Trade Compliance & Global Sourcing Trends

February 14, 2020
JCPenney

• Established in 1902
• Multi-channel retailer operating over 850 stores and .com in the United States and Puerto Rico.
• Broad assortment of national, private and exclusive brands
• CEO: Jill Soltau
Plan for Renewal

• Drive Traffic
• Offer Compelling Merchandise
• Provide an Engaging Experience
• Fuel Growth
• Build a Results-Minded
An app for the way you shop

Never miss a chance to save with the JCPenney app. Get all your coupons, rewards and offers delivered to you, right in the wallet. Plus, make purchases, scan products in store, see order history and so much more. It’s everything you want in an app!

Text “APP” to 527365 to download from your iPhone* or Android™ device*

- **Real Time Price Scanner**: Use the app in store as your personal price checker. Scan the barcode of any item in the store to instantly see the price, see customer reviews, additional colors and sizes.
- **Find Coupons & Rewards in the Wallet**: All your coupons, rewards and offers are loaded in the app wallet, automatically!
- **Easy Credit Card Payments**: Pay your credit card bill in the app.
- **Cut, Color, Style**: Book your salon appointment within the app today.
- **Buy in App, Pick Up Same Day for Free**: Find what you want and pick it up the same day at one of our stores.
- **Snap to Shop**: See something you like in store? Scan it with the app to shop instantly. Like an item someone is wearing? Take a photo to shop more products.
- **Improved Browsing**: An updated design makes it easy to find the items you want at the prices you love.
- **Receive Timely Alerts**: Stay on top of the latest sales and store events with messages in your inbox and app notifications.

*Downloadable content may not be available on all devices and is subject to the third-party policies of the download service.

Download on the
App Store

Get it on
Google Play

Available at
Amazon Appstore
Five lifestyles that shaped our approach to merchandising that will resonate with our customers and how they want to shop.

MOVE
For everything from low to high impact

CHILL
For the stylish 5-to-9 you and great lounge and sleepwear

ALL DAY
For casual work wear and weekend wear

ON-POINT
For when you want to be a bit more refined and polished

SHINE
For those special occasions
Global Trade

- Whether you realize it or not, we all play a part in the global marketplace
- You are actively involved in global trade
- Where is your stuff made?
US Imports

$2.7 Trillion in US Imports
US Exports
# Top Apparel Country Rankings 2019

**Top Supplier Report for Apparel**  
Based on December 2019 U.S. General Imports  
Year Ending December 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount in SME</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>World</td>
<td>27,740,671,290</td>
<td>27,835,531,650</td>
</tr>
<tr>
<td>China</td>
<td>11,076,093,560</td>
<td>11,666,655,050</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2,012,211,960</td>
<td>1,934,177,640</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,130,132,100</td>
<td>1,173,882,590</td>
</tr>
<tr>
<td>India</td>
<td>1,124,346,610</td>
<td>1,085,892,680</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1,044,427,840</td>
<td>1,008,398,750</td>
</tr>
<tr>
<td>Honduras</td>
<td>1,014,005,360</td>
<td>990,067,660</td>
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<tr>
<td>Mexico</td>
<td>791,324,460</td>
<td>848,772,400</td>
</tr>
<tr>
<td>El Salvador</td>
<td>745,554,830</td>
<td>763,110,940</td>
</tr>
<tr>
<td>Pakistan</td>
<td>599,341,200</td>
<td>558,363,670</td>
</tr>
</tbody>
</table>

Source: USFIA
Sourcing Factors
(How, Where and Why)

Some Factors Companies Consider When Deciding Where to Source

• Labor rates and workforce skill level
• Efficiency and productivity
• Competitor activity
• Mill relationships
• Raw material availability and production capacity

• Off-shore expansion
• Political stability and growth potential
• Product strength
• Transportation costs
• Transit time
• Commodity prices
• Trade Policy
Trade Issues for Retailers

