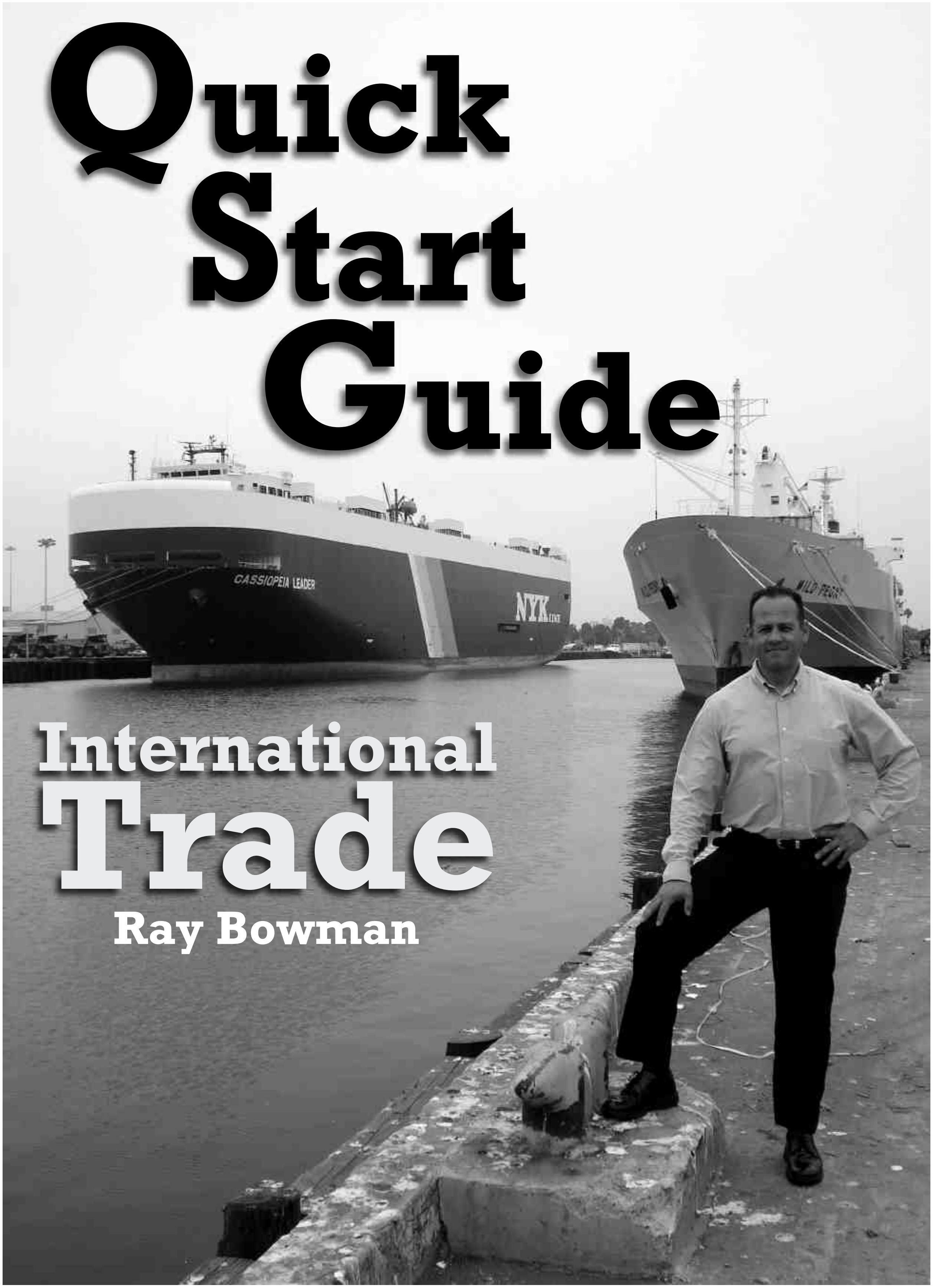

Quick Start Guide

International Trade

Ray Bowman

Cover photos of the author taken at the the Port of Hueneme, CA
Special Thanks to the Oxnard Harbor District for additional photos.

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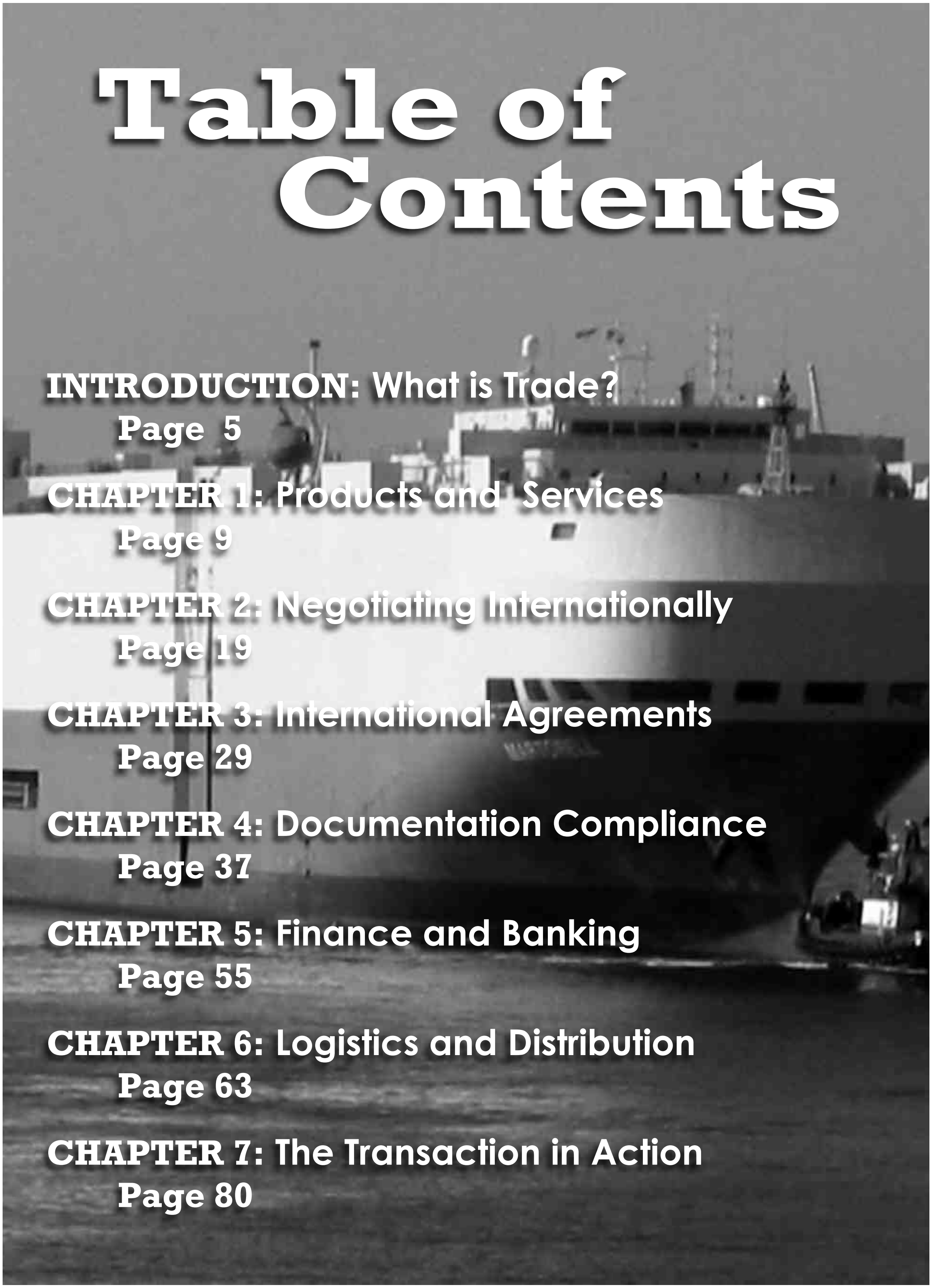
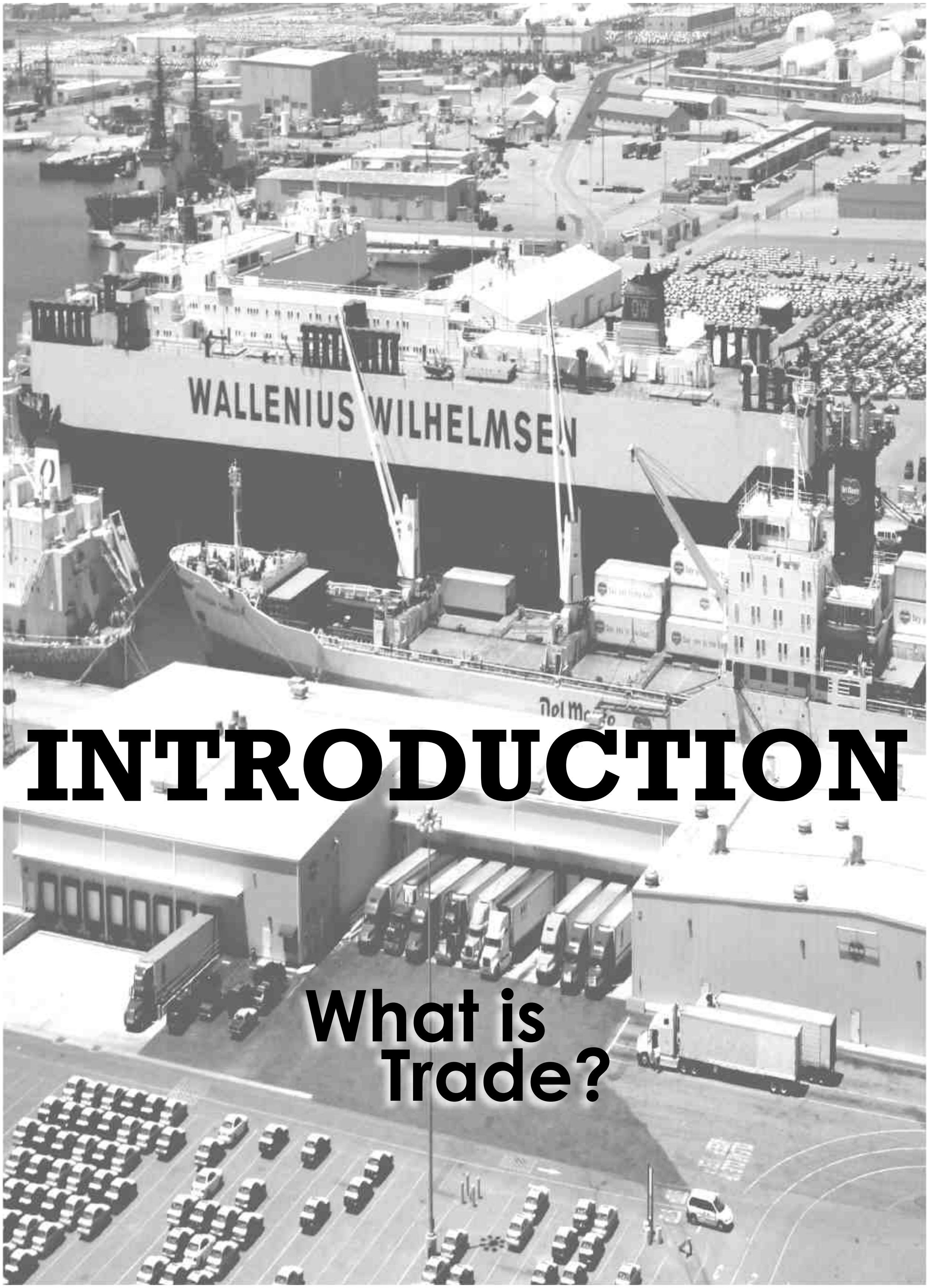


Table of Contents



INTRODUCTION

What is Trade?

Introduction

"The case for trade is not just monetary, but moral. Economic freedom creates habits of liberty. Habits of liberty create expectations of democracy."

George W. Bush, President, United States of America

The Basic Structure of an International Business Transaction

As much as international transactions involve many variables, the basic structure of all transactions are essentially the same. To illustrate this point, think of the construction of a house. No matter the square footage or the floor plan, whether it is a home constructed for severe winters of the northwest, or the excruciating heat of the desert, all homes have in common major components: walls, a roof, windows, doors, a floor, etc. Likewise, all international transactions have common major components. The following are the components critical to any international transaction.

Products and/or Services

Every transaction has a product and/or service that defines it. How these products and services are defined are critical to a successful transaction.

Negotiation

Once an importer or exporter has decided on a product, the next phase involves negotiating with the supplier and customer. The negotiating phase usually begins with a buyer's ***request for quote*** from the seller. The seller then responds with a series of quotes.

Agreements & Contracts

Once all parties in an international transaction have concluded their negotiations. The result is a series of formal agreements or contracts.

Contracts and agreements oversee the act of buying or selling, how items are packaged or shipped, and any other aspects that need to be outlined.

Compliance Requirements and Documentation

All international transactions require compliance with a number of laws and regulations. Most international transactions are subject to import compliance laws for those goods to be imported into a particular country. Many products are subject to export laws in the country of origin. Imports and exports can also be subject to compliance of industry-based requirements or standards.

Finance

All transactions require some type of financing comprised of a variety of financing tools. Some common financing

What is Trade?

tools include bank financing, funder financing, purchase order financing, factoring, outside investors and self-funding through business revenues. In addition, there are a variety of payment methods that can be used. Payment methods include guarantees, open accounts, advance payments, letters of credit, and cash against documents.

Logistics

All transactions include some form of distribution logistics. Logistics is the science of moving assets from one place to another. Logistics encompasses all the various ways the goods and services are delivered from seller to buyer including all the methods of transportation such as ocean freight, airfreight, rail and trucking. Logistics also includes methods of distribution such as third-party warehouses, bonded facilities, contracted factories, e-businesses and order fulfillment technologies.

