



cutting through complexity

TRADE & CUSTOMS SERVICES

Compliance, Efficiency, and Growth in Cross- Border Trade

kpmg.com



Meeting the challenges, realizing the benefits of cross-border trade

The benefits of global trade can be immense. However, the process of establishing and maintaining efficient cross-border operations often presents a host of complex challenges for companies. Management must keep costs down to maintain their companies' strategic advantage. At the same time, companies must ensure compliance with local laws and regulations associated with cross-border trade.

These challenges can be overwhelming. Meeting them starts with finding a trade and customs adviser that can provide a new perspective—one that sees beyond the present, and beyond borders, to reduce complexity and help you make sound decisions.

That is the type of adviser multinational companies find in KPMG. Our professionals bring a big-picture perspective to the cross-border trade environment—a perspective that reflects our forward-thinking attitude and global mindset. Now add our extensive knowledge of trade and customs practices around the world and the type of value we can offer clients becomes clear. We have a deep understanding of import and export laws and regulations, the global supply chain, and trade processes and controls that can be customized to a business unit, company, or industry.

This value is built on our understanding that your goods are moving around the globe at a fast pace and that events on the other side of the globe influence your operations and strategy. In response, we offer a wide range of services that can help you reduce costs, improve efficiency, and mitigate risk issues related to conducting cross-border business.

Forward Thinking.

Global Mindset.

Adding Value.



Global understanding. Local knowledge.

Reasons to choose KPMG.

Global Reach. We work closely with Trade & Customs professionals from KPMG International member firms across the world. When addressing complex cross-border issues, we are able to draw upon the local knowledge and experience of a network of more than 260 talented professionals in more than 60 countries.

Depth of Experience. Our Trade & Customs professionals include former U.S. Customs Border Protection (CBP) import specialists and field auditors; former Bureau of Industry and Security personnel; customs brokers and certified customs specialists; professionals with advanced degrees in business, economics, and law; and experienced technology, transportation, and logistics professionals. We have the in-depth background to help you identify trade issues and opportunities as well as implement the processes and approaches to enhance your competitive advantage.

Familiarity with the Regulatory Environment. We have extensive experience in interacting with U.S.

Case Study: *Navigating CBP Audits and Focused Assessments*

One of the world's **largest suppliers of automotive parts and electronics** was notified by CBP of an upcoming Focused Assessment. Without an effective customs compliance structure in place and without a complete understanding of the risks and exposures within the business, there were several issues that could have resulted in millions of dollars in penalties.

KPMG worked with the client to develop a full picture of its compliance environment and assisted in determining an appropriate course of action to mitigate its penalty exposure. At the same time, KPMG worked with the company to develop standard operating procedures and processes to help future compliance with CBP regulations. KPMG's personnel became valued advisors to the client's compliance team, helping to achieve the best possible outcome for the client and a successful conclusion to the Focused Assessment.

and non-U.S. customs authorities and other government agency officials on the application of various trade programs and regulatory requirements.

Multidisciplinary Approach.

We collaborate with KPMG professionals from our audit, tax, and advisory disciplines to provide balanced, holistic planning ideas. We also work closely with KPMG's international tax, supply chain, and transfer pricing professionals to provide robust, well-rounded advice.

Industry Exposure. KPMG professionals have experience working with manufacturers, retailers, and vendors from a wide range of countries. Our clients represent a diverse range of industry sectors, including, among others, aerospace and defense, apparel and textiles, automotive, oil and gas, consumer goods and retail, electronics, pharmaceuticals, and telecommunications.



KPMG's Trade & Customs Services Duty Planning and Cost Savings

Managing costs is key to remaining competitive in the global marketplace. KPMG's professionals apply their experience, training, and impartial perspective to identify and implement programs and procedures that multinationals can use to achieve cost savings in their trade operations. This includes such areas as:

- Assistance with leveraging the First Sale for Export principle
- Assistance with the feasibility and determining the benefits of implementing foreign trade zones (FTZs)
- Preparation of detailed analyses of global trade operations to identify opportunities for cost savings via duty planning and enhanced supply chain efficiency
- Implementation of duty drawback and tariff re-engineering programs

Foreign Trade Zones

Whether a company is looking to establish its first FTZ or wants to assess an existing zone for new savings opportunities, KPMG can help. We have assisted many importers with establishing FTZs and achieving their benefits, including duty elimination, deferral, and reduction, increased supplychain efficiency, and reduced security risk.

