

2016 GLOBAL TRADE MANAGEMENT SURVEY

From Thomson Reuters and KPMG International



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To Our Readers:

Trade has been front and center in 2016. From the Brexit vote in the United Kingdom to the reluctance of United States presidential candidates to support the Trans-Pacific Partnership, there has been public debate on the virtues and misfortunes of international trade.

But setting the headlines aside, the annual Thomson Reuters and KPMG International 2016 Global Trade Management Survey reveals that, while trade and supply chain departments worldwide continue to struggle to keep up with the pace of change in both new business requirements and regulations, the majority are still missing the systems and processes they need to thrive in today's rapidly changing world.

This year, more than 1,700 trade professionals from across 30 countries in a wide range of industries were surveyed to gain new insight into the operational practices, risks, and challenges affecting global trade departments today. The survey sought to uncover the dynamics, trends, and growth opportunities at a regional level as well as globally.

The second edition of the annual 2016 Thomson Reuters and KPMG International Global Trade Management Survey pinpoints key process issues that detract from the overall success of the trade and supply chain function. The results show global trade processes around import and export activities continue to be predominantly manual and time-consuming. While respondents recognize that automation is a need, there are many challenges within the organization to garnering the required funds and support. Classification and transfer pricing continue to be top challenges and, while there has been much talk around ratification of newly negotiated trade agreements, the ones already in place are not fully utilized.

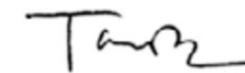
The large sample size and geographic spread of the respondents allowed the discovery of some meaningful geographic differences for subjects like global trade management technology usage and FTA utilization.

This report presents key findings on:

- + Manual processes
- + Automation
- + FTA utilization
- + Classification
- + Process centralization
- + Transfer pricing and customs valuation

We hope you find the information in the annual 2016 Thomson Reuters and KPMG International Global Trade Management Survey report useful and insightful.

Best regards,



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Doug Zuvich
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Respondent Profile

The second annual 2016 Thomson Reuters and KPMG International Global Trade Management Survey represents a truly global outlook.

Conducted between March 22 and May 20, 2016, the survey achieved 1,769 responses from 30 countries and in seven languages: English, Spanish, Portuguese, Turkish, Chinese, Korean, and Japanese. This was a significant increase over last year's response.

GEOGRAPHICAL COVERAGE

COUNTRY	PCT%	COUNT	COUNTRY	PCT%	COUNT
USA	25%	408	Thailand	2%	25
Brazil	14%	229	Peru	2%	25
China	11%	179	Canada	1%	20
Mexico	10%	174	UAE	1%	19
Other	4%	60	Chile	1%	18
Japan	4%	60	UK	1%	17
India	3%	54	S. Africa	1%	12
Colombia	3%	49	France	1%	11
Turkey	3%	49	Australia	1%	10
Argentina	3%	48	Spain	0%	8
Korea	3%	46	Malaysia	0%	2
Vietnam	2%	40	Cambodia	0%	2
Singapore	2%	32	Panama	0%	1
Indonesia	2%	32	Kenya	0%	1
Germany	2%	32	Saudi Arabia	0%	1

Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International
Due to rounding of numbers the country percentage adds up to 102%, rather than 100%

Please note that whilst 1,769 responses were received for the survey in total, only 1,664 participants completed this particular question

DEPARTMENT

Q6 What department do you currently report into?



Source: Q6 (n=1605), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

FUNCTIONAL ROLE

Q7 Please select the best description of your position



Source: Q7 (n=1602), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TAKEAWAY 1

MANUAL PROCESSES TIE UP RESOURCES AND INCREASE RISK

The survey results show that the operational mechanics of import and export continue to be a significant time drain on trade teams, with import documentation and licensing, product import classification, and global supply chain management taking up the most time and resources, according to respondents. This creates more opportunities for automation.

Opportunities that yield direct duty savings, such as the utilization of free trade agreements and zones, are fit for automation in today's trade management environment. So too are the functions that introduce hidden costs and risks into the trade team's daily workflow. Automation efforts that lead to direct duty savings tend to get the priority, but those that address the hidden costs and risks have significant upside, too.

Two of the top three tasks that consumed time and resources of global trade teams in last year's survey -- product import classification and export documentation and licensing -- reappear again this year. In addition, several new regional trends stand out:

- + Respondents from North America cited product export classification as a significant resource burden more often than those in the rest of the world. These classifications are particularly complex in the U.S. and pose large penalties for noncompliance, which may explain the finding.
- + Respondents from Asia cited global transportation management as uniquely time-consuming more often than other respondents did. One potential explanation for this is that some Asian companies hand over logistics to teams that also do trade compliance activities. Elsewhere, these activities are separate.
- + Respondents from Latin America reported being uniquely busy with import valuation. Aside from the fact that duty rates in Latin America are higher than rates for U.S. imports, the process for reconciling import values is different and customs authorities in Brazil and Argentina proactively monitor valuation variances. These factors potentially explain this finding.

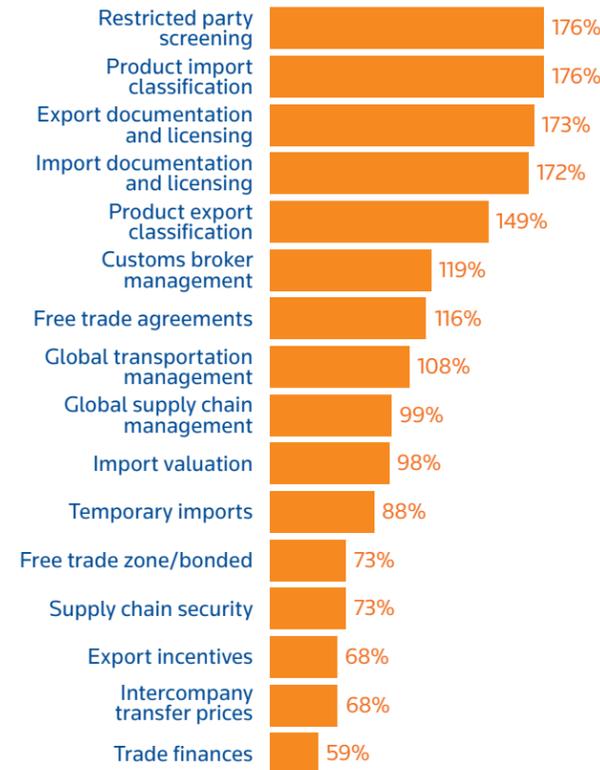
Finally, the survey found that import and export volume influences the time and resources respondents spend on product import classification. This pattern was also evident last year.

With respect to custom broker management, which respondents cite as time- and resource-intensive, in general, more brokerage equals greater costs. Higher levels of brokerage often means more transactions are occurring and more ports of entry are being used — these variables increase the complexity of customs brokerage and therefore the resources it demands.

