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Preparing supply chains for the surge in global e-commerce: The cross-border requirements behind a smooth operation

Author: Alex Hadwick, Editor-in-Chief for Supply Chains, Reuters Events



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Foreword



International e-commerce is moving centre-stage. With consumers hungry for online deals, you need to be able to source and transport products on a global basis or face up to the fact that you are losing potential sales.

This is especially so in the era of COVID-19, where every facet of the e-commerce environment has been supercharged by soaring demand. The pandemic has accelerated changes in the e-commerce environment and shifted online behaviours rapidly - behaviours that are going to stick around long after stay-at-home orders and social distancing have passed.

This isn't to say you should just jump headfirst into the world of international e-commerce and assume that the benefits will accrue without any planning or research.

International trade has been liberalised throughout the last 60 years on a global level but it remains a complex environment to navigate. Each sovereign country has the power to level a maze of legislation regarding international trade, that can play havoc with your plans to expand your global footprint.

You'll need to be prepared for tariffs, trade regulations, documentation, and protocols to be truly effective in this field. What's more is the need to keep up with these constantly shifting stances between different blocs and countries. A change to the product codes, tariff levels or the minimum level of goods that can be transited without duties, can change business dynamics fundamentally, especially when many of us are operating on slim margins in an environment of higher costs driven by the need to meet e-commerce demand.

With all of this in mind, we have put together this comprehensive, expert-led guide to e-commerce, including expert legal minds, top trade professionals and e-commerce leaders that we hope will guide you through to a successful cross-border e-commerce operation.

Alex Hadwick
Editor-in-Chief for Supply Chains, Reuters Events



Chapter 1:
E-commerce on a roll

Already before the outbreak of COVID-19, we were seeing a profound increase in the e-commerce environment, with a steady percentage of market share shifting from physical stores into the online space.

Now, with the pandemic a firmly global and persistent issue, the online space has been supercharged. Stay-at-home orders and social distancing have propelled e-commerce into stratospheric growth rates, accelerating projections years ahead of where they were in 2019.

Not only is this because of increased shopping from those customers already buying online, but also a whole new cohort of shoppers coming into the e-commerce fold for the first time. Furthermore, these habits and behaviours are here to stay in the long term, according to a growing body of consumer research, and an increasingly significant and business critical percentage of that is down to cross-border movements.

Stratospheric growth rates

Growth in e-commerce right now is explosive, beating estimates handily and catching many by surprise. eMarketer estimates that e-commerce sales in the US will push over the $700 billion mark, which would bump it up to a share of 14.5% of total retail sales.

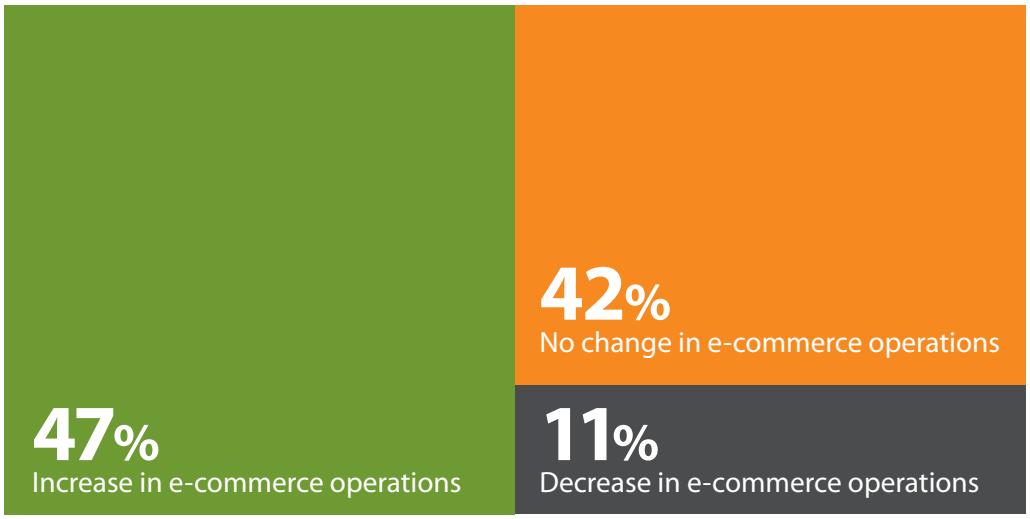
In the UK, the e-commerce market is expected to grow at an annualised rate of 19% in 2020.

In France, Nielsen Research estimated that online orders for home delivery grew 32% year-on-year in the first week of March.

At the peak of the crisis in May, Adobe estimated that online spending jumped by 77%



Change in e-commerce operations among shippers in H1 2020



Reuters Events: Supply Chain Emerging Out of the Pandemic Supply Chain Report

compared to the same month in 2019. Many retailers have been comparing this sudden spurt to their seasonal peak periods, operating at the same levels of demand they would normally see on Black Friday, Cyber Monday, or in the run-up to Christmas.

DHL eCommerce Solutions, part of the global logistics giant Deutsche Post DHL Group, saw e-commerce volumes in the US rise to "holiday peak levels" during the first three months of the pandemic as stay-at-home consumers shopped for health, wellness, and home office supplies.

The e-commerce provider saw a growth rate of more than 36% in US domestic volume and 28% in cross-border volume from the daily averages seen in February.

