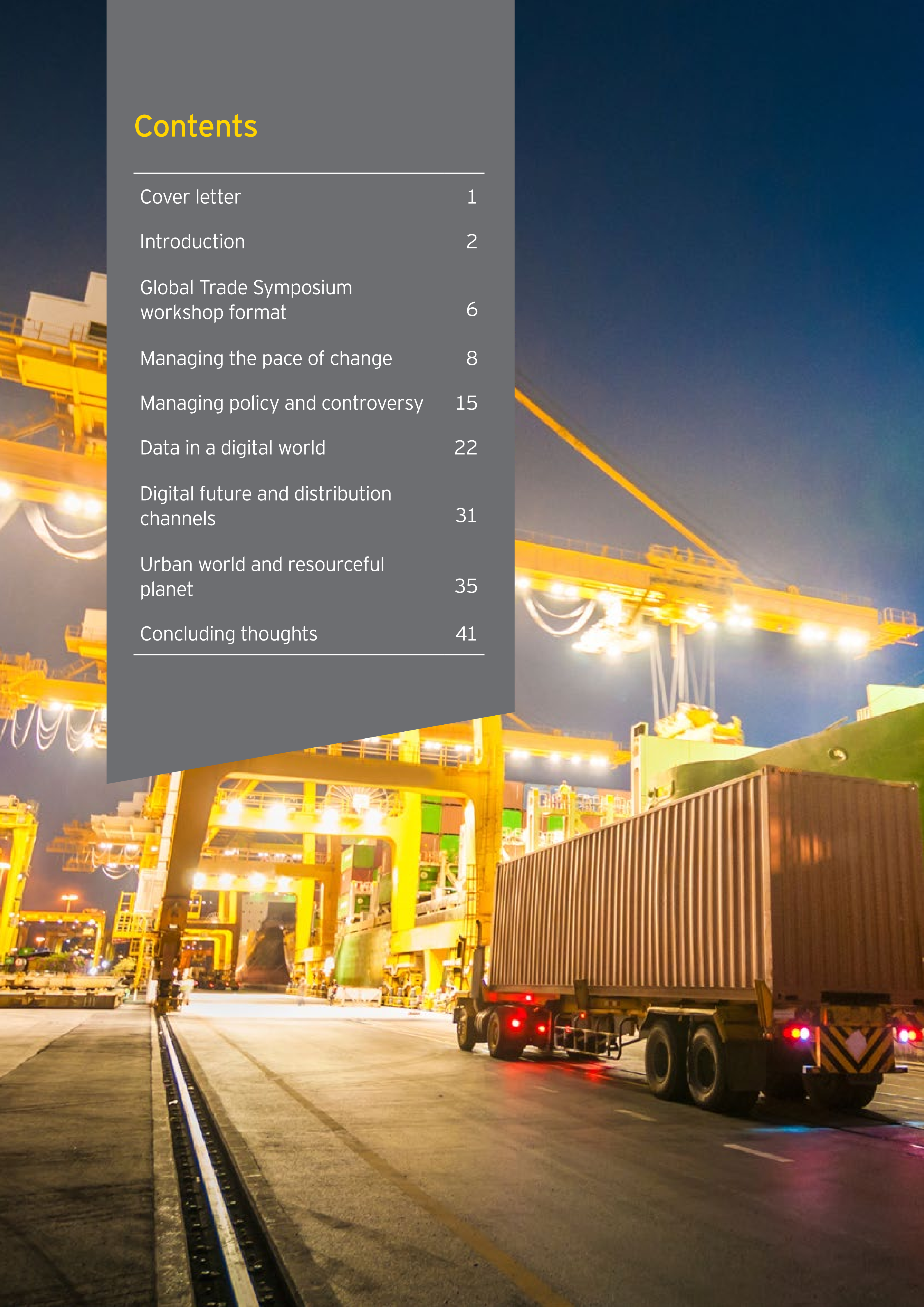
Making sense of a world in motion — a global trade perspective

The 2016 EY Global Trade Symposium report

EY

Building a better working world



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New markets, new trade linkages and new supply chains are emerging at a rapid pace. A growing expectation for anytime, anywhere access to information is disrupting traditional business models. The number and scale of urban centers continue to expand, putting increased pressure on infrastructure and transportation lanes.

Even if not reflected in global growth numbers, the pace of change is staggering and accelerating. International expansion through new markets, expanding product lines and new sales channels is at the forefront of corporate growth strategy. Enhancing export growth is also a centerpiece of government policy for both developed and rapid-growth markets. Thriving in an environment defined by change is essential to maintaining a competitive edge.

This business environment frames the background in the latest of a series of reports prepared by the Global Trade practices of the EY international network; this year focused on managing trade in this changing environment. For over a decade, EY has assembled a select group of key executives from wide-ranging industries to examine leading practices and evolving strategies of global trade departments. Each participant company is an established global trader with import and export operations in multiple jurisdictions and recognized as an industry leader. In a discussion format facilitated by EY member firm professionals, the executives described how they cope, adapt and thrive amid the rapid change.

Our *Making sense of a world in motion — a global trade perspective* report summarizes the discussions and findings from the EY Global Trade Symposium. We are confident that you will find the report insightful and valuable to your organization.

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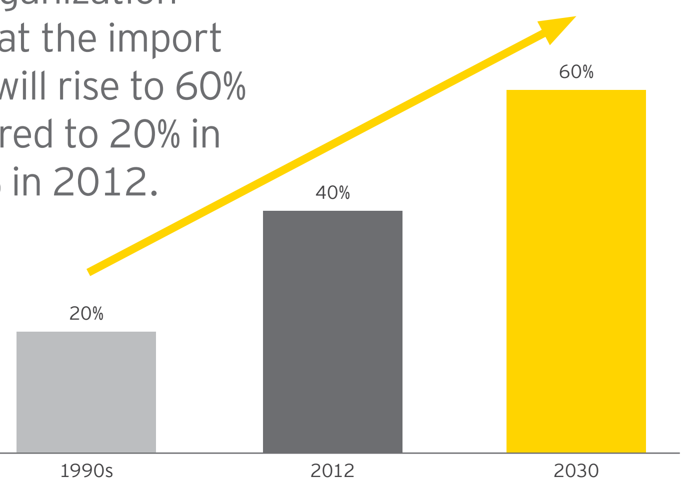
Introduction

The marketplace is increasingly global. With faster growth rates and favorable demographics in rapid-growth markets, businesses continue to look to increasing exports as a key to success. At the same time, global trade flows are experiencing unprecedented transformation in both size and patterns.

Supply chains are unbundling — made in world

Global trade is "unbundled" more than ever before in history, such that products are often "made in" a combination of countries, more appropriately described by some as "made in world."[1] As a key indicator of the increasing complexity of supply chains, consider this statistic on the "import content of exports" or, in other words, the percentage of product content (for goods being exported) that was imported in order to manufacture the good.

The World Trade Organization (WTO) estimates that the import content of exports will rise to 60% by 2030, as compared to 20% in the 1990s and 40% in 2012.

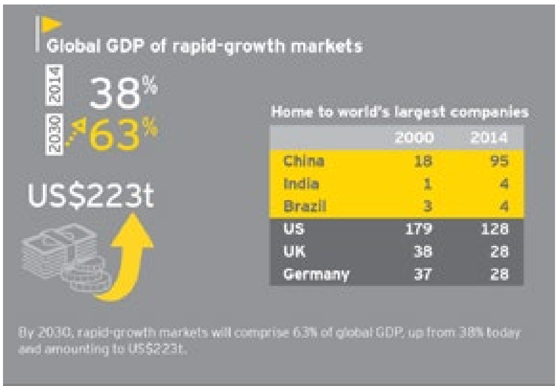


Thus, by 2030, for exported products, more content will have been imported to manufacture the products than will have been locally sourced.[2] As goods are made in world, components, partial assemblies and intangibles (such as product design and engineering) are frequently traded several times across borders before the final product reaches consumers.

[2] *Special Report: Global trade unbundled,* Standard Chartered Bank, 2014.
[3] *Ibid.*

Consumer demand and horizontal trade are differentially rising in emerging markets

Trade is not growing at the same pace worldwide. Growth in both gross domestic product (GDP) and trade in goods is expected to move more towards Asia and Africa. By 2030, rapid-growth markets will constitute 63% of global GDP, up from 38% currently, and draw increasing presence of the world's largest companies.



	2000	2014
China	18	95
India	1	4
Brazil	3	4
US	179	128
UK	38	28
Germany	37	28

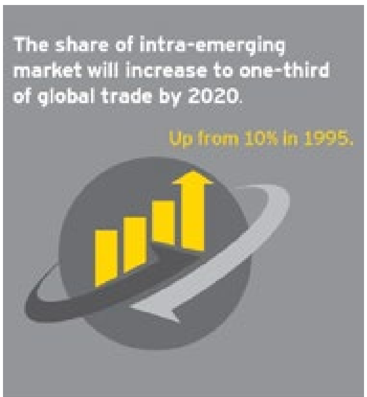
Sources: "The super-cycle lives: emerging markets growth is key," Standard Chartered, November 2013, www.sc.com/en/news-and-media/news/global/2013-11-06-super-cycle-EM-growth-is-key.html; and EY Analysis of 2000 and 2014 Global Fortune 500 lists, November 2014.

Emerging markets continue moving up the value chain in both consumption and production capabilities. Many emerging markets are increasingly able to consume more products, including nonessential goods, due to burgeoning middle-class markets springing up in cities dispersed around the world. Growing middle classes continue to drive the emergence of lucrative new markets. Of note, two-thirds of the global middle class will be residents of the Asia-Pacific region by 2030, up from under one-third in 2009.

The number and scale of cities continue to grow across the globe, driven by rapid urbanization in emerging markets and continued urbanization in mature markets. The United Nations (UN) reports that 54% of the world's population currently lives in cities, and by 2050, this proportion will increase to 66%.

Consumer spending patterns are changing, too. Total global annual consumer spending in rapid-growth markets will increase from US$12 trillion in 2014 to US$63 trillion in 2030 — more than a five-fold increase.

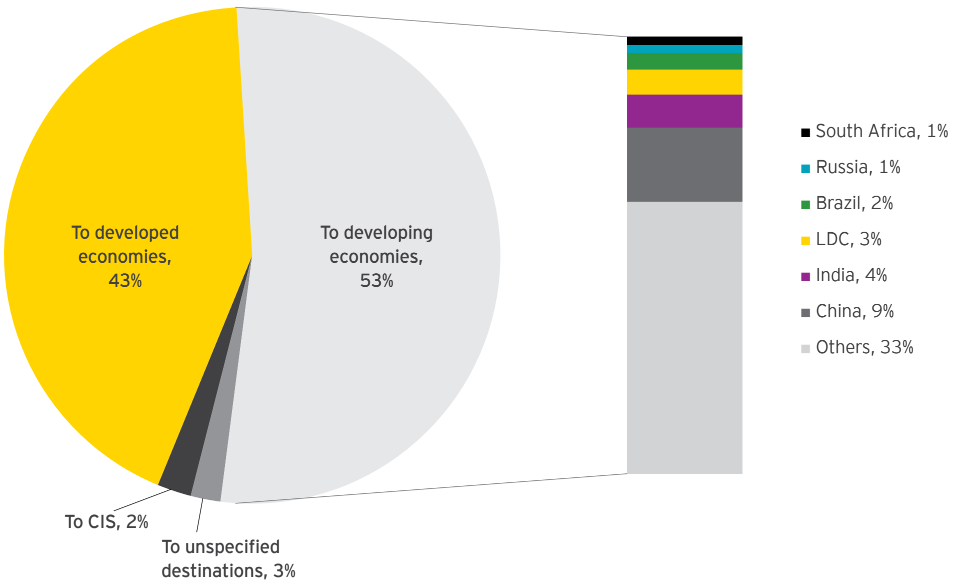
Additionally, emerging markets are often now producing higher-value goods. Gone are the days of simple, vertically differentiated trade where mature markets produce and trade higher-quality goods, while lesser-developed markets trade in cheaper, lesser-quality goods. As emerging markets produce higher-quality and increasingly sophisticated goods, reports point to increased horizontal trade, particularly among rapid-growth countries themselves. Horizontal trade is characterized by trade in similar products, although often with differentiated varieties. Patterns of increased horizontal trade as well as fragmented supply chains have inevitably impacted rates of intra-emerging-market trade. The share of intra-emerging-market trade is predicted to increase to one-third of all global trade by 2020.



