Global Trade Management:
Best Practices for Optimizing International Supply Chains and Trade Operations

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Global Trade Management: Best Practices for Optimizing International Supply Chains

Introduction

Jerry Peck
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What I’d Like to Share Today:

1. **Defining Global Trade Management (GTM)**
2. **Planning for Disruption**
3. **Best Practices: Trade Optimization Strategies**
1. Defining Global Trade Management
**WHAT IS GLOBAL TRADE MANAGEMENT?**

“The practice of streamlining the entire lifecycle of global trade across order, logistics, and settlement activities to significantly improve operating efficiencies and cash flow . . .”

Global Trade Management: Best Practices for Optimizing International Supply Chains

KEY END-TO-END ACTIVITIES

1. PRODUCTION PLANNING
2. ORDER MANAGEMENT
3. SUPPLY CHAIN MANAGEMENT
4. FREIGHT/LOGISTICS
5. PROOF OF DELIVERY
6. ORDER SETTLEMENT
WHAT IS GLOBAL TRADE MANAGEMENT?

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“. . . The key objective of any GTM package is to manage import and export functions . . .”

Global Trade Management: Best Practices for Optimizing International Supply Chains
Global Trade Management: Trade Optimization Strategies

ORGANIZING GLOBAL TRADE MANAGEMENT

Key Operational Requirements

- Risk Management
  - Regulatory Compliance
  - Trade Security
  - Planning & Preparedness

- Trade Optimization
  - Duty / Tax Minimization
  - Trade Process
  - Logistics & Transportation
Global Trade Management (GTM) and Best Practices

2. Risk Management: Planning for Disruption
Global Trade Management: Supply Chain Disruption

TRADE ISSUES GETTING CEO’s ATTENTION…
Global Trade Management: Supply Chain Disruption

RISK-AVERSION STRATEGIES

Brexit:
- Re-evaluate your EU distribution
- Ensure adequate Brokerage services
- Re-balance EMEA inventories
- Create a risk-planning working group for proactive contingency planning

https://www.gov.uk/
Global Trade Management: Supply Chain Disruption

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Global Trade Management: Supply Chain Disruption

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Global Trade Management: Supply Chain Disruption

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Global Trade Management: Supply Chain Optimization

EMERGING SOURCING STRATEGY

TRADITIONAL
- Typical Procurement Model:
  - Right Quality?
  - Right Price?
  - Availability and Demand?
  - Total Landed Cost?

EMERGING
- Adds Risk-Based Indexing:
  - Single-sourced/strategic?
  - Distance & ‘Touch Points’?
  - Weather?
  - Geo-Political?
  - Crime & Corruption?
  - Ports & Road Infrastructure?
  - Sufficient Labor & Utilities?

Just in Time…

Just in Case
DISRUPTORS: EMERGING TECH

Potential “Disruptive” technologies

“A disruptive innovation is one that disrupts an existing market and value network, displacing established market-leading firms, products, and alliances”.

Source: Wikipedia.org
DISRUPTORS: EMERGING TECH

Industry “Disruptors”:

1. Big data: business analytics
2. Industrial internet of things (“IIoT”)
3. Additive manufacturing (“Digital Printing”)
4. Blockchain
5. Artificial intelligence (“AI”)
**DISRUPTORS: EMERGING TECH**

*Blockchain* holds promise for tracing physical assets such as food, drugs, aerospace and conflict minerals, *but*...

- Doesn’t ensure **accuracy** of original data
- Potential for substitution ("How do you stamp a cryptographic key on a tomato?")
- Requires participation by **all parties** in your supply-chain
- May still require third-party auditing
DISRUPTORS: EMERGING TECH

- Artificial Intelligence (AI):
  - “General”- Self-learning, like humans
  - “Narrow” – (1) Machine learning
    (2) Expert systems
Artificial Intelligence

Dr. Kai-Fu-Lee
- Artificial Intelligence Expert
- Previous President of Google China

Global Trade Management: Supply Chain Disruption
3. Trade Optimization Strategies
CREATING VALUE FOR TRADE COMPLIANCE

- Get your department recognized by developing an identity:
  - Name
  - Logo
  - Mission Statement
Global Trade Management: Trade Strategies

CREATING VALUE FOR TRADE COMPLIANCE

- Branded the department as “International Trade Compliance” (ITC):

ITC’s Mission Statement:

The mission of Sanmina’s International Trade Compliance (ITC) department is to ensure that the company’s trade operations are conducted in full compliance of all applicable laws and regulations, while proactively identifying strategic trade programs and/or best-practices that can generate competitive advantages for both the company, and its customers.
Global Trade Management: Trade Strategies

CREATING VALUE FOR TRADE COMPLIANCE

- Include a Trade Compliance ‘tile’ on your Intranet page, with links to:
  - Department contact info
  - A Web-based Compliance Manual:
    - Policies (the Why) and Procedures (the How)
Global Trade Management: Trade Optimization Strategies

CREATING VALUE FOR TRADE COMPLIANCE

- Get your department recognized by developing an identity:
  - Name
  - Logo
  - Mission Statement

- Avoiding Penalties is not enough…
  - It may be “Job One”, but it rarely gets recognized
  - Keep metrics that highlight risk and that make your efforts measurable
TAX VERSUS CUSTOMS: COMPARING RISK

Federally Regulated?
Complex Laws/Rules?
Calculation of Revenue?
Subject to Audit?
Subject to Penalties?

