



Bringing Clarity to Compliance: **Thinking Beyond Brexit**

*Using Brexit as an Opportunity for Positive Change in
Harmonized System (HS) Classification and Beyond*



Introduction

Brexit has many compliance professionals concerned and with good reason—much of what may happen in the long-term in regard to Brexit is in flux. It is clear, however, that when a Brexit deal or no-deal is reached, the outcome is likely to be disruptive.

Although policy shifts such as Brexit can mean substantial, rapid, and often permanent change, best-in-class businesses are viewing the milestone as an opportunity. Market leaders know that a proactive, big picture approach to Brexit is a best practice and that it is necessary to make preparations now. Forward-thinking businesses are thinking strategically about Brexit to institute meaningful operational shifts to optimize item classification, refresh inefficient procedures with the right technology, improve accuracy, and maximize productivity in its trade compliance departments.

Using Brexit As An Opportunity for Positive Change

Brexit is an ideal opportunity to implement better systems to manage trade compliance practices such as item classification. Compliance professionals can use the transition to not only review items that are impacted by Brexit, but are utilizing the move as a springboard to:

- Keep pace with more than just tariffs, but to also ensure access to the latest and most accurate regulations, rulings, and other trade information
- Deploy systems that can use existing HS codes to determine classifications for other countries
- Institute procedures to demonstrate reasonable care, support classification determinations, and reduce duty spend
- Begin a path forward to ensure that tariff information housed in Enterprise Resource Planning (ERP) systems will be up-to-date in a post-Brexit world



Market leaders are thinking strategically about Brexit as an opportunity to not only re-classify products, but as a mechanism to institute meaningful operational shifts and refresh inefficient processes.

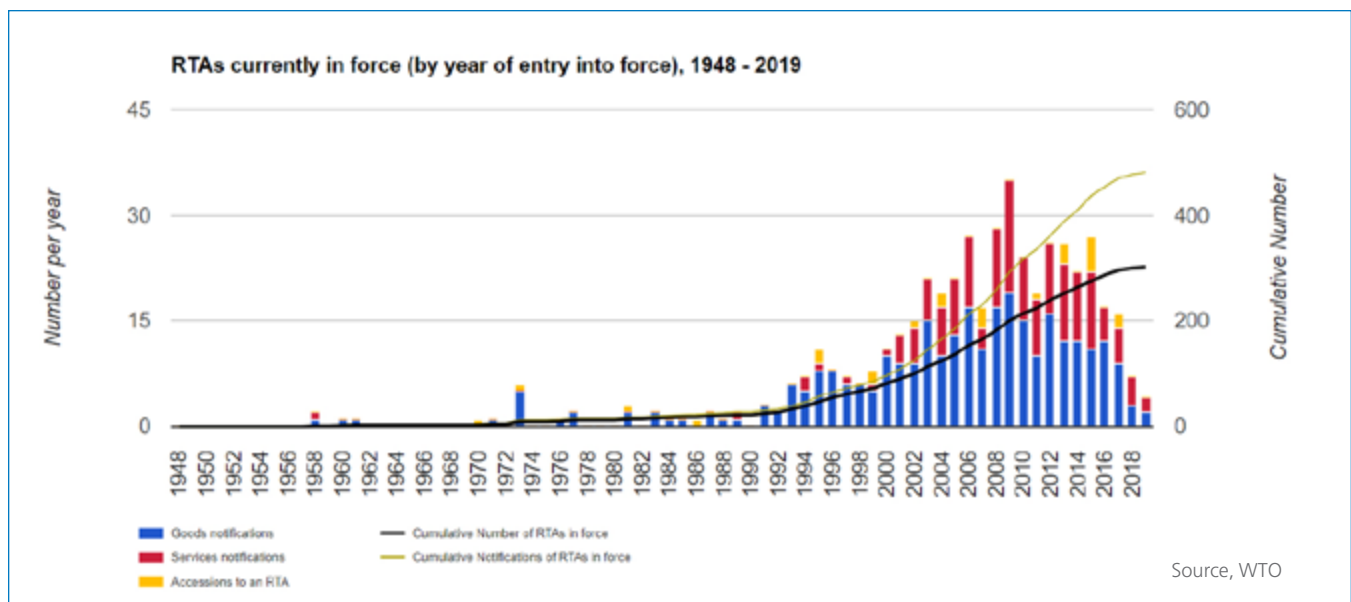
Beginning with The Basics

Trade professionals know that commodity codes are the standard for product identification. Every item is assigned a classification code that corresponds to its product type. The codes also help determine applicable import duties and provide a standard to better track goods.

The UK currently applies the EU's common customs tariff on goods imported from non-EU locations. In addition, as a current member of the EU customs union, there are generally no tariffs between the UK and other customs union countries.

As far as harmonization, the UK is currently aligned with TARIC, the Integrated Tariff of the European Union, a multilingual database integrating all measures relating to EU customs tariffs and more. Should Brexit occur, this harmonization is set to change. The UK is anticipated to apply its own tariff which will likely diverge from the EU TARIC nomenclature over time.