Adapting the Structure of a Transaction

The key to successfully performing an international transaction lies in the understanding of not only the basic components, but also the order in which they occur and the adaptations to the basic structure required for each transaction. Each component of an international transaction is influenced by changeable and unchangeable factors that require adaptations being made. Think of the adaptations a homebuilder must make. He or she would not build the same exact house in the cold, unforgiving climate of Montana, or the desert heat of New Mexico or in a geologically turbulent California. Although basically the same floor plan, each house is distinctly different with adaptations for each specific situation. The factors that cause adaptations to a transaction include the following.

Climate and Geography

Climate and geography can affect an economy to a significant extent by dictating development of an infrastructure. A region's proximity to shipping lines, as well as distance and access to other commercial centers, are factors that greatly affect distribution of goods. In addition, climates may be dramatically different in other regions of the world. Populations in these areas are likely to have other concerns regarding health, clothing, and housing requirements. These most basic differences need to be taken into consideration when developing an export plan for products that may be affected by them.

Culture and Language

Culture and language are very important variables that are often a direct result of geography and climate. The way a population lives---the type of food they eat, their celebrations, their rituals, and the language that they develop---is influenced to a great extent by their immediate environment. Another culture may have different expectations regarding quality and performance of the product in question. Bargaining/negotiating strategies may also be country-specific, and one should be ready to respond to these different strategies.

Government

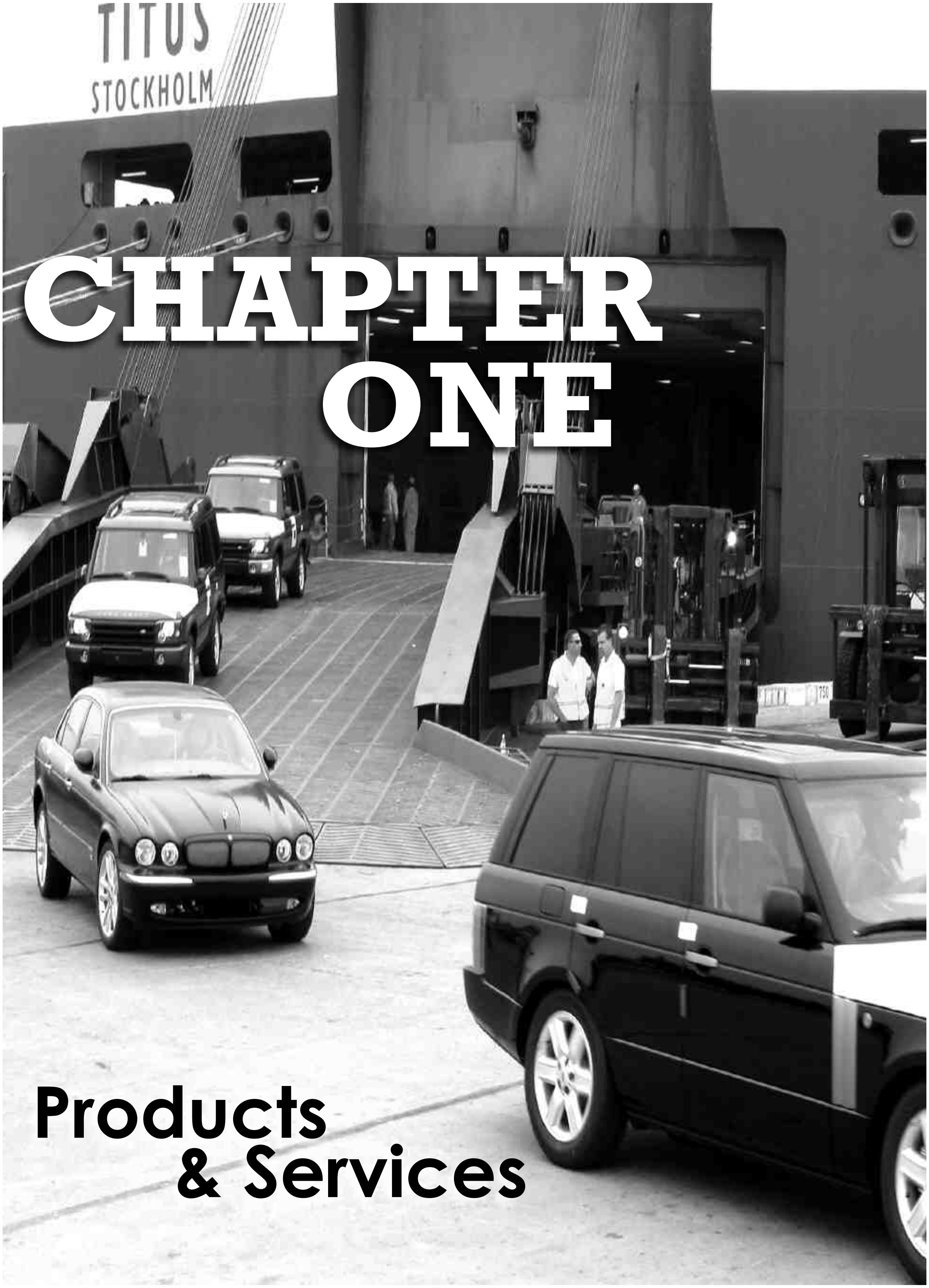
This factor, while not as basic as those of climate/geography and culture/language, is a piece of the exporting puzzle that must be understood. Governments control trade through economic regulations. Each government holds different economic objectives, which they realize through the enforcement of duties and tariffs. Likewise, currency and exchange rates are controlled by governments and affect trade greatly. Governments control quantities of certain kinds of products through quotas, they choose which countries get preferential treatment when exporting their products, and they place restrictions on products with regard to certain health and safety issues. Not only do governments control all of these factors, they often change their policies to fit their immediate needs. The stability of government policies should be considered when analyzing an export market.

Legal System

When choosing an export market, it must be kept in mind that legal systems vary by country. They may not change as quickly as government policies but the laws of a target country need to be well understood and appropriate action must be taken to adapt to them. Some countries have very litigious legal systems, following distinct methods of collecting monies, wording contracts, and enforcing copyrights and patents. The legal system under which you are trading needs to be recognized and understood to prevent problems.

International Business Relationships

International business transactions involve a series of relationships between buyers, sellers, freight forwarders, customs brokers, banks, and other transaction participants. These relationships must be carefully orchestrated for an international import or export transaction to flow seamlessly. Whether personal or business, all relationships have rules and boundaries. All relationships go through a courtship stage in which participants establish ground rules and trust. Each participant in a trade transaction has their own unique expertise. A good importer or exporter knows how to select and use these relationships. The ability to manage these different types of relationships is one of the keys to doing successful international business.



CHAPTER ONE

Products & Services

CHAPTER ONE

"The expansion of trade has been the single greatest economic achievement of the world over the past fifty years".

Author of *The Future of Freedom*, Fareed Zakaria

Product Selection

The type of product that is selected heavily influences an international transaction. Every decision that you make in an international transaction will be colored and shaped according to the product that you selected. Product knowledge and the affinity you have for product are key factors in your success.

The overall knowledge of your product tends to be a predictor of your success in exporting or importing. The following are key questions that you should ask yourself when thinking about importing or exporting a product.

Are you familiar with the Product?

The more you know about your product, the better your plan will be.

Do you have experience with your product?

Buyers of the product will find it important that you know how to use the product and are able to explain thoroughly.

Do you have an affinity for the product?

In order to sell something, and succeed at it, it is important to believe in the product.

Is the product available? Can it be?

Pay attention to whether it includes raw materials with volatile prices.

Is the product competitive? Can it be?

If it cannot compete with similar products, there is no reason to sell it. The product will not succeed. Can you change your marketing strategy to make it more competitive?

Is the product protected? Can it be?

If it cannot be protected, are other people going to try to copy it? Can the product be made at a more competitive price? Can your company handle the competition?

Do You Produce The Product Yourself?

If not, are other companies going to catch on to the product and copy it?

Identifying Your Product in the Harmonize Tariffs System

The next step in preparation of our international transaction is to understand how products are universally defined. Products must be able to be universally identified in order to gather statistics, for the purposes of foreign duties and taxes, and to help determine export licensing requirements. The most universal system to describe products for government regulation and statistics purposes, is the *Harmonize Code*.

Products & Services

The Harmonize Commodity Description and Coding System was developed by an international effort of the Nomenclature Committee of the Customs Cooperation Counsel. Customs authorities around the world use the harmonized tariff schedule (HTS) number to apply duties and taxes. These numbers are typically six to ten digits long. The first six digits are standardized worldwide, while additional numbers are used to further distinguish products in certain categories. In the United States for exports, there is also Schedule B tariff classifications. A misrepresentation of the coding system can mean the difference between no duty for the buyer and a duty of 50% or more.

How the Harmonize Tariff System Works

The harmonize code numbering system is broken down by the following components:

- **Chapter:** The chapter represents the first two digits of the harmonize code.
- **Heading:** The heading represents the first four numbers of the harmonize code.
- **Subheading:** The subheading represents the first six digits.

The full six digit number (internationally) or the ten digit number (in the United States) represents the complete harmonize code. Overall, the harmonize code represents over 22 sections divided into 97 chapters.

Example of a harmonize code:

US Commodity Code for
FRESH, WHOLE SALMON

ATLANTIC-FARMED: 0302.12.0003

CHINOOK (KING): 0302.12.0012

Remember, first six digits are universal between all countries. Subsequent digits can change depending upon the country.

The Harmonize Code Versus the Schedule B

The United States has established two different sets of commodity codes to distinguish between imports and exports. Both are based on the harmonize system, and share identical chapter headings and subheadings. However, the difference lies within the full 10-digit commodity code. The Schedule B is used to identify exports leaving the United States, while the harmonized tariff schedule is used to classify imports. The following are web sites, which will assist you in locating the correct Schedule B or harmonize code number:

Schedule B:
WWW.CENSUS.GOV/FOREIGN-TRADE/SCHEDULES/B/INDEX.HTML

Harmonized Tariff Schedule:
www.http://rulings.cbp.gov/

Other Important Product Classifications

The following are other product industry classifications that you may encounter in international documentation or when doing research on your product.

Standard Industrial Classification (SIC)

The SIC code is in the four digit number used to describe the type of activity a company is engaged in. Although primarily replaced by the new NAICS codes, you may still see SIC codes in use. SIC codes can be reference by the following web site:

WWW.OSHA.GOV/OSHSTATS/SICSER.HTML

North American Industry Classification System (NAICS)

This is a new coding system that has replaced the SIC. It was developed jointly by the United States, Canada and Mexico. This coding system can be referenced by the following web sites:

WWW.CENSUS.GOV/NAICS

WWW.NTIS.GOV/BUSINESS/SIC.HTM

Standard International Trade Classification (SITC)

This coding system was developed by the United Nations (UN). This system is used to report international trade statistics. There are over one hundred countries that report their import and export trade statistics to the UN. This datum is summarized in various reports such as the *International Trade Yearbook*. Information on this code can be found through the following web site:

GOPHER://GOPHER.UNICC.ORG/11/ITC/DIR3

Using Product Codes to Identify Target Countries

Once you've chosen a product, identified its government and industry codes, you can begin to identify those key international markets to source or sell your product to. The US Department of Commerce Commercial Service can supply exporters with information on the top 25 markets for any given product. U.S. Customs' online database can show the top import markets for any given product. These databases will enable you to make an educated decision as to which countries to focus your effort.

Identifying Target Markets Through "Market Clusters"

If asked, most companies will tell you that some of the best international customers or suppliers were developed by cultivating long-term relationships. These relationships come from knowing the key players in the target markets and being considered one yourself.

There are many ways to find market clusters for an industry. One of the best ways is to find a trade association for that industry. For almost every conceivable market, there is a professional trade association. Trade associations also are good sources for information on specific trends in a given market as the information is based on actual product sales. Trade associations usually have annual meetings and conferences where they gather, make presentations, and conduct sales.

Trade Leads, Trade Publications, Ads, and Inquiries

There are a variety of publications that cater to leads and trade ads. The Department of Commerce has several different fee-based services to assist exporters from distributor searches to ad publications for foreign buyers. Many trade associations have web sites that list their members and can be used as a source for sales leads. They also provide an arena for prospective buyers and sellers to communicate. Other government-sponsored trade offices also have databases to post inquires for both buyers and sellers.

International Resource Guide

The Internet supplies a variety of helpful databases that provide trade information and sale leads.

http://www.itdn.net
The International Trade Data Network (ITDN) is an extensive collection of databases providing detailed market research, cultural and political information, plus Global Web Page Development.

http://www.CBP.gov
Website for United States Customs

http://www.joc.com
Journal of Commerce On-line: The daily journal of trade logistics. This site provides up-to-date news articles affecting international trade.

http://www.ita.doc.gov/tic
Information about all federal export assistance programs, as well as country and regional market information. A clearinghouse of all types of trade information.

http://www.census.gov/foreign–trade/www/
Bureau of Census: Foreign trade statistics. Schedule B Numbers, SED Instructions, and Export Statistics.

http://www.usaid.gov
Independent government agency that provides economic development and humanitarian assistance to advance U.S. economic and political interests overseas. Business and procurement opportunities.

http://globaledge.msu.edu/
International Business Resources on the Internet: From Michigan State University with links to a wide variety of interesting and helpful pages

https://www.fedex.com/us/services/
FedEx On-line Services: Many useful services that the small exporter should be aware of.

http://www.doc.gov
Department of Commerce Home Page: Connects to STAT USA and other federal home pages.

