Thriving amid trade disruption in the Americas

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Contents

Introduction 3
Common challenges in a not-so-common region 4
Trade compliance disruption: a country-by-country view 4
The Deloitte advantage 8
Global Trade Management 8
For more information, please contact: 9
Introduction

Companies engaged in global trade have long faced a maze of complex regulations that require close scrutiny of import and export processes across their supply chains to determine compliance with local requirements. In response, leading organizations implemented global trade compliance programs to reduce risk, optimize trade operations, and improve their bottom line.

With new tariff measures, shifting trade agreements, and tighter government audits—not to mention the emergence of innovative technologies and the rise of shared services initiatives—importers and exporters are moving beyond traditional compliance programs. Embracing the disruption, they are transitioning trade compliance from a cost center to a value driver.

A focus on improving trade compliance is not an entirely new phenomenon. Trade compliance professionals have stressed the importance of better trade facilitation and modernization for years. However today’s volatile and intensifying environment of trade measures and policies is heightening the need for companies to change in order to thrive, not just survive.

Indeed, today, complacency is the enemy. Structures that sufficed a few years ago no longer meet compliance and business goals. Companies now see opportunities to manage more effectively the complex web of data, documentation, and inspection procedures required at the border. The inefficiencies embedded in historical practices are especially gaining attention as border agencies implement the World Trade Organization (WTO) Trade Facilitation Agreement to streamline border procedures and harness the power of automation.

At the same time, many companies’ trade compliance programs and structures lack the flexibility to react agilely to disruption, which often results in a fire-fighting approach to trade compliance. Instead of a targeted plan, many companies respond in an ad hoc manner due to limitations of their organizational structure, localized processes, or rigid IT systems. Changing to a more proactive approach is a rising necessity.

While disruption—and the resulting efforts to transform—are taking place all over the world, we will focus this perspective on the Americas region, which presents a mosaic of trade compliance issues that demonstrate the challenges importers and exporters face across countries, especially in turbulent times.
Common challenges in a not-so-common region

Disruption in the Americas region is teaching governments and companies alike that a focus on data and process is necessary, but is not fully sufficient for today’s realities. For example, unnecessary data and process redundancies—which might have been considered a minor nuisance in the past—can present significant barriers to responding to tariff escalations and optimizing duty savings programs. Resulting errors can have a substantial effect on business operations.

As has long been the case, government audits and enforcement are common drivers for change. However today, companies should look beyond the threat of enforcement actions and harness the opportunity presented by disruption to realize that a more integrated operating model not only allows for easier adaptation to a changing regulatory trade landscape, but also positions companies to create efficiencies and opportunities in other areas.

Overall, in the Americas, disruption is creating awareness and urgency around the importance of optimizing trade compliance structures, processes, and technology. In particular, disruption is prompting companies to consider:

- next generation technology to assess and manage global trade environment volatility;
- experienced resources to proactively monitor and influence changes made by customs authorities and to respond accordingly; and
- effective governance models that define accountability and decision making to align trade compliance program initiatives with the company’s business strategy and direction.

A major disruptor—automation enabled by emerging technologies—is re-shaping the relationship between regulators and the trade community in the Americas. Cross-border operations are complex and require involvement from multiple parties. Data visibility and collaboration can enhance cooperation among parties to manage border programs. On the flip side, governments that take a more hard-line approach to enforcement and penalties can use the newfound tools and information to detect non-compliance and generate revenue through audits and penalties. Whether automation is viewed as a collaboration tool or a penalty stick, the bottom line is that the status quo is not an option. Companies, now more than ever, need to adjust.

As single-window systems and facilitation programs in the region expand and governments put in place regulations to support them, we can expect trade compliance to become more tightly integrated with other business processes, which creates the need for alignment and efficiency to drive value beyond trade compliance.

While these opportunities—and challenges—are common in countries across the Americas and are driving companies doing business here to transform, it is also important to consider the country-specific priorities in this multi-dimensional region. We will now examine the many pressing issues by country.

Trade compliance disruption: A country-by-country view

As we examined the issues facing countries in the Americas region, we assessed the level of disruption of a common set of drivers of change in each country, including:

- pace of customs regulatory changes;
- customs automation initiatives;
- customs modernization initiatives;
- customs audit activity;
- political uncertainty;
- trade measures; and
- new technologies (Robotic Process Automation [RPA], blockchain, etc.).