Source: "Lamy says Europe needs a good compass to sail through crisis," *World Trade Organization website*, www.wto.org/english/news_e/sppl_e/sppl25_e.htm, accessed 17 October 2014.

The fastest-growing trade corridors over the last two decades predominantly reflect south-to-south trade versus north-to-north trade. Examples include Asia– Middle East and North Africa (MENA), Asia–Latin America, and Asia–Africa. A review of 2014 exports from developing countries revealed that 53% of exports from developing countries go to other developing countries. Developed countries, on the other hand, only exported about 30% to developing countries.

Merchandise exports from developing countries, 2014



Source: WTO Secretariat

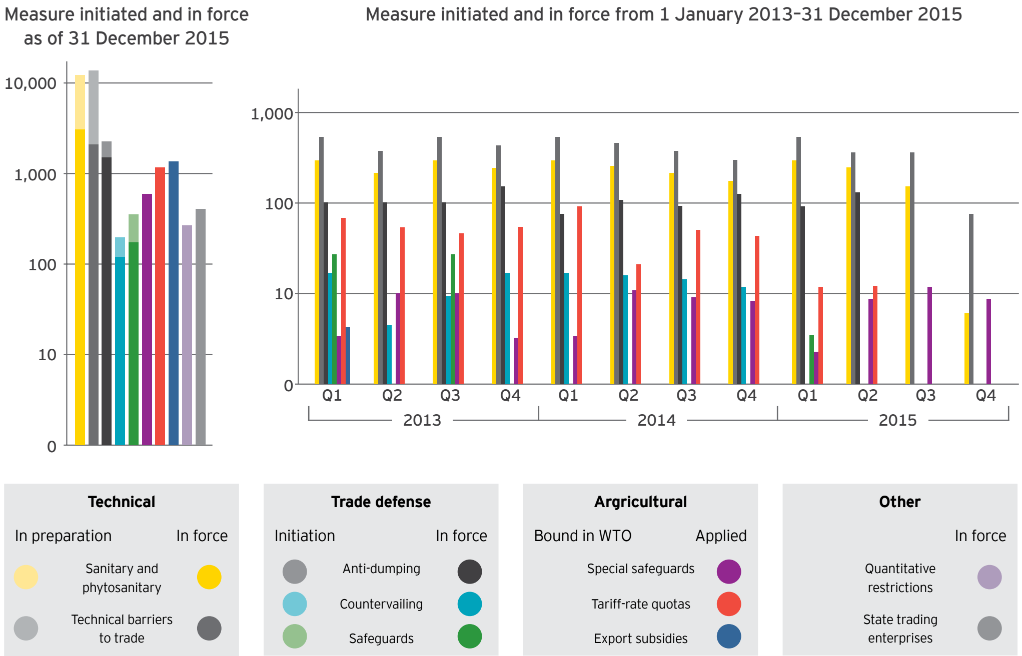
Policy coordination

Trade flows continue to be interdependent, especially with made in world goods requiring inputs from multiple locations. This enhances the need for strong global policy coordination. The economic benefits of this coordination, and the impact on trade, are well documented. The World Bank forecasts that when adopted, the 12-country Trans-Pacific Partnership will increase GDP of each member by an average of 1.1% by 2030, and trade will increase by 11% over the same period.[3]

At the same time, protectionist barriers to trade remain high and are not slowing. The following tables below illustrate the wide number of trade barriers in place, and notably, the rate of adoption in 2015 was not materially different than in 2013 and 2014.

[3] World Bank 2016 Global Economic Prospects, http://www.worldbank.org/en/publication/global-economic-prospects.

Protectionist barriers to trade



Source: World Trade Organization

Effective trade in goods

This convergence of transformative global forces is described as the "global marketplace" megatrend in our report, *Megatrends 2015: making sense of a world in motion*.[4] Against this background of what the future might hold, our Global Trade Symposium provided trade executives an opportunity to explore the strategies that enable effective trade operations in this multifaceted environment and provide practical insights on the factors that support competitive success and growth.

[4] http://www.ey.com/Publication/vwLUAssets/ey-megatrends-report-2015/$FILE/ey-megatrends-report-2015.pdf

Global Trade Symposium workshop format

The symposium followed a facilitated workshop format. This report summarizes the discussion and highlights selected statements made by participants during the discussion; quotes, however, are not attributed to any individual. Opinions expressed are those of the individual participants and are not necessarily those of the organizations they represent.

EY participants are listed on the back cover.

Industry participants

Julie Lugo	Ashland Inc.
Warren Hastings	Cardinal Health, Inc.
Theresa Walker	Cargill, Inc.
Carolyn Muhlstein	Cisco Systems, Inc.
Jeffrey Tooze	Columbia Sportswear Company
Roger McCrary	Delphi Automotive PLC
Darko Neuschul	Facebook, Inc.
Timothy Santo	General Electric Company
Amy Martin	General Motors Corporation
Nancy Doan	HEB Grocery Company, LP
Steve Gardon	Lear Corporation
John Wainright	Leggett & Platt, Inc.
Lou Ventino	Microsoft Corporation
Kelley Edwards	Milliken & Company
Joanie Cline	Nike, Inc.
John Sardar	Noble Energy Inc.
Agnes Cruiz	Nokia Corporation
David Busam	Renault-Nissan Alliance
Jared Fenton	Sigma-Aldrich Corporation
Patricia Marseille	The Walt Disney Company

Managing the pace of change

The global marketplace megatrend provides ample opportunities for global trade professionals to add value and impact overall corporate success.

The combination of factors could seem daunting: increased overall trade in goods, increased supply chain fragmentation, rising import content of exports, burgeoning middle-class consumers in new emerging markets, and significant protectionist barriers to trade.

In global trade terms, the global marketplace megatrend could translate to increased import volumes; increased numbers and different types of products for classification (e.g., finished, intermediate, raw materials, and machinery and equipment across fragmented supply chain operations); more intangibles to find, capture, allocate and report to various customs authorities; more free trade preferences to maintain around the world; and more barriers to avoid.

Consequently, while workload is increasing for global trade professionals, the global marketplace megatrend provides ample opportunities for global trade professionals to add value and impact overall corporate success. Trade professionals that effectively manage the pace of change can maximize new opportunities, leverage global synergies and avoid unintended consequences for their companies. This year's discussions focused on key details of achieving these objectives. Harnessing preferential trade strategies, including free trade agreements (FTAs), topped the list for many.

Optimizing and executing on preferential trade strategies

With over 400 trade agreements in force,[5] optimizing utilization has become a primary focus of many trade executives. One trade executive commented, "Half of our company would not exist without FTAs." Many executives shared both the high expectations and significance of FTAs to their businesses.

Deciding whether to claim preferences

Many participating executives agreed with the reality expressed by one: "There is an assumption that we will take advantage of all FTAs, and that's not always a fair assumption." The group agreed unequivocally that a risk-reward analysis is always prudent because — there are no two ways about it — managing FTAs is an arduous task. That analysis could mean consideration of resources, reliability of data, risk, application of one preference over another and consideration of alternatives. In that vein, one executive inquired whether others weighed the benefits of using differing special regimes, such as bonded manufacturing, against FTAs. Another executive quickly responded that her company found it simpler to deal with bonded regimes in certain jurisdictions in lieu of FTAs.

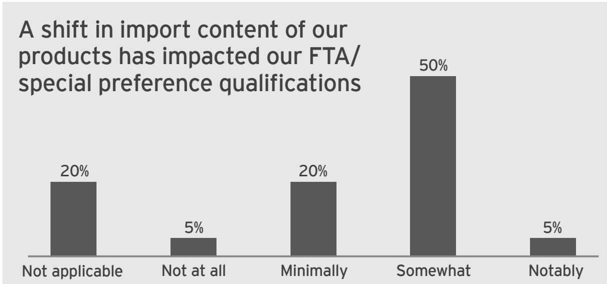
For companies trading in dutiable products, all inevitably reported heavy reliance on FTAs in their overall global trade strategy. The consensus was that a preferential trade approach should be clearly and intentionally set and should consider many factors to determine when and how to implement strategies.

[5] World Trade Organization Regional Trade Agreements as of 1 February 2016.

Active management

The trade executives had extensive discussion on pinpointing execution — where is the burden in FTAs and how are companies managing that burden? Preferential agreements unavoidably require the application of product-specific rules of origin to further the agreement's objectives and prevent manipulation. Many trade professionals oversee significant efforts to manage the data, documentation and analysis needed to effectively claim (and defend) various rule of origin qualifications. The complication appears to be rising. Import content is fundamental, and the megatrend points to increased import content of exports. Consistent with the megatrend reported, 57% of participating trade professionals had experienced a "rising import content of exports."

Based on the fact that only 5% of companies reported that FTA qualification has been notably impacted by the rising import content of exports, we found strong validation of the management efforts made by these trade professionals. These efforts are further supported considering that 38% of the participants reported managing 5 to 10 preferential agreements and 33% reported managing more than 10 different preferential agreements.



Companies are actively managing preferences by assigning resources (both internal and external), leveraging centers of excellence or shared service centers, analyzing gaps in missing or potentially incorrect information or documents, evaluating what additional opportunities could be reached, and communicating with corporate stakeholders.

Staffing — leveraging synergies among people, information and documents

Successfully using FTAs requires clear assignment of resources — from both a tactical and strategic standpoint. Centers of excellence have dominated recent global trade discussions and, not surprisingly were also a focus of this year's Global Trade Symposium.

The importance of preferential agreements was illustrated by how participating companies assigned resources. Trade executives reported the following approache: 38% assign dedicated internal resources to undertake preferential agreement work and 33% use third parties to assist in the processes. Outsourced activities included "doing the operations work," "soliciting suppliers," "getting [vendor] certificates" and "qualification analyses." Whether due to resource constraints or expertise, various executives reported "working with vendors to help them do the solicitation on a big scale" to "avoid leakage." Companies are seeking — and finding — economies of scale through their assignment of resources.

43% "We find it valuable for the same team members to analyze multiple FTAs globally."

48% "We leverage on a regional scale."

No trade executives reported that FTA analysis should be focused independently, considering only a single FTA at a time. Companies have become leaner through finding synergies.

FTA resource assignments go beyond tactical activities with companies specifically assigning strategic analysis. Ninety percent of trade executives reported having one or more full-time equivalents assigned to global strategy and planning activities, including consideration of preferential agreement activities. However, many highlighted the need for strategic talent "to be grown." One executive expressed a struggle finding people who could think both technically and operationally, and another noted that it becomes difficult to "look at who can become a

strategist if everyone is operations based." Strategic analyses undertaken by these personnel were widely varied and included the following:

- Analyzing opportunities against footprint
- Being actively involved in lobbying around FTA negotiations to "ensure their interests are being taken care of" by trade negotiators
- Working with cross-functional corporate teams on target markets to inform the business of FTA qualification requirements as part of the manufacturing/vendor/supply chain strategy for new production locations

One trade leader reported being "lucky enough" to have "a whole team dedicated to identifying opportunities," which came after the company realized it "had a lot of FTA leakage" around the world. The consensus of executives was that these strategic activities are "having a big impact on the financial results" of their companies, and they expect the emphasis on this area to grow.

