

Is trade the disruptor or the disrupted?

The 2018 EY Global Trade Symposium Report



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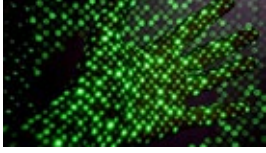





Building a better
working world

Table of

contents

The 2018 EY Global Trade Symposium report

01		Cover letter
02		Background
04		The politicization of trade – is trade a remedy or a weapon?
10		The dismantling of trade blocks?
14		Disruptors to trade: tax reform and BEPS
18		Simplification and harmonization of trade rules? Short-term disruption; long-term simplification?
24		Technology: a disruptor or enabler?
30		Evolving role of the global trade function
34		Continued connectivity and the rise of advocacy
38		Concluding thoughts



2018 has been a pivotal year for global trade and therefore, global trade professionals. It is unlikely that anyone could have envisioned the extent to which 2018 has resulted in disruption to global trade and how global trade has been disrupted by other events. Concepts that were familiar only to seasoned professionals are now part of daily conversations – such as Section 301, retaliation and Brexit.

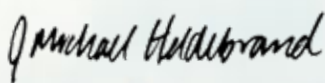
Global trade professionals have always understood the strategic value of the trade function and have worked hard to make sure its importance has not been lost on corporate leaders. But now, more than ever, as businesses operate in a climate of constant disruption, geopolitical uncertainty and regulatory upheaval, trade has been thrust to the forefront of companies' strategic discussions and decision-making.

EY Global Trade Symposium has explored themes of change and disruption extensively over the last decade. In that time, the economies of the US and many other nations endured a challenging recession, geopolitical pressures have led to sanctions and protectionism, global regulations have undergone significant reform and modernization, and most recently, landmark US tax reform became a reality. Innovation and creativity have led to new technologies and ways of doing business. These events have had far-reaching effects across our increasingly interconnected world.

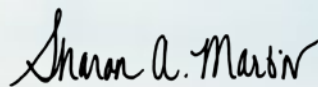
Trade commands the attention of corporate executives like never before with a number of trade-related events at the forefront with rarely used provisions being applied by the US to impose tariffs on steel, aluminum and other products (e.g., residential washers, solar panels and a significant amount of Chinese origin products). In many cases, these actions are triggering retaliatory moves by other countries.

The environment of disruption frames the background in the latest of a series of reports prepared by EY Global Trade. As in past years, we assembled a select group of global trade executives from wide-ranging industries to examine leading practices and evolving strategies of global trade departments. Each participant company has import and export operations in multiple jurisdictions and is recognized as an industry leader. In a discussion format, facilitated by EY professionals, the executives described how they cope, adapt and thrive in a time of disruption.

EY 2018 Global Trade Symposium report, *Is trade the disruptor or the disrupted?* focuses on staying ahead of and managing through disruption. The comments in this report reflect discussions with panelists and attendees participating in the Symposium. We are confident that you will benefit from the insights gained from our participants, panelists and EY professionals.



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Background

“The pace and scale of disruption are creating opportunity with unprecedented speed.”

Source: “How can you be both the disruptor and the disrupted? The CEO imperative: in this Transformative Age, seize the upside of disruption or be disrupted,” EYGM Limited, 2017.



During the 2016 Global Trade Symposium, we highlighted the concept of “made in world” – a growing trend in supply chains with goods traveling through multiple countries in their journey from concept to distribution in the marketplace. This theme of globalization in trade emphasizes the interconnectedness of the world in which we do business. Decisions made in one country will almost always have an impact outside their domestic borders in this “made in world” environment. Strategic planning around where to source and manufacture products can provide a competitive edge – or be a disadvantage.

What has changed since 2016? The pace of disruption has only accelerated. The challenges have increased, and the trade landscape has become increasingly politicized and unpredictable. Most trade professionals agree that disruption is the new norm, but many find themselves challenged to respond

in an environment in which proposed policies often never come to pass. Businesses must weigh the benefits and risks of redirecting resources from one task to another, particularly given the fluid nature of policies that will impact those decisions.

Although CEOs generally have viewed their companies as prepared to take advantage of disruptive change, their responses to questions about specific areas of readiness tell a different story.

“In this transformative age, seize the upside of disruption or be disrupted.”*

Many executives report having trouble “walking the talk” of embracing disruption in the trade function because pressures to increase revenue in the short run tend to counter initiatives for innovation and change. Other problems for CEOs include the amount of time they need to devote to shifting their organizations’ culture; the practical ability to activate innovation practices and capabilities; and lack of the external awareness and collaboration needed to fully take advantage of new opportunities.

The EY study distinguishes the level of corporate readiness into three categories:

- ▶ **Caterpillars** – stay the course and do not feel the urgency of disruption
- ▶ **Chrysalises** – feel the urgency of disruption and have taken transformation steps toward disruption readiness
- ▶ **Butterflies** – transformed in response to urgent external factors, emerging with new capabilities to drive growth and competitiveness in a digital world

* “How can you be both the disruptor and the disrupted? The CEO imperative: in this Transformative Age, seize the upside of disruption or be disrupted,” EYGM Limited, 2017.

With trade disrupting all areas of business across all geographies, proactive changes today pave the way for better adaptation tomorrow.

Businesses will either embrace disruption readiness as chrysalises, evolve into butterflies, actually initiating disruption in their organizations, or remain caterpillars, putting both market leadership and market capitalization at risk. Ready or not, companies are certain to face further disruption over the next five years as the top disruptive factors identified in the report continue to emerge. They include technological innovations, new business models, regulatory changes and changing customer behaviors, with regulatory changes having the greatest impact on global trade executives.

For global trade executives who are being exposed to unprecedented regulatory disruption, the decision point for companies is whether to take the butterfly approach, proactively identifying and seizing opportunities or to remain at the other end of the spectrum as caterpillars, relying on status quo activities.

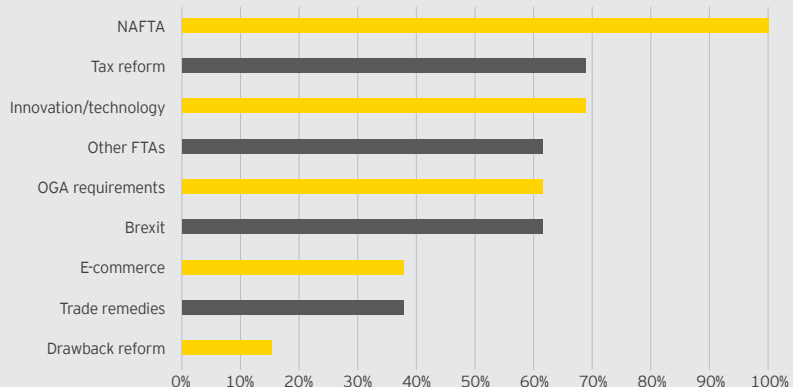
With trade disrupting all areas of business across all geographies, proactive changes today pave the way for better adaptation tomorrow. For all the challenges it presents, disruption is creating opportunities with unprecedented speed: the ability to capture

vast amounts of information, enter new markets, transform products and introduce new delivery models. Thus, for those global trade executives choosing to seize the “upside of disruption,” finding opportunities is likely.

As indicated by the chart below, the impact of the North American Free Trade Agreement (NAFTA) negotiations, one of the recent trade disruptors, was a significant planning event, with 100% of the trade executives modeling the potential impact. Over 50% reported modeling other trade disruptors including the impact of changes to other free trade agreements (FTAs), other governmental agency (OGA) requirements and Brexit. Surprisingly, only 38% of the participating executives were involved in modeling the impact of trade remedies, as of March 2018. If they were asked today regarding involvement in modeling around trade remedies, we believe the participating executives’ responses would be much higher.

For all of these reasons, we are seeing the C-suite rely more heavily on the input of the trade function – putting pressures on resources and where disruption is embraced, resulting in a transformation of the function.

Percentage of global trade executives modeling the impact of the following “disruptors” over the past year:



The politicization of trade – is trade a remedy or a weapon?

“Trade is more political than it’s ever been. This is fundamentally different, and I’m genuinely concerned both as a global citizen and as a corporate representative.”



The US Government’s dissatisfaction with the results of traditional mechanisms to address unfair trade practices, such as antidumping and countervailing duties, has led to rarely used approaches in an effort to protect domestic industry, technology and national security. Some participants questioned whether the use of trade to achieve these results creates a “weaponization” of trade; others may view the use of these mechanisms as an effort toward establishing fair trade. Global trade executives are being called upon by all levels within the company to track, evaluate and communicate the potential impact of these actions.

The disruption of 201, 232 and 301

Global trade executives find the unpredictability of the current state a key contributor to the disruption. One executive made a statement that summed up thoughts expressed by many participants, “The challenges I am facing are unprecedented.” Key challenges cited include the unpredictability of the US administration and policy, unknowns related to timing, inability to anticipate the reaction of trading partners, and scarcity of resources to address the trade remedy measures, while at the same time manage other aspects of the global trade function.

Section 201 of the Trade Act of 1974 (Section 201)

Under Section 201 (Global Safeguard Investigations) domestic industries seriously injured or threatened with serious injury by increased imports may petition the U.S. International Trade Commission (ITC) for import relief. On January 22, 2018, the President imposed new “safeguard” tariffs on imports of solar panels and washing machines, pursuant to Section 201. Beginning on February 7, 2018, imports of solar cells and large residential washers fell under the scope of the safeguard duties and became subject to tariff-rate quotas (TRQs) that will remain in effect for several years, unless modified. Solar panel imports will be assessed new duties over a four-year period. A levy of 30% will be imposed in the first year of the order and will then fall by 5% increments in each of the next three years. Imports of large residential washing machines will also be subject to a TRQ, with digressive duty rates over three years. In the first year, an additional 20% in-quota duty will be imposed on the first 1.2 million machines imported, with all additional import volumes facing an over-quota duty of 50%.

