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2011 Cross-Border Roundtable: Neighborly trading

Given the escalating offshore labor and energy costs, hemispheric trade has never been more attractive to U.S. shippers. But are they prepared with the global trade management strategies needed to navigate this regulatory landscape? Our panel weighs the risks and rewards of doing business with Canada and Mexico.

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

The concept of trading with immediate cross-border neighbors—"near-shoring"—is in vogue again, and thanks to the North American Free Trade Agreement (NAFTA), shippers may be ready to reconfigure their supply chains.

However, our panel of analysts advises that before shippers abandon off-shoring, diligence is due before making such a move, especially because this shift in strategy will have a profound impact on long-term supply chain operations.

Joining our "roundtable" discussion this year are four prominent international trade and compliance experts. Beth Peterson is president of BPE, Inc., a San Francisco-based consultant specializing in software applications for Customs compliance. Thomas O'Brien is director of research for Center for International Trade and Transportation at California State University, Long Beach. Luciana Suran is an economist with CB Richard Ellis Economic Advisors, a global real estate consultancy serving shippers with market intelligence on sourcing opportunities. And Virginia Thompson is director of import/export operations and international trade compliance for Crate and Barrel.

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> —Thomas O'Brien, California State University, Long Beach

Logistics Management: **Given that most of our readers have had some exposure to cross-border trade, what do you regard as the biggest challenges facing shippers already in the game?**

Beth Peterson: I would say that the biggest challenge is getting their products correctly declared to the various customs regimes for importing and exporting. Incorrect declarations result in additional costs, shipment delays, customer service issues, and possible seizures—and any global trade issues tend to increase government scrutiny, which results in more delays. Most companies don't even have visibility to the fact that they are having issues, so they don't even know they need to fix anything.

Virginia Thompson: Probably the biggest challenge I see is keeping on top of the changes and positioning ourselves to respond to them; or, better yet, predict them when possible. We have, of course, seen significant changes in terms of capacity over the last two years that have forced us to negotiate new terms in our steamship line contracts to protect against possible problems that never seemed like an issue in the past.

In addition, the changes regarding a carriers' willingness to supply a chassis with containers is going to add a new wrinkle to negotiations in 2011. We will need to make sure that we have clear agreements with our carriers regarding chassis,

and also that we are working with drayage providers to fill the gap in service in a way that will not negatively affect our total transportation cost. Of course, changing governmental regulations in areas such as supply chain security and product safety present an ever-increasing book of knowledge that the global shipper today must master.

Tom O'Brien: I'll add that a lot of shippers are concerned about how the cross-border trucking issue is going to be resolved, too. Once the Obama Administration works to fix that situation we may see more players enter the game.

LM: **What barriers to entry exist for shippers wishing to enter this cross-border marketplace?**

Peterson: Unfortunately, there aren't many to exporting and importing. Pretty much anyone can ship anything anywhere. And because it's so easy, people don't even realize that there are many regulations with which they must comply. And if they have any awareness of the fact that they need to satisfy import/export regulations, they tend to assume—often incorrectly—that their freight forwarder will ensure compliance.

Thompson: That's true, there really aren't many true or complete barriers to entry into today's market, but new parties will be at a disadvantage if they are not well informed about what to expect today. Having resources for sound advice that you can trust, whether from a freight forwarder, a broker, or perhaps an advocacy organization, is critical.

Luciana Suran: Virginia is correct in advising shippers to join advocacy groups. Some are strongly opposed to changes in the Ocean Shipping Act, for example. If more rules are imposed there, it could mean added compliance expense.

LM: **Luciana brings up an interesting angle. We've been talking principally about the surface modes. Let's examine, for**

a minute, the tactical and strategic advantages for ocean shippers.

O'Brien: There's been a lot of talk about the impact of the Panama Canal expansion and how shippers will reevaluate their supply chains regarding cross-border trade. We think it's a toss up at this point. They have to arm themselves with reliable schedule information and decide if the near-term move will make sense when they are ready to expand.

Thompson: That's right, Tom. One of the most strategic advantages that a shipper can leverage is accurate forecasting. The more capable a shipper is of knowing exactly what equipment they will need, on what lanes, and on what sail dates, the better negotiating power they will have with carriers. Not only will they be able to negotiate more competitive rates, but they will do a better job of ensuring that their space needs are met, even during periods of tight capacity.

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Peterson: The tactical part is easy: Your product costs less to sell. The strategic advantage is that you can get to markets quicker, you can keep your customers happier, and you can design your products in ways that allow you to enter new markets.

