

# Customs & International Trade Strategies for Manufacturers

MAY 21, 2024

# With You Today



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# Agenda



Customs & Trade Flows, Cost Drivers



Levers of Customs Cost Mitigation



Data Driven Customs Cost Reduction Strategy



Trade Finance & Risk Mitigation

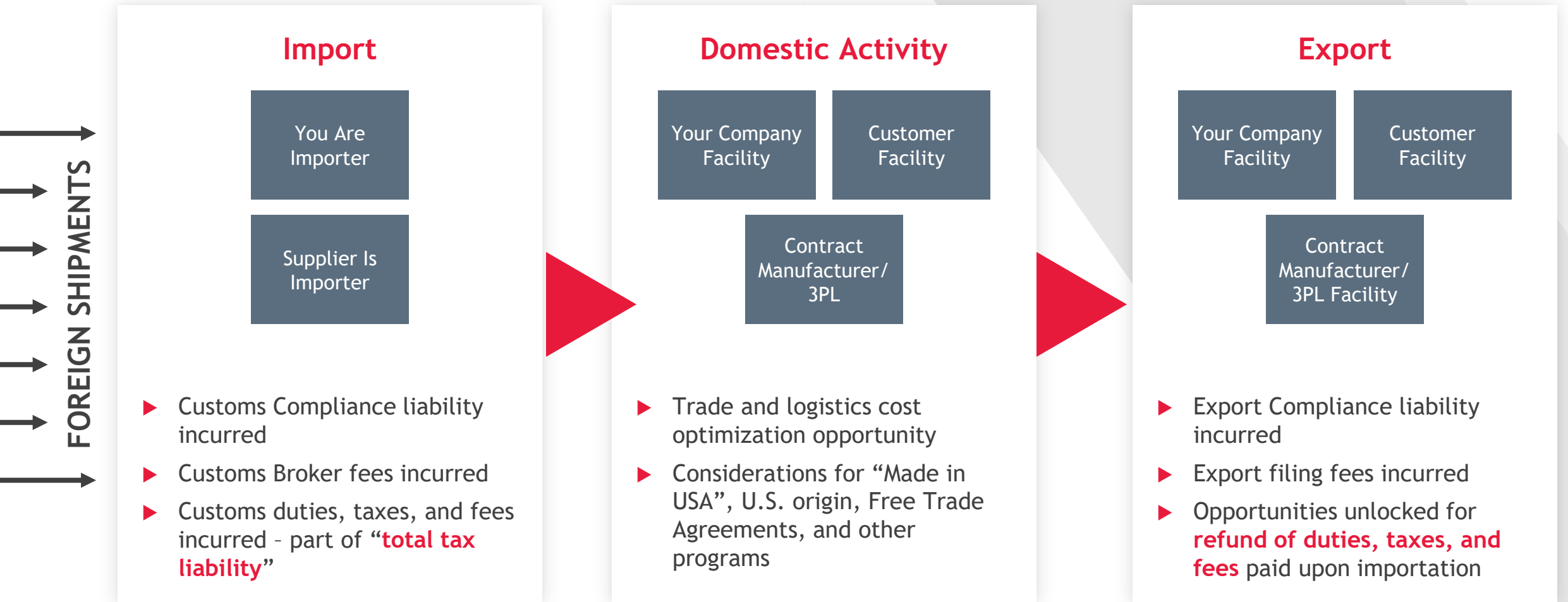


Q&A

# Customs & Trade Flows, Cost Drivers

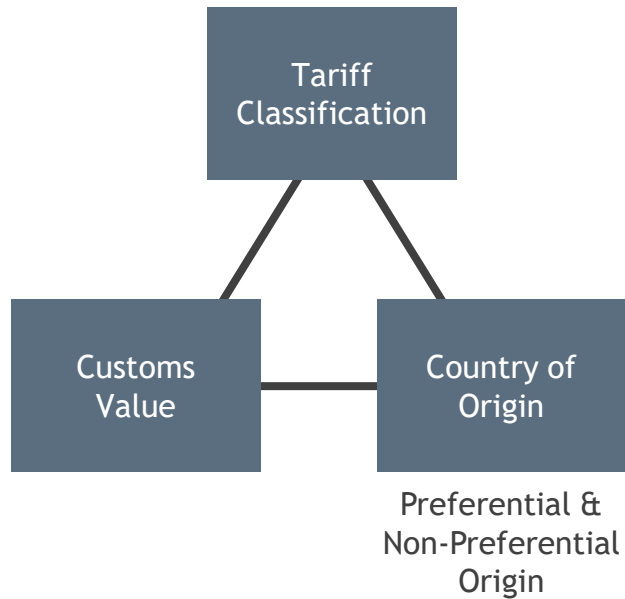


# Customs & Trade Flows



# Customs & Trade Costs

## Customs “Triangle”



## Example Calculations

### AUTOMOTIVE PRODUCT “ABC”

- ▶ Customs Value: \$100,000
- ▶ Country of Origin: China
- ▶ Tariff Classification: 8708.93.6000
  - General Duty Rate: 2.50%
  - China Tariff Rate: 25.00%
  - Total Rate: 27.50%
- ▶ Duties Owed: \$27,500

Planning for tariff classification, customs value, and origin has a direct impact on bottom line.