Companies can ease this burden with Global Trade Management systems (GTM) that connect to brokers' systems, thereby reducing the brokerage management workload. This is especially pertinent to companies that do not self-file but do have the responsibility of ensuring their brokers are functioning in a compliant way.

AUTOMATED GTMS PROCESSES

Q17 Which of the processes below involve the use of an automated global trade management system (GTMS)?



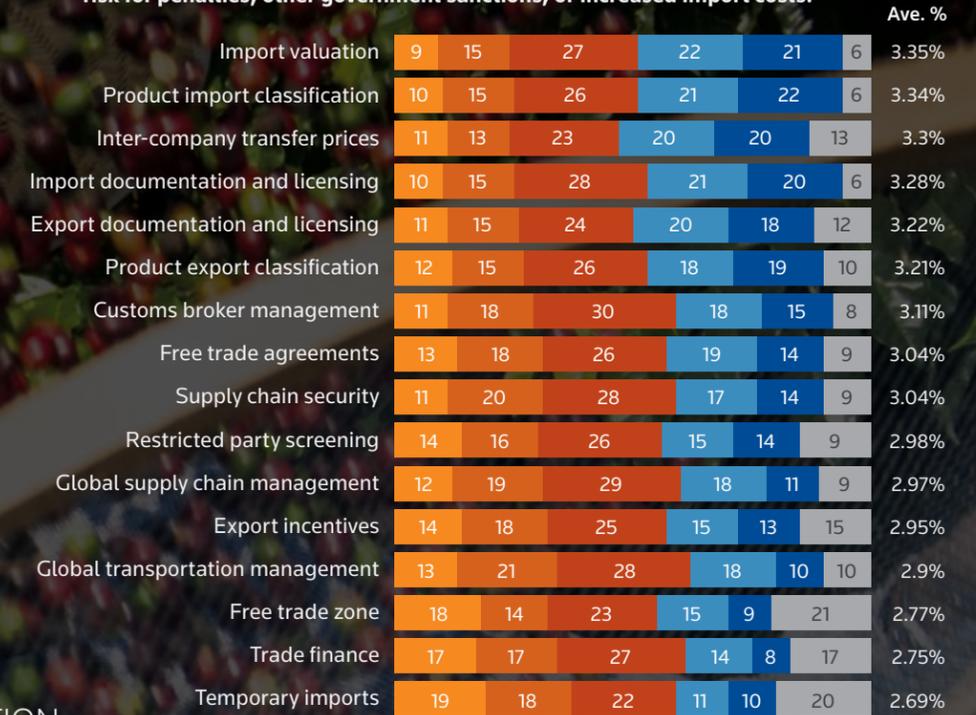
Source: Q17 (n=1046), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

"The global trade function has evolved. The manual processes trade teams have grown accustomed to, which are expensive and error-prone, are no longer necessary. Leveraging technology to automate these processes enables trade teams to work on strategy."

Taneli Ruda, SVP and Managing Director,
Thomson Reuters ONESOURCE Global Trade

PERCEPTION OF RISK

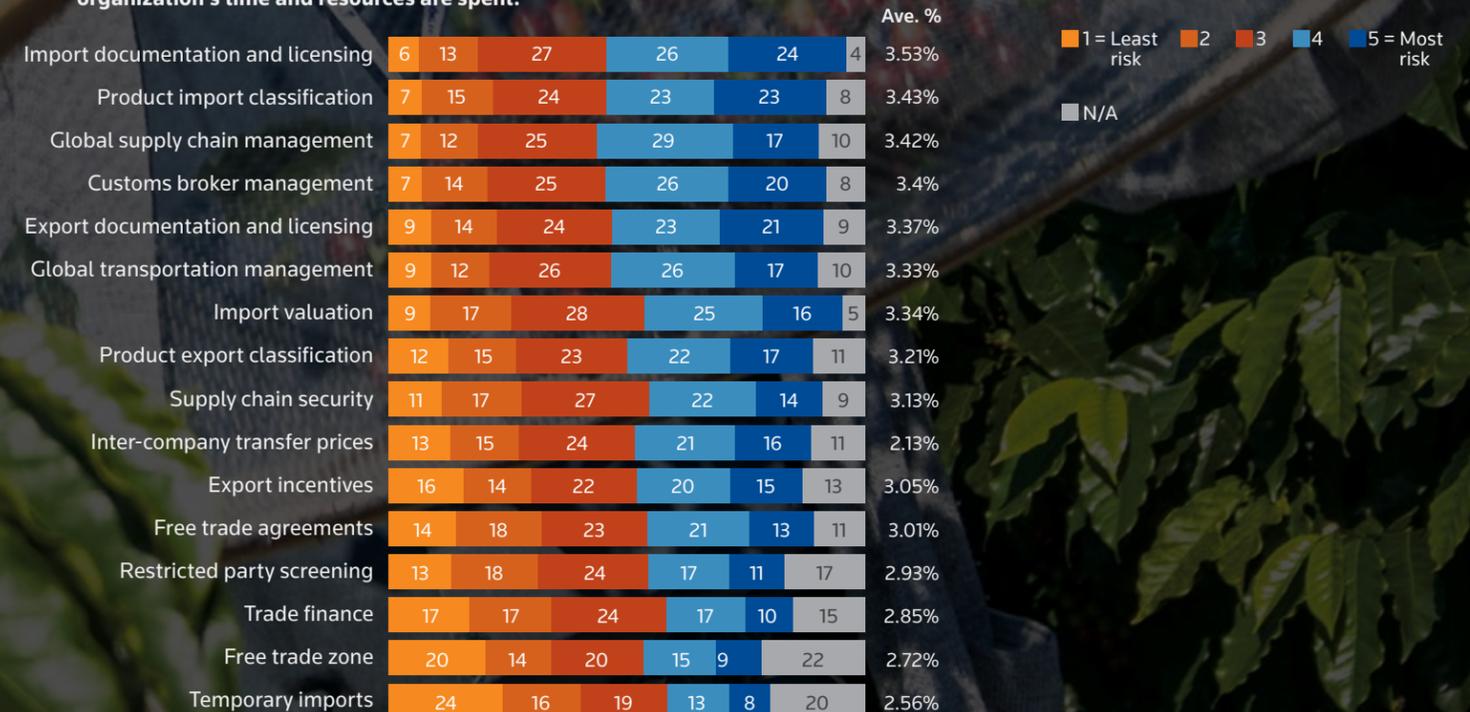
Q15 Rate the following trade-related activities in terms of how you perceive the risk for penalties, other government sanctions, or increased import costs.



Source: Q15 (n=1052), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TIME AND RESOURCE ALLOCATION

Q14 Rate the following trade-related activities in terms of where your organization's time and resources are spent.



