



Mastering the Latest Trends in Customs Enforcement

Strategies to Stay Ahead of & Mitigate Risk in 2025

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> Introduction

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> **Setting the Stage**

2025 marks another critical year for U.S. customs enforcement. With President Trump's aggressive trade priorities, including de minimis reform, forced labor restrictions and tariff hikes, we are encountering an even more assertive customs landscape. These developments are further reshaping the rules of engagement for importers, brokers, and stakeholders.

> Customs Revenue in FY 2024

- Total Revenue:**

- CBP collected **\$111.8 billion** in duties, taxes, and fees in FY 2024.

- Key Contributors:**

- Increased tariffs from Section 301 and other trade actions.
 - E-commerce growth driving de minimis revenues.

- CBP issued \$1.2 billion in trade violation penalties in FY 2024.**

- Looking Ahead:**

- New tariffs could be on the horizon.



> Brief Overview of Customs Enforcement

- The Tariff Act of 1789 was the first law enacted after the Constitution ratified, and the first federal revenue law.
- Customs enforcement ensures compliance with trade laws, protects national security, economic interests, and public health.
- Key focus areas: combating forced labor, trade compliance including classification, valuation and antidumping/countervailing duties, trade fraud and counterfeit goods/intellectual property violations.

> CBP Priorities are Evolving

In response to:

Tariff increases and regional protectionism.

Forced labor enforcement under the UFLPA and other laws.

Addressed by:

Advances in technology for Customs targeting.

Focus on heightened CBP requirements, Trusted Trader Programs and de minimis modifications.

> Objectives

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- Understand current and future customs enforcement trends.

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- Explore technological advancements like machine learning tools and blockchain to mitigate risk.

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- Provide practical strategies for mitigating compliance risks and building trust with authorities.



Current Trends in Customs Enforcement

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Overview of 2024 Trade Trends

Key Developments

- Expanded enforcement of all trade priority issues have significantly increased including trade fraud and underpayment of **Section 301**, **Section 232**, **ADCVD investigations**, with a focus on circumvention through Southeast Asia.
- **De minimis rules** tightened, targeting small package imports and increasing data requirements.
- Growing scrutiny on **forced labor compliance**, with more industries and entities impacted.
- Increased focus on **IPR violations**, especially on counterfeit goods.
- Shifts in production to **Vietnam, Malaysia, Thailand** and other non-China countries as companies navigate rising tariffs and trade barriers.

> E-Commerce and De Minimis Challenges

E-commerce Risks:

- Extremely low-cost Platforms exploiting de minimis thresholds to avoid duties.
- Increased political scrutiny over misuse, contraband, and China's influence.

Proposed Reforms:

- Exclude goods subject to Section 301 tariffs from exemptions.
- Bills like the *Import Security and Fairness Act* and *End China's De Minimis Abuse Act* propose restrictions.

Impact:

- Disruption for retailers relying on low-value import exemptions.

> Current Trends in Customs Enforcement

Regulatory Updates:

- Aggressive tariff hikes a possibility by the Trump administration (10%-60% on imports from Canada, Mexico, and China).
- De minimis restrictions targeting misuse and avoiding payment of Section 301 duties, such as by large scale, extremely low cost e-commerce platforms.

Impact of Globalization:

- E-commerce growth (e.g., low-value imports) can foster potential for high-risk shipments.
- Diversified supply chains increase compliance challenges.

Increased Scrutiny & Compliance Measures:

- CBP prioritizing high-risk shipments and AD/CVD enforcement.
- CBP's enforcement actions focus on forced labor taking place anywhere in the world, not just in the Xinjiang Uyghur Autonomous Region.

Creation of the External Revenue Service (ERS):

- Proposed by President-elect Trump to centralize the collection of tariffs, duties, and fines from foreign sources.
- Signals a shift toward prioritizing tariff revenue as a key component of U.S. trade policy.

➤ Ways CBP is Enhancing Enforcement

Increased Focus on Intellectual Property Rights (IPR) Enforcement

- This includes deploying advanced technologies and intelligence tools to identify and intercept counterfeit products.
- CBP is also working more closely with brand owners and industry stakeholders to enhance the efficiency of IPR enforcement.

Advanced Technology & Data Analysis

- CBP is utilizing **advanced data analytics** and **automated systems** to better identify high-risk shipments and improve targeting for inspections..
- Implementation of a fully electronic filing process

Strengthened Antidumping and Countervailing Duty Enforcement

- CBP has been increasingly focused on investigating **trade fraud**, particularly concerning the evasion of antidumping and countervailing duties (AD/CVD).
- The agency is using new enforcement mechanisms, including more rigorous scrutiny of importers' claims and the expansion of the **Enforce and Protect Act (EAPA)** to investigate circumvention of trade remedy laws.