In particular, there have been major boosts for essential goods, alongside electronics and a variety of items associated with working from home.

DHL said that the top fastest growing online lightweight products ordered by US consumers were: Health and beauty; gym apparel; pharmaceuticals; and home office accessories and supplies.

DHL eCommerce Solutions Americas chief executive Lee Spratt said: "We believe many of these e-commerce categories will continue strong into the second and third quarter as social distancing practices and precautions continue, and we expect more online retailers to expand their existing online product portfolios to include personal protective equipment."

Crucially, low penetration segments are also now seeing a surge as a result of social distancing and store closures, most noticeably in the grocery sector. In the US, it is estimated that the online share of grocery shopping is going to head towards 10%, up from 5% to 6% in pre-COVID estimates and four years ahead of projections.

Adobe similarly noted that the online spending splurge had accelerated their forecasts forward by about four to six years.

Supply chains are being forced to reflect this sudden turn in consumer habits, with few reporting smaller e-commerce sales and most reporting strong growth. According to a survey conducted by Reuters Events: Supply Chain of nearly 600 executives in supply chains, just 11% of shippers have decreased their e-commerce operations this year, compared to 47% who have expanded their support for digital shoppers.

Long-term change

What's more is that there is stickiness to this behaviour across all generations, and although there will be plenty stepping into physical shops again, enough consumers have been turned on to the

online experience for it to mean elevated levels of consumption for years to come.

A Kantar online survey of 3,162 people aged 16-64 in the UK, Germany and France found that "six out of ten consumers say that they will continue to buy as much online as they do today after the pandemic has passed."

According to a multi-country study of 11,000 consumers by CapGemini, the percentage of consumers who say they have high interactions with physical retail stores, fell from 59% pre-COVID-19 to 24% in April 2020, but just 39% said they plan to return to frequently visiting stores in the next six to nine months. In the online environment, the percentage of those same consumers who said that they plan to interact heavily with online stores in the next six to nine months stood at 40%, up from 30% from before the pandemic.

What this means for international e-commerce trade

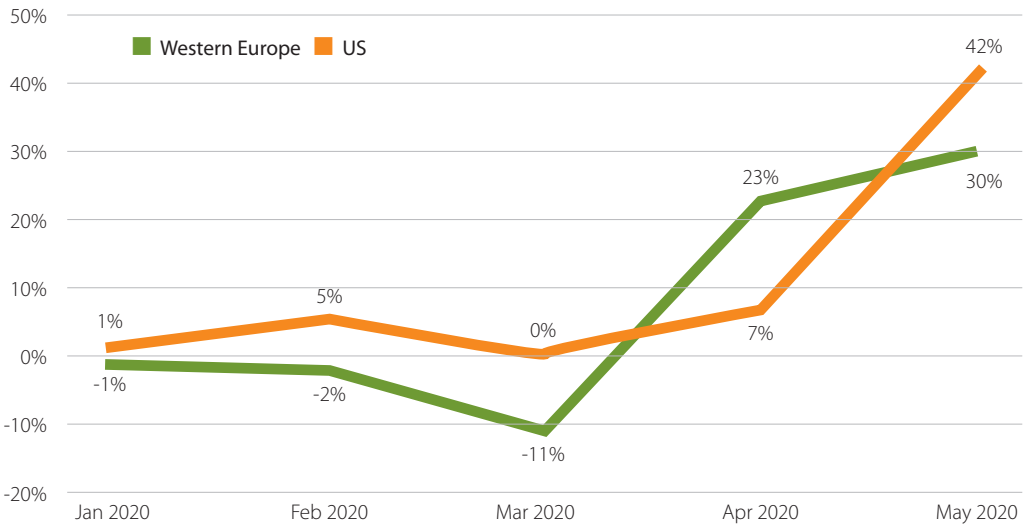
The genie is out of the bottle when it comes to e-commerce sales and that demand cannot be entirely satisfied from any one country. This has led to a major period of growth in international e-commerce that has only really just begun and will have plenty of legs for the remainder of this year and into next.

Research by Global-e, which is based on data from over 300 brands selling worldwide, found that while there had been an 11% Year-on-Year (YoY) growth in international e-commerce trade in the first four months of the year, this rose to an annualised growth rate of 21% in the first six months of the year.

Looking at geographical trends Global-e notes that while growth rates were flat or declining in the US and Western Europe across the first three months of the year, this suddenly shifts in April and May, as consumers really begin to adjust to the pandemic environment and once brands are able to respond accordingly.

In the US, flat rates suddenly shift in April to a +23% YoY growth rate and +42% in May. In Europe declines in the period Jan-March 2020 are followed by growth of +23% and +30% in April and May, respectively. This leaves US cross-border e-commerce up 10.2% and Western European trade up 9.5% in the year to June 14th 2020 according to their data, but with that growth loaded towards later in the time period.

Change in cross-border e-commerce year-on-year to May 2020 in Western Europe and the US



Source: Global-e, 2020

These trends underline that we are only just beginning on this growth phase of cross-border e-commerce trade.

Therefore, companies need to prepare and understand the terms of trade or face losing out on key markets and high growth opportunities.

Already as a result of COVID-19, we have seen many companies unable to meet demand and consequently losing out on major revenues and causing consumers to look elsewhere for alternative products.

