

Simplifying customs compliance

3CE, a revolutionary supply chain tool, promises to take some of the hazards out of import/export for members of the Canadian Apparel Federation

Have you ever paid unnecessary duty because your imports were wrongly classified?

Would you like to source or sell products in countries that offer preferential tariff arrangements?

Can you afford to have your shipments tied up at customs?

How confident are you about preparing customs declarations?

If, like many importers and exporters, you occasionally run into customs glitches, blame it on the HS.

The Harmonized Commodity Description and Coding System (HS) is the system that customs authorities worldwide use to describe all products worldwide – from cherry tomatoes to nuclear reactors. The HS includes more than 7,500 product descriptions organized into 23 sections and 97 chapters.

Governments use the HS to apply duties and taxes, collect trade statistics and enforce domestic laws. Businesses use it to comply with trade regulations, calculate the landed cost of components and finished goods and manage their supply chains.

No HS code, no trade.

HS Classification errors cost importers and governments billions of dollars annually. In the U.S., misclassification accounts for approximately 75 percent of all import violations. In Canada, 30 to 50 percent of customs entries contain classification errors, impacting the operations of 90 percent of all export/import companies

Errors occur because the Harmonized System is extremely complicated, describes products in technical and unfamiliar terms, and is governed by complex rules. Knowledge of both the rules and the product is required to bridge the gap between how products are commonly described and how they are expressed in the HS.

You may, for example, ship a "Woven women's raincoat of rubberized Cotton but what Customs sees is "Articles of Apparel not knitted or crocheted: Garments made up of fabrics of heading 5602, 5603, 5903, 5906 or 5907: Other garments of the type described in subheadings 6202.11 to 6202.19."

Companies usually count on customs brokers to translate everyday language into customs-ese in order to get their goods safely across the border. While this is a sensible and advisable practice, customs places the compliance burden (and the fines for non-compliance) squarely on the shoulders of the importer of record. Finding and training in-house classification staff is difficult and expensive and classification is a time-consuming, manual process. In addition, nearly all of the tools designed to assist HS classification deliver mostly irrelevant or incorrect results.

Classification errors don't only cause statistical anomalies and shipping delays. They also cost importers hundreds of millions in overpaid duties. The U.S. government reports that, in 2001, apparel and textile importers overpaid more than \$80 million in duties.

3CE: A breakthrough

Fortunately, a new tool, the Commodity Classification Code Engine, or 3CE, developed in Canada and offered to Canadian manufacturers and importers/exporters through the Canadian Apparel Federation, simplifies the process for import/export, customs brokers and governments.

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3CE is a breakthrough in commodity code classification that applies state-of-the-art information technologies to translate common product descriptions used on invoices and product catalogues into the correct HS Code and retrieves the proper tariff rate for any country.

3CE:

- Reduces the cost of customs compliance
- Enables logistics personnel, expert raters and others to determine classifications accurately and efficiently
- Facilitates training of logistics and customs personnel
- Minimizes dependency on individual experts
- Reduces customs processing and shipment delays
- Minimizes the risks of non-compliance and under/overpayment of duties

This new tool applies state-of-the-art information technologies to translate common product descriptions into the correct HS Code and retrieves the proper tariff rate for any country.

- Reduces administrative duplication and redundant paper-based activities
- Informs product development and vendor selection strategies
- Streamlines communication with supply chain partners
- Increases international selling and sourcing opportunities
- Enables landed cost calculation
- Unlocks the power of content-based Global Trade Management applications

Basically, 3CE matches your product to its official customs description and automatically delivers the mandatory customs code. In the case of that women's raincoat, that would be 6210.30.

3CE is unique among HS Classification tools in that it:

- **Processes complex, natural-language product descriptions:** A velvet importer need no longer know that his product is technically "cut pile fabric." 3CE also recognizes numerical attributes that are required to ensure correct product classification. "Woven fabric, 75% cotton/25% polyester" is correctly matched to "woven cotton fabric, containing less than 85% cotton by weight, mixed mainly or solely with manmade fibres."
- **Analyzes and expands user queries:** 3CE understands the actual meaning of words contained in users' queries. For example, that "wool jacket" means "a jacket made of wool," and that it has no relation to "steel wool" or "wool wax." It can associate synonymous terms and trade names automatically and intelligently.

ly. It recognizes that "Linen Blazer" refers to a "blazer made of flax fibre" despite the fact that the term "linen" only appears in the HS under the headings for towels and bedsheets.

- **Applies complex HS rules automatically:** 3CE integrates HS Legal Notes and applies them automatically during the classification process. For example, "silk yarn, 30,000 decitex" is properly classified under the heading that describes "Twine, Cordage, Ropes and Cables" whereas "silk yarn, 10,000 decitex" is, simply, "silk yarn."
- **Retrieves "residual" codes:** 3CE is the only technology that determines the correct HS Code even when the product is not specifically described in the schedule (or is expressed as "Other.") For example, a "Nylon Garment Bag" is properly classified under "Other made up textile articles / Other (HS Code 6307.90).

- **Demands no special training:** 3CE's simple user interface looks and feels like a conventional search engine and is no more complex to operate.
- **Interacts with users:** Drives the classification process by recognizing under-specified and ambiguous product descriptions. 3CE asks intelligent, HS-driven questions and accurately interprets the answers so that even nominally trained users gain the skills of highly trained and experienced professionals.
- **Integrates with most internal systems:** 3CE can be integrated easily into ERP and SCM software applications, eliminating paperwork and reducing manual operations.

