



# Import / Export Trade Compliance & Offshore Own Brand Development Project

## Project Scope Document

### 1. Executive Summary

Following the Own Brand Sourcing workshop in August, *the Client* requested a high-level project scoping document covering the logistics and trade compliance process required to support the growth of Own Brand products sourced from overseas suppliers. This scoping document was required within a short period of 3 weeks and is therefore not a comprehensive overview of *the Client's* current logistics and trade compliance processes.

#### Scope includes:

HM Revenue & Customs will make no distinction between Own Brand products and other imports / exports by *the Client*. Therefore, all import and export activities of *the Client* must be in scope.

#### Scope Analysis

During the high-level project scope analysis, it was evident that there is no business owner for the current import / export activities, the business has disjointed manual procedures across all departments, no coherent strategy and no integrated processes to manage importing or exporting. The business is missing the necessary resources and expertise to covering the current activities. Therefore, is exposed to risks and financial penalties due to non-compliance with import / export regulations. The current situation is not able to support the planned growth of offshore Own Brand sourcing.



2. Business Need/Opportunity/Objectives

a. Risks

The current risks, priorities and actions have been identified: -

Risks	Priority & Actions
<p><b>High</b></p> <p>Buying Office is regularly supplying products to <i>the Client</i>. Due to a lack of process and necessary intercompany agreements, goods are being cleared without stating the 'Related' transaction to HM Revenue &amp; Customs.</p>	<p><b>High</b></p> <p>Necessary intercompany agreements need to be in place, prior to notifying HM Customs &amp; Revenue and amending the Customs entries.</p> <p><b><i>The Client will not receive a penalty if they disclose a contravention voluntarily.</i></b></p> <p>If Customs decide to issue a penalty they must do so within:</p> <ul style="list-style-type: none"> <li>• three years from the date on which the contravention took place</li> <li>• two years from the day on which <i>the Client</i> became aware of the facts, sufficient in their opinion to justify a penalty.</li> </ul>
<p><b>High</b></p> <p>Products are being supplied indirectly by <i>the Client 1</i> to <i>Client 2</i>. Due to a lack of process and necessary intercompany agreements, goods are being cleared without stating the 'Related' transaction to HM Revenue &amp; Customs. There appears to be Transfer Pricing at 10% moving to 6.5%, but no Transfer Pricing Policy Statement in place.</p>	<p><b>High</b></p> <p>Necessary intercompany agreements and/or transfer pricing needs to be in place, prior to notifying HM Customs &amp; Revenue and amending the Customs entries.</p> <p><b><i>The Client will not receive a penalty if they disclose a contravention voluntarily.</i></b></p> <p>If Customs decide to issue a penalty they must do so within:</p> <ul style="list-style-type: none"> <li>• three years from the date on which the contravention took place</li> <li>• two years from the day on which <i>the Client</i> became aware of the facts, sufficient in their opinion to justify a penalty.</li> </ul>