Source: Q14 (n=1370), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TAKEAWAY 2

LACK OF AUTOMATION RANKS AS TOP CHALLENGE



Lack of automation continues to be a challenge for trade professionals worldwide. Trade teams largely see the value in automation and would be keen to adopt technology that reduces risk and makes their jobs more rewarding and dynamic. Among respondents that do not use GTM technology, the top challenge cited was the lack of automated systems.

Those who do use GTM technology report spending less time and resources on supply chain management and transportation management than those who do not.

Most companies still do not fully leverage the power of GTM technology despite the opportunity that it presents. Only 34 percent of the respondents are currently using a GTM system for any aspect of import and or export activities. Overall, global trade technology use is highest in North America (42 percent) and lowest in Asia (21 percent).

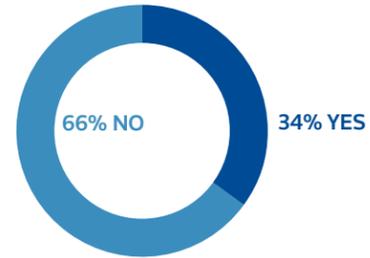
The survey reveals that although the use of GTM systems is low, the awareness of the need for automation is high. Fifty-three percent of respondents cited new technology as a key item that would help them improve their trade compliance program. This reveals a disconnect between what trade professionals have and what they need.

While 58 percent of respondents from the U.S. reported learning about GTM systems in a conference, webinar, or demo during the last 12 months, this is not consistent globally. For instance, only 27 percent of respondents from Asia have done so.

This signals a need for more education about global trade technology, particularly outside the U.S. The survey reveals a strong correlation between awareness of GTM systems and utilization rates.

GTMS UTILIZATION

Q16 Does your organization currently utilize a GTMS for any aspect of import/export activities?



Source: Q16 (n=1046), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

“Trade professionals are increasingly viewing their GTM implementations as an evolution. Developing a flexible roadmap that prioritizes the modules, countries, and configurations that fit the organization and corporate objectives is as important as the system that is selected.”

Heidi Mustonen, Managing Director,
Trade and Customs practice, KPMG LLP in the US

CHALLENGES

Q43 Please rate the following factors in terms of the challenge they pose to managing trade activities within your organization.

RANK	GTMS USERS	GTMS NON-USERS
1	Interpreting and communicating requirements across sites and countries	Lack of automated systems
2	Disparities in requirements between countries	Interpreting and communicating requirements across sites and countries
3	Complex and changing requirements with local government agencies	Manual processes and disparate systems
4	Manual processes and disparate systems	Disparities in requirements between countries
5	Lack of automated systems	Inefficient processes/systems
6	Inefficient processes/systems	Complex and changing requirements with local government agencies
7	Visibility to all elements in a trade transaction (external providers/etc.)	Inefficient import/export key performance indicators (KPIs) and metrics
8	Inefficient import/export key performance indicators (KPIs) and metrics	Visibility to all elements in a trade transaction (external providers/etc.)
9	Detailed recordkeeping and audit trails	Detailed recordkeeping and audit trails
10	Delays and fines caused by compliance and documentation errors	Delays and fines caused by compliance and documentation errors
11	Lack of historical transactional data	Lack of historical transactional data

Source: Q43 (n=857), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

GETTING TO THE GOAL

Q13 What do you see as the key items that would get you to your desired goal of an improved trade compliance program?



Source: Q13 (n=1369), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TAKEAWAY 2

LACK OF AUTOMATION RANKS AS TOP CHALLENGE

“The benefit of trade automation is obvious: GTM technology frees up an organization’s staff from spending time on manual processes and enables them to devote more time and intellectual capital to strategic matters that provide higher value. Aside from automation, GTM technology lowers expenses related to the many duties, fees, and taxes that apply to global commerce, which this report explores later.”

Mary Breede, Global Trade Specialist,
Thomson Reuters ONESOURCE Global Trade

The survey suggests that among non-GTM system users, two additional barriers to GTM automations exists. Respondents cited a lack of support or budget from within the organization as well as the existence of multiple enterprise resource planning (ERP) platforms as reasons why GTM technology isn’t being leveraged.

The findings suggest trade teams should be equipped with persuasive information: an objective analysis of the costs and benefits associated with GTM technology.

THE KPMG METHODOLOGY FOR MAKING A BUSINESS CASE FOR GTM TECHNOLOGY

Trade teams frequently need to make a business case for their technological needs. Budgets for GTM technology can come from many different places within an organization, and this generally depends on the reporting lines of the company in question.

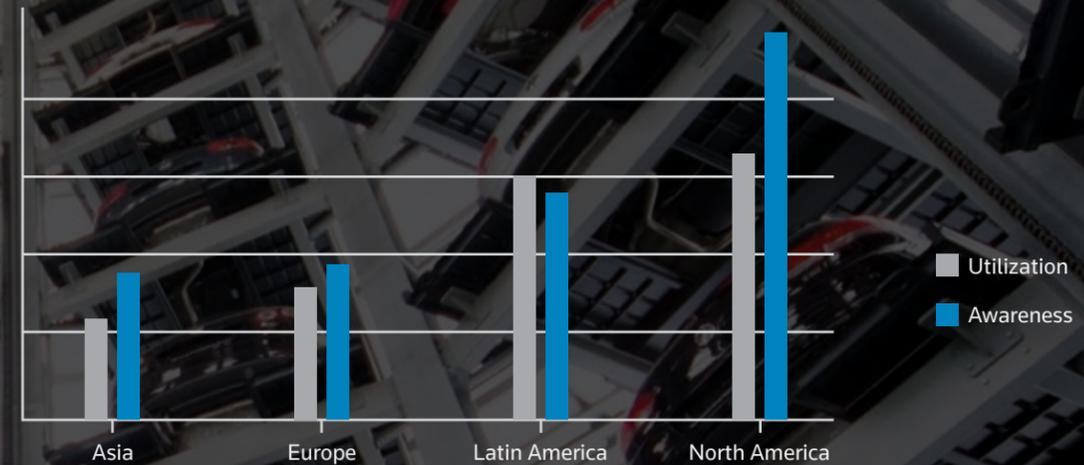
There are usually three steps in this process of making a strong business case.

STEP 1: Identify specific process and efficiency gaps that would be best addressed with technology. Take into account not only the current state but also your enterprise’s medium- and long-term goals and objectives. Trade automation is most efficient when there is an alignment with corporate initiatives around areas such as growth, cost management, compliance, and organizational structure.

STEP 2: Develop a business case. Be realistic about both the investment needed and benefits to be gained with automation. In most cases, this will come down to a return on investment exercise so it is critical to develop a quantification method for capturing benefits around areas such as lead times, broker fees, man hours per import transaction, reduced customs inquiries, reduced penalty assessments, reduced import duty payments, reduced broker fees, expansion of free trade agreements, and other special programs and redundancy reductions.

