

## **10+2 Readiness... Beware! It's strategic, not tactical...**

By Matt Gersper

As president of Global Data Mining, I have the opportunity to speak daily with a broad range of clients from many diverse industries, all involved in international trade.

On January 2, 2008, US Customs & Border Protection (CBP) published in the Federal Register a notice of proposed rulemaking for Importer Security Filing and Additional Carrier Requirements, commonly known as "10+2". Since then, I've watched companies react to 10+2 in three distinct ways.

A very small minority of our clients have responded by funding a cross-functional team to study the issue and develop an enterprise-wide strategic solution to meet the new requirements and optimize global trade business processes while they are at it. These best-in-class companies are way ahead of the 10+2 curve.

I have noticed the remaining companies seem to fall into one of two groups. There are companies heading full speed for a cliff and completely unaware of it... and there are companies heading full speed for the same cliff, but at least they are aware of it.

The "aware" group has a chance to use this dramatic change in customs regulations as a catalyst for process improvement and to remain competitive with the best-in-class group. I fear any companies that remain unaware will suffer mightily when 10+2 goes into effect.

The reason even "aware" companies are heading towards disaster is while their leadership may be alert to the newly proposed customs regulations; they mistakenly believe it can be managed tactically by their trade compliance department when in actuality it will require an enterprise-wide strategic solution.

It is important for senior management of US importers to understand the significant impact 10+2 can bring to their companies and develop an enterprise-wide strategy to prepare for it!

Let me explain.

CBP is proposing to require your company to transmit an Importer Security Filing twenty-four hours prior to loading a U.S. bound vessel. The filing must contain 10 data elements including 3 new data elements not currently required for US bound imports. The existing 7 data elements will need to be reported a lot sooner in your supply chain than is required today. This is not a small change. It will require a considerable re-engineering of corporate processes and systems.

These are the data elements that will be required, their typical source and responsible parties:

| Data Element                            |     | Source                   | Responsible Party  |
|-----------------------------------------|-----|--------------------------|--------------------|
| Manufacturer name and address           |     | Procurement/Sourcing     | Importer           |
| Seller name and address                 | New | Procurement/Sourcing     | Importer           |
| Buyer name and address                  |     | Procurement/Sourcing     | Importer           |
| Ship to name and address                |     | Procurement/Sourcing     | Importer           |
| Container stuffing location             | New | Supplier/Forwarder       | Supplier/Forwarder |
| Consolidator (stuffer) name and address | New | Supplier/Forwarder       | Supplier/Forwarder |
| Importer of record number               |     | Trade Compliance/ Import | Importer           |
| Consignee number(s)                     |     | Trade Compliance/ Import | Importer           |
| Country of origin                       |     | Trade Compliance/ Import | Importer           |
| Commodity HTSUS number                  |     | Trade Compliance/ Import | Importer / Broker  |

Creating an effective solution to the proposed 10+2 regulations is beyond the scope of the trade compliance department. It will require an enterprise-wide, strategic solution. Here are three examples to clarify my point.

Example One: The typical vendor master file in a corporate ERP system defines “Manufacturer” or “Supplier” as the party to which the company makes invoice payments. If a supplier has ten different factories that may fulfill an order, the proposed 10+2 regulations will require the name and address of the actual factory that fulfilled the order. This granularity of data, and the functionality to differentiate at the specific factory level, does not exist in many ERP systems today.

Example Two: One importer I recently spoke with is changing the way his company selects freight forwarders in foreign countries in order to manage the requirements of the *Container stuffing location* and the *Consolidator (stuffer) name and address*. They feel the 10+2 regulations requires a much closer relationship with fewer forwarders to assure all data elements, especially the two mentioned herein, will be accurate and complete in time to transmit the Importer Security Filing.

Example Three: Today, the assignment of the fully qualified Harmonized Tariff number (US-HTS) is frequently made after the generation of the commercial invoice and before the shipment enters a US port. The assignment of the US-HTS is often made manually by a broker. In order to achieve the requirements of 10+2, importers will need to create and maintain a Parts Master File complete with fully qualified US-HTS numbers assigned to every item. This data will need to be integrated into the software that will be used to electronically transmit the Importer Security Filing twenty-four hours prior to loading the U.S. bound vessel.

Each of these examples requires re-thinking and re-engineering current business processes. The scope of these projects extends beyond the responsibility and authority of the trade compliance department as cross-functional participation is required of the

procurement, logistics and information technology departments at a minimum. Some projects will also involve third parties. Executive leadership should take notice. Lack of understanding and funding today may lead to dire consequences tomorrow.

The proposed 10+2 regulations state, “If the principal fails to comply with the proposed Importer Security Filing requirements, the principal and surety (jointly and severally) would pay liquidated damages equal to the value of the merchandise involved in the default”. If you have a \$250,000 shipment that is in violation of the new regulations, you could be fined \$250,000. Furthermore, the prospect of “scrambling” for data at the last minute will slow your supply chain, squander already limited resources, and erode profits from your bottom line.

However, 10+2 can be a hidden opportunity for strategic thinking companies. Optimizing currently inefficient business processes to meet the 10+2 requirements in the most direct, effective manner possible can improve supply chain performance, and potentially deliver a positive return on investment.

More effective management and visibility of additional trade data can:

1. Improve supply chain planning
2. Improve supply chain speed
3. Reduce inventory requirements
4. Improve visibility and controls of international transactions
5. Create competitive advantage

One supply chain study<sup>1</sup> has estimated the cost of each additional day ‘in transit’ is equal to ½ of one percent of the value of goods. Improving supply chain speed by just one day would be worth \$500,000 per year for a company importing \$100 million annually.

I strongly advise executives of companies importing into the US to study the impact the newly released Importer Security Filing Proposal may bring to their companies. Best-in-class companies are funding cross-functional teams to develop a strategic enterprise-wide solution, using 10+2 as a catalyst to optimize currently inefficient processes, and creating competitive advantage in the process. Once you know the terrain, and have a good map of the road, you too can be traveling safely and efficiently down the new 10+2 highway.

**About the Author:** *Matt Gersper, founder and president of Global Data Mining, LLC, has more than 20 years of experience optimizing processes and helping customers turn unorganized data into information managers and executives need to improve performance. He founded a practice for re-engineering and automating business processes for a worldwide leader in recovery auditing. Matt is an enthusiastic contributor to the global trade industry as an author and frequent speaker at industry conferences and events. He can be reached at [mattgersper@gdmlc.com](mailto:mattgersper@gdmlc.com).*

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<sup>1</sup> Time as a trade barrier, David Hummels, Purdue University, July 2001