Not surprisingly, given the diversity of countries in North, Central, and South America, these issues varied greatly in importance and impact across the region. Let’s take a look at each country’s perspectives on these disruptive forces.
Argentina

In the short term (over the next one to two years), political uncertainty is an important factor as companies in Argentina consider trade compliance. The current economic downturn and devaluation of the peso could result in more protectionism, which has consequences for how companies think about their imports, exports, and investments. Unlike countries in North America, the ongoing US tariff discussions are not the primary concern.

At the same time, automation and modernization are specific disruptors that require close oversight and management. Many companies rely on brokers for compliance in this area, a trend that is likely to continue as automation matures, especially as the Argentine government aligns with the WTO Trade Facilitation Agreement. The movement toward single-window systems is also resulting in more automation and the reduction of hard-copy/paper submissions.

In response, companies have the opportunity to employ innovative technologies like RPA to manage the interface between their systems and web-based government systems.

Brazil

Historically, importers and exporters in Brazil, like those in many Latin American countries, have often operated in “firefighting mode,” responding reactively rather than proactively to authorities’ mandates. That approach is likely to continue in both the short term and long term as governments increase the pace of regulatory changes and automation requirements. However, companies will begin to look for ways to realize additional value from the technologies they implement in response to the mandates.

Two of the many pressing issues for importers and exporters in Brazil over the next one to two years are increased government audit activity and customs modernization, particularly through the Authorized Economic Operator program. While imports and exports have long been performed electronically in Brazil, single-window systems—which allow many agencies to access real-time cross-border information—are new. This requires further modernization to existing automated systems, which differs from other countries that are not as far along in implementing electronic solutions.

Brazilian tax authorities, driven by increased revenue collection and improved audit procedures, are becoming more technologically well-informed and have sped up the pace of customs regulatory changes. As they are continually thinking of new ways to collect taxes and improve audit processes, the outlook is for increased automation and modernization to continue over the next three to five years.

Canada

In the short term, Canada faces uncertainty around trade. Authorities and companies are looking closely at what they have learned from various trade measures in the past and are seeing the need for increased visibility as a result. Historically, in Canada, many imports were duty free. However, now, customs issues are at the forefront. Companies are thinking about securing their supply chains and how to process the increasing volatility related to customs duties, while keeping a close eye on the associated costs and risks.

Increasingly, Canadian companies are realizing that action should be taken. Companies are considering new strategies and technologies to respond to uncertain trade measures. At the same time, they are looking to embrace automated solutions as many other countries in the Americas region have done for many years. Indeed, Canadian companies have, overall, been rather conservative in adopting new technologies, even as the programs of the Canada Border Services Agency have grown increasingly sophisticated. That approach is expected to evolve over the next few years as Canadian importers and exporters more actively implement and leverage innovative technologies.

Colombia

As is the case in many other countries, customs automation and modernization initiatives top the list of disruptors for importers and exporters in Colombia, for both the short and long terms. Unlike many countries in which the government is further along than companies in their automation and modernization efforts, Colombian companies and government agencies are both working to understand and adapt to the need for elevated trade compliance and the resulting technological changes required.
Those changes, however, are not progressing rapidly. In 2016, Colombia began to replace its legacy, circa-1999 Customs code with a new code that is taking effect in stages and is currently approximately 20 percent implemented. Some provisions were easy to implement; others were found to be more difficult to implement and may require further regulation. Many of the changes required the government to develop new IT systems, which has often resulted in delays. In fact, an IT system that was targeted to go live in March 2018 is not yet in place.

As a result, regulations in Colombia remain unclear as of now. New regulations are expected in November 2019, and some traditional duty deferral regimes are changing in the meantime. Because trade compliance is currently uncertain, many companies remain reactive to tax authority changes, even as they understand that future regulations will have a significant impact on their processes, duty deferral programs, and systems.

Ecuador is focused on negotiating and implementing bilateral and multilateral trade agreements, including the Multiparty Trade Agreement with the European Union (signed in 2017), which provides for immediate duty free trade for 99.7% of Ecuador’s agricultural exports and 100% of its industrialized product exports. Ecuador expects trade negotiations to be initiated with the United States, Ecuador’s main trading partner, in the coming years.

At the same time, the Customs Administration is making significant changes to its organizational structure and processes in order to elevate the skills and technology to drive efficiency. More audits focused on customs classifications, customs value, and related party transactions are expected as a result of the new capabilities.

