

Strengthen Compliance Lengths in the Supply Chain

By Jo Anne Hagen

Globalization requires partnering with others in the supply chain. But if supply chain partners are of different compliance strengths, manufacturers can be beset by multiple compliance problems, often resulting in the three cardinal sins of compliance management: regulatory violation, disappointed customers and compliance overspending. For example, Western European supply chain partners have long had access to the U.S. compliance tools but frequently ignore U.S. regulatory requirements for both inbound and outbound shipments. The weakest link in the chain can (and almost always will) result in "chain slippage." However, three proactive tools are available for disaster avoidance: Expectation, Education and Communication.

Expectation Tools

Clear expectations, stated up front before a relationship develops, are the most powerful tools to prevent chain slippage. Expectations are best stated in the form of a written contract. A well-drafted agreement still provides the most reliable way to transmit knowledge to all of the partners. Preventing regulatory compliance violation through contract, although it cannot shift liability, can prepare the partners for the costs of noncompliance. For example, if you (the U.S. exporter) are exposed to a violation of U.S. export law because your European supply chain partner does not have a proper background to be handling U.S. goods, then you will still be responsible to bear the brunt of the violation. You can, however, through a well-drafted agreement, let your partners know that you will expect them to pay for any costs related to their acts that placed you in the position of risk.

Education Tools

Every member of the supply chain must have compliance education commensurate with the functions they are required to perform. For example, if your European distributor does not understand the U.S. prohibitions related to sales to embargoed countries such as Iran or Sudan, then that distributor should not be in the business of re-exporting U.S. goods. Your expectation is that they will have the requisite education and training. The United States Bureau of Industry and Security has a massive Web site, available worldwide and offering many educational tools, advisories, foreign-language presentations, procedures, books and literature, instructions and a host of advisors to make the U.S. regulations as clear and succinct as possible. There are, in addition, numerous private educational opportunities, seminars and Web-delivered training that will give your supply chain partner all of the information it needs to be a compliant link in the chain.

Communication Tools

Don't forget to talk to your partners on a regular basis. If you foresee a risky transaction, then have one of those wonderful online meetings to prepare all those who have a part in the transaction. Let's take a hypothetical: You have a shipment of sensitive dual-use goods for which you (the U.S. exporter) have had to obtain a license. The license has specific conditions that, if they are not followed, will result in compliance violations for you. Make it clear from the inception of the transaction that (a) you have an expectation of compliance from all members of the supply chain; (b) if the members have not had training in this matter, then they will obtain such training prior to handling the transaction; (c) if your expectations go unmet or result in a violation, the costs to the offender will be great, very great. Make noncompliance hurt – it certainly will hurt you.

And remember, the chain is only as strong as its weakest link.

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– is the most appropriate choice. As a product becomes more commoditized and volume grows exponentially, the benefits of an Eastern solution might become more apparent.

- Product lines and characteristics: What is right for a particular product range or product line in a company's portfolio might not be right for all others. The higher the value (i.e., purchase power, risk of shrinkage), the shorter the lifecycle (air freight, critical time-to-market), and the lower the configuration requirement (e.g., pure cross-docking of finish goods), the more appropriate a Western location becomes.
- Distributions channels: Different customer types also have different ways to trade and different expectations driving different logistics costs. It is difficult to put a price on the logistics aspect as there is no real basis for comparison. However, it is a fact that the lower the number of units per shipment (e.g., business-to-consumer) and the faster the delivery (as with e-business), the higher the correlation between distance and freight costs.

The Best Solution?

Things are changing – and changing very fast – but as consumption will tend to level, so will living standards and labor rates. The unknown is how quickly the EU will be able to overcome the infrastructure deficit. Far from attempting to suggest any one best way of designing pan-European supply chain solutions, this article is intended to help decision-makers looking to optimize their revenue to build some level of flexibility in alignment with their strategic objectives. Doing so will most likely involve – either in sequence (transitional models) or in parallel (hybrid models) – an East-West collaboration.

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