### Tariff Classification Assumed Correct

Reduce Customs Value by 10% **Save \$2,750**

Shift Sourcing to Vietnam **Save \$25,000**

Change Sourcing to Mexico, Qualify for Trade Agreement **Save \$27,500**

Special rules apply for “preferential origin”

# Levers of Customs Cost Mitigation



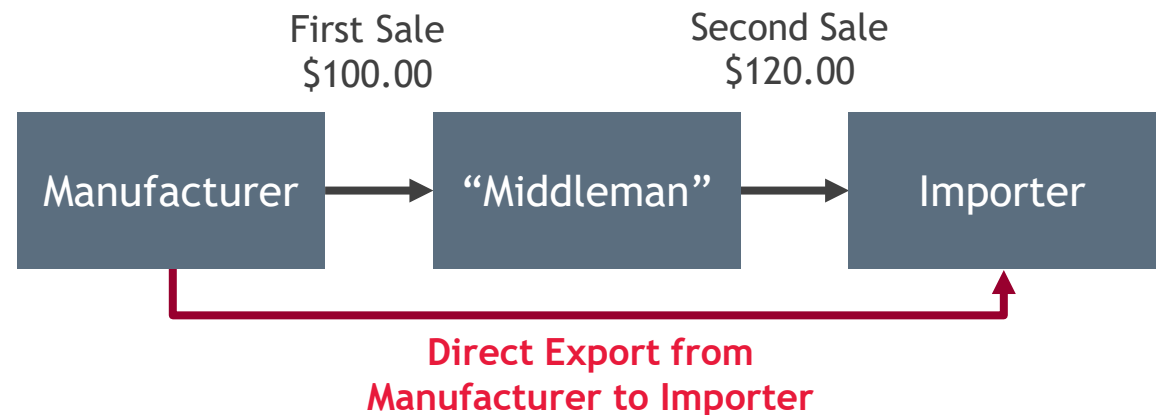
# Customs Valuation

Most common appraisal method is **Transaction Value**. “Price actually paid or payable” for export to the U.S., plus certain statutory additions.

- ▶ **Potential Deductions/Reductions:**
  - **International shipping and insurance costs**
  - **Post-importation related charges**
  - **Selling commissions**
  - Discounts, rebates, etc.
  - Retroactive downward transfer pricing adjustments
- ▶ Transfer pricing strategies offer an opportunity to establish a valid lower customs value.
- ▶ **Always** evaluate the method of appraisal and components of the customs value.

## Advanced Topic: “First Sale” for Export

Where multi-tier transaction structures exist for imported merchandise, the importer may be able to declare an earlier price (at transaction value), so long as certain rules are met. The example scenario illustrated below unlocks a 16% reduction in the duties owed to U.S. Customs. **Retroactive claim options available.**





# Tariff Classification & Origin

Most U.S. Customs duty rates are applied on an ad valorem (%) basis to the customs value. The tariff classification and origin determine the rate to be applied.

## TARIFF CLASSIFICATION

### **Standard: Determine, Maintain, Review.**

Tariff classification can be easily overlooked, lost in day-to-day operations. Reasonable care with determination, maintenance, and review may reveal cost saving opportunities or uncover errors.

### **Advanced: Tariff Engineering**

Small differences in product specifications may result in a change in classification. Analyze your product to determine if it is possible to “engineer” it into a lower duty rate.

## ORIGIN, PREFERENTIAL ORIGIN

**Non-Preferential Origin:** Merchandise not “wholly obtained or produced” in one country? Where did the last “substantial transformation” occur?

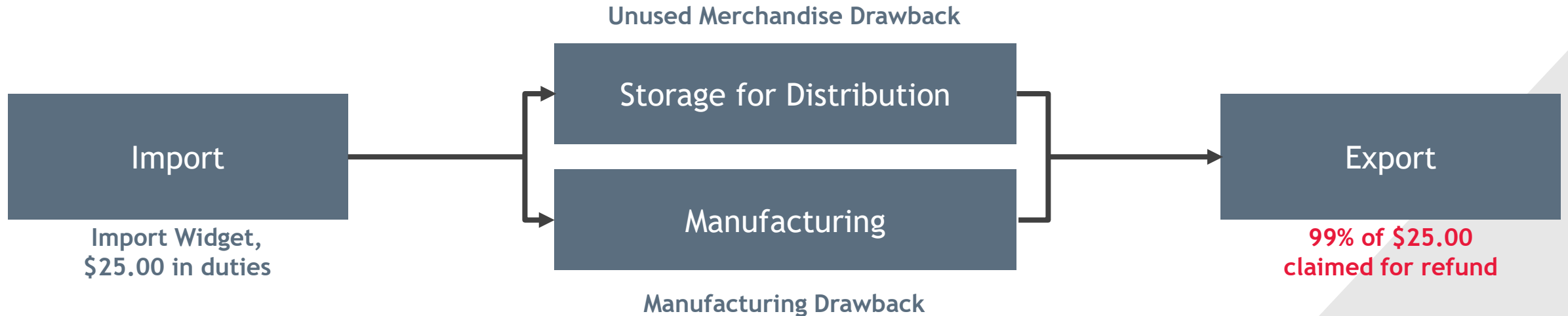
**Opportunity:** Determine if parts of the production process can be shifted to confer a different origin.

**Preferential Origin:** Preferential origin rules are different from non-preferential. “Substantial transformation” is not a factor.

