CHINA

Managing China Customs and Trade in the Era of a New Global Trade Order and Industry 4.0

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A New Global Trade Order

Macro-Environment

Global trade has attracted a lot of attention lately though regrettably most of the headlines are negative. The current global trade environment is arguably the most complex in modern history and protectionist sentiment is on the rise (e.g. the US-China trade dispute, US-EU trade tension, the WTO under attack, etc.). The WTO has also reported a significant increase in trade barriers globally.[1] On the US-China trade tensions, no matter how the negotiations conclude, the global trade order will never be the same and the new normal will have a lasting effect. Tariffs are now a tool used in negotiations for wider geopolitical objectives and no longer represent a stable and predictable environment as in the past. However, the same WTO report also indicated a significant increase in global trade facilitation measures.

China

In China, in order to modernise the Customs organization, under the "3 alignment" programme, some Customs divisions/departments were transferred and merged with others. New departments were created and others were closed in order to implement a new approach. Customs has recently merged with the China Inspection and Quarantine Bureau (CIQ) and carried out various significant restructuring plans. With the merger, the enforcement of both tariff measures and non-tariff measures (previously mainly under the CIQ) now falls under one roof, and therefore implementation of policy changes could be more effective and faster.

The customs declaration review/audit and clearance processes have also undergone significant reform, and companies are now assessed and monitored under a new Customs Enterprise Credibility Ranking system. Customs is shifting its focus to a post-import audit approach to facilitate swifter customs clearance.

It appears that China Customs is moving more and more towards a "carrot and stick" approach, where compliant companies are ranked higher and enjoy greater facilitation of trade, and non-compliant companies could find themselves subject to much heftier punishments than before.

Industry 4.0 in China

With the fourth industrial revolution (Industry 4.0), companies are moving towards the implementation of even more automation, artificial intelligence, big data analytics, robotics, the internet of things, blockchain, etc., with highly intelligent human-machine connectivity and interaction providing clever, actionable intelligence in real time.

The Chinese Government generally has a positive attitude towards embracing new technology, as can be seen in examples such as the combination of CCTV and facial recognition technology for real-time human-machine connected actionable intelligence. Caught in this trend, China Customs is also gradually transforming itself in this new digital age. China Customs has rolled out various initiatives using technology to facilitate trade (such as moving to more and more electronic declarations and applications via a single portal, implementing the so-called "Golden Customs System II", etc.), as well as using technology to fulfil enforcement responsibilities (such as using big data analytics to assess a company's individual declaration level and entity level compliance and risks, etc.).

Implications for Companies

With more and more trade facilitations available to higher-ranking, compliant companies, and more significant financial and non-financial implications (e.g. slower clearance, more inspections, more audits, ineligibility for trade facilitation measures, joint disciplinary actions, etc.) for non-compliant companies, the gap between well-managed and not-so-well-managed companies will grow. Companies' existing customs and trade management approaches may no longer be effective in this new trade environment.

Based on our observations, although companies may be utilising more technology in various areas of their businesses (e.g. customers, finance, logistics, internal controls, etc.), when it comes to customs and international trade, we are still seeing the majority of companies applying off-system techniques in the management of their daily import/export operations. For example, we still see manual off-system generation of much documentation, such as pro forma invoices for declarations, off-system tracking and management of a product's customs classification (HS code); off-system bonded manufacturing/processing trade-related information, such as consumption rates, scrap rates, etc.; off-system management of non-tariff requirements, such as import licensing, product registration expiry, etc. Regarding technology, we see an alarming situation in which China Customs appears to be moving faster than businesses in general and it is becoming easier for Customs to identify non-compliance.

In summary, we are seeing an environment where: 1) countries are becoming more and more protectionist (i.e. trade barriers/costs on the rise); 2) trade policies are becoming unpredictable and can quickly change direction; 3) higher-ranking companies enjoy greater trade facilitation and violations are more severely punished; and 4) China Customs is moving faster than businesses in the adoption of technology and getting smarter in its approach.

