

# Fines & Delays could hit U.S. Importers Hard in 2010

## 6 tips that can help your company avoid the hardship

By Matt Gersper

Failure to comply with the Importer Security Filing (ISF) regulations could bring financial disaster to unprepared U.S. businesses. There are three major reasons business leaders should assure their companies are compliant and each reason has direct bottom-line impact.

First is the risk of significant penalties for non-compliance. The ISF regulations, commonly referred to as "10+2", state an importer can be fined \$5,000 per filing if an ISF is not timely, complete and accurate. The penalty phase begins January 26, 2010.

This chart shows penalties that could be incurred in just the first 60 days of the penalty phase for 5 companies. Penalties of this magnitude would quickly get a CEO's attention, and could have a devastating impact on any business. You can calculate your potential exposure based on the number of ocean entries you have.

<b>ISF penalties</b>			
	<b>Import Value</b>	<b>Ocean Entries</b>	<b>Potential Risk *</b>
Company 1	\$2,784,000,000	10,969	\$9,140,000
Company 2	\$1,076,000,000	39,111	\$32,592,000
Company 3	\$806,000,000	5,541	\$4,617,000
Company 4	\$104,000,000	1,306	\$1,088,000
Company 5	\$83,000,000	869	\$724,000

\* 2 months of penalties (Jan 26 thru Mar 25, 2010)

The second reason is Custom & Border Protection's (CBP's) renewed commitment to enforcement and revenue collection.

CBP's recently published *Trade Strategy for Fiscal Years 2009-2013* makes clear just how important revenue collection has become to the U.S. Government. Shockingly, CBP's report lists "Enforce US Trade Laws and Collect Accurate Revenue" as its number two strategic goal ahead of "Advance National and Economic Security."

<b>Supply chain delay costs</b>			
	<b>Import Value</b>	<b>Delay Days*</b>	<b>Estimated Cost**</b>
Company 1	\$2,784,000,000	2.8	\$62,361,600
Company 2	\$1,076,000,000	2.8	\$24,102,400
Company 3	\$806,000,000	2.8	\$18,054,400
Company 4	\$104,000,000	2.8	\$2,329,600
Company 5	\$83,000,000	2.8	\$1,859,200

The third reason is the impact supply chain delays could have on your business. A recent study<sup>1</sup> by the National Association of Manufacturers (NAM) estimates the ISF regulation will create a permanent 2.8 day delay in supply chain speed.

This chart applies the cost model of supply chain delays from a Purdue University study<sup>2</sup> and estimates the annual financial impact that would be incurred if these five companies suffered the 2.8 day permanent

<sup>1</sup> Survey of U.S. Companies: Current and Potential Future Impact of the "10+2" Requirements

<sup>2</sup> Purdue study: David Hummels, "Time as a Barrier to Trade," GTAP Working Paper No. 18, 2001. Hummels found that firms pay for timeliness of delivery as if each day saved in shipping time is equivalent to a savings 0.8 percent ad valorem of the value of manufactured goods imports.

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delay estimated by the NAM study. The potential impact of 10+2 is very serious business indeed. Just imagine penalties and supply chains costs of this magnitude suddenly thrust on your bottom line.

While some importers hold out hope that the penalty phase will be postponed by CBP, it is said that hope is not a strategy. “I’d let my CFO know the penalty phase will be going into effect as scheduled and the implications could have tremendous negative impact on the bottom line”, says Beth Peterson, President of BPE ([beth@bpeglobal.com](mailto:beth@bpeglobal.com)). Peterson has been a strong advocate representing the interests of industry to CBP regarding the impact the ISF regulations could have on U.S. businesses.

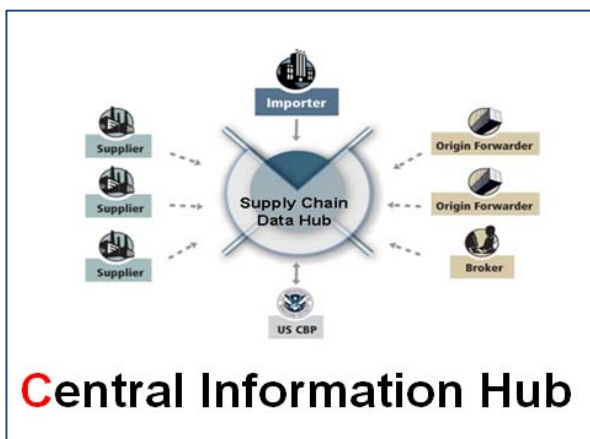
American Shipper, BPE and the International Compliance Professionals Association conducted a research project<sup>3</sup> to understand the current state of ISF compliance, the impact this regulation has (and will have) on the supply chain, the challenges that companies are facing in their attempts to comply with ISF and the best practices importers can leverage to comply with — and ideally benefit from — ISF compliance. Their study revealed 3 of the top 4 challenges importers are having with 10+2 compliance are related to data management.

