



10+2: ADDING IT UP

- ▶ Navigating the Proposed New Customs Importer Security Filing

The proposed Customs Importer Security Filing regulation requires extensive additional data capture and reporting. Non-compliance carries stiff penalties. An on-demand platform connecting all of the many players is key to success.

U.S. Customs and Border Protection (CBP) has proposed a new security filing rule for ocean cargo in response to the regulations for advance electronic shipping data in the SAFE Port Act of 2006.

While the rule has not yet been finalized, it is expected to require that importers or their designated agents will have to file ten additional data elements (identifying in detail the manufacturer, consolidator, buyer, and receiver of goods) 24 hours prior to vessel lading at the foreign seaport.

In addition, carriers must file detailed stowage plans within 48 hours of vessel departure from the port of origin and submit container status messages on an ongoing basis. This combination of ten additional importer data elements and two additional carrier data sets is the source of the widely-used shorthand term for the rule: 10+2.

For importers, the initiative is fraught with risk. Proposed penalties for non-compliance are severe, including liquidated damages equal to the value of the merchandise, possible refusal to allow the containers to be loaded at the origin port or unloaded at the destination, or significant (and expensive) inspection-related delays at the destination.

Importer Requirements: 10 Data Elements

1. Manufacturer name and address
2. Seller name and address
3. Container stuffing location
4. Consolidator (stuffer) name and address
5. Buyer name and address
6. Ship to name and address
7. Importer of record number
8. Consignee number
9. Country of origin of goods
10. Commodity HTS number (6 digit)

Carrier Requirements: 2 Data Sets

1. Vessel stow plan
2. Container status messages

“Many companies that depend on imported trade have voiced strong concerns that the new rulemaking will add significant cost and slow down their supply chains because of the extra time needed to collect all the required data from foreign suppliers.”

Eric Kulisch
“10+2=\$\$\$”, American Shipper, March, 2008

The Importer's Challenge

The 10+2 rule has far-reaching implications for supply chain operations, inventory carrying costs, and the overall cost and risk of doing business. This is particularly true for companies operating with sourcing locations and trading partners spread across the globe. Data vulnerability has been an ongoing issue for importers. 10+2 will require increased transparency, accuracy and timeliness of documentation of trade transactions.

The difficulty for importers is three-fold: It is very hard to get accurate data, to get all of the data needed, and to do both at the right time.

Accuracy: The definitions in the new ruling of some of the data elements currently captured on entry documents (e.g., manufacturer information, Country of Origin of goods) are different from those in current rules. For example, in the entry summary, the MID number is sufficient manufacturer information, but in the new Importer Security Filing, the complete name and address of the manufacturer will be required. Further, accurate product genealogy is difficult to track and therefore, the accuracy of such data elements can be questionable from a customs compliance standpoint.

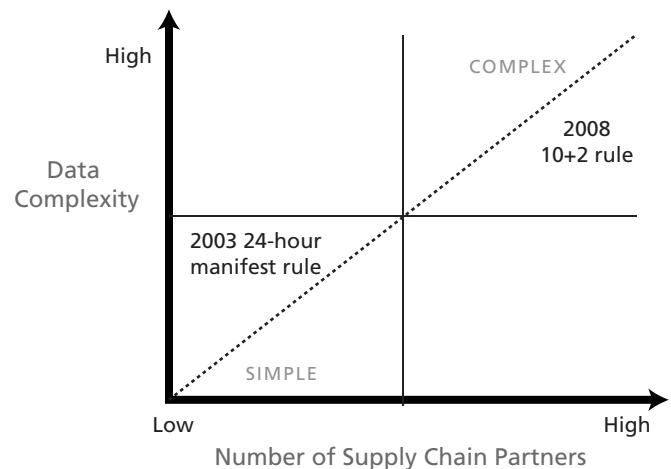
Completeness: A number of the ten required data elements are not captured at all in the current entry and trade documents (e.g., Container stuffing location, Consolidator (stuffer) name and address). The new rule will require data that the importers are not capturing today in any customs document.

Timeliness: It is difficult enough to get current entry documents completed in a timely manner now; under the new rule, importers are required to supply additional data elements even earlier in the import transaction — at least 24 hours prior to vessel lading.