In this new trade world order, companies must be able to react to quick change in the trade environment/requirements, and be on top of compliance to achieve and maintain a good Customs Enterprise Creditability ranking, which is becoming very important, as explained above.

With Customs getting ahead of businesses, it is more important than ever for companies to remain up-to-date quickly and to direct more attention and resources to managing global trade as the competitive advantage gap of well-managed companies will increase going forward, and they will pull away very quickly from the competition.

Where to Start

In managing/improving global trade, companies should focus attention on managing/improving operations under two broad categories: technical and operational.

Customs and Trade Technical Areas

Customs and trade comprise numerous different technical topics, some of which may be difficult to grasp and master outside of specialist and expert circles. Technical topics may be further divided into tariff and non-tariff requirements.

Tariff-related requirements include customs valuation, customs classification, country of origin, free trade agreement claims, duty suspension/exemption schemes, customs handbook management, etc.

Non-tariff requirements include importer/exporter record management, import/export licensing, product/company registration, overseas manufacturer registration, product testing and inspection, labelling, safety requirements, environmental standards, Authorised Economic Operator (AEO)/Customs Enterprise Creditability ranking, etc.

Operational Considerations

Operational considerations include the management of customs brokers, import/export agents, forwarders, in-house resources, document retention, AEO/Customs Enterprise Creditability ranking qualification, global trade management technology, training and development, processes and procedures across departments (such as between warehousing, logistics, in-house customs team, custom brokers, import/export agents, forwarders, finance and accounting, production and engineering, etc.).

Obviously, different companies'/industries' needs regarding tariff and non-tariff areas differ in complexity. For example, a company transacting with related parties will have different customs valuation issues from a company only dealing with unrelated parties. A bonded processing trade manufacturing company will have very different tariff and non-tariff requirements from a non-bonded general trading company. A company in the chemical industry will be subject to very different safety and environmental standards from a company in the food and drugs industry.

To implement a customs and international trade programme, as a first step, companies should analyse and identify technical areas that may be more challenging and involve higher risks. Based on the analysis, only then can a company determine the appropriate resources, structure, and other operational needs to better address specific concerns.

Common Technical Challenges

To give companies an idea of which technical issues require attention, below are presented some common issues faced by companies and the relevant resources to address these challenges:

Customs Valuation

<u>*Customs Valuation Methods*</u>

In China, customs valuation regulations generally mirror the WTO customs valuation code. Customs duties are mostly determined on an ad valorem basis. *Ad valorem* duties are generally assessed based on the customs value of the goods.

There are six methods of customs valuation, applied in a hierarchical order. The first and most used customs valuation method is the "Transaction Value" method. This essentially applies the price actually paid or payable by the buyer for the imported goods with appropriate adjustments as the dutiable value for the goods. For the Transaction Value method to apply, the transaction must satisfy various conditions as provided in the regulations (e.g. the transaction should be unconstrained and free of any restrictions/conditions on the disposition or use of the goods by the buyer, the arrangement should not require payment of other proceeds from subsequent resale/disposal/use of the goods by the buyer to the seller, the transaction value should be an arm's length price, etc.).

If these conditions cannot be satisfied, the transaction value of the goods may not be applied for duty assessment, and the dutiable value is determined based on other valuation methods (i.e. identical goods value method, similar goods value method, deductive value method, computed value method, and fall-back method), which may be more time-consuming and subjective.

Incoterms

In China, the appropriate customs value for import tax assessment under the transaction value method should be the CIF value of the goods. When the incoterms of the actual transaction are not the CIF (e.g. FOB, EXW, etc.), the importer should convert the transaction value to an appropriate CIF value by adding the relevant international insurance and freight costs, etc. based on the prevailing Chinese Customs' regulations for declaration. Where a conversion is needed, the amount to be added should be based either on the actual value or the formula mandated by Customs.

Although this should not be a complex technical matter, we have nonetheless seen countless situations where companies and/or customs brokers incorrectly convert to appropriate customs values (or, in some cases, do not convert at all) and therefore declare incorrect values.