➤ Greater Enactment/Enforcement on AD/CVD Circumvention Cases

CBP's Response

- Deployment of **Advanced Trade Analytics** to detect suspicious trade volume spikes from targeted regions.
- Collaboration with ASEAN customs authorities to cross-check documentation and invoices.
- **High-Profile Cases:**
- Example: Solar panels produced in Malaysia with Chinese polysilicon were flagged in circumvention investigations.
- Countermeasures included penalties and retroactive duties.

Enforcement Methods

- CBP leveraged advanced analytics and trade data to identify suspect shipments.
- Documentation specific to ADD/CVD case required to be loaded into ACE for review by CBP.
- Importers faced increased demands for origin documentation to prove compliance.
- Increase in circumvention investigations to enact more orders on anti-circumvention of ADD/CVD cases

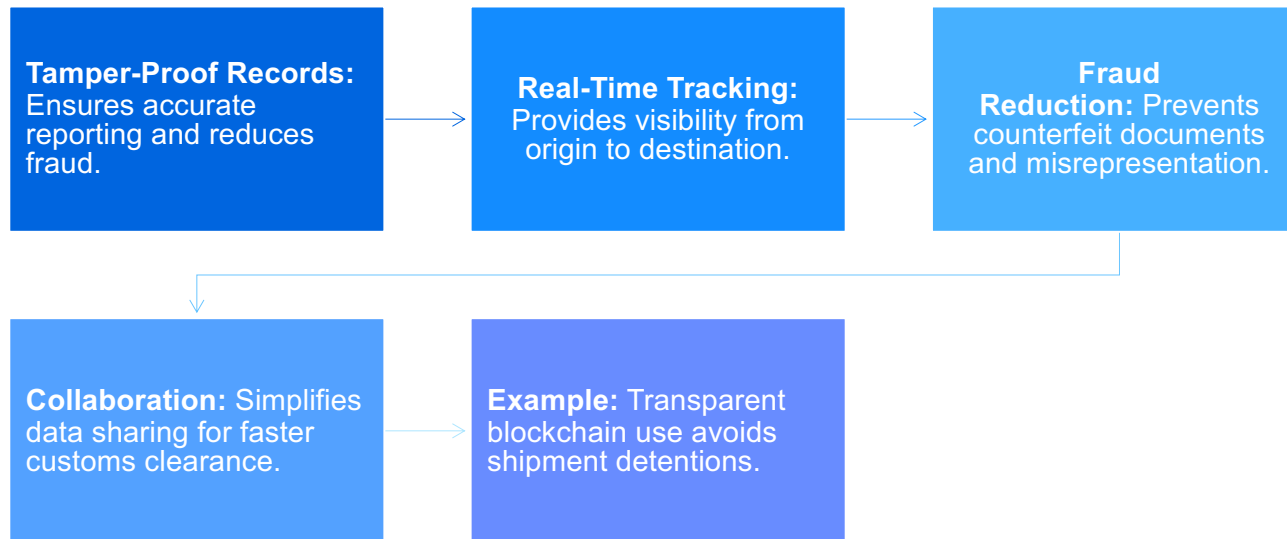


➤ Technology's Role in Customs Enforcement

> Data Analytics & AI

- **Risk Assessments:** Supervised machine learning tools/AI used in analyzing shipping data to better detect patterns and flag high-risk shipments. More comprehensive targeting for clearance, cargo security and immigration.
- **Predictive Analytics:** Helps prioritize inspections before shipments arrive.
- **Faster Decisions:** Automates low-risk approvals, focusing resources on high-risk cases.
- **Example:** CBP's Savannah lab utilizes third-party AI to assist in targeting shipments for forced labor review and isotopic testing.

> Blockchain's Role in Customs Transparency





Key Compliance Risks in Priority Enforcement Areas

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> The High Cost of Non-Compliance

Penalties and Seizures

- Fines, shipment detentions, and forfeitures.
- Total number of OFO Enforcement Actions in 2024: 1.3M – 5X more than FY 2020

Reputational Damage

- Loss of trust with authorities and partners.
- Can impact financials of a publicly traded company
- Loss of customers.