International Resource Guide

More helpful Internet databases that provide trade information and sale leads.

http://www.sba.gov/
Small Business Administration (SBA)

http://www.sba.gov/oit/
Small Business Administration's (SBA) Office of International Trade: Works in cooperation with other federal agencies, public and private sector groups to encourage and assist small business exports.

http://www.fas.usda.gov/
The USDA's Foreign Agricultural Service (FAS) represents the diverse interests of U.S. farmers and the food and agricultural sector abroad. It also collects, analyzes, and disseminates information about global supply and demand, trade trends, and emerging market opportunities.

http://www.fao.org
Food and Agriculture Organization of the United Nations

http://www.usdec.org/
US Dairy Export Council

http://www.usmcoc.org/
US-Mexico Related Sites

http://www.mib.org.mx/
Mexican Investment Board

http://www.usitc.gov/tr/DATA1.HTM
USITC Trade Resources

http://www.exportsource.gc.ca/nonfame/engdoc/0.htm
Canada Export Source

http://www.apectariff.org

APEC Tariff Database

http://www.bis.doc.gov

Bureau of Industry and Security's website for information for export licensing.

To obtain the correct harmonized code for your product under the United States System, you will take the following steps.

Our example product: Men's Cotton Raincoats

1. Link to the **Harmonized Tariff System (HTS)** on the Internet at: **http://www.usitc.gov/tata/hts/bychapter/index.htm** .

2. Locate the chapter in the table of contents, which applies to the product. (Be sure to read the chapter notes as well.)

   For our example, Raincoats, are classified under articles of apparel, not knit or crochet, Chapter 62.

Harmonized Import Chapters
2-Digit Codes

Chapter	FAS Unit	Description
01	Numbers	Live animals
15	Metric Tons	Animal, vegetable fats and oils, cleavage products, et
16	Metric Tons	Meat, fish and seafood food preparations nes
17	Metric Tons	Sugars and sugar confectionery
30	Metric Tons	Pharmaceutical products
31	Metric Tons	Fertilizers
34	Metric Tons	Soaps, lubricants, waxes, candles, modelling pastes
39	Metric Tons	Plastics and articles thereof
47	Metric Tons	Pulp of wood, fibrous cellulosic material, waste etc
48	Metric Tons	Paper & paperboard, articles of pulp, paper and board
50	Metric Tons	Silk
51	Metric Tons	Wool, animal hair, horsehair yarn and fabric thereof
52	Bales	Cotton
60	Metric Tons	Knitted or crocheted fabric
61	Metric Tons	Articles of apparel, accessories, knit or crochet
62	Metric Tons	Articles of apparel, accessories, not knit or crochet
84	Numbers	Machinery and Mechanical Appliances, including parts
87	Numbers	Vehicles other than Railway, Parts and Accessories
92	Numbers	Musical Instruments; Part and Accessories Thereof
97	Metric Tons	Works of art, collectors pieces and antiques
98	Metric Tons	Commodities specified at chapter level only

3. Now, go to the designated chapter to find the 4-digit heading that most closely describes the goods.

Harmonized Tariff Schedule of the United States (2006)
Annotated for Statistical Reporting Purposes

XI
62-4

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	R 1 General	
6201		Men's or boys' overcoats, carcoats, capes,cloaks, anoraks (including ski-jackets), windbreakers and similar articles (including padded, sleeveless jackets), other than those of heading 6203:			

For our example, heading 6201 describes men's or boy's overcoats, etc.

We now have the first four digits of the harmonized code for Men's Cotton Raincoats:

6 2 0 1 __ __ __ __ __ __ __ __ __

Understanding the Harmonized Code

Understanding the Harmonized Code

4. Continue under the sub-heading to find the 6-digit international subheading that most closely covers the product.

   For our example, heading 6201.12 describes men's overcoats, etc. made of cotton.

5. Continue to look under the 6-digit category to further determine the 8-digit US rate line for the most specific category.

   For our example, overcoats, made of cotton, with a filling other than down or plumage.

6. Continue under the column to find the final two classifying numbers.

   As you can see, the Harmonized Code can be quite complicated. Had our raincoats been made of wool, the code would be 6201.11.0010, or had they been down-filled cotton raincoats, the code would be 6201.12.1000. It is extremely important to get the proper classification.

Heading/ Subheading	Stat. Suf-fix	Article Description
6201		Men's or boys' overcoats, carcoats, capes,cloaks, anoraks (including ski-jackets), windbreakers and similar articles (including padded, sleeveless jackets), other than those of heading 6203:
		Overcoats, carcoats, capes, cloaks and similar coats:
6201.11.00		Of wool or fine animal hair . . . .
	10	Men's (434) . . . .
	20	Boys' (434) . . . .
6201.12		Of cotton:
6201.12.10	00	Containing 15 percent or more by weight of down and waterfowl plumage and of which down comprises 35 percent or more by weight; containing 10 percent or more by weight of down (353) . . . .
6201.12.20		Other . . . .
		Raincoats:
	10	Men's (334) . . . .
	20	Boys' (334) . . . .

The complete Harmonized Code for Men's Cotton Raincoats is...

6201.1 2.2010

There are some situations however, in which goods can be described several ways. Customs has established a **Binding Ruling** program whereby importers can request a written ruling as to the proper United States HTS Classification and applicable rates of duty. ***No matter how familiar you are with the Harmonized Code, always rely on sound advice from your broker, trade attorney or Customs.***

How To Choose Partners

Factors to Consider When Choosing a Foreign Representative or Distributor

The following checklist should be tailored to each company's needs. Key factors vary significantly with the products and countries involved.

Size of Sales Force

- How many field salespeople does the representative or distributor have?
- What are the short and long-range expansion plans, if any?
- Would it need to expand to accommodate your account properly? If so, would it be willing to do so?

Sales Record

- Has its sales growth been consistent? If not, why not? Try to determine its sales volume for the past five years.
- What is the average sales volume per outside salesperson?
- What are its sales objectives for next year? How were they determined?

Territorial Analysis

- What sales territory does it now cover?
- Is it consistent with the coverage you desire? If not, is it able and willing to expand?
- Does it have any branch offices in the territory to be covered?
- If so, are they located where your sales prospects are greatest?
- Does it have any plans to open additional offices?

Product Mix

- How many product lines does it represent?
- Are these product lines compatible with yours?
- Would there be any conflict of interest?
- Does it represent any other U.S. firms? If so, which ones? (names and addresses)
- If necessary, would it be willing to alter its present product mix to accommodate yours?
- What would be the minimum sales volume needed to justify its handling your lines? Do its sales projections reflect this minimum figure? From what you know of the territory and the prospective representative or distributor, is the projection realistic?

Facilities and Equipment

- Does it have adequate warehouse facilities?
- What is the method of stock control?
- Does it use computers? Are they compatible with yours?
- What communications facilities does it have (fax, modem, telex, etc.)?

- If your product requires servicing, is it equipped and qualified to do so? If not, is it willing to acquire the needed equipment and arrange for necessary training? To what extent will you have to share the training cost?
- If necessary and customary, is it willing to inventory repair parts and replacement items?

Marketing Policies

- How is the sales staff compensated?
- Does it have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific product lines?
- How does it monitor sales performance?
- How does it train its sales staff?
- Would it pay or share expenses for its sales personnel to attend factory-sponsored seminars?

Customer Profile

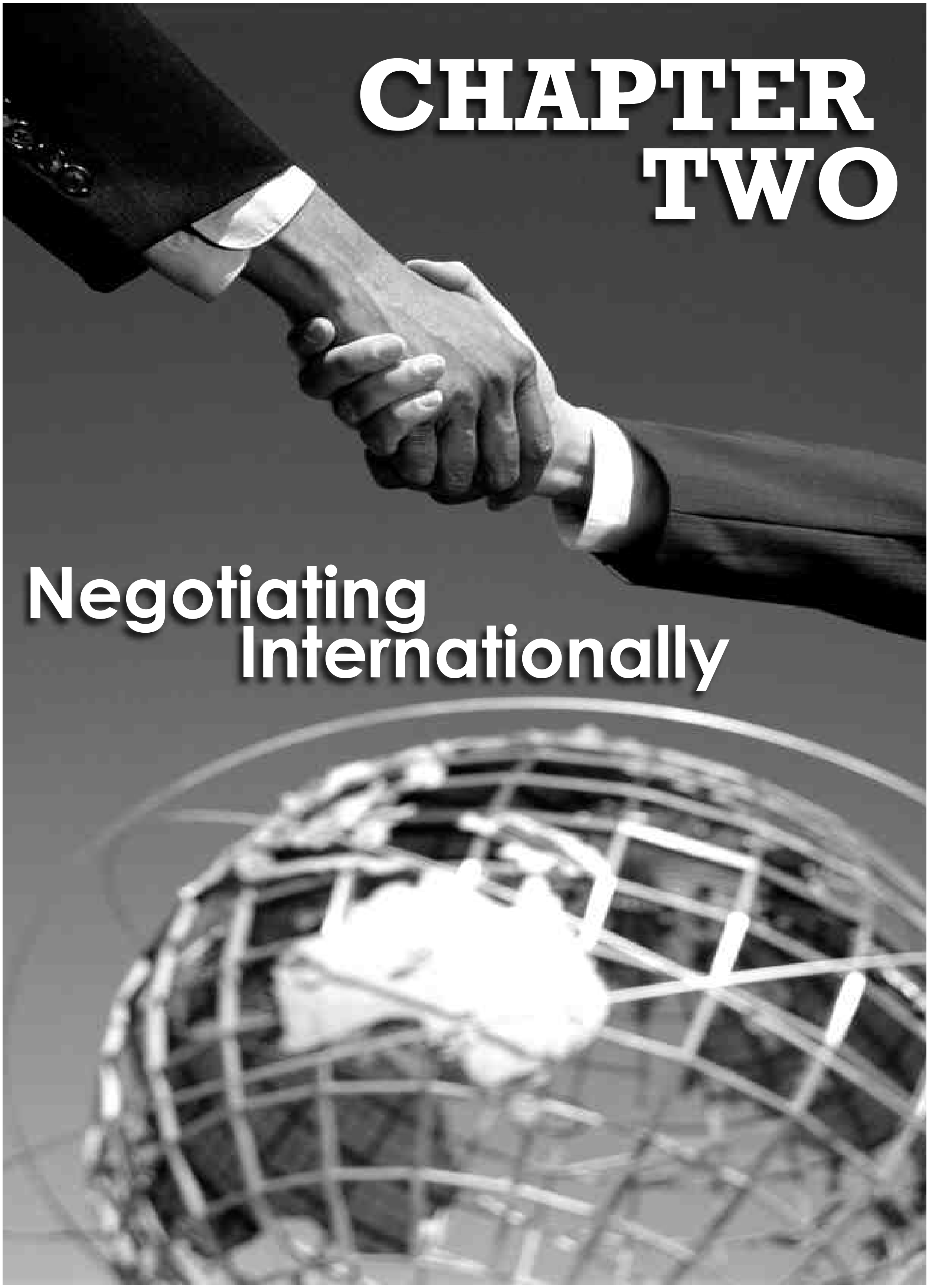
- What kinds of customers is it currently contacting?
- Are its interests compatible with your product line?
- Who are the key accounts?
- What percentage of the total gross receipts do these key accounts represent?

Principals Represented

- How many principals is it currently representing?
- Would you be its primary supplier?
- If not, what percentage of the total business would you represent? How does this percentage compare with other suppliers?

Promotional Thrust

- Can it help you compile market research information to be used in making forecasts?
- What media does it use, if any, to promote sales?
- How much of the budget is allocated to advertising? How is it distributed among various principals?
- Will you be expected to contribute funds for promotional purposes?
- How will the amount be determined?
- If it uses direct mail, how many prospects are on the mailing list?
- What type of brochure does it use to describe the company and the products that it represents?
- If necessary, can it translate your advertising copy?


CHAPTER
TWO
Negotiating
Internationally

Chapter Two

"Live together like brothers,

do business like strangers."

Arabian Proverb

The Methodology Behind International Pricing

Pricing is one of the most important topics in this book because it represents the key reason you are in business-- to generate a profit.

Why Do So Many Companies Make Pricing Errors?

Some of the most common pricing errors in international trade are:

1) Failure to identify and account for all of the components of cost;
2) Failure to negotiate with the correct Incoterm;
3) Failure to account for the cost of money or sales; and
4) Failure to accurately account for percentage cost.

The Method of Thinking Internationally When Pricing

When pricing an international transaction, it is important to consider the entire cost of the transaction (landed cost) and whether it is a direct cost to you or not. This determines your selling price. Another important consideration in international pricing is the affordability to the buyer and their ordering cycle. A key consideration for a buyer of your product will be their terms from you. They will wish to sell your product and be paid by their customers <u>before</u> they have to pay you in order to maximize their own cash flow. A good analogy of this is the car buyer who pays more for a car but receives dealer financing versus buying the car at a deep discount without payment terms.

Incoterms

"Incoterms" is an abbreviation of *International Commercial Terms*. First published in 1936 by the International Chamber of Commerce (ICC), there have been six different revisions and updates. The Incoterms provide a common set of rules for the most often used international terms of trade.

The goal of the Incoterms is to alleviate or reduce confusion over interpretations of shipping terms by outlining exactly who is obligated to take control of and/or insure goods at a particular point in the shipping process. Further, the terms will outline the obligations for the clearance of the goods for export or import and requirements on the packing of items.

Incoterms do not replace statements in a contract of sale outlining transfers of ownership or title to goods. Therefore, the Incoterms may not be of use when looking

Negotiating Internationally

to resolve disputes that may arise regarding payment or ownership of goods. Incoterms are also used by banks and Customs authorities to determine price structure.