STEP 3: Secure corporate buy-in. In most cases budgets needed to implement automated solutions will not be part of an annual trade function budget, or at least not to begin with. Therefore, preparation is critical — understand which groups within the organization will have a role in approving the project and start preliminary discussions early on in the process. The IT team is a critical part of this process and understanding their timeline and roadmap is critical to planning and identifying the right timing for presenting your business case. Also critical is understanding tangent benefits for other departments such as logistics, procurement, finance, indirect taxes, and others. Getting their support can be a big boost. Finally, develop a business case summary for management. When you do get the opportunity to present, chances are your audience will know little about the intricacies of import and export functions; therefore, being able to present a concise and simple message in management terms is important.

GTMS AWARENESS VS. UTILIZATION



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

GTMS NON-USERS

Q19 Reasons for not utilizing a GTMS (among non-users)



Source: Q19 (n=1193), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TAKEAWAY 3

FTA UNDERUTILIZATION – A GLOBAL ISSUE



Last year, one of the key findings was that just 30 percent of respondents said their companies were fully utilizing all of the free trade agreements available to them. A year later, with an expanded scope of 30 countries, a more global measure of the FTA utilization rate was possible. The finding holds: Just 23 percent of respondents said their companies are fully utilizing all FTAs available to them.

The challenges that get in the way of full FTA utilization are complexity of rules of origin, challenges in gathering required documentation, and a lack of internal expertise, according to the survey.

The first two challenges are extremely time-consuming processes that trade specialists often perform manually. Technology can help automate the standard tasks so trade compliance teams only need to solve the exceptions, essentially eliminating most of the work related to FTA qualification.

“Companies succeed in using free trade agreements when they consider customs compliance in the production planning stage and create new metrics to track future savings. The ROI then speaks for itself.”

George Zaharatos, Principle, Trade & Customs, KPMG LLP in the US

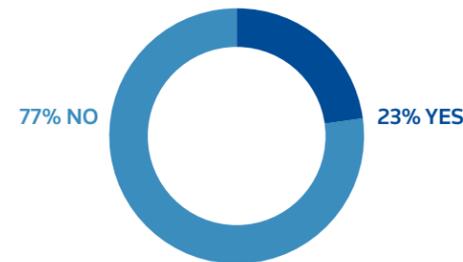
A strong majority of respondents acknowledge that identifying and leveraging FTAs produces a positive return on investment, yet very little time and resources are allocated to FTA compliance. Globally, only eight percent of respondents reported the absence of any savings in import duties by taking advantage of FTAs. Trade teams are not disinterested in better leveraging FTAs. Instead, it often is a matter of capacity. Because managing FTAs is time-consuming, staff is often tied up with other operational areas of trade.

“Automation can cut through the complexity of FTA compliance. It can improve accuracy in FTA qualification determinations and increase the total duty free savings captured.”

Hoon Sung, Head of FTA Thomson Reuters
ONESOURCE Global Trade

FTA UTILIZATION

Q29 Are you fully utilizing all Free Trade Agreements (FTAs) available in your country and applicable to your products?



Source: Q29 (n=1665), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

FTA qualification can become a constant moving target. As new SKUs are entered into a system and bill of materials structures evolve, constant work is needed to keep FTA qualifications up to date. FTA compliance is a process, not a project, and managing all of its variables can become more than a full-time job.

“When it comes to free trade agreements, scalability is the where automation really has the biggest impact. When it takes the same time and effort to qualify and certify 10 or 1000 products, the question is not Are we using all possible free trade agreements?, but it becomes more strategic, such as How can we work with purchasing to increase our qualification rates?”

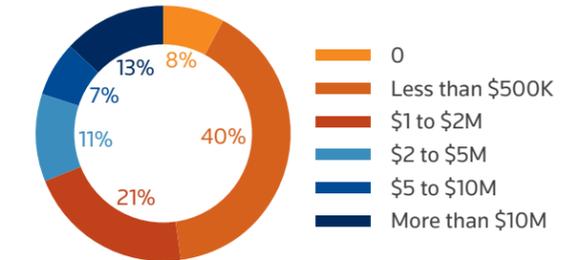
Gisele Belotto, Senior Manager KPMG LLP in the US

Aside from the use rate, the survey found that a full one-third of respondents said their companies are thinking about how to use the Trans-Pacific Partnership. The survey results showed slightly higher-than-average levels of preparation activities are taking place in Japan (45 percent) and Vietnam (44 percent). In the U.S., only 32 percent of companies surveyed are currently planning for TPP; Canada and Mexico report 46 percent and 32 percent active planning, respectively.

It should be noted that this survey was conducted before the UK referendum on membership of the EU. Considerable uncertainty exists for businesses trading from and to the UK though current EU agreed FTAs. The UK must first formally initiate Article 50 of the Lisbon Treaty to begin the process of exiting the EU, this process could take up to two years and it is unclear to what extent future trade relationships, including FTAs, will be negotiated during the process.

FTA ANNUAL SAVINGS

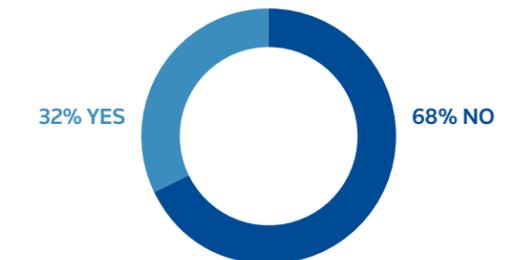
Q27 Approximately how much import duties (in \$USD) does your company save on an annual basis by the use of free trade agreements?



Source: Q27 (n=757), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TPP PREPARATION

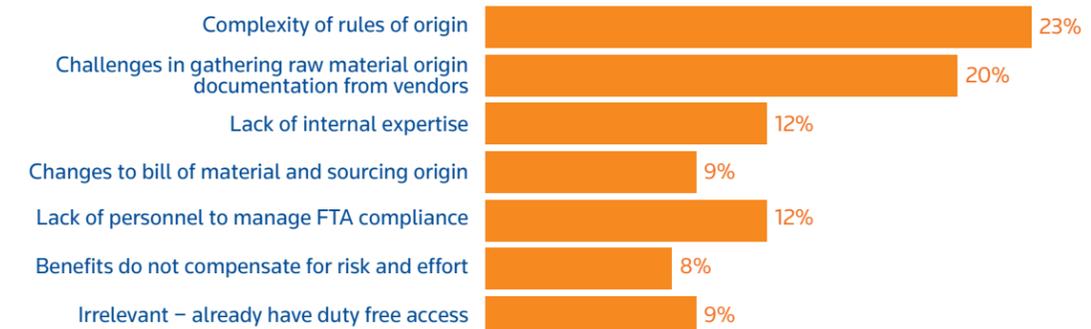
Q36 Have you started planning how to use the Trans-Pacific Partnership (TPP) once ratified?