Working with and supporting vendors

Many trade executives shared how reliant they are on vendor documentation and how they go the extra mile to educate, support and challenge (when needed) non-responsive or inaccurate vendors.

One noted that the "default position" of vendors that are unsure of whether or how to certify a good is to refuse certification. To combat the lost opportunities that otherwise occur, the executive cited the education efforts they provide to vendors around FTA requirements.

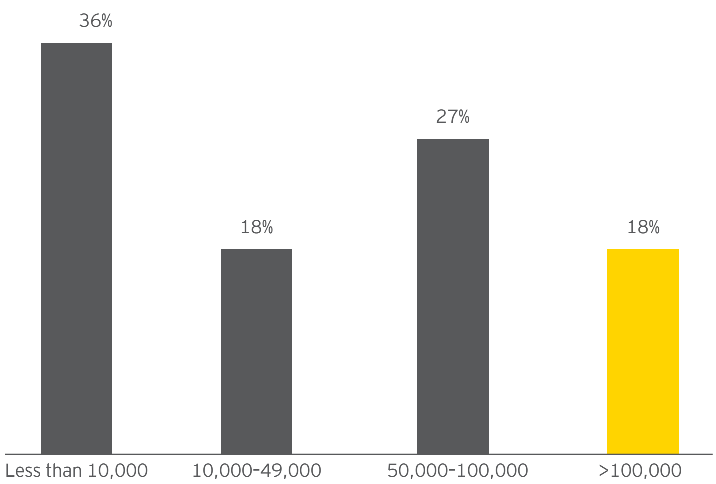
Companies are leveraging requests to vendors — don't ask multiple times (across agreement, divisions or geographies) if you can "ask a vendor once to support all [the] FTAs you need." Many trade professionals reported working to make a "smarter ask" from suppliers, the "intention to come to a one touch point" with the supplier versus "asking 10 different times with different requests." Most reported a path of improvement toward this goal, but perhaps not having fully achieved it yet. Technology, centers of excellence and collaboration with purchasing were all noted as contributors toward reaching these goals.

One executive reported (with the agreement of others in the room) that it is valuable to "not take at face value" a determination made by suppliers. Many shared experiences of taking "a deeper dive" into goods that suppliers originally indicated as not qualifying under particular FTAs. Another executive reported that she sees a "no" answer as "a potential new opportunity to reduce costs." This might include working with the same supplier to evaluate the answer, changing the source or changing suppliers altogether when the part was significant to the overall solution. All of the executives made clear that accuracy is key; bullying suppliers is certainly not a best practice, but improvement can clearly be found with increased focus.

Managing classification assignments

Classification is one of the fundamental requirements for moving product across the border and is also the most harmonized set of rules. Yet 70% of the trade executives who participated identified this as an area where there is redundancy in work performed across the global organization.

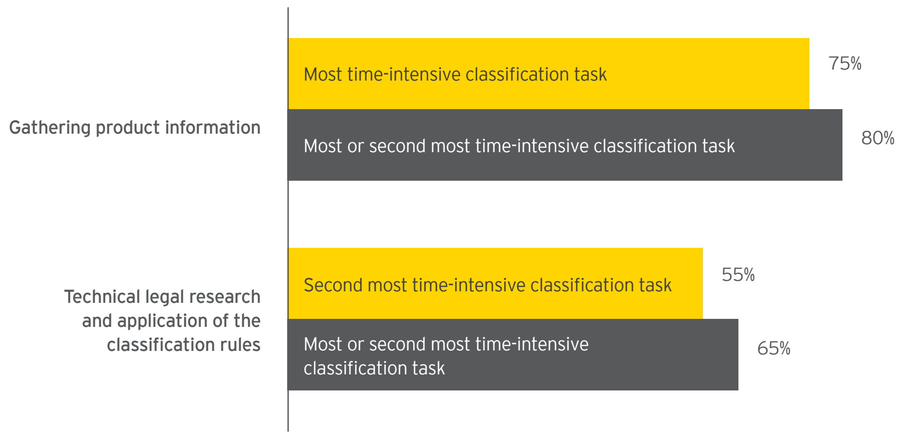
Annual number of items classified globally



Classification needs are ongoing, and the sheer volume makes this a time-consuming activity. Of executives participating, 45% reported classifying more than 50,000 items annually; 18% reported classifying more than 100,000 items annually.

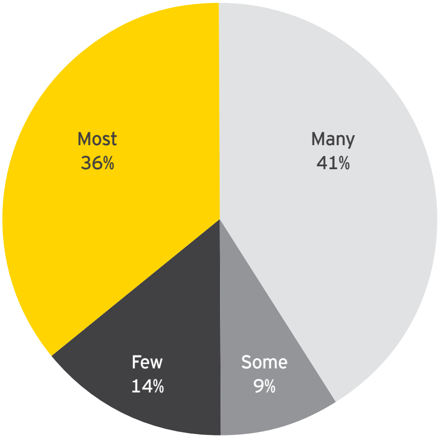
To effectively classify an item, specific product information is needed. Often, the detail of information needed for customs or export control purposes is not readily apparent from standard product information. Three-fourths of the participating trade executives identified gathering the necessary product information as the most time-intensive task of classification. Once the product information is in place, a technical assessment must be done. Of the trade executives who participated, 55% identified this as the second most time-consuming task, as noted on the chart below.

Most time-consuming classification tasks



Similar to the approach taken for FTA qualification, trade executives reported a wide use of centers of excellence to better effectuate classification and reduce redundancy. The trade executives were quick to point out that effective classification requires a true "center of excellence" approach, and not just a shared service center. As noted in the graph below, three-fourths of the trade executives reported that classification skills for their companies' products required special technical skills in addition to customs and trade skills. Employees with specific technical engineering backgrounds, for example, were often cited, and chemical engineers, mechanical engineers or software engineers were frequently needed on the team.

Almost three-fourths of participating executives reported the need for special technical skills (special product expertise, chemical or engineering background, etc.) in order to classify many or most of their products.



Design for duty programs

Better and globally consistent answers with less redundancy are the expected result of centralized FTA and classification expertise. Effective management of the core processes allows the more senior resources to be freed up for related strategic activities. The trade executives can supply expertise to apply the rules, but they recognize strategic impact often has to be ingrained in advanced planning. This requires input from the procurement and production planning departments, as well as an understanding of sales volume in each market and any new export markets that may be under consideration.

Several of the trade executives reported "design for duty" programs, where new products were developed considering the impact of classification and FTA options. "For our company, design for duty is around construction of products," explained one trade executive. "We have high duty rate products and really need to think about where there may be options to classify so as to shave a few points from the average duty rate." Another trade executive offered that his company's design for a duty program is FTA focused. "It is a balance," he explained. "I want enough content to qualify for an FTA, but I don't want more content than necessary. In some locations, for example, Brazil, having more content than is necessary is too expensive."

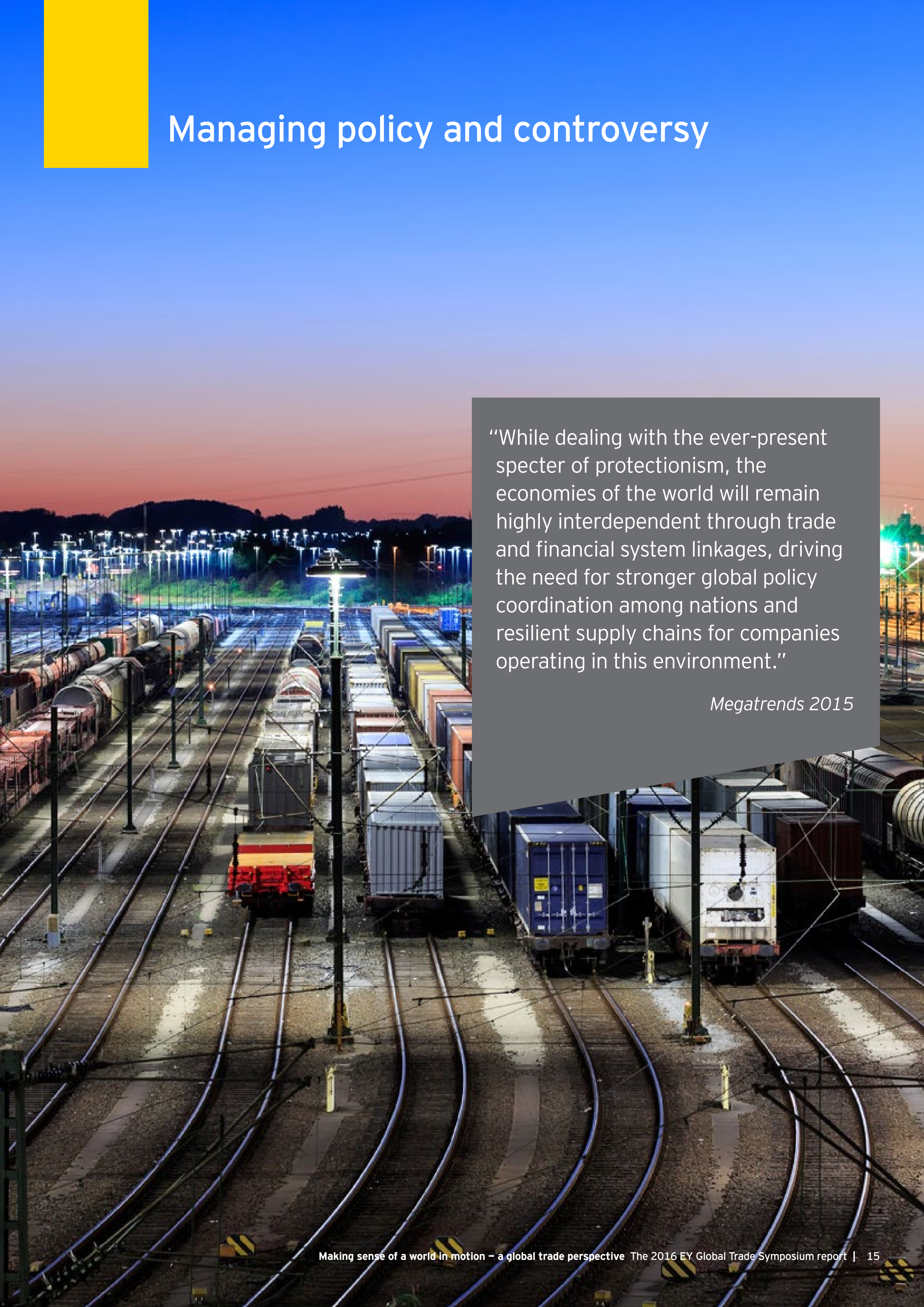
The number of potentially applicable FTAs and expansion of sourcing options makes optimizing this effort more complex. "I need to focus efforts in this area," commented one trade executive, "but it really takes good data and analytics to have the correct visibility to product flows and trade lanes to be effective."

Our point of view

Effectively managing trade in a "made in world" environment is challenging. Yet businesses need and expect more; they expect optimization. For businesses reliant on FTAs, this is an ever-increasing burden. The number of FTAs is growing, and there is a new dynamic, as evidenced by the Trans-Pacific Partnership, where multiple FTAs may be in effect between two countries requiring businesses to select the appropriate rule set. When production from a single plant is destined for multiple markets, there can be trade-offs to consider when making sourcing decisions.