Our services cover the entire FTZ implementation and activation process, including:

- Assessing financial and operational feasibility
- Coordinating the FTZ application process to the Foreign-Trade Zones Board and preparing Requests for Activation for submission to CBP
- Developing operational process and procedures manuals and master zone schedules
- Assisting in operational training and compliance reviews

CBP Audits and Inquiries

CBP audits, Focused Assessments (FAs), or even simple inquiries from CBP, can lead to lengthy investigations or even penalties. With our years of experience working with importers, exporters, and CBP, we understand what it takes to manage the audit process and help assessments go as smoothly as possible. This includes:

- Planning for prior disclosure and penalty mitigation
- Assisting in CBP FA preparation, including "mock" FA reviews
- Preparing Quick Response Audit and FTZ audits and spot-checks
- Assisting with CBP Requests (CF28) responses
- Drafting policies, procedures, and internal controls

- Providing training to members of your company that directly or indirectly touch trade compliance
- Drafting valuable templates that can be re-used for future compliance

Case Study:

Implementing duty savings opportunities through the First Sale for Export principle

A **nationwide discount retailer** and top importer into the United States sought to decrease duties paid by using the First Sale for Export method of appraisal. However, it realized it did not have the expertise or resources to determine whether it could meet first sale requirements and implement required policies and procedures.

KPMG assisted by helping the company establish a robust first sale program. This involved meeting with and educating overseas vendors; gathering relevant documentation; analyzing transactions; determining and documenting whether first sale requirements were met; conducting an arm's-length analysis for related party transactions; and performing transactional testing. With KPMG's assistance, the importer was able to realize substantial savings and establish a compliant First Sale for Export program.

Tap into KPMG's TaxNewsFlash – Trade & Customs

Keeping up with new trade and customs related developments in a constantly changing marketplace is a challenge. That's why KPMG created *TaxNewsFlash – Trade & Customs*, an email alert service.

TaxNewsFlash – Trade & Customs is your window on the world of trade, providing you accurate and up-to-date information on laws and regulations, trends, and methodologies to help you stay current, compliant, and competitive.

The alerts are written by senior-level professionals with extensive experience and knowledge of the subject matter and are issued as developments occur. Topics include customs rulings and court decision, export regulations, proposals for rule or policy changes, and developments in preferential trade agreement programs. The alerts also include source documents or official text and contact information.

To subscribe to *TaxNewsFlash – Trade & Customs*, send an e-mail to US-KPMGWNT@kpmg.com.

Customs Compliance

The failure to comply with local trade and customs laws and regulations can quickly undermine the gains a company attains through its cross-border operations.

As such, compliance is integral to effective trade management. KPMG's Trade & Customs professionals develop tailored approaches that build trade compliance into their clients' day-to-day operations. These include:

- Company-wide multi-country customs compliance reviews
- Establishing global trade compliance policies and procedures
- Customs-Trade Partnership Against Terrorism and Importer Self-Assessment program enrollment assistance
- M&A due diligence assessments
- Global Harmonized Tariff Schedule determination assistance
- Assistance with addressing requirements of other government agencies, including the Food and Drug Administration, United States Department of Agriculture, Federal Communications Commission, and the Bureau of Alcohol, Tobacco and Firearms
- Targeted compliance training for trade operations and supply-chain personnel



Case Study:

Improving the bottom line through the FTZ program

A **major footwear and apparel manufacturer** sought assistance identifying and implementing savings opportunities related to its trade operations. The company imports a significant volume of footwear and apparel annually into the United States for distribution to customers in North America. Under its existing import structure, the company incurred duties and transactional fees for each customs entry filed in the United States. In this challenging economic environment, the company determined that its current import structure was too costly. KPMG helped the company apply for its U.S. distribution facility to participate in the FTZ program and obtained approvals

for FTZ operations from local customs authorities. Through the FTZ program the company realized transactional savings in the area of reduced merchandise processing fees by filing just one customs entry per week, rather than filing entries on a per-shipment basis. In addition to transactional savings, the company eliminated payment of customs duties on all merchandise exported from the FTZ. Finally, the company benefited from enhanced cash flow from the deferral of duty payments for merchandise destined to U.S. customers. As a result of the company's use of the FTZ program, the company has substantially reduced importation costs as well as streamlined its supply chain on inbound products.

