Special Report
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Software Can Help Soothe Free Trade Headaches

Free Trade Agreements, such as the ambitious Trans-Pacific Partnership recently signed in Auckland, N.Z., represent an attractive opportunity for U.S. importers. The same is true for the corresponding Foreign Trade Zones that have greatly proliferated in the last forty years – rising from eight in the U.S. in 1970 to more than 500 today. And yet, many shippers feel discouraged from making the most of duty management arrangements because of the complex protocols and paperwork involved. A better understanding can help, of course, but technology that automates these processes presents a real opportunity to make the best use of the opportunities.

There is no doubt that we are living in the age of the FTA. The TPP governs trade with three of the U.S.'s top ten trading partners (Canada, Mexico and Japan, along with 17 others). Further, the countries covered by the proposed Transatlantic Trade and Investment Partnership (T-TIP), likely to be ratified this year, together represent 60% of global GDP, 33% of world trade in goods and 42% of world trade in services. The European Commission has claimed that passage of the T-TIP pact could boost overall trade between the respective blocs by as much as 50%.

On the face of it, these are entirely positive propositions. But FTAs are partly responsible for making the landscape of international trade even more complex and challenging to navigate than it already is. The average U.S. importer could be forgiven for seeing a lot of red tape between him and the advertised benefits. Decisions about sourcing that used to rest solely, or mostly, on manufacturing and shipping costs, now have to filter through an additional maze of possibilities for reducing or even eliminating import taxes, countered by the costs of extra processing and administration. It might be a nice problem to have, but it is still a problem.

"The first thing I'd say is that I don't like to call this free trade. It's more 'preferential' – no trade is 'free'," explained Gary Barraco, director of product marketing at Amber Road, a global trade management software provider based in East Rutherford, N.J. "People think it's the best thing since sliced bread, but there's a lot more to consider than just preferential trade opportunities." Barraco warns that companies - consider many other factors first, such as price, quality and the manufacturer's capability to produce the product, let alone ship it and get it delivered at the right time in regions that are new to these types of operations.

Amber Road's Phanibhushan Reddy, associate product manager for FTAs, points out that, just because a country is listed in an FTA, that doesn't mean it's going to be capable of meeting the consequent spike in demand. Vietnam and Malaysia, countries included in the TPP, and particularly adept at making shoes, for example, may struggle to ramp up production capacity. "It might be a couple of years before Vietnam is up to speed, even though it's a good option for making these products," said Reddy. He added that Vietnam likely can't produce all the textiles they will need in order to support sneaker manufacturing, which will mean there are opportunities for non-TPP countries to step in and grow their export business. "It's an almost unintended knock-on effect," he said.

On top of that, there are considerations about changing a product's components to make it eligible for preferential qualification. For example, shoes are particularly worth considering for sourcing from countries covered by the new - FTAs. Footwear attracts some of the highest tariffs - $2bn paid to the U.S. in 2014 alone. A cellphone or tablet imported into the U.S. attracts 0% duty. A water bottle is 3%, a basketball is 4.5%, but a child's hiking boot gets a 37.5% penalty, and a girl's sneaker has a 48% tariff slapped on it. "It's ridiculous, because kids need shoes more than they need cellphones," laments Barraco, arguing that the some of the greatest opportunities for preferential trade agreement advantages lie in the footwear industry.

Shoes, however, are notorious for being made from multiple components sourced in different places, which means they're especially tricky when it comes to satisfying the rules of origin that come with every trade agreement. "It's not easy, because manufacturers need to know where every component is coming from and, most times, they

don't have that level of information," said Barraco. "If I'm importing a product and assigning a classification, I need detailed information to show where each component comes from, and each needs to come from a country where we have a preferential trade agreement. But the typical sneaker has 85 different components." A single factor – that the sole is made in China, for example – could render an otherwise eligible shoe right back in that 48% tariff zone.