According to a survey by Advantage Solutions, six out of 10 US shoppers chose to try an alternative to their primary retailer, either choosing another retailer's brick-and-mortar store or online platform or Amazon during the pandemic.

You need to be in the mix and fighting for your piece of the pie.

However, you also need to be aware that this isn't something entered into without some forethought, as an ill-prepared organisation will find itself left with poor customer service, higher costs and potentially worse if they violate standards and laws for moving goods.

According to Manoj Pankaj, VP of Cross-border eCommerce at GEODIS, "There are four key trends impacting international shipping for e-commerce" that brands need to be aware of and prepared to meet head-on:

1. "**Speed** – consumers are now used to receiving packages within one-to-two days in domestic market, so there is a growing challenge for international shippers to deliver packages quickly, with four-to-six days now being the norm for international shipments."
2. "**The perceived notion of free** – there is pressure from consumers to keep shipping fees as low as possible as they are seeking to pay little to no fee for shipping. To lower shipping costs, companies are exploring more innovative solutions and technology partnerships to keep costs down."
3. "**Simple return services.** There is an expectation that should a customer want to return something, it should be intuitive and simple."
4. "Finally, **it is critical for consumers to know upfront the total landed cost of the transaction**. Due to an order crossing the border, customers will have to pay additional charges for tax, duties and other compliance measures. Previously, consumers may be okay to not know that total cost until the product had arrived at their door. Typically, if taxes and duties are charged to the consumer at the point of the delivery at their door, consumers tend to avoid the e-commerce portal and in some cases simply refuse to accept the order."

Consumers are now used to receiving packages within one-to-two days in domestic market, so there is a growing challenge for international shippers to deliver packages quickly, with four-to-six days now being the norm for international shipments

Chapter 2:
The terms of trade: What you need to know about trade rules and regulations

While we may have lived through a high point of globalism, celebrated until recently for its liberalisation of trade and greater flow of goods, there's still plenty of complexity and regulation around international trade. Tariffs, product standards, differing contract law, charges, insurance requirements and registration documents can all come into play when it comes to shipping goods internationally.

Navigating this may have become easier over the last 50 years, especially within harmonised trading blocs, but for any operation of noticeable scale, it remains full of key principles that need to be understood and requirements that need to be complied with.

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Understanding risk and due diligence

For Prashant Kukadia, Associate, and Brian Perrott, Partner, at law firm Holman Fenwick Willan and specialists in international trade and commodities, the key starting point has always to begin with your due diligence and an understanding of risk.

Kukadia gives the example of manufacturing an e-commerce product within China then shipping that product to the US, which would firstly mean making sure you understand "What clearances do you need to start transporting into the US? And the second point would then be your contractual arrangements. So, how are you going to contract with this Chinese company? It's likely going to be Chinese law, which would mean that you'd need to ensure that you're complying with Chinese law."

Then you need to consider "Have you got your contracts in place with your ship owners for the transport of goods? This would include within those contractual arrangements your legal due diligence as well, ensuring that you as a company are able to carry out these transactions.

"And the third point … is obviously financing. Do you have your financing in place to be able to perhaps fill the gaps when you need to? Who's going to pay for what when? Do you need to take into account bridging loans? Another point within, contractor requirements, is also security. Do you need to take into account what happens if the Chinese company defaults and you need to action some security? I think these are the building blocks to put into place. So, due diligence, contractual arrangements, which includes legal due diligence, financing, and potentially even security if necessary."

"Apart from finding … reliable suppliers and customers, you're going to want to have proper documentation in place," says Perrott. "So, industry accepted standard documentation. You're going to want to have a form of secured payments so that you're not left with defaults. You're going to also need to do a risk assessment, mapping assessment of the geographical use of the commodity and the likely problems." He believes this last piece is critical, as "if you know the risks and know the problems, it's easier to set out to create a more secure and a more stable trading process or trading route."

He advises to "Think about having standardisation, having risk assessment and thinking in advance of the risks that you may face at point of supply, but also the point of destination and having secured payments so that you're not left with problems of disport or problems as the load boards."



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Building a contract

Each transaction and shipment will need a contract and this is the basic building block of international trade, the starting point for which is the "Choice of jurisdiction and governing law," says Kukadia. "Normally, where you have two parties in two different jurisdictions, each side would naturally want to choose their own law of their jurisdiction," but "what usually ends up happening is they agree to a neutral jurisdiction. That usually tends to be, especially in international trade and commerce, English law, which is why English law is quite popular choice of law between the parties, especially where neither party is an English party."

Then says Perrott, the contract is "Built on a number of pieces like a jigsaw, or a house." These are usually incorporated through standard terms, which usually come from agreed provisions provided by trade associations. "For example, Gafta … for companies that sell and purchase grain and feed." There may also be some companies whose general terms and conditions have become industry standard, "for example, the oil company BP's" contract structure is "often incorporated into the purchase of all contracts because they're so well-regarded across costs," says Kukadia.

"Then finally you also have international framework rules, if you like, and one of them is called Incoterms. Incoterms basically provide for allocation of certain risks and obligations within a contract. A lot of the times certain contracts might just incorporate these frameworks within their contracts that allocate risks and obligations, and people have compiled them within their contract. All these things put together form the major rules, regulations and contract requirements."