Section 301 of the Trade Act of 1974 (Section 301)

Section 301 allows the U.S. Trade Representative (USTR) to impose duties or import restrictions upon determination that an act, policy or practice of a foreign country violates or is inconsistent with, a trade agreement (including the WTO), or is “unjustifiable and burdens or restricts United States commerce.” In this case, on March 22, 2018, the President executed a presidential memorandum directing the administration to take a full range of action responding to China’s acts, policies and practices involving unfair and harmful acquisition of US technology based on findings in a USTR report. The USTR report found Chinese coerced transfers and theft of US intellectual property (IP) significantly damaged the US economy.

The USTR published on April 3, 2018, a proposed list of Chinese goods targeted for assessment of an additional 25% duty upon importation into the US and subsequently on June 15, 2018, published a final list of 818 tariff line items subject to the 25% tariff.

Since June, two additional lists of products subject to an additional 25% and 10% tariffs of Chinese origin goods have been finalized.

Section 232 of the Trade Expansion Act of 1962, as amended (Section 232)

Section 232 is a mechanism that allows the US Government to evaluate the effect of imports on national security; presidential discretion under Section 232 is quite broad. Additional duties on steel and aluminum were first announced by the President on March 8, 2018, following the U.S. Department of Commerce’s investigations and recommendations to the President under Section 232 of the Trade Expansion Act of 1962, as amended, which concluded that imports of certain steel and aluminum products “threaten to impair the national security of the United States.”

Since then, the US has taken action to finalize the 25% duties on steel products and 10% duties on aluminum products with very limited permanent exemptions granted. In the case of exemptions, for certain countries, the US has imposed quotas and Australia is exempt.



Export controls, adding to disruption

Geopolitical instability has led to business uncertainty through the on-again, off-again application of sanctions and the enforcement of export controls. While sanctions on the tiny economies like North Korea, the Crimean peninsula and war-torn Syria have created complexity in compliance systems and efforts, the status of Iran has created the greatest economic uncertainty for companies. The relief of sanctions under the Joint Comprehensive Plan of Action in 2015 paved a way for non-US-based companies to recommence some business in Iran; however, the 2018 US withdrawal has left allies at odds and businesses scrambling to wind down businesses that were recently ramped up. Export controls enforcement has been used as a negotiation tool in broader trade negotiations with China, for example, in one instance providing relief to a Chinese telecom company from a potentially devastating denial order.

Novel use of the rules?

Global trade executives collectively agreed to the novel use of these provisions and, in particular, pointed to Section 232. Thus, participants focused on 232 although recognizing that 301 is likely to have broader applicability. “The US administration is going to do something using whatever rules to achieve its objectives without taking into account consequences or disruption,” one participant said. One global executive commented that using 232 as a trade policy mechanism is “transformative” – as it is merging national security with economic security.

When it came to discussion around 301 or 201, global trade executives noted that the application of these rules is also novel, but not quite to the extent of 232. Section 301 is impacting companies differently and is largely dependent upon the industry. The executives aptly noted that for industries enjoying unconditionally duty-free products, such as the technology industry, 301 in particular could have a significant impact. Thus, for these industries a sudden increase from zero to 25% in a duty rate is significant, and global trade executives recognized the need to assemble resources accordingly. Thus, one participant noted that the “tech industry is anticipating damage and has a task force assembled to assess the damage.”

Is it possible to plan for retaliation?

Global trade executives discussed another challenge: managing the anticipated retaliation from US trading

partners. Global trade executives agreed that while predicting the moves of the US administration is complicated, when it comes to the broad applicability with 232 in particular, predicting the moves of 179 trading partners becomes increasingly difficult to forecast, thereby adding to the disruption. For example, the EU's planned retaliation of targeting US-branded household names in the motorcycle, apparel and spirits industries is quite different and less complex to model than Mexico's carousel approach. The carousel form of retaliation targets products manufactured in states politically aligned to the President or key members of Congress, and alternates products subject to duties using an approach similar to a carousel.

One global trade professional commented, "it's a new trade world" and suggested refocusing efforts to tactical responses such as understanding opportunities for exclusion requests and building data to support exclusions.

The challenge in developing short- and long-term strategies

"We think we have a strategy and then Twitter shows up. We have to focus more carefully and thoughtfully on suppliers and think more strategically about what our competitors are doing as well," one participant said. Management is increasingly seeking strategic guidance from global trade executives to understand threats and proposals and to address actions taken that cause disruption in trade.

Supply chain uncertainty

Global trade executives are being asked to provide strategic advice for supply chain decisions, and given the current environment of disruption, input into supplier agreements and contracts has been of particular importance. Supply chain concerns related to insufficient supply and the need to shift supply bases creates complexity where long-term contracts and supplier relationships are in place. However, one executive noted that "our supply chains are more nimble and flexible so we are able to change a lot more quickly than in the past."

Another global trade executive discussed the value of providing assistance to draft contract provisions specific to trade, to legal or procurement teams, taking into consideration potential added costs resulting from retaliation. "Trade-related clauses used to be approximately one paragraph; now they can be up to three pages creating complexity that even the legal team is struggling to understand."



Trade-related incentives

- ▶ Bonded warehouse – an option that allows companies to defer, reduce and, in some cases, eliminate customs duties and fees for goods held in a bonded warehouse
- ▶ Customs valuation planning – strategies to reduce the tax base on imports through unbundling of IP or using a first sale value for multi-tiered international transactions
- ▶ Duty drawback – a refund of duties and other taxes paid on items re-exported in the same condition or after processing
- ▶ Foreign Trade Zones (FTZs) – a structure that allows companies to defer, reduce and, in some cases, eliminate customs duties and fees for goods held, manufactured, and/or exported from an FTZ
- ▶ FTAs – a reduction or elimination of duties and other taxes on imports of goods originating in a participating country
- ▶ Inward processing – a relief from duties and other taxes on items imported, processed and subsequently exported
- ▶ Outward processing – a relief from duties and other taxes on items exported, processed and subsequently reimported

Capital expenditures delayed

Global trade executives are also being called upon to provide advice on large capital investment projects, such as input into the location and timing for projects, including manufacturing and distribution facilities, and to consider potential trade-related incentives to reduce costs.

However, global trade executives reported that the current state of disruption, particularly the unpredictability, is in some cases resulting in a “wait-and-see” approach with companies hesitating to make large capital investments at this time. One global trade executive questioned, “How do you plan a multiyear capital project when information is limited to a tweet?” This comment emphasizes the complexity of the situation – while some of the schools of thought envision an outcome that will move jobs and production back to the US, global trade executives are pragmatic in recognizing that moving production and building production facilities are not overnight events. Rather, these are capital-intensive projects that require analysis and planning and are multiple-year events.

Stretching the resources of the global trade function

More than ever, global trade executives agreed on the importance of connectivity within the organization. They also acknowledged that the amount, frequency and global reach of information sought by other functions is at a peak, putting pressures on time and resource availability within the trade function.

While one participant noted success in effectively communicating the added pressures on time and resources to management and obtaining additional resources, most reported being required to “do more with the same budget.”

This strain on resources is requiring creative approaches to maintaining day-to-day obligations while setting resources aside to monitor trade events. Global trade executives agreed that the best defense to manage the uncertainty is to stay on top of the news and to use modeling as a means to analyze impact and communicate with stakeholders. Global trade executives cautioned against making knee-jerk decisions to political pronouncements, particularly opinions that do not reflect hard policy.

Our point of view

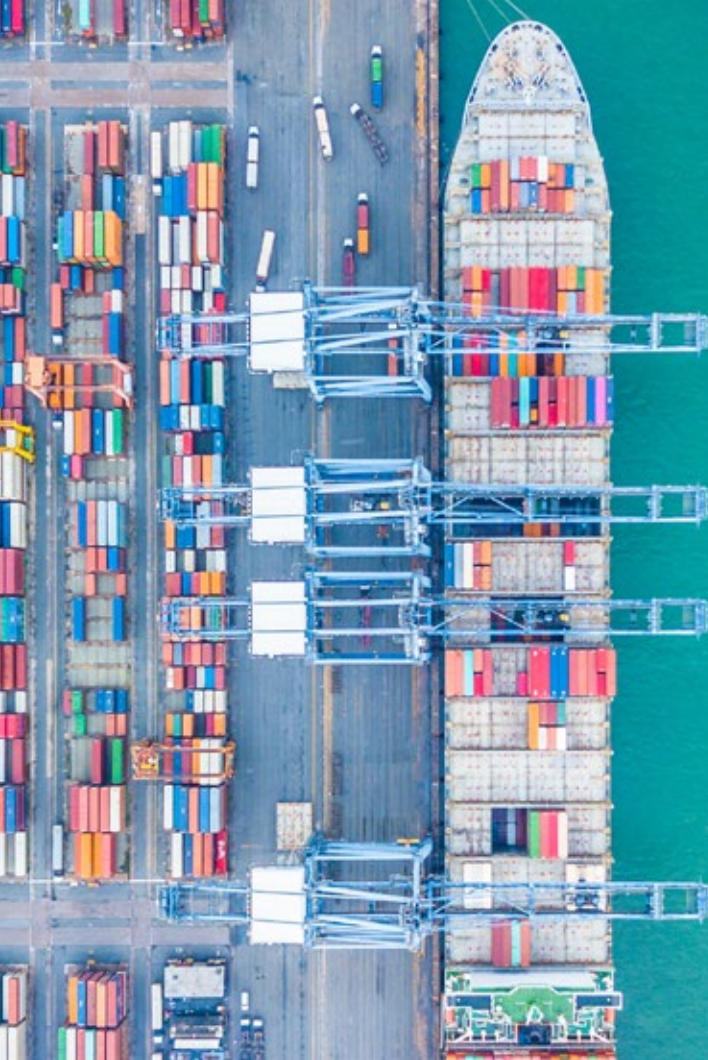
Trade has historically been somewhat stable or predictable allowing for less complicated short- and long-term planning. Trade practitioners used to have “givens” in trade, enabling confidence in the trade impact of long-term decisions. Short-term disruption would generally occur on a micro level, with changes, for example, impacting particular products. Companies would make significant capital expenditures and sourcing decisions based on “givens,” like NAFTA. The uncertainty of trade seems to be a new given, thus calling upon the global trade function to weigh in much more and to consider whether the company adjusts its strategy.

