

Customs Optimization Guide

Improving your bottom line via customs optimization



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What customs optimization is and why it is important

Customs has long been seen as an obstacle to trade, another administrative headache to overcome when exiting or entering a customs territory.

Global trade in recent decades has become increasingly complex – international businesses struggle to navigate myriad country-specific customs and trade regulations.

Traditionally, the easiest way to remove this burden has been to enlist a network of local freight forwarders or customs brokers to handle the process. In so doing however, companies lose oversight of their exact duty and tax expenditures and miss out on lucrative opportunities. Furthermore, vendor

fragmentation poses the risk of violating local regulations, resulting in fines and delays.

Customs typically comprises a far larger share of landed costs than transportation itself, yet companies are often preoccupied with the latter. How much do you truly know about your duties and taxes?

With this guide, we aim for international businesses to acknowledge the value of gaining visibility on their customs duties and taxes. We offer a solution to optimize customs expenditures while ensuring compliance with global regulations, thus avoiding supply chain disruptions.



How customs can impact your business

Optimizing customs is all about managing three key elements effectively:



Cost: efficient customs clearance minimizes duties, taxes, administrative costs and unnecessary demurrage



Time: expedited customs clearance avoids unnecessary delays that compromise customer guarantees



Compliance: regulation adherence prevents fines and penalties and avoids brand damage

From Kuehne+Nagel's long and global experience, we gather that you and many other international businesses have likely faced one or more of the following:

Cost

- Lack of visibility on duty and tax-related additions to total landed cost
- Inability to reconcile customs duties and taxes
- Unexpected fines or penalties due to the lack of adherence to local customs regulations
- Increased costs from clearance delays due to incorrect documentation
- Administrative overhead (resources/ personnel costs)

Time

- Delays in customer deliveries
- Lack of harmonized operations – non-streamlined procedures result in lost time

- Redundant communication requirements and data touchpoints (freight forwarders, local brokers, customers), thus diverting resources from value-adding core activities such as business strategy

Compliance

- Frequent physical inspections and audits
- Constant requests from regulatory authorities for additional commodity specifics and valuation criteria
- Delays and risk of reputational damage
- Lack of pre-trade validation through trade management systems
- Difficulty in finding brokers at the correct level of expertise and regional coverage

How customs advisory can reduce risks and optimize your customs expenditures

The starting point of improvement is to know where one stands. In this case it means conducting a “customs health check” of your relevant international trade flows. The aim is to uncover hidden tax and duty savings while revealing potential gaps in regulatory compliance. An experienced customs advisor can help you build a foundation to ensure present decisions will support future business.

Hidden customs opportunity example 1: HS code classification

The Harmonized System (HS) code classification dictates the rate of payable customs duties levied upon importation. It also assesses the application and validity of non-tariff measures (NTMs) such as licensing, quotas, countervailing measures or anti-dumping duties.

Your advisor will assess the validity of your customs commodity codes and confirm whether you are paying the correct duty for each of your products. This will ensure both compliance and potentially uncover customs optimization opportunities.

While advising one of our pharmaceutical clients, we discovered that re-classifying one of their products entitled them to a reduced duty rate. We then submitted an application to the customs authorities on their behalf, resulting in significant annual customs duty savings.

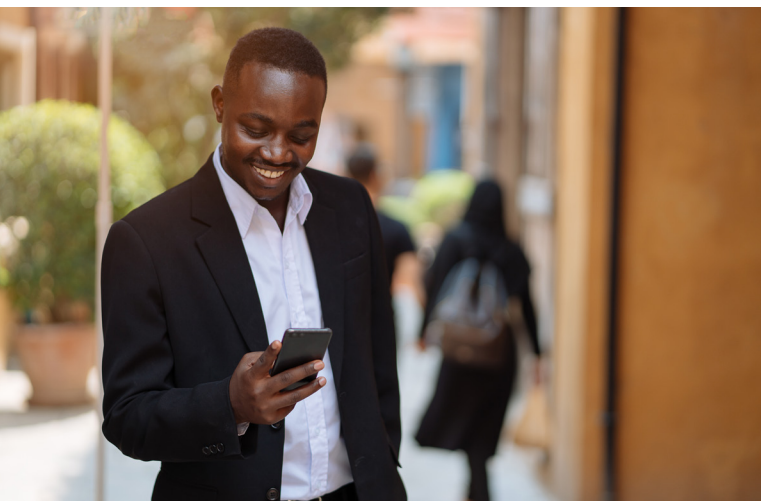


Hidden customs opportunity example 2: Trade agreements

Another common savings opportunity is the correct usage of trade agreements, which are altered and updated constantly. World Trade Organization members have currently notified nearly 600 Regional Trade Agreements (RTAs)¹⁾. Determining an optimal process therefore presents a challenge but also a significant opportunity. As part of a customs health check, your advisor will evaluate your current trade agreement utilization to ensure your company receives all preferential treatment where eligible.

