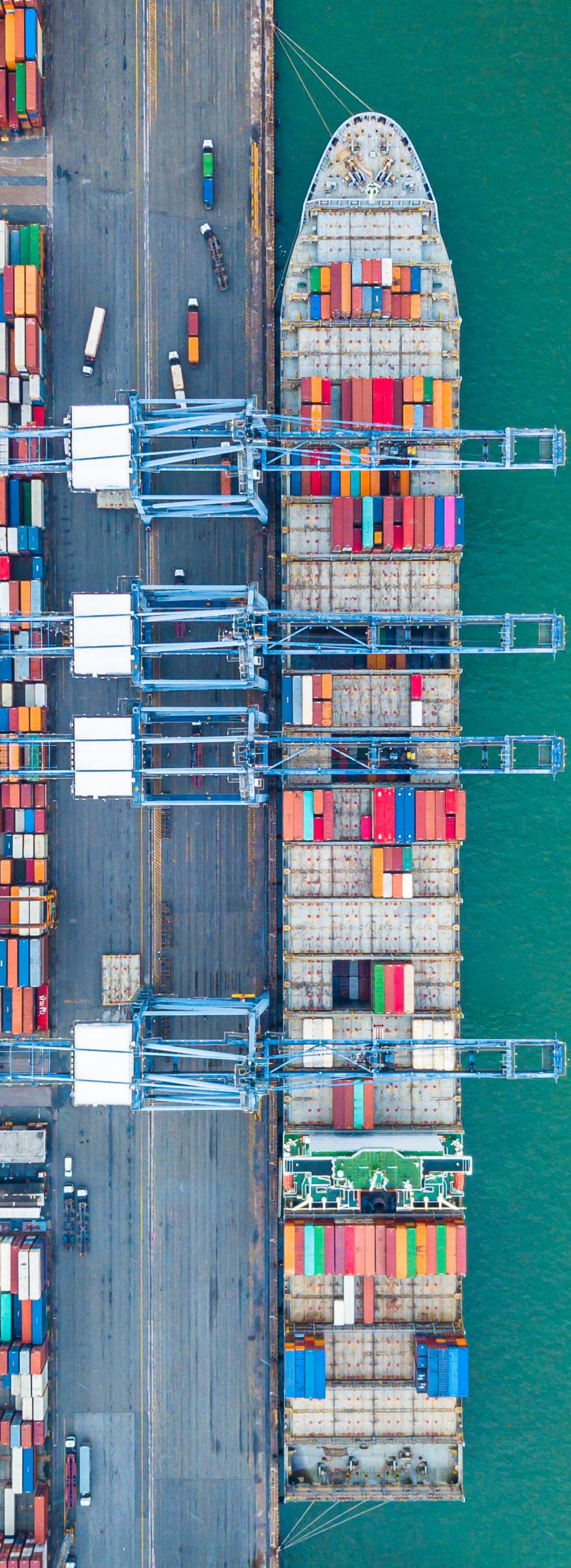

Avoiding Supply Chain Disruption

with Analytics and Proactive Global Trade Planning

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Artificial intelligence brings a new layer of end-to-end global trade visibility and process automation that generates both actionable intelligence and strategic insights.

From the U.S.-China trade war and USMCA to COVID-19 and Brexit, 2020 only capped off a period of tectonic shifts in global trade. Consider the major disruptions since 2018 alone, involving just the U.S.:

- Global tariffs on steel and aluminum to force antidumping negotiations on behalf of U.S. producers;
- Withdrawal from the Trans-Pacific Partnership (TPP) free trade agreement before it was even up and running;
- Tariffs on $550 billion of Chinese products, with China retaliating on a further $185 billion of U.S. goods before agreeing to buy $200 million in U.S. farm products over two years in exchange for partial tariff reductions; and
- Withdrawal from the North American Free Trade Agreement (NAFTA) to negotiate the U.S.-Mexico-Canada Agreement (USMCA) with new country-of-origin rules and labor protections, elimination of many textile and apparel tariffs, and a new dispute-settlement mechanism.