Enforcement Focus Areas

- Forced labor: \$3.67B in detained goods under UFLPA.
- IPR: Rising scrutiny on counterfeit goods. From FY 2020 to FY 2024, total goods seized doubled and the MSRP increased by 95% from FR2023 to over \$5B
- CBP Reviews: Increase in reviewing for errors/penalties for trade compliance violations.

> Key Compliance Risks in IPR

- **Luxury Goods:** CBP seized a significant number of counterfeit luxury items, including designer watches, handbags, and jewelry. These items were often intercepted at major ports and airports

- **Electronics:** There was a notable increase in counterfeit electronics, particularly smartphones and accessories. These counterfeit goods were often sold online, posing risks to consumers due to substandard quality and potential safety hazards

- **Pharmaceuticals:** The U.S.T.R.'s 2024 Notorious Market's List highlighted the growing issue of counterfeit medicines often sold by illicit online pharmacies.

- **Sneakers:** The counterfeit sneaker market saw a surge, with high-quality fakes becoming more prevalent.

> Key Compliance Risks in ADCVD

- **Changing Tariff Classifications:** Changes or updates in tariff classifications for certain goods could lead to incorrectly not reporting ADCVD or unpaid duties.

- **Third-Party Liability :** Importers also faced risks from suppliers not properly adhering to ADCVD regulations, leading to potential liabilities

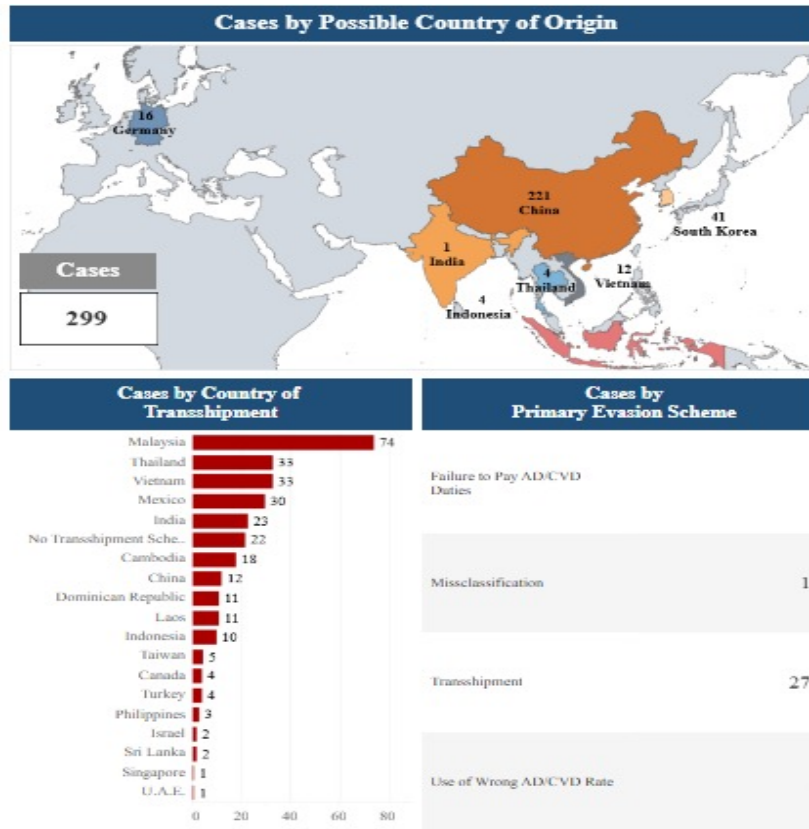
- **Import Data Accuracy :** The obligation to report accurate data regarding the origin, classification and values of imported goods to ensure that the correct duties were assessed remained a constant risk.

- **Complex Recordkeeping Requirements :** ADCVD compliance requires meticulous documentation. Importers faced risks if they failed to maintain and produce adequate records to support their claims related to product classification, attendant duties and sourcing.

EAPA Cases FY2016 –FY 2024



- EAPA Cases continue to increase
- The majority of cases involve China (221 cases)
- Malaysia has the highest number of transshipment cases (74)





> Key Compliance Risks in Alternative Sourcing

Moving Sourcing from China

- China Sec. 301 tariffs had goal of moving sourcing from China to third countries.
- ADD/CVD cases encourage importers to find alternative countries for their supply chain.

Prevalence

- Somewhat successful – many companies have diversified sourcing and the supply chain.

Impact

- Origin: Minimizing problematic country for sourcing of raw materials or just initial processing can still not be sufficient to change the country of origin.
- Improper origin determination can implicate HTS, ADD/CVD and Section 301/232 tariffs.