Common causes of error include the situation where vast volumes of data/transactions are routinely handled by only a handful of untrained junior employees without adequate internal controls and reviews. The amount may not be large for an individual transaction. However, the incorrect conversion of multiple transactions covering a long period could amount to quite a significant exposure for companies (the related customs duty, import VAT. plus consumption taxes where applicable for just a 1% under-declaration of the value of goods covering a three-year period plus potential penalties and delayed tax payment interests could be very significant indeed for a company's bottom line).

More importantly, as China Customs regards the requirement to declare a CIF valuation as fundamental, non-compliance in this area can often lead to harsh penalties due to a perceived "intention" to commit such an elementary violation. Furthermore, penalties may have wider implications for the company than the mere financial impact as they may lead to a downgrading of the company's Customs Enterprise Creditability ranking, with potential implications for the company's customs clearance process (e.g. more customs inspections/audits, etc.), leading to potential supply chain disruptions.

Dutiable Additions

Another common pitfall is the failure to declare relevant dutiable additions to Customs. On top of the invoice price of imported goods, there could be other payments that should be added to the invoice price for customs declaration and import tax assessment. These dutiable additions include selling commissions, royalties and licence fees, dutiable assists (such as free of charge or below-cost items incorporated into the imported goods or used/consumed during manufacturing, engineering/development/artwork/design, etc. necessary for the production of imported goods, etc.), and other indirect payments related to imported goods.

For example, under the newly published General Administration of Customs (GAC) Announcement [2019] No. 58, issued on 27 March 2019 and effective from 1 May 2019, importers are required to declare dutiable royalties and licence fees along with the declaration of the related goods if the royalties/licence fees have already been paid at the time of importation, or to submit separate subsequent royalty declarations within 30 days of the royalty/licence fee payment and to pay relevant import taxes to Customs. Non-compliance may result in late tax payment interest charges on top of any import tax assessment by Customs.

As the customs staff or customs broker assisting the company to make these declarations may be unaware of these additional payments, which could be handled by other departments (and some may even be unaware of the regulatory requirement to add these payments to the declared customs value), these dutiable additions often go undeclared or are under-declared.

Arm's Length Pricing

China Customs also regularly questions the arm's length nature of the import price if the transaction is between related parties. In the customs declaration form, there is a question requiring the importer to confirm whether the declared value is an arm's length value. Hence, in practice, the burden of proving the arm's length nature of the declared value rests with the importer.

It is a general misconception that the declared customs value is arm's length when a company has performed a transfer pricing study. Transfer pricing studies and transfer pricing documents are generally prepared for a company's corporate income tax purposes by analysing the company's net profitability in general. The acceptability of a company's net profitability from the corporate income taxation perspective does not automatically translate into the acceptability of individual product pricing from a customs valuation perspective.

One of the reasons for this is that Customs' aims generally conflict with those of the tax authorities. Customs in general focuses more on the value of the goods on a product-by-product basis (as different products may have different duty rates) or a transaction-by-transaction basis (as the import price may vary from transaction to transaction), whilst the tax authorities generally focus more on the year-end overall net profitability of the company as a whole.

Customs and the tax authorities apply different rules in analysing arm's length pricing. Customs generally applies customs valuation rules based on the WTO customs valuation code, and the tax authorities generally apply transfer pricing rules based on the Organisation for Economic Cooperation and Development (OECD) transfer pricing guidelines.

Furthermore, in the benchmarking process, the tax authorities typically focus on identifying companies that are comparable in functions, risks, and assets with less emphasis on the specific product type and location of the comparables. China Customs has a much stricter requirement in selecting comparables and generally requires a greater comparability of products by benchmarking companies, as different products may attract different duty rates, as well as a stricter comparability requirement regarding the location of the comparables (i.e. only selecting Chinese companies in the benchmarking).

