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Globalization Means Small Parcel Shippers Need to Get Ready for Shipping Internationally

A White Paper

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Henry Ford said that, "Getting ready is the secret of success." As we reflect on what's happening in the world of small parcels, we can see a clear trend emerging—globalization is going to affect our world more and more. If we take a look at where the small parcel carriers are spending their money and what some of their executives are saying, we will see that shippers need to get ready for international shipping.

Analyst Donald Broughton, who follows both companies for A.G. Edwards & Sons in St. Louis, tells us "Direct international is 23% of revenue for FedEx, but it's the fastest growing part of their business, and it's almost 20% for UPS. FedEx is the largest air freight carrier in Asia and UPS is neck-and-neck with DHL in Europe,"

The country that is showing up most often in the carrier news is China.

FedEx will open a \$150 million Asian hub in 2008 in the southern Chinese city of Guangzhou, a major South China city close to Hong Kong. David L. Cunningham Jr., senior vice president of FedEx Express Asia Pacific, "A superior time-definite express service will attract high-value industries that require the speed, reliability and global access that FedEx provides."

For UPS, the goal is to offer domestic express package service across much of the country. It plans to open a \$500 million cargo hub in Shanghai, its first in mainland China. David Abney, president of UPS International Operations, says "We intend to have the most extensive package delivery and logistics offering to, from and within China,"

DHL plans to double the size of its air-freight operation at Hong Kong International Airport. They have a five-year \$200 million investment program to increase their international and domestic express parcel business in China. Jerry Hsu, President for Greater China and Korea, DHL Express said, "China is today one of the fastest growing markets in DHL's global network, registering an annual growth rate of 50-60% in 2004."

So, why all the investment in China?

Fred Smith, CEO of FedEx explains, as technology advances, the products the world makes are getting lighter, meaning it's just as easy to make them on the other side of the world than in a factory next door. "Because of that, globalization continues inexorable. My guess is that the vast majority of manufactured goods will cross at least one border in the future."

Tom Friedman, the Pulitzer prize-winning columnist for The New York Times, wrote the book, *The World Is Flat*. He says, “Clearly, it is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world—using computers, e-mail, networks, teleconferencing, and dynamic new software.”

Experts predict that China will become the world's second-largest economy by 2016 and the world's largest by 2039.

According to the Chinese Academy of Social Sciences, between 250 and 300 million Chinese people can now be classified as middle class. This number is expected to more than double by the year 2020. Right now, China's domestic market is the world's fourth largest for consumer electronics. It's snapping up Western staples like TVs, DVD players and cell phones. China already has 100 million Internet users – a number that's growing 30 percent a year.

So basically, as the Chinese and the rest of the world buy more goods from us, the more international shipping we will be doing in the future.

What can you as a shipper do to get ready? You don't have to learn Chinese yet but you can start by getting informed. There are more complexities when shipping packages internationally.

First, you will have to classify your products with commodity codes, sometimes referred to as harmonized codes or schedule B codes. Harmonized tariff codes are the universal customs standard. These codes describe all goods in trade for duty, quota, and statistical purposes. This structure is based upon the international Harmonized Commodity Description and Coding System (HS), administered by the World Customs Organization in Brussels.

Second, after classifying your product, you will have to check that the product you are shipping complies with each country's import and export regulations. You will need to research specific license needs or find out about government agency requirements and import quotas for your products. It will help you to verify compliance with country-specific trade regulations, procedures, tariffs, laws, and administrative rulings - based on your origin, destination, and products within a shipment. You should also get information regarding preferential trade agreements, such as NAFTA, APEC and others.

Third, when shipping products from the United States to international destinations, you need to stay on top of export license requirements. Your business processes must manage shipping exports with minimal risk of fines or sanctions. So you will need to identify or detect U.S. government licensing requirements and applicable license exceptions, based on your product's Export Control Classification Number. When exporting commodities from the United States, or releasing technology or source code to a foreign national in the United States, under U.S. law it is the responsibility of the exporter to classify the items to determine if export licenses are required from any U.S. government agency.

Fourth, you will have to make sure that you can send your product to your international customer. To do this, you will check to make sure your customer is not on a denied party lists maintained by governments and international authorities. This is called a Restricted Party Screening.

Fifth, you will need to create the documents required for international trade and customs transactions. These include commercial invoices, Shipper's Export Declarations (SED's), Certificates of Origin, & others depending on the country you are shipping to. SED's need to be filed electronically with the U.S. Department of Census before your package is shipped. SED filing is required for most international shipments valued over \$2500.00. To comply with the new regulations, SED's must be filed electronically with the U.S. Department of Census' Automated Export System (AES.)

Finally, your customer may want to know how much it is going to cost them for the shipment. In order to accomplish this, you will have to calculate an estimate of the landed cost. This is a term that means the total cost to get a package to its destination. When shipping internationally it is more than the freight cost; it also includes customs fees, duties or taxes, brokerage and other charges involved in customs clearance.

This may sound complicated but the good news is that you can find just about everything by checking at the carrier's website. Each carrier has tools to make international shipping easier for you. DHL calls theirs Trade Automation Services. UPS' international tool is named TradeAbility. FedEx has their Trade Network. You will have to register in order to access these tools and some carriers charge a transaction fee for providing a service. For example, UPS charges \$2.75 to compute an estimate of the landed cost.

“We have to pay attention to the future, because that is where we are going to spend the rest of our lives.”

Joel Arthur Barker

About the Author



Mark Taylor, MBA, DLP, is the President of TAYLOR Systems Engineering Corporation. He has been featured as an industry expert on *ABC News* and in the *New York Times* and is the author of *Computerized Shipping Systems: Increasing Profit & Productivity Through Technology*. Taylor has been named a Distinguished Logistics Professional (DLP) by the American Society of Transportation & Logistics in recognition of the contributions he has made to the field of logistics during his 30-year career.

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