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Risks	Priority & Actions
<p><b>High</b></p> <p>The import 'ad valorem' amounts being declared to HM Customs &amp; Revenue on products imported from outside the EU are incorrect.</p> <p>HM Customs &amp; Revenue calculate the following based on the import valuations provided:</p> <ul style="list-style-type: none"> <li>• Customs duty - often charged as a percentage of the value of goods and known as 'ad valorem' duty.</li> <li>• Import VAT - also calculated as a percentage of the value of your goods, plus other expenses and any customs duty.</li> <li>• Trade statistics - arrived at using the customs valuation rules.</li> </ul> <p>Civil penalties may be imposed and/or seize goods.</p>	<p><b>High</b></p> <p>Correct Import 'ad valorem' amounts need to be agreed and in place at the time of Customs entry. Accurate Landed Cost Reporting will assist this process.</p> <p><b><i>The Client will not receive a penalty if they disclose a contravention voluntarily.</i></b></p> <p>If Customs decide to issue a penalty they must do so within:</p> <ul style="list-style-type: none"> <li>• three years from the date on which the contravention took place</li> <li>• two years from the day on which <i>the Client</i> became aware of the facts, sufficient in their opinion to justify a penalty.</li> </ul>
<p><b>High</b></p> <p>There is no validation process for ensuring correct Duty / VAT payments and the use of correct commodity codes / unit measures used for imported products.</p> <ul style="list-style-type: none"> <li>• No monthly audits of the Deferment Account.</li> <li>• Incorrect Duty and VAT payments.</li> <li>• Incorrect monthly Intrastat declarations.</li> <li>• Insufficient import documentation to support Intrastat declarations.</li> </ul> <p>Civil penalties may be imposed.</p>	<p><b>High</b></p> <p><i>The Client</i> must make accurate records available to HM Revenue and Customs when requested.</p> <p><i>The Client</i> must keep the following for 6 years:</p> <ul style="list-style-type: none"> <li>• Copies of Intrastat declaration.</li> <li>• Documents use to complete Intrastat declarations.</li> <li>• Import / export documentation.</li> </ul>
<p><b>High</b></p> <p><i>The Client</i> has been involved with exports to countries under Sanctions. This is a major compliance issue resulting in the seizure of the goods, fines, compound penalties ranging from £1,000 to £575,000 and the matter can be referred to the Crown Prosecution Service (CPS).</p>	<p><b>High</b></p> <p><i>The Client</i> must have an Export Business Model in place prior to making any new export sales.</p>



**b. Current Situation & Future Solution**

Working with stakeholders the current situation and future solutions have been identified: -

Current Situation	Future Solution
<b>High Priority</b>	
Engage an interim executive on a 6-monthly contract to manage the Logistics and Trade Compliance Project. The interim role would enable <i>the Client</i> access to experience and talent and without adding to permanent headcount.	The interim would focus on delivering results quickly and importantly will share knowledge and experience with the team before leaving the assignment.
Buying Office is regularly supplying products to <i>the Client</i> . Due to a lack of process and necessary intercompany agreements, goods are being cleared without stating the 'Related' transaction to HM Revenue & Customs.	An intercompany buying/supply agreement needs to be in place between <i>the Client</i> and Buying Office. The agreed business model must be Customs compliant.
Products are being supplied indirectly by <i>the Client</i> to <i>the Client</i> . There appears to be Transfer Pricing at 10% moving to 6.5%, but no Transfer Pricing Policy Statement in place. Due to a lack of process and necessary intercompany agreements, goods are being cleared without stating the 'Related' transaction to HM Revenue & Customs.	An intercompany Buying/Supply Agreement and/or a Transfer Pricing Policy Statement needs to be in place between <i>the Client</i> and <i>the Client</i> . The agreed business model must be Customs compliant.
International supplier 'Terms and Conditions' need to be agreed and documented.	<p>'Terms and Conditions' with overseas suppliers are to be stated within the Purchase Order and/or within the Supplier Agreement.</p> <ul style="list-style-type: none"> <li>• Supplier Agreements required for Suppliers, Sourcing Offices, Buying Agencies and Related Companies.</li> <li>• Supplier Agreements should be compliant with HM Revenue and Customs.</li> </ul>
The move to sourcing imported products from overseas suppliers will require a new business model within <i>the Client</i> , with any costs being offset by benefits.	Importing Business Model highlighting the margin and cost benefits, after accounting for any extra costs for an end-to-end international supply chain solution.