Kuehne+Nagel assessed an industrial conglomerate's application of preferential tariffs, discovering they were not applied in all eligible cases. We therefore installed preferential tariff checkpoints along the import process to ensure consistent and complete application, optimizing our client's duty expenditures.

77% of companies are not fully utilizing the savings trade agreements can provide.²⁾



While cost optimization is an important part of the equation, it is also bound by the local regulatory landscape. Approximately 30 RTA notifications were in force in 1990, yet the past three decades of geopolitical development have seen this number dramatically increase. The current cumulative number of active and formally active RTA notifications has risen to nearly 800.

At Kuehne+Nagel we maximize the potential of trade agreements while ensuring everything remains compliant, optimizing your bottom line and improving your cash flow.

1) World Trade Organization

2) 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Why technology and business intelligence are key for success

Modern supply chains are constantly expanding and becoming more complex, with many dimensions to consider when balancing stakeholders and processes.

Succeeding in this ever-changing business environment requires a powerful digital solution.

This solution must weave together all data points and draw a comprehensive map of your customs operations. This single viewpoint provides detailed insights to pursue business intelligence, establishing pre-optimized conditions for future operations.



The solution must provide:

- Central customs request management and operational coordination
- Automatic order pre-population and processing
- EDI¹⁾/API²⁾ capability, connecting directly to local country customs systems
- via a central touchpoint
- Full visibility throughout the entire customs clearance process, including real-time order status reports
- Improved quality and compliance through systematic data point validation
- Post-clearance digital reporting via dashboards, business intelligence and cost control

¹⁾ Electronic Data Interchange

²⁾ Application Programming Interface

A single entry point for data transmission and day-to-day operations not only streamlines your processes but also promotes consistency, productivity and proactive cost reductions.

Kuehne+Nagel delivers this single window, reducing the number of stakeholders and touchpoints for each clearance request. We help you manage complexity through a global standard operational procedure (SOP), comprehensive reporting functions and a centralized communications hub with defined escalation paths.

Your benefits include but are not limited to:

- Plan and monitor the supply chain with precise accuracy, identifying and mitigating regulatory risks
- Continuous improvement via detailed analysis of customs-related expenditures
- Easy, on-demand access to all submitted customs documentation, such as during audits by customs authorities



What to expect from Kuehne+Nagel

Our approach:

1. Listen and Collect

- Design an individualized assessment for each client
- Interview main stakeholders to identify all relevant trade flows, organizations, processes, procedures and datapoints
- Record and draft a detailed landscape of the client’s global permits and authorizations

2. Assess and Redesign

- Create audit assessment plan
- Review processes
- Review organization

3. Recommend and Implement

- Summarize findings and recommendations with management
- Provide implementation support such as SOPs

- Outline discovered cost-saving opportunities and compliance improvement measures in detail
- Conduct tailor-made in-house training sessions with staff

Our philosophy:

We believe in partnership and guidance. We provide full transparency on the steps necessary to evolve your business while meeting your goals and requirements. We are a stakeholder in your development, as we stand to benefit just as much from your success.

“Kuehne+Nagel has delivered something to us no other customs broker has ever been able to do”

Large International Consumer Goods Customer



Discover your full customs optimization potential

- Avoid penalties and unnecessary delays
- Reduce overhead and improve your cash flow
- Focus on your core business and strategy

Begin with a customs health check by reaching out to our customs experts.

→ www.kuehne-nagel.com

About us

Kuehne+Nagel is a worldwide logistics leader with a network of operations and specialists spanning the globe. We connect people and goods by empowering our customers with innovative and sustainable transport and supply chain solutions, rising to the challenges of an ever-changing world. With an eye on future trends, we foster global trade and contribute to socio-economic development by creating growth opportunities for all our stakeholders.

Learn more about our services at → [kuehne-nagel.com](https://www.kuehne-nagel.com)