DESCARTES™

THE ULTIMATE GUIDE:

Automating Your Export Shipment and Compliance Processes

Streamlining Shipment Flows, Reducing Risk, and Enabling Business Growth

Introduction

In the world of international trade, complying with export rules and regulations can be a daunting task. Organizations must ensure they are keeping pace with changing and emerging requirements as they process export shipments, check for compliance, and compile accurate shipment information for submission to the government.

The effort required to successfully navigate internal business processes while maintaining compliance levels is complex for most organizations. Companies often struggle with multiple data sources (ERPs, Warehouse Management systems, broker/forwarder integrations), different departments handling different stages of the process, and a lack of centralized visibility and control for compliance, whether in the form of export licenses, correct and accurate documentation, along with screening customers and trading partners against restricted and denied party lists.

Some organizations address these challenges by investing in ERP-native trade management platforms that structure and control many of these process steps. However, these solutions are very costly to implement and maintain, and may be overkill for a medium-sized organization with limited IT resources.

Fortunately, there are other options. Solutions exist that can address single steps in the process – document creation as an example – and which can be expanded to cover additional steps, like license management and government filing further, over time. These solution are cost-effective and can support a broader vision of export process automation that can help organizations meet their international growth targets while maintaining compliance with government regulations.

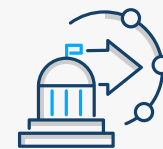## Key pre-requisites for a robust export automation solution

- Leveraging existing product data sources – like ERPs or other business management systems – to build export shipments;

- Calculating accurate shipment and product information such as classification, amounts, value and so on;

- Determining if items or technology are categorized as dual use or military;

- Managing export licenses for controlled items and technology;

- Mapping destination country trade exceptions, exemptions, restrictions, and embargoes;

- Securing end user attestation;

- Screening trade chain partners against denied parties lists; and

- Proving due diligence with robust recordkeeping.

This white paper discusses the challenges of compliance, consequences of not adhering to the rules, and ways of mitigating risk to optimize the export process to streamline shipment flows, minimize disruptions and enable business growth.

Export Process Challenges

Before a shipment can leave a country, organizations need to comply with the regulations of the exporting nation, as well as meet the requirements of the destination market.

- **Documentation:** There is a long list of paperwork that needs to accompany each shipment, including the bill of lading, shipper's letter of instruction, commercial invoice, certificate of origin, packing list, export license, inspection certificate and insurance certificate.

- **Accurate Data:** It is important that correct information is conveyed in these documents such as product description, import and export classification codes, destination country, name of freight forwarder and consignee, mode of transport, HAZMAT information, and end use definition, to name a few.

- **Export Classification and Determination:** This has its own set of complexities because the movement of controlled goods is highly regulated both for military and dual use items and technology, with dozens of nations including in North America, European Union and Australasia adhering to the Wassenaar Arrangement, the Nuclear Suppliers Group, and the Missile Technology Control Regime for classification and license determination. Additionally, the U.S. has improvised on these international standards by developing its own Export Control Classification Number (ECCN) for dual use qualification, and the United States Munitions List (USML) for military needs.

- **Export License Management:** A system is required to manage and keep track of multiple, and multi-authority export licenses, including expirations, exhaustions, exceptions and exemptions.

- **Denied Party Screening:** There is a need to screen trade chain partners against potentially hundreds of restricted and denied parties lists every time a transaction occurs to ensure that business is not being conducted with individuals and organizations that governments deem to be bad actors.

- **Audit Trail of Compliance Activities:** This is required for both internal tracking and to prove due diligence in the event of a government audit.

Even if organizations are not shipping controlled goods, they are still subject to export compliance regulations.

Consequences of Non-Compliance

With both monetary and criminal penalties being harsher than ever, compliance is no longer a choice. It's a necessity.

Enforcement actions have netted numerous criminal offenders who intentionally circumvented the law. However, there are significant numbers of transgressions that could have been avoided had the organizations involved only paid more attention to their export processes. Here is a list of cases that made the headlines around the world in the recent past:

- A package consolidation and shipping service company accidentally misrepresented values and descriptions of items on export documents and shipped controlled goods without the appropriate licenses.

- A thermal imagery company did not wait for the export licenses it applied for, and released the consignment to Ecuador, Venezuela, and Mexico.

- An oscilloscope manufacturer failed to screen a buyer and shipped the product to a Chinese organization which was listed as a denied party on official watch lists.