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<b>High Priority</b>	
<p>The import 'ad valorem' amounts being declared to HM Customs &amp; Revenue on products imported from outside the EU are incorrect.</p> <p>HM Customs &amp; Revenue calculate the follow based on the import valuations provided:</p> <ul style="list-style-type: none"> <li>• Customs duty - often charged as a percentage of the value of goods and known as 'ad valorem' duty.</li> <li>• Import VAT - also calculated as a percentage of the value of your goods, plus other expenses and any customs duty.</li> <li>• Trade statistics - arrived at using the customs valuation rules.</li> </ul>	<p>Correct Import 'ad valorem' amounts need to be agreed and in place at the time of Customs entry. Accurate Landed Cost Reporting will assist this process.</p>
<p>No validation process for ensuring that the correct commodity codes and unit measures are being used for imported products.</p>	<p>In-house classification of imported and exported products, with the use of Binding Tariff Information Rulings (BTIR) from HM Revenue and Customs.</p>
<p>Non-compliance with import documentation requirements.</p> <ul style="list-style-type: none"> <li>• Customs Brokerage has insufficient documentation to clear products correctly.</li> <li>• No process for managing import documents.</li> <li>• Import documentation is not available in the correct format for HM Revenue &amp; Customs audits.</li> </ul>	<p>Robust import document process required to minimise supply chain delays, customs delays, incorrect Duty/VAT payments, reduce landed costs and to avoid costs/penalties.</p> <p>Determine eligibility of products for preferential duty treatment and reduce product Landed Costs.</p>
<p>No monthly internal audits of the deferment account, duty payments, VAT payments against import documentation.</p> <p>There is unauthorised usage of <i>the Client's</i> Deferment Account (DAN).</p> <p>Records of agents authorised to use <i>the Client's</i> Deferment Account are not available.</p>	<p>The provisions for managing the revenue of HM Revenue &amp; Customs via a deferment Account are set out in legislation and <i>the Client</i> must manage the account accordingly.</p> <p>An agent making a Customs import entry for <i>the Client</i> can request deferment of charges against <i>the Client's</i> Deferment Account. <i>the Client</i> must authorise this action.</p>



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Current Situation	Future Solution
<b>High Priority</b>	
<p>Robust Landed Cost Reporting is required to capture correct costs for products, margins and import valuations.</p>	<p>Agreed Landed Cost Model required which will feed into the Landed Cost Report.</p>
<p>The required processes and procedures for importing are not in place and therefore <i>the Client</i> has delays, confusion, risks and non-compliance with customs rules within the international supply chain.</p>	<p>Map the full end-to-end international supply chain and document all processes / procedures within an internal Import Manual.</p> <ul style="list-style-type: none"> <li>• These processes / procedures would strengthen the Supplier Manual.</li> <li>• The Import Manual forms part of HM Revenue and Customs compliance.</li> </ul>
<p>Current <i>the Client</i> Supplier Manual is for use with domestic suppliers and not suitable for overseas suppliers.</p> <p>The underlying processes and procedures for importing products are not fully understood within the business and therefore <i>the Client</i> is not able to communicate requirements with its overseas suppliers.</p>	<p>Phase 1 – Supplier Manual.</p> <p>Provisional Supplier Manual to confirm <i>the Client's</i> basic requirements for imported products, reduce risks, product damage, late deliveries and implement a rudimentary level of trade compliance.</p>
<p>Currency Exchange (FX) rates need to be agreed to cover a forward 6-month period.</p> <p>Price variances are occurring within the month trading account journals due to FX and this is impacting margin reporting.</p>	<ul style="list-style-type: none"> <li>• 6 months of forward monthly FX deals would deliver a blended rate for the 6-month period.</li> <li>• Buy each month's deal based on 6 months forward product purchase commitment.</li> <li>• 6 months' forward commitment is achievable base on overseas purchase orders which would need to be placed 6 months forward, due to length of international supply chains.</li> <li>• Should buy FX at a useable level each month and buy extra if needed at a difference rate.</li> <li>• Import Duty is calculated on a monthly published FX rate from HM Customs.</li> </ul>
<p>Inventory requirements, purchase ordering and container utilisation are not aligned, resulting in: -</p> <ul style="list-style-type: none"> <li>• Unnecessary costs.</li> <li>• Increased inventory due to full container load ordering.</li> </ul>	<p>Process that optimises the order volumes, inventory requirements and container fill rates.</p> <p>Consolidation solutions are required at origin, these need to be managed jointly by Expeditors and <i>the Client</i>.</p>