> Forced Labor Enforcement

The Uyghur Forced Labor Prevention Act (UFLPA):

- Over \$3.67 billion in shipments detained under forced labor restrictions in 2024.
- Expansion of the UFLPA Entity List beyond the Uyghur region.

New investigations anticipated in 2025:

- Section 301 investigation of Nicaragua for labor rights abuses.
- This investigation marks the first time USTR has invoked Section 301 to investigate labor and human rights issues.

Impact on Businesses

- Expanded bases of supply chain audits and verification requirements.

> Forced Labor Compliance

- In December, CBP stopped 1,404 shipments valued at more than \$18.7 million
- USTR Releases First-ever Trade Strategy to Combat Forced Labor on Jan 20, 2025
- UFLPA challenges:
 - Goods from Xinjiang Uyghur Autonomous Region (XUAR) companies on entity list presumed to use forced labor unless proven otherwise.
 - Significant effort and cradle-to-end product documentation required to prove goods not subject.
 - Advanced CBP testing to verify: isotopic fingerprinting for cotton origins.
- **Key Risk:**
 - Detentions at ports and difficult, lengthy releases even with substantial proof.

> Key Compliance Risks in Trade Areas

Knowing Violations: CBP/Government Enforcement of Core Trade Areas

- **Misclassification:** Incorrectly categorizing goods to reduce tariffs (e.g., Ford's \$365M settlement).
- **Origin Fraud:** Falsifying country of origin to bypass tariffs (e.g., King Kong Tools, \$1.9M penalty).
- **Undervaluation:** Declaring lower goods value to avoid duties (e.g., Homestar's \$798K penalty).
- **Documentation Errors:** Missing or inaccurate information can lead to shipment delays and/or penalties.

> Ford & Misclassification of Goods

- Ford Motor Company (\$365M settlement):
 - Ford imported Transit Connect cargo vans with temporary seats under incorrect classification as passenger vehicles.
 - The classification reduced tariffs from 25% (cargo) to 2.5% (passenger).
 - Penalty: One of the largest Customs settlements in recent years.



> Homestar & Undervaluation of Goods

- Homestar North America LLC (\$798K settlement):
 - Homestar and its parent company underreported the value of imported furniture from China to minimize paying Section 301 tariffs.
 - Whistleblower involvement highlighted invoice falsifications.



> King Kong Tools & Misrepresentation of Country of Origin

- King Kong Tools labeled Chinese tools as “Made in Germany” to avoid 25% tariffs.
 - Impact: Severe penalties, \$1.9M fine.

> Alexis LLC and Incorrect Information

- Alexis LLC (\$7.69M settlement):
 - Alexis LLC alleged to materially misreport the value of imported apparel to Customs and Border Protection (CBP), avoiding customs duties and fees.
 - Alexis LLC admitted to errors and omissions regarding the value and classification information reported on Customs forms.



> Avoiding Common Pitfalls

Ford Motor Co./Alexis LLC

- Lesson: Ensure accurate product classification to prevent costly errors.

King Kong Tools

- Lesson: Verify and document country-of-origin claims.

Homestar North America

- Lesson: Report goods' proper value to avoid underpayment violations.

Takeaway

- Non-compliance risks can be mitigated with robust internal audits and accurate documentation.



➤ **Impact of Trade Policies & Tariffs**

> Aggressive Tariffs & Revenue Collection



Trump's Tariff Proposals:

- 10% universal tariff on imports.
- 25% punitive tariff on Canada and Mexico.
- 60% tariff on Chinese goods.

External Revenue Service (ERS):

- Proposed to centralize collection of tariffs, duties, and fines.
- Impact: Potentially increased bureaucracy and compliance complexity.



> Tariffs Impact - Supply Chains

Delays & Bottlenecks

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- Adjustments in sourcing and logistics create disruptions.

Compliance Costs

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- Increased expenses for documentation and regulatory adherence.

Uncertainty

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- Trade retaliation could destabilize supply chains.



> Navigating Trade Uncertainty

Retaliatory Actions



- Risks of counter-tariffs from trading partners.

Consumer Impact



- Higher prices on imported goods.

Strategic Response



- Businesses need adaptive supply chain strategies and contingency planning.

> Enhanced Reporting Standards

ELVS
Rule: Increased data requirements for low-value shipments.

Focus: Improved visibility for CBP on high-risk shipments.

Impact: Businesses must prepare for enhanced documentation.

> Targeting High-Risk Shipments

Counterfeit Goods: Prioritized inspections for IPR violations.

Contraband: Increased scrutiny on dangerous and illegal items.