- US-China Trade Policy & Tariffs
- IPR- Intellectual Property
- Free Trade Agreements (TPP)
- Enforcement
- Product Safety
- State vs. Federal Regulations
- Other Government Agencies
- Environmental Issues
- Customs Initiatives
- Transportation Issues
- Social Compliance Issues
- Duty Reduction Legislation
How Are Sourcing Trends Changing As a Result of US Trade Policy?
US-China Trade

- Section 301 of the Trade Act of 1974 gives authority to the President to modify certain tariff rates when the “rights of the US under any trade agreement are being denied.”

<table>
<thead>
<tr>
<th>US Action</th>
<th>Product Categories</th>
<th>Additional Duty</th>
<th>Date Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sec. 201 Washer /Dryer Case</td>
<td>• Washer &amp; Dryers</td>
<td>20% -50%</td>
<td>01/22/18</td>
</tr>
<tr>
<td>Sec. 232 Steel &amp; Aluminum</td>
<td>• Steel &amp; Aluminum</td>
<td>25% - Steel 10% - Aluminum</td>
<td>03/23/18</td>
</tr>
<tr>
<td>Sec. 301 April 2018: <strong>List 1</strong></td>
<td>• $50 billion: 1,300 products aerospace, IT &amp; machinery, motorcycles, TVs. List reduced to 818 products or $34 billion. TV’s removed.</td>
<td>25%</td>
<td>07/06/18</td>
</tr>
<tr>
<td>Sec. 301 June 2018: <strong>List 2</strong></td>
<td>• $16 billion: 284 products, chemicals, machinery, washing preparations, plastics. Only 5 removed.</td>
<td>25%</td>
<td>08/23/18</td>
</tr>
</tbody>
</table>
| Sec. 301 July 2018: **List 3**  | • $200 billion: 6,000 products under review including luggage, handbags, wallets, headwear, furniture, light fixtures, wood & wicker products.  
  • Includes products sold by JCPenney: luggage, handbags, small electric | Initially 10%  
  Increased to 25% | 09/24/18  
  06/01/19  
  10/01/19 |
| Sec. 301 May 2019: **List 4**   | • $300 billion worth of goods and includes rest of retail products – apparel, footwear, soft home, toys etc. | 7.5% | List 4A – 09/01/19  
  List 4B – Eliminated |
Products - China Tariffs

List 3

List 4A
- sweaters
- skirts
- dresses
- pants
- coats
- pajamas
- blouses
- hosiery
- gloves
- overcoats
- blazers
- shorts
- bathrobe
- underwear
- bras
- scarves

List 4B
- t-shirts
- cashmere sweaters
- baby clothes
- nightdresses
- sportswear
- windbreakers
- ties/bowties
- even more sweaters

As of September, US has collected more than $35 billion in additional tariffs
Importing into the United States

- Customs Compliance Program required by The Customs Modernization Act (MOD ACT) which was enacted by Congress in 1993. Gave Customs authority to: Modernize Regulations, Operate in an automated environment, Shifted responsibility of accurate, classification to the importer, Provided enhanced penalties to ensure importer compliance.

- Customs processed $2.7 trillion in imports in FY 2019 equating to 35.5 million customs entries and more than 28.7 million imported cargo containers.

- Customs collected **$80.7 billion in duties**, taxes, and other fees
Average Duty Rates

Average Rate of Duty Of US Imports
1996 - 2011

Knit Apparel: 61
Woven Apparel: 62
Soft Home: 63
Footwear: 64
How Do You Classify Products?
Structure of the Tariff

- Contains 21 sections
- 99 Chapters (Chapter 77 reserved)
- Sections are usually arranged in order of degree of manufacture
- Primary commodities are found in the beginning, with technical and more complex commodities in later chapters