Source: Q36 (n=490), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

FTA CHALLENGES

Q31 What are the biggest challenges in using FTAs for import/export?



Source: Q31 (n=1003), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International



TAKEAWAY 4

CLASSIFICATION COMPLEXITY ABOUNDS

Q Accurate product classification is one of the foundational components for moving product across borders. The survey revealed that 91 percent of respondents report having a challenge with product classification. This is consistent across all industries and regions represented in the survey.

Problems with ambiguity in product description, differing classifications among importing countries, and frequent changes in guidance were the most frequently cited product classification challenges.

These also have a resolution. When trade educates other departments on the importance of improved quality and specificity of product descriptions, the resulting consistency and clarity make classification decisions easier. Equally important is the ability to share information supporting the classification decision to ensure consistency throughout the organization and defend classifications during a customs audit. Respondents also cited workflow efficiency as a challenge. When done properly, automating classification workflow can reduce time and resources spent on classification, increase accuracy, and improve collaboration across the organization with the trade department.

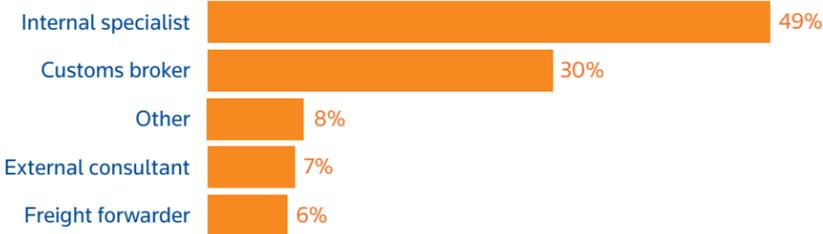
An increasing trend in the area of classification is the use of shared service centers, or centers of excellence, that are able to support the classification of products across various countries. This model increases technical knowledge and efficiency while helping avoid duplication of efforts. Companies moving towards a centralized or regionalized structure often use automated tools to track, review, and document the classification workflow as well as centralized product databases and tools that facilitate the mapping of classifications across the harmonized tariff schedules of different countries.

“Classification needs are ongoing, and the sheer volume and constant regulatory changes make this a time-consuming and challenging activity for trade compliance departments. Investing in the right tools to ensure the accuracy of classifications from the start should be a key priority for trade professionals.”

Keith Haurie, VP Business Development,
Thomson Reuters ONESOURCE Global Trade

TARIFF CLASSIFICATION

Q24 Who determines tariff classification for your goods?



Source: Q24 (n=1046), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

PRODUCT CLASSIFICATION CHALLENGES

Q23 What are the challenges while performing product classification?



Source: Q23 (n=1043), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TAKEAWAY 5

CENTRALIZATION OF TRADE PROCESSES

 The centralization of trade processes has a slight edge over non-centralization, 53 percent to 47 percent.

Trade compliance professionals have a wide variety of reporting lines: They can report to finance, tax, legal, logistics, or other departments, depending on how their organization is structured. This reflects the reality that there is no one standard way to organize for trade compliance, and that trade compliance responsibilities are often shared by several teams.

This lack of clear decision-making authority makes setting and following consistent policies difficult, which in turn causes inefficiencies. More than half of the respondents surveyed are trying to remedy this by centralizing at least some of the trade compliance activities. This is logical: centralization standardizes workflow and processes between divisions and geographic locations; aligns classification decisions and valuations; harmonizes transfer pricing with customs valuation; drives automation of workflows through centralized technology; and provides a focused budget.

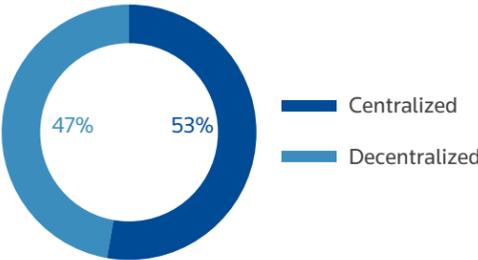
“Process centralization can drive process efficiencies, which means staff spends less time on repetitive, time consuming tasks and more time on services that add value. The benefits of centralizing the classification process is a practical example of what centralization does for trade teams. The outcome is increased auditability and tracking of trade compliance levels avoiding unplanned cost and risk.”

Taneli Ruda, SVP and Managing Director,
Thomson Reuters ONESOURCE Global Trade

When it comes to determining the right structure for your organization – centralized, regional, or de-centralized – there is no one decisive factor. Companies should look at each element of the trade process independently to determine which processes are better accomplished at a local or centralized manner. Usually the key factors to consider are whether a particular task is routine and repetitive or requires technical skills and knowledge, and whether it requires physical presence or if it can be accomplished remotely. Those questions will help assess if the task is well-suited to a shared service/center of excellence model.

PROCESS CENTRALIZATION

Q4 Is your Global Trade process centralized or decentralized?



Source: Q4 (n=1666), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Source: Q5 (n=1605)



TAKEAWAY 6

ALIGNMENT OF TRANSFER PRICING AND CUSTOMS VALUATION



Aligning transfer pricing policy and customs valuation should be a priority for multinational corporations. Transfer pricing policy drives prices for related-party transactions that are included in invoices, which are then used for customs import declarations. Transfer prices and any subsequent changes to them therefore have a direct impact on customs valuation and compliance. Adding complexity is the fact that customs agencies typically scrutinize import value of related-party transactions more than import value of unrelated transactions, and the administrative burden of correcting inaccurate customs and VAT declarations is significant.

The main challenge that organizations face when managing transfer pricing continues to be monitoring transfer pricing throughout the year and achieving compliance with transfer pricing and custom policies, according to the survey respondents. Three other challenges -- communicating with other departments, managing current transfer pricing for customs declarations, and declaration of retroactive adjustments to customs authorities -- each have a relatively even share of respondents' attention.

Just seven percent said they have no challenges in managing transfer pricing.

"The proactive alignment and predictive coordination of customs values and transfer pricing may be the most significant opportunity that companies have, in their own hands, to increase organizational value with trade."

Lou Abad, Partner Trade and Customs Practice, KPMG LLP in the US

A majority (59 percent) of companies surveyed are not using formal processes to align internal transfer pricing and customs valuation policies. U.S. respondents reported below-average (38 percent) alignment between these two functions, while Asia Pacific (APAC) reported the highest degree of formal alignment. But the takeaway is clear: Most respondents are not aligned. This poses significant problems, such as potential customs duty overpayments, risk of penalties in the case of underpayments, and manual customs valuation reconciliation after year-end transfer pricing adjustments.

