

CURRENTS

Control and Recordkeeping System (ICRS) and zone administration for daily reporting and filing functions;

- And delivering a ready-to-run FTZ when the company is ready to go “live” with the operation.

Technology is a cornerstone of this approach to FTZ implementation. Specifically, today’s trade automation systems permit prospective FTZ operators to administer an FTZ either as part of their daily trade compliance function or with the assistance of a third-party provider of managed FTZ services.

Enhancements to CBP’s Automated Commercial Environment (ACE) and the ever-improving capabilities of FTZ ICRSs mean that with accurate and timely manifest, product master, and other transactional import data, the FTZ administrative and CBP reporting functions may be streamlined to capture efficiencies in processes.

With this in mind, companies can harness the skills of trade compliance professionals, who can perform traditional and FTZ customs compliance activities by taking advantage of new systems developments in ACE and the ICRS of record, the practical impact of new regulations, and the experience with ICRS processing steps and CBP reporting requirements.

Thanks to turnkey FTZ implementations and FTZ managed services available on the market, FTZ implementation projects today require fewer dedicated company resources. Companies

with FTZs can benefit from reduced customs fees and duties, improved inventory control, more secure cargo security and quicker transit times, with continued normal daily operations, all while the compliance tasks are assigned to the FTZ ICRS systems and business partners.

For exporters, goods can be exported from the United States without first being entered or subject to duties, a particular boon for companies that export imported products.

With an effective return on investment (ROI) calculation, companies can often realize cost recovery within the first year of FTZ operations. In today’s technology-enabled environment, companies seeking to implement an FTZ will find them to be more efficient to implement through a turnkey approach, with more FTZ management options, and a flexible strategic asset in their supply chain that can yield significant savings.

Ahanchian and Given are members of the Trade & Customs practice of KPMG

LLP. Ahanchian is a managing director based in Washington, D.C., and can be reached by email at aahanchian@kpmg.com; Given is a senior manager based in Philadelphia and can be reached by email at jgiven@kpmg.com.

Implementing
an FTZ
requires a
cross-functional approach,
IT systems
integration, and the
development of
a clear roadmap.



INDUSTRY INSIDERS | ALBERT SAPHIR

E-scalating challenges

The December 2017 U.S. Customs and Border Protection’s (CBP) East Coast Trade Symposium (ECTS) held in Atlanta drew a huge crowd, as well as providing some great updates and insights into CBP’s mission and important details for the upcoming years.

As expected, supply chain security, especially as it relates to confronting the ongoing threat to commercial aviation, came up many times, and the trade and shipping community at large should continue to expect many more changes over the coming years as this extremely serious issue will not go away.

The other two main themes and topics that came up repeatedly over the two days were the lack of additional budget funding available to support CBP’s mission and the explosive growth of imported e-commerce shipments.

For those of us involved with the trade community and with CBP, it came as no surprise that the agency has not received any new or additional funding to update their systems—such as the rapidly aging Automated Commercial Environment (ACE)—hire more CBP officers, or to buy

more inspection/imaging technology that is desperately needed at many ports of entry and especially at import parcel and mail facilities around the country.

Still, CBP has many initiatives in the works that aim to improve the facilitation of legitimate trade at our land, sea and airports around the United States by better leveraging existing personnel, equipment and infrastructure, all of which have been welcomed by the trade.

Although the industry is certainly thankful to the agency for everything that they are doing to accomplish the extremely complex and challenging task of protecting our borders while at the same



time facilitating trade, there is one area that is spiraling out of control: the exploding growth of import of e-commerce parcels.

Whereas some of us may have foreseen this, the facts presented by CBP at the ECTS clearly surprised many in the audience, including myself.

In the most recent fiscal year, express carrier import package shipments exceeded 125 million and U.S. Postal Service (USPS) import packages exceeded 330 million, for a total of over 450 million packages (all individual shipments) that CBP had to process. This year, CBP anticipates over 400 million e-commerce import packages sent via the USPS, plus another 150 million via UPS, FedEx, DHL and the other express carriers.

In other words, more than 1.4 million packages are arriving every single day of the year on average. This truly is an insane number, and the issue needs to be addressed quickly and decisively, especially as the explosive growth of imported e-commerce shipments is likely to continue, and possibly even accelerate, in the short term.

Aside from the general increase in e-commerce shipments (business-to-consumer and consumer-to-consumer) across the board, a huge contributing factor to the rapid growth of import e-commerce packages coming into the U.S. has been the fairly recent increase to the low-value shipment exemption—also known as the “de minimus” level or Section 321—from \$200 to \$800. This exemption allows goods worth less than \$800 to be imported without collecting any duties or fees.