**Opportunity:** Review sourcing options and trade program rules of origin to reduce duty liability.

# Duty Drawback

Duty Drawback is a refund on duties, taxes, and fees paid on imported merchandise that is subsequently exported unused **or** on imported merchandise used to manufacture a product that is later exported.



## Claim Bases:

- ▶ Direct Identification (Product to Product)
- ▶ Substitution (HTS to HTS)

- ▶ **Who has the right to Drawback?** The exporter. The right to Drawback can be assigned.
- ▶ **Claim Timeframe:** 5 years from date of import, retroactive.
- ▶ **Payment Timeframe:** 30-45 days or 314+ days from filing, depending on “privileges.”

# Specially Designated Facilities

## FOREIGN TRADE ZONES

Foreign-Trade Zones (FTZs) consist of specially designated secured access areas that are deemed outside the customs territory of the U.S. for purposes of customs duty, as well as certain excise and ad valorem tax assessments.

### Benefits

- ▶ Lower Entry Processing Costs
- ▶ Duty Deferral
- ▶ Duty Reduction/Avoidance on Exports
- ▶ Property Tax Benefits

## BONDED WAREHOUSES

A bonded warehouse is a secured area in which imported merchandise may be stored, manipulated, or undergo manufacturing operations without payment of duty for up to 5 years from the date of importation.

### Benefits

- ▶ Duty Deferral
- ▶ Duty Avoidance on Exports
- ▶ Typically, easier to locate a Bonded Facility or apply to be a Bonded Facility as compared to FTZs

# Data Driven Customs Cost Reduction Strategy



# Data Driven Customs Cost Reduction Strategy

## Data Sourcing & Analysis

- ▶ (1) Identify data sources that will reveal customs duties, taxes, and fees at the most granular level.
  - **Leverage U.S. Customs Automated Commercial Environment (ACE) data** as a starting point - free, rich source of import and export filing data directly from U.S. Gov't.
- ▶ (2) Summarize data by manufacturers/vendors, countries, tariff classification, etc., to have “target” lanes and products driving cost.

**OUTPUT: TARGET “HIT” LIST**

## Ideation, Feasibility

- ▶ (1) Review lanes and products driving cost against potential mechanisms for cost reduction or refunds.
- ▶ (2) Compare rules or requirements for pursuing the cost reduction or refund strategy ideas generated.
- ▶ (3) Perform a cost/benefit analysis (with considerations for compliance risk) to determine if the strategy is feasible to implement.

**OUTPUT: FEASIBLE PURSUITS**

## Execution, Compliance

- ▶ (1) Create a project plan for execution for each of the generated feasible strategies. Define the timeline for benefit realization.
- ▶ (2) Execute the strategy to achieve future cost savings or retroactive refunds. Develop processes, procedures, and controls to ensuring consistent benefit realization.
- ▶ (3) Monitor on-going compliance with the strategy, address issues.

**OUTPUT: BENEFIT REALIZATION**

**Monitor and repeat the process as business activity changes or evolves.**

# Leveraging U.S. Customs ACE Data

U.S. Customs ACE data provides rapid, free access to detailed import and export data. It helps importers quickly assess:

- ▶ What have I been paying over the last 5 years and related to what products and activity?
- ▶ What opportunities may apply to this activity and where should be targeting?

The opportunities we discussed today can be identified through ACE data to begin the assessment of feasibility.

Year: 2023		
Client: Company ABC		
Trade Data Summary		
Imports	Total Value	\$401,482,854
	Related Party Value	\$334,821,117
	Duties, Taxes, Fees	\$25,594,265
	Top Product Category	Ball or roller bearings, and parts thereof
	No. of Suppliers	22
	No. of Source Countries	8
Exports	Free Trade Agreement Savings	\$29,424,321
	Total Value	\$14,017,700.00
	Related Party Value	\$2,995,855.00
	Destination Countries	34
Potential Savings & Refunds	Top Product Category	Parts and accessories of the motor vehicles
	<b>Total Potential Refunds Identified</b>	<b>\$ 2,768,358.08</b>
	Missed FTA Claims	\$ 853,131.00
	First Sale for Export	\$ 232,055.00
	Duty Drawback Program	\$ 944,234.00
	Foreign Trade Zone	\$ 738,938.08