Related-party transaction prices can fluctuate often, and transfer pricing activities are frequently carried out in departments outside trade and supply chain. But technology can truly drive the process of monitoring transfer pricing requirements, and centralization can streamline how it is carried out. Both these problems have concrete solutions.

For these reasons, companies are increasingly considering operational transfer pricing technology solutions as well as innovative practices such as predictive pricing. These systems gather required data into a centralized engine able to determine the most appropriate price on each transaction given the multiple variables mentioned above. This enables multi-nationals to manage tax and customs transfer prices from both a tax and customs compliance perspective in an automated environment on a proactive basis.

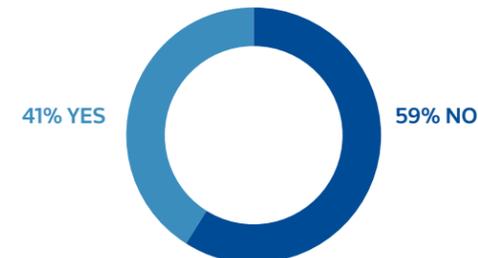


Have no challenges in managing transfer pricing

Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

ALIGNMENT

Q39 Do you have a formal process in place to align transfer pricing and customs evaluations?



Source: Q39 (n=969), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

TRANSFER PRICING CHALLENGES

Q35 What are the biggest challenges in managing transfer pricing?



Source: Q35 (n=1398), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Asia

For Asian countries, global supply chain management is the most time- and resource-intensive trade-related activity, a significant increase from 2015, when it was sixth. This suggests that Asian countries have started to shift their strategic focus from regular import and export work to total supply chain management, a higher-value activity. This may be because of the new government standards, such as the new Authorized Economic Operator (AEO) classification system of China Customs.

Transfer pricing ranks as a significant risk among respondents in Asia. This is not surprising given that many Asian countries are expected to adopt the BEPS Action 13 recommendations on transfer pricing documentation.

According to the survey results, monitoring transfer pricing results and maintaining current transfer pricing for customs declarations are the top two challenges in 2016. This will bring potential risks.

Thirty-seven percent of respondents claim to be fully utilizing all FTAs available in the country and applicable to their products – far higher than at the global level (23 percent).

FTA eligibility became a larger focus of company analysis, according to 2016 survey results. This is especially true for China-Korea and China-ASEAN FTAs.

TOP 3 CHALLENGES

1. Manual processes and disparate systems
2. Inefficient processes/systems
3. Interpreting and communicating regulatory requirements across sites and countries

TOP 3 RISKS

1. Transfer Pricing
2. Import Documentation and Licensing
3. Import Valuation

GTMS UTILIZATION



FTA UTILIZATION



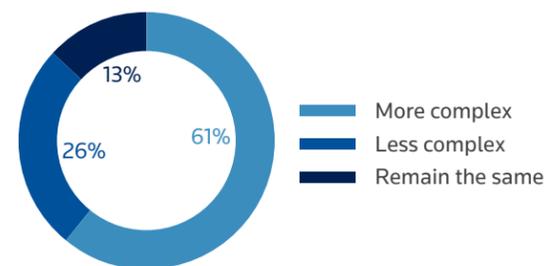
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



GLOBAL TRADE OUTLOOK



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Europe

In Europe, a large majority of the respondents engage in both import and export activities, and most are responsible for either multiple country compliance or global compliance.

No single department within a company dominates with regard to where the trade compliance department reports, but a majority have a logistics-related functional role. It is notable that a very small percent rolls it up under legal.

Utilization of GTM systems is fairly low for Europe at 26 percent, and the number of GTM-related events that have been attended where GTMS were a topic of discussion is small at 28 percent. Furthermore, when explaining the reasons for not utilizing a GTM system, globally the lack of a single ERP system is significant, but that is not the case for Europe.

With regard to how a GTM system could enhance value relative to the global community, Europe places less significance on enhanced cost savings and more emphasis on risk avoidance.

Only 18 percent of respondents feel they are fully utilizing all FTAs that are available. It will be interesting to see how this might change in the wake of the vote by the UK (United Kingdom) to leave the EU.

TOP 3 CHALLENGES

1. Interpreting and communicating regulatory requirements across sites and countries
2. Manual processes and disparate systems
3. Complex and changing requirements with local government agencies

TOP 3 RISKS

1. Restricted party screening
2. Import valuation
3. Product import classification

GTMS UTILIZATION



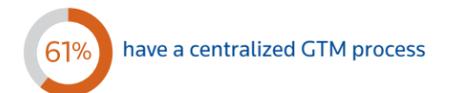
FTA UTILIZATION



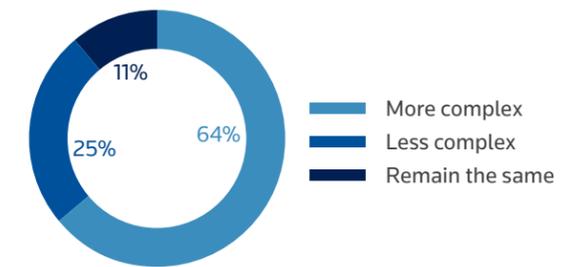
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



GLOBAL TRADE OUTLOOK



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Latin America

The survey reveals that companies in Latin America spend most of their time and resources on import documentation. This is not surprising considering that in this region, particularly Brazil and Argentina, there are strict customs inspection requirements aimed at import control. This causes trade operators to focus more on import controls than export controls.

In addition, the survey results demonstrate that respondents do not spend as much time and resources on restricted party screening and FTA compliance as the mean. Along those lines, the survey reveals that global trade operational processes, mainly the requirements of import and export documents and licenses, are fundamental factors for seeking management solutions.

Product import classification, import documentation and licensing, and import valuation are the top areas of perceived risk for Latin American respondents. Much of this concern is reflected in the current environment of fiscal sanctions that companies experience in Brazil.

As for utilizing FTA opportunities, the respondents indicated they spend minimum time and resources on managing FTAs. The research revealed that 25 percent of companies in Latin America are not fully utilizing FTAs, which is slightly higher than the global average of 23 percent. Companies in the region cite complexity with rules of origin, lack of internal expertise, and challenges gathering documentation as their top challenges.

Brazil and Mexico continue to implement tax incentives and other cost-reducing duty programs in an effort to increase global trade competitiveness and to stimulate local manufacturing and exporting. Brazil's new modality for the Special Regime of Industrial Warehouse under Automated System Control (Regime de Entrepoto Industrial sob Controle Aduaneiro Informatizado, RECOF) and Mexico recent amendment of its special customs regime legislation to grant additional benefits to companies electing to use the Strategic Bonded Warehouse (Recinto Fiscalizado Estratégico, RFE) customs regime are prime examples. The awareness of these special programs is often the problem. Only 27 percent of survey respondents in Brazil reported having full knowledge of the financial and operational benefits provided by different special programs.