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Current Situation	Future Solution
<b>Medium Priority</b>	
<p>Map all end-to-end processes and procedures, agree best practice within the business, confirm supplier requirements and detail all documentary requirements to meet a high standard of trade compliance.</p>	<p>Phase 2 – Supplier Manual.</p> <p>Robust Supplier Manual to confirm <i>the Client's</i> full requirements for imported products, therefore reducing risks, product damage, late deliveries and implement an elevated level of trade compliance.</p> <p>The manual will provide suppliers with a source of information regarding supply chain, logistics and documentary requirements.</p>
<p>There is a need for a structured Import / Export Team to support the increased volumes of imported products.</p>	<p>The resources required are highlighted in the Solution section of this Scope Document.</p>
<p>Current Client's Purchase Order process is not compliant with international standards.</p>	<p>Purchase Order should include: -</p> <ul style="list-style-type: none"> <li>• Clear description of goods</li> <li>• Correct pricing</li> <li>• Country of Origin</li> <li>• Incoterms 2010</li> <li>• Packaging requirements</li> </ul> <p>Requirement for Oracle IT functionality.</p>
<p>Guidance required on which Incoterms should be applied to contracts with overseas suppliers.</p>	<p>Company policy on Incoterms is required.</p>
<p>International purchase orders raised within IT system are automatically uplifted by 3.97%, this has an impact on landed costs and product margins.</p>	<p>The removal of unnecessary uplifts on International purchase orders.</p>
<p>Sea container and truck utilisation are not fully understood, monitored and managed.</p>	<p>Volume and weight tables required to work out which type of equipment is needed.</p>
<p>Poor visibility of international purchase orders within the supply chain and no agreed 'track &amp; trace' reporting between Freight Forwarders and <i>the Client</i>.</p>	<p>IT interfaces are required between the Freight Forwarder's system and <i>the Client's</i> own system/s.</p>



Current Situation	Future Solution
<b>Medium Priority</b>	
Order Tolerance Levels are not agreed with overseas suppliers.	<p>In exceptional circumstances, <i>the Client</i> will permit the below tolerances once suppliers have authorisation from the buyer: -</p> <ul style="list-style-type: none"> <li>• Overages on item/piece/quantities are permitted up to 5%.</li> <li>• Shortages on item / piece quantities are allowed up to 5%.</li> </ul>
No procedures in place to verify the physical integrity of the sea container structure prior to stuffing, this includes the reliability of the locking mechanisms of the doors.	<p>An inspection process is required for all containers.</p> <p>At point of stuffing, procedures must be in place to properly seal and maintain the integrity of the shipping containers.</p>
<p>Poor container utilization due to use of pallets.</p> <p>Pallets are not compliant with import regulations.</p>	<p>If there is an agreement between the supplier and <i>the Client</i> to use crates or pallets, the wooden pallets and crates must be heat treated and/or fumigated.</p>
<i>the Client</i> 's Fabrication branches are importing and exporting. These are exception branches, which will need to be briefed on and adhere to import / export rules.	Standard documented process required across <i>the Client</i> 's business to ensure import / export compliance.
<p>Need processes and procedures to deal with: -</p> <ul style="list-style-type: none"> <li>• Marine Insurance</li> <li>• Product Indemnity</li> <li>• Product Liability</li> <li>• Faulty Goods</li> <li>• Product Recalls</li> <li>• Stock Exit Plan</li> <li>• Returns and Disposal</li> </ul>	Strategy required and agreed documented processes / procedures.
No agreed formats for import documents, such as Bills of Lading or Sea Waybills, packing lists and commercial invoices.	Agreed requirements to be stated in both the Supplier Manual and the Import Manual.
No strategy discussions between Expeditors and <i>the Client</i> , subsequently no process development, supply chain optimisation, cost reductions or new ways of working.	<ul style="list-style-type: none"> <li>• End-to-end logistics services with customer specific solutions.</li> <li>• Efficiency and consistency through process management and optimization.</li> <li>• Service Level Agreements (SLAs).</li> <li>• Agreed KPIs.</li> <li>• Standard Operating Procedures (SOPs).</li> </ul>