Importer Name	Importation Date	Port of Entry Name	Mode of Transportation	Country of Origin Code	Country of Export Code	Destination State Code	Related Party Indicator	HTS Long Description	Line Tariff Quantity (1)	Line Tariff UOM (1) Code	Line Tariff Goods Value Amount	Line Tariff Duty Amount
Company ABC	9/16/2023	LAREDO, TX	Truck Non-Containerized	DE	MX	SC	Y	OTHER MEASUREING OR CHECKING INSTR,APPL&MACH NSPF	8565	KG	\$ 3,200,000.00	\$ -
Company ABC	7/24/2023	CHARLESTON, SC	Vessel Containerized	DE	DE	SC	Y	HYDRAULIC ENGINES/MOTORS,LINEAR ACTING (CYLINDERS),OTH,NSPF	9792	NO	\$ 714,718.00	\$ -
Company ABC	3/23/2023	PORT HURON, MI	Truck Non-Containerized	US	CA	OH	N	OTHER PARTS FOR OTHER VEHICLES	6344	NO	\$ 661,806.00	\$ 16,545.16
Company ABC	8/28/2023	KNOXVILLE, TN		DE	DE	TN	Y	SPHERICAL ROLLER BEARINGS,OTHER	547	NO	\$ 658,200.00	\$ 38,175.60
Company ABC	2/13/2023	KNOXVILLE, TN	Truck Non-Containerized	RO	DE	TN	Y	CUP/CONE ASSEMBLIES ENTERED AS SET,OTHER,DIA>305MM	68	NO	\$ 631,797.00	\$ 36,644.23
Company ABC		KNOXVILLE, TN		RO	DE	TN	Y	CONE ASSEMBL ENTERED SEPARATELY,DIA>203MM	286	NO	\$ 614,276.00	\$ 35,628.01
Company ABC	1/30/2023	KNOXVILLE, TN	Truck Non-Containerized	DE	DE	TN	Y	SPHERICAL ROLLER BEARINGS,OTHER	70	NO	\$ 613,451.00	\$ 35,580.16
Company ABC		KNOXVILLE, TN		DE	DE	TN	Y	SPHERICAL ROLLER BEARINGS,OTHER	689	NO	\$ 551,472.00	\$ 31,985.38

# Trade Finance & Risk Mitigation

# International Solutions Product Offering

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## Solutions to Minimize Trade Risk

Letters of Credit

Documentary Collections

Standby Letters of Credit

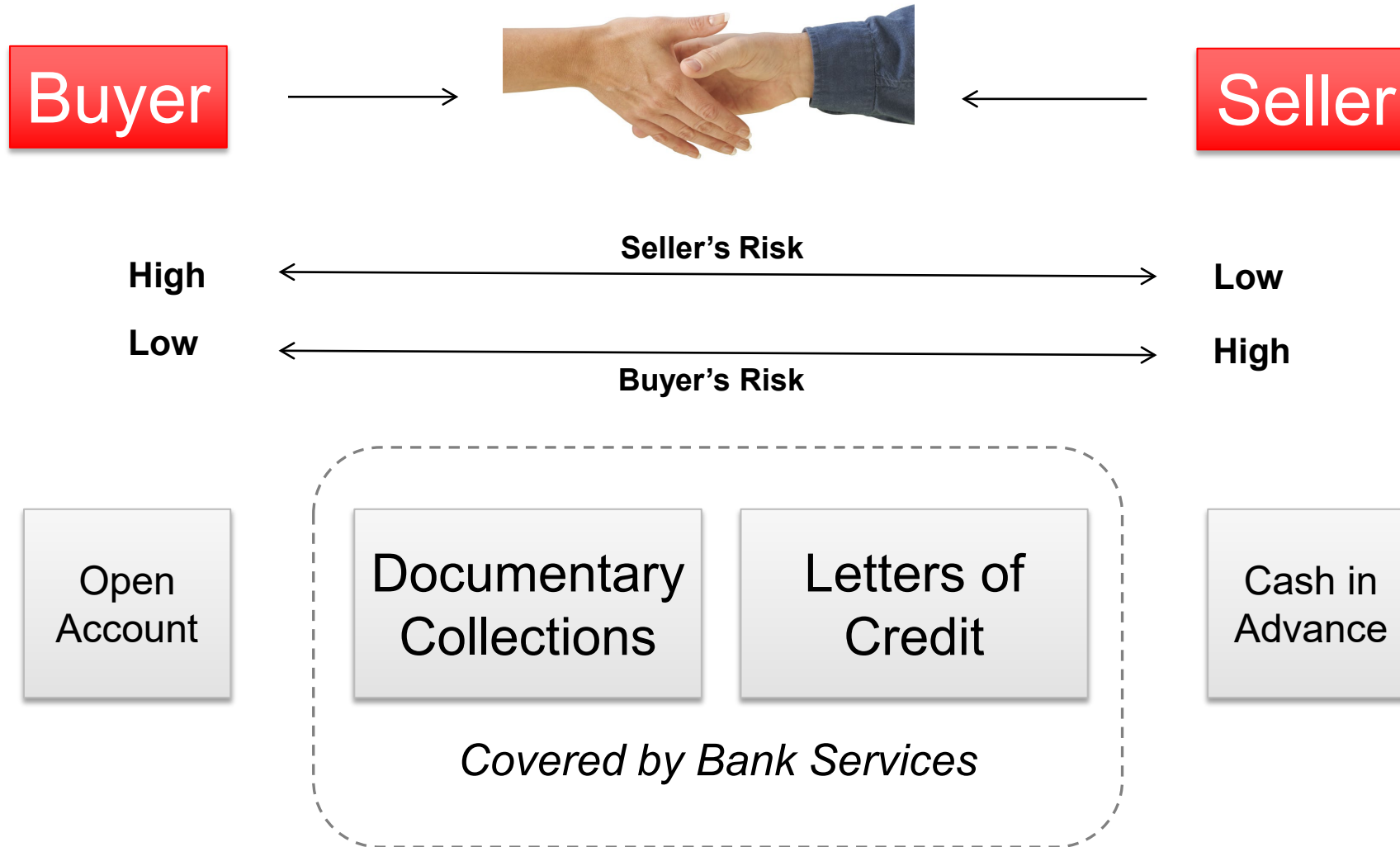
Trade Related Financing: Discount of Receivables and EXIM Bank