One must be careful when using Incoterms because the Incoterms relate to particular modes of transportation. For example, some of the Incoterms deal solely with transport by sea. Terms such as FOB and CIF can be used only for ocean bound freight. FOB, meaning Free on Board, translates to the shipper (seller) having upheld his/her part of the agreement when the goods pass the ship's rails at the port of exit. The receiving party (buyer) assumes risk and costs associated with the goods once they pass the ship's rail at the port of departure. Due to the specific mention of the ship's rails, an aircraft or other mode of transport cannot be used with FOB. For a shipment scheduled for delivery by any other form of transport with the same agreement as FOB, one would need to use the Incoterm FCA, or Free Carrier. FCA can include other modes of transportation such as road, rail, inland waterway, and air. Whereas transfer under FOB takes place when the cargo passes the ship's rails, transfer with FCA happens when delivery of goods has been made at a destination outlined by the parties.

Delivery Points and Incoterms

Incoterms always have to be accompanied by a named place as the point of delivery. As we continue the discussion of pricing and finance we expand the term “Delivery Point” to describe both ship-from and ship-to points.

It is a common mistake for sellers to assume that FOB terms refer to their closest port of exit. For example, a seller in Los Angeles may assume that FOB to a Latin American buyer means that the goods depart from the port of Los Angeles, when the Latin buyers mean that the goods should depart from Miami.

Documentation and Incoterms

Documentation requirements vary with each Incoterm with the only standard documents being the commercial invoice and packing list. Each Incoterm will also incorporate some type of bill of lading (Ocean, Air, Surface) or terminal receipt to document that the goods have been delivered between the buyer and the seller.

For example, an EXW or Ex Works transaction often uses a signed dock receipt or a signed off truck bill of lading to prove that the seller fulfilled their responsibility to the buyer. Another example of a document that would prove that a seller has fulfilled their responsibility would be an ocean bill of lading submitted by the seller showing that FOB or CFR terms were fulfilled. Incoterms also describe who is responsible for the Customs formalities of an import or export. An example of this would be a FCA transaction in which the goods were delivered to a truck at the seller’s warehouse and the seller would have to include export Customs clearance, whereas the seller would be exempt from providing Customs clearance under EXW or Ex-works.

Components of an International Quote

Manufacturer Costs

Manufacturer costs represent the total of all production and marketing costs before shipment. *Ex Works* is one of the Incoterms used to define the terms of an international transaction.

An Ex Works price includes all costs involved in production at the factory. If a transaction were specified as Ex Works, the buyer would assume responsibility for all costs incurred in moving the goods from the point of origin (factory) to the final destination.

Labeling

Product labels usually must be in, or at least include, the official language(s) of the target market. There may also be specific regulations governing the content of the labels (e.g.. country of origin, name and address of the manufacturer/producer, a description of the contents or ingredients, weight, conformity with technical standards or inspection requirements, etc.)

Failure to provide the proper labeling could result in goods being stopped at the border of the target market. Usually, the buyer will specify the type of labeling or marks required for the destination country, but a freight forwarder can give you the same information. Customs brokers in the foreign country will also be familiar with the specific labeling regulations required by customs inspectors.

Packaging

Distinguish between packaging (pertains to individual products) and packing (the way in which an entire shipment is assembled as cargo). Be careful to familiarize yourself with packaging requirements for your product in the target country. Regulations may call for the product type to be individually packaged or packaged in specific quantities. Other types of packaging may be prohibited (e.g.. packaging that does not show the contents of the product.)

Packing and Crating

Individual packages have to be assembled into boxes, crates, onto skids, or into containers. The goods must be packed in such a way as to reduce the possibility of damage, theft or spoilage and the buyer may specify how they expect this to be done.

Documentation

Documentation is the key to international transactions. Every transaction must be accompanied by the appropriate set of documents describing the transaction, the contents, the value of the shipment, and how it is to be handled and transported. In some cases, goods must be accompanied by special permits, health and safety inspection certificates, or certificates of origin. It is extremely important that all of these documents are prepared correctly, in effect, letter perfect.

Freight Forwarder Fees

Many companies rely on freight forwarders to handle most, if not all of the responsibilities surrounding preparation of documents, arranging for transport, and preparing cargos for shipment. Companies that are just starting out in international trade would do well to secure the services of a freight forwarder experienced in the target markets they are trying to address.

Loading Charges

The item refers to the costs of loading the shipment at the factory gate onto the mode of transportation that will take it to the point where the international carrier will take it.

Transport Charges

This item refers to the costs incurred in moving the shipment from the factory to the point at which the international carrier will take it.

Loading or Terminal Charges

Charges incurred in loading the shipment onto the mode of transportation to be used in carrying the shipment from the U.S. to the foreign destination.

Freight

Transportation costs from the U.S. to the port of entry in the target foreign country. This does not include charges associated with unloading, storage, and inland transportation in the buyer's country.

Cargo Insurance

Refers to an insurance policy that covers the buyer or seller in the event the goods are lost or damaged. Most insurers insure for 110% of the value. Most insurance is charged on a percent of value or on cents per $100 or $1,000 basis.

Duty and Taxes

Cost levied by the foreign government for Duties and Taxes. Different countries assess duty differently (i.e.. CIF, FOB, Flat rate.)

Customs Broker Fees

Many companies engage Customs brokers familiar with the procedures used in a target country to get their goods through Customs. In some countries, such as Mexico, hiring a local customs broker is a mandatory requirement for the admission of foreign goods.

Delivery Costs

The costs of transporting the goods from the port of entry to the final destination.

Travel

Includes all travel expenses incurred by your company in visiting the target market for research, a mission or a trade show, and it may include the costs of bringing foreign partners (agents, distributors, etc.) from the target country back to the U.S.

Commissions

Agent commissions, finder's fees, distribution fees etc. owed on the transportation. These should be converted from foreign into U.S. currency.

Bank charges

Issuing institutions such as banks will levy a charge for drawing up letters of credit or other financial documents.

Export Credit Insurance

In many transactions, sellers will take out export credit insurance to protect themselves against a possible default by the buyer.

Discounts on Receivables

Companies that do not want to wait for their payment instruments to come due can sell the receivable at a discount to a factoring house or sell the drafts from a letter of credit to a bank. The cost of that discount should be included in the landed cost calculations.

Currency Conversion

Moving money from foreign to U.S. currency will incur some costs. Additional costs might be incurred if there is significant fluctuations in the relationship between the two currencies. To protect themselves against these kinds of losses, some companies engage in “hedging” which involves current or forward purchases of foreign currencies. This too, will incur certain costs.

Incoterm Descriptions

Incoterms & Descriptions	Mode	Example Documents
Ex-Works: One of the simplest and most basic shipment arrangements places the minimum responsibility on the seller with greater responsibility on the buyer. In an EX-Works transaction, goods are basically made available for pickup at the shipper/seller's factory or warehouse and "delivery" is accomplished when the merchandise is released to the consignee's freight forwarder. The buyer is responsible for making arrangements with their forwarder for insurance; export clearance and handling all other paperwork	Any Mode	*Commercial Invoice, Packing List, Dock receipt signed by trucker*
FOB (Free On Board): One of the most commonly used-and misused-terms, FOB means that the shipper/seller uses his freight forwarder to move the merchandise to the port or designated point of origin. Though frequently used to describe inland movement of cargo, FOB specifically refers to ocean or inland waterway transportation of goods. "Delivery" is accomplished when the shipper/seller releases the goods to the buyer's forwarder. The buyer's responsibility for insurance and transportation begins at the same moment.	Ocean Only	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading*
FCA (Free Carrier): In this type of transaction, the seller is responsible for arranging transportation, but he is acting at the risk and the expense of the buyer. Where in FOB the freight forwarder or carrier is the choice of the buyer, in FCA the seller chooses and works with the freight forwarder or the carrier. "Delivery" is accomplished at a predetermined port or destination point and the buyer is responsible for Insurance.	Any Mode	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading*
FAS (Free Alongside Ship): In these transactions, the buyer bears all the transportation costs and the risk of loss of goods. FAS requires the shipper/seller to clear goods for export, which is a reversal from past practices. Companies selling on these terms will ordinarily use their freight forwarder to clear the goods for export. "Delivery" is accomplished when the goods are turned over to the Buyers Forwarder for insurance and transportation.	Ocean Only	*Commercial Invoice, Packing List, Carrier Receipt Signed by Terminal*

Incoterm Descriptions

Incoterms & Descriptions	Mode	Example Documents
CFR (Cost and Freight): Formerly known as CNF, this term defines two distinct and separate responsibilities. The first deals with the actual cost of merchandise "C." The second, "F", refers to the freight charges to a predetermined destination point. It is the shipper/seller's responsibility to get goods from their door to the port of destination. "Delivery" is accomplished at this time. It is the buyer's responsibility to cover insurance from the port of origin or port of shipment to buyer's door. Given that the shipper is responsible for transportation, the shipper also chooses the forwarder.	Ocean Only	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading*
CIF (Cost, Insurance and Freight): This arrangement is similar to CFR, but instead of the buyer insuring the goods for the maritime phase of the voyage, the shipper/seller will insure the merchandise. In this arrangement, the seller usually chooses the forwarder. "Delivery" as above, is accomplished at the port of destination.	Ocean Only	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading, Certificate of Insurance*
CPT (Carriage Paid To): In CPT transactions, the shipper/seller has the same obligations found with CIF, with the addition that the seller has to buy cargo insurance, naming the buyer as the insured while the goods are in transit.	Any Mode	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading, Certificate of Insurance*
CIP (Carriage & Insurance Paid To): This term is primarily used for multimodal transport. Because it relies on the carrier's insurance, the shipper/seller is only required to purchase minimum coverage. When this particular agreement is in force, Freight Forwarders often act in effect, as carriers. The buyer's insurance is effective when the goods are turned over to the Forwarder.	Any Mode	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading, Certificate of Insurance (Buyer as Beneficiary)*
DAF (Delivered At Frontier): The seller's responsibility is to hire a forwarder to take goods to a named frontier, which usually means a border crossing point, and clear them for export. "Delivery" occurs at this time. The buyer's responsibility is to arrange with their forwarder for the pick up of the goods after they are cleared for export, carry them across the border, clear them for importation and effect delivery. In most cases, the buyer's forwarder handles the task of accepting the goods at the border across the foreign soil.	Surface Only	*Commercial Invoice, Packing List, Standard Bill of Lading*

Incoterm Descriptions

Incoterms & Descriptions	Mode	Example Documents
DES (Delivered Ex Ship): In this type of transaction, it is the seller's responsibility to get the goods to the port of destination or to engage the forwarder to the move cargo to the port of destination uncleared. "Delivery" occurs at this time. Any destination charges that occur after the ship is docked are the buyer's responsibility.	Ocean Only	*Commercial Invoice, Packing List, Standard or Ocean Bill of Lading*
DEQ (Delivered Ex Quay) In this arrangement, the buyer/consignee is responsible for duties and charges and the seller is responsible for delivering the goods to the quay, wharf or port of destination. In a reversal of previous practice, the buyer must also arrange for customs clearance.	Surface Only	*Commercial Invoice, Packing List, Standard and Carrier Bill of Lading, Customs Clearance Documentation*
DDP (Delivered Duty Paid) DDP terms tend to be used in intermodal or courier-type shipments. Whereby, the shipper/seller is responsible for dealing with all the tasks involved in moving goods from the manufacturing plant to the buyer/consignee's door. It is the shipper/seller's responsibility to insure the goods and absorb all costs and risks including the payment of duty and fees.	Any Mode	*Commercial Invoice, Packing List, Standard and Carrier Bill of Lading, Entry Documents, Delivery receipt signed by the buyer.*
DDU (Delivered Duty Unpaid) This arrangement is basically the same as with DDP, except for the fact that the buyer is responsible for the duty, fees and taxes.	Any Mode	*Commercial Invoice, Packing List, Standard and Carrier Bill of Lading, Delivery receipt to buyer*

How To Determine Your Price

This worksheet will assist you in determining how much it will cost you to produce, transport, deliver, and finance your transaction and how much to charge your buyer. Each stage of a transaction identifies a potential area of cost. In addition, delivery terms and responsibilities will also affect your cost. Do not neglect to add in a sufficient mark-up for your profit. This worksheet is a guide only and may not reflect all the necessary costs for all transactions.

Area of Cost	Individual Line Items	Amount
GOODS PRODUCTION COSTS	Materials	$___________
	Labor	$___________
	Overhead	$___________
	Administration	$___________
	Production Financing	$___________
	Domestic Taxes	$___________
FOREIGN MARKETING COSTS	Promotion	$___________
	Communications	$___________
	Translation	$___________
	Ad Agency Fees	$___________
	Travel	$___________
SHIPMENT PREPARATION	Labeling	$___________
	Packaging	$___________
	Packing	$___________
	Marking	$___________
DOMESTIC CHARGES ORIGIN CHARGES	Documentation	$___________
	Factory Loading Charges	$___________
	Transportation to Port	$___________
	Unloading at Port	$___________
	Storage	$___________
	Port Costs	$___________
	Ship Loading Charges	$___________
	Freight Forwarding Fees	$___________
INTERNATIONAL FREIGHT	Freight Charges	$___________
	Shipping Insurance (110% of value)	$___________
SUB TOTAL FIXED COSTS		$___________
TRANSACTION FINANCING And PERCENTAGE COSTS	Cost of Instruments	___________%
	Export Credit Insurance	___________%
	Discount on Receivables	___________%
	Loan Interest Cost	___________%
	Commissions	___________%
	Profit Margin Percentage (Mark-up)	___________%
FINANCING and PERCENTAGE COSTS		___________%
DETERMINE APPROPRIATE PRICE		$___________

DETERMINE APPROPRIATE PRICE
To calculate: (1) 100%- %Costs
(2) Convert above answer to a decimal
(3) Divide fixed costs by decimal = Price

Example: Total Fixed Cost = $100
Percentage Costs = 35% (25% mark-up and 10% other costs)
(1) 100%-35% = 65% (2) Convert to decimal or .65
(3) $100 divided by .65 = $153.85 or price to customer

CHAPTER THREE

International Agreements

Chapter Three

"Contracts are like suits. They may look similar, but if you're in one that doesn't fit right--you look stupid."