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Current Situation	Future Solution
<b>Medium Priority</b>	
DC challenges due to increased volumes of imported products.	Use of a 3PL import warehouse to receive and onward deliver products in agreed manner.
DC Receipts bookings are a manual process for overseas deliveries.	Utilisation of 3PL Freight Forwarder's IT solutions to provide automated ASNs.
<i>The Client</i> has engaged in exporting without an understanding of the legal documentary requirements and has export compliance issues.	Export process need to be agreed and documented to ensure compliance with international legal requirements.
Possible movement of Ocean rates may impact margins on imported Own Brand products.	Negotiation of ocean freight to minimise exposure to future rate increases.
<b>Low Priority</b>	
<i>The Client 1</i> and <i>Client 2</i> are using different Freight Forwarders.	Leverage combined volumes with one Freight Forwarder to reduce costs and increase product margins.
No post Brexit strategy in place.	Strategy discussion required.
Authorised Economic Operator ("AEO") accreditation, an internationally recognised quality mark indicating that the holder's role in the international supply chain is secure. The importance of the AEO accreditation will continue to grow following the UK's official exit from the EU.	Map and document the complete end-to-end international supply chain. Design an import/export process improvement plan and submit an application to HM Revenue & Customs.



### 3. Resource Solution

#### Phase One - Interim Executive

To support the growth of Own Brand products sourced from overseas suppliers, engage an interim executive on a 6-month contract to manage the Logistics and Trade Compliance Project. The interim role would enable *the Client* access to experience and talent without adding to permanent headcount, a key consideration in the current situation.

Ian Simmonds can quickly bring international trade solutions and benefits to *the Client*, whilst working alongside the existing teams. He would focus on delivering results quickly and importantly he would share knowledge and experience with the team before leaving the assignment.

#### i. Fee and expenses

- Ian Simmonds would provide these services via ICS Global Services Limited at a rate of £xxx per day.
- *the Client* would be required to pay out of pocket expenses for: -
  - Travel
  - Accommodation
  - Subsistence

#### Phase Two - Import team

The creation of an International Logistics and Trade Compliance Department to provide support and guidance for all our employees involved in transactions with overseas suppliers and customers. To provide the Sourcing team with support to develop Own Brand Label initiatives on factory gate pricing from Low Cost Country Sourcing in Asia and Europe.

The International Logistics and Trade Compliance Department would support the business with their international trade activities. Contributing to inventory availability and on-time deliveries to customers. The team would manage worldwide inbound and outbound inventories (by Road, Rail, Sea, Air) throughout legally compliant processes.

The team would manage Freight Forwarding, Customs Brokerage, Duty Management, Intrastat Support, 3PL Import Warehouse Solutions and Trade Compliance. The team would review and approve all import/export transactions to mitigate risk and to ensure compliance with U.K. Laws and Regulations. The team would provide competitive freight quotations with guidance on duty and tax liabilities, plus landed cost accountability.

## Department Responsibilities



### Roles

#### **Supply Chain Manager - International Logistics & Trade Compliance**

Responsible for managing and overseeing *the Client's* day-to-day operational shipping and import activities with 3PL Freight Forwarders and warehousing. Accountability for all cargo whereabouts from International suppliers, manufacturers, consolidation locations, and container yards shipping into the U.K. Ensuring visibility of all cargo movements whilst in-transit. Responsibilities for supplier management, shipping solutions, landed costings and freight quotations.