It is difficult to predict whether the US administration’s efforts to remedy trade will ultimately be successful – as success largely depends on how winners and losers are defined. Retaliatory measures require another round of analysis, and a redefining of winners and losers. The rapid acceleration of other countries counteracting US moves makes understanding both ends of the supply chain more complicated. Nobody disputes the fact that the unilateral actions taken by the US are contributing to disruption, but the outcome is difficult to predict.

Trade executives are convinced (as are we) that the current politicization of trade is a given in the short term. Beginning with reviewing accuracy of assigned classifications and origin is a good first step, followed by evaluating planning options. The anti-base erosion rules in both the Tax Cuts and Jobs Act (TCJA), and in base erosion profit shifting (BEPS) are already causing businesses to think about changes to transfer pricing, and the unprecedented, widespread change in customs duties can help to set a direction for change in relation to customs valuation. Companies should be exploring ways to reduce the customs value on imports by: reevaluating current transfer pricing, separating non-dutiable aspects from product price commensurate with transfer pricing such as R&D performed in the US and brand value or marketing IP, and exploring whether the first sale for export structure (chain of sales) applies. In addition, companies should be considering duty recovery or deferral strategies through duty drawback or FTZs. Specific planning around supply chain optimization, reviewing contractual commitments for purchasing and supplies to determine if prices are locked in or any increases can be passed on, and exclusion requests given the right fact pattern, are options that have to be considered. Shifting supply chains can be less complicated than they once were, and from what previous exclusionary processes have revealed, the odds may not be in one’s favor, but given the potential impact on certain industries, the exclusion option merits consideration.

The dismantling of trade blocks?

Over the past 10 years, the increase in the number of trade agreements has been significant, and in some cases, more than one agreement may apply to a particular trade flow, requiring analysis under multiple agreements. All of the participating global trade executives reported utilizing more than five FTAs and more than 45% indicated receiving benefits under more than 10; clearly, monitoring FTA activity is top of mind. Even still, global trade executives continue to find that FTAs are underutilized and in fact, the survey results indicated 90% of global trade executives anticipate usage of FTAs to increase in the future. These results are somewhat contrary to what we would have expected particularly given the current environment of uncertainty and the renegotiation of agreements (i.e., NAFTA), and withdrawals (i.e., US from Trans-Pacific Partnership (TPP)). However, we believe the anticipated increase may also be due to the rise in the number of bilateral agreements successfully concluded while multilateral agreements seem to be wrought by delays.



TPP, the trade agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States, was signed on February 4, 2016. However, President Trump signed a presidential memorandum withdrawing the US from the TPP on January 23, 2017, and the remaining nations negotiated a new trade agreement called Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This agreement incorporates most of the provisions of TPP. CPTPP, also referred to as TPP11, also has not been ratified, and speculation exists as to whether the US may get involved in negotiations again.

Multilateral agreements have benefits

Given the potential savings opportunities, abundance of available FTAs and the effectiveness in global trade functions' reporting of savings to management, global trade executives reported in our last symposium that participating in FTAs was not a goal of management, but an expectation. Successfully using FTAs requires significant resources and can be burdensome. However, global trade executives emphasized that a world of multilateral trade agreements has a positive impact when it comes to resources – they result in harmonization – fewer rules of origin to analyze, simplification of administrative procedures and more consistency in supporting documentation. Global trade executives referred to TPP as an example.

TPP could have resulted in benefits to a number of industries, and one global trade executive, with significant Japanese operations, reported investing time modeling the potential impact and planning for TPP. However, while this participant concluded that “significant time was spent; which in this case was

all for nothing,” Global trade executives continue to believe proactively modeling potential impact of a new FTA or the potential unraveling of another FTA is a good use of time. Monitoring negotiations and having analysis ready enables global trade executives to maintain a “seat at the table,” demonstrate value to executives, and ultimately provide input into key strategic decisions being made by the company.

However, a move away from multilateral agreements to more bilateral agreements will add complexity. This move would require more resources for global trade departments as an increase in agreements generally results in more rule sets to understand, analysis to conduct and documentation to manage.

A look at NAFTA renegotiation

A wide degree of uncertainty regarding NAFTA renegotiation remains. The degree of attention to NAFTA largely depended on the industry. One global trade executive reported that NAFTA modeling requires significant resources, with activity happening every day. Participants whose companies are benefiting from NAFTA agreed that

while uncertainty exists, they are better prepared by understanding product flows and sourcing. These are important steps. In addition, global trade professionals agreed that having a tool that lays out current rules of origin and can model out the impact of a change to a rule of origin, whether a change to a tariff shift rule or Regional Value Content (RVC) calculation, is important. Having this information readily available equips global trade executives to educate management, supply chain and any functions in the company potentially impacted, in short order.

Influencing the negotiators

Thus, given concerns over the revisions to the NAFTA rules of origin requirements and the potential of harmful implications to their business, global trade executives are looking for creative ways to influence authorities. Global trade executives discussed their efforts to persuade US negotiators to modify rules of origin to recognize US value-added IP, such as R&D and engineering, as a component of the RVC calculations, which presently only focus on materials, labor and other more direct costs of processing. The auto industry in particular is leading this movement, and a number of companies are collaborating to work first on informing and then influencing the administration. Global trade executives commented that teaming enables a louder voice. However, participants cited that it is a slow-moving process and an uphill battle with the administration, given the complexity of the rules. "It is very difficult to get the politicians in Washington to understand RVC calculations," one executive said.

Brexit unraveling

Burdened by the uncertainty stemming from Brexit, companies are devoting time and resources to consider its impact. One global trade executive even hypothesized that perhaps Brexit will not happen and another referendum would occur. Regardless, companies agreed on the need for planning.

One global trade executive indicated that the global trade function is conducting an analysis of physical and financial flows and finding they are highly complex. Another global trade professional reported devoting time to the IT aspects of the Brexit changes, which is requiring three full-time people to manage the IT analysis. Yet another global trade professional indicated modeling and impact analysis of Brexit is draining the trade department's resources, stating "we have hired people specifically to assist with Brexit (and NAFTA) because we know the impact will be significant." This company in particular has significant manufacturing operations in the UK and the implications on the company's supply chain as well as increased duty costs could be significant. "It is not just trade compliance anymore, but for us, with Brexit, trade is affecting our strategy as a company. Now we are at the table when executives are making decisions for 5 to 10 years out – they are asking for our opinion on what trade activities may impact our business."

Many global trade executives indicated that they had not fully appreciated the extent of resources needed to meet requirements related to Brexit, specifically around Her Majesty's Revenue and Customs authority (HMRC). Global trade executives agreed that the delays resulting from shortage of resources by HMRC and additional steps for customs clearance into the UK also need to be considered when modeling – as the administrative processing can certainly impact speed of supply chain.

Our point of view

When looking at NAFTA, changes to the rules of origin continue to be among the most sensitive open items as these entail potential modifications to companies' supply chains. These long-term changes also seem irreconcilable with other provisions proposed by the US administration, such as a "sunset clause" that would require the agreement to end unless revisited by the US, Mexico and Canada in five years. Notwithstanding, there still exists a need to address these and other items that may also require political will; the three countries seem to be getting closer to potentially reaching an agreement before the end of the year.

Accords once considered a given are now cloaked with uncertainty with the renegotiation of NAFTA and Brexit, adding complexity to the current disruption. Harmonization of rules among larger trade blocs is being replaced by more and more side deals, adding to complexity. Modeling based on historical data is a must for any global trade executive today. Confidence in the data and its underlying sources provide trade executives with a unique platform to present alternatives and potential solutions quickly to the C-suite. It is a given that a country's trading partners will change, but the speed with which trade executives can react will be a stronger indicator for success.



Disruptors to trade: tax reform and BEPS

Not only is trade a contributor to disruption, but US tax reform and BEPS measures are also on the top of minds of the C-suite and require the focus of global trade management. Level of involvement in non-trade-related disruption activities varied by company and industry, but close to 70% of survey respondents indicated tax reform as a disruptor requiring input from trade.



Tax reform

Tax reform is making companies rethink their entity structure, supply chain and location of IP. As such changes can have material customs impact, CEOs and CFOs increasingly realized that they needed trade-related data to complete their modeling exercises. One global trade participant mentioned that its C-suite had not thought of the trade function in years, but the function was elevated out of necessity because of tax reform.

Another participant commented that tax reform had a very interesting effect on the tax department and created a lot of excitement at the coffee station, saying, "I've never seen a tax department so excited about anything in the last 20 years."

Location of global trade department and involvement in tax reform

One point to note is that for tax reform, companies at which the global trade group sits within the tax department appeared to have little resistance from management to getting involved in the tax reform discussion and were well-prepared to be involved. For others, where global trade resides outside of tax, getting involved in the tax reform discussion proved more challenging. But one global trade executive reported success by participating in a cross-functional team of which global trade was a member. Another global trade professional offered that the company merged its tax department with

the trade department as a result of the disruption over tax reform and trade, particularly when the border adjustment tax was in scope. This global trade executive reported finding a lot of synergies between tax and trade generally and finds the combined department a positive. "The only way I can get budget and resources is if I demonstrate value and indicate to my management that I will keep us out of jail at the same time."

