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The Case for "In-sourcing" Customs Filing

By taking responsibility for customs filing in-house, importers can save costs while also ensuring compliance —but it takes an investment in staff and the commitment of management

By Jeff Chiu

March 20, 2009 —An emphatic "Yes!" should be the reply when an importer is asked if it is committed to reducing costs and increase compliance. Likewise, an emphatic "Yes!" should be the reply when an importer is asked if it practices reasonable care in its customs transactions.

Numerous entities comprise the importer's supply chain, from manufacturers, vendors and exporters, to freight forwarders, carriers and express couriers; at destination their counterparts reside, along with customs brokers, distributors and delivery companies.

Most companies negotiate and manage all their contracts, purchase orders, freight rates and shipping terms with almost all the parties involved in the supply chain, but few look into the customs clearance area beyond negotiating the entry fee.

Large freight forwarders have brokerage departments that contribute to their capabilities in offering door-to-door service. Compliance suffers in the name of savings when brokerage departments are given a fraction of the freight revenue that is "packaged" with transportation charges, and when the brokerage teams are expected to process as many entries in the shortest amount of time possible. This is not to say that brokerage departments of the large freight forwarders don't do a good job; there certainly are very talented people who provide excellent customer service. However, customer service does not always include customs compliance during the data entry buried within the day -to-day task of clearing shipments.

The timely filing of an import entry aims to eliminate delays in the supply chain. The information gathered by the customs broker is vital to the calculation of duties and fees. Companies that rely too much on their broker lose control of the process and, as a result, compliance suffers.

However, there is a "have your cake and eating it, too" solution to this conundrum.

The Self-filing Option

Title 19 of the Code of Federal Regulations —specifically 19CFR111.2(a)(2) — provides for scenarios in which a customs broker's license is not required to transact customs business. One such instance: "An importer or exporter transacting customs business solely on his own account and in no sense on behalf of another is not required to be licensed, nor are his authorized regular employees or officers who act only for him in the transaction of such business."

A freight forwarder or a traditional customs brokerage is required to have a license in order to file customs entries on behalf of an importer. An importer is not required to have such a license if it were to clear its own imports. A traditional brokerage model requires that at least one officer possess a customs broker's license. An importer is not required to have such an individual in an officer's position.

An importer with 1,000 entries per year paying on average \$100 per entry (entry fee plus accessorial fees) will pay \$100,000 in brokerage fees to a freight forwarder or a traditional brokerage. An importer can easily increase headcount by two full -time employees for this amount. Most importers will stop with its analysis at this point because it appears to be a wash.

In terms of numbers, the two employees represent "flat fee" pricing, where if the number of entries increases slightly, the employee headcount and expense do not. The other benefit that most importers do not fully appreciate is the improvement in import compliance. An importer's staff works on one account; the employee at a traditional brokerage works on numerous accounts. An importer's employees are bound to exercise greater care in their work as opposed to the data center environment of a freight forwarder or a traditional brokerage.

An importer with 1,000 entries per year who uses a Web -based customs entry software package will pay on average \$20 to \$25 for each entry, or a total of \$20,000 to \$25,000 per year. If an importer has staff available or can shift some staff responsibilities around, this represents a savings of \$75,000 to \$80,000 per year. Similar to the first example, the importer will also benefit from improvement in import compliance.



Global4PL Supply Chain Services
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“An importer or exporter transacting customs business solely on his own account and in no sense on behalf of another is not required to be licensed, nor are his authorized regular employees or officers who act only for him in the transaction of such business.”

— Title 19 of the Code of Federal Regulations, Sec. 111.2
19CFR111.2(a)(2)

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Keeping Knowledge In-house

In both examples, it is important to note that the knowledge of an importer's business, its import supply chain and its customs transactions are retained with the importer's employees. This is in contrast to the approach used by freight forwarders and customs brokerages, where staff can be rotated or, worse, not replaced when they depart. The importer has to "train" a new associate with each new rotation. Again, this is not to say that there are not valuable people at the freight forwarders and the traditional brokerages, but rather to underscore that it is difficult to retain the knowledge of the importer's business within the freight forwarder or customs brokerage. Written standard operating procedures only go so far.

The numbers are easy to show and justify the "in -housing" of filing customs entries; the savings are tangible. The rule of thumb for self -filing should be 500 entries for those who pay duties and 1,000 for those who do not pay duties on their entries.

The next question is: "What does it take to implement this initiative?" An importer may want to engage in self -filing, but does it have the staff, time and, most importantly, the commitment?

An importer with personnel experienced in imports and with excellent internal controls would have the shortest implementation period. It would involve training the appropriate personnel to use entry filing software and familiarizing them with the workings of the particular port in which the importer is located.

Although an importer without such experienced staff may be required to seek out such human resources, it does not mean self -filing is out of reach. The importer may designate a person to oversee customs transactions for the entire company but outsource the daily operations to a third -party supply chain management firm. This solution provides a faster ramp-up time on implementation and instant expertise and assistance on customs related issues.

Import compliance may appear to be an intangible benefit at first, but it will manifest itself in a decrease in the number of examinations at the border, thus decreasing delays and the associated costs of getting the goods to market. US Customs & Border Protection ("CBP") would recognize and appreciate that the importer is exercising greater reasonable care (as defined in the Customs Modernization Act) in its transactions. The importer may eventually consider membership in the Importer Self -Assessment ("ISA") program, through which, in exchange for the application of the strictest internal controls as they relate to customs transactions, CBP would remove the importer from the general audit pool, amongst other benefits.

It Takes Commitment

After an importer has crunched the numbers and identified the personnel for self -filing, it has to surmise whether it has the commitment to take on such an initiative. Certainly, an importer understands the need for strong internal controls, computer hardware, software, recordkeeping requirements and training. But there must be strong commitment underlying all of these needs as well.

This includes the initial commitment, voiced and upheld by top management, for the company to follow all import regulations. It is an ongoing commitment to monitor all electronic transmissions and messages from the automated broker interface (ABI) and payments via the automated clearing house (ACH) on a daily basis. It is a commitment to actually execute what has been written down as policy. It is a commitment to train and cross-train staff so that the compliance standard does not wane.

Some argue that a self-filer looks and acts much like a traditional broker, aside from the obvious differences (non -requirement of a license holder and the inability to transact customs business for other parties) and therefore it is not worth the effort to internalize the filing of customs entries. On the surface, it has the added burden of import compliance, but CBP has already placed that burden on the importer with the Customs Modernization Act. Taking on self -filing is merely an extension of the operations —sourcing, purchasing, freight negotiations, distribution —of an importer and will allow for greater control over a critical link of the supply chain.

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