloading centre are loaded onto a rail car. The freight invoice from the rail carrier shows Vancouver as the ultimate destination of the sheets.

15. The event that prompted the shipment of the sheets to Canada is the sale between the Denver company and the Vancouver firm. 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 establishes the place of direct shipment. In this case, it is the reloading centre, as it is only from this place that the goods begin their direct and uninterrupted journey to Canada.

16. 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 Vancouver firm's 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 indicating the Vancouver destination. When the plywood sheets leave the 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

17. A Canadian purchaser 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 purchaser does not have sufficient space in Canada to warehouse the requested amount of chain-saws all at once. The manufacturer produces chain-saws regularly and transports them to its warehouse at an ocean port in Japan. The Canadian purchaser will issue a release order once a month for a specified number of the chain-saws. Per their agreement, the purchaser will pay on a monthly basis for the chain-saws shipped during that month. Release orders from various customers, including the orders received from the Canadian purchaser, are filled from stock in the manufacturer's warehouse.

18. The event that prompted the shipment of the chain-saws to Canada is the transmission of the monthly release orders by the purchaser, 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 purchaser, the specified number of chain-saws is prepared, identified as being destined to Canada, and shipped, therefore establishing the time the goods begin their continuous journey to Canada. The coincidence between the event and the time establishes the place of direct shipment. In this case, it is the warehouse, not the manufacturer's premises.

Fourth Example

19. A Canadian purchaser of cut and bundled flowers receives a shipment with a sales invoice from a grower in South America. The flowers were harvested in South America and then transported in bulk to a warehouse in the United States (US) where they were separated into lots and identified for delivery to individual customers both in Canada and in the US. The flowers were accounted for to US Customs upon arrival in the US and released from customs control. They were then sent to a local warehouse to be separated and packaged for individual Canadian and American customers.

20. The event which caused the specific quantity of flowers to be shipped to the Canadian purchaser is the separation of the flowers at the American warehouse following their release from customs control and not the sale between the purchaser and the South American grower. Even if the commercial invoice from the grower identifies the parties to the sale transaction and indicates that a quantity of the goods departed the place of export "destined for Canada", the fact that the goods are cleared by a foreign Customs authority precludes the grower's premises from being the place of direct shipment. The time is the moment at which the separation for packaging at the

American warehouse occurs. By clearing US Customs, the goods cannot be said to have passed “in transit” through the US. The accounting of the flowers to US Customs and their subsequent release was an interruption of their journey, and the time of direct shipment cannot be identified before the interruption occurred. The concurrence of the event and time establish the place of direct shipment. In this case, the American warehouse is the place of direct shipment.

21. Alternatively, if a quantity of flowers is separately identified as destined for Canada before leaving the grower’s South America premises and is delivered to a customs bonded warehouse in an intermediate country without clearing customs control or otherwise entering the intermediate country’s economy, then the event is the sale of the goods to the Canadian purchaser and the time is established when the goods were labeled with a Canadian destination. In these circumstances, the grower’s South America premises are the place of direct shipment.

22. In different circumstances, a quantity of flowers is harvested and delivered to a customs bonded warehouse in an intermediate country. Purchase orders from individual customers are only received after the flowers leave their country of origin. The event which causes the shipment to Canada is the sale of the goods to a Canadian purchaser. The time is established when the goods were labeled with a Canadian destination. In this case the labelling occurs at the customs bonded warehouse after the goods leave the grower’s premises. The warehouse is the place of direct shipment. Even if the grower anticipated selling the goods to a Canadian customer, no confirmation exists that Canada was the destination of the goods when they were exported from their country of origin.

Documentation Needed

23. 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 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.

24. Documentation should also support the identification of 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).

25. For example, a Canadian purchaser of clothing in Winnipeg places an order for cotton shirts with a manufacturer in Hong Kong. The purchaser instructs the manufacturer to ship the shirts by boat to San Francisco. The purchaser makes arrangements to unload the shirts at San Francisco where a trucking company will consolidate them with other goods and deliver them to Winnipeg.

26. The event which caused the shirts to be shipped to Winnipeg is the sale between the purchaser and the Hong Kong manufacturer. The time is the moment the shirts left the manufacturer’s plant in Hong Kong to begin their direct journey to Canada. If the commercial invoice only indicates that the shirts were sold to a Canadian customer for shipment to San Francisco, documentation from the trucking company would be necessary to support that the shirts were collected in San Francisco without clearing US Customs before being loaded with other goods for delivery to Canada. Such documentation supports that the place of direct shipment is the manufacturer’s plant in Hong Kong.

27. For more information on the treatment of transportation costs in a calculation of value for duty in circumstances where a Canadian importer collects its goods at an intermediate point outside Canada and subsequently imports them into Canada, refer to [Memorandum D13-3-5, *Treatment of Transportation Costs for Goods Delivered to a Location Outside of Canada for Subsequent Importation*](#).

Currency Conversion

28. 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 that foreign

currency on the date of direct shipment. For additional information on currency conversion, refer to [Memorandum D13-2-3, Exchange Rate for Calculation of Value for Duty Under the Customs Act](#).

Additional Information

29. For more information, within Canada call the Border Information Service at **1-800-461-9999**. From outside Canada call 204-983-3500 or 506-636-5064. Long distance charges will apply. Agents are available Monday to Friday (08:00 – 16:00 local time/except holidays). TTY is also available within Canada: **1-866-335-3237**.

References	
Issuing Office	Trade and Anti-dumping Programs Directorate
Headquarters File	79070-4-4
Legislative References	Customs Act Direct Shipment of Goods Regulations
Other References	D13-2-3 , D13-3-3
Superseded Memorandum D	D13-3-4, dated July 11, 2005