Export Compliance

Export compliance requirements change constantly and penalties for noncompliance can be severe. Among the challenges is adhering to a complex regime of domestic and international regulations that affect a number of company processes. These include sales, customer service, engineering, R&D, human resources, information systems, legal, finance, and operations. KPMG's export professionals can help by:

- Providing Export Assessment Reviews for your domestic or global operations
- Advising a company that is subject to a government monitor or deferred prosecution agreement

- Classification reviews for items subject to export controls via Export Control Classification Number, United States Munitions List, and HTSUS/Schedule B
- International Traffic in Arms Regulations compliance assistance
- End destination reviews, global export control risk assessments, covering Office of Foreign Asset Control compliance, anti-boycott measures, deemed export/re-export requirements, and *de minimis* calculations
- Transactional screening for "restricted parties"
- Development of export management systems, technology control

plans, and commodity jurisdiction determination assistance

- Training tailored to the individual requirements of your business

Transfer Pricing for Customs Valuation

Many companies face the challenge of efficiently determining intercompany prices for tangible products that cross international borders. KPMG's Trade & Customs and Global Transfer Pricing Services professionals have extensive experience in assisting companies with complying with both the World Trade Organization and Organisation for Economic Co-operation and Development rules governing the customs and tax aspects of related-party transactions.

We offer a range of services to help clients avoid incremental taxes, duties, and penalties as well as manage the burden of complying with potentially onerous customs valuation methodologies by:

- Conducting customs-transfer pricing studies to determine a company's procedures for addressing both customs and tax requirements
- Obtaining customs and tax authority approval to satisfy the transfer pricing requirements of both authorities on a country-by-country basis
- Developing transfer pricing policies to meet customs valuation requirements
- Assistance in enrollment in the CBP reconciliation program to facilitate the lawful declaration of post-importation price adjustments
- Guidance on Internal Revenue Code 1059A regulations in the United States

Case Study:

Helping with customs valuation

CBP sought to verify, via a Quick Response Audit, whether a **major healthcare equipment company's** related-party import transactions were acceptable from a customs' perspective. The company's transfer prices were determined pursuant to arm's-length tax laws. After several discussions and document exchanges

with the company, CBP continued to challenge whether the transfer prices satisfied customs' arm's length rules.

The company contacted KPMG to assist with analyzing the transfer pricing methodology and financial data and to help identify pertinent information to satisfy the customs-specific rules. KPMG prepared contemporaneous CBP documentation, evaluated potential administrative options with the company

(including possibly seeking a binding ruling from CBP), and assisted the company with implementing leading compliance practices. KPMG also assisted with discussions with CBP officials to resolve the controversy. As a result, KPMG was considered a valued member of the company's compliance team and an integral component of the company's exercise of reasonable care over its customs valuation matters.

Case Study:

Developing trade compliance awareness across the supply chain

A **leading high-technology company** incurred large export penalties for violations associated with the company's suppliers. This made the company realize the importance of educating its global supply chain about the importance of adhering to company policy and complying with the applicable export and import laws and regulations. KPMG assisted the company in developing and delivering training for the company's global supply chain. The training content was tailored to address the unique export and import compliance challenges faced by the company and its suppliers. With the assistance of KPMG, the company was able to demonstrate its commitment to complying with legal requirements in multiple countries, create awareness of the rules among the company's supply chain partners, reduce the risk of noncompliance by the company and its suppliers, and advocate leading practices.

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Asking the Right Questions

Addressing the challenges for cross-border operations begins with asking the right questions. Among the questions we ask when reviewing our clients' operations are:

- From a trade and customs perspective, how competitive is your company compared with other companies operating in the same countries?
- Is your company taking advantage of the cost-savings benefits associated with FTZs?
- Does your company have effective planning to save on duties, such as First Sale for Export?
- Does your intercompany pricing reflect an arm's length transaction in accordance with the specific legal and regulatory requirements of CBP as well as the tax authorities?
- Is your company manufacturing in advantageous locations with respect to customs duties and indirect taxes?
- Is your organization sourcing goods from countries with a favorable tariff status?
- Does your company import goods that are subsequently exported? If so, is your company correctly classifying its products and obtaining licensing prior to exportation?
- Does your company provide compliance training to all personnel connected with your import and export operations?
- Does your company have a compliance program in place that includes centralized, written procedures that are accessible to employees involved in trade operations?
- Are your shipments frequently held for inspection by customs authorities as a result of foreign office errors, systems deficiencies, or a lack of staff training?
- Does your organization have a signed commitment from management to ensure awareness of compliance issues at an executive level and support for compliance with trade laws in all of the company's activities?
- Does your company have a recordkeeping system for maintaining import and export documents for the required statutory periods?

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Due to independence considerations, certain services may not be available to KPMG audit clients.

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