Trade executives are convinced, and so are we, that developing centralized, detailed expertise in core functions, like classification and origin management, is critical to an effective and efficient process. Then, sufficient strategic attention can be paid to optimization such as designing for duty. Optimization is a multifunctional exercise involving procurement, production planning and sales. As the variables increase — the number of locations from which a material may be sourced, the products made in a location, the export markets that will be served from the plant — access to data and analytic tools for modeling are critical to achieve the business goals.

Managing policy and controversy



"While dealing with the ever-present specter of protectionism, the economies of the world will remain highly interdependent through trade and financial system linkages, driving the need for stronger global policy coordination among nations and resilient supply chains for companies operating in this environment."

Megatrends 2015

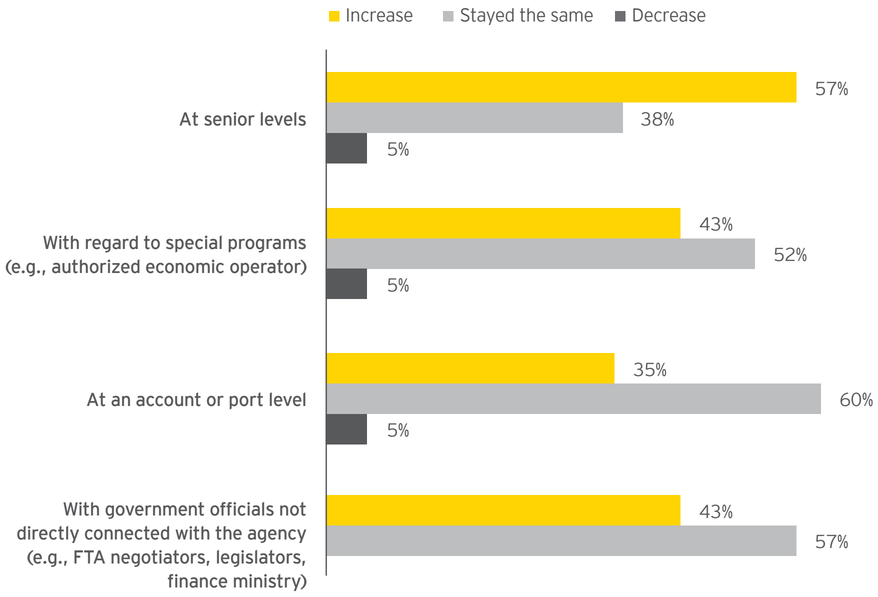
Global policy coordination driven by trade interdependencies has a huge economic impact. Some analysts have reported that the benefits from reducing barriers to trade that will result from implementation of the WTO Facilitation Agreement will exceed US$1 trillion.[6] Trade executives are keenly aware of the benefits of active engagement in this arena and stay close to activities that allow for efficiencies and cost reductions.

The dynamic described in *Megatrends 2015* — the need for global policy coordination tempered by domestic protectionist activity — has a more nuanced effect. The tension caused by competing interests can have dramatic business impact and requires significant attention from trade executives. Importantly, this dynamic manifests itself both in direct involvement of trade executives in shaping policy and with ever-increasing controversy management.

Managing policy

The continued corporate focus on expanding profits with export sales, coupled with the impact that policies of the destination countries have on supply chain cost and speed, has made policy involvement an essential part of effective global trade management for the participating trade executives. All participants reported active engagement at multiple levels, which is a trend that has clearly increased in recent years.

Level of engagement with government on customs issues over the past five years



[6] Peterson Institute for international Economics, *Payoff from the World Trade Agenda 2013*, Report to ICC Foundation, 14 June 2013.

Trade executives are acutely aware of the potential impact of significant events such as the Trans-Pacific Partnership (TPP). As the outcome of some of these decisions will dictate business decisions and competitive advantage, and in some cases require new strategies to maintain competitiveness, trade executives have been directly engaging negotiators and carefully following the direction of negotiations.

> "The outcome of TPP can mean a 20-point differential on our costs when we are able to use particular trade lanes."

"Life is changing, in a good way, but there is really no option other than getting it right. The impact is nuts." As a result, the trade executives have been engaging with negotiators not only from their home countries but also with those countries from which they source products. In fact, with protectionist influences sometimes impacting the point of view of countries that are expecting to be net importers of particular categories of products, the need to clearly express the company's point of view to the exporting location negotiators becomes strategically important.

FTA engagement is only one category of policy influence that is important to trade executives. Legislation, regulatory requirements and agency initiatives are closely monitored and are the subject of policy engagement.

> "We make our views known to government officials and/or try to influence ..."

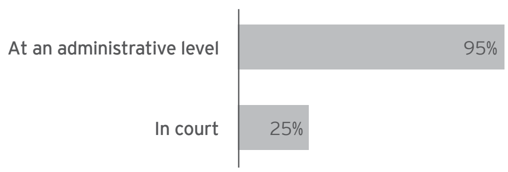
Engagement with officials on the new European Union (EU) Customs Code was cited as one initiative that has also been time consuming. With 28 EU member states and the European Commission directly involved in the drafting, engagement with multiple stakeholders has been common. Several of the executives commented on the importance of getting input from a variety of these sources, as the views expressed have not always been consistent. Some of the executives speculated that differences in views should be expected, adding that there remains latitude in the ability of EU customs authorities to interpret provisions differently.

The trade executives also reported involvement with issues on a global level. Engagement includes the Private Sector Consultative Group on trade security, the World Customs Organization Harmonized Committee on Classification, and the Technical Committee on Customs Valuation (TCCV) on valuation through the International Chamber of Commerce, which represents the business community as an observer to the TCCV. TCCV engagement was referenced as an area that can be very valuable but difficult and sometimes frustrating. “It is frustrating that TCCV cannot seem to reach a conclusion on some very important issues for business,” noted one executive. The TCCV operates by consensus, particularly as valuation decisions directly impact the tax base and, consequently, revenue. Reaching a consensus has proven very difficult. “But at least we are generating dialogue on important issues,” commented one executive, who went on to note that familiarity with the concepts can be valuable when an issue arises in a particular country. “Besides,” commented another executive with some resignation, “where else do you find all of these countries agreeing on everything?”

Managing controversy

The participating trade executives were no strangers to managing controversy. Almost all of their companies have been involved with a controversy at the administrative level in the last two years, and a quarter of them reported that at least one dispute resulted in litigation in the past two years.

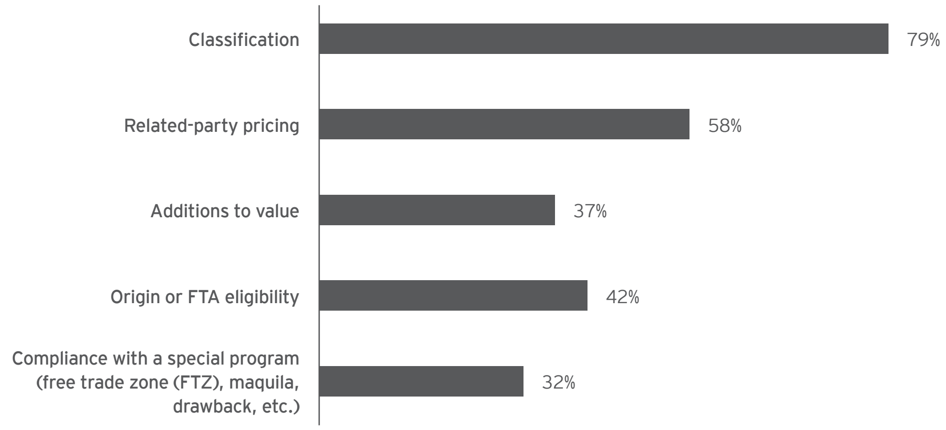
Involvement in a dispute over a customs issue in the past two years



Audit activity is similarly on the rise. Over 80% of the participating executives reported they had been subject to audit in the past two years in multiple countries.

Controversy can involve any number of topics. As indicated on the chart below, classification disputes are very common, with nearly 80% of the trade executives reporting classification controversy. Valuation and origin disputes, however, were quite common and were reported to be on the rise. As origin disputes typically involve a significant portion of a company’s trade portfolio, and valuation disputes generally involve all of it (as opposed to classification disputes, which are generally limited to a single product or product family), these types of disputes tend to have quite a bit more at stake.

Topics of dispute with customs authorities



With bigger-picture, higher-stake origin and valuation disputes, the executives noted a trend to more centrally managed disputes by customs authorities. National or central administration involvement, rather than local engagement, is becoming more common. Sometimes central involvement can be beneficial, as central teams have more technical expertise, but the central teams can be guided by policy directives that are revenue based. One executive commented that the auditors are trained with this focus: "They are smart people entering into governments with strong bureaucratic backgrounds, being trained to comb through revenue rules. They have a specific job — not to facilitate trade, but to find revenue." Another called it "protectionism of revenue."

"FTA origin disputes are difficult," noted one executive. "The country that was eager to begin a free trade relationship and touts the agreement as being of great benefit to exporters is now being very tough on importers." The participants cited South Korea as an example of a country that has a very ambitious plan to expand free trade partners, recently adopting FTAs with both the European Union (2011) and the US (2012). Now that the agreements are in place and being used, South Korean Customs has been quick to challenge the qualification of imports and has been very aggressive in its approach to audits.

Perhaps the most contentious area has been valuation. Related-party pricing is now routinely reviewed on audit, with 58% of the participating executives' companies reporting a dispute on related-party pricing. Additions to value are also the subject of increasing disputes. With many countries facing revenue problems, and indirect taxes often making up a large portion of tax collections, expanding the tax base with additions to value (e.g., royalties) or disallowing related-party prices can have a direct and immediate impact.

"The landscape here is changing."

"An authority which has previously looked at each agreement separately and reached a conclusion that no additions to value exist will now look at all the agreements collectively and say that the parent company has too much overall control of a situation and that the transactions should be recast." It was noted that the "control" concept being referenced is taken directly from Technical Committee on Customs Valuation Advisory Opinion 4.15, which has added legitimacy to the use of this "control" concept to expand customs value in a variety of circumstances. The trade executives expect these types of controversies to grow in the future.

Managing controversies is also increasingly difficult because the positions taken or agreements reached in one place may have broader implications. Most of the executives reported protocols or policies on escalation, with regard to both audits and controversy. "We are in the process of creating a global audit tracking tool," stated one executive. He continued, "There is too much to keep track of informally." Others commented that they also had tracking systems or tools in place or systems in development.

Several of the executives commented that they have mandatory escalation when certain financial thresholds are met, but added that the financial consequence of a particular issue is not alone a determinative factor. Many of the companies had experienced audits or controversies on similar issues in multiple places, particularly with valuation topics like transfer pricing and royalties. Consequently, the financial consequence in one location might be small, but the positions taken can sometimes have greater implications in other locations. In this environment, consistency of positions is also important. "It is important that the company speaks with one voice," stated one executive. Additionally, potential financial risk is not the only criteria considered: "It isn't just financial threshold that we need to be concerned with. For our company, we are very focused on reputational risk."

With the volume of controversy and the variety of factors to consider in decision-making, there is no easy answer to managing controversy. "We struggle with global versus local engagement on controversy," summarized one executive. Equally important to an escalation policy is a good understanding by local country employees of the corporate approach to particular situations, including the type of response that should be given to specific types of inquiries, regardless of the formality of the request. Often these initial responses color the views of local officials, and by the time an issue is formalized and escalated, the authority may have already developed a preconceived notion of the situation based on the initial response. "A global audit policy is only as effective as the communication," commented one executive, "and that communication needs to be good both ways."