In regard to duties, although 9 out of 10 tariff codes may be duty free for a time, the UK may also potentially adjust tariff rates and renegotiate Free Trade Agreements (FTAs). In fact, the potential for diverging UK tariffs and a rising number of FTAs in a post-Brexit era could mean additional labor for trade professionals.



It is important to note that although the rate of new FTAs is slowing, the cumulative number of World Trade Organization (WTO) trade agreements rose from 82 in 2000, to 302 as of November 2019, greater than 3.5 times the previous number ([Source, WTO](#)). In this environment, it is critical to use systems that can keep pace with more than just tariffs, but that can also provide the latest and most accurate regulations, rulings, and more.

Beyond Brexit: Don't Think Band-Aid, Think Now & Think Big Picture

Global trade policy is on the move and continues to be a substantial disruptor for trade compliance professionals. Amid Brexit and trade policy changes worldwide, it can be tempting to adopt a last-minute “whack a mole” approach to decision-making.

For example, in regard to Brexit, some companies may wait to manually map their current HS codes to the UK tariff schedule when it is finalized. Other businesses may wait to pinpoint which HS codes in ERP systems are impacted. Both approaches adopt a narrow, band-aid perspective to disruptions such as Brexit. They also fail to address any current inefficiencies in processes, and could expose a business to a rapid rush on compliance, potential errors, and high labor costs.

Market leaders know that a proactive, big picture approach to Brexit is a best practice. They are making preparations ahead of a deal or no-deal Brexit. Not only are top businesses considering the larger scope of regulations, new potential FTAs, and rulings that may change in the future, but they are also paying close attention to timing. Leading businesses know that it is critical to act now ahead of the Brexit sprint. They are exploring content providers who can help them begin the transition. In addition, they know that regulations can and will evolve and that products themselves may change.

Here is a practical example. Let's say that a company is looking to source or ship a product to a new location. As part of this process, they must often re-classify goods. In addition, if new but similar products are developed, such as a different product size or shape, a reclassification may be in order. For example, a relatively minor difference in a clothing fabric could alter its HS code.

Top companies know that products will change, regulations will evolve, and even periodic World Customs Organization (WCO) updates will continue to occur. They are looking for solutions that can help them not only meet the requirements of the new UK tariff schedule, but that can capture, vet and validate future changes to tariffs.



Leading businesses know that a proactive, big picture approach that thinks beyond Brexit and encompasses other worldwide policy changes is a best practice. In addition, they are beginning to make preparations now ahead of deal a or no-deal Brexit.

Going it Alone Is Not an Option

At a practical level, and beyond Brexit, HS classification can be subjective, labor-intensive, and ongoing. The volume and frequency of regulatory changes make the practice a time-consuming activity for trade compliance professionals. The task of manual classification, even when performed by an expert, is rife with potential errors that can result in penalties or manifest as shipment delays.

Why HS Classification is Difficult

- Subjective classification
- Human error
- Limited scope / time constraint
- Ongoing new item creation
- Repetitive decision-making
- Multi-country classifications
- Lack of consistent decisions
- Lack of compliance control

Market leaders need systems that can help automate classification needs and drive-up efficiency. For example, by utilizing a rule-based classification solution to automate repetitive, non-judgment dependent tasks, compliance departments can work with added efficiency, and businesses can more readily scale. Using the right solution, compliance professionals can apply a previous HS determination to a new country, or use the same technique to keep pace with milestones such as Brexit. Again, this is big picture thinking that differentiates best-in-class businesses as more agile.

In addition, it is also important to note that some companies think that they can “go it alone” in regard to Brexit. At a practical level, not only is this approach not feasible since classification is subjective, but it is unsustainable due to the:

- Sheer volume of duties, taxes, regulation, and government agency data
- Rate of change
- Requirement to maintain an audit trail
- Need to demonstrate reasonable care