Foreign Exchange

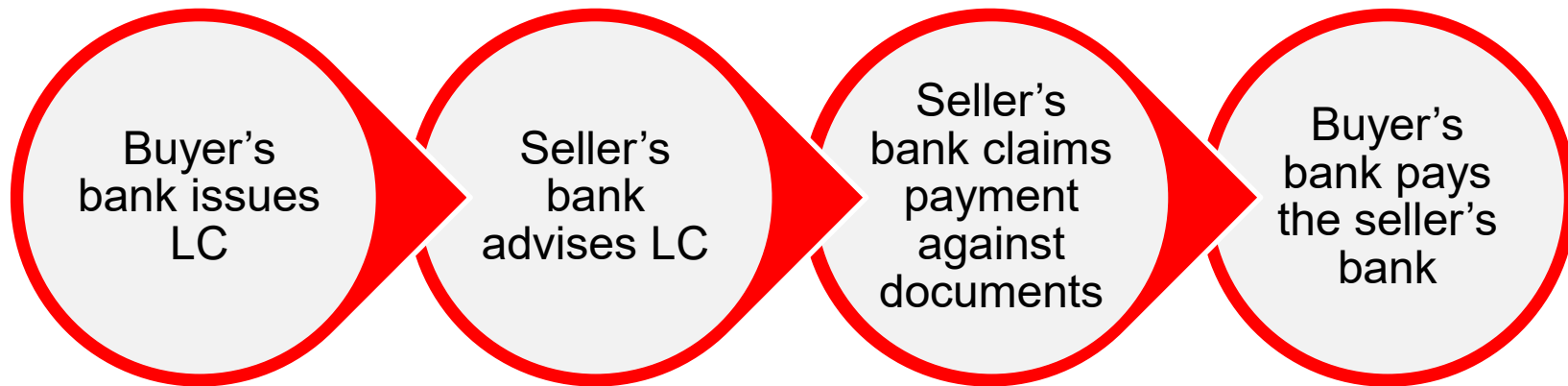
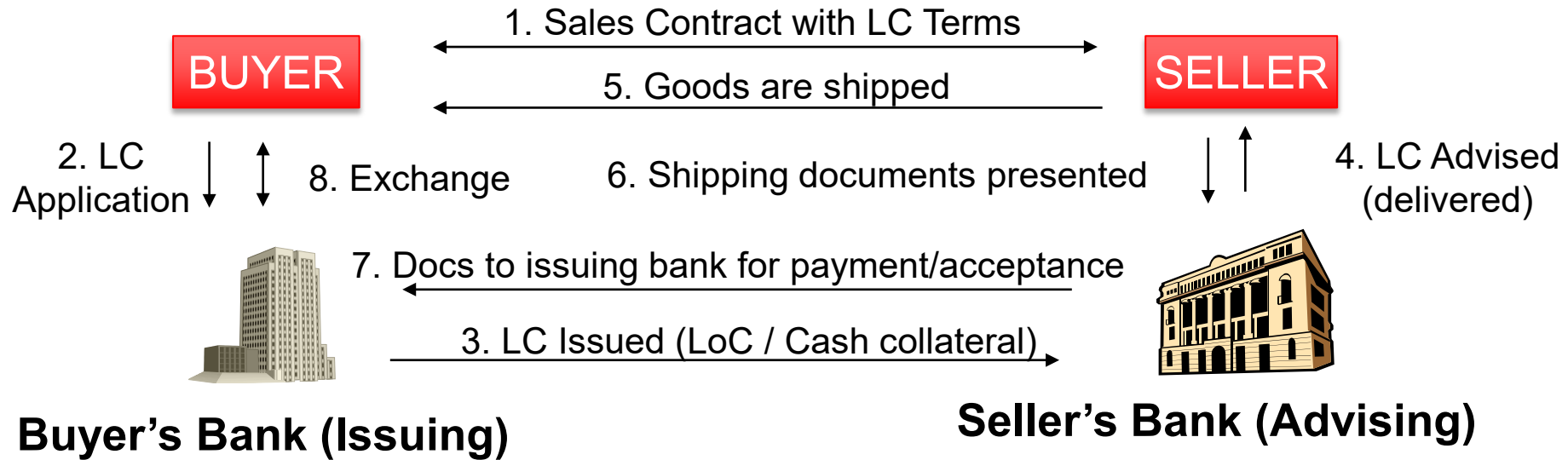
Santander Trade Portal