Our point of view

While the benefits of trade liberalization and enhancement are widespread, it is the intersection of those policies with protectionist tendencies that is requiring the most significant attention from trade executives. Protectionism is not only the restriction of imports, but it is also the protection of revenue. The intense local focus on preventing the erosion of the tax base for customs, or in some cases expanding it, is often driven by a government's cash needs. It also drives the need for proactive business engagement, in the areas of policy and resulting controversy.

The tension between trade liberalization and protectionism is very apparent from the active engagement of trade executives in the FTA area. Details of the rules of origin, rate reduction schedules and the documentation mechanics all present great opportunities for FTA savings and, conversely, for the customs administration of the importing FTA partner country to restrict or deny benefits. Trade executives must be engaged on all aspects of the negotiations, paying forward the requirements and considering how the company's record-keeping and systems may be accessed to support an origin determination. Stakes are high, and while on the surface it seems that trade liberalization is the goal, experienced trade executives understand that execution of savings under any particular FTA is not at all a given.

The area of customs valuation provides an interesting convergence of policy. In the area of transfer pricing and customs valuation, authorities globally have become increasingly aware of the interdependencies, leading to more direct guidance on how transfer pricing compensating adjustments should be treated for customs purposes. The World Customs Organization (WCO), an intergovernmental organization of 180 customs administrations, has published the *Guide to Customs Valuation and Transfer Pricing*, discussing how both customs administrations and businesses can consider using transfer pricing data and documentation to support customs values. While the practices of individual countries are not aligned, clear trends are emerging that provide businesses a path forward.

On the other hand, much of policy convergence in the valuation area seems to be revenue protecting, particularly in the area of additions to transaction value, such as royalties. The trade executives expect that this will be an area of increasing focus, and we agree. With country-by-country reporting of payment streams to income tax authorities as part of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) initiative, the manner in which payments are made will be easily visible to customs authorities, whether directly or by requesting the company's transfer pricing report as part of an audit. The spotlight will be directly on those payments that may be considered additions to value.

In this environment, direct policy engagement, at multiple levels, will continue to be a priority for trade executives. Further, the environment will continue to create controversy, heightening the need for sound management tools, consistent explanation of positions and strong communications with local teams.

Data in a digital world

Technology is disrupting all areas of the business enterprise, across all industries and in all geographies. With the disruption comes many opportunities. Opportunities exist for companies to take advantage of connecting and capturing vast amounts of data. Companies are leveraging this data to enter new markets, transform existing products, and introduce new business and delivery models. And, with reports showing businesses using only a fraction of the data currently available, these trends will only increase.

The abundance of available data, unprecedented transparency, connected devices and virtual workspaces and teams have created a very different environment than that of only a few years ago. Strong performing companies are unleashing the value of data and embracing the fast pace of changes in technology to drive efforts, achieve a high level of compliance, and operate effectively and more efficiently. Trade professionals are also confronted with the fact that while more data is available at speedier rates, this data is available to competitors and regulators as well, creating new challenges.

Data proliferation and data sources

A decade ago, in our 2006 symposium, trade executives agreed that access to data, especially outside the United States, was the single biggest data challenge. Even if data became available, the effort required to make the data useful was reported as significant. That situation has completely changed. Currently, global trade executives reported that trade date is now readily available and in forms that are more reliable than ever before. In fact, 81% of participants reported that data is readily available to them in many or most of their global locations. One stated succinctly, "This is a significant and positive change."

Source: Beth Schultz, "IDC: Tons of Customer Data Going to Waste," *AllAnalytics website*, 19 December 2013, www.allanalytics.com/author.asp?section_id=1411&doc_id=270622&_mc=MP_IW_EDT_STUB, accessed 8 January 2015.

Access to data in emerging markets tends to be the least readily available. While trade executives continue to struggle with data sources in those markets absent broker data, trade executives foresee forward progress in these markets, too. In particular, many customs authorities, including those in emerging markets, are moving away from paper-based transmission of customs data to automated filings. This development has made the availability of government data, as well as broker data, more prevalent.

Trade executives are not letting the remaining data access challenges deter their efforts. Instead, they are leveraging data from a variety of sources. The three sources used by nearly all of the participants are government, broker and internal enterprise resource planning (ERP) systems, as depicted on the chart below.

“When government data is available, it is the most reliable source,” stated one trade executive. Others agreed, but commented that it is not always available, and in some places it is not available in “real time” or with the regularity needed. Instead, broker data was used as a replacement or a supplement. Many attendees also reported using government data as a check to verify the accuracy of broker data. Some participants take verification a step further by conducting three-way matches between government data, broker data and ERP data. Several participants acknowledged that three-way matches are a leading practice, while others indicated that such matches remain a current goal of their department.

Participants are working to improve broker data in terms of regularity and reliability. “We write our data requirements into our contracts with our brokers,” offered one trade executive. Participants unanimously agreed that obligating brokers to provide data contractually is a leading practice. Contracts may detail specific data sets, formats and time frames. Having this requirement in broker contracts provides the company leverage to obtain useful data on a consistent basis and in prescribed data sets that are agreed upon up front.

> “We all expect data from our brokers, but we need to be sure that our expectations are clearly stated as to content and format.”

Global traders agreed that ERP data still is not optimal. Trade-related data is transactional; most ERP systems do not capture transactional data in a format useful for trade analysis. But participants agreed that many ERP systems do not capture the data most needed to conduct global trade analyses, and they do not predict positive changes in the foreseeable future. In addition, the use of multiple ERP systems, for example as a result of mergers, acquisitions and phasing out homegrown systems, also creates challenges. Data extracted from multiple ERP systems results in a significant expenditure of time and effort to transform the data into usable formats, and generally, resource costs and time outweigh the benefits reaped. One participant commented, “It just takes too long to get anything valuable.” Another, whose company has over 100 ERPs, explained that “government data is by far more reliable given the fragmentation and inconsistencies in the ERP data sets.” This executive further explained that the company is working towards better systems integration, but it would take a significant amount of time before good internal data sources were achieved.

> “In an ideal world, we would be able to adjust our ERP system to make it relevant for customs.”

While participants agreed that government data is the best source, some participants pointed out that government data alone may not be sufficient. In some cases, government data needs to be coupled with more granular product data to provide the type of product-by-product margin information required for executive-level reporting. “The level of granularity required varies by industry sector,” noted one trade executive with multiple lines of business. “It is really important to think about the details needed for good planning and where to get it.”

Governments have unprecedented access to data

At the same time data is more available to global traders, it is also more available to government authorities. The trend for customs authorities to require importers to file transactional information electronically is providing customs authorities access to an abundance of data. How customs uses this data can sometimes promote trade facilitation or inhibit it. One example commonly cited is the use of reference databases by customs authorities, often at the port of entry. In particular, importers are finding that customs authorities refer to the databases to check historical product valuation and pricing information against current transactions. When current imports are valued lower than a "set" reference or minimum price, an inquiry, or in some locations a rate advance (i.e., demand for additional payment), is triggered. Use of databases in this regard is inconsistent with the WTO's valuation principles, which prohibit a valuation method based on minimum, fictitious or arbitrary customs values. Unfortunately, importers have become all too accustomed to such product valuation inquiries from customs authorities, particularly in emerging markets, and often resolution can be costly and involve educating the customs officials themselves.

Further, global traders are reporting situations where data is shared between branches of governments such as tax and customs authorities, particularly in related-party transaction scenarios. This type of data sharing creates complications for importers as the objectives of tax regulations and customs regulations conflict. Companies are also reporting cases where there appears to be a movement for a customs authority of one country to share data with the customs authority of another country. An example includes free trade agreement rules of origin analysis and qualification.

Global traders acknowledge these trends and are more incentivized to be on top of their data globally as they try to stay ahead of regulators to identify, detect and prevent risks.

Data as a communication and collaboration tool

Global trade executives are relying heavily on data and the results of data analytics to create dynamic dashboards and interactive tools to drive internal and external collaboration. Trade executives agreed that when data is used effectively, it can be a powerful tool to communicate internally on global trade results, achieve global consistency and collaborate with external parties.

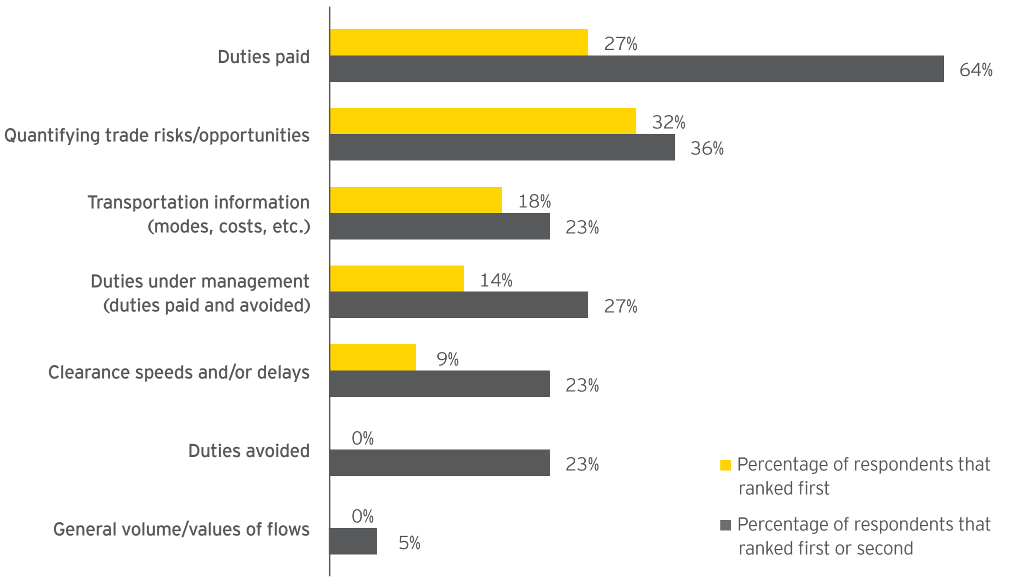
"The access to real-time data," stated one trade professional, "is critical to my team." The participating trade professionals rely on data for operational execution on a regular basis. One global trade executive discussed how all team members access dashboards from mobile devices on a daily basis. Dashboards are used to track everything from landed cost information and audit activity to the status of ongoing tasks and projects. Dashboard use is also expanding to nontraditional functions, such as capturing information related to integration of acquisitions.

Companies have made progress in terms of leveraging data to communicate results to company executives. Sophisticated global traders have prescribed reporting formats as well as established time frames to provide updates to executives on a routine basis. Trade executives use trade dashboards with consistency in reporting both in terms of the data presented and to whom — upward to executives and downward to global trade staff. Progress has also made in terms of presentation formats. Companies are more regularly using charts, graphs and heat maps to communicate the results from data analysis. However, getting the data in the right format can be time consuming, particularly in the beginning when creating the foundation. One executive noted, "Having a pie chart with useless data is a waste of everybody's time." But ultimately, "Presenting data in the form of a picture is often more powerful than words" and worth the up-front time investment, agreed trade executives.

Global traders are also using data to promote consistency across global teams, business units and countries. Having comprehensive, consistent data sets enables trade departments to avoid redundancy. Teams are able to monitor the effectiveness of their functions in a variety of countries and business units. Further, global traders can take a global look at risks and opportunities when data is available across a variety of entities and locations. This enables trade executives to manage resources and focus efforts where the areas of biggest risks or opportunities exist.

