CUSTOMS MANAGEMENT

The impact of customs issues on any business that is involved in the international movement of tangible goods across borders can be considerable. Customs issues can have implications on:

- Whether goods can be traded;
- The nature, content, specification, source, origin, cost, selling price, and marketing of goods;
- The terms on which they are sold and purchased;
- The location of manufacturing operations;
- The design of physical distribution facilities and systems; and
- The international structure of companies.

The fundamental principles of customs planning are, therefore, to identify all potential commercial transactions that may have customs implications and then to arrange those transactions in such a way as to obtain the optimum treatment under customs and international trade regulations and practice. It is vital that customs issues are covered in any proposed international trade transaction at the outset. Otherwise, it may be too late to incorporate them once goods have been purchased. It could even be too late once they have been manufactured.

Detailed below is a (non-exhaustive) checklist of what we would expect to see from a best of breed organisation in relation to the management of the customs function, covering both compliance and planning.

- **Administration of the customs function.** A designated unit is clearly responsible for establishing, operating and maintaining processes and controls for ensuring compliance with all customs laws and regulations impacting the import and export of goods. It should be intranet enabled and have active communication links with Finance, Purchasing, Legal Staff, Internal Controls, Audit Services, Senior Management and Business Planning. It should have documented processes for identifying and communicating changes in laws, regulations or company operations that have, or may have a customs impact to all affected departments.
- **Proactive consultation.** Consultation with the designated business unit is embedded in all major sales and procurement processes, in order that it can consider the impact that duties and customs compliance costs will have on the proposed transaction.
- **Formally documented procedures.** Formal procedures for complying with customs-related activities are extranet enabled. These set forth instructions for all relevant parties, such as forwarders, carriers, brokers, banks, etc. These procedures are simple and easy to follow; they are integrated into the company's systems and other business processes; and are periodically reviewed and updated. These procedures are backed up by training for the purchasing staff and for other members of the company, as appropriate.
- **Suppliers.** Well before any shipments are made, best of breed companies ensure that their suppliers are capable of providing electronic invoices with standardized information. These standards include all details required by Customs, and provide an understandable description of the products sold, with separate identification of non-dutiable elements of value. They also ensure that issues, such as product labelling, marking and certification

regarding compliance with local safety standards, etc., are properly addressed before the goods are shipped. Best of breed companies measure the success of their procurement departments against net margin achieved, rather than gross margin which includes hidden costs.

- **Record keeping Procedures.** Records are maintained (within statutory timescales) to support all activity relating to the import of goods. The records retained normally will include customs, shipping, purchase, cost, value and origin documentation for all imported goods.

- **Internal audit.** A process is in place to ensure a risk-assessed proportion of customs entries made on behalf of the company by its agents, are audited on a periodic basis to establish and ensure: (a) goods have been entered to the correct HS classification code; (b) the customs value of the goods has been calculated and entered properly; (c) the origin of the goods has been properly declared; (d) the amount of any duties have been calculated and reported properly to the Customs Authorities; (e) all supporting documents are provided. Periodic meetings are held with the agents for the purpose of discussing performance levels and targets and opportunities to reduce costs.

- **Tariff classification.** Best of breed companies have a dedicated centre of classification expertise, regionally as appropriate, to check the tariff classification carefully before deciding upon the specification of the goods to be imported and also the condition in which to import them. They maintain a regularly updated global classification database on the material master.

- **Origin and preferences.** A best of breed business constantly assesses the scope for sourcing goods from countries that receive tariff preferences. Prior to an order they would ensure that the goods will satisfy the origin rules and the necessary documentation will be available. They will determine, in advance, whether they will be subject to any restrictions or quotas.

- **Customs valuation.** A best of breed business (using both indirect and direct tax specialists) strips out non-dutiable costs from a prospective transaction to assess the effects before making the purchasing decision, since the price for the goods often includes payment for items that should not attract duty. Examples of costs that can be unbundled include: buying commissions; warranties; post-importation expenses, such as erection and assembly; research and development expenditures, interest payments and advertising costs, etc.

- **Duty Relief’s.** Duty Relief’s, such as Inward Processing Relief; Outward Processing Relief; End Use Relief, etc. are embedded and automated within commercial processes wherever practicable and efficient to do so.

- **Customs warehousing.** The use of customs procedures, such as customs warehousing (and Free Trade Zones) are systems based and fully automated. In particular, Type E “virtual” warehousing (and pan-EU Type E customs warehousing, for the most advanced best of breed companies).

- **Simplified procedures.** Best of breed companies experience very few delays due to Customs at the ports; and no extra inventory is held in anticipation of such delays. They are always looking to utilise cross-frontier customs authorisations which are valid in more than one EU Member State. They also maximise, wherever possible, the use of simplified entry procedures; and local clearance authorisations. All of which is underpinned by robust accounting system and internal controls.

- **Terms of Trade.** Terms of Trade, often referred to as Incoterms 2010, define a broad range of cost and shipping obligations, including the manner in which a product is packed, inland transportation costs on the seller's side, export clearance, international transport costs, insurance, and inland transport costs on the buyer's side, etc. These obligations and costs need to be built into any international transaction. Selection of the correct Incoterms has a huge impact on the risk and profitability of international trade. In fact, it's virtually impossible to make an international sale until one's been chosen. Best of breed companies are familiar with all Incoterms 2010, particularly the multi-modal ones.

- **Statistics.** At any given time, best of breed businesses know precisely how much duty they have paid and how much they have saved.

- **Cutting edge planning.** The designated business unit is constantly striving to reduce the effective rate of duty, by implementation of duty reduction schemes.