**HOPE IS  
NOT A  
STRATEGY**

### DATA MANAGEMENT CHALLENGES

- Nearly 60 percent of companies have challenges providing timely ISF data.
- Nearly 40 percent struggle to collect complete ISF data.
- Around 20 percent have problems with the accuracy of the data they are providing.

These are the very three issues causing penalties to be assessed. To make matters even worse, the penalties estimated above could be twice as large since the regulations state fees can be as high as \$10,000 per filing if two or more violations occur. For example, the filing is not timely nor is it complete.



Modern database and workflow applications can dramatically improve a company’s data management efficiency and significantly bolster capacity to achieve ISF compliance. Web-portals or central information hubs allow parties around the world to collaborate and interact online, with the same information through a single platform. Here are six tips that can help you select the right solutions to achieve ISF compliance and improve enterprise-wide data management efficiency.

<sup>3</sup> ISF Benchmark Study: From Concept to Compliance

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1

Your solution should provide a unique and secure state-of-the-art website **accessible worldwide** by any authorized user through the Internet. Your manager should have complete control of multi-party collaboration including the functions any given user may perform, the data any given user may see, and the responsibilities any given user may have based on the unique role each person provides your company.

2

Your solution should provide a database or portal that becomes the system of record or the “**single version of the truth**” for 10+2 and other customs information about every item enterprise-wide. It should include powerful tools for document management and storage. The database should be capable of growth beyond ISF to meet unforeseen business or government requirements that may arise in the future.

3

Your solution should make it easy to **upload data** from any system, from any business unit or supplier around the world. It should provide features to normalize data into one company-wide standard, and functionality for viewing, sorting, filtering and working with data that is easier to use than Excel. It should automatically update the database as tariffs change for different countries at different times around the world.

4

Your solution should easily **integrate** with existing computer systems. It should make it easy to create and manage 10+2 and other data for use by various business applications that require reliable global trade data. Few companies have one single system to manage their entire enterprise. Your solution should be designed as the enterprise-wide database providing accurate trade data to every system that needs it.

5

Your solution should leverage **best-practice functionality** that can drive up productivity. Web-based applications can automatically updates users with the latest enhancements installed since their last login. Your solution should empower your staff and supplier network to create and maintain trade data more efficiently, and enable each person to work dramatically more effectively.

6

Your solution should put **powerful oversight tools** in your hands. It should provide automatic record keeping of the critical data elements created in each step of the workflow in every business unit around the world – helping meet the reasonable care standards of customs agencies. Workflow applications can also be used to establish enterprise-wide process controls, and to measure performance of global trade staff, suppliers or third party service providers.

Applying these six tips will dramatically improve a company’s enterprise-wide data management efficiency, help achieve 10+2 compliance and avoid financial penalties. In fact, 10+2 can be a hidden opportunity for strategic thinking companies. Optimizing currently inefficient data management processes can improve supply chain performance, and deliver a positive return on investment.



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The Purdue Study works in the positive direction also. Improving supply chain speed by just one day would be worth \$800,000 per year for a company importing \$100 million annually.

I strongly advise executives of companies importing into the U.S. to act with urgency. “According to estimates by CBP,” stated Beth Peterson during a recent webinar<sup>4</sup>, “it takes sixty to ninety days to ramp up and be filing correctly but I think this is a very conservative estimate.” 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 business processes, and creating competitive advantage for their company at the same time.

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*CUSTOMS Info and Global Data Mining (CI/GDM) provide enterprise solutions to help businesses optimize Global Trade Management (GTM) systems and streamline global trade automation.*

*CUSTOMS Info provides the World’s most comprehensive trade data repository delivered via web-based subscription or as data to populate any GTM or Landed Cost application. Global Data Mining builds state-of-the-art parts master classification databases to support automation projects and reporting requirements utilizing the proprietary Global Trade Desktop™—a secure, collaborative web-enabled data management system for all trading partners across the globe.*

*No other company focuses more on trade data, HTS classification support and landed cost services than CI/GDM—serving nearly 1000 companies worldwide with our fastest growing segment specializing in international ecommerce automation.*

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<sup>4</sup> ISF Crunch Time: Lessons You Can Apply With 22 Weeks To Go