Raw Material  ➔ Finished Product
# Structure of the Tariff

Textile & apparel are found in Section 11 & 12: Chapters 61 & 62 Knit & Woven

<table>
<thead>
<tr>
<th>Section</th>
<th>Chapters</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sec 1-10</td>
<td>1-49</td>
<td>Live animals, vegetable products, chemical products, plastics, wood, paper</td>
</tr>
<tr>
<td>Sec 11</td>
<td>50-63</td>
<td>Textile &amp; textile articles</td>
</tr>
<tr>
<td>Sec 12</td>
<td>64-67</td>
<td>Footwear, headwear, umbrellas etc.</td>
</tr>
<tr>
<td>Sec 13</td>
<td>68-70</td>
<td>Articles of stone, plaster, ceramicware, dinnerware</td>
</tr>
<tr>
<td>Sec 14</td>
<td>71</td>
<td>Natural pearls, diamonds, jewelry</td>
</tr>
<tr>
<td>Sec 15</td>
<td>72-83</td>
<td>Base metals and articles thereof</td>
</tr>
<tr>
<td>Sec 16-17</td>
<td>84-89</td>
<td>Machinery &amp; electrical products, vehicles, aircraft,</td>
</tr>
<tr>
<td>Sec 18</td>
<td>90-93</td>
<td>Optical, surgical, medical, watches, musical instruments, arms &amp; ammunitions</td>
</tr>
<tr>
<td>Sec 20</td>
<td>94-96</td>
<td>Miscellaneous Articles: furniture, toys, games</td>
</tr>
</tbody>
</table>
Harmonized Tariff System

http://www.usitc.gov/tata/hts/index.htm

Chapter

• First two digits represents the chapter number
• The Chapter provides general descriptions of the products covered. Using the example from our ELC slide: Men’s Knit Top

6105.10.0010

<table>
<thead>
<tr>
<th>Heading</th>
<th>61</th>
<th>Knit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subheading</td>
<td>6105</td>
<td>Men’s or boys shirts</td>
</tr>
<tr>
<td>Tariff Item</td>
<td>6105.10</td>
<td>Of Cotton</td>
</tr>
<tr>
<td>Statistical Level</td>
<td>6105.10.0010</td>
<td>Men’s</td>
</tr>
</tbody>
</table>
Jacket

- 70% pleather (plastic) 30% woven
- What classification should it be?

**CBP Ruled as woven product**

Ruling #N261154

HTS: 6202.93.5011

Duty: 27.7%
Knit & Woven Top

- 60% black knit vs 40% woven floral
- What classification should it be?

CBP Ruled as knit product
Ruling #N231427
HTS: 6110.30.3059
Duty: 32%
Woven Top

- Cold shoulder woven tops with sleeves
- Ruling submitted to determine if considered woven blouses under 6206.40.3030 26.9% or “other” under 6211.43.0060 16%.
- The width of the straps for “other” woven is 2 ½” of less.
- If completely sleeveless these would fall under 6211; with sleeves, will they be classified the same?
Woven Top

• Lack of shoulder coverage
• Is it 15.4% or 8.1%

Off Shoulder  On Shoulder
Visibly Coated

Men’s Woven Pants

• men’s 100% polyester woven active pants
• Added visible coating of polyurethane on the backside of the outer shell fabric that changes the surface character of the fabric: satisfies the Customs criterion for ‘visibly coated’ as the coating changes the surface character of the fabric.
• Customs ruled as 6210.40.5539 / 7.1% duty
Home Decor

Original Artwork = Wooden Articles / 3.2%

Added Holly Berries & Leaves = Festive / FREE

Original Artwork = Nothing Festive about him
50% Styrofoam, 30% Plastic, 15% Fabric
3926.40.0090 / 5.3%

Updated with Christmas Wreath =
9505.10.2500 / FREE
Vendor Selection

- Vendor Selection
- Establishing Needs & Understanding Costs
- Service Specifications and Expectations
- Non Disclosure Agreement
- Requests for Proposals
- Vendor Evaluation
- Due Diligence
Compliance Programs: Product & Factory

- Companies want to ensure good partnerships with suppliers while delivering on a good quality & compliant product
- Supplier Due Diligence: Companies typically partner with third party audit companies to operate a comprehensive program including audits in:
  1. Quality
  2. Social Compliance
  3. Factory Security
  4. Testing
  5. Inspections
INCOTERMS: Terms of Purchase

• The Incoterms® rules explain a set of three-letter trade terms reflecting business-to-business practice in contracting for the sale of goods.