Finally, companies are finding that collaborating with external parties, such as customs brokers, suppliers and advisors, is more effective when reliable data is available. For example, companies are better able to team with third parties to globally manage free trade agreement qualification and ongoing maintenance. Given the level of harmonization with many of the agreements, centralized and consistent data sources enable companies to share information with service providers to help identify opportunities and manage ongoing eligibility exercises.

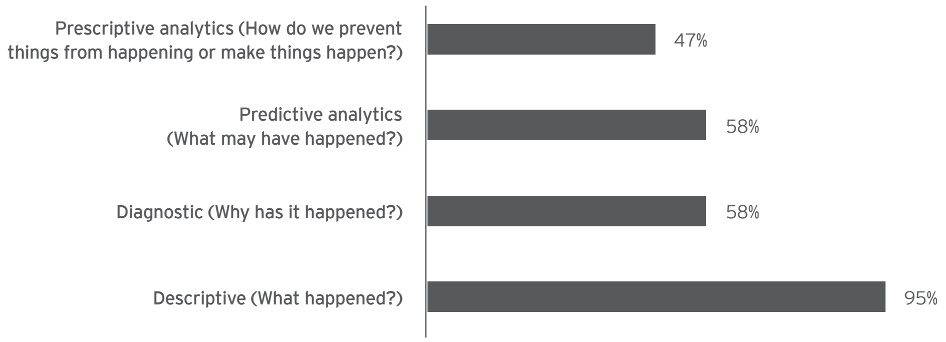
Trade metrics in which corporate stakeholders are most interested



Data analytics

Global traders are actively using data analytics as a means to manage and effectively use and share data. Ninety-five percent of the participating global trade executives indicated the use of data analytics tools for descriptive purposes. Descriptive analytics is a review of historical data to understand performance and determine the reasons behind success or failure.

The other forms of data analytics are used less regularly by trade professionals and are also depicted in the table below:



Trade executives were quick to acknowledge that where they use diagnostic, predictive and prescriptive analytics, they do not do so comprehensively. "We are just scratching the surface," noted one executive. Others agreed that there is great opportunity to more effectively use analytics in a broad variety of areas in the future.

Descriptive analytics — quantitative versus qualitative factors

Quantitative

Global trade executives are leveraging quantitative data to endorse the trade function, particularly when reporting to management. In fact, 67% of participants responded that quantitative metrics are part of routine internal reporting to management. Quantitative information is also used when communicating downward for team reporting. Unsurprisingly, data on duties paid continues to be one of the key data elements reported to company executives. Quantifying trade risks and opportunities is also at the top of the list. However, the data included in such reports depends quite heavily on the industry. For instance, companies with products that largely benefit from unconditionally duty-free treatment may have reporting that focuses more on speed to market, queries from customs officials, etc. As expected, companies that rely on free trade agreements for duty reduction spend considerable time reviewing data to quantify avoided duties, origin information, etc.

Examples of quantitative metrics used by global traders

- 80% reported using quantitative key performance indicators (KPIs).

Quantitative
Clearance speed
Clearance time/speed
Accuracy of filings
Importer security filings (ISF) accuracy and timeliness
Number of entries requiring correction (e.g., post-entry adjustments (PEAs))
Number of audits performed
Duty spend/savings
Duties paid
Duties avoided
Effective duty rate
Cost per entry
Import volumes
Number of entries
Lines processed
Items classified
Customs inquiries
Number of customs inquiries
Staffing/resources
Number of entries per person
Classifications per employee per month
Penalties
Value of fines and penalties
Other
Transportation costs

Qualitative

Global trade executives are also using qualitative data regularly. While some of the qualitative factors are a bit more difficult to measure, high-performing companies are finessing these measurements because they find value in reporting things, such as trade function involvement in planning and strategy discussions, participation in partnership programs, and accuracy of filings. In particular, a number of the participating companies are monitoring global activities such as disclosures filed, participation in audits/queries, and the number of entries requiring adjustment. Trade executives are using this information not only for upward reporting but to also track the tasks faced by the department in an effort to facilitate resource allocation and efficiencies.

Examples of qualitative metrics used by global traders

- 60% reported using qualitative KPIs.

Qualitative
Clearance speed
Customs holds/delays at the border
Accuracy of filings
Reporting accuracy/noncompliance errors
Successful conclusion of disclosures
Penalties
Types of fines/penalties
Internal investigations
Broker scorecards
Quality and compliance
Involvement in strategy
Trade is considered key in corporate strategy
Free trade agreement management
Partnership programs
Government-trusted partner included in the future of customs
Other
Risk reduction
Electronic data filings
Training conducted

Data's impact on staffing and talent management

"Work styles and the means to engage talent are becoming more agile in the digital world."[7] Work places are becoming more virtual with personnel connected at any time and from anywhere on a variety of devices. Cloud technologies, mobile devices and the availability of Wi-Fi almost anywhere are enabling personnel to work any place and at any time.

Global trade executives commented, "Data has changed the profile of the customs team and what they do." Over two-thirds of survey respondents indicated that technology and shared data impacted the number of people employed by the company and/or allowed for redeployment. Some of these changes have been made possible by automating certain aspects of the trade function.

Some global trade teams are moving to more virtual arrangements, indicating that they only know the voices of their staff. Others hesitate to make the switch to virtual arrangements, citing the importance of teaming and culture. Those that prefer in-person interaction also indicated that the impact is stronger on stakeholders, particularly those outside of the trade department, when physically present. However, when moving to virtual departments, having established, transparent metrics to measure team member and departmental successes and track improvements is critical. Technological advances are also enabling trade departments to tap into talent around the globe and identify niche specialties.

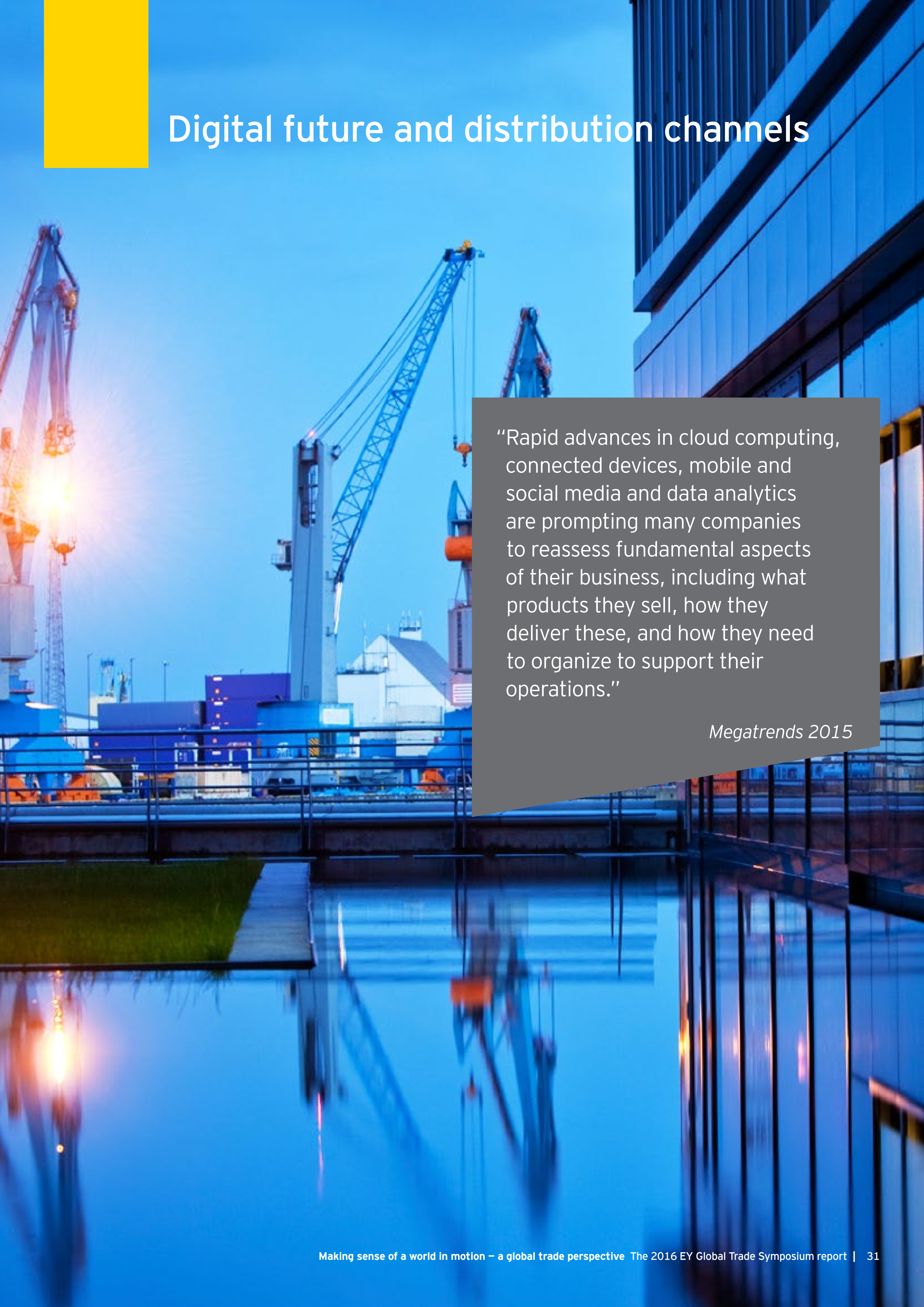
Our point of view

The pendulum has swung completely in relation to data. Everyone has access to data, and the challenge is now on managing and optimizing that data. Trade executives are already developing sophisticated approaches that incorporate analytics to assimilate data and produce effective reporting tools. The use of data is no longer limited to reporting results. Rather, companies are using data on an ongoing basis to manage trade operations, produce actionable insights and improve performance. Yet, as one trade executive commented, they have only begun to scratch the surface. While the use of descriptive analytics is widespread, businesses are just beginning to harness data for diagnostic and predictive purposes.

To achieve this vision, the need for full-time, technology-savvy professionals in trade functions will continue to grow. In addition, to achieve a higher level of data analytics such as predictive or prescriptive models, the trade function will be faced with continued focus on cross-functional interaction. Trade professionals will need intelligence on corporate-wide initiatives and strategic plans, such as sourcing patterns, sales forecasts, new market entry and merger/acquisition activity, to make these additional analytics successful.

[7] *Megatrends 2015: making sense of a world in motion*, EYGM Limited, 2015.

Digital future and distribution channels



> "Rapid advances in cloud computing, connected devices, mobile and social media and data analytics are prompting many companies to reassess fundamental aspects of their business, including what products they sell, how they deliver these, and how they need to organize to support their operations."
>
> *Megatrends 2015*

Digital transformation is changing business models. A recent Economist Intelligence Unit survey reports that almost 80% of companies are seeing changes in how their customers access goods and services, and the majority of these companies are changing their pricing and delivery models.[8] The participating trade professionals have directly experienced these changes. In fact, for the participating trade professionals, "change" does not adequately convey the complexity caused. More frequent than a movement from one model to another is the use of multiple models, with adaptations and variations growing constantly.

"Customers are demanding a relationship with the brand in a different way," explained one executive. "Consumers (and how they think and what they want) are changing the way we operate. We have to be responsive to the very specific consumer expectations of the right time and place of delivery: it could be their home, a kiosk or a convenience store. It is a different paradigm."

Others described the historical situation in which one distribution model was used and refined to optimize efficiency. That is no longer the driving factor.

> "We used to limit our business to a single model. We can't do that anymore, and each model creates new difficulties."

A number of the trade executives described model derivations as customer driven. One summed up, "We either meet the requirements or lose the customer."