While the proposed rule change may be reminiscent of the 24-hour manifest rule of 2003, compliance with the new regulation will be exponentially more difficult: The new 10+2 rule requires more complex data, from many more partners and includes the need to provide updates throughout the importation process.

The onus to do all of this extra work is on the importers, not the carriers, as was the case for 2003 ruling, so importers are right to be concerned about the potential impact of the proposed regulation.

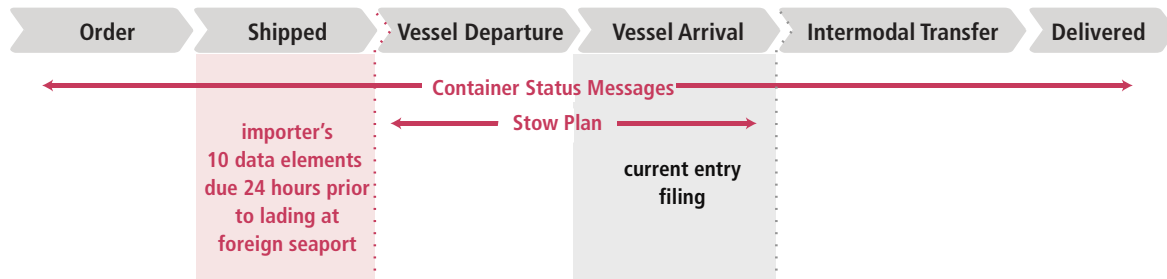
The costs and risks associated with the new requirements are considerable: CBP estimates that the rule will cost industry between \$390 million and \$630 million per year. This may be a dramatic underestimate: A single large manufacturer has estimated that it faces \$300 million dollars in increased inventory carrying costs for each day of delay — and some companies have estimated that the rule could add at least two days to the length of their supply chain, setting back years of supply chain optimization effort.



Complying with 10+2 is more complex than complying with previous regulations

How can importers overcome these daunting obstacles?

Having the right data — and, just as importantly, the right information technology — is the key to meeting the challenges created. The proposed rule is about information — importers and their partners must provide all of the required data, accurately and on time. There are two sides to this challenge: Collecting the required information and making proper use of it.



The importer's challenge: Provide extensive data before vessel lading

The effort to collect the information, by its nature, extends beyond the four walls of the enterprise. Data must be collected from suppliers, origin 3PLs and possibly other partners, validated for accuracy, and packaged in a form acceptable to CBP.

While companies can, in theory, create new connections with each of their partners to collect the required data, the cost and effort required would be enormous. Solutions provided by partners, such as 3PLs, can be very helpful, but typically only span a small subset of all of the partners involved in an extended global supply chain — and most large importers work with multiple partners, each with their own, incompatible systems.

Once a company has collected all of the required information, how can it use that information to minimize the costs and risks associated with the 10+2 regulation — and can it go beyond regulatory compliance to leverage that information to create the agility needed to recognize and react to the inevitable supply chain glitches that crop up from time to time?

Is there a technology capable of answering these questions in the affirmative? If so, what must that technology be able to do? The answer to these questions has three parts.

First, the technology must be able to connect / bring together all of the parties providing or using information required for the filing, including manufacturers, the importers themselves, and their origin consolidators. These connections must be made in such a way that the data the parties are exchanging has the same meaning for each of them; that is, the data must be harmonized so that there is semantic consistency across the board.

Second, these connections must be economical, fast and easy to deploy, as large importers can have thousands of suppliers and the average retail supplier churn rate has been estimated at 40% annually.