Trade has a role in IP planning

As part of the analysis of tax reform, a couple participants commented on their involvement in impact assessments related to IP migration and payment streams in response to the new base erosion and anti-abuse (BEAT) minimum tax. These global trade executives are working with their tax and transfer pricing colleagues to model the financial impact of moving a company's IP and providing input on mitigating exposure where the changes to the IP flow could increase customs value.

For companies with dutiable US imports, maintaining a separate contractual basis and payment stream for IP, but capitalizing IP payments under Internal Revenue Code Section 263A, may allow for both favorable customs and tax treatment. This requires both strong documentation of the separate IP contract and value for customs purposes, as well as consideration of dealing with adjustments. These aspects should be addressed prior to importation.





When tax modeling demonstrates a benefit to change the supply chain from a services model to a buy/sell model (to structure around BEAT and/or when tax modeling demonstrates that a different financial flow increases Foreign Derived Intangible Income), customs consequences should be considered (e.g., first sale and FTZ). When tax modeling demonstrates that a different financial flow (changing or adding sales), or a change in principal should be considered, customs consequences should be modeled, and planning considered, including assist analysis. Global trade executives cautioned that any planning regarding IP needs to be carefully coordinated with the appropriate tax and transfer pricing professionals, thought-out and documented. Payment streams should be considered, and planning should be analyzed on a country-by-country basis.

BEPS and related-party transactions

BEPS represents a marked change in the international taxation of companies. In an effort to more appropriately match revenue earned with business operations, risks, activities and functions, BEPS has changed the way companies

are structured and report income. Never has a company's international operations been more visible to authorities than under BEPS' country-by-country reporting. This in turn has changed the behavior of both companies and authorities, including customs authorities.

Global trade executives whose companies have related-party transactions are concerned about BEPS and the increasing transparency and availability of transactional information available to the customs authorities. Global trade executives agreed that their teams should be brought to the tax and transfer pricing table when information is being compiled. These teams should actively analyze the flows for customs valuation impact and be prepared with documentation to support the customs analysis to the extent questioned by the authorities.

One global trade executive shared an active example of South Korea's attempt to use BEPS as a means of coordinating with other countries to obtain access to pricing/valuation information. Companies expect additional focus on valuation and other customs authorities to take advantage of BEPS as it continues to roll out.

Our point of view

The anti-base erosion rules in both the TCJA and in BEPS are already causing businesses to think about changes to transfer pricing, and the unprecedented, widespread, change in customs duties can help to set a direction for change. Involvement of global trade executives in tax planning is continually increasing. This is viewed by global trade executives as not only positive, but imperative. We agree. It is yet to be determined whether the lower US corporate income tax rate will lead to a shift in tax policy by non-US governments. Lower corporate tax rates themselves result in disruption, and global trade professionals need to be informed and provide input, as appropriate, into decisions related to changing positions on tax or transfer pricing. In addition, global trade executives need to remain involved in the conversation as we wait to see whether tax reform occurs in other jurisdictions impacting the incentive to move the tax base.



Simplification and harmonization of trade rules? Short-term disruption; long-term simplification?



The US duty drawback program permits an importer to recover customs duties, fees and taxes paid in connection with the importation of an article into the US when that imported article, a product manufactured with that imported article or a like-kind article, is subsequently exported or destroyed. Other countries have similar type programs which are often referred to as inward processing.

Efforts to simplify trade rules have had a decidedly checkered record in recent times. Inconsistency in application of the rules related to valuation and origin persist, while the Harmonized Tariff Schedule (HTS) approach to classification facilitates a certain level of consistency. US duty drawback reform, in particular, has been a burdensome process for US importers recently. US export control reform is challenged by delays. On the other hand, global trade professionals have noted that other attempts at simplification and harmonization, such as trusted trader programs and similar initiatives, are generally beneficial. Problems associated with trusted trader programs should be a short-term disruption, but whether hurdles will be cleared so that companies can benefit from a simplified program in the long run has yet to be determined.

“Drawback reform has been a nightmare.”

Drawback reform

In the US, the Trade Facilitation and Trade Enforcement Act (TFTEA) enacted on February 24, 2016, significantly expanded the duty drawback program by allowing the determination of like-kind

merchandise based on the HTS classification of the imported article and expanding time frames for recovery.

The date on which a TFTEA claim can be filed was originally set to be February 24, 2018, two years after the enactment of TFTEA. (Congress mandated that U.S. Customs and Border Protection (CBP) issue regulations by that date.) On February 9, 2018, CBP announced that TFTEA drawback claims can be accepted through the Automated Commercial Environment (ACE), but drawback regulations would not be in place. CBP issued a document titled, “Drawback: Interim Guidance for Filing TFTEA Drawback Claims” (the Interim Guidance), which provides instructions on filing TFTEA drawback claims prior to the effective date of final regulations. The guidance has material implications for TFTEA claims and, in particular, for those filing manufacturing drawback claims or utilizing common drawback privileges such as Accelerated Payment and Waiver of Prior Notice. The Interim Guidance is very restrictive, effectively preventing businesses eligible for TFTEA drawback from benefiting from the statutory changes until final regulations are issued. Moreover, CBP cautions that the Interim Guidance reflects “CBP’s tentative and conditional framework for drawback” and may be revised.

Thus, while the intent of US drawback reform may be consistent with the concept of simplification of procedures, drawback reform has been a disruption at least in the interim, and companies are struggling to reap any immediate benefits. Global trade executives reported frustration in the significant delays in the implementation of TFTEA and CBP systems modifications. One global trade professional stated that “implementation of drawback reform has been a nightmare; the difference between the legislation and implementation have been two very different things.” Others commented on the sheer lack of thought in terms of data and programming citing the 5,000-line limitation in ACE in filings – again, creating less simplification for processing.

Regardless of the current changes under TFTEA, global trade executives agreed that while some industries continue to find significant benefits of drawback, whether the 2016 changes truly result in meaningful simplification and increased savings is yet to be determined.

Export control reform

Export control reform in the US began almost a decade ago with the vision of creating a single control list, single licensing agency, unified technology systems and export coordination. While the vision is not yet lost and some regulatory harmonization has created improved certainty, companies in the middle of this transition feel the “complicating” effects of efforts to “simplify.” Companies formerly dealing exclusively in defense articles now have to obtain licenses from two

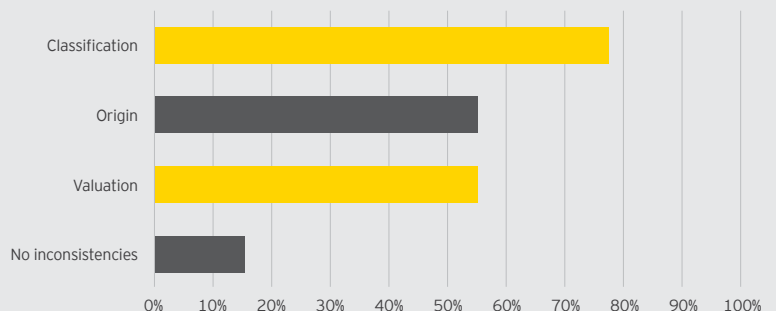
agencies and make complicated jurisdictional determinations. While the number of licenses required has decreased over the years, the burden of compliance, in cases of lesser national security risk, has shifted from the government to the exporter, while the penalties for noncompliance have remained the same and enforcement activity increased.

Trusted trader programs – harmonization, yet delays

Global trade executives generally viewed trusted trader programs as an opportunity for simplification and potentially, harmonization, as programs generally incorporate similar principles of compliance and security. In addition, global trade executives noted that some countries are still developing their programs and are incorporating added benefits.

However, the administrative side to the trusted trader programs has room for improvement. Global trade executives cited continued frustration with the delays, noting that participation is a necessary evil, particularly for access to the simplification programs. Global trade executives mentioned the EU in particular and said that the process for acceptance into the Authorized Economic Operator (AEO) program is complicated and time-consuming, therefore, customs authorities are lagging in reviewing applications and acceptances. One global trade executive discussed challenges in the UK, specifically where application review processing is significantly delayed resulting in disruption to the company’s use of simplification procedures.

Is your company currently challenged by an inconsistency in the application of valuation, classification, and/or origin rules in different jurisdictions? Please select all that apply.



Classification – the only truly harmonized rule set?

Challenges with harmonization in customs authorities' application of the rules also contributes to trade disruption. Global trade executives cited classification and the HTS as the only truly harmonized approach when it comes to trade. "It's beautiful when hundreds of countries can agree on something; it makes doing business globally so much easier," one executive said. But even with harmonization, local differences in interpretation exist. In fact, close to 80% of survey respondents indicated their companies are dealing with inconsistencies in HTS classification.

Global trade executives discussed the potential added benefit of automation that classification harmonization enables. At the same time, global trade executives cautioned that automation could not replace the thought process required for many product families, particularly when principal function plays into the classification decision process.

Challenges with origin and valuation harmonization persist

The survey revealed that more than half of respondents indicated inconsistencies with valuation and origin across customs authorities. Global trade executives agreed that harmonization for rules of origin is met with hesitation by individual customs

authorities who are not likely to agree on origin standards for non-preferential situations, citing, for example, the impact on trade remedies and antidumping/countervailing duties.

In addition, global trade executives continue to see inconsistency in the interpretation of the valuation rules, citing the continued use of reference pricing by certain customs authorities and the hesitation of customs agencies to accept transfer pricing studies as a method to support related-party pricing arm's-length requirements.