Supply chain partners

The variety of delivery models invariably involves different uses of supply chain partners. One common example of this is in the e-commerce area, where third parties are commonly used to provide the e-commerce platform, handle collections and manage varying aspects of logistics. Another example described by manufacturers was a different approach for importations of manufacturing parts and aftermarket spare parts.

"It is complicated when we own one channel but not another," explained one executive. Classification, for example, can be the responsibility of different entities on importations of the same product in the same market through different channels. "We have to have specific procedures to ensure consistency," stated one executive.

The extent of these procedures and the extent of interaction with supply chain partners who have assumed responsibility for import compliance with respect to a distribution channel generated significant discussion. While a company may want to have complete information on product classification appearing on commercial invoices in situations in which a related party is the importer of record, when an unrelated supply chain partner takes on this responsibility, the answer may be different. "Our distributors don't want 'advice' on the invoice," commented one executive, "and we don't want to give advice that can point back to us." Another reported: "We give distributors two invoice options: the six-digit HTS [Harmonized Tariff Schedule] used at export, or a blank [no HTS stated] invoice. Some of our difficulty comes when a supply chain partner provides us the tariff classification that they want to use. We validate it and when there are inconsistencies, we open a discussion. An important question is what type of disclaimer should be used when providing any information." Others agreed that disclaimers are important. "Putting a statement on the invoice that classifications are provided for informative purposes only, and that each importer/exporter is responsible for their own tariff classification is our standard approach," commented an executive. While a disclaimer was agreed to be a leading practice, executives were quick to note that it is not dispositive. "When an issue comes up on our product, we are right back in the conversation."

The executives also expressed concern that rules may be changing, which require more direct involvement in e-commerce transactions involving supply chain partners. Uruguay was cited as a country that looks at the identity of the shipper in certain circumstances and may look to

[8] Economist Intelligence Unit, *Supply on demand: adapting to changes in consumption and delivery models*, 2013.

aggregate shipments even when separate importers are used. Turkey has also announced formal plans to require logistics providers to file aggregated shipment information for e-commerce sales attributable to an entity. These types of rules make the demarcation of responsibilities among supply chain partners especially complicated.

Valuation differences

Perhaps the most difficult problem to address is the differences in valuation that arise when similar products are imported using different channels. One example cited was the import of parts for manufacturing as compared to spare parts for aftermarket sale, which are often priced differently. Manufacturing parts are often packaged in bulk, while aftermarket spares are packaged individually for the consumer. Moreover, the transfer pricing approach for aftermarket spares is often based on the parts distributor receiving a routine profit margin for distribution, as opposed to a cost-based approach for manufacturing parts. "The authorities are looking carefully at the price differentials," noted one executive.

Another significant price differential arises when a business sells both to distributors and directly to consumers through an e-commerce platform. In some cases, the e-commerce consumers are the importer of record. "From a cost perspective, we keep the entire margin, but duty is incurred on the retail price," explained one executive. In other instances, e-commerce platform providers served as the importer, but prices remained significantly different than prices for the same product sold to distributors. The trade executives explained that the traditional distributors incur costs for facilities and developing sales networks. In addition, they also bear the cost of advertising and promotion, which also directly benefits the e-commerce channel. Prices are necessarily different.

> "The big challenge in differing sales channel prices is the growing use of reference price databases."

One global trade executive explained that the same trend impacting business is impacting customs authorities — the availability of data. Authorities are able to quickly access data on imports of the same product conducted by different parties. Even when a situation in which pricing differentials should be easily explained, such as when an e-commerce sale directly to a consumer at retail price varies from a distributor's wholesale importation in bulk, questions arise. And when simply presented with two prices declared on import for an identical item, a common reaction by a customs official is to question why all imports were not at the higher price. Moreover, the databases assembled by a number of customs authorities are not accessible by importers, and products referenced as "comparable" may have little more in common with the imported product than the HTS number. "The practice is growing, and it is a serious issue," concluded one executive.

Rapidity of change

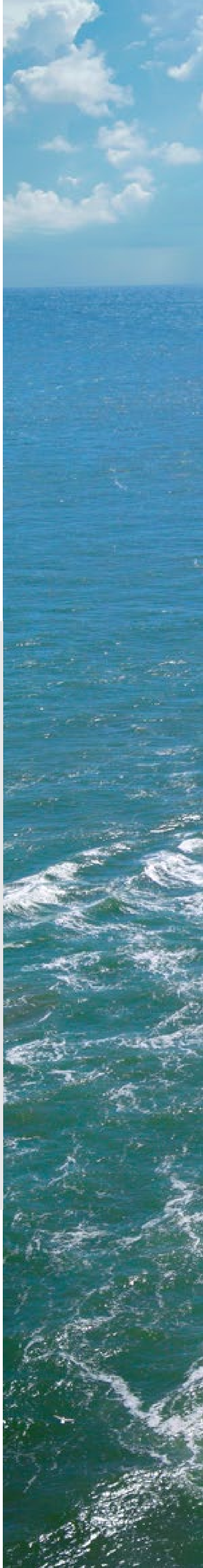
The need for flexibility and adaptability was acknowledged by the trade executives but was tempered by the magnitude of trade impact for seemingly minor business changes. "We have between 2,000 and 3,000 permits with a variety of government agencies that are tied to the importing or exporting entity," commented one executive. "When the business wants to make a change, who is going to take care of all of those?"

"Two key points drive these changes: having information and being able to ship goods anywhere in the world," stated one executive. Because the data set is always expanding, new and different models can generate quickly. Several executives noted the need to be involved in preliminary discussions of model adjustments. "Those conversations come up all the time," stated one executive. Finally, the change in models is not limited to issues on physical product flows. "Our biggest concern is technology transfer," commented one executive. Others added that cybersecurity concerns also become derivative of some model changes, requiring new and different types of issues for identification.

Our point of view

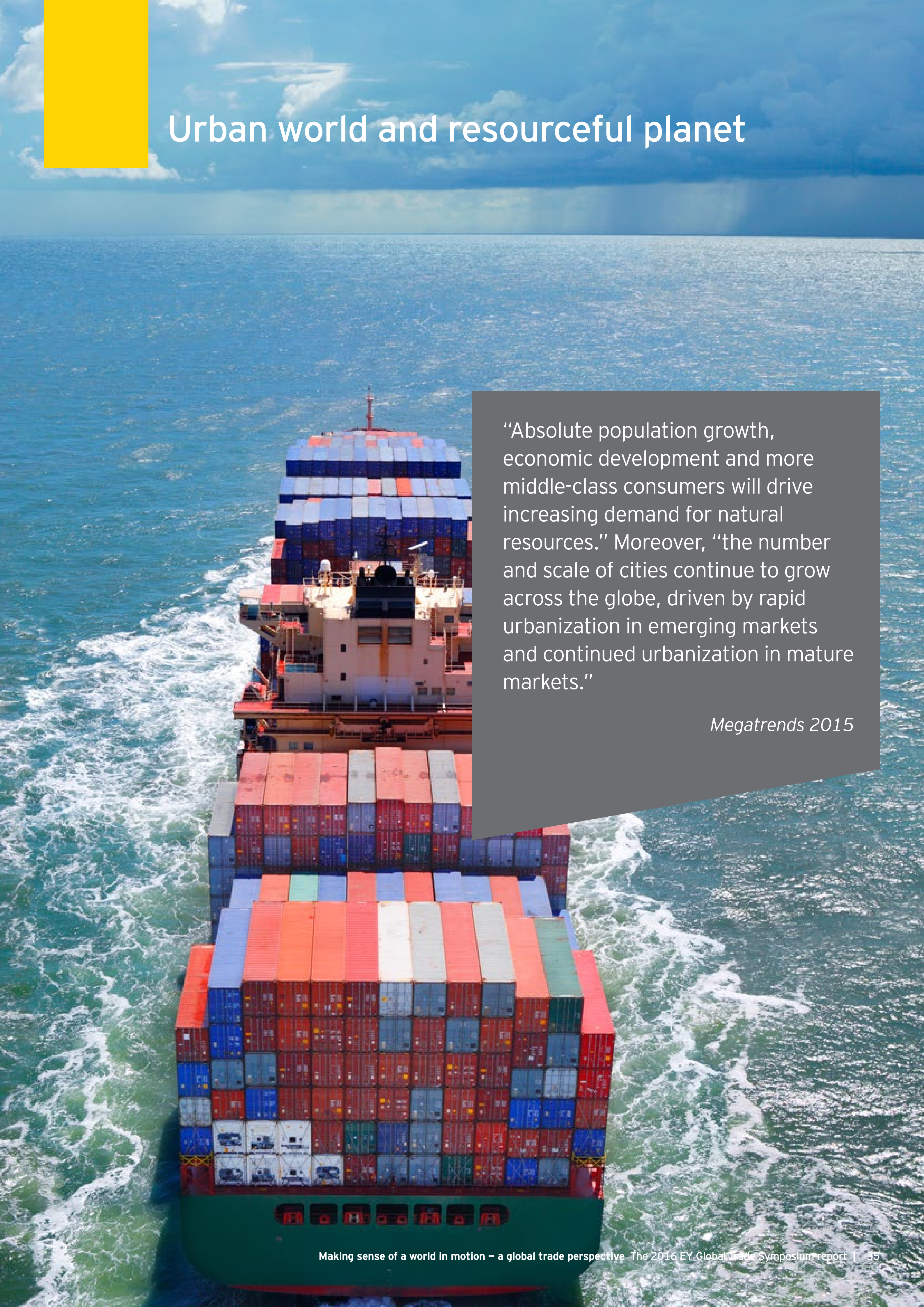
"Changing" is not an accurate description of the state of distribution models. They are multiplying, with variations configured for specific situations. Channels can no longer be easily described as "e-commerce" or "distributors." Instead, there are variations material to trade compliance within each broad channel. Complexity is added by supply chain partners assuming different roles with different models and rules adapting to new business models. Trade executives must develop approaches that are flexible and adaptable to accommodate variation. At the same time, early involvement in discussions on models, and clear communications on the trade complications that may result from changes in those models, need to be a regular part of effective trade management.

The availability of data to regulatory authorities and how that data is used may be the most complicating factors that will impact businesses utilizing a variety of distribution channels. Notably, the use of valuation databases by customs administrations seems to be on the rise, and much of the anecdotal experience with these databases indicates that misuse is widespread. The International Chamber of Commerce recently issued a Policy Statement titled *The Misuse of Customs Valuation Databases,*[9] which discusses the increasing use of databases that seem to conflict with the requirements of the WTO Valuation Agreement and offers a series of recommendations to curtail the practices. In the context of multiple sales channels, which will invariably result in differing import values, the pricing variations will be readily apparent to the authorities. In this respect, the business need for multiple sales channels created by digital transformation seems to be on a collision course with the increasing availability of data from the digital transformation of government authorities.



[9] Document No. 104-81, *The Misues of Customs Valuation Databases*, October 2015, (accessed via http://iccwbo.org/News/Articles/2015/ICC-releases-statement-on-Misuse-of-Customs-Valuation-Databases/).

Urban world and resourceful planet



"Absolute population growth, economic development and more middle-class consumers will drive increasing demand for natural resources." Moreover, "the number and scale of cities continue to grow across the globe, driven by rapid urbanization in emerging markets and continued urbanization in mature markets."

Megatrends 2015

Increased demand for resources and rapid urbanization in emerging markets are changing the way businesses manage the entire supply chain.

