

Winter 2009 ICPA Trade Compliance Survey Results



Survey Results

4/3/2009

Executive Summary

Economic globalization and the growth of global trade volume drives focus on Global Trade Compliance among importers and exporters.

In working with our import clients at Zisser, we began to realize that they were facing challenges in managing the regulatory aspects of the import process. We were seeing that errors and lost productivity manifesting from manual processes were costing them in terms of delays, lost revenue from incorrect duties, as well as fines and penalties.

We conducted this survey of the ICPA member base in January 2009 and received 232 responses. The survey was designed to better understand the environment and to begin creating a baseline for measuring best practices in Import Regulatory Compliance. We believe that automated tools, centralized electronic recordkeeping and an audit trail are elements of a best practices approach to trade compliance — we desired to establish a current benchmark for this.

This paper focuses on Zisser's findings about how Compliance Managers are dealing with Harmonized Tariff Schedule Classifications and Duty Reduction Programs.

We'd like to thank the ICPA board and members for their support and participation.

Established in 1997, Zisser Customs Law Group helps companies navigate the complex International Trade business and legal environment. The team is comprised of U.S. Customs attorneys, compliance experts and supply chain security specialists.

Survey Results

The breakdown of respondents were comprised mainly of Import Compliance Managers and Specialists that reported to Logistics, Supply Chain or Legal. Roughly two thirds were at the managerial level or above, and roughly one quarter were Specialists/Analysts.

In Summary

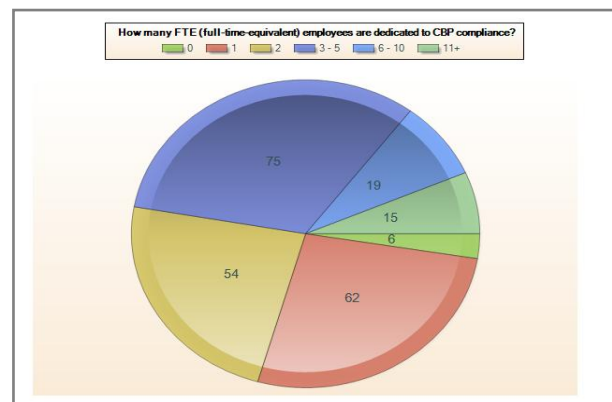
- A large percentage of people use research software, but not many use automated software
- During an audit, you're almost as likely to owe more duties as to be found compliant
- Most people perform import trade compliance internally

Titles

CFO	1	(0 %)
Director	27	(12 %)
Manager	116	(51 %)
Specialist/Analyst	51	(22 %)
Customs Broker	10	(4 %)

Where Import Compliance Reports

Finance	25	(11 %)
Logistics	70	(31 %)
Supply Chain	45	(20 %)
Legal	49	(21 %)
Other	40	(17 %)



Of companies that have been audited, only 26% were found to be in full compliance by CBP. Nearly as many, 21%, were found to owe additional duties. Over half, 55% were put on a Compliance Improvement Program, with 19% still undergoing the audit.