In a customs valuation review/audit, China Customs typically requests a copy of the transfer pricing study/documentation of the company. As explained above, even though a company may satisfy transfer pricing corporate income taxation requirements, the transfer pricing study/documentation may not necessarily prove that the declared prices are arm's length at the product-by-product and transaction-by-transaction level.

If the company actually derives profit that is above the transfer pricing benchmarking range, from a transfer pricing corporate income tax perspective, this may be of little concern. However, from a customs valuation perspective, as the company is earning a higher level of profit than comparable companies, Customs may suspect the company's import price of being too low, challenge it, and assess additional import taxes in line with the general concept in the WTO customs valuation case study 14.2.[2]

In view of the above, given that this topic is a common audit area and very technical in nature, it is probably worth involving experienced professionals in reviewing and setting a product import pricing approach that not only satisfies transfer pricing requirements, but also customs valuation requirements.

Managing Customs Valuation

In managing customs valuation, the minimal requirement is a process that ensures that the appropriate CIF customs value is declared by including appropriate international insurance and freight (appropriate conversion of the incoterms), as well as including appropriate dutiable additions, such as royalties, licence fees, selling commissions, etc. Companies transacting with related parties should consider technical support for the arm's length nature of the import price down to the product and transaction level from a customs valuation perspective.

Customs Classification

The Harmonized Commodity Description and Coding System

In a company's declaration, goods are required to be classified following the WTO Harmonized Commodity Description and Coding System into a 10-digit code (HS code). This 10-digit (or 13-digit in some cases, after Customs merged with CIQ) HS code determines the applicable customs duty rate, import VAT rate, export VAT refund rate, import/export prohibitions/restrictions, licensing and other regulatory requirements, anti-dumping, countervailing and safeguarding measures, etc.

Under the Harmonized Commodity Description and Coding System, the first six digits of the HS code are supposed to be internationally harmonised, and therefore should be consistent across countries. The seventh and eighth digits generally determine the duty rate for the goods, the ninth and 10th digits typically determine other non-tariff-related particulars (such as licensing, statistics, etc.), and the extended 11th to 13th digits determine the additional CIQ requirements for the goods.

The rules and principles governing the classification of goods with appropriate HS codes include the Harmonised System General Rules of Interpretation, relevant Section Notes, Chapter Notes, and Explanatory Notes, as well as classification rulings and precedents related to the goods published by Customs, if any. All of the above, where available, should be followed in the determination of the correct HS code for a good.

Common Customs Classification Management Issues

However, a common issue faced by companies is that different HS codes are occasionally declared for the same type of good at different times or ports of entry. The customs classification of goods is a rule-based approach as explained above, and therefore, technically speaking, the same HS code should be applied to the same goods unless there are changes to the tariff schedules. Therefore, different customs classifications applied to the same type of good at different times or ports of entry generally mean that incorrect declarations of HS codes have been made by the company at some point in time. With big data analytics, China Customs can easily spot such irregularities and challenge and penalise companies for the misclassifications, particularly under the new China tariff collection and administration structure, where three national Supervision Bureaus for Duty Collection (SBDCs), Beijing-Tianjin, Shanghai, and Guangzhou, are assigned the responsibility to review all import/export data of the relevant goods and product types nationwide.

There could be a number of different reasons for companies to declare different HS codes for the same type of good. For example, different officers could be assigned to review the declarations at different ports or at different times and have different opinions on the appropriate customs classification of the same good. Furthermore, although the first six digits of the HS code should theoretically be consistent internationally under the harmonised system, it is not uncommon for different countries to have different opinions on which HS code is appropriate for a good. Hence, the HS code of the supplier is not necessarily the correct one on the importing side.

The variation of opinions on the classification of goods across different officers/countries could be due to differences in interpretation of the rules. The classification of smartwatches, particularly those quartz analogue watches with smart functions such as mobile connectivity, sports and health measurement capabilities, etc., could be a good example.