Perrott warns that these blocks are helpful but companies need to beware of "Potentially conflicting provisions. For me, that's a big trap, the inconsistent provisions, inconsistent clauses … in a sale contract … [or] a charter party. We still see that as being a big problem."

Understanding the patchwork of tariffs and standards

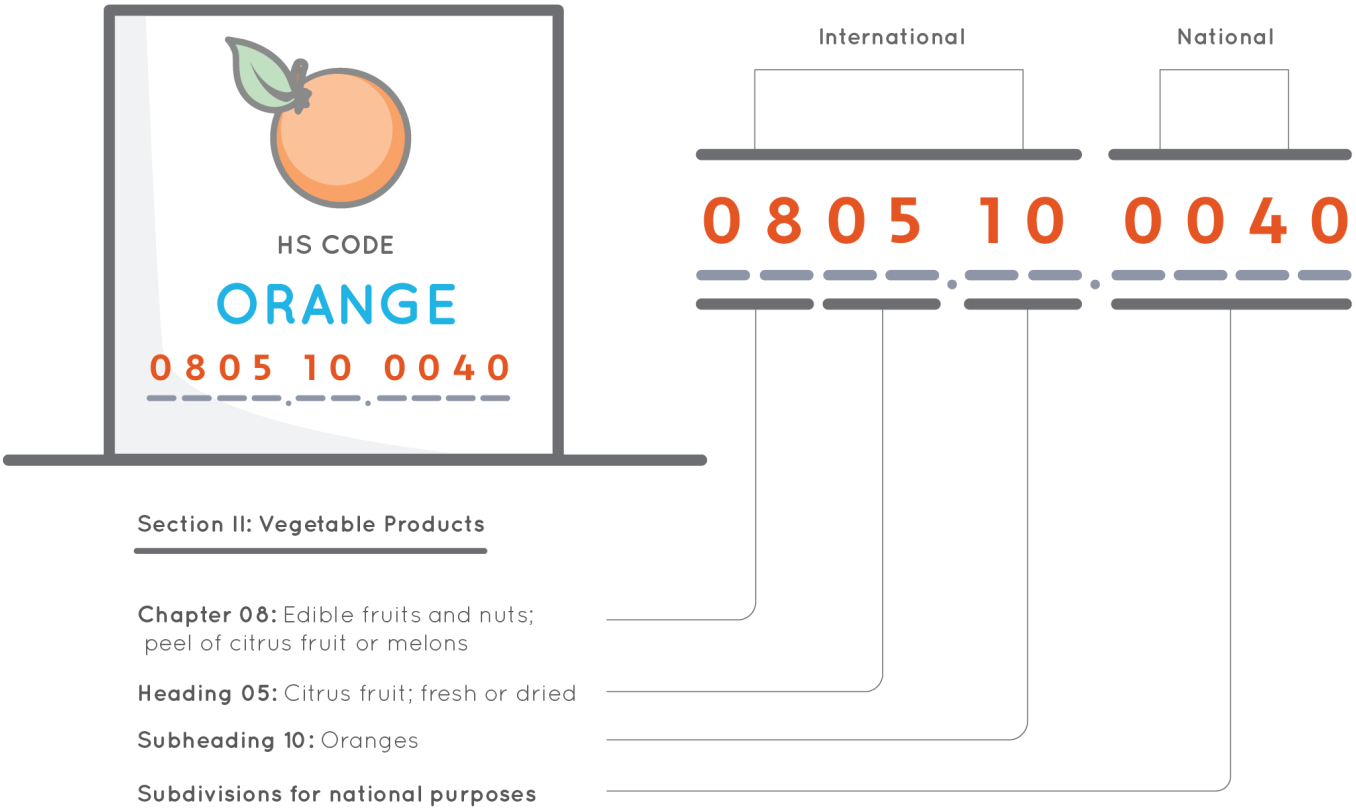
Tariffs and standards are the next critical step to understanding international trade mechanisms and need to be considered before you begin on this journey, as an unfavourable term of trade or a very different required standard to what you are used to in your own country or typical export locations may suddenly make trade unprofitable or even illegal.

The biggest element in this, according to Nabil Malouli, VP Global E-commerce, DHL, is understanding "what is the type of products that you have? And what are the classifications of each product? You might know this, but just to make sure every product has what we call a classification code."

These codes are known as "Harmonized System (HS) codes, which is kind of a misnomer because every country has its own version of that code," notes Craig Reed, SVP, Global Trade for Avalara. An HS code "can be anywhere from eight to 12 digits long, and it describes exactly in the government's terms what that good is. Then based on that country-specific code, you can calculate the duties and taxes."

Any brand trading goods need to pay attention to these codes as they are essential foundations for trade and they are an element that authorities pay close attention to.

"Depending on the merchandise HS code, it may only be able to be shipped to certain countries. For example, just because you can ship something from the US to Europe does not mean you



can ship it from the US to China, and this is something companies need to be keenly aware of," explains Pankaj. "If you're exporting from the US to Europe, that's one specific 10-digit HS code. If you are exporting from the US to Mexico, that's another separate 10-digit HS code. If the code is wrong, it can be perceived to the importing countries that you have mislabelled the merchandise leading to inconvenience, penalty, and other severe measures."