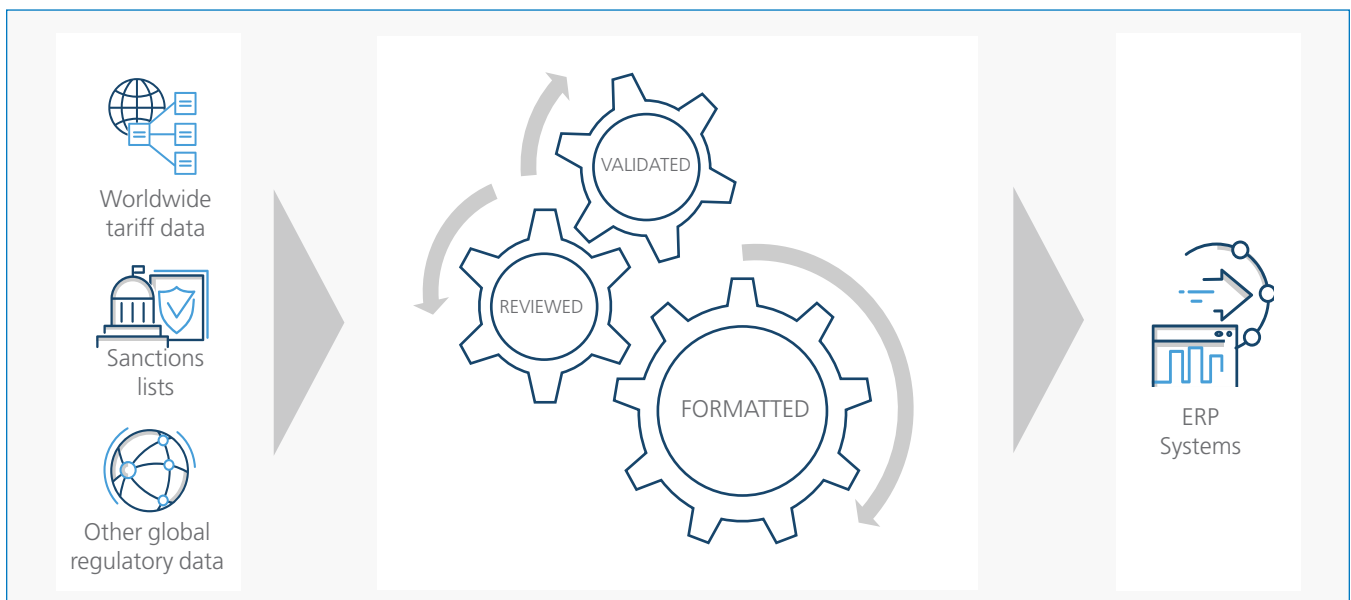
Businesses need solutions that can aggregate, vet, parse, and validate trade data. They need technology that can help reduce the risk of subjective classification, minimize human error, and streamline repetitive decision-making.

Brexit and ERPs

The latest UK tariff schedule will not automatically be mapped into current ERP master data. There may be tens of thousands of SKUs in some companies' ERP systems that require re-classification as Brexit looms. When a deal or no-deal Brexit moves forward, it is not practical to begin mapping the new tariffs to systems or rush to pinpoint which codes have been impacted.

Companies need solutions that can seamlessly stream the latest UK tariff schedule data when it is published into systems such as SAP Global Trade Management (GTS) and Oracle Global Trade Management (GTM). Businesses that have heavily invested in an ERP, however, do not want to sink valuable IT resources into managing trade data. As a result, top players are looking to expert content providers to help them rapidly integrate the latest trade data into an ERP using a 'turnkey' architecture without over-taxing current IT personnel. However, ERP systems and deployments can vary greatly with no two ERP installations configured exactly the same way. In addition, the methods needed to integrate in to an ERP can differ by company.

For these reasons, it is important to seek trade content solutions that are powered by an expert team of professionals who can map existing fields to even the most complex ERP installations. The right technology offers flexible options to connect to ERPs and provides continuously updated data as trade milestones, such as Brexit, evolve. In addition, best-in-class companies are tapping providers that can not only offer the latest trade data, such as the UK tariff schedule, but can deliver value-added options such as denied, restricted, or sanctioned party screening to minimize risk in day-to-day operations.



Solutions that can validate, review, and format worldwide tariff data, other global regulatory information, as well as offer value-added services such as sanctions list screening for ERP systems can deliver superior value and reduce risk.

Conclusion

When disruptive, rapidly evolving events occur, organizations should capitalize upon the disruption to institute positive change. Technology solutions that can lay a foundation for future tariff and regulatory changes can help businesses avoid a reactive approach to change. A proactive, big picture strategy can also help companies make better decisions rather than responding out of necessity to regulatory demands.

Best-in-class compliance professionals are preparing now for the changes that Brexit will have on the UK tariff schedule and more ahead of a deal or “no-deal” Brexit. Leading businesses recognize that a manual review of each product would be inefficient given the cascading effects of the changes to multiple systems of record, potential trade agreements, and other governmental and inter-agency regulations.

Although the impact of Brexit on classification and other trade compliance processes is substantial, meeting the challenge with the right solution is critical to minimize risk and boost productivity. The methodology that a company deploys to make the transition is of critical importance to streamline processes and to help businesses achieve long-term success in today’s competitive marketplace.



About Descartes Global Trade Content™

Descartes helps maximize the value of trade data by helping organizations work smarter. Our suite of solutions helps businesses achieve higher trade compliance rates, increase insight and leverage market research, reduce the risk of transacting with denied parties, and minimize duty spend.

With a vast database of data relating to regulations, rulings, duties and more, our world-class data can help companies seamlessly transition to regulatory milestones such as Brexit. Multiple options for data connectivity include a robust web-based platform, a powerful classification workbench as well as ERP connectivity.

Multi-national shippers, customs brokers, third-party logistics providers (3PLs), freight forwarders, multimodal carriers, compliance professionals and others use Descartes to help build and maintain complex classification databases for their global operations.

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