GLOBAL TRADE
Emerging Trends in Global Trade

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EMERGING TRENDS IN GLOBAL TRADE

This paper reviews the top trends affecting global trade professionals in today’s environment. Here, we compare and contrast global trade trends as well as results from a recent global survey of trade professionals sponsored by Thomson Reuters and KPMG.

OVERVIEW OF THE TOP TRENDS IN GLOBAL TRADE

Narrowing down the top trends affecting a company’s global supply chain is a difficult and subjective task. In this paper, we selected four significant trends that impact international trade and supply chain professionals:

• Managing Complexity
• Supply Chain Cost Optimization
• Rethinking the Workforce
• Big Data

Each of these trends is addressed in more detail within this paper, but let’s first provide an overview of each to level-set our approach.

MANAGING COMPLEXITY

Supply chain disruptions are one of the main concerns affecting business continuity. These problems are not created purely by globalization, but they are accentuated by it. This is not an anomaly; supply chain professionals experience geographic separation on a daily basis which often leads to reduced visibility and control over the processes. The complexity lies in keeping a company’s supply chain on track, on time, and meeting their key performance metrics (KPIs).

During our review, we noted complexity in the supply chain often occurs as a result of the following:

1. Expanded markets for customers and suppliers.

2. Supply chain disruptions caused by:
   • changing customer demands,
   • changing supply chain management practices,
   • reduced time for businesses to adapt to these changes; in other words, an expectation to acclimate and adjust expediently.

3. Increased regulatory requirements across multiple geographies and the need to quickly interpret their impact on the supply chain.

SUPPLY CHAIN OPTIMIZATION

One of the trends we found most interesting is the breadth of influence companies have on their supply chain. Ultimately, companies collaborate further upstream and downstream in the supply chain to positively influence their bottom line. By collaborating with their extended supply chain partners they achieve ‘Big Picture’ visibility, influence sourcing strategies, and reduce costs and risk. This is a competitive advantage for companies that include their supplier’s suppliers and customer’s customers in mapping out the unintended consequences that adversely impact either party, leveraging rates and service providers, and anticipating potential delays and costly disruptions.
RETHINKING THE WORKFORCE

When optimizing business performance and resources, one question to consider is whether to insource or outsource the work. Most often when companies evaluate costs in their supply chain, aside from evaluating their freight spend, one of the top areas of review is staffing. What tasks should be kept in-house and what can we outsource? Where should we outsource? Are their risks associated with one solution over the other? What is the cost associated with any action? Like any supply chain strategy, there are advantages and drawbacks to both insourcing and outsourcing.

BIG DATA

The challenge companies face today is linking and efficiently feeding the supply chain. Big data is a way many businesses rely on information to create a more efficient and foolproof control of their supply chains. Big data is huge - pun intended. So how does unused data that already belongs to a company provide valuable insights? We will review the 3 V’s of data and the impact of multiple applications and different formats that data is presented.

THOMSON REUTERS AND KPMG SURVEY OVERVIEW - SURVEY RESEARCH METHODOLOGY

The survey was conducted online during the second calendar quarter of 2015. There were 446 completed surveys conducted in 11 countries within Latin America, the Asia Pacific countries and the United States.

The survey targeted the following groups:

• Primary Buyers: Importers, exporters, bonded warehouses.
• Influencers: Customs brokers, freight forwarders, other international trade partners
• Approvers: Importers / exporters – CFO, CIO, supply chain director / manager, international trade director / manager, chief compliance officer, legal counsel, head of logistics.

There were 10 key areas explored in the survey, of which, the following five are discussed in this paper:

• Usage of an Enterprise Resource Planning (ERP) system.
• Optimization areas for global trade management.
• Challenges experienced with managing trade activities.
• Trade-related activities that use the most / least resources.
• Trade-related activities that are perceived to carry the most / least risk.

‘2001, Gartner Analyst, Doug Laney 3 V’s: Volume, Velocity, Variability
RESPONDENT BREAKDOWN

The Global Trade Management Survey was sent to 11 countries and was available in six languages – English, Spanish, Portuguese, Chinese, Korean and Japanese. The survey had broad industry representation with respondents from more than 10 industries. Respondents were primarily from the automotive and electronics industries.