George Pirazzo, Friend and Mentor

Basic Ordering Information

Transactions between buyers and sellers require different types of potential agreements, such as purchase orders, selling agreements and payment terms. These agreements require certain information which allows transactions to run smoothly. It is a common mistake for importers and exporters to enter into agreements without having sufficient information. An importer or exporter should always view an international transaction as a series of functions that have to be properly connected to each other in order to work. With this in mind, the following are basic types of information required between an international buyer and seller:

1. **Buyer/Seller Name, Address, Phone Numbers and Other Contact Information**

   Remember to use complete information.

2. **Delivery Address for the Goods if Different from the Buyer's Address**

   The corporate address may be different than the delivery address or goods may be delivered to various addresses.

3. **Bank Names**

   Buyer's and seller's banks need to be able to communicate or have corresponded relationships to confirm and receive messages.

4. **Bank Account and SWIFT Number Information**

   Buyers and sellers can have multiple banks accounts. It is important to know the correct one.

Buying and Selling Agreements

Successful international business requires that both buyers and sellers agree to terms and conditions under which they buy and sell. Once these requirements are agreed to in writing, they are used to govern every transaction that the parties participate in. The conditions between buyer and seller are often referred to as a "basic ordering agreement" and should be mutually agreed on and signed before any buying and selling activity is made. This will eliminate any costly confusion and errors that can result in lost profits, or in some cases, lost businesses. Basic terms for buyers and sellers are as follows:

1. **Required Documentation for Export or Import Clearance**

   Buyers may require that their suppliers include all necessary documentation to clear Customs

International Agreements

2. **Marks, Labeling, Product Descriptions and Codes**

   Include any product marking, trade names, product codes, or logos required for all orders placed.

3. **Notify Parties**

   Parties to notify may include the customs broker, freight forwarder or warehouse location.

4. **Warranty and Return Requirements**

   It is important to include any warranty statements and return authorization requirements.

5. **Product Liability**

   May include description of the intended use of the product and then limit liability to that intended use.

6. **Shipping Responsibility, Forwarder, Customs Broker Information**

   This area will include who the selected shipping company is as well as the broker information.

7. **Product Description, Specifications and Requirements**

   Include a complete description of the product in general plus specifications such as product color, quality, or required industry standards.

8. **Notification of Ship Dates, and Receipt of Documents, Pre-Advisory of Documents**

   This section clarifies when documents should be received and when pre-advisories should be issued to notify the buyer of incoming shipments.

Purchase Orders and Proforma Invoices

These documents are very similar because they both represent (or should) a mutual agreement between the buyer and seller. Therefore, the quote given should include all items of cost related to the sale and the purchase order should confirm or clarify those conditions.

The Purchase Order

A purchase order is a purchaser's written offer to a supplier formally stating all terms and conditions of a proposed transaction. Purchase orders can be written on a standard purchase order form or can be in a letterhead format.

The Proforma Invoice

A proforma invoice is the final and formal offer from a seller to a buyer. All costs, profits, and commissions must be expressed on the proforma invoice. A proforma invoice can be in any format as long as it has the basic information required to make it a valid document. Remember that "proforma" documents should match the final invoicing given to the buyer when they accept the proforma quote. All proforma invoices should include a "Validity Date"; otherwise the buyer may assume that all pricing and shipping rates will be the same on every order.

The following information can be critical for both the proforma invoice as well as the purchase order:

1. **Vendor Name and Address, Phone and Contact Person**

   Give complete information as well as your sales contact.

2. Date of Purchase Order or Proforma

Date of the generation of the purchase order or the proforma quote.

3. Purchase Order or Proforma Number

Should be an unique number such as the initial of the vendor/seller plus, time, date, and year.

4. Incoterm

Be sure to use the proper Incoterm including both the mode of transport and the type of price quoted.

5. Agreed Payment Terms

Select from, **Open Account, Letter of Credit, Credit Card, Document Against Payment or Advance Payment.** You should also include the _time terms_ that apply such as _open account plus 30 days or advance payment 20 days before shipment._

6. Quote or Proforma Invoice Number that Purchase or Sale is Based

This is important to make sure pricing is consistent.

7. Item Number

Can also be a model or style number.

8. Description of Goods

All descriptions should be general and indicate the end use of the product. (Example: brake parts, shoes, etc…)

9. Quantity

Should describe quantity of each type of unit being purchased including a total.

10. Partial Shipments

Should state whether order represents a single shipment or a series of shipments.

11. Unit Price

Unit prices should be separated by each type of item being purchased.

12. Unit Weight

Should be indicated in Kilos.

13. Total Weight of the Shipment

. Should be indicated in kilos.

14. Total Cubic Meter of Shipment

. Necessary for regulations, freight pricing and space issues.

15. Total Amount

Should indicate total items, units, unit prices and total amount including other charges such as freight, insurance, etc…

16. Shipping Date(s)

Should indicate when delivery or ship date is expected. If the order represents multiple shipments, then state the expected ship dates for each.

17. Delivery

Should confirm where the goods are being shipped to. Important if your vendor ships to multiple locations on your behalf.

18. Applicable Terms and Conditions

Should refer to the buying or selling agreement between buyer and seller.

Comparison Between Sales Representatives or Agents and Distributors

A sales representative (sales rep) or agent is a representative of the exporter, whereas a distributor is a customer of the seller or exporter. Your choice between an agent or a distributor will depend on the market size, the type of product and the degree of control you want to exercise in your market.

Sales Representatives/Agents	Distributors
• A representative of the seller or exporter	• A customer of the seller or exporter.
• Not financially involved in sale – the agent does not purchase the product from the seller or exporter.	• Buys for own account, i.e., the distributor purchases the product then sells to their customers.
• Involved in facilitating import if required.	• Importer of the product.
• The agent works for the seller or receives a sales' commission. Payment is usually made following delivery of the goods.	• Marks up the import price to cover additional in-market costs of ownership, distribution and invoicing/debt recovery.
• Customer ownership is the sellers, but many sales reps or agents have their own customers.	• Distributor has a strong relationship with customers in the retail/wholesale field.
• Not responsible for after sales service.	• Responsible for after sales service and in some cases warranty and guarantee issues.
• Distribution not normally the responsibility of the sales rep or agent. The seller or exporter is responsible for distribution costs incurred by your agent.	• Distributor responsible for the distribution of goods to the end-user.
• Unlikely to be involved in funding promotional activity, although in some foreign markets sales reps or agents are actively involved in introducing new products to customers.	• Helps pay for and undertakes promotion and marketing of your product/service in the marketplace.
• Will not usually have name and contact on exporter's promotional support material.	• Usually has name and contact details on exporter's promotional support material.
• No control of resale price.	• Controls selling price.
• Does not accept credit risk.	• Accepts credit risk of buyers.
• In large markets, separate agents may be required for different states, territories or regions.	• In large markets, separate distributors may be required to service different states, territories or regions.
• Some markets are only served by sales reps or agents, not distributors, you have no choice.	• Appointing a distributor may be the only option for certain products in certain markets.
• Represents the seller or exporter in the market and must do so to your best advantage	• Usually the bigger the market the more links in the distribution chain, i.e.. in Japan, your product could pass through an importer, a distributor, a wholesaler, and a retailer before it reaches the end user. In smaller export markets, a distributor will also act as an importer.

Rep Agreement Checklist

The following are things to consider when drafting a sales representative agreement.

1 **CONTACT INFORMATION**: Indicate all pertinent information of both parties entering into the agreement.

2 **PRODUCTS**: Specify products to be sold, including those under development, or to sold in the future.

3 **TERRITORY& MARKET**: Describe the territory where rep will be allowed to sell specified products or what market segments rep is allowed to solicit.

4 **HOUSE ACCOUNTS**: Outline what, if any, accounts are off limits.

5 **EXCLUSIVITY**: Specify product, territory, or market that rep shall be assigned exclusivity if at all. Unless rep is a proven entity, it is best to not grant exclusivity.

6 **COMPENSATION**: Outline compensation items such as commission base, performance incentives or draw against commission plus how and when compensation will be paid.

7 **TERMS**: Specify the term or length of the agreement, the terms of renewal, and performance-based criteria outlining the expectations of the rep for the purposes of terminating the agreement prior to the expiration date should the rep perform unsatisfactorily.

8 **PRICE OF PRODUCTS**: Provide rep with company established price structures.

9 **RESTRICTIONS**: Specify if rep can act on behalf of others in respect to like products, markets, or territory. Include whether non-compete agreement ends with termination of contract or for a specified period after its conclusion.

10 **EXPENSES**: What, if any, are considered reimbursable expenses for the rep?

11 **REPORTING REQUIREMENTS**: Outline what reports are expected and by what dates.

12 **SCOPE OF AUTHORITY**: Include clauses that limit the rep's power and authority to act on behalf of the company. This is important to protect company from liability for the acts and omissions of the rep.

13 **CONFIDENTIALITY**: Outline what information the rep will or will not have access to and how that information should be used.

14 **OPERATIONAL ISSUES**: You may want to address an overview of what services are expected, how orders are processed, or any other information you feel is pertinent.

15 **CONTRACTED VS EMPLOYEE CLAUSE**: Include verbiage that defines the rep as a contractor, not an employee of the company.

Trade Law Resources

The following are resources to help you with your international trade law needs.

http://fita.org/index.html

FITA (Federation of International Trade Associations) has "Really Useful Sites for International Trade Professionals," an up-to-date online library of over 8,000 websites related to global commerce. It also features a wealth of "how to" links covering every aspect of trade from logistics to trade law.

http://www.uncitral.org/uncitral/en/other_organizations_texts.html

The United Nations' links to essential documents that govern international law such as Incoterms and the UCP Regulations for banking.

http://www.uncitral.org/uncitral/en/uncitral_texts.html

Another list of United Nations documents such as the CISG which sets standards for sales agreements internationally.

http://www.findlaw.com/

Findlaw is a resource for legal information as well as sourcing legal assistance.

http://www.export-legal-assistance.org/brochure.html

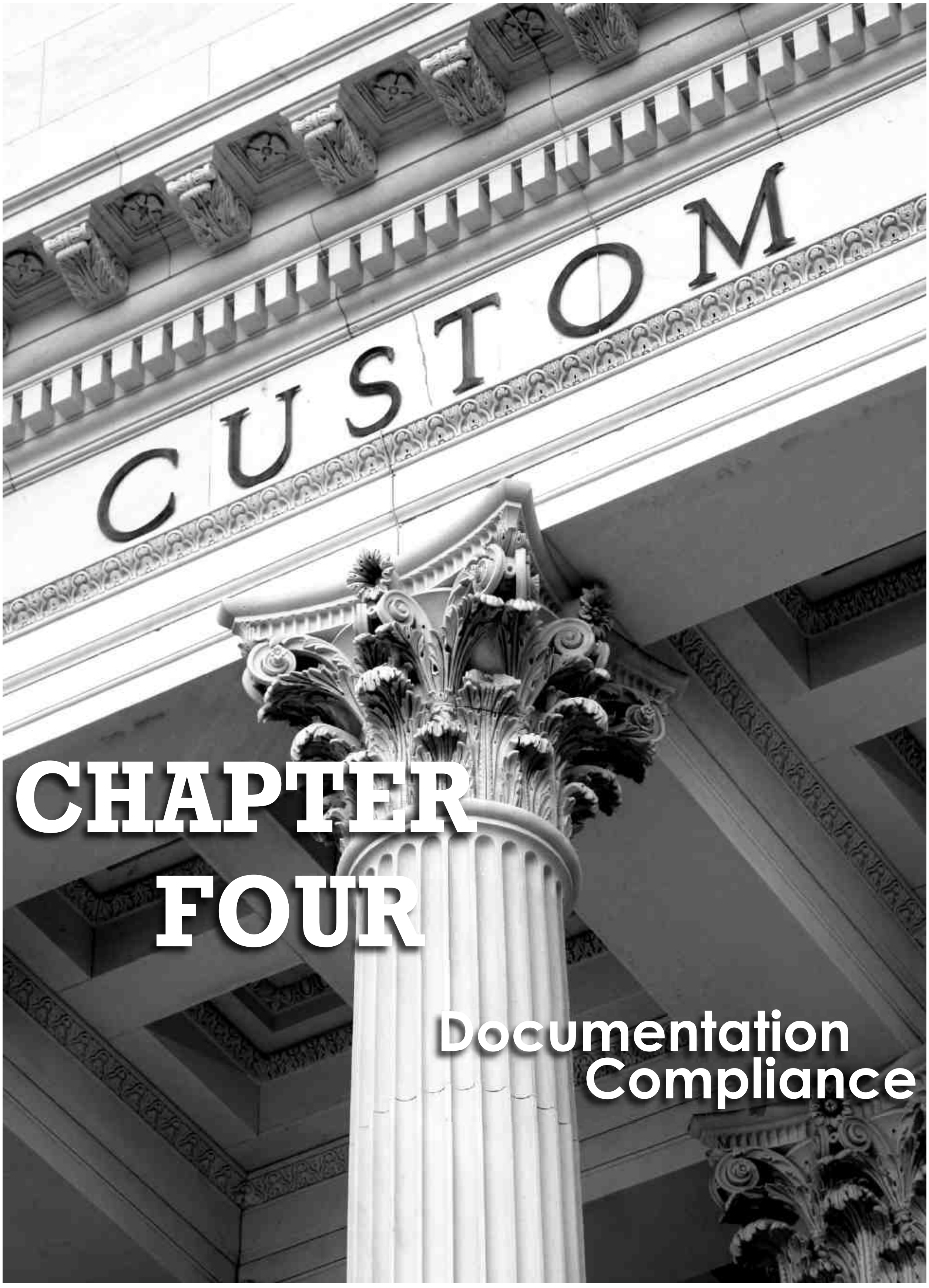
Under the ELAN program-- qualified international trade attorneys from private law firms throughout the United States provide free initial consultations to small businesses interested in starting export operations. Your local U.S. Small Business Administration (SBA) or U.S. Department of Commerce district office can arrange a meeting for you with an experienced trade attorney in your area.

http://www.e-arbitration-t.com

Resources and discussion about commercial dispute resolution.

http://www.iccwbo.org/index_court.asp

International dispute resolution service of the International Chamber of Commerce (ICC).