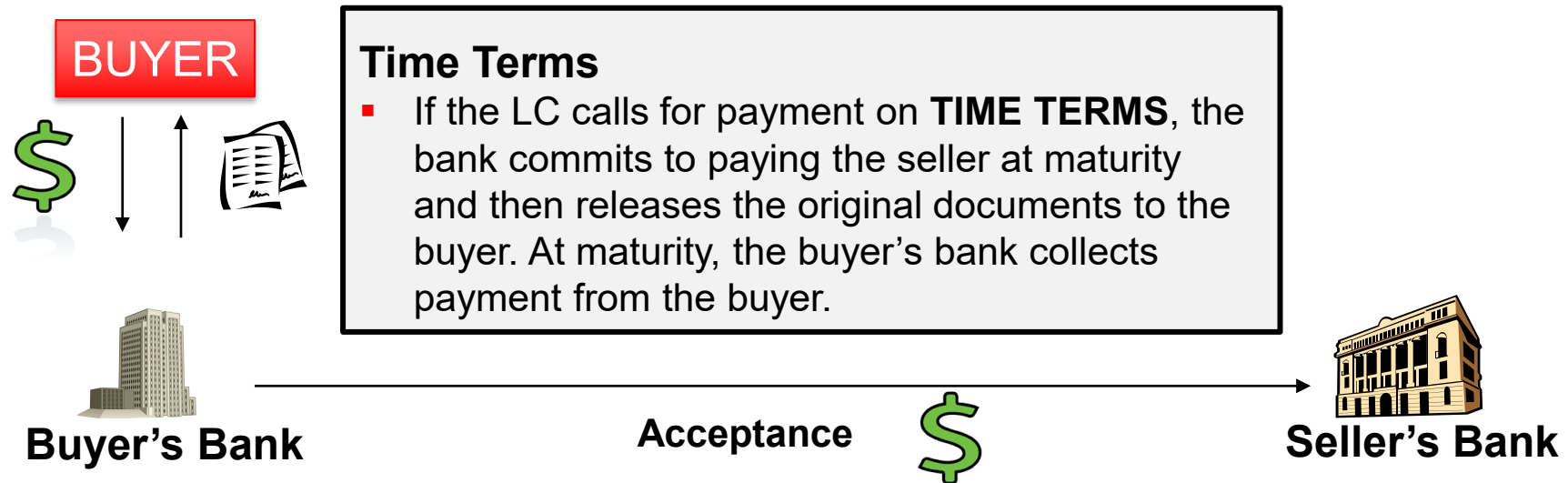
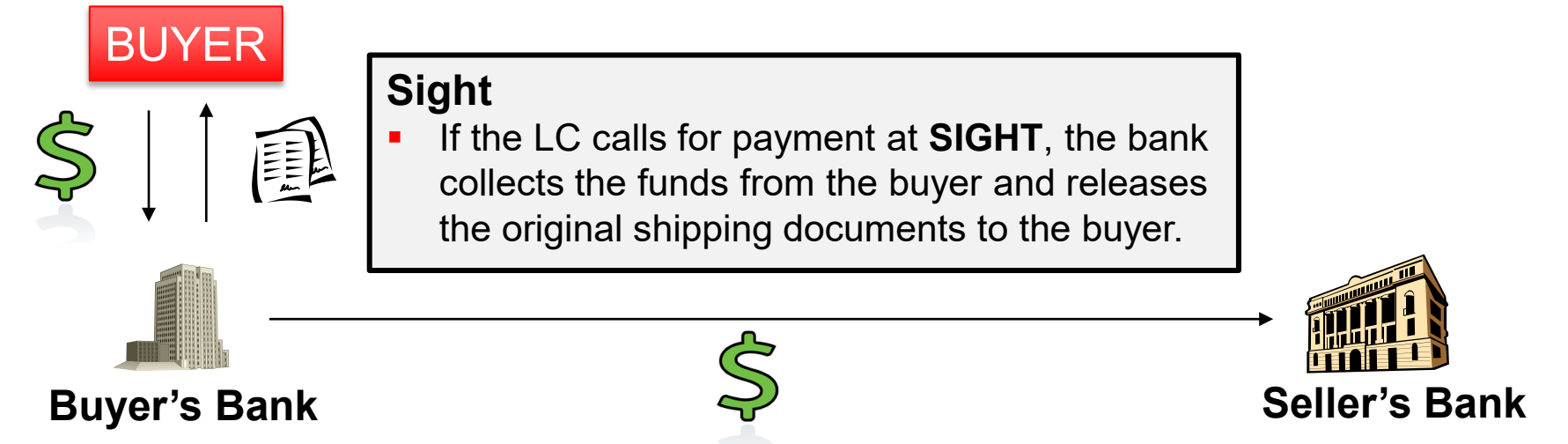
# Solutions to Minimize Trade Risk