DEEPER DIVE INTO THE TOP TRENDS IN GLOBAL TRADE

MANAGING COMPLEXITY

The survey found that two-thirds of the respondents expect trade compliance to become more complex over the next three to five years. One might assume that the complexity of global trade, the myriad of rules and regulations, the increasing number of multinational companies, and the massively complex nature of today’s supply chains has sufficiently enabled global trade management (GTM) technology to streamline how goods and services move around the globe. Such technology is as abundant in our industry as it is in other industries.

CHALLENGES TO MANAGING TRADE-RELATED ACTIVITIES

Q31. Please rate the following factors in terms of the challenge they pose to managing trade activities with your organization.

- Interpreting and communicating regulatory requirements across sites and countries
- Complex and changing requirements with local government agencies
- Manual processes and disparate systems

TOP THREE INDUSTRIES

Automotive
- Complex and changing requirements with local government agencies
- Interpreting and communicating regulatory requirements across sites and countries
- Inefficient processes/systems

Chemicals
- Interpreting and communicating regulatory requirements across sites and countries
- Manual processes and disparate systems
- Disparities in requirements between countries

Electronics
- Manual processes and disparate systems
- Disparities in requirements between countries
- Inefficient processes/systems
That assumption isn’t entirely accurate. When it comes to global trade, companies often leave their people without the necessary scalable technology tools equipped to handle today’s enormous volumes and complexities. Routine trade activities still not requiring highly technical skills are processed manually when technology is available to automate these activities to allow trade professionals to focus on more cost effective responsibilities.

Our survey showed that companies are also concerned with a global view of the challenges involved in interpreting regulatory requirements that are complex and constantly changing. Imagine the following chart (Snapshot of the U.S.) multiplied by each country a company has within their supply chain.

Companies operate in an environment where they are interpreting the top regulatory issues facing the organization today, while anticipating the changes for tomorrow.

SNAP SHOT OF THE U.S.

“There has been more regulation in the last 10 years than the prior century”

2011 ICPA Conference

REGULATORY PRESSURES

As companies pursue growth on a global scale, regulatory concerns are an increasing source of concern with multinational organizations now facing a mixture of regulatory regimes across markets and jurisdictions. Add to this the complication that most company directors may not fully understand the governance and compliance requirements in every country for which they have oversight. Companies are left scrambling to learn the regulatory requirements for each country, manage their supply chain and hope they make the right decisions without disrupting their supply chain and keep the company out of trouble.
MANUAL PROCESSES MONOPOLIZE TIME

The processes that respondents said consume the most time and create the most perceived risk are manual processes that could be automated. Import documentation/licensing and customs broker management are the two activities that respondents said occupy most of their time and resources. Overall, the prime operational activities of import and export compliance are a significant time drain.

GTM users and non-GTM users indicated that the same activities are the most taxing for their organizations:
1. Import documentation and licensing.
2. Customs broker management.

Rate the following trade-related activities in terms of where your organization’s time and resources are spent.

<table>
<thead>
<tr>
<th>Top 4 Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import documentation and licensing</td>
</tr>
<tr>
<td>Customs broker management</td>
</tr>
<tr>
<td>Product import classification</td>
</tr>
<tr>
<td>Export documentation and licensing</td>
</tr>
</tbody>
</table>

Whether you are a GTM user or not, you still have to perform these activities. A GTM is designed to specifically streamline manual processes; it doesn’t eliminate regulatory requirements. A non-GTM user will spend most of their time performing these tasks manually (e.g. spreadsheets, emails, phone calls, etc.), whereas in a GTM environment, the tasks are processed electronically and maintained.