Global trade executives also cited the EU's Union Customs Code (UCC) and the stringent rules related to royalty and license fees. The trademark royalties exception is no longer included in the new EU customs legislation, and trademark royalties are now subject to the same rules as other royalties and license fees. This creates disharmony, for example with the US interpretation of trademarks which often results in trademarks being non-dutiable. Further, rather aggressive positions taken by many Asian customs authorities where intercompany royalties and license fees are more likely than not to be found to be dutiable are other examples of inconsistency.

Another example of disharmony relates to the applicability of first sale, with the US being one of the only remaining jurisdictions allowing for this duty savings strategy.



Leveraging organizations – the World Customs Organization

Global trade executives acknowledged the efforts of the World Customs Organization (WCO) in developing guidelines, formulating leading practices, and working on capacity building with member countries. They also recognized the WCO's assistance in resolving inconsistencies in classification. However, global trade professionals recognize that the WCO can do little to require a customs authority to comply with a certain framework or guidelines.

Global trade executives welcome progress in harmonizing and aligning individual customs authorities on positions related to rules of origin and valuation. Harmonization would increase efficiencies and would allow for more opportunity to automate additional processes, particularly origin analysis.

Impact of disruption to WCO efforts

Global trade executives at the same time acknowledge that organizations, like the WCO, become even more challenged given the current environment of nationalism and protectionist policies, and with rebalancing of trade being a key initiative of many member countries. These organizations are unable to assist countries when it comes to FTAs; instead, countries need to take any disputes directly to the member countries. Finally, global trade executives noted that in many cases, their organizations are moving faster than governmental bodies. As such, global trade executives are often unable to wait for the outcome of a classification response, needing to keep trade flowing.

Despite the challenges faced by multilateral organizations like the WCO, global trade executives generally acknowledged the efforts put forth by this organization and acknowledge its accomplishments.

Enforcement activity on the rise

We continue to see enforcement as a mechanism for the customs authorities to meet revenue targets as well as drive compliance initiatives. Similar to findings from previous symposiums, global trade executives reported challenges with inconsistencies in the application of rules and the use of enforcement, particularly in Asian regions.

Valuation continues to be challenged by customs authorities. In particular, global trade executives continue to report that demonstrating that arm's-length requirements are met in related-party transactions is a challenge. In addition, customs authorities often challenge additions to value, with royalties continuing to receive the most attention. South Korea and China remain the most complex and aggressive in this area. However, recent changes in the EU, particularly related to valuation, including the more stringent rules on royalties being an addition to the customs value and new rules on determining the sale for export in a multi-tiered transaction, are also creating challenges to global trade executives.

Global trade executives also agreed that the recent disruption around FTAs has led to an increased focus on rules of origin and eligibility analysis by various customs authorities. One global trade professional cited an increase in audits by Israel for qualification under the US-Israel agreement. Others mentioned increased scrutiny by South Korean customs authorities on the US-South Korea free trade agreement and increased audit activity by the NAFTA countries.

With the imposition of high tariffs and retaliatory tariffs, global trade executives also anticipate an increase in enforcement. Gone unchecked and unplanned, these unpaid tariffs, rising up to 25% can result in a significant liabilities.

Our point of view

Objectives of harmonization and simplification are being delayed by governments in the short term and replaced with a focus on trade leveling, revenue collection and geopolitics. While long-standing savings programs such as the US duty drawback program or security- and compliance-focused programs like the trusted trader programs can lead to cost saving opportunities and/or streamlining processes for global companies, complications and delays in implementation of these programs by respective governments are also contributing to the current disruption.

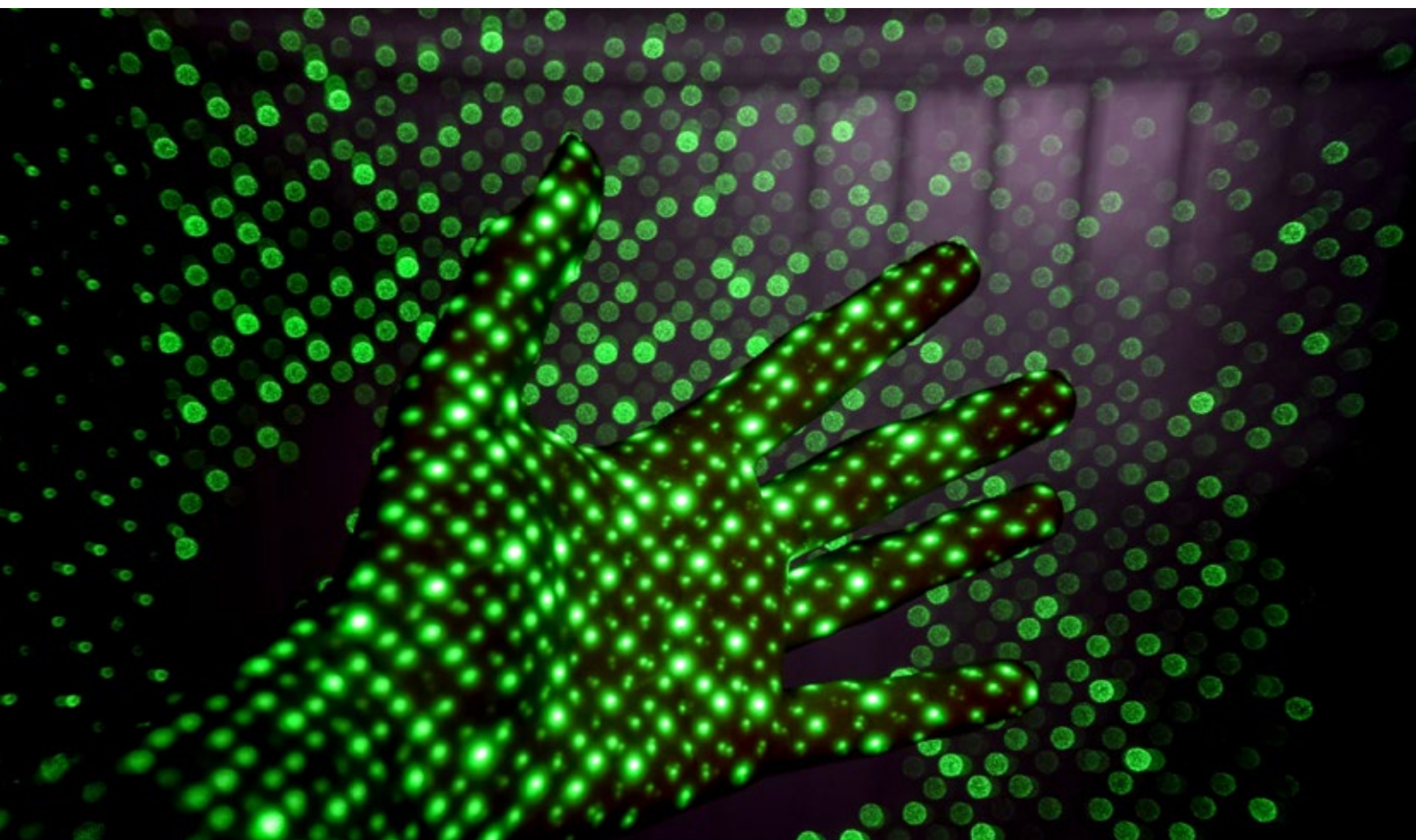
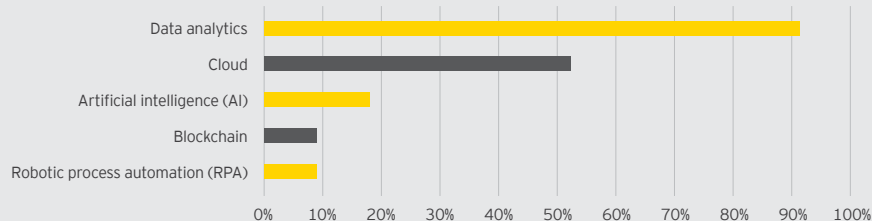
Further, with political nationalism on the rise, this is resulting in a decrease in the effectiveness of multilateral organizations aimed at harmonizing and standardizing global trade rules and processes.

In addition, with the US actions of 232, 201 and 301 and the resulting retaliation of trading partners, individual customs authorities have more at stake with the higher tariffs to be imposed under these trade remedies. We anticipate that governments will require more resources, more sophisticated systems and flexible policies to meet their revenue collection and enforcement objectives. Companies involved in global trade will also need additional resources to continue to monitor these programs and work through implementation.

Technology: a disruptor or enabler?

Global trade executives are relying heavily on incorporating technology into their global trade operations with 90% of the participating trade executives reporting they have incorporated or will incorporate data analytics into global trade operations.

Our global trade team is working to incorporate or has already incorporated the following technology concepts into our global trade operations (please select all that apply):



“Data is no longer just interesting; it is an asset that needs to be managed, much like our people.”

Reliable data is critical

Disruption results in an increased reliance on good, available, real-time data. Data analytics continues to progress, and global trade executives agree that reliable data is imperative for being successful in responding to disruption.

Whereas in the past, data may have been used to support a position, data is now critical to the success of running a global trade function, let alone staying on top of disruption and determining impact. Getting ahead is still a goal.

Progress in data sources – Enterprise Resource Planning

Companies continue to rely on various sources of data with some progress reported in using data based on enterprise resource planning (ERP). For global trade departments that do not have reliable ERP or internal systems data, global trade executives cited government data as the safe source; with increasing access to such data particularly in Mexico and Central America, this becomes more possible.

Global trade professionals also recognized progress with the increase in the number of governments globally that currently make import and export data available.

Challenges with data continue

One of the key challenges continues to be visibility to data when a company makes an acquisition. Global trade executives emphasized the need for integrating data analysis into any due diligence process.

Also, complexities increase as trading partner countries increase. Exports to more than 70 countries, was not atypical for the global trade

executives in the room. In such cases, global trade executives expressed the need to be “selective” when working with data and focusing on the countries that have the biggest volumes and risks. Thus, given the continued challenges with data, its availability and reliability, global trade executives emphasized their focus on harnessing data where it will be most effective and meaningful in communicating messages.