Reed agrees that "Oftentimes, people get into trouble in a few different areas. One is they don't have accurate codes and they end up getting goods stuck in customs, because customs doesn't agree with the way they describe the goods. Other complexities or issues are around understanding your costs. So, if you're not accurate and you don't accurately understand what your goods are, then it's difficult to calculate duties and taxes. This means your supply chain costs can spiral out of control, because what you're actually getting charged and what you think you should get charged don't match up."

Alongside an SKU-specific HS code, Pankaj also reinforces that "For international shipments, an invoice, a packing list, a certificate of origin, description of the product and a bill of lading are all required. The bill of lading is important as it provides the carrier and the shipper with all of the necessary information needed to properly process an international shipment. It also serves as a receipt for shipped products and showcases the terms and conditions agreed upon for the transportation of products."

If you are involved in selling to consumers in another jurisdiction, then it is important to consider local rules and laws in areas like returns and consumer rights, which can have an effect on Terms and Conditions of Sale and returns policies, and whether this is done by the distributor/reseller or the manufacturer.

It is therefore frequently advisable to have a form of in-house legal counsel that you can consult to check your legal position of shipping and sales.

Key changes to the terms to trade that you need to track

The patchwork of documentation and overcoming legal hurdles are critical to operating an international shipping operation but this doesn't mean it all ends there. Companies also need to keep on top of how the international trade environment is evolving. Tariffs, agreements and regulations are all regularly appraised and renegotiated by governments or ruling bodies for a variety of reasons, both practical and political.

With the potential to be operating on top of thin margins, changes to these can make the difference between profit and loss.

> As postal rates get set to rocket, retailers, e-tailers and marketplaces are having to face up to the reality that despite fuller shopping baskets, the level of competition means consumers will continue to vote with their plastic

A constantly changing bar

Critical to almost all cross-border e-commerce operators is understanding and maximising the possibilities of the minimum thresholds countries and blocs apply to goods for taxes and tariffs.

These are typically known as "De minimis thresholds, where goods that are under a certain threshold are not dutiable," explains Reed but when "they're over that threshold, they are dutiable."

Although that concept is relatively simple, it quickly becomes more complex, as "Everyone calculates their de minimis in their own country and with their own currency, obviously. So, you have to be able to understand what that exchange rate base de minimis is," points out Reed, and "they change all the time. In fact, Canada just changed in July."

Further major shifts are happening or coming in the EU and US.

The US has recently created the Entry Type 86 clearance, which essentially means that any imports with a value of less than $800 can be classified in this bracket and means importers are not required to file for formal entry of goods or pay taxes and duties if they complete the right form in the new Automated Commercial Environment (ACE) portal.

The EU is also going through a major transition of reforming duties to make VAT simpler, by moving from levelling duties on individual goods to total sales made and instituting across-the-board tax rules. If cross-border sales from within member states are under €10,000, then these are treated as domestic sales, but for those outside the EU, all sales are now subject to VAT payments to be made at each member states' relevant VAT portal. Importers from the outside will need to work with an intermediary agent to comply with VAT registration and have until 2021 to do so.

Going postal

As part of the widening political divide between the US and China, President Trump enacted significant changes to the Universal Postal Union's (UPU) longstanding terminal dues system that compensates postal authorities for the cost of handling, transporting and delivering bulky letters and small packets across borders.

The US Postal Service (USPS) can now "self-declare" – meaning set its own tariff rates – for international packages entering the US domestic mail system, a move aimed at Chinese e-commerce companies.

US inbound postage and package rates could rise by up to 150% after the changes, and individual UPU members with inbound letter-post volumes in excess of 75,000 tonnes will soon be allowed to follow the same path.

The US move whereby President Trump threatened to withdraw the USPS from the UPU, is designed to create a level playing field for international postal rates which saw China designated a "developing country" by the UPU.

China was able to enjoy lower rates for goods entering the US as airfreight, for example, then placed in the domestic delivery system at a much lower cost than an end-to-end express shipment.

"Retailers, direct-to-consumer brands, marketplaces and marketplace sellers riding the lockdown boom in cross-border e-commerce sales are going to get a massive 'wake-up call' in the mail … as global postal rates into the US start to soar by as much as 150% or more," says Brian Bourke, Chief Growth Officer at US headquartered SEKO Logistics.

"As postal rates get set to rocket, retailers, e-tailers and marketplaces are having to face up to the reality that despite fuller shopping baskets, the level of competition means consumers will continue to vote with their plastic," he adds.

"Some will undoubtedly pay more for faster delivery times, shipment visibility and peace of mind but unless sellers find alternative, more cost-effective ways to ship their goods, it's their margins that will start to dissipate – and that's before the other 191 member countries in the UPU get to set their own rates for foreign parcel services at the start of 2021."

Already, Arnaud Deshais, Chief Supply Chain Officer for e-commerce marketplace Redbubble, has seen the changes to UPU "Result in longer delivery times and higher costs."

This change in costs combined with problems with the USPS has meant that Redbubble is re-evaluating how parcels in the US are moved as it "Becomes almost competitive with private carriers like FedEx or UPS … because the costs will be almost similar, and the delivery time will improve significantly. The postal solution used to be the cheap and a little bit longer option, but now the difference between the postal option and the private option becomes [so small] almost you might as well go with a private option."