RISK MANAGEMENT

We asked our respondents how they perceived risk in their trade related activities and the perceived risk to government intervention in the form of sanctions, or increased import costs. Our survey indicated that global trade specialists are spending the most time on the activities perceived to have the highest risk. Not surprisingly, the biggest challenge is product classification. A full 85 percent of respondents indicated that some part of performing product classification is problematic suggesting a positive correlation between risk and resource allocation.
A follow-up question in the survey identified two areas tied to ‘time spent’ and ‘perception of risk’ around classification, in the form of ambiguity in product description and different classifications while performing product classification globally.

“Despite an increased focus in automating trade processes, classification continues to be a manual, challenging task for most organizations. Industry studies suggest that as many as 20 to 30 percent of product classifications are incorrect leading to supply chain delays, overpayment of duties, risk of penalties, and an increased likelihood of customs audits. Companies can reduce their exposure by ensuring that their staff have the necessary tools and are adequately trained in classification procedures, and that their classification process includes rigorous reviews and documentation to support their classification decisions.”

– KEITH HAURIE
VP of Business Development
Thomson Reuters
ONESOURCE Global Trade

GLOBAL PERCEPTION OF RISK

Lack of resources, import and export documentation and classification were viewed by the respondent as carrying a high level of risk. Import valuation was cited in all regions with the respondents stating that intercompany transfer pricing is risky - an area we will further review in this paper.

SUPPLY CHAIN COST OPTIMIZATION

Navigating the movement of global trade is a difficult task. Any shipper involved in moving goods around the world knows that a typical international transaction can take up to “40 documents, 200 data elements and involve many different parties”. Not only do these different elements need to be juggled for each shipment, but the shipments need to arrive on time, complete and undamaged and within budget. To achieve this goal, shippers are replacing the traditional spreadsheets with solutions, like GTM’s, Supply Chain Visibility (SCV) tools, and Service Provider Control Towers.

GTMs ON TOPIC

Reasons for not utilizing a GTMS for all import/export activities (among users)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of support or budget within the organization</td>
<td>30%</td>
</tr>
<tr>
<td>Multiple ERP systems</td>
<td>27%</td>
</tr>
<tr>
<td>Current manual processes are working just fine</td>
<td>16%</td>
</tr>
<tr>
<td>Import / export processes are outsourced</td>
<td>13%</td>
</tr>
<tr>
<td>No bandwidth to support implementation</td>
<td>13%</td>
</tr>
<tr>
<td>Never looked into it / no experience with GTMs</td>
<td>12%</td>
</tr>
<tr>
<td>Not sure how to present it to management team</td>
<td>8%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>6%</td>
</tr>
<tr>
<td>None of the above</td>
<td>26%</td>
</tr>
</tbody>
</table>

Reasons for not utilizing a GTMS (among non-users)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never looked into it / no experience with GTMs</td>
<td>41%</td>
</tr>
<tr>
<td>Lack of support or budget within the organization</td>
<td>30%</td>
</tr>
<tr>
<td>Multiple ERP systems</td>
<td>24%</td>
</tr>
<tr>
<td>Current manual processes are working just fine</td>
<td>23%</td>
</tr>
<tr>
<td>Import / export processes are outsourced</td>
<td>16%</td>
</tr>
<tr>
<td>Not sure how to present it to management team</td>
<td>11%</td>
</tr>
<tr>
<td>No bandwidth to support implementation</td>
<td>11%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>8%</td>
</tr>
<tr>
<td>None of the above</td>
<td>8%</td>
</tr>
</tbody>
</table>

[UNCTAD](https://www.wto.org/english/thewto_e/minist_e/min99_e/english/about_e/15facil_e.htm)
Our survey noted that about a third of organizations utilize a GTM globally. Why is that? Is this tied to the reality that today companies are continuously facing the ongoing pressures to reduce supply chain costs?

Our conclusion is that the primary reason that companies are not utilizing a GTM is mainly due to lack of support or budget within the organization. Another contributing factor to the low usage of GTM solutions is that companies often have multiple ERP systems and instances around the world, either through acquisitions, or country budgetary constraints. Given these constraints, companies adopt the attitude that current manual processes are acceptable.