“Don’t let perfection be the enemy of the good. Harness and use the critical data that exists.”

Progress with approaches to data analytics

Most companies continue to rely on descriptive analytics, with some achieving progress in predictive analytics and even fewer with prescriptive. Companies have been successful in incorporating data analytics more routinely into day-to-day operations.

A few global trade professionals indicated having a goal to incorporate predictive analytics for classification assignment, but most are not there yet. One global trade professional explained success in employing data analytics and AI for classification assignment. In this case, the products can be classified in a decision-tree-type analysis, and adding on predictive analytics enabled close to 98% accuracy. However, global trade executives cautioned that this type of approach is limited to certain industries and accuracy remains largely dependent on the quality and consistency of the data.



Examples of other uses of predictive analytics were limited. One global trade professional reported effectively using predictive analytics based on probability calculations to identify products lacking an HTS and flagging OGA and/or licensing requirements. The goal of this global trade function is to move to a model where a person tells the system what is being shipped and the tool populates all of the required regulatory information, based on intended product shipping destination.

Data continues to be critical for reporting back to the business

Global trade executives also reported the importance of data when reporting back to the business; and find that consistency in reporting is also critical. "Once a good reporting format is developed and the stakeholders understand it, we use it and we use it consistently."

Approach is particularly relevant because global trade executives continue to find challenges with the level of familiarity with global trade in the business. One global trade executive commented that the business "still continues to ask why all US-made goods are not NAFTA-eligible?" Global trade executives agreed that while vast improvements have been made in educating and informing the business on global trade matters, complexity is only increasing in the current environment; thus, consistency and simplicity in using data to report back to the business is a leading practice and critical to generating success in messages being understood.

ERP systems to process global trade transaction

"Trade doesn't drive system changes; other areas of the business do, thus it's critical that the global trade function is well connected with the IT function of the company."

Global trade executives reported continued challenges with multiple, disconnected ERP systems. This challenge is consistent with findings from earlier symposiums and has not progressed significantly. This finding is particularly relevant to those companies involved in numerous acquisitions where merging systems is complicated and time consuming – at least 2 global trade executives reported working to integrate more than 40 systems.

However, progress has been reported on the implementation of global trade specific systems to facilitate customs and export monitoring, transactional processing, and management reporting.

A number of participating global trade executives have successfully implemented add-on trade programs to existing ERPs or trade specific software packages. However, global trade executives continue to caution that the "devil is in the details" and systems implementations can be resource drains and costly. One global trade executive reported the use of SAP R3 and added trade elements such as classification and origin information to make it trade effective. Careful



planning is required to successfully complete an implementation. Global trade executives pointed out that the need for technology skill sets becomes a great deal higher, particularly when an implementation is a near-term goal of the department.

The next wave of technology for global trade executives

Global trade executives are also anticipating the next phase of technology given that most have already successfully incorporated data analytics into their global trade functions or have plans to do so in the near future. As such, the next areas in the technology space among symposium participants are AI and RPA. "It's a dream to use AI for things other than classification. AI is a really great Ferrari, but we don't know how to drive a Ferrari (yet). We are still in the sedan where the windows don't automatically roll down," one participant said.

Other areas of the company are incorporating RPA; trade has to catch up. Similarly, while blockchain is also being used in other areas of the business; the benefits of blockchain are yet to be explored by global trade executives.

Interestingly enough, this may be an area where CBP is a bit in front of industry. In late 2017, the Emerging Technologies Working Group, a subcommittee of the Commercial Customs Operations Advisory Committee (COAC) to the CBP, discussed potential uses by CBP for blockchain.

The next wave

Robotic process automation (RPA) – an application of technology, governed by business logic and structured inputs, aimed at automating business processes. Using RPA tools, a company can configure software, or a "robot," to capture and interpret applications for processing a transaction, manipulating data, triggering responses and communicating with other digital systems. RPA scenarios range from something as simple as generating an automatic response to an email to deploying thousands of bots, each programmed to automate jobs in an ERP System.

Artificial intelligence (AI) – software technologies that make a computer or robot perform equal to or better than normal human computational ability in accuracy, capacity and speed.

Blockchain – digitalized, decentralized, public ledger of all cryptocurrency transactions. Constantly growing as completed blocks (most recent transaction) are recorded and added to it in chronological order, it allows market participants to keep track of digital currency transactions without central record-keeping. A computer connected to the network (the node) gets a copy of the blockchain, which is downloaded automatically.

Digital customs – Since 2016, the WCO has been focused on "digital customs." The objective of digital customs is to transform the way that customs authorities operate and aims to provide progression – the enhanced ability of customs administrations to communicate, process goods, receive and exchange information, coordinate border activities, collaborate on law enforcement actions, and promote transparency.

More generally, digital customs refers to efficient customs and border clearance processes, seamless data exchange between and among customs, partner government agencies and private sector stakeholders, effective risk management, fair and efficient revenue collection, as well as greater predictability, transparency, safety and security of global value chains.

Initial uses for blockchain include: trade processing, capturing and keeping track of partnering government agencies licenses, permits, certificate of origin reporting and free trade agreement product qualifications, carnets and bonded movement tracking.

The idea of using blockchain for country of origin is interesting, particularly if used in an external setting where origin information is often difficult to obtain and maintain among unrelated entities. Global trade executives could envision the efficiencies to be gained and improvements to accuracy, through having secure, trusted origin information available through blockchain technology. Such information sharing could be initiated among industry groups and over time, rolled over to other industries.

Roadblocks to innovation

Thus, the greatest challenge of moving to the next wave of technology continues to be resources – finding the right resources and having a solid return on investment to obtain funding to expand skill sets and obtain necessary tools. Given the current demands on time and resources resulting from the various sources of disruption, global trade executives are focusing their efforts in the area of technology and innovation on data: reliable data and the necessity to model and analyze data.

While global trade executives are not likely to refer to technology as a “disruption,” global trade executives have not made time available for other technology-related projects to explore the possibilities and potential benefits of blockchain, RPA and AI. Global trade executives are monitoring developments, but real action is yet to be taken.

Enhanced technology skills desired for global trade professionals

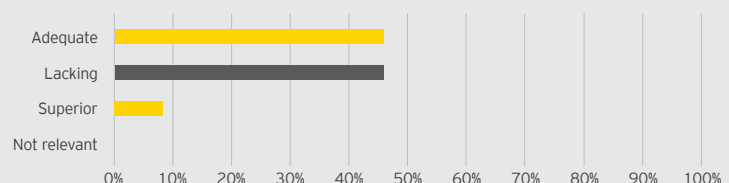
“Innovation activation falters with practices requiring organizational changes.”* Strong organizations are well-prepared to manage through times of disruption.

Only 8% of participating trade executives reported having “superior” talent in the area of technology. However, 46% of the participating executives indicated technology talent was “lacking.” The remainder indicated the talent was “adequate.” Not surprisingly, nearly 50% of trade executives reported their No. 1 skill set in need for full-time talent is in the area of technology/innovation.

Finding the right skill sets in the area of technology remains a primary objective of global trade executives, and progress has been made in relation to adding IT resources to global trade departments. In fact, many of the global trade executives indicated that they now have an IT resource on their team or a resource in the IT department dedicated to global trade. One indicated the company has an entire IT team within the global trade department. This is definitely progress since our last symposium but not the norm. The majority of global trade executives indicated a “dotted-line” type approach with regard to IT resources.

Global trade executives agreed that partnerships with IT are critical and a leading practice as they enable global trade departments the opportunity to leverage other company initiatives and to get involved in IT projects that address enhancements desired by the global trade departments. Such partnerships can be facilitated by routine check-ins with IT, an approach used by some participating global trade executives.

The level of talent within our global trade group (or resources available to the global trade group) in the area of technology is best characterized as:



* “How can you be both the disruptor and the disrupted? The CEO imperative: in this Transformative Age, seize the upside of disruption or be disrupted,” EYGM Limited, 2017.

Our point of view

Technology is one area where the pendulum has moved little in the last couple of years. We think there are a variety of reasons for the pause, with the most likely explanation that resources recently have been redirected to respond to disruption. We also think that global trade departments are progressing slowly in this area because they are not staffed with the right skill sets to innovate in the more progressive areas of technology including AI, blockchain and RPA.

While we see technology as more of an enabler than as a disruptor, continued investment in technology is a must. Global trade executives need to team within their organizations or externally to explore where efficiencies can be gained and technology resources directed. Efficiencies in trade have been squeezed out of the process over many years, but there is room for more.

In the future, blockchain could be used for FTA certification where external/industry blockchain systems can be accessed in a common and secure way. These types of advances take collaboration that is unprecedented but would provide significant benefits. In addition, manual processes persist in FTA evaluation and classification assignment, both of which contribute a significant amount of hours to the workload. In the future, with the right resources, skills and vision, RPA and AI can assist in automating these processes, freeing up resources to be used for strategic value-added activities – and these advances will help move the pendulum.



Evolving role of the global trade function

Responding to disruption is requiring a whole transformation of the global trade function, perhaps at the expense of other initiatives. Global trade executives unanimously agreed that the recent disruption is a significant drain on resources for policies that may never come to pass. Responding to disruption results in the need for redirecting resources, as well as hiring new talent.

"If for nothing else, disruption has been beneficial in elevating the visibility of the trade function. Trade is no longer a 'hypothetical risk'; instead, the changes we are experiencing are real and the business is relying on the global trade function's help with planning and navigating."