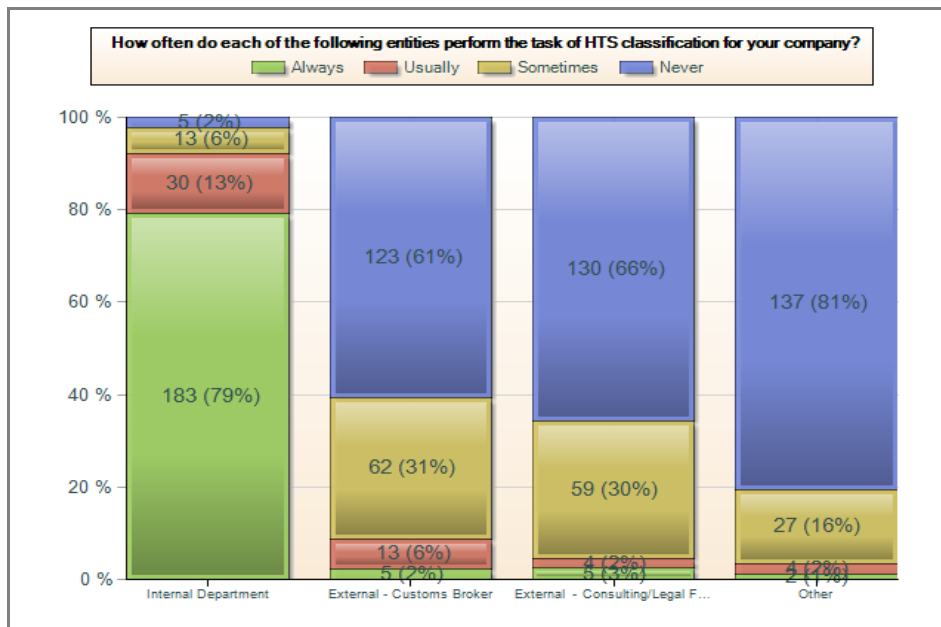
Results of Last CBP Audit

Audit Ongoing	21 (19 %)
No action from CBP (full compliance)	29 (26 %)
Compliance Improvement Program (CIP)	37 (34 %)

CIP including payment of additional duties	19 (17 %)	
CIP including payment of additional duties, plus penalty	4 (4 %)	
New part numbers	# responses	Average FTE
0 - 100	86 (38 %)	2.50
101 - 500	43 (19 %)	3.51
501 - 2,500	40 (18 %)	3.51
2,501 - 5,000	24 (11 %)	4.42
5,001 - 10,000	14 (6 %)	4.29
10,001+	18 (8 %)	6.17
Total		3.48

Overall the average number of FTE's working in Trade Compliance was about 3.5. As expected, as a company increases the number of new parts, the larger the department.

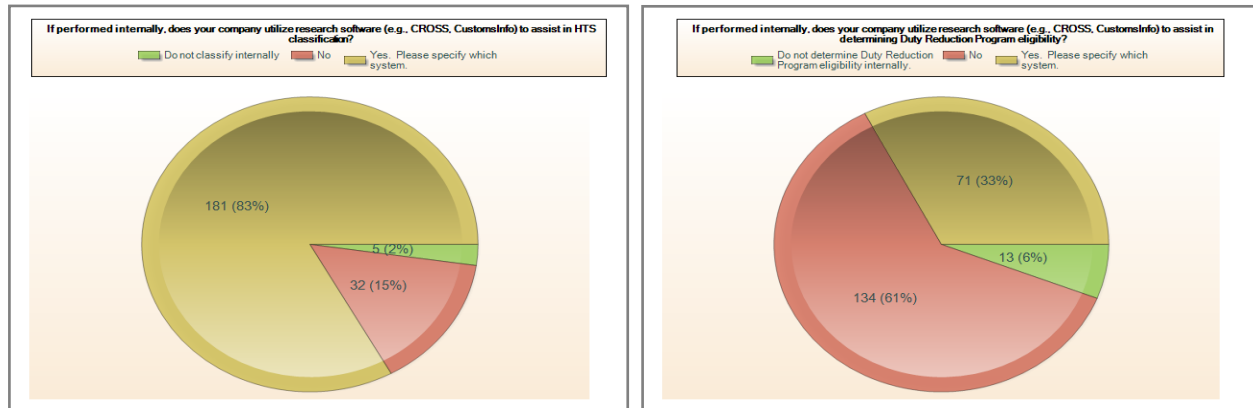
Most people (79%) *always* rely on their Internal Department to classify their products, with another 13% *usually* doing the work internally. However, roughly one third at least sometimes use an external agency to assist with their HTS Classifications, with a fairly equal distribution between brokers and consults/legal firms. Since the company is ultimately liable for errors, even if the classification is performed by a third party, it's considered best practices to do the classification internally.