Outside the U.S., the United Kingdom withdrew from the European Union, requiring an estimated 200,000 companies to file up to 300 million new customs declarations annually.

In Asia, TPP has continued with 11 members, not including the U.S., while a new, more Asia-centric agreement with overlapping members launched by China, the Regional Comprehensive Economic Partnership (RCEP), was formed in 2020. Members enjoy freer trade, while outsiders face new levels of complexity. Now the U.S. may rejoin TPP, four years after leaving.

Add to the above disruptions from COVID-19, political instability, regulatory and tax uncertainty, recurring climate-related events and more, all requiring sudden and dramatic reconfiguring of sourcing, production and supplier networks. How do supply chain and regional trade managers navigate documentation, compliance and risk exposure amid the chaos? How do they evaluate sourcing and supplier options?

"Every year there are surprises in trade, but in 2019 and 2020 trade was really put back on the map for companies," says Suzanne Offerman, senior proposition manager for ONESOURCE Global Trade at Thomson Reuters. "The C-suite became interested because it was in the news everywhere, and there were so many surprises that it became hard for companies to plan."

From Risk Reduction to Actionable Insights

Reliable trade compliance data is a growing priority among global companies as supply chains become more complex, extended across multiple markets from raw materials to final sale. Complete, up-to-date knowledge of commodity classifications, duty schedules, quotas, country-of-origin rules, inspection regimes and free trade agreements (FTAs) is widely understood to be essential in defensively managing compliance risk, from sourcing to final sale. But that same data can also bring a deeper understanding to internal decision-making across the organization:

Product development: Engineering changes to a finished good may inadvertently alter the classification or country of origin, leading to misclassification delays, penalties and higher duty rates.

Procurement: A change in suppliers involving a different sourcing location may trigger a loss of preferential FTA treatment or otherwise unexpected duties, quotas or fees, raising input costs. More broadly, an ability to easily test various scenarios for their total landed cost impacts can enable better sourcing and finished product pricing decisions.

Manufacturing: Incorrect or incomplete product information provided by manufacturing to the compliance department can lead to delays or affect dutiable value and total duties paid.

Sales and distribution: Sales and compliance need to coordinate buyer screening to safeguard against violation of sanctions, trade restrictions or internal company policies that could result in non-compliance, penalties and negative publicity.

Analytics Add Value

With the addition of advanced analytics, global trade management software has gained importance as an end-to-end planning tool to make sourcing and routing decisions that raise overall productivity, shorten procure-to-pay cycles, and lower the total landed cost of finished products. Trade-related costs, including port demurrage fees and other third-party fees, can be calculated on a dashboard and factored into sourcing decisions in the product design and development phase, as well as in supplier selection.

With trade documentation, customer and supplier data standardized and stored in the system, documents can be filed electronically to avoid border-crossing delays. Automating high-volume, repetitive back-office workflow reduces errors, speeds up processing, allows shorter lead times in receiving goods for shipment, and frees up staff time for more complex problems and higher-value work.

As a result, companies are turning to cloud-based solutions, with plug-in modules addressing specific pieces of supply chain workflow, to deliver and manage the specific data they need to design more strategic, resilient supply chains. Artificial intelligence allows many functions to be automated in many cases, with the opportunity for manual override in cases where special knowledge or judgment is needed, such as in commodity classifications or customs entry.

Fifteen years ago, Offerman explains, supply chain and trade compliance managers were skeptical of software applications, in part because the software itself wasn't fully developed. But over time, as trade compliance became increasingly more complex and software offerings improved, confidence in the technology has strengthened. "Most companies now see these solutions as necessary," she adds, "as supply chains have become so complex, so detailed, and involving so many countries, that they would be nearly impossible to manage otherwise."

"The use of global trade management software opens a window into the supply chain that generates important data and insights about broader operations."

ONESOURCE Global Trade is an AI-enabled platform supported by a research team and a mix of internally developed and partner-provided database modules that are integrated into client ERP or warehouse management systems. The core platform continuously monitors and updates key trade data points such as Harmonized System (HS) commodity classifications, duty schedules and trade regulations for some 200 countries, as well as provisions of client-relevant FTAs from a total estimated 420 FTAs worldwide.