A new kind of global trade function

"Activating disruptive innovation attributes requires acquiring the right talent, establishing an enabling governance structure and making real organizational change."*

The global trade department's response to disruption does not require "perfection," but it requires an agile, flexible, and diverse skill set. Global trade leaders are looking for nimble teams with strong foundations in customs/export regulations and technology skills. In some cases, global trade leaders are turning to third parties to fill in gaps from both a time and skill perspective. The intensity of the current disruption is shifting resources in such a way that global trade leaders are finding that they have to "take a few steps back with the objective of redirecting to be more proactive in the future." But currently

global trade leaders attribute the lack of forward progression to being overwhelmed; it is as if they are "drinking from a fire hose." This is a new form of reality and is requiring changes in mindset at all levels – and the need for reliable resources.

Importance of varied skill sets

Finding talent continues to be one of the most significant challenges for global trade executives who have been required to get more "creative." Global trade leaders report that in the current atmosphere of disruption, a variety of talents and skill sets contribute to achieving a successful response and staying on course. And they agree on the need to be "purposeful" about talent.

Creative recruiting techniques

Global trade executives reported on the scarcity of candidates with specific technical and practical skills and are challenged to think outside the box in their recruiting techniques.

Global trade executives are finding some success at the university level, where supply chain and logistics programs now exist which produce candidates with a foundation in global trade. But given that

* "How can you be both the disruptor and the disrupted? The CEO imperative: in this Transformative Age, seize the upside of disruption or be disrupted," EYGM Limited, 2017.



these programs are limited, global trade executives suggested the need to “open their eyes” to consider hiring non-trade people, suggesting that motivated university graduates who are interested in the field can be trained to be real assets.

Internship programs are another option being routinely explored by global trade executives. While one of the executives mentioned the existence of a fairly robust internship program, for most, such progress has not yet taken place. Another global trade executive mentioned success with interns outside the US, in Asia in particular. Collectively, the group agreed that this is another area to continue to explore, given the scarcity of resources and the continuous benefits that developing a professional from entry levels can provide.

Global trade executives also reported some success in recruiting candidates from other areas of the company. One executive with complex customs valuation and related-party models, mentioned success in hiring someone from the transfer pricing team. Another global trade leader whose trade function was deploying a trade system, relied heavily on a new addition brought on from an IT environment and eventually transferred the role to a full-time position. Others mentioned success with hiring people from supply chain, finance, corporate compliance or internal audit departments.

Creative department models

While use of contract arrangements is not the norm, it is an alternative global trade executives are deploying. One global trade leader used a contract arrangement to fill a role in a remote location. However, this global trade leader cautioned that the challenge is that most

qualified professionals are looking for more long-term, secure employment, but using contractors initially with the likelihood of moving to full-time employment when budget becomes available, can be a successful interim model.

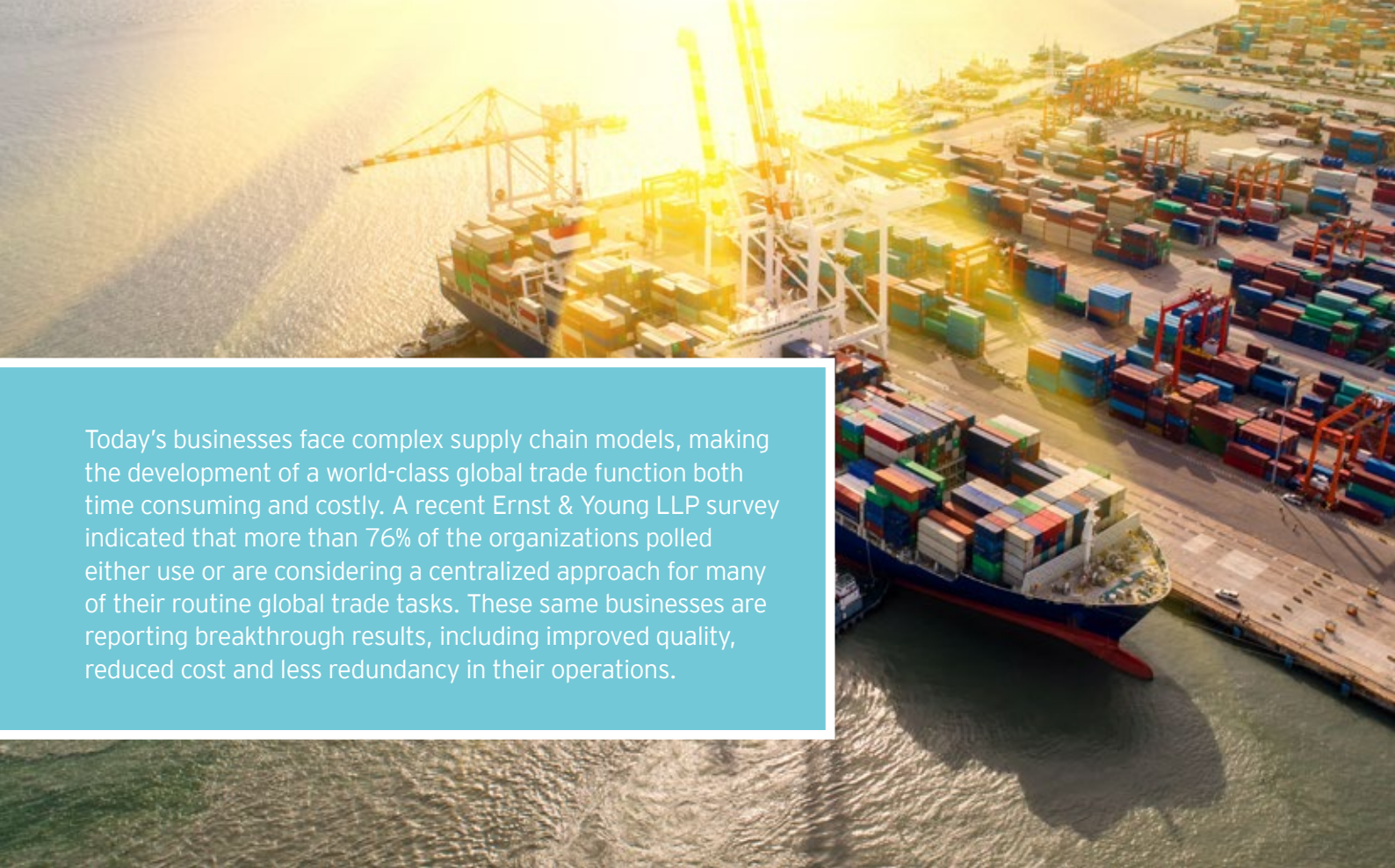
Finally, remote working seems to be less of the exception and more of the norm than we found in previous symposiums. One global trade participant whose group of 25 is limited to 4 on-site and the remaining 21 scattered around the country, commented, “with Skype we are connected all the time and I am not limited to the talent available in my more remote location where it is not always easy to find.”

Retention challenges continue

Retention also requires creative solutions. The primary retention challenge seems to be with team members who feel “siloes” into a particular area of trade. Some companies have experimented with rotating both within their departments and externally to other departments within the company. Such rotations were cited as generally beneficial for elevating trade and compliance in the company.

Cross-training, particularly across departments and other functions in the company, was cited as a way to encourage retention by providing varied skill sets and experiences.

Global trade leaders also emphasized the importance of succession planning and reported it as a more focused priority than earlier symposiums with the expectation that additional emphasis is expected in the future. Global trade leaders believe that succession planning aids in retention by informing employees of career paths and potential for development.



Today's businesses face complex supply chain models, making the development of a world-class global trade function both time consuming and costly. A recent Ernst & Young LLP survey indicated that more than 76% of the organizations polled either use or are considering a centralized approach for many of their routine global trade tasks. These same businesses are reporting breakthrough results, including improved quality, reduced cost and less redundancy in their operations.

Use of shared service centers continues to increase

The trend for use of shared service centers (some participants also referred to them as centers of excellence) is increasing with half of survey respondents using one shared service center and many using more than one. Many of the global trade executives have more than one shared service center citing the need for 24/7, "follow-the-sun" resources and real-time responses. While multiple global trade executives reported use of shared service centers in India, no one location seems to be predominant, with global trade executives indicating shared service centers existed in countries including Costa Rica, Malaysia, Mexico, Poland and the US. The survey revealed a mix of internally and externally managed shared service centers, and some companies are employing both models.

The primary objective reported for using shared service centers remains cost and efficiency, and additional benefits cited included process discipline and accuracy.

Every participant indicated use of a shared service center in at least one area of global trade. Primary uses continue to be classification (import and export), FTA solicitation and eligibility analysis, and restricted party screening, with increased use in the areas of entry processing, post-entry monitoring and

data mining/analysis. A few global trade executives reported exploring expanding shared service center responsibility to OGA requirements management, but noted that significant training is required and regional, as well as local, knowledge is critical. One global trade participant reported that the company added risk assessment to its shared service center responsibilities, but has found that it is best handled at a regional level as opposed to at the global level.

Reliance on shared service centers allows for freeing up of much-needed resources in a time of disruption

Global trade executives unanimously agreed on the added benefit of a shared service center – freeing up of resources. Specifically, they recognize that moving operational, repetitive and, in some cases, routine aspects of global trade to shared service centers, frees up time for global trade leaders and their departments to focus on disruption and to be better positioned to be a value-add department. This movement is facilitating a true paradigm "shift" in the global trade function, enabling "trade to run in the background" in a compliant and efficient manner, allowing the rest of the function to focus on strategy, exceptions and what really matters most to the company.