“The motivation for implementing solutions doesn’t appear to be concerns over compliance risk. Instead, they are looking at products to reduce the costs of outsourcing trade compliance (e.g. classification), find more cost effective suppliers, and reduce transactional costs (duties, tax, broker’s fees, etc.).”

- KEITH HAURIE
VP of Business Development
Thomson Reuters
ONESOURCE Global Trade

RETHINKING THE WORKFORCE

INSOURCE OR OUTSOURCE

The trend for many years has been for companies to outsource more and more of their global transportation and logistics operations in the face of growing supply chain complexity. When companies evaluate costs in their supply chain, aside from evaluating their freight spend, next on the list is headcount. What tasks are handled by people? What is the frequency and duration of the task? Do I need three people, or one? Can the task be performed in a cheaper cost jurisdiction? Is the task critical or can we live without it? Do I violate any laws if I outsource the task?

The answers to these questions determine what tasks are kept in-house and what are outsourced.

Studies suggest “far more companies increase their logistics outsourcing in any given year than those that bring most logistics services back in-house”. Although decisions to outsource logistics and manufacturing can positively affect capital and operating costs, it is important not to forget there are also significant potential risks.

As a budget reduction effort, the reality is that some bosses may choose to outsource all of the trade compliance activities to a Customs Broker or third party logistics firm. Trade compliance professionals are faced with providing management with the argument that it might not be a good idea for a company. Forget the argument of “you could go to jail or receive a loss of privileges, fines and penalties.” Management in many companies is desensitized to these points. The situation is now reversed where the trade professionals need to provide factual and compelling arguments against outsourcing all of the trade related activities. How do you demonstrate the value of your in-house compliance team and present a compelling argument when the regulations are not so clear?

There is not a reference in the U.S. import regulations, or in the export foreign trade or export administration regulations, that specifically addresses that an employee of the corporation must perform the importing and exporting activities of the company, or that the company must employ professional trade compliance staff.

We have illustrated the benefits of outsourcing, but what about the downside to outsourcing the trade functions? How can we demonstrate to our companies the benefits of keeping trade staff internal?

Generally when assessing trade compliance activities at a company, look for optimizing spends within the company’s supply chain. A suggestion is to pull the companies import and export data and compare existing trade programs within the flow of goods. Does the flow of goods offer potential duty avoidance or recovery programs the company could pursue and bring money back to the company?

When dealing with understaffed trade compliance staffs that are taxed with onerous activities while also under the mandate of no increases in headcount, it is critical for the trade leads to provide management with value-add stories. Here are three real life steps to make sure a company sees value in the trade compliance team:

1. Minimize the customs broker population down to two to three globally. The idea is to utilize the brokers’ expertise and systems and standardize the performance review process. This change also makes auditing performance less strenuous and time consuming for the trade staff. By outsourcing some of the administrative tasks to the customs broker, the staff is free to focus on strategic opportunities.

2. Find the opportunities in programs available, such as Free Trade Agreements, First Sale, Drawback, tariff engineering, bonded warehouse programs, reverse logistics opportunities, valuation and classification rulings, etc. Most important is to implement a controls environment around each program that includes robust and repeatable processes, exception managing and sound audits.

3. Ensure a process for communicating the savings to executive management. By presenting the savings on a consistent basis, management will look forward to seeing the progress and ultimately see value in the team. As a company expands, management might see value in increasing headcount to assist with adding more programs in additional countries.

With the execution of the above steps, the team is not increasingly taxed with more work. Ultimately, they become managers of processes and administrators of fewer tasks.

**GTM WISH LIST**

An important aspect of freeing up people’s time takes the form of streamlined processes and technology geared toward alleviating some of the rote everyday tasks. In the survey, respondents were asked “If you could make one wish for an improvement in a system or process in managing the supply chain, what would that be and why?” Automation and integrated systems held the top spots, though it was surprising that needing management support was not among the top responses.