Just search Google, and one will find many reports from around the world that express much excitement about this change, opening up a massive new market for foreign e-commerce vendors by allowing them to easily and cheaply serve the U.S. consumer market. And of course, postal authorities and express carriers are likewise excited about this as it provides a tremendous new business growth opportunity for them.

The U.S. now has one of the highest low shipment value exemptions in the world, and I believe is the only country not collecting any duties/fees/value-added tax (VAT) on these low-value e-commerce import shipments. So in a sense, we all should have seen this coming.

Take a look at a few other countries/regions around the world. In the European Union, for example, the low-value exemption for duty collection is 150 euros and for VAT collection only 22 euros. In Switzerland, the value is zero for both, meaning no exemptions whatsoever, as is the case in China.

This is not rocket science. Clearly something has gone wrong here in the U.S. with our concept. I think it is reasonable to have some small exemption like the EU has in place. Missing out on duties may not be such a big issue, but the VAT is around 20 percent in the EU, meaning the EU is collecting a fair amount of revenue from their imported e-commerce shipments. This revenue can provide much-needed funding for customs authorities to add staff and equipment to safely process all these shipments, at least in theory.

And the U.S.’s largest trading partner, China, has zero exemptions, clearly putting any U.S. based e-commerce export company selling to China at a tremendous disadvantage while Chinese authorities “laugh all the way to the bank.”

So what is wrong with this picture? Quite a number of issues.

As stated above, CBP is not getting any budget increases to facilitate legitimate trade and CBP’s resources are already stretched to the limit. Now add to this the need to safely, securely and ef-

ficiently inspect and process the more than 1.4 million packages (and counting) arriving daily in the U.S. This, quite simply, is an impossible task.

Further, it is not fair to the commercial import trade community to have to pay for this e-commerce business. Every trade partner in our importing community should pay their way. This is taking “free shipping” too far.

Listening to the concerns of CBP senior staff, looking at the exhibits they had available and of course also applying what we know from the commercial import side, the risk associated with e-commerce imports is immense, far greater than from established commercial shipments where CBP knows an incredible amount of information about the goods and parties involved.

Here are some of the high risks of e-commerce shipment in no particular order:

- Threat to commercial aviation;
- Incomplete and inconsistent shipment information (try it yourself—you can ship a package easily in the U.S. or overseas without providing much information, no verification of its accuracy and most often without presenting any form of legitimate identification);
- Intellectual property (IP) violations;
- Product safety concerns;
- Illegal drugs that kill or pose a considerable health hazard;
- And under valuation.

Clearly, CBP has a much greater workload on their hands with imported e-commerce shipments compared to commercial import shipments. But in return, they receive nothing. Well, almost. It is my understanding that express carrier package shipments are assessed a \$1 per package user fee to somewhat compensate for the agency’s expenses. But even then, USPS import packages are assessed no fees.

That’s not only wrong, but irresponsible. To reiterate, every member of the trade community should pay their fair share of expenses

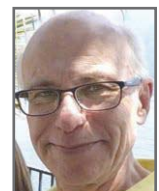
involved to ensure a safe, secure and compliant trade environment.

As such, it is my opinion that a CBP user fee that covers all the additional personnel and desperately needed technology and inspection equipment expense should be implemented immediately. It will not impact e-commerce shipments at all, as they are already unfairly priced as a result of not paying import duties. In other words, a hypothetical purchase directly imported from China, correctly valued at \$300, which would carry a duty rate of—let’s say—4 percent currently has a \$12 cost advantage under Section 321.

Thus, implementing a \$3 user fee per package, for example, (or whatever amount would reasonably cover CBP expenses) would still save the buyer \$9. But for CBP, it would generate about \$1.5 billion in annual revenue at today’s import volume of e-commerce shipments. Of course, such user fees should be collected from the importing carrier (USPS or express carriers), who in turn can easily incorporate that small additional cost in their customer tariffs.

For me, the converging topics of explosive e-commerce growth and CBP budget constraints highlighted at the ECTS really brought back into focus the fact that in order to make trade fair for all involved, we (quite literally) cannot afford to exclude e-commerce.

Saphir is principal of NVO and forwarding consulting firm ABS Consulting. He can be reached at albert@abs-consulting.net.



An average of
more than 1.4 million
packages are arriving
every single day
of the year.
This truly is an
insane number.