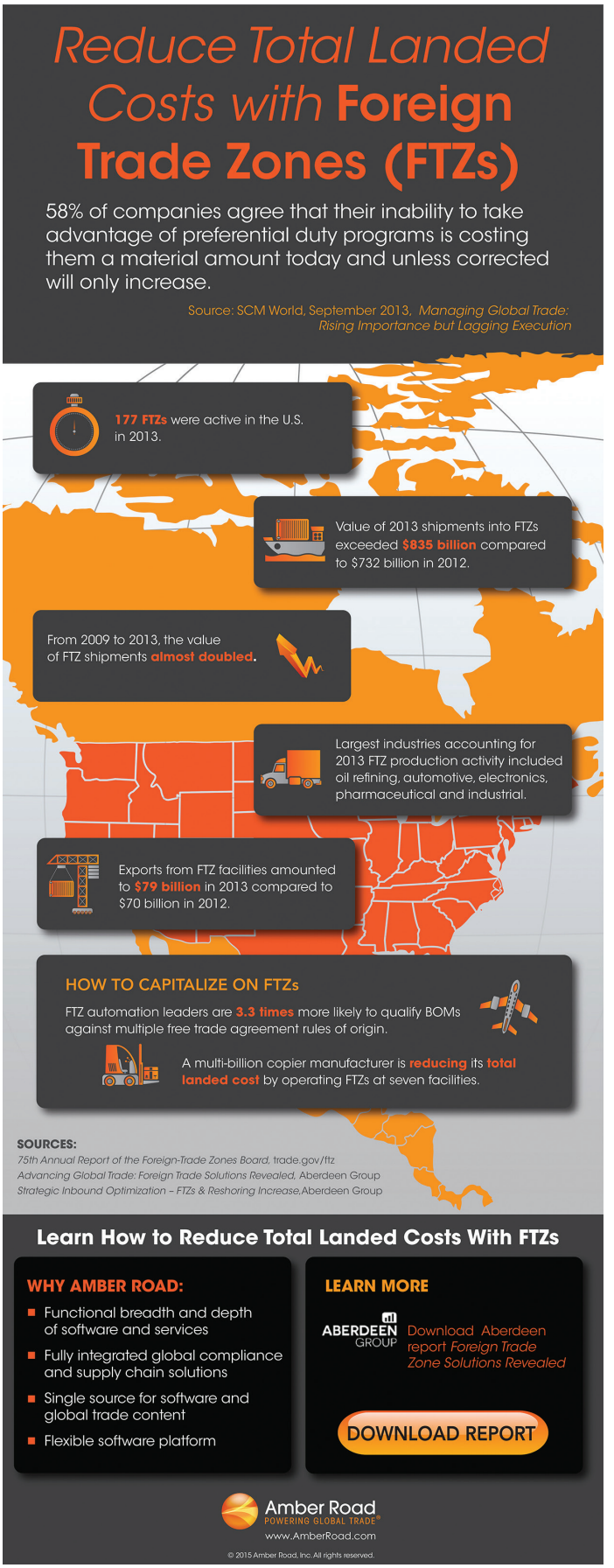
The other aspect sourcing executives - need to think about, Barraco says, is not just where they're sourcing *from*, but where they're sourcing *for*. Just because a shipper is based in the U.S. doesn't mean all its customers are based there. "Or what if I'm a German company sourcing for all of Europe?" he asks. "Sourcing is multi-directional; that's what you need to consider. You're most likely importing and exporting on many different trade routes. Maybe you're producing something in Vietnam to sell into Spain. When it comes to preferential trade these scenarios need to be considered," explains Barraco.

All of these factors make for a constantly shifting skein of threads. Pull any one, and you've likely changed your product's tariff profile. And products or components from countries governed by FTAs may simply not be the best choice in the long run. "Sourcing strategies are not just going to be driven by preferential trade agreements," Barrcco points out. "So let's temper this enthusiasm a little."

"There's a lot of complexity," agrees Matt Robeson, product manager for FTZ products at Amber Road. "With Foreign Trade Zones, in particular, the importer typically ends up filing forms direct to Customs, whereas normal import dealings are commonly done via a broker."