Other modules support import/export workflow, e-filing of customs and other trade compliance documents, and foreign trade zone management. The platform also supports trusted supplier, partner and buyer screening against more than 350 restricted party lists, from assessing creditworthiness and reliability to ESG compliance in areas like conflict minerals or forced labor. ONESOURCE serves a global client base in verticals such as automotive, apparel and footwear, machinery and retail.

"The use of global trade management software opens a window into the supply chain that generates important data and insights about broader operations," Offerman explains. "You're tracking the provenance of goods, running cost and risk analyses, weighing strategic options and measuring supply chain performance. The objective is the same for compliance and for planning and design – to monitor operations in real time and tease out patterns from the data that identify new opportunities or areas for improvement."

Managing Brexit – and Beyond

A major emerging market for global trade management software may have just surfaced on January 1, with the United Kingdom leaving the European Union.

Things could have been worse, from a trade compliance standpoint. The EU-U.K. Trade and Cooperation

Agreement signed on December 30 continues preferential duty-free and quota-free treatment in both directions, but requires customs declarations at both ends, as well as EU entry and exit summary declarations containing safety and security information.

The agreement affords mutual recognition to U.K. and EU origin as local content in one another's markets, as well as mutual recognition of their respective Authorized Economic Operator (AEO) trusted trader programs. Traders will be permitted to self-certify origin of goods in their invoicing, and a statement of origin can cover multiple identical shipments over a 12-month period. Goods moving both ways will be subject to excise duties and value-added tax based on dutiable value. Northern Ireland will remain in the EU, subject to EU trade rules, with a "soft" border in the Irish Sea. Third countries will trade with the U.K. as a separate country under the new U.K. Global Tariff and World Trade Organization rules.

The EU is telling its exporters that they need to classify their goods and then develop origin determination, calculation, certification and record-keeping processes. Importers need to make sure that exporting suppliers provide the necessary evidence of origin qualification, understand how to claim preference at import, and instruct customs brokers in keeping records. Businesses will be allowed flexibility in collecting and providing documentary evidence during the first year of operation under the agreement.

Contentious issues around fisheries and cooperative development of offshore wind power generation — requiring cross-border construction and maintenance, third-country imports of equipment and components, and shared grid connections — may be technically resolved, but have become far more complicated in terms of global trade management.

"There's a lot to consider for the U.K. after being in the union for more than 30 years and having to leave everything behind," says Selin Yavuz, senior proposition manager for ONESOURCE Global Trade in Europe. "For the first time since 1993, British businesses now have to deal with customs checks, understand and apply additional controls for certain goods and prepare all other paperwork to trade with the EU. Maybe more importantly, for both sides of the canal, businesses now need to follow the 'Rules-of-origin requirements' of the EU-UK deal which determine whether a product is British/European enough for tariff-free trade purposes."

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Much of the chaos will show up in the interplay among multilateral and bilateral FTAs, as well as third country trade with the U.K. no longer trading as an EU member. In sectors with complex cross-border sourcing patterns like automotive, Yavuz says, a plant building a car with thousands of parts may also have multiple suppliers in multiple countries for each part, which could be covered under one FTA or bilateral agreement but not another. Assessing cost impacts and alternative strategies will entail highly detailed, data-dependent decisions. "One FTA might require 30% local content while the other requires 40%," she says. "Maybe 30% seems more convenient, but there might be other factors to consider. It helps if you can go into the system, run a comparison of FTAs or suppliers, and see the results."

Supply chain complexity and market volatility have raised the stakes for companies engaged in global trade. Real-time visibility, advanced data analytics and automation of processes to keep trade moving are fast becoming industry standard. But the end-to-end trade compliance data generated by AI-enabled platforms has value well beyond risk management. Deployed proactively, it contains unique insights into company operations and partner networks that can improve efficiency and resiliency, audit performance, generate cost savings and enhance customer experience.

The time has come for companies to recognize the longer-term strategic partner role of trade compliance teams, and see beyond crisis response to added value and competitive advantage.

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