### Technology as a solution – Wish List!

<table>
<thead>
<tr>
<th>High importance</th>
<th>Medium importance</th>
<th>Lower importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated and integrated systems</td>
<td>Updated / Readily available / Clear information</td>
<td>Management support</td>
</tr>
<tr>
<td>A system with more features / practical / flexible / simple</td>
<td>Standardized / consistent system</td>
<td>Improved visibility</td>
</tr>
<tr>
<td>Improved / better processes</td>
<td>Affordable / Cost effective system</td>
<td>Centralization of documentation</td>
</tr>
</tbody>
</table>

Don’t outsource your staff – free them up
GTM technology can enable process centralization, particularly if the organization uses one centralized enterprise resource planning platform instead of different ERPs based on location or business division. This is a benefit of technology. A compelling argument in favor of investing in a GTM solution is freeing up staff to allow them to focus on supply chain optimization opportunities. Not only do GTM’s centralize the processes, records, and remove some of the complexity from the work, but the staff can concentrate on tactical opportunities.

“Manual processes expose an organization to unnecessary compliance risks and/or result in costly delays in a company’s supply chain. By automating the more mundane manual processes performed by trade compliance professionals, they are freed up to focus on strategic improvements, and the tactical activities affecting bottom line savings to a company.”

– MARY BREEDE
Global Trade Specialist
Thomson Reuters
ONESOURCE Global Trade

CENTRALIZATION

No matter how fast goods move around the globe, it seems it’s never fast enough. Centralizing trade processes can conceivably eliminate bureaucracy within an organization that can suppress the speed of trade. Other advantages of centralization are data sharing and consistent policies and procedures across geographies and business units. Our interviews with clients who set up centers of excellence indicated that these were primary drivers for centralizing certain tasks such as classification. Concurrently, it is argued that centralization can lead to service that fails to consider regional norms and that decentralizing processes can allow a multinational organization to operate better at regional levels. The survey found that respondents with decentralized processes were more, not less, likely to cite local government agencies as a challenge. As a company matures, there is usually a mandate from a corporate internal audit team or a process improvement initiative that finds real compliance pitfalls or inefficiencies in decentralization.

The survey noted globally there are a slightly higher proportion of global trade processes that are centralized. Whether or not to centralize processes within an organization is equal parts operational practicality and management philosophy. Does it solve real problems? Is it worth the cost? Does it provide trade staff flexibility and visibility to do their job – smarter, faster, better? What are the risks?

Centralization as a solution

PROCESS CENTRALIZATION
Is your Global Trade process centralized or decentralized?

53% CENTRALIZED
47% DECENTRALIZED
The survey found that centralization affects risk perception. Respondents who have decentralized processes perceive restricted party screening as a more risky activity than do respondents who have centralized processes. Those with centralized processes perceive classification and valuation as more risky activities than do their decentralized counterparts.

**REPORTING STRUCTURES**

Customs agencies would like us to evaluate reporting structures for possible conflict of interest in lines of authority. The survey captured the most obvious areas where we see trade staff assigned. What we did not expect was the ‘other’ functions for reporting. Is this because trade staff supports so many functions in the capacity of their job that the lines of reporting structures become blurred?

**Reporting structure as a solution**

**Department**

Q5. What department do you currently report into?

<table>
<thead>
<tr>
<th>Department</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int’l Trade &amp; Customs</td>
<td>17</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>17</td>
</tr>
<tr>
<td>Finance</td>
<td>15</td>
</tr>
<tr>
<td>Logistics</td>
<td>12</td>
</tr>
<tr>
<td>Tax</td>
<td>7</td>
</tr>
<tr>
<td>Procurement</td>
<td>6</td>
</tr>
<tr>
<td>Legal</td>
<td>6</td>
</tr>
<tr>
<td>Internal compliance</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>18</td>
</tr>
</tbody>
</table>

Ultimately, when deciding where to place trade compliance within a corporation, it is important to consider the structure of that organization. As discussed previously, some companies are centralized with headquarter operations that manage all activities within the firm. Other companies are decentralized.

The centralized organization lends itself well to trade compliance. Decentralized organizations are a challenge for trade compliance because they are supporting subsidiaries and divisions that have separate profit and loss centers. They are usually permitted to conduct their business as needed as long as they meet the financial objectives as set forth by the company.