Robeson says the typical user of Foreign Trade Zone sites has to get pretty well educated pretty fast. "They very quickly have to become knowledgeable in this area, because it's somewhat difficult to run outside of their operational control." Outsourcing the management of goods under FTZ regulation is often considered a non-scalable option, meaning many companies bring these operations in-house to be managed by their logistics or procurement teams. "They're often running multiple FTZs; hence the need for automation."

Automation is key because the biggest problems shippers have, outside of legal and Customs matters, is getting the data they need to manage these operations on a day-to-day basis in a manner that doesn't expose them to unpleasant surprises. That, in turn, Robeson says, leads to the challenge of finding software that is both friendly to use and capable of scaling up to their volume of imports. "With software, you can go for something





that's extremely tailored toward doing one thing well, and then there's an open-platform type solution like SAP or Oracle," Robeson explained. A lot of off-the-shelf warehouse management software products, for example, Robeson adds, don't have the data to offer effective inventory management operations that take into account what qualifies best for FTZ handling. "If you're just tracking things by PO and quantity, you don't have the classification data and information about supplier country of origin, and so on," he says. Ideally, Amber Road aims to offer software that falls in the middle -- tailored to global trade, but covering the entire gamut of import and export operations that includes movement through FTZs or goods that qualify under FTAs.

Amber Road's software is designed to keep track of those subtleties of sourcing that can cause such headaches, Reddy points out. U.S. textile manufacturers, for example, have to make sure they're obeying the Yarn Forward Rule, which governs where all parts have been made. "That rule is complex," he says. "Qualifying a tee-shirt, you have to look at whether the yarn producers are covered. There are very few software solutions that can keep track and sort that out, and Amber Road is one."

Anthony Hardenburgh, vice president of global trade content at Amber Road, says he's often surprised at how little C-level executives know about the potential benefits of FTAs. He likes to tell a story about one CEO of a very large company who happened to find a magazine left in the seat pocket of his plane that featured an article on FTAs and FTZs. "He tasked his supply chain guy to see if the company even qualified for this, and they ended up with millions of dollars in savings!" says Hardenburgh.

CEOs, even CFOs, whether with private or public companies, have to keep their eye on many different factors beyond sales and marketing, Hardenburgh points out. "There's a whole regulatory environment out there and, at C-level, they're dependent on folks at the lower levels," he says. Usually, managers in the trade compliance space are not attuned to the opportunities. "They have a task. Maybe this guy was in domestic shipping, and now he's handling trade compliance. He's just looking at it from the point of view of a mountain of new documents to fill out, checking on restricted party screening and so on, and it's all piling up on his desk. He's not seeing it holistically, that there's a broader picture on trade compliance where the company can save money."

Recognizing the opportunity is only the first step, of course. As companies become more aware and start looking into making the most of FTAs, they find that solicitation and qualification process can be complex and a little scary, at least initially, Hardenburgh says. "They look at the agreement, and the classifications

of their items, and they read things like Regional Value Content or Tariff Shift or Rules of Origin or the Yarn Forward Rule, and they say: I'm one person, how do I handle this? The key is to take away some of that fear. That's where automation comes in."

Technology is transforming the ability of companies to change and track myriad factors in their supply chains to take advantage of FTAs. Hardenburgh draws a parallel with book-keeping. "In the old days, you were trying to handle it with just a calculator, then a spreadsheet made it easier. Then came enterprise software, and things became a whole lot easier. That's the message we're spreading about the complexities of global trade management. We're saying: We can handle that for you."

"Next question usually is: is it expensive?" says Hardenburgh. "If you're taking advantage of this and saving a million a year in duty, taxes and fees, then paying for a software program that's efficient and accurate that handles this for you makes sense. It's a solid value proposition."

"Customs pretty much requires that you use software. You can't really track anything on a realistic scale without it," points out Robeson. "The key is having something that does that, and also has the content you need to manage government regulations, talk to brokers, suppliers, and freight forwarders - everyone."

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