TOP 3 CHALLENGES

1. Complex and changing requirements with local government agencies
2. Interpreting and communicating regulatory requirements across sites and countries
3. Lack of automated systems

TOP 3 RISKS

1. Product import classification
2. Import documentation and licensing
3. Import valuation

GTMS UTILIZATION



FTA UTILIZATION



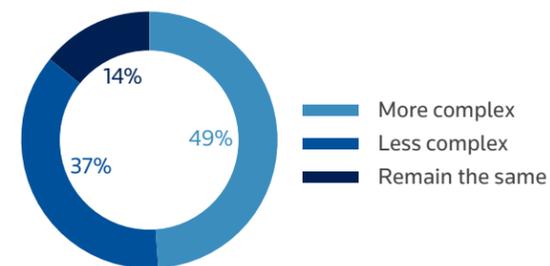
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



GLOBAL TRADE OUTLOOK



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

North America

Product import classification ranks high in the U.S. relative to the other regions and that aligns closely with the customs broker management task, which describes trade teams working with their brokers to make sure classifications are correct. This could be partially attributable to a large percentage of companies managing global compliance from locations in the U.S., a type of centralization.

Companies in North America are more concerned about export classifications than other regions because of the government's strong focus on export controls.

It is not surprising that restricted party screening tops the list for the U.S. and does not show up largely for the other regions. One reason is the U.S. government's strict export controls.

It seems that the first thing a U.S. company is likely to automate is restricted party screening because of the risk. While it is unlikely that a company will end up in negative headlines for failing to pay some duties because they misclassified their goods, selling electronics to someone on the terrorist watch list might very well end up making news and therefore poses reputation risk.

The biggest classification challenge is having adequate descriptions that help determine the classification. It is not a surprise that internal staff performs the classification function most of the time, as outsourcing the task would not produce any more certainty in telling what the product is by the description.

Compared with the rest of the countries represented in the survey, U.S. and Canadian companies do not feel as strongly that they are lacking FTA expertise in understanding how FTAs work, perhaps because NAFTA is established and well-understood. They are more worried about the ability to manage the requirements and ensure compliance, which involves gathering supplier documentation and monitoring changes to the bill of materials.

Regarding transfer pricing, the same disconnect as last year is apparent - that is, a significant number of related-company transactions occurring with little knowledge of whether a transfer pricing study has even been done for support.

TOP 3 CHALLENGES

1. Interpreting and communicating regulatory requirements across sites and countries
2. Complex and changing requirements with local government agencies
3. Manual processes and disparate systems

TOP 3 RISKS

1. Product import classification
2. Import valuation
3. Export documentation and licensing

GTMS UTILIZATION



FTA UTILIZATION



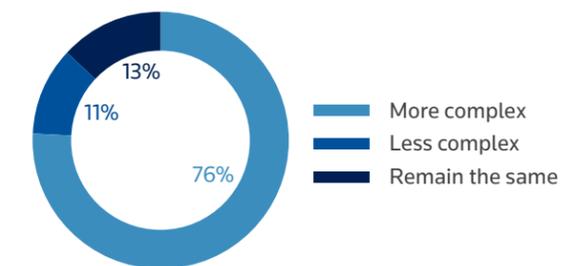
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



GLOBAL TRADE OUTLOOK



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Automotive

The global automotive market is diverse. It ranges from original equipment manufacturers (OEMs) and component manufacturers to dealerships and commercial vehicle manufacturers. There is potential for growth across many areas, from the booming manufacturing and domestic markets in BRIC (Brazil, Russia, India and China) and other developing economies, to the research and development of 'greener' vehicles and fuels.

Automotive companies are frequent users of FTAs that lower duties on raw materials, components, and finished products. Therefore, they are ahead of the mean in preparing to use the TPP in their supply chain: 41 percent of automotive companies have begun to prepare, versus 33 percent of all respondents.

However, 63 percent said they expect an increased trade compliance burden as a result of TPP, significantly higher than the mean of 45 percent.

Respondents from this sector were more likely than the mean to say that complex and changing requirements with local governments is a challenge.

TOP 3 CHALLENGES

1. Interpreting and communicating regulatory requirements across sites and countries
2. Inefficient processes/systems
3. Complex and changing requirements with local government agencies

TOP 3 RISKS

1. Product import classification
2. Import documentation and licensing
3. Import valuation

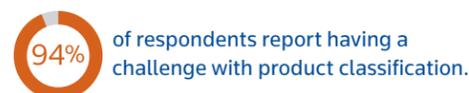
GTMS UTILIZATION



FTA UTILIZATION



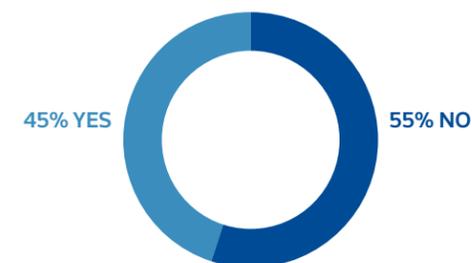
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



CUSTOM AND TRANSFER PRICING ALIGNMENT



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Chemicals

The chemical industry's competitive landscape is changing fast. Meanwhile, the demand base of the industry continues to move to emerging markets, albeit at volatile growth rates which means the most attractive markets are changing from one year to the next.

With ongoing structural challenges in Europe and Japan, running a global chemical company in today's world is extremely challenging. Given that the U.S. and Japan are counterparties in the TPP, and that U.S. lawmakers consider the Transatlantic Trade and Investment Partnership between the U.S. and the European Union to be a companion agreement to the TPP, the chemical industry's perception of free trade is worth examining.

Chemical companies are slightly ahead of the mean in preparation for the TPP, with 44 percent of respondents indicating their company has begun to prepare. Of note, half of respondents from TPP member-countries said they would increase trade with TPP counterparties, and half said they expect trade compliance to increase in light of the TPP.

TOP 3 CHALLENGES

1. Lack of automated systems
2. Manual processes and disparate systems
3. Inefficient processes/systems

TOP 3 RISKS

1. Import valuation
2. Import documentation and licensing
3. Transfer Pricing

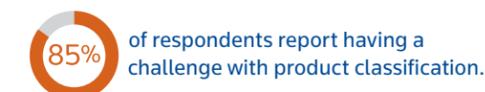
GTMS UTILIZATION



FTA UTILIZATION



PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



CUSTOM AND TRANSFER PRICING ALIGNMENT



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Electronics

The manufacture and distribution of electronic products and components is a truly global industry that relies heavily on free trade.