Research Tool Usage

Most companies, (83%) use a research tool to assist with HTS classification. By far the most popular tool is CROSS with 84%, followed by Customsinfo at 35%, and 22% use both.

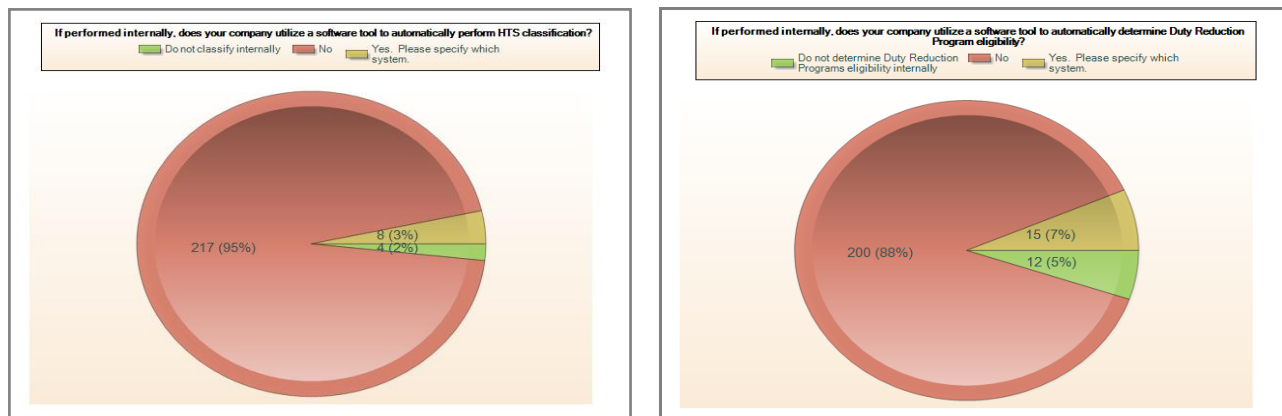
However, while many companies use research software to assist with HTS classification, only 33% use research software to assist with a DRP determination.



Automated Tools

While companies do use software *research* tools, they do not use software *automation* tools for several of the key IRC processes.

95% of people **don't** use automation tools for classification. 88% don't use automation in managing their Duty Reduction Programs. We took this to mean there was a limited number of such tools available today. Zisser considers automation to be a best practice.

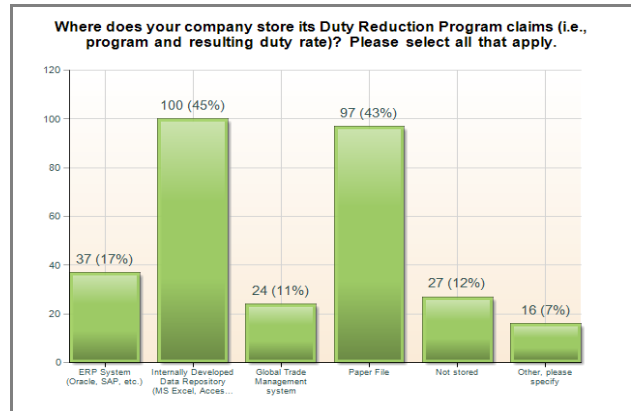
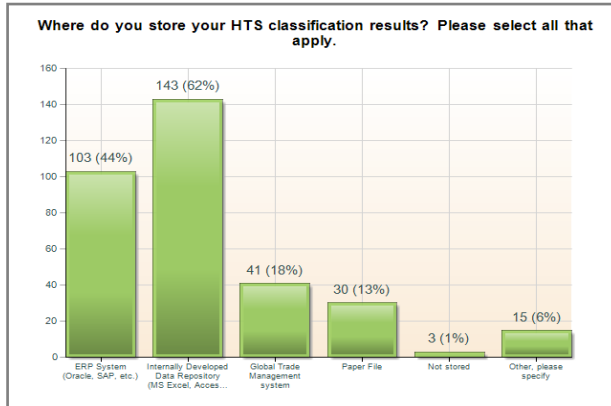


Storage of Results

Virtually everyone (95%) stores the results of their classification electronically (220 out of 231). People that stored information in paper files also tended to store it in an electronic system. Many of the "other" systems are broker systems.