Guatemala has been working to automate its import/export filing processes since 2000. Guatemala has joined efforts with other Central American countries to lead automation efforts in the region.

Despite the government’s efforts to embrace automation, many companies in Guatemala have lagged in implementation. Many of them are not prepared to manage the new processes or technology required to adapt. It is clear that modernization efforts and automation will require a more disciplined approach in the future with more data, better information, and improved processes.

Also, audits are likely to be a bigger disruptor in the future as the authorities start to audit in the new environment when they begin to realize increased visibility with more information.

Like other countries in North America, an important trade-related issue for Mexico in the short term relates to uncertain trade measures. Mexican government agencies and importers/exporters are learning to become more proactive in enforcement and market opportunities, respectively, in response to the current environment. Government agencies are finding new value in the data they collect and companies are learning how to protect and open markets to their advantage.

Until recently, companies were more reactive to government measures. Now, they are learning that, if they are more proactive, they can better manage duties and penalty exposure. Proactive planning and keeping pace with the current trade environment will become more important as companies face uncertainty with a new administration and the potential transition from the North American Free Trade Agreement to the United States-Mexico-Canada Agreement.

Costa Rica

Customs authorities see revenue as a driver of the country’s larger tax reform initiative, and are thus focusing on audits to uncover additional revenue.

The audits are taking place across the three specialized Customs departments in Costa Rica: valuation, classification, and trade agreements. Customs authorities, in the short term, are focusing on royalties, license fees, and other additional payments associated with imports that have the potential to generate revenue.

As in many other countries, government mandates are driving compliance. Importers and exporters recognize that improved automation is required to keep pace with the regulations and regional initiatives.

Mexico

Like other countries in North America, an important trade-related issue for Mexico in the short term relates to uncertain trade measures. Mexican government agencies and importers/exporters are learning to become more proactive in enforcement and market opportunities, respectively, in response to the current environment. Government agencies are finding new value in the data they collect and companies are learning how to protect and open markets to their advantage.

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In the longer term, automation will be an important disruptor for trade compliance in Mexico and this is not expected to change with the local political environment.

Another disruptive factor in Mexico in both the short and long term is audit activity, which continues to be intensive. This risk is fairly well understood by importers.

Tariffs and the renegotiation of trade relationships are currently dominating US trade discussions and are the top disruptive force for US importers and exporters in the short term. Companies are working assiduously to understand, manage, and plan for current and expected changes resulting from the various tariff and trade measures.

From the perspective of the government, automation is a top priority in both the short and long term. US Customs and Border Protection (CBP) is actively engaging the trade in conversations about technology, especially blockchain. The US already has automated systems to file imports/exports and is now looking to advance that technology to manage those systems more efficiently and effectively.

E-commerce is also a priority for CBP, as the amount of e-commerce shipments has grown considerably over the past few years. This increase not only strains CBP resources without providing much revenue, but it could also pose security concerns due to special provisions for small shipments. E-commerce goods are often shipped through different types of supply chains than traditional goods. CBP is working to better understand those supply chains and how to regulate them.

Overall, in the US, CBP is in “enforcement mode” and is actively auditing imports, which will likely continue over the next few years.
The Deloitte advantage

Deloitte’s Global Trade Advisory (GTA) practice helps businesses in the Americas and around the world establish international business strategies designed to manage costs and trade regulatory requirements while leveraging innovative technology solutions. As we help clients to thrive—not just survive—in an age of uncertainty and disruption around trade, we advise importers and exporters on big-picture services like business model transformation and supply chain optimization. We also advise on day-to-day issues involving regulatory compliance, duties and taxes, penalties, and the consequences of non-compliance.

We have created and continue to refine our Capability Maturity Model, which outlines trade management practices across different levels of maturity. The model helps importers and exporters understand where their trade compliance programs and countries with which they do business—stand in relation to global standards, policies, processes, and execution.

The following figure lays out the model, with descriptions of scaling levels of trade management practices, from traditional, to emerging, to leading, and, ultimately, to premiere.
Deloitte has a proven track record of not only delivering GTA services to clients across the region, but of also being a leader in technology implementation—and in weaving technology into business processes. Our presence in countries across the Americas is supported by practices that infuse new ideas and support technology implementations to respond to government mandates for automation and modernization. These efforts also lay the groundwork for business model transformation and supply chain optimization.

To learn more about our GTA services, visit our website.

For more information, please contact:

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