• In September 2019, the International Chamber of Commerce (ICC) revised and published its new International Commercial Terms, Incoterms® 2020, which will come into effect on 1 January 2020.

• INCOTERMS delineate what parties do in terms of delivery and export/import clearance
  - FOB: Free on Board (ocean)
  - DAP: Delivered at Place (land)
  - DDP: Delivered Duty Paid (ocean and land)
Terms of Purchase

• Most common term: FOB (Free on Board), followed by DAP (Delivered at Place)

• In some situations, international suppliers will sell to DDP- Delivered Duty Paid.

Incoterms® 2020 – Obligations Table

<table>
<thead>
<tr>
<th>E Group Term</th>
<th>F Group Terms</th>
<th>C Group Terms</th>
<th>D Group Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasks</td>
<td>EXW</td>
<td>FCA</td>
<td>FAS</td>
</tr>
<tr>
<td>Provide Commercial Invoice</td>
<td>Seller</td>
<td>Seller</td>
<td>Seller</td>
</tr>
<tr>
<td>Loading at Point of Origin</td>
<td>Buyer</td>
<td>Seller</td>
<td>Seller</td>
</tr>
<tr>
<td>Export Filing*</td>
<td>Buyer</td>
<td>Seller</td>
<td>Seller</td>
</tr>
<tr>
<td>Pre Carriage Buyer</td>
<td>Buyer</td>
<td>Buyer</td>
<td>Seller</td>
</tr>
<tr>
<td>Main Carriage</td>
<td>Buyer</td>
<td>Buyer</td>
<td>Buyer</td>
</tr>
<tr>
<td>Customs Clearance**</td>
<td>Buyer</td>
<td>Buyer</td>
<td>Buyer</td>
</tr>
<tr>
<td>On Carriage</td>
<td>Buyer</td>
<td>Buyer</td>
<td>Buyer</td>
</tr>
</tbody>
</table>

Obligations:

- Provide Commercial Invoice: Seller
- Loading at Point of Origin: Buyer
- Export Filing*: Buyer
- Pre Carriage Buyer: Buyer
- Main Carriage: Buyer
- Customs Clearance**: Buyer
- On Carriage: Buyer
After Production – Ready to Ship?

Cargo Movement

- Factory
- CFS - (3/4) Container
- Supplier
- CFS - (1/4) Container
- Supplier
- CY – Full Container
- Supplier
- Full Container
- Consolidator
- Consolidator
- Ocean Carrier
- Port
- Air Port
- Air
- Air Forwarder/Airline
- Air Port
Shipping Modes

• Ocean
  – The primary mode of international transportation
  – Can take 4 days (Central America) to 40 days (India)
  – Majority originates in China/Asia (2-3 weeks)

• Air
  – 1-7 day transit

• Truck
  – Mexico shipments 1-3 days
CBP Priorities & Enforcement

Customs Priority Trade Issues
• Agriculture Programs
• Antidumping and Countervailing Duties (ADCVD)
• Intellectual Property Rights
• Import Safety
• Revenue
• Textiles
• Trade Agreements

Enforcement Efforts
• Free Trade Agreements
• China Tariffs

Strategic Efforts with Trade
• Centers of Excellence
• Simplified Entry
Customs Enforcement

NII- Non Intrusive Inspections…. Permit the inspection of merchandise without opening containers.
Questions?

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