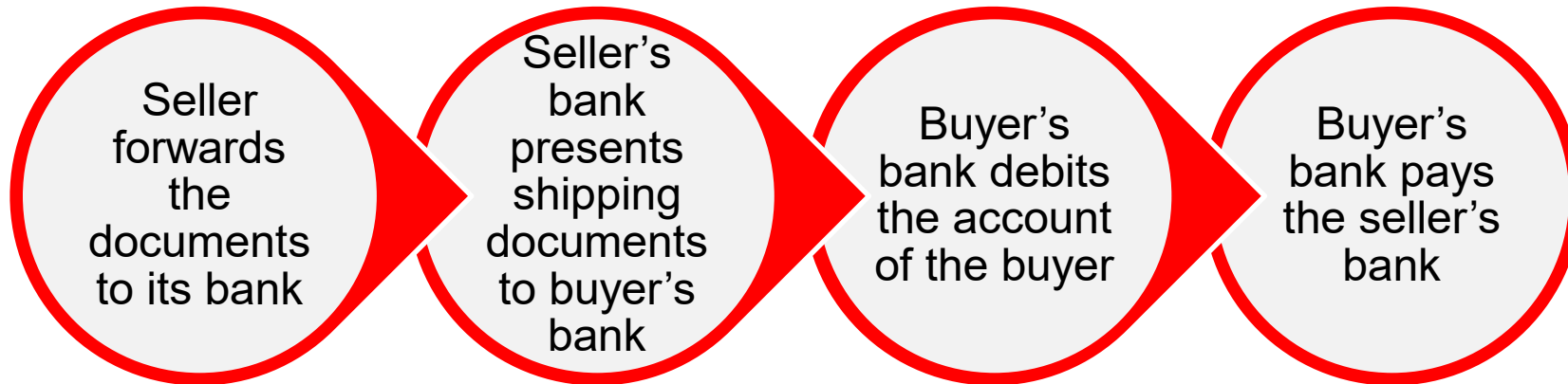
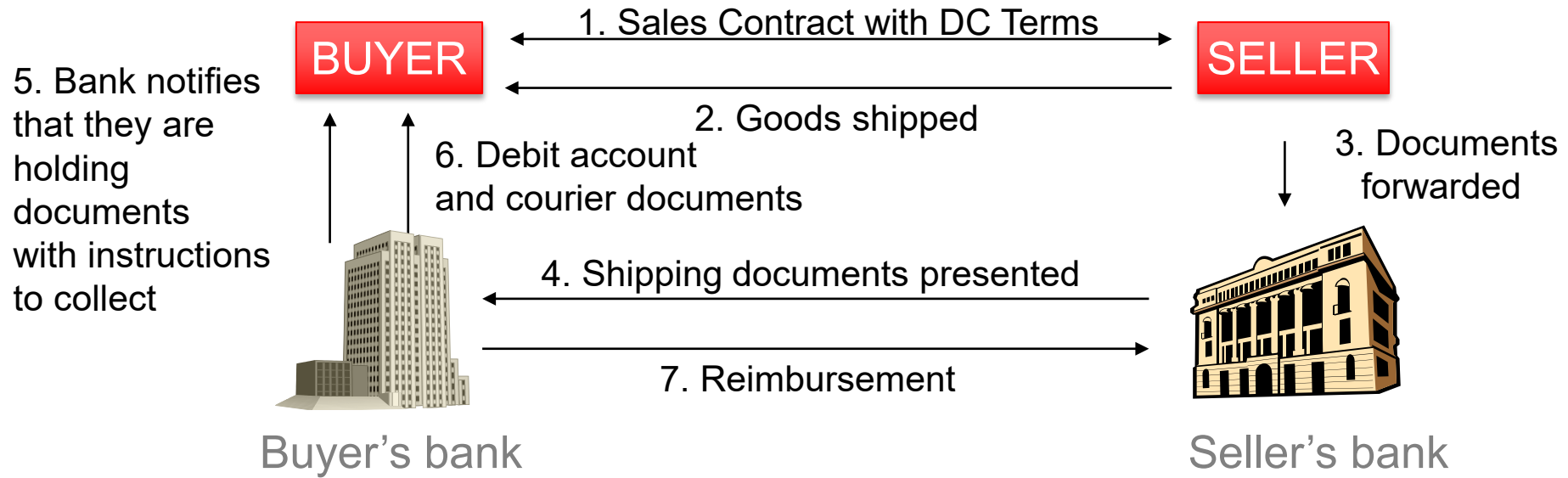
# Letters of Credit



# Letters of Credit – Sight, Time Terms



# Documentary Collections



# Stand-by Letters of Credit (SBLCs)

Mitigates the risk that the applicant will not perform as agreed under a contract

## International

- Support to Overseas Working Capital Facilities



## International & Domestic

- Bid Bond
- Performance Bond
- Warranty Bond
- Advance Payment Guarantee
- Financial Guarantee

## Domestic

- CRE
- Leases
- Workers' Compensation



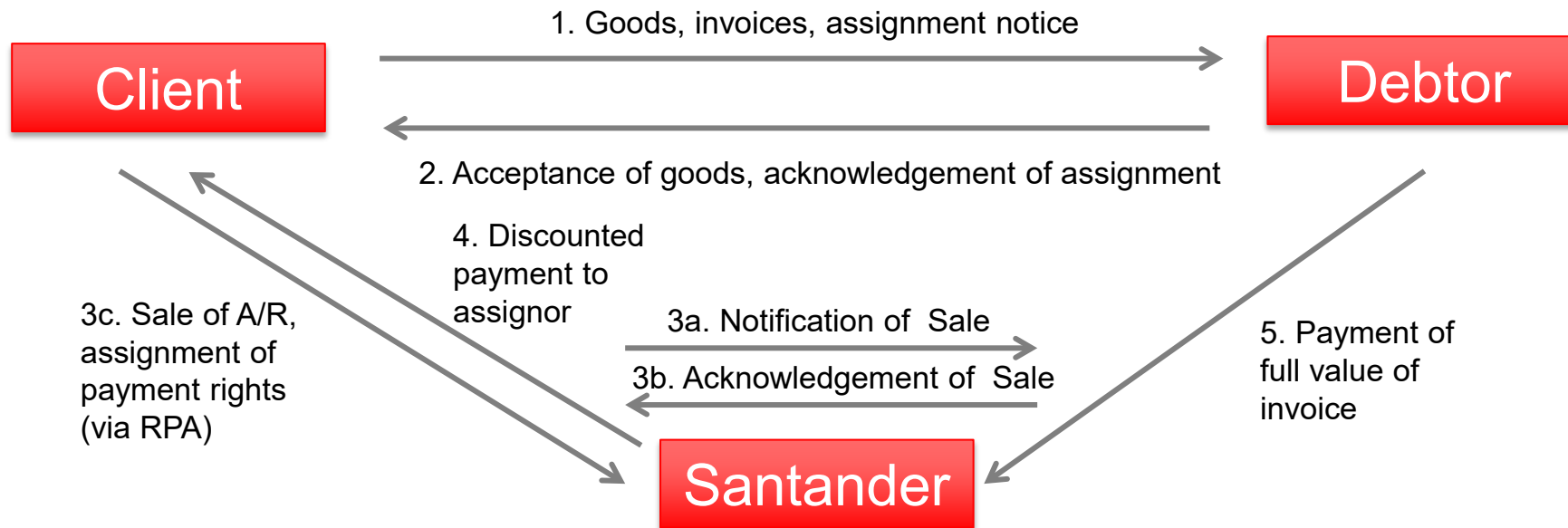
# Trade Related Financing – Receivables Discounting