Our point of view

Global trade executives recognize the need to be purposeful about resources and the need for creativity for retention. Turnover is disruptive to a global trade department, and global trade executives recognize that hiring and retraining new staff diverts time, attention and already stretched resources from value-added activities. Global trade executives are progressing by providing staff with varied opportunities to appropriately challenge and reward staff to reduce attrition. They are recognizing that the next generation of global trade professionals will need to be willing to take on additional skill sets in the areas of accounting, legal, tax and transfer pricing. While we think these varied skill sets will assist with retention, this movement will also require more cross-training to be effective and rotations to other areas of the organization can help fulfill these experiences. We anticipate the next generation will include more professionals with IT and other innovative backgrounds to enable global trade functions to make progress with automating and taking advantage of AI and RPA in particular. The continued increase in virtual setups is likely as it is providing benefits in the recruitment of talent and retention.

Global trade executives are leveraging the value offered in moving certain functions to shared service centers and are expanding the service areas. This continuing trend has enabled global trade professionals to move many of the operational tasks to the shared service centers, freeing up resources for the more strategic value-added activities, which currently consist of responding to and managing disruption. We agree with this trend and think it will continue to grow. We expect additional services to be managed by shared service centers such as post-entry monitoring and data analytics and as global trade functions are able to focus on incorporating some of the next technology trends such as RPA and AI, shared service centers will become even more efficient and global.

Continued connectivity and the increased emphasis on advocacy

The impact of trade policies has a significant effect on supply chain costs and efficiency, which has made policy involvement an essential focus point for trade executives. Over 80% of the participating executives proactively engaged in influencing trade policy either directly or indirectly (e.g., through a trade organization).

Global trade executives agreed that recent events have heightened the awareness of the trade function and increased the frequency of interaction with the C-level and other functions within the company. Further, global trade executives recognized that to be successful in communicating, an enhanced seat at the table is required. Enhanced took on multiple meanings but requires a new and improved approach, including short, crisp messaging and potentially leveraging both internal and external policy resources.

Executive-level communication

Whereas global trade executives previously may have been viewed as advisors on trade technical topics, they are being relied on by very senior levels within the company to advise on significant business decisions. One global trade executive commented, "I have had to transform myself from being a technical expert on complex trade rules to a person who every day is informing management on something new that comes out of the press, much of which could have a real commercial impact on our business. As an example, whereas my C-suite executives generally understood that tariffs are generally 2.5% on average, the landscape is changing and we have to reeducate them to understand the implications not



only of NAFTA but the other protectionist policies. These all may have significant financial implications on the business.” However, global trade executives collectively agreed and reiterated that it is very difficult to provide meaningful and actionable input to executives without adequate details and given all of the unknowns. “There are way too many unknowns” – the challenge to global trade executives is heightened.

Global trade executives realize that C-suite management wants the executive summary, thus messages have to be clear and crisp to impart enough knowledge while providing meaningful input. Given the current complexity, consolidating messages into an executive summary is becoming increasingly difficult. Global trade executives commented that the best way to get the attention of the C-suite is with numbers and data together with qualitative interpretation of that data, again reemphasizing the need for reliable data and the importance of messaging in terms of cost/benefit.

While not the norm, some of the global trade executives continue to report that it remains possible for trade to be left behind. However, because the stakes are higher, most global trade executives are finding this to be the exception and reported significant advancements in this area.

Keeping the business informed

Global trade executives also reported more frequent and in-depth interaction with other functions such as finance, legal, sourcing, supply chain and, in some cases, almost daily interaction. This seems to be another new norm on which global trade executives agreed. One global trade professional indicated that one question per month from sourcing was the norm, but is now faced with dozens of questions from dozens of sourcing professionals daily. In addition, questions are not only coming from US sources, but this particular global trade professional is being hit with questions from all over the globe – colleagues are just trying to understand impact on costs and sourcing decisions. “I’m just overwhelmed with costing and modeling these different scenarios – we are getting flooded with questions from internal folks and I just don’t have the resources to tackle all of it.”

Another area where global trade executives felt they needed improvement was reporting back to the business timely. This was particularly relevant for the larger, global companies where navigating through the organization and determining affected stakeholders can be time-consuming and challenging.

Internal policy advocacy

Global trade executives agreed that companies are trending toward having people in key policy cities that are engaged and knowledgeable in trade-related matters. Policy people are not always internal; not always specific to trade, but global trade executives agreed that this is the new norm and do not see a change given the current landscape.

One global trade professional reported having a resource located in Washington, DC, whose role was to stay abreast of legislative changes and subsequently added three people in other non-US cities to monitor changes at a global level.

Global trade executives report the need for structure and discipline to find out what the company is doing - "we are always playing catch-up." One global trade executive created a position with the sole purpose of gathering "intel" from other functions and reporting back to the global trade team. This executive indicated, "the world is in constant motion and we have to stay engaged and we established a creative way to get a needed resource."

External policy advocacy

Disruption is resulting in a real need for external advocacy, and trade executives are incorporating a variety of models. All global trade executives reported an increased participation in cross-industry collaboration, with 80% indicating the use of trade organizations, sometimes in collaboration with internal lobbying/government affairs efforts. The primary objective for the cross-industry collaboration is for maintaining anonymity; not wanting to be the trailblazers or the target of media/political attention. At the same time, cross-industry collaboration allows for a forum to share ideas, in many cases with competitors, who are becoming "partners" given

the times, leveraging similarities based on industry, trading partners and trade objectives. Global trade executives pointed out that such external advocacy results in a larger, unified voice, which has proven beneficial to engage with policymakers.

Global trade executives are also leveraging trade associations for external advocacy, but caution that they are not always effective as they often advocate singular positions for a group and fall short of what is beneficial for a particular company, often not addressing positions that may be at odds or controversial among members.

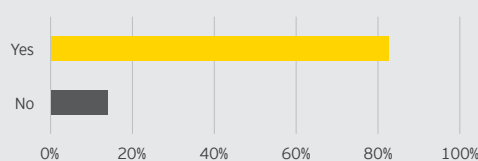
In sum, global trade executives agreed on the benefits of external advocacy. They stressed the importance of having models and data up front to prioritize issues for advocating and where to dedicate resources.

Educating the regulators

Educating the regulators was another topic that global trade executives mentioned as time-consuming and challenging, as well as putting pressure on resources. One global trade executive reported limited success in terms of educating the administration on the complexity of global trade, how truly "made in world" products have become. Further, the group agreed that the education process is slow given the abundance of different trading models and sourcing patterns even within one industry - no two companies are the same; each brings a unique set of circumstances.

Ultimately, global trade executives questioned the best way to provide this education and did not really come to a consensus other than agreeing that effort is required and it will be a slow process - this area is still little-known to the broader community.

Our company actively participates in activities to influence trade policy directly or indirectly (e.g., through a trade association):



Our point of view

Global trade executives have dedicated significant time and resources over time to developing meaningful communication protocols and reporting tools with executives and other areas of the business. However, the current disruption in global trade is increasing the frequency and, in many cases, the significance of the communications, resulting in added pressures on global trade departments. The best-prepared functions are those that know their global trading flows and transaction structures and have data readily available.

We think those functions that are effectively able to leverage both internal and external advocacy resources will benefit in both the short- and long-term with not only a unified message with which to approach the regulators, but also increased visibility to information that can be used to bolster messages when communicating internally to executives and other stakeholders. The better equipped other areas of the company are with global trade knowledge, the more beneficial they are to global trade functions.



Concluding thoughts

How would you describe your global trade function in terms of trade disruption readiness? Can it be best characterized as a caterpillar, chrysalis or butterfly?

Looking ahead – keep calm and trade on

Global trade is at the forefront of current disruption. It is difficult to predict how long the added attention to trade will continue with trade remedies, retaliation and even trade wars making headlines on a daily basis. For now, global trade executives are faced with the added pressures of being prepared to manage and respond to disruption while at the same time continuing to move goods cross-border in a compliant, efficient and cost-effective manner.

Today's global trade executives are:

- ▶ **Taking measures to be more agile.** C-suite management continues to rely on global trade teams to be prepared such that when movement occurs, whether it be the publication of one of the trade remedy lists or the outcome of NAFTA renegotiation to become final, the trade team can quickly provide commentary on where to source, the impact on contracts, and any additional costs, etc. Trade professionals must know so much more than the historical requirements of “how to classify,” “what is the origin,” and “how to properly value the goods.” Trade professionals must know implications of trade remedies and tax reform and be in a position to influence legislation, where relevant.
- ▶ **Securing their seat at the table to provide input for executives into strategy.** Global trade executives find themselves shifting from being technical experts to advisors. Global trade executives are being called upon to identify, monitor and analyze both external and internal events to be in a position to provide meaningful strategic input into business decisions.
- ▶ **Strongly engaged in advocacy both internally and externally.** The enhanced focus on external advocacy is a new trend with global trade executives who are leveraging trade associations and collaborating cross-industry much more than in the past. Drawing upon internal advocacy resources in the US and globally is also on the rise.

▶ **Focused on data but behind on innovation.**

Data continues to be imperative for global trade executives to be successful in responding to disruption. Data analytics are needed to model options, influence business decisions and develop policy. While global trade executives are following the next phase in technology including RPA and AI, time and resources are stretched requiring sacrifices in the area of innovation. The challenges with technology continue to be finding resources and developing a strong return on investment.

- ▶ **Transforming their talent model.** Transformation is resulting in the need for redirecting resources at the expense of other initiatives and, in many cases, is requiring a different type of resource. Global trade functions that are successfully managing through the disruption have nimble teams and recognize that a few steps backward may be necessary to then move ahead. Leading-class global trade functions are relying on multiple sources for obtaining talent, including, rotations, internships and cross training. Creative solutions for retention and succession planning are also aiding in the transformation. In addition, the functions have also transitioned some of the more operational, compliance tasks to shared service centers or other talent models, thus freeing up resources to focus on responding to disruption, strategy and other value-added activities.

Even though 2018 has been a volatile year for global trade, it appears that 2019 may be just as volatile. The continued support of global trade functions for providing input into corporate strategy is thus likely to remain a necessity.

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