One of the main concepts applied in the classification of products with different components is the identification of the "essential character" of the goods. Hence, in determining the HS code for a smartwatch, one important aspect is to determine the essential character of the smartwatch, which could be interpreted as a wristwatch, a data transmission device, a measuring instrument, an accessory to a mobile device or computer equipment, etc.

The identification of the good's essential character could be based on numerous factors including its physical characteristics, its appearance, the presence or omission of typical key characteristics/parts, the functional characteristics of the components/good, the value of the different components, the weight of different parts, the role of different constituent components, the way the good is marketed, etc.

Given these many different approaches to identifying the essential character of a good, it is not uncommon for different officers/countries to apply different methods, leading to potentially different classifications.

In managing customs classifications, a minimal requirement is to have a process to ensure consistency in applying the HS code to the same product, and where changes are required, a review and approval process should be implemented to analyse the technical justification, rationale, and potential exposures related to the change. Better-managed companies could also include processes and document trails regarding the reasons for the initial customs classification to be used for justification to Customs, where needed. For high-risk/complex products, an advance classification ruling should also be considered.

Country of Origin and Free Trade Agreement Claims

Country of Origin vs Place of Sale

Another key aspect in determining the level of customs duty payable is the country of origin of the goods. Goods originating from WTO members are generally subject to the so-called "Most Favoured Nation" duty rates (MFN rates). There are special situations where MFN rates do not apply to goods from a particular location. Anti-dumping and counter-veiling measures imposed on particular products from particular countries are examples of situations where higher-tariff rates may be applied. The US-China trade dispute is another example in which the country of origin can play an important role in the determination of the duty payable for imported goods.

Contrary to many people's belief, the country of origin is not necessarily the country of sale. The country of origin is the location where the goods were made. It should be ascertained based on the "wholly obtained" and the "substantial transformation" principles.

Free Trade Agreement Claims

On the other hand, countries or regions may enter into Free Trade Agreements (FTAs) where goods originating from contracting members of the FTA enjoy preferential tariff treatment. Examples include the China-ASEAN (the Association of South East Asian Nations) FTA, the China-HK CEPA (Closer Economic Partnership Agreement), China-Australia FTA, China-New Zealand FTA, etc. Application for FTA preferential treatment for qualifying products could potentially reduce companies' tariff costs significantly (some are as low as zero).

A common challenge for companies in claiming FTA preferential treatment in China is the provision of acceptable Customs documentation. China Customs typically performs strict reviews of FTA documentation, and simple mismatching of the information on the exporter's certificate of origin, such as HS code, value, etc., could lead to the rejection of FTA claims.

Hence, to manage this area, companies should ensure that the documentation requirements of Customs are understood in detail. Different transactions may require different documentation for FTA claims (e.g. documentation for a direct sale from the supplier may be different from a sale through a middle man in a third country) and different locations within China or different officers may interpret documentation requirements differently. Once the requirements are identified and understood, companies should communicate their needs to their suppliers and any sellers in between well in advance to ensure that they are able to generate and provide the required documentation in a timely manner. The longer-term management focus should be on ensuring that the actual documents produced consistently match the requirements for each and every transaction as well as quickly understanding and addressing any changes in Customs requirements.

Bonded Processing Trade Manufacturing

The bonded processing trade manufacturing scheme is a duty exemption/suspension scheme for companies importing materials for the production of finished goods for export outside of China. As the goods imported under this scheme are bonded before any import tax payment, Customs applies a strict supervision of their location until they are exported outside of China.

The primary tool used by China Customs in managing and supervising bonded processing trade manufacturing companies is the Customs Handbook, in which the importation, consumption, and exportation of all bonded goods must be properly registered and recorded.

A common challenge for companies is to ensure that the information registered and reported in the Customs Handbook matches actual production information. For many companies, manufacturing is a complex chain of activities typically requiring the involvement of multiple teams including procurement, engineering, material assignment, production lines, warehousing, etc.