Chapter 3:
Creating a smooth journey for your goods

Now you should have the foundations for understanding the fundamental requirements and basic frameworks around international e-commerce and trade. This can seem intimidating, especially with all of the jargon, legal requirements and paperwork.

Fortunately, help is at hand and will allow you to take advantage of the growth in international e-commerce whilst avoiding the most onerous charges and bureaucracy.



According to Reed, "A lot of the issues that we saw 20 years ago when doing cross-border commerce are still there today"

Keeping track

According to Reed, "A lot of the issues that we saw 20 years ago when doing cross-border commerce are still there today," most of which relate back to keeping track of goods in stock and in transit and the relevant paperwork and costs for those. "It all goes back to the ability to really understand what your goods are from the government's perspective, and then what that means in terms of whether or not you can ship the goods, whether or not you have to charge duty and tax and how much duty and tax you have to charge," says Reed. The final step is "Making sure that the customer is well informed before they make the purchase, so that's all a smooth experience."

Malouli agrees that "Oftentimes when customers are just starting to shape their cross-border e-commerce approach, they don't know their entire SKU count data, they do not necessarily have that information." This has implications, as "if you're shipping, let's say t shirts, depending on which material, then it might differ in regards to what classification you apply, and that has tax implications, that has profitability implications and also cost implications that you have to consider."

Reed notes that in a study conducted by Avalara that this complexity is creating challenges for merchants. In the research survey, 56% of respondents reported shipments getting delayed in customs and 50% noted they faced added supply chain costs when selling cross-border, as well as 46% revealing an inability to properly calculate duties and taxes. Naturally, these capability gaps then had further consequences for customer satisfaction and timely fulfilment.

Malouli therefore suggests starting small: "We don't usually recommend starting with 100% of your products. You take your easiest, cheapest products, the ones that do not have a high financial exposure."

He recommends several steps when moving into cross-border e-commerce trade:

- "First thing is you have to look at your product portfolio and see which one of the product categories you will want to be moving cross-border based on the motivation. Is it to penetrate a new market? Is it because you are not effective in terms of having a distribution channel in that market or your competition is eating into that market?"
- The next point is to look at "The end-to-end supply chain. What are the companies that I'm going to be using for international movements? Why is that the company I'm going to use cross-border? What are the companies that will help me make sure that my packaging, and my products are actually to the standard of the countries that I'm going to be selling into? That's extremely important."
- Then you need to consider, "What are the technologies that I'm going to be able to use that will allow me to do things like labour generation, track and trace returns, customs evaluations or customs simulations?"

Deshais notes that this can also be kept simple. "It might surprise you here but we're not necessarily looking at custom-made solutions, or existing software solutions. We're actually more looking at working directly with the various carriers on aggregating the different data for purchases made through our marketplace…. An example of that would be the tracking of events," which comes from the carriers and then a team at "Redbubble is specialized in aggregating all the data from the different carriers. We're looking at each portion of the journey of the packages and logging the different events so that we can identify deviations from what we expect and also track the cost base."

Reducing complexity

For Redbubble's Deshais, the biggest challenge is "Tax and paperwork. It is challenging to properly manage all the different taxations and the paperwork requested by the different countries and experts."

This challenge is being addressed, as "Automation is playing a key role in expediting the compliance process," thinks Pankaj, via "leveraging technology around natural language processing and machine learning. Also, smarter systems that allow companies to only classify the specific SKUs they want to export to a country as opposed to being forced to classify every SKU in their product library for every country are helping speed this process up."

Reed gives the example of "The item classification component, which can be expedited with automation.

"Avalara spent a lot of time and effort and intellectual capital on artificial intelligence classification. So, we have a proprietary AI engine that will take incoming data feeds from customers then get to a very narrow range of possible outcomes from a country-specific level, up to and including full classification that goes back to the customer automatically."



However, Reed notes, as does Malouli, that "Oftentimes though, the seller just doesn't give you enough data for a machine to be able to classify in full. So, we also have what we call 'experts as a service', who are a trained, large group of people who know once the machine produces the … finite list of possibilities, they can quickly and very, very efficiently get down to what the correct code is, which then goes back … to the seller."

He also notes that through "Building and maintaining stable data connections to government," that takes into account "all the changes every single day that are happening," they've been able to create a repository of machine-readable country-specific regulations and rates that have allowed them to build "an automated duty and tax calculation engine."

Minimising de minimis

As noted earlier, one of the key components to understand when operating a cross-border e-commerce operations is de minimis. Fitting goods under this threshold can mean a big difference in direct and indirect costs. Automation is also going to touch this space and make it easier for companies to comply with and take advantage of de minimis levels.

Reed sees changes to the US de minimis requirements and institution of Type 86 clearance resulting in "A lot more people outsourcing and finding solutions that automate a lot of that complexity away… Whereas before [low value goods] were just coming in through the postal stream, without any kind of item classification information required, now they require HS codes to take advantage of the Type 86 clearance, which is going to be a much cheaper form of clearance than the new postal regime."

Bourke and his colleagues at SEKO are looking at this by providing a service that can break down shipments to "Allow for each parcel to be cleared individually".

