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BPE Global Hot Topic – August 2018

My Mother Knows What I Do

I've always joked that my mother had no idea what I do for a living. Looks like I'll have to find a new joke, because she, like everybody else, is now well acquainted with the concept of global trade compliance given the daily headline news.

The current reality is that trade actions, tariffs and retaliatory tariffs are being levied by nations representing over 75 percent of the world GDP (based on projection by the International Monetary Fund). The Americas, China and the European Union represent the largest tariffs and proposed tariffs ranging from five to 50 percent on $345 billion worth of products. India, Japan, Russia and Turkey are also in the mix with between five and 100 percent on $17 billion of impacted products.

It is impossible to miss the impact of these global actions. Domestic companies can't find affordable sources for the materials they need to build their products. Companies whose products were once duty free, now have duties to reconcile into their forecast. There's even a boat filled with soya beans circling the Yellow Sea in China because it would cost approximately six million dollars to bring the goods into China with the retaliatory tariffs. Today, there is a microscope focused on global trade compliance in a way that even the most diligent companies could not have projected.

I've been saying that our world is global for years now. I still speak to companies every day who realize that they can't keep operating at the status quo. Their unwritten policy of relying on their freight forwarders and customs brokers to make their export and import declarations just won't hold up any more. It is time to make the days of allowing your operations and shipping personnel to sort out what information to put on an invoice based on what the customer asks a thing of the past.

I'm learning from these daily experiences that companies and their customers who have failed when it comes to correctly classifying their products run the risk of being ignorant to the fiscal impact to their companies – both positively and negatively. In addition – they face potentially disastrous customer satisfaction issues. One company received complaints from their European customers stating that their products were subject to 25 percent retaliatory tariffs. Turns out, their customers were importing their products under the wrong tariff number. We were able to significantly improve customer satisfaction by providing a classification determination for the products, so our client could educate their customers.

Another critical area that companies are being blindsided are customs bonds. In the U.S., the Section 232 and Section 301 tariffs are resulting in duties levied on companies that had duty-free product to date. In the past, these companies had nominal bond amounts because of the lack of duty exposure. Now, Customs is issuing Insufficient Bond Notices to Importers impacted by these tariffs. Customs is terminating insufficient bonds and are demanding that companies replace their insufficient bonds with new bonds with the correct values. This is a major issue for companies that may not be able to afford the higher bonds or get the collateral to secure the bond. Remember, you can't import without a customs bond.

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One other area commonly neglected by companies are Incoterms. Companies who routinely ship products to customers Delivered Duty Paid are getting quite a wake-up call when their previously duty-free products are now subject to duties ranging from five to 100 percent.

If my mom knows what I do, then we all need to get in gear and figure out a strategy to deal with the situation. My recommendation is to start with your Customs bills. What are you paying today and why? Are your products being correctly declared? Don't stop with your local operation. Look at your global operations and deep dive into your supply chain- you'll surprise yourself with how much opportunity for improvement there is.

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