Global Trade Compliance: Ensure perfect delivery through minimized delays, costs, and trade risk

By Steve Banker and Clint Reiser

Global trade is highly complex! What a regular person might call "baby food," for example, a trade compliance person would describe as "homogenized composite food preparation." A hair dryer is an "electrothermic hair dressing apparatus;" before you can determine the tariff associated with rayon, you must know whether it is an "artificial" or a "synthetic" fiber. You would think an automotive part, like a car alarm, would be listed in the automotive section of the global tariff tables. It is not. It is an "electronic signaling device." Trade compliance officers must learn to speak a specialized jargon and think in a way that is often incomprehensible to outsiders.

The Harmonized System (HS) of commodity classification is a commodity description and coding system comprising more than 5,000 commodity groups, each identified by a six-digit code, that is used by customs agencies on a worldwide basis to determine proper treatment and tariff rates. Using the right HS codes allows companies to pay the correct tariffs. But, as you can see, the difficulty in correctly classifying goods is linked to the fact that there is often a large difference between how products are described commercially and how they are expressed in the HS codes. Further, every country or trading bloc has its own unique taxonomy past the first six, standardized digits. Properly classifying an import as a lower tariff item can have financial benefits to the company. Meanwhile, improperly classifying an import can have undesirable consequences such as customs delays, fines, and penalties.

And global trade is not getting any easier. Trade regulations change all the time. For example, free trade agreements provide incentives for trade between countries within the trade zone. But strict criteria must be met to avoid tariffs. A certificate of origin must consider value-content thresholds to obtain clearance and preferential treatment under free-trade agreements. But the pace of regulatory change is increasing in the era of economic nationalism, while the amount of time a company has to prepare for changes to go into effect is decreasing. With companies now looking to restructure their supply chains in light of the Covid pandemic - and aiming to make where they sell, and source where they make – it has never been more important to take trade regulatory and compliance considerations into account.

When it comes to the perfect order, companies need solutions that enable on time deliveries. But a high score on the perfect order metric is counterproductive if many of those orders are not profitable. The goal is to achieve perfect deliveries profitably. The problems are further exacerbated where trade compliance activities are not integrated into the rest of the supply chain. Delays can become commonplace when trade controls are only reviewed once production has been completed and the orders are ready to ship. Far better for the trade compliance team to be given visibility of the order/shipment pipeline so that their activities can be synchronized with those of the logisticians. These are just some of the reasons why achieving on-time deliveries, and doing this profitably, is made so much more difficult by global trade complexity.

Global Trade Compliance, the Critical Application

In global business-to-business (B2B) supply chains, perfect delivery requires alignment between production, trade compliance requirements, and transportation. In business-to-consumer (B2C), cross border ecommerce shipments are rapidly increasing.[i] Consumers in the West are looking for bargains. Consumers in third-world countries have developed a burgeoning appetite for branded luxury goods. The critical applications in the B2C value chain include ecommerce platforms, transportation management systems (TMS), and global trade compliance. Regardless of the value chain, global trade compliance is critical for effective management of cross-border shipments.

Trade compliance solutions automate and streamline the discovery, creation, retention, analysis, and communication of information about international supply chains that is required by customs and other government authorities responsible for the regulation and taxation of cross-border trade.

Global trade compliance (GTC) solutions support communications with international government authorities regarding: duties, tariffs, and preferential treatment requirements; non-financial trade regulations issues, such as restricted parties, government licensing of export rights for controlled items, and other regulations.

GTC and Perfect Delivery

Consumers demand transparency and few things impact brand loyalty more than unexpected delays or surprise charges. If the trade documentation filings associated with cross border shipments are incomplete or contain errors, shipments can be held up at the borders resulting in supply chain disruptions and delivery delays. Perfect delivery is about more than on-time deliveries. Consumers that place e-commerce orders and are subsequently charged surprise tariffs are not likely to be repeat customers.

Assuring perfect delivery for cross border e-commerce shipments is tricky. The ecommerce platform must be integrated to the GTC solution. If it takes too long to calculate the total landed cost inclusive of transportation and tariffs, the cart is likely to be abandoned by the shopper. The ecommerce site must be able to call out to highly scalable trade compliance/transportation management solutions and receive the necessary shipping information very quickly.

Global Trade Compliance and Profitable Orders

Global trade compliance solutions save money by automating and providing visibility to many of the activities around trade. But for companies with global supply chains, the ability to optimize sourcing elevates trade solutions from a "nice to have" to a strategic necessity. Achieving profitable global trade relies upon up to date trade content on preferential trade agreements, free trade zones, and duty drawbacks.

Global trade compliance solutions provide critical input for analyzing component sourcing data for country-of-origin requirements in free trade agreements. But things are changing so fast that global companies need more than this. They need a GTC tool that helps them quickly analyze how changing duties impact the total landed costs of a product. Analysis of future tariff impacts in forecasting scenarios provides clarity around those potential impacts to the bottom line.

Such basic visibility helps companies to prepare for tariff increases, understand the financial impacts, and mitigate risks. More sophisticated capabilities provide the ability to evaluate potential options, such as where there are other supply sources with lower tariff rates. This ability to run scenarios allows decision-makers to better manage amidst the turmoil. Companies cannot be expected to keep up with change by manually taking data from different sources and doing an analysis on a spreadsheet. Manual solutions are not fast or reliable enough.

Some of the automotive provisions in the new United States-Mexico-Canada Agreement (USMCA) provide a case-in-point. There are several requirements that must be met to qualify for tariff-free trade. These include increasing the North American content from 60 - 62.5 percent to 75 percent. These requirements further stipulate that 40 – 45 percent of North American auto content be made by workers earning at least $16 per hour.

So a what-if scenario analysis on a vehicle requires engine country of origin data, labor rates at the component factory, country of origin data for autobody materials such as steel and aluminum, and a way to add up the costs of all the components in a bill of material to insure that at least 70 percent of the cost of the final product comes from North American parts.

Key Take-Aways

Here are a few things to keep in mind.

- Many companies depend on freight forwarders or customs brokers to classify their goods and file all the correct forms. However, if an error is made, the seller of goods is typically designated as the exporter of goods and the party responsible for paying the fines. Similarly, when importing, compliance responsibility typically falls on the purchaser of imported goods. Finally, companies who have insourced trade compliance often find they can respond with greater agility to unexpected disruptions.

- The architecture of these solutions matters. Staying on top of the everchanging regulations is aided by a cloud solution. Among the advantages of cloud solutions is their frequent updates that ensure users always have access to current trade data and capabilities. This contrasts to legacy on premise systems, where companies must continuously apply new patches as regulations change. Cloud solutions also tend to be implemented more quickly and upgraded more easily.

- No GTC solution covers all the trade and compliance requirements of every country. There are just too many regulations. Only a few trade compliance suppliers offer extensive trade content coverage.

- Driving perfect deliveries for global supply chains requires more than trade compliance solutions. Fulfillment applications that reside on a common platform can provide better end-to-end visibility, scenario planning, and responsiveness to disruptions.

More Resources

- Above, we examined the complexities of global trade compliance, and outlined the core technologies needed to achieve this. This article is supported by three additional articles that go into more depth on these core technologies. These articles include Seamless Order Orchestration: Simplifying and Delivering Orders; Adaptive Logistics: Overcome Disruptions and Exceed Expectations; and Perfect Delivery: The New Rules for Survival, Innovation, and Growth.

[i] "Global cross-border e-commerce grows 21%", Katie Evans, Digital Commerce 360, July 28th, 2020.