"It's something very new and we can even do it for ocean freight coming in," he notes, "at an express level, so that you're not having to pay a couple dollars for each parcel package. With the high de minimis for customs and duties in the United States, it makes it actually cost competitive to begin to think about these micro-bypass solutions that that can take a lot of friction out of your own supply chain."

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Chapter 4: Trade wars, trials and tribulations

The story of the post-Second World War has been one of moving towards trade liberalisation and standardisation that has allowed for an explosion in global trade. This has encompassed free trade agreements, expanding trade blocs, and the adoption of general standards, such as the HS codes or ISO standard containers.

Even recent agreements have shown that there is still plenty of interest and will in continuing to move in this direction. The Comprehensive Economic and Trade Agreement between the EU and Canada, for example will push the two towards a stated goal of eliminating tariffs for 98.6% of Canadian goods and 99% of those from the EU.

Similarly, even after the US backed out of the Trans-Pacific Partnership, the remaining members forged ahead to conclude an agreement to reduce barriers to trade in 2018 and the Trump administration itself has ratified the USMCA agreement, replacing NAFTA.

However, this does not mean there is uniformity in approach, and we are actually seeing a relatively unusual period in the post-war consensus, where countries are often raising barriers and pulling back from closer intertwining of their trade.

> Some of the restrictions that say for example, the US put in place two years ago on products from China, where the duty rates shot up significantly … for a number of products, it just takes it to the point where you can't even sell it

A move towards protectionism?

There are two big examples of this, firstly in the form of the trade war between the US and several key trading partners, principally China, but also to a lesser extent the EU and South Korea, and then there is the decision by the UK to leave the EU.

Both of these are huge moments in the balance of international trade, as the world's two largest economies in China and the US have been the story of the last three decades, as China became the workshop for American consumerism. Then in the case of Brexit, this is the first time that a country has attempted such an ambitious decoupling from a major trade bloc or set of agreements and is very much unprecedented.

How these will play out remains to be seen but the effects of these are already very real.

In the case of China-US trade, tariffs on a huge variety of goods were applied, with tariffs raised from between 10% to 25%.

"Some of the restrictions that say for example, the US put in place two years ago on products from China, where the duty rates shot up significantly … for a number of products, it just takes it to the point where you can't even sell it," says Crawford. "It's not commercially viable in the market," to continue to bring in many of the finer margin products without passing much of that cost on to the consumer, which is frequently difficult in highly competitive environments, and even more so now consumers are more strapped for cash following recession in the first half of 2020.

In the case of the UK, there has already been a drop in some export categories, as the lack of clarity on post Brexit trading has left many hedging their bets and looking to by elsewhere. For example, the BBC reported that UK exports of barley to the EU had been hit. Although the effects on international trade volumes are limited currently, the prospect of a lack of a comprehensive trade deal between the UK and EU would mean huge changes to trade flows.

James Hookham, Secretary General of the Global Shippers Forum, also warns of "China-Australia tensions; the collapse of the WTO as a functioning arbiter of trade disputes; Intra-Middle East tensions plus further US-Iran sanctions," as other areas to watch.

Preparing for Brexit – a viewpoint from James Hookham, Secretary General of the Global Shippers Forum

Q: Where do we stand with Brexit negotiations?

The working assumption of the British Government and for most businesses is that there will be a 'hard' border between the EU and UK (except for Northern Ireland) from midnight on 1 January 2021, when the Transition Period is due to end. On that date, the UK will commence trading outside of the European Customs Union and the EU Single Market and will effectively become a third-country trading with the EU on the terms prescribed by the World Trade Organisation (WTO).

The negotiations currently underway are intended to produce a new EU-UK Trade Agreement that may ameliorate some or all of the WTO conditions but both sides are saying this is likely to be only on matters of detail and on the scale and scope of tariffs, etc.

Although the UK is promoting a 'No Tariffs, No Declarations' outcome similar to the EU-Canada deal, the price set by the EU (regulatory alignment, ECJ jurisdiction, state aid rules, etc) seems to be impossibly high for the UK to concede politically.

Any business reliant on UK-EU trade should assume a 'No Deal' outcome and just be grateful if anything less does actually emerge.

Q: What would a 'hard Brexit' entail?

A 'hard' border means full Customs declarations, regulatory checks and increased inspections for all movement of goods between the UK and the EU. These are no different to the controls encountered when goods are traded with countries outside the EU but the costs and management challenges for business (and border agencies) will be to adapt the high-throughput, interconnected, multi-country supply chains and enforcement regimes developed over 25 years of 'frictionless trade' to work with the new controls – both the physical interventions and the new digital documentation requirements.

Unless covered off in a new trade deal, there will also be additional overlays arising from requirements to produce Safety and Security Declarations, acquire goods vehicle permits for vehicles, and satisfy Country of Origin requirements for goods made with 'foreign' parts or ingredients.

On 13 July, the UK Government published its 'Border Operating Model' that sets out what will need to be done, by whom, at what stage and by what means (although much detail still needs to be decided). At the same time the Government announced that some of the requirements for UK imports would be delayed until later in 2021 to give industry (and probably them) time to adapt. Brussels is adamant that full EU border controls will apply from 1 January, no exceptions. As a result, there are plans to carefully manage traffic flows and queues in Kent.

The bottom line is that things will change at the UK-EU border at the end of the year, so get ready now!

Q: What about UK-global trade?