CUSTOM
CHAPTER
FOUR
Documentation
Compliance

Chapter Four

"I have never smuggled anything in my life. Why then, do I feel an uneasy sense of guilt on approaching a Customs barrier?"
John Steinbeck, Author

Export Compliance

Export compliance in the United States for most exporters is a fairly simple process. It involves the submission of a Shipper's Export Declaration accurately filled out and the knowledge that you are not exporting to a denied party or sanctioned country. A smaller percentage of goods are subject to export licenses from one of a number of agencies that grant export licenses. Whether you think your commodity requires a license or not, you must be sure by thoroughly checking the export regulations that may or may not apply to your product.

The Definition of an Export

The definition of an export is any item (service, commodity, information) that is sent to a foreign country. Sending something to a foreign country can include any of the following modes of transport:

- *Mailing Information via Post or Courier*
- *Airfreight*
- *Ocean freight*
- *Truck*
- *Meeting with a Foreign National*
- *Delivering or Meeting at a Foreign Embassy*
- *E-mailing Information to a Foreign National*
- *Having a Foreign National as an Employee Dealing with Export Licensable Commodities*

The examples given above that deal with information given to individuals that are from a foreign country are called "Deemed Exports." Deemed exports represent a growing number of export violations since most companies are not aware that an export includes giving information to a foreign national that, in some cases, may be working in your company.

Government Organizations that Control Export Licensing

The Bureau of Industry and Security (BIS) controls most export licenses, and is responsible for enforcing the Export Administration Regulations or EAR. The EAR regulations are export regulations that apply to commercial items that have a "dual use for both commercial and military applications" such as switches that may have an use in an industrial application. In addition to the BIS, the State Department controls the export of military related items.

Determining if you Need an Export License

The following are the factors to determine if you need an export license. It is also important to know how your exported items will be used.

Documentation Compliance

What is the Commodity You're Exporting and is it on a Control List?

- What country are you exporting to?
- Who (or what individual) will receive the export?
- How will your export be used?

Your Commodity and its Export Control Classification Number (ECCN)

ECCN numbers determine what kind of licensee control applies to your product. ECCN numbers are divided into ten general categories that define specific types of ECCN numbers. If your commodity is not specifically described in one of these categories and the destination or party receiving the export are not restricted, you will not need to apply for a license and will then indicate NLR on your Shipper's Export Declaration and indicate EAR99 under the ECCN on the Export Declaration.

The ten control categories for BIS regulations are as follows:

- 0= Nuclear materials, facilities and equipment.
- 1= Materials, chemicals, microorganisms and toxins.
- 2= Materials processing
- 3= Electronics
- 4= Computers
- 5= Telecommunications and information security
- 6= Sensors and lasers
- 7= Navigation and avionics
- 8= Marine
- 9= Propulsion systems, space vehicles and related equipment.

To What Person, Entity, or Place is Your Export Going?

If after reviewing the export regulations under these categories you find your export is controlled, then you must follow the next step, which is to determine the country you are exporting to. To check this you must refer to Section 746 of Export Administration Regulations.

If your commodity is being shipped to a country that is controlled, you must apply for an export license. It is also possible to have a product that is controlled but may not need a license to certain countries.

If the country is on the U.S. boycott list, you may not export to that county under any circumstances. This rule also applies if you are shipping to a denied party. This information is updated on the BIS web site and the U.S. State Department web sites.

What is Your Item Going to be Used For?

The end use of your item must not be an inappropriate or prohibited end use (e.g. a boat used for covert operations or a food processing machine used for lethal gas production).

Knowing Your Counterpart

The BIS has a list of red flags that every exporter should watch for. This list can be found on the BIS web site or in supplement No. 3 of part 732 in the EAR.

Importing into the United States

When shipments of goods reach the United States, the importer of record (i.e. the owner, purchaser, or licensed customs broker designated by the owner, purchaser, or consignee) will file documents for the goods with the district director for Customs at the port of entry. When delivery of the merchandise has been authorized by Customs, the estimated duties must be paid.

Entry of Merchandise

Prior to importing merchandise into the United States, it is necessary to make an entry with Customs to import your goods. In order to import successfully you must be able to answer the following questions regarding your goods:

- What is the harmonized code (HTS) of the product?
- What is the rate of duty?
- Do I know how the product should be marked?
- Are there any other Government Agency requirements? (FDA, DOT, EPA, ATF, etc...)

An "entry" is defined as the documentation required to ensure the release of imported merchandise from Customs.

Documentation can be filed with Customs electronically using the Automated Commercial System (ACS). This system is used by the U.S. Customs Service to track, control, and process all goods entering the United States.

There are two basic types of Customs entries:

1. **Formal Entries**

   This type of entry requires a bond and covers goods imported for resale and goods that will be used in business or a profession. All formal entries require a valid importer identification number. Standard importer identifications include the Internal Revenue Service number, the importer's Social Security number, or a Customs assigned number.

2. **Informal Entries**

   These entries are generally used to enter personal shipments or commercial shipments of less than $2000.00 with some exceptions.

Once the goods arrive in the United States, it is the responsibility of the importer to make sure a Customs entry is made. The importer may hire an authorized Customs broker to act as his agent by giving the Customs broker a power of attorney.

Evidence of Right to Make a Customs Entry

Goods may be entered by the owner of the imported goods, purchaser, or by a licensed Customs broker. When the goods are consigned the bill of lading (properly endorsed by the consignee) serves as evidence of the right to make the Customs entry.

In most instances, a person or firm certified by the carrier bringing the goods to the port of entry, makes the entry and is considered the "owner" of the goods for Customs purposes. The document issued by the carrier is known as a "Carrier's Certificate."

Consumption Entry

The entry of merchandise is a two-part process consisting of (1) filing the documents to determine whether merchandise will be released from Customs custody and (2) filing the documents which contain information for duty assessment and statistical purposes. Both of these processes can by accomplished electronically via the Automated Broker Interface program of the Automated Commercial Systems.

Entry Documents

Within five working days of the date of arrival of a shipment at a U.S. port of entry, entry documents must be filed at a location specified by the district/area director. These required documents are:

- Entry Manifest, Customs Form 7533; or Application and Special Permit for Immediate Delivery, Customs Form 3461, or other form of merchandise release required by the district director.
- Evidence of right to make entry.
- Commercial invoice.
- Packing lists.

- Other documents that may be necessary to determine admissibility of the goods.

If the goods are released from Customs custody on entry documents, an entry summary for consumption must be submitted. Then the estimated duties must be deposited at the port of entry within 10 working days of when the goods were entered and released.

Customs Bonds

The entry must be accompanied by evidence that a bond has been posted with Customs to cover any potential duties, taxes, and penalties which may accrue. Bonds may be secured through a surety company. In the event that a Customs broker is employed for the purpose of making entry, the broker may allow the use of his bond to provide coverage of the shipment.

Entry Summary Documentation

After a shipment is released, provided no legal or regulatory violations have occurred, the entry summary documentation is filed and duties are deposited within 10 working days of the release of the merchandise at a designated customhouse. The entry summary documentation is as follows:

- The entry package returned to the importer, broker, or his authorized agent after merchandise is permitted release:
- Entry summary (Customs Form 7501)
- Other invoices and documents necessary for the assessment of duties, collection of statistics, or the determination that all import requirements have been satisfied.

Immediate Delivery

An alternate procedure, which provides for immediate release of a shipment, may be used in some cases by making application for a Special Permit for Immediate Delivery on Customs Form 3461 prior to the arrival of the merchandise. Carriers participating in the Automated Manifest System can receive conditional release authorizations, after leaving the foreign country, and up to five days before landing in the United States. If the application is approved, the shipment is released expeditiously following arrival. An entry summary must then be filed in proper form, either on paper or electronically, and estimated duties deposited within 10 working days of release. Release using Form 3461 is limited to the following merchandise:

- Merchandise arriving from Canada or Mexico, if approved by the district director, with an appropriate bond on file.
- Fresh fruits and vegetables for human consumption arriving from Canada or Mexico. Shipments must be removed from the area immediately contiguous to the border to the importer's premises within the port of importation.
- Shipments consigned to or for the account of any agency or officer of the U.S. Government.
- Articles for trade fair.
- Tariff-rate quota merchandise, and under certain circumstances, merchandise subject to an absolute quota. Absolute quota items require a formal entry at all times.
- In very limited circumstances, merchandise released from warehouse followed within 10 working days by a warehouse withdrawal for consumption.
- Merchandise specifically authorized by Customs Headquarters to be entitled to release for immediate delivery.

Entry for Warehouse

If it is desired to postpone the release of the goods, they may be placed in a Customs-bonded warehouse under a warehouse entry. The goods may remain in the bonded warehouse up to five years from the date of importation. At any time during that period, warehoused goods may be re-exported without the payment of duty or they may be withdrawn for consumption upon the payment of duty at the rate of duty in effect on the date of withdrawal. If the goods are destroyed under Customs supervision, no duty is payable.

While the goods are in the bonded warehouse, they may under Customs supervision, be manipulated by cleaning, sorting, repacking, or otherwise changing their condition by processes, which do not amount to manufacturing. After manipulation and within the warehousing period, the goods may be exported without the payment of duty or they may be withdrawn for consumption upon payment of duty at the rate applicable to the goods in their manipulated condition at the time of withdrawal.

Perishable goods, explosive substances, or prohibited importations may not be placed in a bonded warehouse. Certain restricted articles, though not allowed release from custody, may be warehoused.

Un-entered Goods

If there is a failure to file an entry for the goods at the port or port of destination for in-bond shipments within five working days after arrival, the district or port director may place them in a general order warehouse at the risk and expense of the importer. If the goods are not entered within one year from the date of importation, they can be sold at public auction. Perishable goods, goods liable to depreciation, and explosive substances, however, may be sold sooner.

U.S. Importer Checklist for all Imports:

1. Expert Advice

Make sure your company retains an expert to rely on such as a customs broker or trade attorney who has a technical understanding of Title 19 of the Code of Federal Regulations, the Harmonized Tariff Schedule of the United States, and Customs Bulletin and Decisions.

2. Designate a Company Import Lead

All importing companies need to designate someone to audit all import transactions for accuracy, ensure that all required copies are retained, and that all classifications, duty rates, and other declarations to Customs are performed in compliance with all Customs regulations. Ask your retained Customs broker or trade attorney to work with your company lead to develop a customized reasonable care program for your company.

3. Be Proactive with Customs Requirements

Always make sure that you discuss all import procedures, product descriptions and other information with your Customs expert before you import those items. A proactive approach will save your company time, expense and avoid the risk of Customs actions against your company.

4. Consistency in Your Imports and Customs

If identical products are imported into several different ports, each classifying your products differently-- notify Customs to ensure that all similar entries are treated consistently.

Merchandise Description & Tariff Classification

1. Product Knowledge

It is critical for all importers to know all the details about their products including: the origin of the merchandise, the manufacturer of the product, and the materials of which the product is made.

2. Description of Merchandise

An importer should provide Customs with accurate descriptions of all imported goods in accordance with 19 U.S.C. 1481. (Also, see 19 CFR 141.87 and 19 CFR 141.89 for special merchandise description requirements.) In general, the description should clearly describe what the product is used for such as a "DVD Player". In the case of parts, the parts should also describe their end use such as DVD cable jack or DVD nylon case.

3. Harmonized Code Classification

It is important to seek the advise of a licensed Customs broker or trade attorney when classifying products. All classifications of merchandise must use the classification that best and most closely describes the "essential character" or "end use" of the product in accordance with CFR 19 U.S.C. 1484 (Code of Federal Regulations).

4. Binding Rulings

Importers can request Customs to rule on the proper classification, valuation, or marking of a product (see 19 CFR Part 177). A Customs broker or trade attorney can assist you with binding rulings. Rulings can also be searched through the Customs' website at www.CBP.gov.

5. Documentation for Special Duty Programs

Importers claiming conditionally free or special tariff classifications and provisions for merchandise (e.g., GSP, HTS Item 9802, NAFTA), need to verify that the merchandise qualifies for that status. Do you have the documentation necessary to support the claim? If making a NAFTA preference claim, do you have a NAFTA certificate of origin in your possession?

6. Document Procedures

Importers should have procedures that ensure all import documentation is generated and processed correctly. For most importers, this means providing the customs broker with accurate information on products, requiring that the suppliers provide accurate commercial invoices, packing lists and bill of ladings in a timely manner.

Valuation

1. Know the Correct Transaction Value Under Customs Law

Have you provided Customs with a proper declared value for your merchandise in accordance with 19 U.S.C. 1484 and 19 U.S.C. 1401a?

2. Valuation Rulings

Have you obtained a Customs ruling regarding valuation of the merchandise (see 46 19 CFR Part 177)? Can you establish that you followed the ruling reliably? Have you brought those facts to Customs attention?

3. Valuation Resources

Have you consulted the Customs valuation laws and regulations, Customs Valuation Encyclopedia, Customs informed compliance publications, court cases or Customs rulings to assist you in valuing merchandise?

4. Related Party Transactions

If you purchased the merchandise from a "related" seller, have you reported that fact upon entry? Have you assured that the value reported to Customs meets one of the "related party" tests?

5. Royalties, Rebates and License fees

Have you assured that all legally required costs or payments associated with the imported merchandise (assists, commissions, indirect payments, rebates, or royalties, etc.) have been reported to Customs?