#### **Supply Chain Analyst - International Logistics & Trade Compliance**

Works with Manager supporting the day to day operational shipping and import activities. Responsible for data management that enables software solutions for all cargo movements. Manages marine insurance claims and compliance administration.



### **Additional Supply Chain Analyst**

With the forecasted growth of own brand products sourced from overseas suppliers, there would be a requirement for additional headcount within the first 12 months. It is recommended that *the Client* has an agreement with Expeditors to provide an 'Implant' based in the Leamington Spa office.

Main Responsibilities and Key Activities: -

- Manage and coordinate all movement of the client's cargo on an LSP (Lead Service Provider) agreement basis and implement the contractual agreements.
- Advise the client on operational improvements and tactical opportunities.
- Optimize Customer and Lead Operations via standardized methodology which will lead to cost savings and efficiencies.
- Analyse logistics data, flows and cost to identify new improvements and cost reduction projects.
- Resolve any problems that may arise, such as complaints, claims and enquiries.
- Leverage best practices with the goal to improve processes which will lead to cost savings and efficiencies
- Timely delivery of reports, onboarding of suppliers and lanes.

## **4. Deliverables**

- I. Import and Export Business Model highlighting the margin and cost benefits.
- II. Mapped and documented end-to-end processes within an Import Manual and a Supplier Manual.
- III. Develop 'state of the art' international supply chain services for the business to support imports and exports requirements.
- IV. Drive cost efficiencies by leveraging import and export volumes with supply chain partners.
- V. Minimise exposure to HM Revenue and Customs audits and penalties.
- VI. Provide the most cost-effective shipping, warehousing, freight forwarding and brokerage services to the business.
- VII. To provide Customer Service Improvements.
- VIII. To reduce lead-times and reduce inventory.
- IX. To improve container fill rates to reduce shipping costs and increase margins.
- X. To provide global support to Sourcing colleagues, such as import quotations and Landed Cost reporting.
- XI. To ensure trade compliance and to manage Duty / VAT exposure.



## 5. Project Roles and Stakeholders

The following role definitions are being applied to the resources assigned to this project:

<b>Project Sponsor</b>	<b>- Commercial Director</b> Provides executive team approval and sponsorship for the project. Has budget ownership for the project and is the major stakeholder and recipient for the project deliverables.
<b>Project Owners</b>	<b>- Own Brand &amp; Direct Sourcing Director</b> <b>- Supply Chain Director</b> Provides policy definition to the Project team. Resolves all policy issues with the appropriate policy owners to provide a clear, decisive definition. Makes final decisions and resolves conflicts or issues regarding project expectations across organizational and functional areas. The project owner and the project manager have a direct link for all communication. The project manager will work directly with the project owner on all policy clarification.
<b>Project Manager</b>	<b>Interim Executive on a 6-month contract</b> Provides overall management to the project. Accountable for establishing a Project Charter, developing and managing the work plan, securing appropriate resources and delegating the work and insuring successful completion of the project. All project team members report to the project manager. Handles all project administrative duties, interfaces to project sponsors and owners and has overall accountability for the project.
<b>Steering Committee</b>	<b>To Be Agreed</b> Provide assistance in resolving issues that arise beyond the project manager's jurisdiction. Monitor project progress and provide necessary tools and support when milestones are in jeopardy.
<b>Stakeholder</b>	<b>To Be Agreed</b> Key provider of requirements and recipient of project deliverable and associated benefits. Deliverable will directly enhance the stakeholders' business processes and environment. Majority of stakeholders for this project will be agency heads, CIO's and project management representatives.
<b>Team Members</b>	<b>To Be Agreed</b> Working project team member who analyses, designs and ultimately improves or replaces the business processes.



**Scope Statement Approval**

I have reviewed the information contained in this Scope Statement and agree.

Name	Signature	Date