Brexit also has implications for traders outside the EU too. The Government published its new Global Tariff in May that will replace the Union Customs Code for all UK-bound goods. Many UK-bound shipments are shipped via continental ports and airports and will become subject to new Transit controls from next year. The UK is also planning to introduce a new Customs Declaration System, which will eventually handle all UK imports and exports. Many nations currently trade with the UK under EU trade agreements, so their status needs to be clarified (or rolled-over) before the end of year.

The challenges of relocating trade

The combined effects of COVID-19 and the trade conflicts ongoing globally have brought new light onto the locations companies are sourcing their products from. Supply chain managers are now putting much more scrutiny into how their supply chains function and their upstream sourcing.

The objective is to be more resilient and less reliant on single geographies for large parts or all of their supply chains. This will mean even more focus on international trade, as manufacturing is repositioned to more countries.

Crawford says that the current environment is "Accelerating manufacturing outside of China, as companies try to diversify their manufacturing base. I don't think that the result is going to be increasing manufacturing in the United States," however. Instead he thinks "it's more accelerating manufacturing into other Southeast Asian countries, to avoid the potential of those more punitive measures taking effect, because there's an acceptance that the US administration is just not predictable."

However, this is not an easy task, even in the best of circumstances. "Even if you place a PO today, and this is just the absolute minimum, you're talking say 60 days lead time for any manufacturer to be able to produce a product from when a PO is placed. Then you have another 30 to 45 days on the water before it gets into a destination country and clears customs," says Crawford, and that is for a country with an advanced infrastructure and capacity, such as China, alongside an already vetted manufacturer.

Realistically for those countries like "Vietnam, or Indonesia, or Malaysia, or Cambodia, or India, wherever it may be that companies might desire to shift products out of China, [often] their ports aren't large enough, the shipping carriers don't have deliveries, pickups aren't scheduled frequently enough, the roads aren't large enough, the labour force in the markets isn't to the point to where it could absorb is as much as you'd want to shift out."

Furthermore, you need consider the skill of the labour force, particularly for goods like consumer electronics. In Crawford's experience at both Amazon and Walmart, when they looked to set up factories in some of these newer bases, "The defect rate of the production line shoots through the roof, because the fact is these factories in China have been producing these items for 10 and 15



> To some degree, the US tariffs increases were a blessing in disguise, because the fulfilment network had already starting moving towards a more local option

Case study: Localising fulfilment and production

An alternative approach is to move within borders and to look at where it is advantageous to bring production close to the consumer.

This is something that e-commerce company Redbubble have been pursuing, and it has already yielded results in avoiding costs resulting from a more restrictive trade environment, as well as reducing disruption from the pandemic.

Even "Before COVID, there were marketplace drivers that actually helped during COVID," explains Deshais. "The first one was the US tariffs…. The second one was Brexit, because the fulfillers were already consistent between the UK and the rest of Europe. And then the third one was we were also doing some efforts in localization of the fulfilment network due to carbon footprint."

"To some degree, the US tariffs increases were a blessing in disguise, because the fulfilment network had already starting moving towards a more local option. If you look at it before COVID, domestic fulfillers were already processing orders for the European market, and that trend was increasing.

"With that drops the delivery time but also the cost drops," notes Deshais.

He believes that there are wider trends at work that will continue to push them down this direction. "I would say that the customer expectation will keep evolving and, in particular, local fulfilment close to home supporting local business [is an] aspect [that] is becoming more important. I believe that the cross-borders will continue to be difficult and expensive and it will require new visibility technology to understand customer and competitive trends and opportunities," creating a push factor "towards more localisation but also a need to streamline cross-border."

years. That skilled labour in that concentrated product category is immensely valuable and kind of an afterthought for a lot of people when they consider shifting manufacturing."

This realistically "Means five to 10 years, at best," for trade to really shift, although there is a clear direction and a changing of the trade winds occurring thinks Crawford.

Counting the cost

According to Hookham, "The costs of greater protectionism will be directly manifested as higher customs duties and fees for border checks. However, it is the indirect costs that are the more pervasive and more insidious, ranging from higher inventory (working capital) costs because of stock being held at the border; compliance costs for meeting new regulatory and documentary requirements; and higher overheads from monitoring and reacting to a rapidly changing landscape.

"To that you can add in higher insurance, legal and accountancy costs arising from the need to evidence compliance and conformity.

"Then there are the real risks of getting it wrong: fines and sanctions for trading with proscribed countries or their representatives, black-listing by government procurement agencies; credit-rating impacts and shareholder confidence."

Although he sees the short term being as case of global trade getting "More difficult to do and fewer businesses will bother, especially SMEs without the management bandwidth and working capital to handle all this 'friction'," there will be innovation that will turn the tide further out. "This will be assisted by massive developments in digitization of trade documents, proliferation of e-trading, the traceability and trackability of goods, micro-manufacturing, and energy efficiency improvements prompted by climate change policies, to name but five."

About Avalara Item Classification

Avalara Item Classification maps physical goods to full, country-specific tariff codes using an automated process that streamlines customs entry and helps ensure customs duties can be calculated accurately. Maintaining compliance, as cross-border package volume continues to grow, is challenging. Avalara's cross-border solutions can help your business manage the load while keeping expenses under control. Avalara Item Classification is available for any country and virtually every territory in the world.