- A pump maker ascertained correctly that its products did not need an export license but failed to obtain authorization to sell the items to the embargoed nations of Syria and Iran.

- A cookware coating manufacturer thought it could transact with Iran as long as there were no direct interactions between it and the embargoed Mideast nation.

We've all heard about planning with the best of intentions, and here is a case that underlines that. An oilfield services had the appropriate export compliance policies and procedures in place, but violations occurred because it did not adequately train its personnel on the processes.

Civil breaches of the U.S. Export Administration Regulations, can reach up to US$300,000 per violation. Penalties in the EU are similarly harsh.

Top Ways Organizations Can Optimize Their Export Compliance Process

Without a doubt, the export compliance process is complex to plan, implement, and operate. But most important is the need to be able to keep pace with continuous regulatory changes to help maintain compliance on an ongoing basis. The following are ways for organizations to optimize their export documentation process to streamline shipment flows and minimize disruption:

1. **Ensure that there is top-level management commitment**
   This is a critical first step because corporate compliance flows from the top down. Executive buy-in not only provides the commitment, it also communicates to all levels of the organization the importance of the program, as well as ensures resource provisioning, the establishment of a corporate compliance team, the strengthening of processes and workflows, and support for training.

2. **Conduct continual risk assessment**
   The importance of periodically reviewing the company's export business to identify risks and vulnerabilities cannot be overstated. Understanding these risks on an ongoing basis will go a long way to building robust compliance procedures and processes that keeps outbound shipments moving efficiently and preserves the integrity of the organization's reputation.

3. **Build and maintain an evolving export compliance infrastructure**
   This translates into a system that can easily take into account changing and emerging compliance requirements. This also means having technology that reduces risk while increasing productivity via collaborative workflows that includes automated compliance checks before any submissions are made to the government.

4. **Set up robust recordkeeping**
   Recordkeeping is a major component of the export compliance process because organizations can sift through the data for continual risk assessment and reporting, as well as to reach back into the mandatory five-plus years of records to prove due diligence in the event of a government audit.

5. **Create a compliance manual**
   Such a manual sets out the benefits of compliance for the company, how compliance is integrated throughout the organization, and informs employees of their specific roles and responsibilities. This should be a living, breathing document that is reviewed periodically to keep it up to date.

6. **Additional compliance program elements**
   Other essential elements of a compliance program include regular training, ongoing internal audits, and clear steps on how to handle export violations.

The strength of a robust export documentation system lies in its ability to help set up compliant shipments and keep pace with regulatory changes.

How Companies Can Reduce Risk While Enabling Business Growth

The name of the game for organizations, in the eyes of governments, is to avoid committing an export violation by unwittingly entering into business dealings with denied parties or shipping to countries without fully considering trade restriction and embargo implications. Breaches of the rules can disrupt day-to-day operations, result in fines and other penalties, and damage a company's export business and reputation.

Enlightened companies use export automation solutions to cost-effectively manage multiple data sources, both internally and externally, while utilizing their existing ERP systems. These solutions reduce risk by more efficiently complying with existing and evolving regulations. More importantly, they can help increase business growth by keeping pace with sales orders that need to be processed accurately while following compliance rules.

Since export automation is cloud-based, implementation into multiple points of the corporate structure is straightforward. Benefits can be experienced almost immediately, including electronic workflows that include everything from shipment set up to compliance checks and submission to government agencies as well as the automatic logging of documentation and compliance activities for reporting and due diligence purposes.

Export automation helps organizations enable business growth by keeping pace with sales orders while minimizing risks of violations.

How Descartes Can Help

Descartes Export Automation solutions can consolidate your export compliance processes, including system integration, documentation, license management and shipment filing into one, streamlined solution. Our online technology also enables collaborative, cross-functional workflows with automated compliance verification checks, leveraging data from your existing business systems, while providing you full control and visibility from anywhere in the world.

Generate your export documents, manage your export classifications, including ECCN, EAR99, USML, EU and others. Determine material handling requirements, screen your trade chain partners against government watchlists, file submissions with a single click, including via the Automated Export System (AES) in the U.S.

Monitor the real-time compliance status of shipments, improve visibility and stay on top of your exports with centralized alerts and status dashboards. Improve your global export compliance, reduce costs and enable continued business growth.

There is little to no client-side IT resources required for both initial implementation and for ongoing system updates that keep your compliance efforts in line with the latest export rules and regulations.

Descartes has solutions that help you envision flexible and scalable export automation processes that reduce risk and meet growth targets

About Descartes Systems Group

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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