A frequently asked question is “where should the trade compliance team reside? Should it be part of sales, procurement, finance, legal, purchasing, supply chain?” It really doesn’t matter! The fact that a company recognizes the need for a dedicated trade compliance office and can effectively oversee and control the importing and exporting activities of the company is good enough.

**BIG DATA**

One of the most intriguing trends to follow this year is Big Data. We all know data provides our networks with greater accuracy, clarity, and insights, leading to more contextual intelligence shared across supply chains. Now companies are sharing data with their supplier’s suppliers, and their customer’s customers. They are looking across their supply chain and applying analytics to predict disruptions so they are prepared when they occur.

Big data is typically broken down by three characteristics:

- **Volume**: How much data.
- **Velocity**: How fast data is processed.
- **Variability**: The various types of data.

Recent statistics show:

- More than 90% of data in the world today was created in the last two years, with 80% of it unstructured, such as images, audio, video, social media, web pages and emails.
- The sheer volume of the world’s digital data would fill a stack of iPad Air tablets extending two-thirds the distance to the moon. By 2020, this stack would extend from the earth to the moon 6.6 times due to the rate of data growth.\(^5\)
- Data is expanding at a rate that doubles every two years.
- By 2020, the digital universe will be 44 trillion gigabytes.
- Most U.S. companies have at least 100 terabytes stored.

“While it is convenient to simplify big data into the three Vs, it can be misleading and overly simplistic... Big data incorporates all the varieties of data, including structured data and unstructured data from e-mails, social media, text streams, and so on. This kind of data management requires companies to leverage both their structured and unstructured data.”\(^7\)

“Big Data in the supply chain focuses on leveraging structured data in spreadsheets and databases to improve supply chain visibility, geo-location/mapping and product traceability. But there’s more than that to a Big Data solution. Big Data is vital in future 3PL efforts to help shippers improve tactical and strategic operation of their supply chains”\(^8\).

Companies can use Big Data to support their KPI’s as a way to measure performance both internally and externally. KPI’s bring sophistication in managing data and a very large financial commitment. Clearly expense is a factor and companies that are capitalizing on Big Data are investing millions of dollars in technology to capture those strategic events.

**LEVERAGING BIG DATA – TRANSFER PRICE**

So let’s talk about some of the ways to use Big Data. Big Data in and of itself is really of no value at all. Its value comes in being “part of a process that collects, stores, analyzes and transforms into insights and action that drive business improvement. In that sense, data is just one component in a process.”\(^9\)

As Big Data gets bigger, it becomes more challenging to manage and analyze actionable business insight to deliver value. That’s paradoxical in that the need for Big Data is to provide a company with the ability to make better business decisions.

One area where there is a challenge to receive on time and accurate data is intercompany pricing. As companies expand globally, it is increasingly important they have the technology and the process to comply with transfer pricing rules. In a tax department, technology is used to manage the calculations, reporting and compliance. Finding the right data is critical to compliance for both the tax department and the trade staff, with the goal of accurately and timely reporting the correct values to avoid unnecessary and costly audits. The data extract to support these activities needs to be both accurate and complete.

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\(^5\) IT World Canada, Howard Solomon, April 15, 2015, www.itworldcanada.com/article/the-amount-of-data-were-creating-is-out-of-this-world/91586
\(^6\) www.dummies.com/how-to/content/big-data-for-dummies-cheat-sheet.html
\(^8\) The Big Data Supply Chain is Hungry, And You Need to Feed It; March 2015, by H.O. Maycotte, www.forbes.com/sites/homalycotte/2015/03/18/the-big-data-supply-chain-is-hungry-and-you-need-to-feed-it
EMERGING TRENDS IN GLOBAL TRADE

The survey results noted that transfer pricing is the top risk cited by respondents from large exporters and in the top three for importers of all sizes. Of the companies that conduct inter-company transactions across borders, only 54 percent have conducted a related party pricing analysis to ensure they’ve met customs requirements. This result leads us to believe that a challenge organizations face when managing inter-company pricing is the monitoring of transfer pricing throughout the year to ensure compliance.