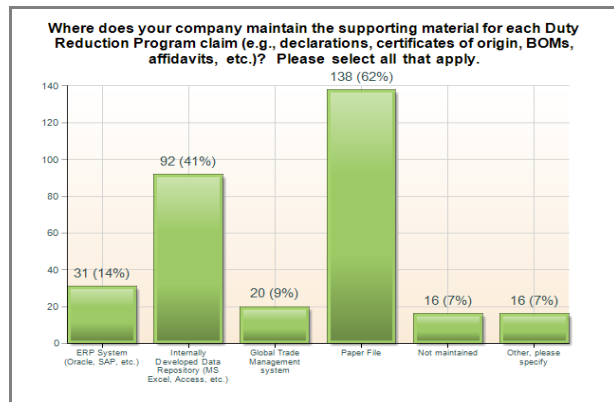
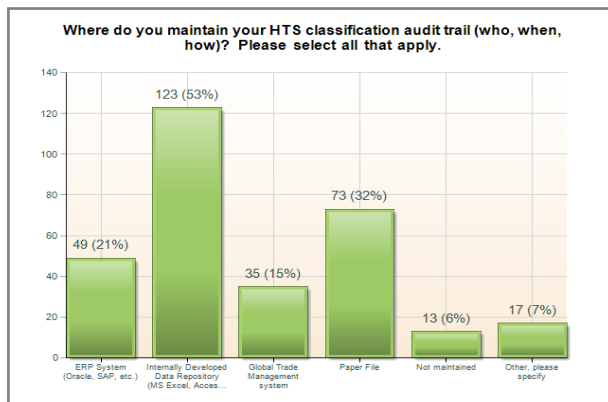
Most of these people also stored information in other places. Of the 73 that store their classification information in paper files, 53% also store the information in another system,

though a significantly higher proportion (43%) stored their DRP information in a paper file. And a larger number (27%) didn't store their DRP information at all.



Audit Trail

77% of people store their HTS Classification audit trail electronically. This may not be a centralized repository, since only 21% use ERP and 15% store in a GTM system. Fewer than half of the respondents store their supporting DRP materials electronically.



Conclusion and Observations

To keep up with today's competitive economy, companies are relying more on global manufacturing and sourcing. Traditionally, the import department has been responsible largely with ensuring that goods move smoothly through the import process, with the goal of preventing Customs-related delays – often with little visibility or support by upper management.

Based on our experience in import and Customs law, we believe that importers generally fall into one of five categories: strategic, audit-ready, compliant, at-risk or totally exposed. Based on the results of our survey, we discovered there is little automation and seldom do companies have an electronic audit trail. This leaves them vulnerable if in fact they do have errors, missing information, staff turnover or in the case of an audit. A clear majority of respondents are compliant, with the remaining portion at risk. We identified a handful of respondents with audit-ready compliance efforts. We believe respondents want to leverage classification and free-trade data for strategic purposes but are currently unable to do so.

Focusing on Compliance alone results in missed opportunities.

Strategic

- Strategic sourcing throughout company and supply chain
- Visibility by upper management
- Access by non-experts for proactive analysis and increased productivity

Audit-Ready

- The company is always ready for an audit
- Automated tools and processes
- Electronic audit trail covering who, when and how
- Defensible process demonstrates "Reasonable Care"