AD/CVD Enforcement: Focus on undercutting imports and unfair trade practices.



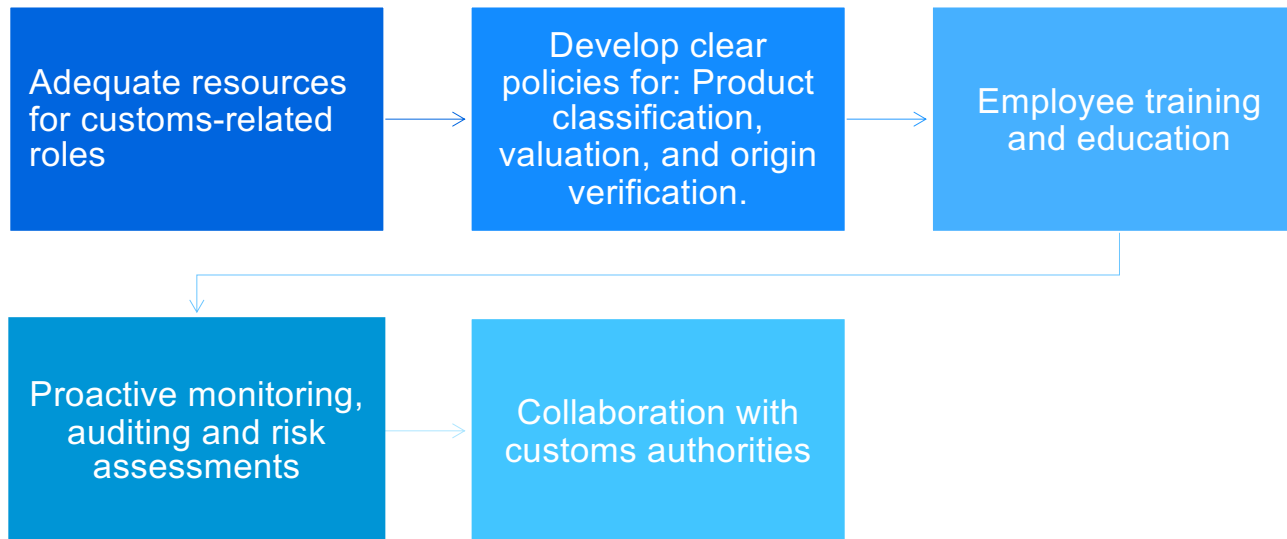
Strategies to Stay Ahead

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> Robust Compliance Programs





> Education is Key to Compliance

Employee Training

- Keep teams updated on new regulations and best practices.

Focus Areas

- Forced labor compliance, AD/CVD, and tariff rules.

Outcome

- Reduces errors and non-compliance risks.



> Engaging with Authorities and Peers

Customs Engagement

- Build trust through proactive communication.

Industry Associations

- Share insights and solutions to common challenges.

Benefit

- Stay ahead of regulatory changes and foster compliance partnerships.

> Identifying Risks Early

Predictive Analytics:
Uses import data to assess risks before they materialize.

Audits: Conduct regular checks on supply chain activities.

Outcome: Mitigate potential compliance issues before shipment.

> Navigating Complexity with Experts

Expertise in tariff classification and import/export compliance audit “health checks” and risk assessments.

Guidance on complex regulations like valuation, UFLPA and AD/CVD

Benefit: Reduced risk and smoother operations, along with potential duty savings.

> Avoiding Circumvention Risks

Importance of Supplier Audits:

- Regular visits and audits ensure suppliers adhere to trade regulations and ethical standards, mitigating risks of non-compliance.
- Engage in transparent supplier relationships to understand their production/distribution processes.
- These actions in closely engaging with suppliers//partners also helps ensure stronger adherence to classification, valuation, and other trade areas in imports/exports.

Key Questions to ask Suppliers:

- Can you provide detailed origin documentation for all materials?
- What measures are in place to prevent forced labor in your supply chain?
- How do you ensure compliance with international trade laws and sanctions?

> Learning From Success

Blockchain for Transparency:

- Ensures tamper-proof records and real-time tracking.
- Example: Companies using blockchain avoided detentions by demonstrating compliance with forced labor regulations.

Collaboration with Customs:

- Engaging with CBP and participating in Trusted Trader Programs builds trust and reduces inspection frequency.

Proactive Internal Audits:

- Regular internal reviews identify and address compliance gaps before enforcement actions.

Takeaway:

- Success depends on strengthening compliance and staying ahead of Customs enforcement changes.



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