Respondents from the electronics industry had almost identical responses to questions about TPP as did the mean. This may be because electronics have low import duty rates and therefore FTA availability does not sway their target supply chain structure as much as it does for other industries.

Additionally, electronics companies cite more complex and changing requirements with local governments as a top challenge, the survey indicates, and they are more likely to consider transfer pricing as a risk. This may be because electronics companies hold IP assets in a wide range of geographic locations and therefore the price of goods is strongly correlated to IP as opposed to the physical costs of raw materials.

TOP 3 CHALLENGES

1. Disparities in requirements between countries
2. Complex and changing requirements with local government agencies
3. Inefficient processes and systems

TOP 3 RISKS

1. Import valuation
2. Transfer Pricing
3. Product import classification

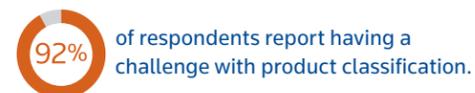
GTMS UTILIZATION



FTA UTILIZATION



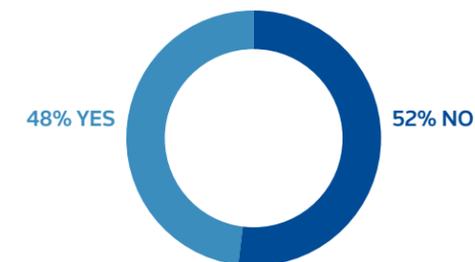
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



CUSTOM AND TRANSFER PRICING ALIGNMENT



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Food and Beverage

Food Drink and Consumer Goods (FDCG) companies have stood strong against trends changing the industry. But keeping up with today's consumer demand while meeting the pace of disruptive technology and expanding into new markets can require innovation.

The TPP would deregulate some food safety regulations by effectively allowing exporting countries to self-certify that their standards are equivalent to those of the importing country. This is probably why only 39 percent of respondents in the food and beverage industry said they expect the TPP to increase their trade compliance responsibilities.

Food and beverage companies also use GTM technology at a lower rate (24 percent) when compared with the mean (34 percent).

TOP 3 CHALLENGES

1. Lack of historical transactional data
2. Visibility to all elements in a trade transaction
3. Inefficient export and import KPIs and metrics

TOP 3 RISKS

1. Import valuation
2. Import documentation and licensing
3. Transfer Pricing

GTMS UTILIZATION



FTA UTILIZATION



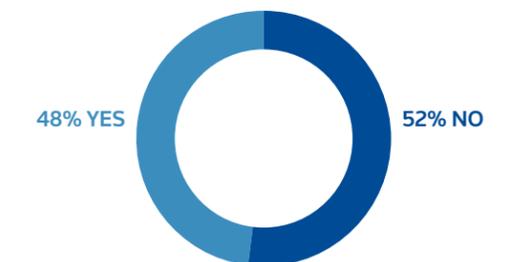
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



CUSTOM AND TRANSFER PRICING ALIGNMENT



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Heavy Machinery/Equipment

As customers look for innovation and quality at increasingly competitive prices, manufacturers of industrial goods such as heavy machinery and equipment must look for new ways to manage risk, deliver exceptional products and reduce costs and time to market.

This business sector is not focused on the TPP. For these manufacturers, the perception is that the TPP's costs outweigh the opportunities it creates. Just 26 percent of respondents in this industry say they've begun preparation for the TPP, compared with a mean of 32 percent, and 55 percent of them said they expect more compliance regulations if the TPP comes to fruition, compared with a mean of 45 percent.

Their top risk is transfer pricing, respondents said. The risk management and cost reduction qualities of GTM platforms, not the upside of boosting FTA utilization, are likely more appealing to businesses in this sector.

TOP 3 CHALLENGES

1. Manual processes and disparate systems
2. Disparities in requirements between countries
3. Complex and changing requirements with local government agencies

TOP 3 RISKS

1. Transfer Pricing
2. Product export classifications
3. Import documentation and licensing

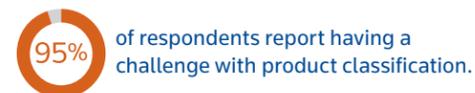
GTMS UTILIZATION



FTA UTILIZATION



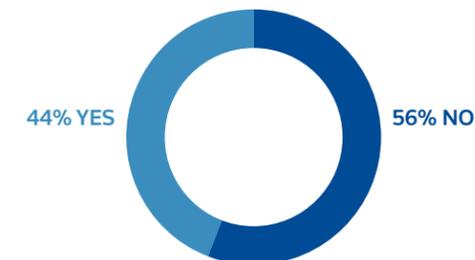
PRODUCT CLASSIFICATION



PROCESS CENTRALIZATION



CUSTOM AND TRANSFER PRICING ALIGNMENT



Source: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

"Global Trade can be a great driver of value for organizations. A common trait that successful trade functions have is a leader who can communicate a compelling vision, up and down the organization, with a realistic roadmap allowing for successes throughout the journey."

Doug Zuvich

Global Head of Trade and Customs, KPMG International and Partner, KPMG LLP in the US



Outlook

The near-term outlook for global trade may seem grim in light of the fact that the global economy is not doing well and there is a high level of uncertainty. But underneath those fundamentals, there are important details regarding trade operations and opportunities waiting to be seized.

The prolonged period of weak economic growth in Europe and China's economic transformation get most of the attention as today's primary macroeconomic drivers, as they should. Global trade has not just slowed down, it appears to have stopped growing entirely -- and these trends are likely responsible for a large part of the pullback.

Companies cannot control the macroeconomic fundamentals that shape industry. They can, however, control their operational approach to doing business and make their trade function more efficient. And efficiency, for trade teams, has distinct meaning.

First, it means automating manual tasks, better utilizing free trade agreements, reducing the complexity of the classification process, and aligning transfer pricing and customs valuation. Moreover, it means creating an environment where trade compliance is strategic and drives cost efficiencies through the use of special customs programs, free trade agreements, Authorized Economic Operator programs, and new supply chain structures.

Trade cannot be an isolated, fragmented function. In the context of slow growth, efficiency in the operational areas of global trade is profoundly important. The centralization of the trade management function is in many cases the missing link that would drive these efficiencies. Centralization can help trade teams meet the always-challenging mandate of doing more with less.

There are reasons to be optimistic. The global trade function is becoming more of a priority for executive management. Getting the funding necessary for GTM enhancements, including technology, is a barrier for trade teams, but with executive-level visibility to even modest successes and the long-term strategy, they should have an easier time getting support.

Knowing that the only constant in global trade is change -- more regulation and evolving markets; new consumption patterns and complex supply chains -- will likely only accelerate this process.

Investments in process centralization and automation that are taking place now can show substantial returns to the organization. The outlook is for the centralization of trade processes to increase at a modest pace, and for those efforts to truly drive more of the efficiencies trade teams need to perform at a high level.



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