Compliant

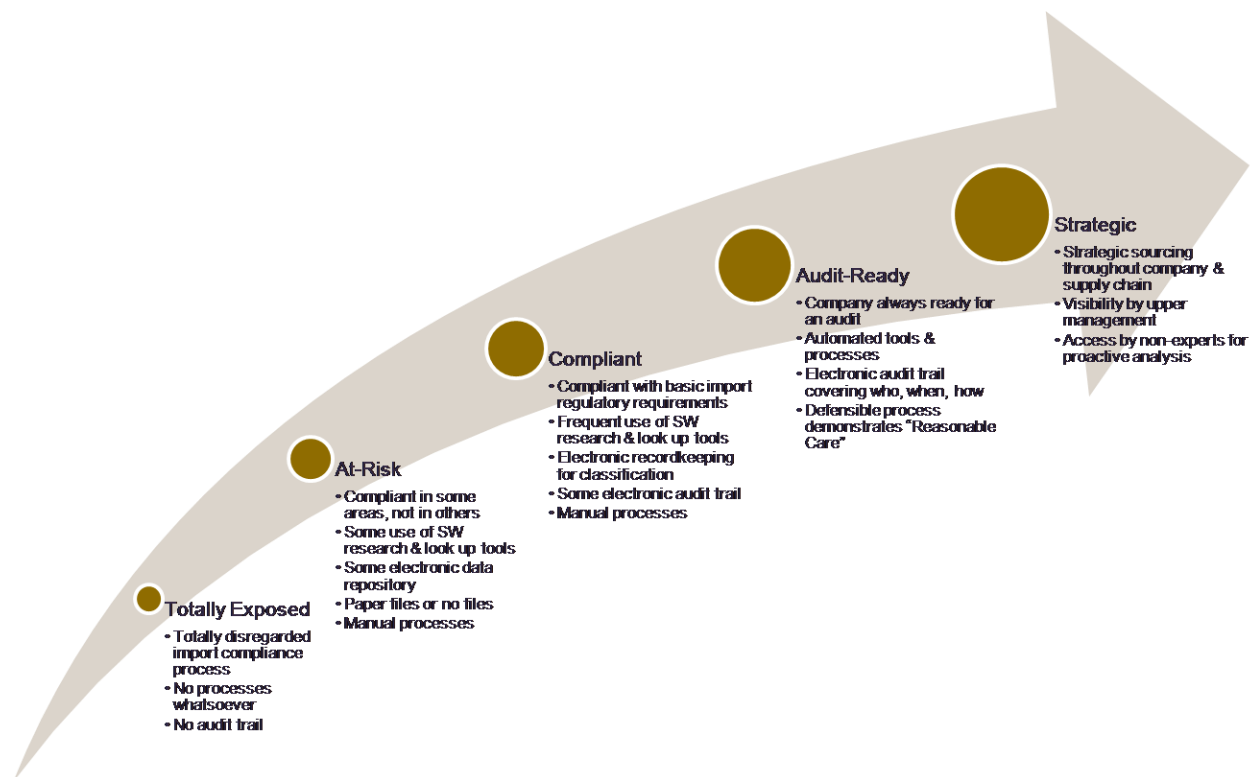
- The company is compliant with basic import regulatory requirements
- Frequent use of research software and look up tools
- Electronic recordkeeping for classification
- Some electronic audit trail
- Manual processes

At-Risk

- The company is compliant in some areas and not in others
- Some use of research software and look up tools
- Some electronic data repository
- Paper files or no files
- Manual Processes

Totally Exposed

- The company has totally disregarded the import compliance process
- No processes whatsoever
- No audit trail



References:

US Importer Compliance Survey of ICPA Members, Zisser Customs Group, 2009

About Trādiance

Headquartered in San Diego, California, Trādiance provides the first audit-ready automation tools for Import Regulatory Compliance.

Trādiance's patent pending process reduces the risk and costs associated with importing goods by improving the accuracy of HTS classification and maximizing the use of Duty Reduction Programs. Trādiance guides users to precise, defensible and auditable classifications and DRP eligibility in just minutes. Software as a Service (SaaS) enables information-sharing and visibility throughout the supply chain. Trādiance is affiliated with the law firm of Zisser Customs Law Group, PC.

www.tradiance.net