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# Managing Materials and Equipment Costs Across International Borders

**By David Schulingkamp**

With the globalization of the construction industry, one area many companies can more effectively budget for is their import and export operations for materials and equipment. Companies can save millions of dollars by ensuring adherence to environmental regulations and taking advantage of fluctuating currency rates, which often are unpredictable and difficult to understand. The challenge is to stay up to date on these complex and dynamic issues.

**Adhering to Environmental Regulations**

Many construction materials—particularly when shipped into and out of the United States—are more heavily regulated than ever before by international and American government bodies, such as the Environmental Investigation Agency (EIA) and the Environmental Protection Agency (EPA). Being ignorant of these regulations, or being unprepared to adhere to them prior to importing or exporting, could cause delays and costly fines at (or even after) an international border crossing.

The EPA has many import and export restrictions on a wide variety of materials. When shipping chemicals or other materials that could be considered environmentally unsafe or illegal, check with the EPA at the beginning of the process to determine if any additional forms or procedures are required.

In addition to chemicals or chemical substances, most off-road construction equipment, such as excavators, pavers, tractors, bulldozers and forklifts, require form EPA 3520-21 to be completed and submitted to U.S. Customs and Border Protection prior to moving the equipment across international borders. This form helps ensure the equipment adheres to safe emissions standards. Additional information on unsafe environmental materials and the EPA 3520-21 form can be found on the EPA website.

Companies also should be aware of the EIA's materials shipping restrictions. One that applies directly to the construction industry is the Lacey Act, which has provisions governing wood and wood products.

Amended in 2008, the Lacey Act makes it unlawful to import certain plants and plant products that are illegally sourced from any U.S. state or foreign country. It also requires importers to submit an import declaration stating the country of origin of harvest, as well as the species name of all plants contained in their products. This affects construction companies that import or export lumber; plywood; sheets for veneering; builders joinery and carpentry (including windows, doors, formwork, posts, beams, and shingles and shakes); and continuously shaped wood, such as molding, siding and flooring.

Failure to comply could result in fines and even jail time. For more information on how to comply with the Lacey Act, visit the EIA website.

**Managing Fluctuating Currency Rates**
No matter how carefully a budget is planned, it often is subject to last-minute changes that may not be in anyone's control. One of the most common fluctuating budget line items for importing and exporting materials is international currency rates.

One strategy to prevent potential losses is to lock in a currency rate with a bank. Following are some of the most common lock-in options.

**Forward contract.** This is a binding obligation to buy or sell a set amount of foreign currency at a pre-determined exchange rate on or before a certain date, eliminating exposure to foreign currency movements. While the benefit is fluctuating costs are no longer a concern, the drawback is a company cannot take advantage of fluctuations that may result in lower rates.

**Flexible products.** These give companies the right to buy foreign currency at a certain rate by a specific date, but they are not obligated to do so. This gives businesses the flexibility to conduct an updated deal if exchange rates move in their favor. It also offers the same protection against adverse exchange rate movements as a forward contract. However, to take advantage of this privilege, an additional charge must be paid to the bank, which may or may not be worth it based on market fluctuations.

**Internal hedges.** A company can avoid the risks of a fluctuating currency rate by opening a foreign currency account. However, this option may involve tying up some of the company's cash as foreign currency, when it may be better used as working capital.

To decide the best option for locking in a rate, determine how much money the company is willing to put on the line. As far as timing, companies can lock in a rate annually, monthly or even weekly. The most common practice for U.S. firms is to lock in rates monthly to benefit from advantageous fluctuations in currency.

Although locking in a rate may seem like a catch-all solution, a firm must first decide whether it is the best course of action based on past experience with international trade. When deciding on a strategy, first review the countries with which the company currently is exporting and importing. Rates often can be predictable based on past performance of the currency, as well as by examining the most updated economic indicators. To get these performance indicators, check reports released by each country's government or by a private organization that detail a country's economic performance.

**Partnering with a Customs Expert**
For construction companies that frequently import and export materials and equipment internationally, hundreds of environmental regulations and multiple factors determine how and when to lock in a currency exchange rate. Firms can protect their investment by aligning with partners that have the expertise to navigate global business. A partner that focuses on customs and trade compliance can save millions of dollars by helping prevent fines or delays, and can provide a level of predictability in the supply chain.

Seek a customs broker that offers a high ratio of licensed or certified customs professionals, helps develop and implement compliance programs, and provides guidance on complex international trade agreements. All of these things bring value and can help increase profitability. A customs and trade compliance service provider whose core competency is regulatory and operational compliance can be the go-to expert, allowing construction firms to concentrate on what they do best.

**David Schulingkamp is president of New Orleans-based MBLX, Inc., and vice president of international freight forwarding, USA, for Livingston International. For more information, visit www.mblx.com or www.livingstonintl.com.**