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Automating export compliance

Export compliance violations don't just happen to people or companies with bad intentions. They can happen to any company that fails to invest in following the many rules and guidelines that govern international commerce.

According to the U.S. Bureau of Industry and Security's export compliance guide, *Don't Let This Happen To You*, published in July 2008, some notable brand name companies have been heavily penalized during the past 10 years.

Fujitsu Network Communications was fined \$125,000 after disclosing it shipped technology on multiple occasions without the proper licenses. Henry Schnein Inc. was fined \$165,000 for sending dental equipment to Iran without the required authorizations. Bass Pro paid roughly \$500,000 in fines related to multiple shipments of gun sights. Energy giant Dresser and seven affiliates paid \$1.1 million in fines related to 141 shipments of oil industry-related items to countries that include Iran, Iraq, Libya and Cuba.

The point is there are legitimate enterprises that are paying real money for offenses that could have been avoided if the correct controls were in place.

"Failure to comply with the export regulations can result in penalties and, even worse, denial of export privileges to one or more countries," said Beth Peterson, president of global trade consultancy BPE. "The risk that non-compliance poses to a company's bottom line is unacceptable to most boards of directors."

When this critical operation is managed manually the risks of large penalties significantly increase. Eliminating, or at least reducing, the possibility for human error is the key return on investment an exporter sees after automating compliance.

"Technology allows companies to get visibility to all export transactions, screen the transactions to ensure party and product compliance and create documentation that communicates the company's trade data and instructions to all supply chain partners," Peterson said.

From a functionality perspective export compliance technologies provide four main features:

- Screening. Checks shipment details against current regulations to determine required licensing.
- License management. Applies licensing requirements and tracks progress in securing them.
- Documentation. Generates trade documents with necessary content.
- Connectivity. Plugs into internal and external systems to ensure all departments and parties worldwide have the same information related to each shipment.

"The main issue is lack of consistency and repeatability with a manual process," said Brian Amero, global compliance and regulatory affairs manager for Teradyne, a testing equipment supplier to semiconductor, electronics and automotive manufacturers.

"The trade compliance officer can never move to the next compliance task knowing the risk that manual processes will perform as designed," Amero said. This stretches resources thin instead of allowing focus to be placed on potential threats.

This may sound like a productivity benefit and to some extent it is. However, compliance managers tend not to measure their return on export compliance systems in those terms. Rather, this is a risk management exercise where the automation provides certainty in the integrity of the process and allows compliance managers to focus on critical troubleshooting.

"The vast majority of export transactions require no manual involvement, so reviewing these orders manually is a complete waste of time," Amero said. "With automation, the compliance analyst can focus on export shipments that have issues, such as possible denied parties, products that may require a license exception."

In the past, export compliance technology was only within reach of the biggest exporters due to the expense of installing and managing a niche system. Hosted or "on-demand" export compliance systems made available through vendors, such as Management Dynamics, Kewill and TradeBeam, have brought this functionality to the masses.

"Small and medium-sized exporters are turning to hosted solutions like Export On-Demand to lower overall costs and get up and running faster," said Nathan Pieri, senior vice president of product management and marketing, Management Dynamics. "The hosted model is super efficient because you share the costs of hardware and software across a number of customers. Also, the implementation is streamlined and customers need minimal support from IT, all factors that help speed the time-to-benefit."

"I'm a big fan of hosted export compliance products," Amero said. "They can be up and running quickly with minimal IT involvement."

The decision on export compliance technology is not so much if your company should have it. Assuming your company exports products and is subject to the laws and guidelines that govern U.S. commerce, the decision is how much technology you need.

"Companies with any international transactions are candidates," Peterson said. "However, the volume of shipments drives the need for technology. The higher the volumes, the bigger the need for automated processes."

"If a company is performing more than a few export shipments per week then the task should be automated," Amero added. "The cost to automate is relatively small compared to the money spent on lawyers and possible penalties."

"Also, any exporter with controlled products other than EAR99 (Export Administration Regulations for items not listed with a specific Export Control Classification Number on the Commerce Control List) or International Traffic in Arms Regulations (ITAR) jurisdiction would be a very good candidate because of the increased risk that they could ship an item that is controlled without a license or the necessary authorization," Peterson said.

For companies looking to get started automating their export compliance function Amero suggests



Peterson



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