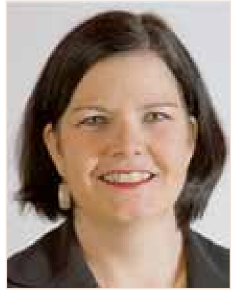

Beth Peterson
president,
BPE
beth@bpeglobal.com

Global trade resolution for 2011

The New Year is all about resolutions, right? Well, my resolution for 2011 is to help company executives realize the strategic value that global trade compliance offers their companies.

If managed right, a global trade strategy can help a company reduce costs while accelerating their supply chain. It is critical that corporate leaders consider global trade compliance at the same time they are forming new product development and sourcing strategies. Failure to do so adds significant risk that is completely avoidable. And frankly, shareholders should start holding corporate executives accountable for known and avoidable risks.

So, let's say you have a chief executive officer who hears this challenge and says, "alright, tell me what our global trade compliance strategy should be?" What should you do?

Let's start with the basics — pretty much everything relating to global trade starts with your products, software and technology. The Harmonized Tariff System (HTS) provides the framework for a company to determine what an item is in the eyes of Customs.

With the HTS classification code, you can definitively calculate the duty and tax exposure your company faces in every country of importation. In addition, the HTS code also allows you to identify any other government agencies that have jurisdiction over your products. By assigning an HTS classification code to your products, you can ensure awareness of — and compliance with — local customs and regulatory agencies prior to the arrival of your first shipment.

This information is critical knowledge to possess when you are developing new products because it is important to know what markings, labeling and/or certifications your product requires prior to beginning production. With this information in hand, you have a firm grasp on the total landed cost not only to import your product but to manufacture it.

The next thing that you should do as part of your global trade compliance strategy is to determine the export controls for your products, software and technology. Export controls will affect where you manufacture your products, whom you can sell your products to and where you can ship them to with or without a license. The origin of the technology used to create your product determines the jurisdiction of export controls for your product.

You must understand the export control regulations for each country in which your technology originates. And you must implement the proper safeguards to ensure that you comply with global export regulations as you design, develop, manufacture, distribute and service your products.

Hopefully, by this point your executives can see the importance of knowing the HTS classifications and export controls for items prior to considering any sourcing strategies. Companies that fail to understand this may choose a product design center in a country that has restrictive export controls or may choose a component supplier from a country that results in high duties.

Next, look at sourcing options. For products manufactured or produced in a single country, the country of origin is the country in which an item was wholly manufactured, produced or grown. However, most companies do not source and manufacture in a single location.

When a product is produced in two or more countries, the country of origin in most cases is the location where the product was "last substantially transformed." Thinking strategically about where you design, source, manufacture and service products can have a huge impact on your bottom line.

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Lastly, you should look at the International Commercial terms, or Incoterms, that you sell and ship your products under. Published by the International Chamber of Commerce, the recently updated Incoterms 2010 are used to divide transaction costs and responsibilities between buyer and seller and, if used correctly, can help ensure profit margin. Using incorrect Incoterms can have a negative financial impact on your company.

If you have a product with a profit margin of 6 percent and your landed cost calculations do not include freight, but the product is shipped under an Incoterm that requires your company to pay for freight, you will quickly eat up your entire margin and take a loss on the product.

So ring in 2011 by making sure you assign a HTS and export control classification number for your products at the point of concept, and refine the classifications at new product introduction. And if you haven't already done so, make sure that your executive, research and development, engineering and sourcing teams all understand how important it is to have a global trade compliance strategy that includes appropriate sourcing strategies and Incoterms prior to shipping your finished goods.

BPE is a global trade consulting and training firm.