New markets are becoming more relevant, requiring increased supply chain focus in sourcing and delivery in nontraditional locations. A recent Oxford study reports that while the traditional centers of business and commerce (Tokyo, New York, Los Angeles, London and Paris) will remain as five of the top cities in 2030, other current midsized cities, such as Surat (India), Luanda (Angola), Ho Chi Minh City (Vietnam), Phnom Penh (Cambodia), Yangon (Myanmar) and Dhaka (Bangladesh), will emerge as more significant markets. Moreover, by 2030, 40% of the 50 largest cities in the world in terms of constant-price GDP will be in China.[10]

Supply chains are also becoming increasingly complex and subject to increased disruptions. "Environmental, geopolitical, economic and technological triggers will continue to cause systemic disruptions to global supply chains. Businesses will pursue greater control over their raw materials through vertical integration and codevelopment partnerships with suppliers."[11]

As the economic significance of cities shifts eastward, tilting particularly towards China, the nature and type of potential disruptions expand. The ability of trade professionals to achieve the same efficient results as they have historically obtained seems to present one of the greatest challenges. Trade executives indicated that their ability to respond to the challenges of maintaining a high level of regulatory compliance, preventing supply chain disruption, increasing speed to market, optimizing customs duties and building supply chain resiliency can be competitive differentiators.

Various factors influence a company's ability to adapt to this changing world and differentiate itself with authorities and with its competitors. However, trade executives highlighted the active participation in trusted trader programs and active development of supply chain resiliency as leading practices.

Active participation in trusted trader programs

Trusted trader programs are expanding into new markets. While not yet fully implemented, the WTO Trade Facilitation Agreement sets forth responsibilities for member countries to create criteria and provide some trade facilitation measures to importers and exporters.[12] Presently available in a variety of forms and countries,[13] trusted trader programs drive procedural rigor in customs compliance and supply chain security while providing supply chain benefits to their participants. Often viewed as a partnership between government and industry to work towards shared goals of supply chain security and regulatory compliance, companies voluntarily pass through application and certification processes to achieve status as a trusted trader. In return, governments provide benefits to make some customs procedures more efficient and provide priority to cross-border shipments and inquiries.

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[10] *Future Trends and Market Opportunities in the World's Largest 750 Cities*, Oxford Economics, 2014.

[11] *Megatrends 2015: making sense of a world in motion*, EYGM Limited, 2015.

[12] In December 2013, WTO members concluded negotiations on a Trade Facilitation Agreement at the Bali Ministerial Conference including the requirement that members provide additional trade facilitation measures to participants that meet specified criteria. As of publication, this agreement has not yet entered into force.

[13] According to the World Customs Organization's *Compendium of Authorized Economic Operator Programmes* (2014 edition), as of March 2014, there were 53 operational trusted trader programs, 10 programs expected to be launched and 13 customs compliance programs.

Potential benefits of trusted trader programs:

- Low documentary and data requirements
- Low rate of physical inspections and examinations
- Rapid release times
- Deferred payment of duties, taxes and fees
- Use of comprehensive or reduced guarantees/bonds
- Single customs declaration for a given period
- Clearance of goods at company location

All of the participating trade executives indicated that their companies participate in one or more of these trusted trader programs. "Supply chain predictability is absolutely crucial to us," explained one trade executive. "Our business model is predicated on it. The combination [of trusted trader programs] on the [US] southern border allows us an extra cycle every day. We can have one driver handle two truckloads, instead of one." Others commented that the concept fits nicely with other corporate initiatives on integrity, conduct and sustainability: "The term 'trusted trader' resonates with executives. It allows us to expand dialogue on strategic role[s] with the rest of the company."

One participant indicated the trade executives' shared notion that "it is our general default position to actively seek and maintain participation; however, we still evaluate each program individually to determine its potential net value." Through this process of net value evaluation, some trade executives indicated that they had either canceled or chosen not to participate in certain programs. In some cases, however, trade executives expressed little choice but to participate. "When AEO [Authorized Economic Operator] started in Europe, it was supposed to provide additional benefits," commented one trade executive. "Under the new customs code, you can't access traditional benefits without it."

"With the changes in the EU, you don't really have an option. AEO is your ticket to the dance."

"Trusted trader is kind of like the mafia — once you are in, you aren't supposed to get out."

With the conclusion of the WTO Trade Facilitation Agreement, businesses are anxiously awaiting the benefits of more widespread trusted trader programs, especially in developing countries where businesses can be more susceptible to supply chain vulnerabilities. One trade executive noted that "industry is a big driver for these programs, working with government authorities to maximize the benefits while limiting the cost of administration." Utilizing the WCO SAFE Framework,[14] customs authorities are taking steps to enter into mutual recognition agreements,[15] in an effort to globalize supply chain security and compliance standards and benefits while reducing duplicated efforts.

[14] WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (June 2005, as amended) incorporates standards and guidelines that can be adopted by government authorities to promote supply chain security and efficiency in customs compliance.

[15] As of March 2014, there were 23 mutual recognition agreements (MRAs) concluded and 12 additional MRAs being negotiated.

Active development of supply chain resiliency

Even the most efficient supply chain and transport networks are vulnerable to a variety of systemic risks and disruptions caused by external and internal sources. In a recent World Economic Forum survey, more than 90% of respondents indicated that supply chain and transport risk management has become a greater priority in their organizations over the last five years.[16]

Anticorruption has also become an enhanced focus for risk management and a greater priority for governments and businesses alike. For example, one chapter of the Trans-Pacific Partnership is devoted to transparency, accountability and anticorruption. It requires, inter alia, signatories to maintain legislation to punish bribes and other advantages given to public officials. It also allows the TPP's dispute settlement system to enforce such commitments.[17] "You have to be very diligent with anticorruption," commented one trade executive. "We have very good, multilingual web and live training, with all kinds of diagrams, but people don't connect the dots. You have to minimize opportunity for interpretation." Others agreed that some behaviors prohibited by virtually all companies, like small facilitation payments, are often culturally ingrained and difficult to stop. "We try to minimize the opportunity for small or unsupported payments," commented one executive, "but in reality there is only so much you can do from an internal control standpoint." One participant is exploring using data analytics to identify situations that could lead to issues. "A very interesting concept," commented another.

> "Corruption is based on the economic reality of poverty and lack of resources. As the importance of emerging markets increases, it is not if, but when, you deal with corruption."

It is clear to trade executives that no market is free of some form of disruption in terms of conflict, political unrest, regulatory restrictions and visibility. Trade executives agreed that effective identification and management of systemic risk across the end-to-end supply chain require a high level of collaboration between the businesses, professional bodies, governments, suppliers, customers and competitors. The carefully managed sharing of information, expertise and priorities can develop collaborative and trusted relationships, which are crucial to pre-disruption preparation and post-disruption rapid response.

[16] *New Models for Addressing Supply Chain and Transport Risk*, World Economic Forum, February 2012.

[17] Trans-Pacific Partnership Agreement Article 26.

Trade executives overwhelmingly agreed that global trade professionals should actively identify and manage potential network vulnerabilities. Most had developed contingency plans and countermeasures for more likely specific external risks, such as a strike at a port of entry with recurring frequency. "We have full-day exercises every month as an organization to test reaction to particular scenarios and risks," commented one trade executive. Others agreed that regular attention needs to be given to this area: "Things change and so do potential vulnerabilities."

One trade executive commented: "Our supply chains are totally integrated with a customer in a just-in-time environment and are particularly susceptible to disruption, making predictability and management absolutely critical." Another noted that "labor disputes and strikes at ports of entry seem to be constant, requiring us to enable our contingency plans." Following is a list of topics that have generated contingency planning for the participating trade executives:

- Corruption
- Border congestion
- Conflict and political unrest
- Export/import restrictions
- Extensive subcontracting
- Supplier visibility
- Customer dependence
- Availability of shared data
- Labor disputes/strikes
- Natural disasters
- Sudden demand shock
- Terrorism and related threats
- Fragmentation along supply chain

Considering the variety of vulnerabilities, trade executives viewed supply chain resiliency as critical and equally important as the ability to predict and plan for any one specific disruption. One trade executive noted, "In some markets, there are very mature systems with a very predictable environment and good issue resolution." Advance partnering with agencies, participation in trusted trade programs and personal relationships with government authorities were all cited as contributing to increased supply chain resiliency in such markets. As such, when an emergency happens, these companies are able to use those relationships to mitigate the impact.

> "Each market is different. You have to carefully evaluate how they play, and ask 'what do we do differently?'"

"Operations in a very mature environment creates a false sense of security among management; they think any issue can be solved immediately," commented one trade professional. "In the developing world, enthusiasm has to be tempered with reality." In markets where the systems are less mature and less predictable, personal relationships become more important. One trade executive found value in building personal capital with customs officials at each major port of entry where the company had the most presence. Trade executives realized, however, that in some markets, the existing bureaucracies are so rigid that even if relationships with individual officials are strong, an official may not be able to help.

Methods cited to increase supply chain resiliency:

- Contingency plans for known market disruptions
- Performing new market due diligence
- Personal relationships with government authorities (customs and other governmental agencies)
- Participating in trusted trader programs
- Performing new market due diligence
- Port evaluation and selection
- Strong processes to detect and prevent corruption
- Local relationships with third-party service providers
- Audits of third parties (brokers/freight forwarders)

Our point of view

The increasing importance towards Asian and southern markets is a priority for businesses and trade executives. Growth is emerging in many places where companies have not been before or where they've had a limited footprint. With new sources of supplies and new customers, supply chains are open to increased vulnerabilities. It is clear that trade executives can't cut and paste the same established models from more mature markets and expect them to perform in emerging markets. There are vast differences among less mature markets, which must be separately evaluated. Indeed, carefully determining "how they play" is necessary in each. To be successful, trade executives must account for the particularities, methods and bureaucracies of each country and, sometimes, for each port of entry. To effectively navigate, trade executives need to actively understand these markets through a high level of collaboration with experienced local personnel, professional bodies, government authorities, suppliers, customers and sometimes competitors. As trusted trader programs continue to emerge, active evaluation of net value and participation in such programs are ways to help build supply chain resiliency.

Concluding thoughts

The paradox is readily apparent: global trade is regulated transactionally. With many companies transacting cross-border thousands of times a day, managing the global trade function cries for consistency of process and systemic repetition.

Yet, the world is in motion. Products are "made in world," a world that provides substantial free trade agreement benefits but in which each FTA has a unique set of rules. Sales and distribution channels are multiplying, enabled by technology and in response to customer demands. Markets are increasingly Asian and southern, with differing cultural influences and opportunities for disruption. These factors demand flexibility and rapid adaptability.

The trade executives who participated in the EY Global Trade Symposium are addressing the paradox on multiple fronts. They are using tactics to not only make sense of a world in motion, but to embrace the motion, enabling supply chain consistency and business growth while effectively managing the transactional regulation. These executives are:

- Developing the trade function structure to their advantage, organizing around centers of excellence to take advantage of the commonalities and harmonization of global trade while developing specialized expertise to recognize specific market needs
- Proactively engaging with governments on policy matters and managing controversy with a globally consistent view, recognizing the tension created by competing trade liberalization and protectionist agendas
- Effectively using data analytics to quickly identify trends and issues and, increasingly, to assess options, optimize opportunity and mitigate risk
- Building flexible and adaptable processes in anticipation of the need to accommodate variations in distribution models and trade lanes
- Enhancing supply chain resiliency, reducing the potential for interruption with trusted trader programs, engaging with government officials, applying strong anticorruption measures and planning for possible market disruption

With these approaches to "embrace the motion," trade professionals can strategically enable corporate growth, which depends increasingly on rapid new market entry and export expansion. Failure to appreciate this dynamic, on the other hand, can inhibit corporate growth with overly rigid restrictions on the business ostensibly imposed for compliance reasons or, worse, turn the motion into chaos. The tasks are challenging, but the contribution of the global trade function to corporate growth is a significant and valuable reward.

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