6. Correct Value Under Special Duty Programs

If you are claiming a conditionally free or special tariff classification or provision for your merchandise (GSP, HTS Item 9802, NAFTA), have you reported the required value information and obtained the documentation necessary to support the claim?

Country of Origin/Marking/Quota

1. Report the Correct Country of Origin

The correct country of origin is where the goods obtained their "essential character" or "end use". Country of origin is not necessarily the country the goods were shipped from.

2. Country of Origin Marking

All imported merchandise must be properly marked upon entry with the correct country of origin (if required) in accordance with 19 U.S.C. 1304 and any other applicable special marking requirements (watches, gold, textile labeling, etc). The general rule of marking is that goods have to be marked as conspicuously and as permanently as the goods will allow without adversely affecting their value. This is an area of customs law where it is especially important to seek the advise of a licensed broker.

3. Marking Ruling from Customs

Importers can obtain a Customs ruling regarding the proper marking and country of origin of the merchandise (see 19 CFR Part 177). This type of ruling is usually only recommended on the advise of a Customs broker or trade attorney.

4. Textiles

If importing textiles or apparel, have you ascertained the correct country of origin in accordance with 19 U.S.C. 3592, section 334, P.L. 103-465? Country of origin may be a single country declaration if wholly obtained or produced in a single country, or a multi-country declaration if raw materials from one country were transformed into goods in a second country. Are you assured that no illegal transshipment or false or fraudulent practices were involved?

5. Quotas

Some imports are subject to import quotas. These quotas are monitored by Customs (Restraint Levels). Importers can check on the status of their quota items through Customs, Customs website or through their Customs broker. A Customs broker can advise you if your goods are subject to quota and if so, what quota category do your goods fall under.

6. Visas

Have you obtained correct visas for those goods subject to visa categories?

Intellectual Property Rights

Basic Question: Have you determined whether your merchandise or its packaging use any trademarks, copyrighted materials, or are patented? If so, can you establish that you have a legal right to import those items and/or use them in the United States?

1. Trademarks

If you are importing goods or packaging bearing a trademark registered in the United States, have you established that it is genuine and not restricted from importation under the "gray-market" or parallel-import requirements of United States law (see 198 CFR 133.21)? Do you have permission from the trademark holder of the merchandise?

2. Copyrights

If you are importing goods or packaging that contain registered copyrighted material, have you established that this material is authorized and genuine? If you are importing sound recordings of live performances, were the recordings authorized?

Miscellaneous

1. Other Governmental Agencies

Have you assured that your merchandise complies with other agencies' requirements (e.g., FDA, EPA, DOT, CPSC, FTC, Agriculture, etc.) and obtained licenses or permits, if required, from them?

2. Anti Dumping Countervailing Duties

Are your goods subject to a Commerce Department dumping or countervailing-duty investigation or determination? If so, have you complied with Customs reporting requirements (e.g., 19 CFR 141.61)?

3. Quota and Visa Requirements

Is your merchandise subject to quota/ visa requirements? If so, have you provided a correct visa for the goods upon entry?

International Documentation

Commercial Invoice

The commercial invoice represents a bill from the seller to the buyer the goods. The buyer needs the invoice to prove ownership and to arrange payment. The commercial invoice is also used to assess customs duties. There is no standard form for a commercial invoice, however the following information should be included:

1. Seller's Name and Address;
2. Buyer's Name and Address;
3. Exact Description of Goods;
4. Weight;
5. Agreed-upon Price, Preferably in U.S. Dollars to Reduce Foreign Exchange Risk;
6. Type of Container;
7. Description of Packages Including Quantity, Type, and Markings;
8. Delivery Point;
9. Terms of Payment;
10. Date and Place of Shipment;
11. Method of Shipment; and
12. Signature of Shipper or Seller.

Packing List

An export packing list itemizes the material in each individual package and indicates the type of package such as box, drum, carton, etc. A standard packing list should have the following information:

1. Net Weight—Weight of the Goods not Including Packaging;
2. Legal Weight—Weight of Product Plus Paper, Box, Bottle, etc. as Usually Carried in Stock;
3. Tare Weight—Weight of Packaging or Weight of Shipping Container;
4. Gross Weight—Weight of Goods and Packaging; and
5. Package Markings Should be Shown Along with the Shipper's and Buyer's References.

The packing list should be included with the commercial invoice and bill of lading. A copy with just the packing information (no pricing or proprietary information) should be attached to the outside of a package in an envelope marked "packing list enclosed." The packing list used by the shipper or forwarder to determine the total shipment weight and volume in addition to determining whether the correct cargo is being shipped. Customs officials (both U.S. and foreign) may use the list to check the cargo and assess import duties.

Insurance Certificate

A cargo insurance certificate verifies that the goods have been insured for loss and damage. The average cargo insurance policy covered the insured for 110% of the products transaction value.

Dock Receipt

The dock receipt is used to transfer responsibility when the export goods are moved by the domestic trucker to the port of origin and left with the international carrier for export. This document is produced by the exporter or the exporter's freight forwarder and is signed by the receiving clerk for the carrier or transmitted electronically.

Certificate of Origin

Certain nations require a signed statement as to the origin of the export item. The certificate is usually obtained through a semi-official organization, such as a local Chamber of Commerce. It may be required even though the commercial invoice contains the information.

Shipper's Letter of Instruction

This document is completed by the shipper and includes all information necessary for the freight forwarder or carrier to make transportation arrangements and complete the bill of lading and other related documents.

The shipper's letter of instruction should include:

1 Shipper's Company Name, Address, Phone, Fax, and Contact Name

2 Shipper Employee Identification Number

3 Shipper Reference Numbers (Bill of Lading, Invoice, Purchase Order, etc.)

4 Product Information (Description of Goods, Quantity, Number of Packages, Weight in Pounds, Cubic feet, and Marks)

5 Consignee Information

6 Notify Party

7 Product Invoice Value

8 Harmonized Commodity Code

9 Freight and Documentation Billing Information

10 Special Instructions

11 Signature and Date

Bill of Lading

Ocean bills of lading (b/l) serve three purposes:

- Serve as a contract between the owner of the goods and the carrier to deliver the goods, spelling out all legal responsibilities and liability limits for all parties of the shipment;
- Serve as a receipt from the ocean carrier, confirming that they have received the goods for shipment; and
- Serve as title to the shipment and can be used to transfer title to the goods to a party named in the document. The b/l is issued by the steamship line. Bills of lading can be made out in two different ways, "to order" or "direct" (straight). When the b/l is made "to order" it offers protection to the shipper by making it absolutely necessary that the consignee present the original endorsed b/l before the goods will be released from the port of destination. An original endorsed b/l is called a negotiable b/l, and acts as title to the goods. A copy of an original endorsed bill of lading is non-negotiable and cannot act as title to the goods.

Air Waybill

The air waybill, like the bill of lading, is a contract of carriage between the air carrier and shipper. Due to the short transit times there are no negotiable air waybills.

The air waybill is issued by the airline or consolidator.

Documentation Tips

The following are common document data elements used in most international trade documentation. Many of the definitions used in this table are based on the World Customs Organization definitions and are considered to be the world standard for documentation data elements. These data elements are common to most documents such as a Commercial Invoice, Packing List, Pro-forma Invoice, Certificate of Origin, Shipper's Export Declaration, as well as other common documents.

For specific information on how to fill out a Shipper's Export Declaration or download any USA Customs forms, please refer to the website for the Customs Border and Protection Agency at www.cbp.gov and click on "export" or "forms."

Data Element	Definition
Total Net Weight	The weight of the actual product excluding the packaging.
Total Gross Weight	Weight of all goods in declaration including packing but excluding the carrier's equipment.
Cube	Measurement normally arrived at by multiplying the maximum length, width and height of pieces or packages or transport equipment.
Measure Unit Qualifier	Indication of the unit of measurement in which weight (mass), capacity, length, area, volume or other quantity is expressed
Description of Goods	Plain language description of the nature of the goods sufficient to identify them at the level required for banking, Customs, statistical or transport purposes, while avoiding unnecessary detail for Goods Declaration.
Brief Cargo Description	Plain language description of the cargo as a means of transport, in general terms only.
Shipping Marks	Marks and numbers identifying individual packages.
Number of Packages	Number of packages per commodity code packed in such a way that they cannot be divided without first undoing the packing.
Customs Tariff Code Number	Code number of the goods in accordance with the tariff nomenclature system of classification in use where the Customs declaration is made.
Total Number of Packages	Total number of packages for the entire declaration or consignment.
Identity Number	Unique number affixed by the manufacturer to individual products for identification purposes, e.g. VIN (Vehicle Identification Number) on vehicles.

Data Element	Definition
Customs Status of Goods, Coded	Status of goods as Community or non-Community goods; Community goods are goods: 1) wholly obtained or produced in the EU; or 2) released for free circulation after importation in the EU; or 3) obtained or produced in EU from goods under the conditions outlined above.
Tariff Code Extensions	Tariff code beyond 10 digits.
Gross Weight Item Level	Weight of goods at the item level including packing but excluding the carrier's equipment.
Number of Packages per Commodity	Number of packages per nature of commodity packed in such a way that they cannot be divided without first undoing the packing.
Export Classification Control Number	Export License Category (Wassenaar agreement concerning trade in weapons and dual-use technologies).
Goods Receipt Place	Name of the place at which the goods are to be received by the consignee.
Goods Receipt Place, Coded	Name of the place at which the goods are to be received by the consignee, coded.
Country of Origin, Coded	Country in which the goods have been produced or manufactured, according to criteria outlined for the purposes of application of the Customs tariff, of quantitative restrictions, or of any other measure related to trade, coded.
Place of Loading	Name of the seaport, airport, freight terminal, rail station or other place at which the goods (cargo) are loaded o to the means of transport being used for their carriage from the Customs territory.
Place of Discharge	Name of the seaport, airport, freight terminal, rail station or other place at which the goods (cargo) are unloaded from the means of transport having been used for their carriage.
First Port of Arrival, Coded	Name of the first airport, first border post or first port of arrival, coded.
Place of Destination of the Transit	Name of the place at which the goods are destined under Customs control of transit procedure.
Delivery Destination	The location where goods are to be delivered including address, region and/or country as required by national legislation or according to national requirements.

Documentation Tips

Data Element	Definition
Buyer	Name and address of the party to which merchandise is sold.
Buyer, Coded	Name and address of the party to which merchandise is sold, coded.
Importer	Name and address of party who makes or on whose behalf a Customs clearing agent or other authorized person makes an import declaration. This may include a person who has possession of the goods or to whom the goods are consigned.
Exporter	Name and address of the person who makes or on whose behalf the export declaration is made and who is the owner of the goods or has similar right of disposal over them at the time when the declaration is accepted.
Carrier	Name of party undertaking or arranging transport of goods between named points.
Consignee	Name and address of party to which goods are consigned.
Notify Party	Name and address of party to be notified.
Agent	Name and address of a person authorized to act on behalf of another party.
Consignor	Name and address of party which, by contract with a carrier, consigns or sends goods with the carrier, or has them conveyed by him.
Consignor, Coded	Name and address of party which, by contract with a carrier, consigns or sends goods with the carrier, or has them conveyed by him, coded.
Seller	Name and address of party selling merchandise to a buyer.
Seal Number	The number of a Customs seal or another seal affixed to the containers or other transport unit.
Mode/Type of Means of Transport at Arrival, Coded	Means and method of transport used for the carriage of the goods at arrival, coded.
Invoice Line Number	Number of the line in the document referenced in 1334 Invoice Number.

Documentation Tips

Data Element	Definition
Invoice Number	Reference number assigned by the seller to a Commercial Invoice.
Incoterm Place	Name of the point or port of departure, shipment or destination, as required under the applicable Incoterm.
Customs Value	Value declared for Customs purposes of those goods in a consignment which are subject to the same Customs procedure, and have the same tariff, statistical heading, country and duty regime.
Unit/Item Amount	Amount due for each chargeable item of goods or services.
Statistical Value	Value declared for statistical purposes of those goods in a consignment which have the same statistical heading.
Currency, Coded	The name or symbol of the monetary unit associated with an amount involved in the transaction, coded.
Charges	Aggregate cost of freight, insurance and all other costs and expenses from foreign port of export to port of entry.
Party's Relationship, Coded	Indication as to whether or not there are financial or other relationships between the parties to a transaction, coded.
Total Invoice Amount	Total amount of invoice price for the goods declared in one declaration.
Incoterm	Incoterm under which seller undertakes to deliver merchandise to buyer.
Freight Costs	Costs incurred by the shipper in moving the goods, by whatever means, to the port or place of importation/ exportation as specified by national legislation. Besides transport costs, this element may include sub-elements such as documentation, loading, unloading and insurance, to the extend that they relate to the freight cost.
Consignment Value	Value declared for Customs purposes of those goods in a consignment which are subject to the transport.

SAMPLE COMMERCIAL INVOICE

Shipper/Exporter

Commercial Invoice No. Date

Customer Purchase Order No. B/L, Airbill No

Country of Origin Date of Export

Consignee

Terms of Payment

Export References

Notify: Intermediate Consignee

Port of Embarkeation

Forwarding Agent

Exporting Carrier/Route

Terms of Sale and Terms of Payment are governed by Incoterms #322, *Uniform Rules For The Collection Of Commercial Paper* and #400, *Uniform Customs And Practice For Documentary Credits*.

PKGS	QTY	NET WT.	GROSS WT.	DESCRIPTION OF MERCHANDISE	UNIT PRICE	TOTAL VALUE

Package Marks

Other (Packing, Insurance, etc.)

Invoice Total

Certifications

Authorized Signature

Sample Commercial Invoice

Sample Packing List

PACKING LIST DATE ______________________

SHIPPER

CONSIGNEE

SHIPMENT CONSISTS OF:

________ Cases _______ Packages

________ Crates _______ Cartons

________ Reels _______ Drums

____

MARKS

* Legal Weight is Weight of Article Plus Paper, Bottle, Box, etc., Containing the Article as Usually Carried in Stock.