***LM:* What roll is software and technology–global trade management (GTM) systems for example–playing in meeting these challenges?**

Peterson: GTM software does not magically fix these issues. However, GTM solutions play a huge role in providing visibility to the issues; and once you have that visibility you can chip away at the root cause of the problems and you can audit your transactions to ensure that they are compliant.

Thompson: For a shipper of any size, the use of the technologies available can make a significant difference in how well they meet these challenges. Some of the tools that can make the biggest impact are contract negotiation systems and international transportation management systems (ITMS).

The contract negotiation tool, for example, can allow you to leverage more effectively your usage across all lanes to ensure the lowest possible total transportation spend. An ITMS, on the other hand, is tremendously valuable in terms of providing the visibility to know when your supply chain is not performing the way you need it to. By this I mean learning about rolled bookings, delays at transshipment, and contract fulfillment.

***LM:* One would think that supply chain management software sales would be on the rise during this sourcing shift. Is that the case?**

Suran: Let's remember that a number of firms decreased their inventory holdings in response to the credit crunch following the Lehman Brothers collapse of 2008. How many companies use short-term credit to fulfill vital day-to-day business activities like payroll? With no access to credit, firms were forced to liquidate inventories—one of the few remaining current assets besides cash. Lean inventory practices have continued, however, as firms have reaped the financial benefits associated with leaner inventories. As a consequence, supply chain-related software sales have jumped.

***LM:* Can you provide a forecast for growth in cross-border trade?**

Peterson: It's only going to increase. If I see a product on a website—I can buy it. And more people are going to be doing just that. They might just be really shocked that they have to get a customs broker, obtain a bond, and pay duties and taxes when it gets to them.

Thompson: I like to tell my staff that they are in the right place at the right time. Working in international trade today means job security, because more and more avenues are opening up to encourage global business.

At the federal level, of course, we see the National Export Initiative that is providing incentives and support for shippers wishing to export out of the U.S., and further moves to encourage import trade as well, such as with the negotiations on new Free Trade Agreements. Within Crate and Barrel, we consider international expansion a major priority. We're actively looking to expand both our foreign store presence and the ease of international on-line fulfillment. All these conditions lead me to believe that, despite the many challenges facing shippers today, we will continue to see a significant increase in cross-border trade in the near future.

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> —Virginia Thompson, Crate and Barrel

***LM:* What kind investment in infrastructure here in the U.S. and abroad will be needed to make this sustainable?**

O'Brien: I think there's more general agreement on what infrastructure improvements need to be funded than on how to fund it. A tremendous amount of power over federal transportation funding, including the next transportation authorization bill, rests with the ranking Republican member of the House Committee on Transportation and Infrastructure, Florida's John Mica.

One thing to watch will be transportation stimulus fund-

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ing. In 2009 and again this year, the U.S. Department of Transportation awarded discretionary grants known as TIGER Grants (for Transportation Investment Generating Economic Recovery) to a number of projects across the country. Goods movement projects fared well, particularly in this most recent cycle. The fate of a third cycle could now be in question given Republican concerns over stimulus spending.

Thompson: Depending on the particular country and specific region therein, improvements to infrastructure will need to be anywhere from minor to very major. If a country does not anticipate the growth and invest in the port, rail, and highway infrastructure to support it, they will be left behind.

We saw this happen on a small scale in our own sourcing out of Brazil a number of years ago. There seemed to be a sudden boom of interest in Brazil, but the infrastructure just wasn’t there to support it. The significant delays on getting containerized goods out of Brazil led many importers like us to move sourcing back to China or to other nations that were better prepared to handle that volume. The dependability of the supply chain is too important to risk with an uncertain origin.

***LM*: Who are the major modal players in this arena? We keep hearing about the advantages of using a 3PL or 4PL, or going directly to the carrier. What’s your take on the issue?**

Thompson: Every one of these types of parties play a significant role, because there are almost as many models for handling one’s global shipping as there are shippers. Depending on your volume, locations, and your own infrastructure in terms of warehouses and distribution centers, there are needs for any or all of these parties.

We feel that one of the most important goals we have is to make sure that we are using the best possible combination of providers. We try to balance leveraging costs by not diluting our business across too many providers with the age-old “not putting all our eggs in one basket” philosophy when looking at the many options available to us.

O’Brien: In a recent forum we held at the university about the impact of the Panama Canal expansion on West Coast trade, it was clear that the shipper and the shipper’s agent will have a lot to say about where the goods flow.

Decisions about which ports to use and which trade lanes to use are more often in their hands. At the same time, regulators will also play a critical role in determining how and where trade occurs. Sometimes it’s only a perception that a state or region is unfriendly toward business, but that has an impact, particularly when it comes to discretionary cargo that is looking for the path of least resistance. ☐

Patrick Burnson is Executive Editor of Logistics Management