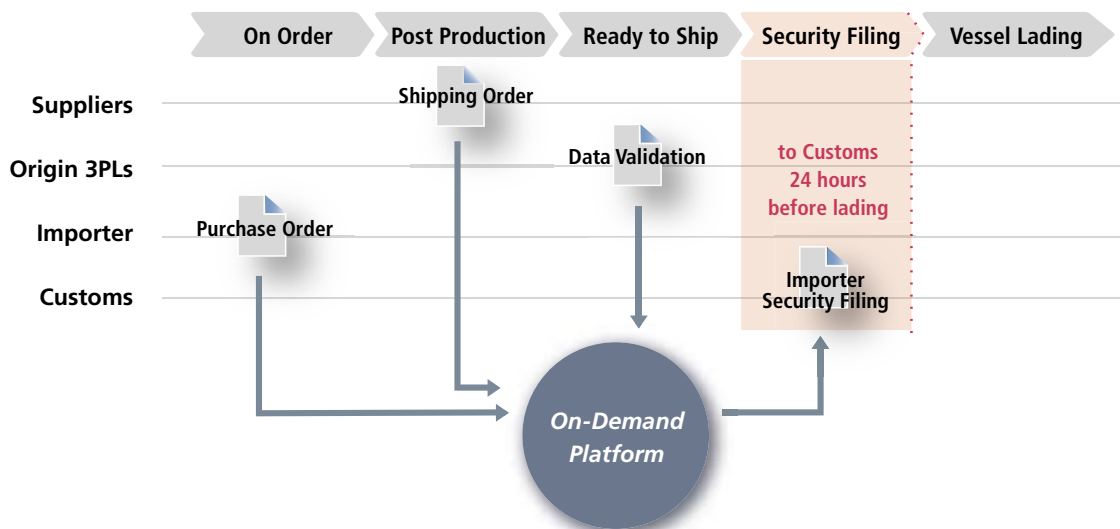
Third, once the connections have been made among all of the relevant parties, the technology platform should add value — perhaps even pay for itself — by supplying the functionality necessary to use all of the information that has been gathered to comply with regulations to provide supply chain operating capabilities. Because the information needed for the security filing is much of the same information companies need to get better visibility into their supply chains, it can be used to enhance their ability to minimize inventory carrying costs, to respond to supply chain disruptions, and to increase the efficiency of their sourcing processes.

These capabilities can cut costs by identifying red and yellow flags before they become red and increasing efficiency by proactively monitoring supply chain exceptions. More strategically, they can, with a quick partner onboarding process, make the supply chain nimbler and more capable of responding to the inevitable shocks and surprises of international trade.

Is there any way to actually implement a technology capable of doing these things? Fortunately, the answer is, “yes.” There is a technology solution that hits each of these points squarely and does so in a way that is relatively low cost, low risk, and quick to implement: The solution, the right kind of technology, is an on-demand platform based on an integrated network of suppliers, shippers, 3PLs, brokers, and other partners.

Advantages of the on-demand, network-based model

- The on-demand web-based/hosted model means that you can implement a solution quickly and that all of the technology risk associated with that solution is borne by the provider, rather than by your own organization
- A collaborative platform means that the system inherently extends beyond the four walls of your enterprise to connect you with your partners, wherever in the world they are
- The battle-tested business logic provided by a well-proven trade and logistics operating platform means that you have the tools to spot exceptions, determine optimal responses, and implement them in real time
- Electronic document repositories and automated mechanisms to ensure regulatory compliance increase the accuracy of filings, reducing the risk of costly errors



An on-demand platform spans the import process in both time and space

The proposed Importer Security Filing regulation will impose significant and potentially costly new requirements on importers. However, with the right systems in place, companies can minimize their costs and risks and may even find that the business process changes they have made to comply with the regulation provide them with information they can use to increase the efficiency of their supply chains, boosting their bottom lines.

The silver lining of the new regulation is that forward- thinking importers can easily offset the additional cost of doing business (10+2 compliance) by increasing the efficiency of their import operations by utilizing the right technology platform.

A technology platform that can not only ensure compliance with 10+2 but can also provide complete visibility, transparency and control over the global supply chain has enormous operational, not only regulatory, benefits. Such a system can improve overall in-transit inventory management processes, thereby reducing cycle times, improving predictability of supply, reducing overall inventory carrying costs and increasing profitability. The inventory control and documentation transparency provided by such supply chain operating platforms can help companies tighten-up their overall import processes to ensure proper inventory tracking and control from source to consumption point, while ensuring compliance on security (10+2), customs and CSR initiatives at the same time.

The technology to do all of this exists today and is creating competitive advantage for leading companies throughout the world.



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