The proper management and reporting of the Customs Handbook requires companies to capture detailed and accurate information regarding the types of material imported, accurate consumption or bills of materials for each product, information on scrap and defective goods, etc. Companies often struggle to obtain timely and accurate detailed production information for various reasons, including the inability to capture such information in the company's IT system directly, the complexity of aligning multiple teams, etc.

Any discrepancy between the Customs Handbook and actual production may result in additional import tax assessments and penalties, as well as potential downgrading of the company's Customs Enterprise Creditability ranking, which may lead to disruption of customs clearance or even the inability to conduct bonded processing trade in the future if the company is downgraded to the status of Discredited Enterprise.

Non-Tariff Requirements

Non-tariff requirements typically include import/export licensing, product/company registration, overseas manufacturer registration, product testing and inspection, labelling, safety requirements, environmental standards, etc. Most of the time, these requirements are product/industry/company-specific and can have implications for the market access of the products or company. For example, if the goods do not satisfy the required product safety or environmental standards, their importation and/or sale to the public may not be allowed. If a factory is not set up in a manner that satisfies safety and environmental standards, it may not be granted a licence may to operate.

The challenge for companies is that these requirements are not always transparent to the public and can differ depending on location. Hence, it can be difficult just to find out the latest requirements for some companies, and often much prior research may be required for new entrants and some may even need to take a trial-and-error approach to fully understand the requirements.

It is probably a good idea for new product or new market entrants to seek experienced professionals' assistance as the requirements are not always transparent. Long-term management is more a matter of having a process to ensure that the latest developments/requirements are understood and followed.

What Should Companies Do

Minimum Compliance Management

Even solely within the customs and international trade management universe, there are many diverse technical areas requiring management's attention as illustrated above. The technical areas that must be addressed largely depend on each individual company's products and operations. For example, a trading company's needs could be very different from those of a manufacturing company and a company in the consumer products industry could face very different requirements from a company in the food and drugs industry. Knowing which technical areas to pay attention to and which areas are falling short and exposing the company to risks would be an important first step.

As China Customs becomes more advanced and the technical areas are getting more sophisticated, the traditional approach of having a company's finance, logistics, or other functions oversee customs and international trade and addressing issues individually on an *ad hoc* basis is not a sustainable approach in the long term.

In structuring and resourcing the customs and international trade function, it is becoming more and more important to involve and have experienced professionals either in-house or externally. This is because China Customs is moving more and more towards a post-import audit approach in its daily supervision of importers and exporters. In the past, port Customs officials typically reviewed a company's declarations and submissions at the time of declaration. If they discovered any issues in their review and verification work, they raised their concerns with the company on the spot, and the company generally had to address these Customs' concerns before the shipment could be cleared. This essentially acted as a second layer of control/review that minimised to a certain degree issues discoverable during a post-import customs audit/investigation.

However, as the Customs restructures and modernises its organisation to facilitate trade and in particular to improve clearance speed, the previous approach of having Customs officials at the port performing detailed reviews of declarations at the time of declaration will gradually be eliminated. Therefore, companies will no longer have this second layer of control/review and non-compliance issues may not be discovered until Customs performs post-import audits/investigations or data analytics. Under this new Customs approach, a company's potential exposure is higher than in the past as non-compliance issues discovered during an audit/investigation generally attract additional import tax assessments and penalties. Even small issues that go undetected but are repeated over time could lead to significant exposure. In view of the above, there is a greater need for companies to have an efficient gatekeeping process by pulling in experienced professionals to support daily customs and trade management functions.

Customs and Trade Management beyond the Bare Minimum

Trade Technology

As established earlier in the article, it is alarming to see a situation where Customs appears to be embracing and utilising customs and trade technology more than businesses in general. Companies that do not modernise will find themselves falling behind Customs, and will likely be in a reactive position most of the time firefighting issues identified by Customs.

There are many trade technology options available to facilitate companies' processes. These technology solutions could be particularly useful in managing important mundane requirements such as matching incoterms and converting them into appropriate CIF customs values, mapping products to HS codes, ensuring the consistency of customs classifications, managing licence availability/validity, cross-checking declared values/quantities with supporting documents, export controls/sanctions screening, etc. Use of these trade technologies should reduce the risk of Customs identifying issues before the company is aware of them and should minimise the risk of incorrect declarations.