Why is that? When looking at the survey respondent list, the majority of the people conducting these reviews are not tax professionals. Transfer prices fluctuate often and inter-company pricing tasks are frequently carried out in departments outside trade and the supply chain. However, the trade staff is asked to wear a tax hat as they conduct trade compliance activities.

The answer is to keep tabs on transfer pricing movements, something technology can do. In this regard, companies are increasingly considering ERP-based and/or ‘bolt-on’ operational tax and customs technology solutions. This allows multi nationals to manage tax and customs transfer prices from both a tax and customs compliance perspective, in an automated environment, on a proactive basis.

LEVERAGING BIG DATA – FREE TRADE AGREEMENTS (FTA)

Let’s look at another way we can use Big Data to help with optimization programs - Free Trade Agreements. FTAs have become increasingly prevalent since the early 1990s. As of April 2015, some 612 notifications of FTAs have been received by the GATT/WTO. Of these, 406 are in force.

Interestingly though, our survey showed that most organizations globally have between one and two FTAs in use, but the global average is 2.3. Full utilization of FTAs is quite low at 30 percent globally. Twenty-five percent of respondents said their companies utilize no FTAs, and 36 percent are using just one or two.

Remember previous comments about optimization opportunities? Can your company implement a program for pursuing savings tied to FTAs?
“Even large companies tend to underutilize FTAs. Sometimes this is driven by lack of knowledge, but more often by concerns about the difficulty of compliance and fear of penalties. With more FTAs coming on stream every year, not using FTAs is going to mean a major competitive disadvantage. We have seen with our customers that solid processes and automation are keys to effortless and confident FTA adoption.”

— Hoon Sung
Head of FTA
Thomson Reuters
ONESOURCE Global Trade

A habitual lack of fully leveraging FTAs is noteworthy as only thirty percent of respondents indicated that their companies fully use all of the FTAs available to them. Twenty-five percent of respondents said their companies utilize no FTAs, and thirty-six percent are using just one or two.

Seventy-nine percent of respondents cited either complexity with rules of origin or difficulties gathering documentation as one of the primary roadblocks. Fifty-nine percent said their companies miss available FTAs because they lack the internal expertise to identify them or the personnel to manage their compliance.

The potential to better leverage the more than 400 FTAs is an opportunity globally, particularly with new agreements pending. One would expect the use of FTAs to increase in the future since not fully utilizing them is leaving money on the table.

How does big data help companies fully leverage FTAs? The results did not indicate FTAs utilization as a consequence of not fully automating processes. What respondents indicated was that they have difficulty identifying opportunities to qualify goods under FTAs-specific rules of origin. Clearly an automated solution assists with the process, but having visibility to the opportunities, qualifying attributes and ties to the sourcing and financial information, allows the trade professional to approach FTAs utilization with confidence. What companies need to implement is a FTAs planning tool that allows customers to look at a transaction and immediately determine if any of the FTAs can be leveraged at the HS level.
SUMMARY

Despite the challenges within our global economy, global trade volumes will resume growth rates that exceed GDP. National governments view exports as key drivers in economic growth so the trend for trade liberalization will continue. As trade barriers are lifted, every industry will potentially find new geographic markets for their products and services.

The rapid advances in technology will provide companies with the resources to manage their supply chains in real-time. This means opportunities to grow their sales internationally while delivering their products more efficiently. Companies that openly embrace new technology and have firm commitments to automate their supply chain functions will have a competitive edge over their peers. Access to data in a unified and organized manner and the ability to quickly utilize this information for supply chain decisions aren’t simply an option for multinational companies today. They are essential elements of a supply chain strategy required to compete in today’s global economy.

REFERENCES


BIOGRAPHIES

Keith Haurie, VP of Business Development, Thomson Reuters ONESOURCE Global Trade. Prior work history includes Thomson Reuters Boskage, an online and print provider of US trade compliance information and training solutions, various roles within Thomson Reuters Tax & Accounting for more than fifteen years and more than thirty years’ experience within the publishing industry.

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