Imp/Exp penalties estimated to be as much as 8x higher than the IRS
### Global Trade Management: Trade Optimization Strategies

#### TAX VERSUS CUSTOMS: COMPARING CORPORATE SUPPORT

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**TAX**
- Department Head: VP
- Corporate Alignment: TAX
- Reporting Structure: CFO
- Sufficient Staffing: ✔️
- Supporting Systems: ✔️

**TRADE COMPLIANCE**
- Manager or Director (rarely VP)
- Supply Chain, Logistics, Legal, Transportation, Treasury, Tax…
- Other Dept Director/VP or Legal personnel
- Rare -- always a battle
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TRADE OPTIMIZATION

The “3Cs” of trade optimization: Compliance, Cost and Cycle-time

Whether an issue was regulatory or economic, an improvement in one generally led to related improvements within others…
Global Trade Management: Best Practices

Operating Cost Strategies

- Consolidate Brokers – renegotiate service fees
- Leverage your Broker(s) to cover gaps in staffing
- Use Automated Clearing House (ACH) to improve cash flow
- Review and question your company’s business and practices
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STRATEGIC SOURCING: TRANS-SHIPPING VS. DIRECT

CHINA

- Transit time: 3-6 days
- Added Costs: Duties & service fees
- Added Risk: Damage, theft, weather, carrier mechanicals, clearance issues, additional regulatory oversight

UNITED STATES

MEXICO
STRATEGIC SOURCING: TRANS-SHIPPING VS. DIRECT

CHINA

• Average transit time: 1 day

UNITED STATES

• After Comparing Total Costs:
  — Apples-to-Apples cost-neutral
  — Eliminated costs associated with expedited replacement orders
  — Improved profitability by eliminating expedited replacement orders

• Other Benefits:
  — Increased confidence in shipment ETAs equated to better production planning

MEXICO
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Duty Optimization Strategies

- Strategic Sourcing
- Foreign Trade Zones (FTZ)
- Duty Drawback
Duty Drawback

**PROS**
- New “Pairing” Rule
- Refund of 99% of original duties paid
  - Includes Section 301/232 special tariffs

**CONS**
- Additional services fees
- Requires all supporting docs/data
- Will subject you to greater oversight
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Duty Optimization Strategies

- Strategic Sourcing
- Foreign Trade Zones (FTZ)
- Duty Drawback
- Free Trade Agreements (FTA)
Free Trade Agreements (FTA)

Globally, organizations miss out on 70% of the Free Trade Agreements available to them.

- Complexity of Rules of Origin: 41%
- Lack of internal expertise: 31%
- Lack of personnel to manage: 28%

Source: Thomson Reuters & KPMG
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Free Trade Agreements (FTA)

“Companies leveraging FTA as part of an overall GTM project average a 500% ROI after 3 years.”

- Ernst & Young
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Duty Optimization Strategies

- Strategic Sourcing
- Foreign Trade Zones (FTZ)
- Duty Drawback
- Free Trade Agreements (FTA)
- Tariff Engineering
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Classification as a Strategy...
CLASSIFICATION as a STRATEGY

• Considered ‘luggage’ by Customs (Chapter 42)
• Dutiable at 20%
CLASSIFICATION as a STRATEGY

- New design qualified as a toy
- New HS Code qualified for duty free entry under NAFTA
- Saved Mattel 7 figures in import duties
- “Tariff Engineering”
CLASSIFICATION as a STRATEGY

Why not incorporate Trade and Customs considerations at the **earliest stages** of new **product design/make-buy** planning?
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CLASSIFICATION as a STRATEGY

- PRODUCTION PLANNING
- ORDER MANAGEMENT
- SUPPLY CHAIN MANAGEMENT
- FREIGHT/LOGISTICS
- COMPLIANCE CHECKS
- SHIPMENT DELIVERY
- DATA ANALYTICS
- ITEM MASTER DATABASE
- BUYER SCREENING
- LICENSE MANAGEMENT
- TRADE DOCUMENTS
- CUSTOMS CLEARANCE
- ORDER SETTLEMENT

TRADE & CUSTOMS PLANNING
Questions?