

Issue Date: February 2008

## **The Changing Landscape of Importing and Exporting**

Felix Pekar, [QuestaWeb, Inc.](#)

Manufacturers face a shifting landscape in the post-9/11 world. Like the changing images of a kaleidoscope, there are no steadfast givens or immutable rules. U.S. customs tariffs and regulations are amended daily, and responsibility for keeping abreast rests squarely with importers and exporters. And bigger change looms on the horizon. Importers may soon face a whole new set of requirements if a proposed security filing for ocean cargo, known as “10+2,” is approved. It will require importers, or their overseas agents, to report 10 additional data elements to U.S. Customs and Border Protection 24 hours prior to foreign lading, and ocean carriers will be required to report two new data sets as well. Most predict 10+2 is just the first in a long line of government demands for supply chain security information to come.

### **What Are the Challenges?**

For companies that are sourcing and importing many products or SKUs, one of the biggest challenges is the need to classify all those products, determine the documentation requirements associated with the assigned classification numbers, and attach all the required forms to the purchase order and commercial invoice. Depending on the product, several different harmonized tariff schedule (HTS) codes may be involved. Multiple government agencies may exercise jurisdiction over a single commodity, and each involved agency can generate a whole new set of documentation requirements. Then, of course, landed costs must be calculated, as well as a multitude of other tasks.

Knowing what regulations and advisories apply and what documentation is required is the single most demanding task manufacturers face. And, because most companies today are manufacturing or sourcing the same product in several different countries simultaneously, the complexity factor rises. There are highly variable compliance requirements for identical products manufactured in different countries.

Then, too, there is the issue of foreign vendors preparing the required documents themselves and the opportunities for error this presents. If there is even a minor problem, an entire shipment can end up in demurrage. Delays cost money, and goods not getting to the manufacturing line or retailers on time compounds expenses and creates cascading supply chain headaches.

Exporting is just as complex, even though a whole different set of issues apply. As each order is received, manufacturers must determine if the ordering company or individual appears on any denied party or convicted factory list. Making this determination requires screening against multiple lists. If the order can be shipped immediately, then one scan may suffice; however, production time typically necessitates multiple scans to ensure there has been no change in vendor status between order receipt and shipping time. Exporting, too, creates its own sea of documentation in the form of exporter declarations,

among other things.

A recent ruling by a U.S. district in Texas sent out shock waves of a different sort. It held that importers are responsible for providing customs country-of-origin documents under the North American Free Trade Agreement to justify preferential treatment. The company in that case was assessed a \$41.9 million penalty even though it argued its suppliers in Mexico and Canada bore all documentation responsibility.

### **How Do Firms Get into Trouble?**

Being compliant is a huge undertaking. There are ever-changing requirements. There is documentation to prepare. There are security checks to perform. There are records to maintain. Companies must maintain accurate files for every transaction against the possibility of an inspection or focused assessment. As the court case mentioned above indicates, other documentation requirements apparently loom as well.

So what are the trouble spots? Perception is part of the problem. Many companies mistakenly believe they don't have liability: "Our broker or freight forwarder does this for us" or "We only buy packages. I'm not the importer of record." The world has changed. Legal liability rests with the importer of record even if a firm is purchasing in a package environment.

Some companies still believe the process is manageable with staff and manual processes. In fact, Aberdeen Research Group estimates that the international supply chains of many large companies are, at best, only 50% automated. Why? Some are willing to pay the steep costs to maintain a staff of the size and expertise required; others simply don't know that the technology exists to help them. Some fear the process of integrating with back-end systems is too complex. Still others are content to patch homegrown systems together to meet each new requirement as it occurs.

While firms might attain an acceptable accuracy level relying on staff, the cost to maintain a staff of the size and expertise needed far exceeds the purchase price of global trade management (GTM) technology. And, with the dynamic nature of change in this ever more complex environment, there is no guarantee that human error will not occur. Sadly, errors eventually translate to demurrage costs, inspection fees, charge backs and so on.

### **GTM Provides a Solution**

GTM systems provide a comprehensive solution to all the challenges companies face. ABI-certified GTM systems allow direct receipt of electronic customs transmissions that capture changes in tariffs, classifications as they occur and immediately incorporate them within the system logic. These systems automatically generate and populate documentation and possess built-in checks and alerts when milestones are missed. Most importantly, only GTM can move customs compliance from the realm of "have to deal with every trade transaction individually" to managing trade by exception. That is, GTM only requires human intervention in those rare instances where the system cannot make a clear-cut determination.

True GTM products—not retrofit ERP solutions that seem to be the latest fad—respond to compliance challenges in a coordinated way. The firm’s logistics system is communicating with its ERP system, so there is one point of data entry and error rates decrease to almost nothing. The system automatically attaches binding rulings, ADDs/CVDs and other documents mandated by the HTS code to the purchase order or commercial invoice. The firm can manage vendors, identify manufacture identification numbers, perform scans against denied party lists and even automatically generate the documentation foreign vendors will require to move products out of their country and into the U.S. Product flow is visible. Personnel know where shipments and products are located. The importer/exporter is truly in control.

Because the GTM system captures activity from the point of order entry, supply chain visibility begins to emerge: when the order was sent to the vendor, when the vendor is ready to ship and what quantity of product is being shipped. Letters of credit can be settled, documentation can be generated automatically and entries can be built. The system prompts for missing documentation and provides alerts when pre-established parameters are exceeded or scheduled events are missed. As key information compiles on the company’s server, potential problems become evident before they achieve critical status. The impact pervades a company’s supply chain at every point, yielding control throughout.

Web-deployed GTM systems enable every member of the supply chain with a computer and a Web browser to participate at little or no cost. So when firms ask the inevitable question, “Where’s my stuff?”—staff doesn’t have to go to numerous freight forwarder and broker Web sites to find the answers or pay the prohibitive costs for commercial services that consolidate such information. All the participants in a company’s supply chain are inputting information in one place—their Web-based GTM system. The ultimate by-product is visibility across the supply chain.

#### **Additional Benefits**

Firms not only achieve compliance, visibility and trade control, they gain a way to better manage logistics costs because of the wealth of information coming back to them. Most studies project that logistics costs conservatively add 16% to overall product cost. Depending on the product, where it is manufactured and other factors, that add-on can translate to a lot of money—as most importers will tell you.

GTM software solutions allow companies to utilize their system during product development to determine where to source items and which countries offer preferential treatment or special programs to lower the costs of manufacturing. They can establish landed costs on several levels. The impact of such a tool on a company’s bottom line can be tremendous as companies then gain the ability to control trade from the point of product conception. What’s more, because GTM systems accurately track product movement from vendor to freight forwarder to customs brokers to distribution, firms can compare up front what they are spending on logistics and how well they are moving products. They can make pre-allocation decisions well in advance of product arrival at the distribution center.

**What Lies Ahead**

While the future is uncertain in most respects, importers and exporters can be sure that more change will follow. Companies need to know that technology can simplify the process and give their highly skilled personnel the tools they need to perfect their supply chain. Company size doesn't matter when it comes to the need for technology to manage importing and exporting operations today. Neither does the vertical in which a company operates. Information that allows firms to manage trade is what counts. When a company achieves that level of control, everything else falls in place.

**Find this article at:**

<http://www.gcimagazine.com/articles/15520882.html>