The 3CE Solution

3CE offers two solution packages: one for interactive web-based assignment of commodity classifications, the second for large-scale post-entry audit. Together, they provide a total solution to minimize the cost and enhance the accuracy of customs compliance.

I. 3CEClassify is a web-based solution designed to drive the HS Classification process from submission of the product description to delivery of a final HS code with its country-specific tariff rate. It delivers instant, expert classification capabilities to frontline personnel.

3CE accurately and automatically:

- classifies fully-specified product descriptions without any additional information or intervention.

- classifies under-specified and/or ambiguous product descriptions by interacting intelligently and intuitively with clerical or other frontline staff until a code is reached.
- provides relevant information on regulations and interpretations for resolution by an expert customs rater in cases that require in-depth assessment.

II. 3CEAudit is a batch processing solution for large volumes of product data. It performs large-scale post-entry audits of commodity classifications, identifies specific transactional discrepancies and proposes appropriate corrections. It provides an objective and cost-effective way of identifying non-compliant customs transactions. 3CEAudit automatically searches for specific instances of misclassification, under-specification and ambiguity. It flags these transactions and generates specific reports on how each flagged entry potentially violates customs requirements to trigger timely corrective action.

- Cost-effective, large scale batch processing
- Accepts most standard data formats
- Exception flagging
- Detailed transaction-level compliance discrepancy reporting
- Independent and objective verification of HS Commodity Classification performance
- Continuous improvement tool to trigger process corrective actions
- Correction of duty over or under payments
- Mitigate non-compliance penalties
- Off-line batch process with no disruption to ongoing operations

For importers and exporters, 3CE

1. Manages exposure to customs penalties and sanctions.
2. Implements a demonstrable, proactive approach to customs compliance management and/or a comprehensive global trade management strategy.
3. Audits outsourced third party classification services.
4. Identifies preferential trading agreements and other advantageous conditions for profitable international sourcing and selling opportunities.
5. Improves your decision-making process for any global procurement issue: component selection, sub-contractor selection, manufacturing location, distributor networks, among others.
6. Manages your price positioning and customer relationships with accurate landed cost calculations.
7. Integrates customs compliance into your manufacturing and order processing (GTM/SCM/ERP) systems.

3CE is the flagship product of Logical Properties, Inc., based in Montreal and is being offered to members of the Canadian Apparel Federation (CAF) free of charge as a benefit of membership.

To find out how 3CE can streamline your cross border dealings and save you money, please contact CAF executive director Bob Kirke at 1-800-661-1187, ext. 224. ■

SUPPLY CHAIN

Strategic alliance links physical and financial supply chains

New Generation Computing (NGC) and TradeCard have formed a strategic alliance creating an integrated solution that enables customers to link their physical and financial supply chains using the same data for both processes.

NGC offers physical supply chain software including a web-based strategic-sourcing software package that enables sourcing executives and vendors to exchange information and manage the production process in real time via the Internet.

TradeCard automates the financial processes in the supply chain via a paperless web-based platform to which buyers, sellers and their partners are connected for electronic management, settlement and financing of their transactions.

By linking the two, NGC and TradeCard enable companies to automate and track accounts payable and receivable based on packing and procurement information already being captured in the fulfillment process. This provides a fast way for companies to gain more control over their working capital, while helping to reduce paperwork and speed transactions.

With the integration, TradeCard's financial supply chain platform will automatically receive documents from NGC. For example, the purchase order, once completed in the buyer's NGC system, will be sent to the TradeCard platform, allowing the buyer and seller to invoke a variety of financial services. Once the seller documents the shipment in NGC, an advance shipping notice will be sent to TradeCard and converted to an invoice and packing list. TradeCard then electronically compares these documents against the terms of the purchase order, using its patented data compliance engine. Based on the buyer's payment decision rules, agreed in advance with the seller, a payment can then be scheduled and processed on the planned payment date. All authorized parties can track the status of the transaction, including discrepancies and payment statuses.

This alliance eliminates the paper documents involved in a financial transaction, while allowing data created at the point of procurement and packing to be used for multiple purposes. In addition to reducing the time and inaccuracies associated with re-keying such data, the NGC-TradeCard alliance increases the visibility that CFOs and treasurers have into their working capital.

Headquartered in New York City, TradeCard, has offices in San Francisco, Hong Kong, Brussels, Taipei, Seoul, Tokyo and Shenzhen. Headquartered in Miami, NGC has sales offices worldwide and more than 500 clients, including VF Corporation, Haggard Clothing Company, Dick's Sporting Goods, Wilsons Leather, Jos. A. Bank Clothiers, Kellwood Company, Hugo Boss, Gold Toe Brands, Russell Corp., Ralph Lauren Childrenswear, Maidenform and William Carter Co.
Info: sales@ngcsoftware.com or LLau@tradecard.com

e-Bridging the gap

Canadian software firm eBridge Technologies recently completed implementation of its Global Care Label System for fashion group Liz Claiborne.

Care Label, part of eBridge's outsourced manufacturing software range, allows contract producers around the world to download care information for garments produced in their facilities, while providing Liz Claiborne with centralized system management ability.

It also allows Liz Claiborne personnel to load and manage care instructions into the system as new styles are created and produced.

"With the continued trend to outsource manufacturing, companies are running into issues that just cannot be afforded to be addressed with multi-million dollar systems," eBridge operations manager Bill Gallaway says.

"These companies need solutions that offer a low cost of ownership, while getting the job done. That is eBridge Technologies' specialty."



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