

Podcast transcript

Turn trade disruption into opportunity.

Podcast with Douglas Zuvich, Partner, KPMG in the US and Head of Global Trade & Customs Services, KPMG International

Musical intro

Announcer:

Hello and welcome to another episode of the KPMG podcast series for tax leaders. For today's episode, I spoke to Douglas Zuvich a partner at KPMG in the US and Head of Global Trade & Customs Services for KPMG International. Doug assists a broad range of businesses in developing corporate global trade governance programs. Doug, thanks for joining us on the phone today.

Doug:

Thank you for having me, I have been looking forward to talking to you.

Announcer:

As you know this podcast series has been developed as part of the KPMG Future of Tax program and we are exploring the themes of geopolitics, digitization and changing business models.

I wanted to talk with you today about global trade turmoil, the tax implications of this turmoil and how it fits into the Future of Tax program.

Doug:

Yes, global trade turmoil falls directly within geopolitics. If you watch the news, you read the paper, it's tariffs, it's export control, sanctions, technology, it's exactly where it falls, geopolitics. Companies are challenged with – truly understanding what their course is going to be as they move goods around the world. Right now, there are, as everyone knows, a significant number of tariffs in place around. Like in the United States around steel and aluminum, half of the goods that come from China, there's tariffs on US goods into a number of other countries. And, so companies are uncertain on how long those are going to last, what they should do, how they should deal with their suppliers, how they should deal with their customers. And really, relooking at their overall supply chain to see if they can – they can get ahead and game board and figure out how to become a – you know, get on the winning side of these tariffs if that's possible.

Announcer:

So Doug in your experience what are some of the short and long term fixes to mitigate trade costs?

Doug:

There's a number of short-term fixes. For the last 20 years myself and my team, we've been helping companies minimize their tariff burdens and at the same time being super compliant with the laws. These are – these are tariffs that can be minimized. There's a lot of different strategies, whether it'd be country of origin strategies, reclassification strategies, strategies around values, strategies around getting back refunds or deferring the duty payments and tariff payments. So there are a number of different trade strategies that most companies are able to mitigate down a good percentage of those tariffs. A recent study that we conducted, the 2019 KPMG impact study showed that, on average, the respondents were able to bring down their tariff impact by about 59 percent with these trade strategies. From there, companies are looking at negotiating with their suppliers, they're looking at what the market will bear. As far as, passing any cost on, and then, from there, just continue to hit their plans and their margins, they look at other enterprise-wide cost. So, there's a lot of things that companies can do, rather than simply thanking that they have to pass tariffs on to the end customer.

A long-term strategy in this current world is really important. I think tariffs and non-tariff barriers are going to continue to be political weapons and political tools for different countries, and companies need to model that into their supply chains. We see a number of different strategies. One that I've personally seen very successful is the multi-origin strategy, meaning, having production of similar products in different jurisdictions to give companies a flexibility and agileness to move which products go to which countries based on what the tariffs are. So if you think about it, the tariffs are really based on the specific country of origin. So if you say, products from China, they don't mean every product that comes from China, they mean products that have Chinese origin. And so, if you were producing something in China before and it was coming to the United States, if you now also have production somewhere else, let's say in Thailand, you then ship those sales from Thailand to United States instead of China, maybe send China somewhere else. And we see that right now quite a bit. Some companies are lucky because they just – they're

in that position and other companies are positioning themselves in that way so that they can be ready next time. So that's one thing, multi-origin strategies. There's on-shoring strategies and near-sourcing. Depending – we help companies kind of think through all that and game board the tariffs and the costs. I think in my opinion, there are some winners out there right now that are getting an advantage in the market because some of their competitors are getting hit with the tariffs, they're able to move quickly, they're not getting hit, and they're in a better position in the market.

Announcer:

So Doug I wonder if you could give us your insights into some of the common strategies leading businesses are using to address global trade uncertainty?

Doug:

Like I mentioned earlier, there are some supply chain strategies. But, other companies are putting in global trade management systems and processes, and really building up their global trade teams, making the investment. So that they know and they can – they can see what their costs are, they have better visibility. So that when a potential tariff is proposed or even considered, they have the numbers in front of them. So I think it's technology and there are a lot of really good systems out there that KPMG actually even implements and – between technology, building a strong team, making the right investment in global trade, really help a company as we go forward in this new environment.

Announcer:

So Doug are businesses turning this turmoil into an opportunity? And if so, how are they doing it?

Doug:

That's a great question. I kind of alluded to it a little earlier. However, a lot of times you hear in the news "hey, these tariffs are just being passed on to the end customer", and "it's just a tax on the end customer". Maybe that's a case for some companies, but, you know what, if eight of those companies are doing that, two other companies are mitigating those tariffs, figuring out ways so that the impact doesn't have to get passed on to customers, those companies are going to be in a better position to gain market share and to get loyalty from their customers. And that's what we're helping companies do. We're helping our companies, the companies we work with, be the 20 percent that are not passing on those tariffs. And so, I do think there's an opportunity. The challenge though is that with these tariffs, it started off where companies were really in paralysis and they weren't sure how long are they going to last, how significant are they going to be, can this really happen? But once those companies realize, no, these tariffs are here, and they're probably going to stay and then they move, and if they move fast and they move aggressively, they can get on the winning side of this and that's who we see is winning in this environment. Those companies that realize, this is sticking around for a while, and if we take action, we can be a winner. And that's what we're seeing.

Announcer:

So Doug to wrap up, what are some of your thoughts on the outlook of global trade?

Doug:

Personally, I think that global trade is going to continue to have escalated tension. I think tariffs, non-tariff barriers and similar items are going to be a tool that are going to be used through this administration and future administrations and around the world. So, I personally believe that global trade is in for a rollercoaster ride going forward. But again, if you're ahead of it, if you have the right systems in place, the forecast, if you can think through your supply chain, if you can think through how you deal with your customers and your suppliers, you could wind up in a better position than your competitors, and really thrive in this continuing to be uncertain and challenging world that we live in today.

Announcer:

Doug thanks for joining us today.

Doug:

It's been my pleasure.

Announcer:

You've left us with a lot to think about and no doubt we'll return to this topic in the future.

Doug:

And one thing I would like to leave you with is that KPMG International put out a Global Trade Report that really talks about the uncertainty in global trade and how companies are responding. We have a fantastic piece from the Eurasia Group as part of that, and I'd recommend all the listeners to go online to the KPMG Global Trade Report 2019 and download it. It's a great read and it really supplements this podcast well.

Announcer:

Join us again next time and please email us with any suggestions you have for future topics at tax@kpmg.com. Thanks for listening!

Musical exit