## Purpose:

- Used by Companies to obtain working capital by selling account receivables that meet lender's credit criteria.

## Benefits:

- Improved working capital management by accelerating debtor's payments
- Credit Risk mitigation - eliminating future payment risk on debtors\*
- Diversifying funding source via non-bank debt



\*Commercial dispute resolution risk stays with the client

# Trade Related Financing - ExIm Guarantee Program



<b>Typical Borrower</b>	Corporations actively exporting and in need of line availability.
<b>Borrowing Capacity</b>	On export-related inventory, up to <b>75%</b> advance rate (including work-in-process). On foreign accounts receivable, up to <b>90%</b> .
<b>Loan Type</b>	Revolving line of credit used in conjunction with the financing of domestic accounts receivable and other assets. Can be transaction specific or cover multiple export sales.
<b>Tenor</b>	Typically, one year, with a maximum of five years
<b>Collateral</b>	Short term export accounts receivable and supporting inventory. Lien filed on the U.S. borrower's assets. First priority lien on export assets.
<b>Amount</b>	Variable
<b>Goods/Services</b>	Minimum <b>50% U.S. content</b> . Shipped from a U.S. Port. No military or Defense products
<b>Coverage</b>	ExIm Bank - 90% conditional guarantee on outstanding principal and interest.
<b>Benefits</b>	Fulfills export sales orders. Converts export-related inventory and accounts receivable into cash. Enhances value of existing collateral base. Collateral requirement to issue standby letters of credit is only 25%, instead of the standard 100% cash collateral generally required. EXIM may allow for 10% collateral in some cases.

# Foreign Exchange

There are a variety of FX risks when you are doing business internationally including in USD and our Santander FX solutions can help you mitigate them.

*“I do business internationally, but its all based in U.S. Dollars”*

When U.S. companies pay or receive USD for international transactions, the burden of currency conversion is shifted to *their* counterparties.

#### Disadvantages of this practice include:

- Lost sales opportunities
- May pay inflated prices to compensate vendor for taking on FX risk
- No control of FX risk – results in inconsistent market share
- Risk of payment delays
- Vendor may raise prices if FX rates move adversely and they are un-hedged
- Some may have the price in terms tied to FX levels (i.e. terms change if EUR/USD > 1.5000)

**Bottom Line: There is FX Risk even though transactions are in USD and not in foreign currency**

#### Example:

A U.S. based exporter sells goods into Italy and prices in USD terms

- In the first quarter, the U.S. company sells USD 100,000 worth of goods to the Italian firm
  - Initial EUR/USD FX rate = 1.5000
  - The Italian customer pays **EUR 66,667** for these goods
- **If EUR/USD spot falls to 1.3000 in the second quarter...**
  - The U.S. company would still charge the Italian customer USD 100,000
  - The Italian customer now has to pay **EUR 76,923** for the same bundle of goods

**Bottom Line: This increase in cost may cause the Italian company to purchase less, or find a supplier billing in EUR**



# Santander Trade Portal

A unique portal where an easy, well organized and agile structure helps you navigate and find relevant international trade information for you to go global.

[www.santandertrade.com](http://www.santandertrade.com)



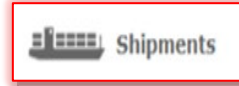
⇒ On this website, companies can find answers to the following questions:



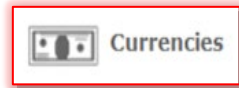
✓ **In which country should I choose to do business in?** Companies will find useful information on new markets and business opportunities.



✓ **What companies are available for me to do business with?** Database to **find potential customers and suppliers** as well as competitors.



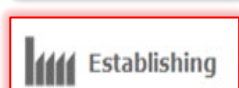
✓ **How to do business?** Tailored services explaining international regulations applicable to specific products.



✓ **What currency should I use to conclude a sale/purchase contract?** A converter of 147 international currencies along with information on the degree of market openings.



✓ **What services does Santander offer if I am looking to do business abroad?** Detailed information on Santander's products and services to manage your foreign trade.



✓ **What steps should I take to get established abroad?** Companies will find useful information on how to get established in a foreign country.

# Q&A



A modern office interior featuring a staircase with a glass railing, a reception desk with the BDO logo, and large windows overlooking a city skyline. The scene is dimly lit, suggesting an evening or night setting.

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