With trade barriers on the rise, manual monitoring of these ever-increasing requirements will become more challenging and may even be practically impossible (e.g. it may not be feasible to screen all business partners in a timely manner to avoid business disruptions for export controls/sanctions requirements under a manual approach). Some trade technologies should be able to help companies generate declaration forms and submit declarations to Customs, thus providing cost savings through cutting out customs brokers as well.

Customs Enterprise Creditability Ranking/AEO

China Customs is working towards providing higher-ranking, compliant companies with greater trade facilitation, and non-compliant companies with heftier punishments than before. For example, companies given discredited ranking (previously C and D grade) are subject to an inspection rate of 80% on average. General certified ranking companies (previously A grade) enjoy an inspection rate 50% lower than General Credit ranking companies (previously B grade) on average. Advanced certified ranking companies (previously AA grade) enjoy an inspection rate a further 20% lower than general credit ranking companies (previously B grade) on average.

To achieve a higher ranking, obviously better internal controls are required. Higher-ranking companies are expected to have implemented effective customs and trade technology capable of ensuring complete and accurate recording, tracking and tracing, searching, analysing, and red flagging information. Hence, trade technology solutions will become an increasingly fundamental requirement rather than something "good to have" going forward.

As the gap in trade facilitation between rankings widens, companies should seriously consider and analyse the costs and benefits of achieving a higher Customs Enterprise Creditability grading to pull away from competitors.

Trade Data Analytics

With trade policies becoming unpredictable and changing quickly, businesses' ability to quickly make the appropriate decisions and implement changes will become an important requirement. Accurate real-time information will be essential to this capability.

The recent US-China trade tensions and difficulties surrounding Brexit have exposed this issue to many companies. It has been surprising to see how many companies are unable to obtain in a timely manner information relating to their goods by product type, customs classification, country of origin, alternative supplier options, FTA claim feasibility, etc., that is detailed and meaningful enough to estimate potential impacts and plan for alternate sourcing strategies. Many companies still rely on customs brokers to retain information for them and the information retained may not be sufficiently detailed or in an appropriate format to facilitate analysis and decision-making by senior management/headquarters.

Given the current global trade situation, companies should learn from this experience and improve their information retention and data analytics capabilities as more frequent and faster trade policy changes are expected in the future. The ability to quickly analyse data and make and implement correct business decisions could be a matter of survival for companies in this environment.

Many trade technology solutions offer data analytics capabilities and often they are customisable to fit business needs as long as the data are in the system. In addition, as discussed above, higher-ranking companies are expected by Customs to have a system with some form of effective trade data analytics capability. In order to be able to make correct business decisions in a quickly changing environment, obviously the mere availability of real-time meaningful trade data is insufficient; experienced professionals who can provide the right guidance are equally as important as incorrect decisions could very quickly lead to the demise of a company in this fast-changing environment.

Conclusion

We are generally seeing underinvestment in the customs and trade function in terms of both experienced professional resources and technology relative to other functions of a company. It is very worrying to see the authorities significantly ahead of companies. Until companies recognise the urgency and invest more resources into technology, the authorities will continue to have the upper hand and businesses will always be in a reactive position. As explained above, companies recognising and making the right moves in this area will gain a competitive edge that will only widen in the future, allowing them to pull away significantly from competition in this era of a new trade order and Industry 4.0.

International trade has been attracting a lot of C-suite attention recently. It is up to each company's management responsible for trade to provide the appropriate guidance on investment and strategy to the board to implement a structure that can withstand the tougher future trade environment.

Endnotes

1. https://www.wto.org/english/news_e/news18_e/trdev_22nov18_e.htm

2. http://www.wcoomd.org/en/media/newsroom/2017/october/second-case-study-on-transfer-pricing-and-customs-valuation.aspx T