Package Number	Gross Weight Each	Legal Weight Each	Net Weight Each	Height	Length	Quantity	Contents

SAMPLE CERTIFICATE OF ORIGIN

Shipper/Exporter	Forwarding Agent
Consignee	Notify Party
Exporting Carrier	Country of Manufacture
Total Number Packages	Date of Export

Marks & Numbers	Commodity Description	Quantity	Gross Weight	Net Weight

These Commodities, technology or software were exported from the United States of America in accordance with the Export Administration Regulations. Diversion contrary to U.S. Law prohibited.

Dated at _____ on this _____ day of _________, 2006. Signature of Notary _________________

Sworn to before me this _____ day of ________, 2006. Signature of Notary _________________

The ________________, a recognized Chamber of Commerce under the laws of the State of

______________ has examined the manufacturer's invoice or shipper's affidavit concerning the origin of the merchandise and, according to the best of its knowledge and belief, finds that the products named originated in the ______________________________.

Secretary: ______________________________________

Sample Certificate of Origin

Sample Bill of Lading

Shipper		Booking Number	B/L Number
		Export References	
Consignee		Forwarding Agent	
		Point and Country of Origin of Goods	
Notify Party		Also Notify/Domestic Routing/Export Instructions/Terminal Routing	
Initial Carriage	Place of Receipt		
Export Carrier	Port of Loading		
Port of Discharge	Place of Delivery		

Particulars Furnished by Shipper

Mks & Con. #s	# Pkgs	Description of Goods	Gross Weight	Measurement

B/L to be Released at				Ocean Freight Payable at:		
Freight Rates Charges, Weights and/or Measurements				Prepaid U.S. $	Collect U.S. $	Local Currency
			Prepaid			
Vessel	Voyage	Office	Collect			

The undersigned Carrier acknowledges receipt of the goods as described in apparent good condition unless otherwise stated. The shipper, consignee and all who may have interest in the goods, are advised that the receipt, custody, carriage and delivery of goods are subject to all terms and conditions set forth in this document. A set of 3 originals is hereby issued by the Carrier. Surrender to carrier of any one properly endorsed negotiable bill of lading, voids all others.

By: Signature Here
Date:_________

FCC	Forwarder.	Shipper	Cons.	Ld. Port	Dis. Port	Dest.	Notify	CSC	B/L #

CHAPTER FIVE

Finance and Banking

Chapter Five

"Business is not financial science, it's about trading--buying and selling. It's about creating a product or service so good that people will pay for it"

Dame Anita Roddick, founder of the *Body Shop* retail stores

Basic Finance Structures

Before you can begin to work through the process of finance and payments, we must first define the common structure or parameters of the sale for the goods.

Goods Parameters

Give complete description of the goods being traded. Make sure all descriptions outline the "end use" of the product for Customs purposes and include the following:

- **Labeling**

  Labeling is critical for both compliance reasons as well as possibly affecting the sales of the goods. Many retail buyers require special packaging and labeling as part of the sales agreement.

- **Packaging and Markings**

  As stated above many buyers require special marking and labeling of items separate from any possible government regulations.

- **Transport Method and Cost**

  Define whether the goods will move by air, ocean, truck, rail. If the seller is covering the transportation cost then they must be included in the quote information. Buyers may allow for transshipment of the goods through multiple port stops or they may require that the goods move on a direct carrier.

- **Insurance**

  The type and scope of insurance required by the sales agreement should be fully described. This includes defining who the beneficiary is and what the insurance will cover.

- **Documents**

  All international shipments require certain documents such as bill of lading, commercial invoices etc.

- **Price**

  Price should include all costs in accordance with what the seller has agreed to. Price should include a breakdown of: unit price and other fees such as freight and insurance.

- **Partial Shipments or Multiple Shipments per Order**

  There are many transactions where the buyer is committing to a number of shipments over a period of time, in one order. In this case, it is important to specify how these shipments are divided and whether partial shipments are allowed

Finance and Banking

- **Shipment Dates and Validity Dates**

  Be sure to include not only the date that the goods are to be shipped, but also the dates through which the transaction is valid.

Finance Parameters

Outline fully all factors of cost, payment methods and terms, and each finance partner including the following:

- **Incoterms**

  The financing of a transaction is dependant on knowing what costs are included between the buyer and the seller. Incoterms describe the liability between buyer and seller.

- **Delivery Point**

  Shipping and logistics costs vary greatly between shipment and delivery points. These parameters must be established in order to know the geography and costs for the transaction being financed.

- **Payment Terms**

  Each payment method (advance payment, letter of credit, open account, cash against documents, etc.) has its own set of risks to buyer and seller. The payment term is also combined with the delivery point information to describe when payment is to be issued, thus describing when financing is needed.

- **Time Terms**

  All payment terms have some kind of time term (30-days, 60-days, 90-days etc…) associated with them. For example, payment can be described as 30-days *before* the ship date or 90-days *after* the shipment date.

- **Bank Names**

  For business to be conducted internationally, the banks involved must be identified to ensure that the banks have "correspondent relationships" and can smoothly recognize, authenticate and confirm each other's credit. Many international counterparts have multiple bank accounts so that they can accommodate the different banks relationships.

- **Payment Methods**

  There are a variety of acceptable payment methods. Whichever is chosen, it should be clearly delineated. Payment methods include:

  Payment in Advance

  A buyer delivers cash to the seller prior to the goods being shipped. Some sellers ask for this payment method to improve their cash flow or to simply reduce their risk. Payment-in-full prior to shipment is common when the goods are custom-made and cannot be resold. Time terms are based on the ship date.

  Bank Guarantees

  A bank guarantee basically substitutes the credit of the buyer and/or seller for that of a bank. This is one of the safest albeit expensive ways to conduct an international transaction. A bank guarantee can include any of the following:

1) Credit Cards

Credit cards are used on a limited basis in international trade. Credit cards are convenient to use, but are one of the most expensive ways to finance a transaction. Typically international buyers and sellers will use credit cards for small orders such as samples or spare parts.

2) Letter of Credit

A letter of credit (L/C) is a bank guarantee by the *issuing bank* to pay the *beneficiary* a stated sum of money, within a certain time, against the presentation of conforming documents. Other parties to a letter of credit may be the *advising bank*, the *confirming bank*, the *negotiating bank*, the *paying bank* and the *reimbursing bank*, but the main contract of payment is between the issuing bank and the beneficiary. Advising banks play a role in international L/Cs to authenticate the letter of credit from the buyer.

3) Standby Letter of Credit

This type of letter of credit is used as a form of collateral or used in place of a performance bond. A standby letter of credit contains language that allows the beneficiary to collect in the event that the issuer does not meet the terms and conditions agreed on in the standby. Companies will use the standby letter of credit as collateral against an agreed on credit limit.

4) Transferable Letter of Credit

A transferable letter of credit is a letter of credit issued by the seller with more than one beneficiary indicated. Independent sales representatives will often use this type of letter of credit to ensure payment when the goods are delivered by the manufacturer.

4) Usance Letter of Credit

A usance letter of credit is a letter of credit that includes time terms. Usance letters of credit allow the seller to extend terms to the buyer under a bank guarantee. This type of letter of credit also allows the seller to extend terms with reduced risk since the buyer cannot obtain the letter of credit from their bank without sufficient funds or line of credit in place.

5) Assignment of Proceeds

An assignment of proceeds is similar to a transferable letter of credit in the fact that it allows for at least two beneficiaries. The difference in an assignment of proceeds is that the seller assigns proceeds to a second beneficiary without that beneficiary being listed in the language of the letter of credit.

6) Bill Discounting

Bill discounting is a form of financing using an usance letter of credit and an accompanying draft. The draft is one of the documents that the seller sends with the required letter of credit documentation to the buyer. Once the buyer's bank approves the letter of credit, the draft becomes a negotiable instrument. This negotiable instrument pays at the end of the terms specified i.e. after 30, 60, 90 days, etc. This type of letter of credit allows time for the buyer to pay without making the seller to wait to get paid. Bill discounting means that the seller arranges to sell the draft to a bank, allowing the seller to get paid when the letter of credit is approved, while still allowing the buyer time to pay. Bill Discounting also fixes the interest for the buyer as well as offering a low interest rate.

7) Open Account

Open account is based on the buyer paying the seller on presentation of an invoice. This usually means that the goods are being released prior to the buyer issuing a payment to the seller. Terms under open account are usually triggered based on the ship date.

8) Cash Against Documents

Also known as *documentary collection*. Sometimes referred to as CAD. Cash against documents is similar to a letter of credit, but without the guarantee of payment by a bank. This can also be set up as a term under a sales agreement.

Types of Financing

There are a myriad of routes to financing an international transaction. Financing options include:

- **Bank Financing**

This represents the most common form of financing throughout the world. Different countries have different ways of assessing the risk in loaning money. The determination of the interest rate charged represents a combination of :

1) The bank's borrowing rate, and

2) The risk involved to loan funds according to certain credit risks.

As a general rule, banks must have the following to loan funds to a business. If all three of these items are not present when the loan is requested, then the bank cannot make the loan:

- ❑ Business must have sufficient revenue to pay back the loan;
- ❑ Business must have sufficient assets to pay back the loan; and
- ❑ Owners of the business must submit personal guarantees to pay back the loan.

- **Purchase Order Financing**

Purchase order financing is a short-term loan used to finance the purchase or manufacture of items that have been pre-sold. Most purchase order financing requires the funder to issue letters of credit to the supplier on behalf of the buyer who is being financed. Purchase order finance companies use the following to determine whether they will issue funding:

1) Seller's history of providing the product;

2) Supplier's reputation with regards to supplying the product;

3) Credit history of the seller to ensure there are no "judgments" or "filings" on the party seeking funding.

- **Pre-Export Letter of Credit Financing**

Pre-export letter of credit financing secures the funder's risk by repayment through an assignment of proceeds. This type of financing is usually short term and provided at a high interest rate. This type of financing is used when funders either cannot access traditional financing or cannot afford the time to process a traditional loan.

- **Forfeiting**

Forfeiting is a form of long term financing for capital equipment. Forfeiting is fixed rate financing that uses bills of exchange or promissory notes which are accepted by the buyer and guaranteed by a bank in the buyer's country. Forfeiting allows the seller to recover full value for the sales near the ship date.

- **Forward Window Contracts**

  Forward window contracts enable you to fix the exchange rate immediately to give you the certainty of knowing exactly how much foreign currency will cost and how much you will receive at the time of settlement. Forward window contracts allow you to purchase foreign currency and be given a "window" of around 30-days to collect your receivable.

Credit Insurance

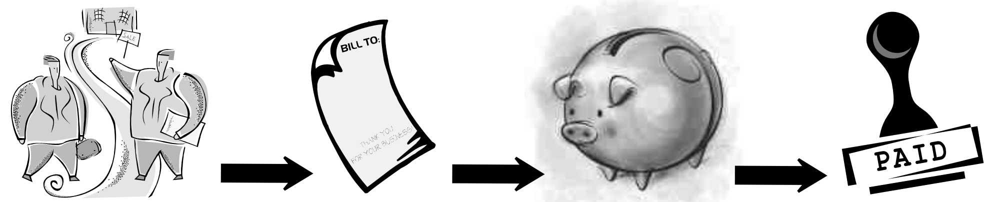
Export credit insurance protects your receivables against non-payment of your international invoices as a result of default by the buyer or political risk. These insurance policies cover multiple buyers and in some cases you can purchase insurance based on individual buyers. The insurance company will run credit reports on your customers and develop a policy based on your products, market and country risk conditions. If the buyer fails to pay, excluding cancellations or product disputes, then the seller can collect on the policy.

Credit Checks

International credit reporting services allow you to make informed decisions about your financial exposure with your trading partners. Credit checks are usually required when export credit insurance is used to finance the transaction. The following are key companies offering international credit reporting services:

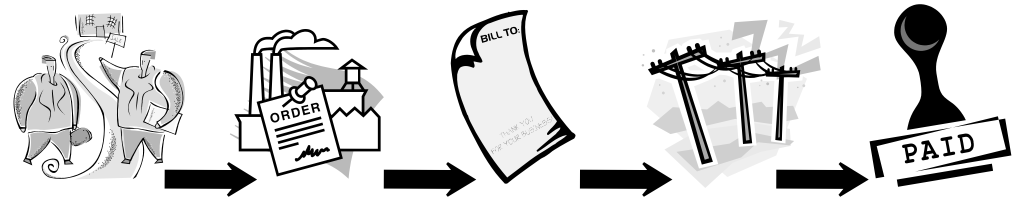
http://www.experian.com
http://www.equifax.com
http://www.coface-usa.com
http://www.dnb.com/us
http://www.graydonamerica.com

ADVANCE PAYMENT



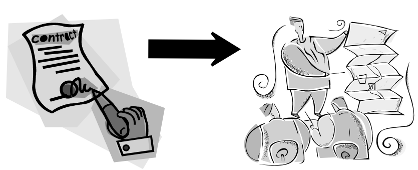
STEP ONE	STEP TWO	STEP THREE	STEP FOUR
Basic Sales Agreement	Pro Forma Invoice	Bank Draft Presented to Buyer's Bank	Payment Authorized
Buyer/Seller	Seller	Seller	Buyer

OPEN ACCOUNT



STEP ONE	STEP TWO	STEP THREE	STEP FOUR	STEP FIVE
Basic Sales Agreement	Purchase Order	Commercial Invoice	Wire Transfer	Payment Made
Buyer/Seller	Buyer	Seller	Buyer	Buyer/Seller

DOCUMENTARY COLLECTION



Commercial Invoice
Seller

Bank Draft to Buyer's Bank
Seller

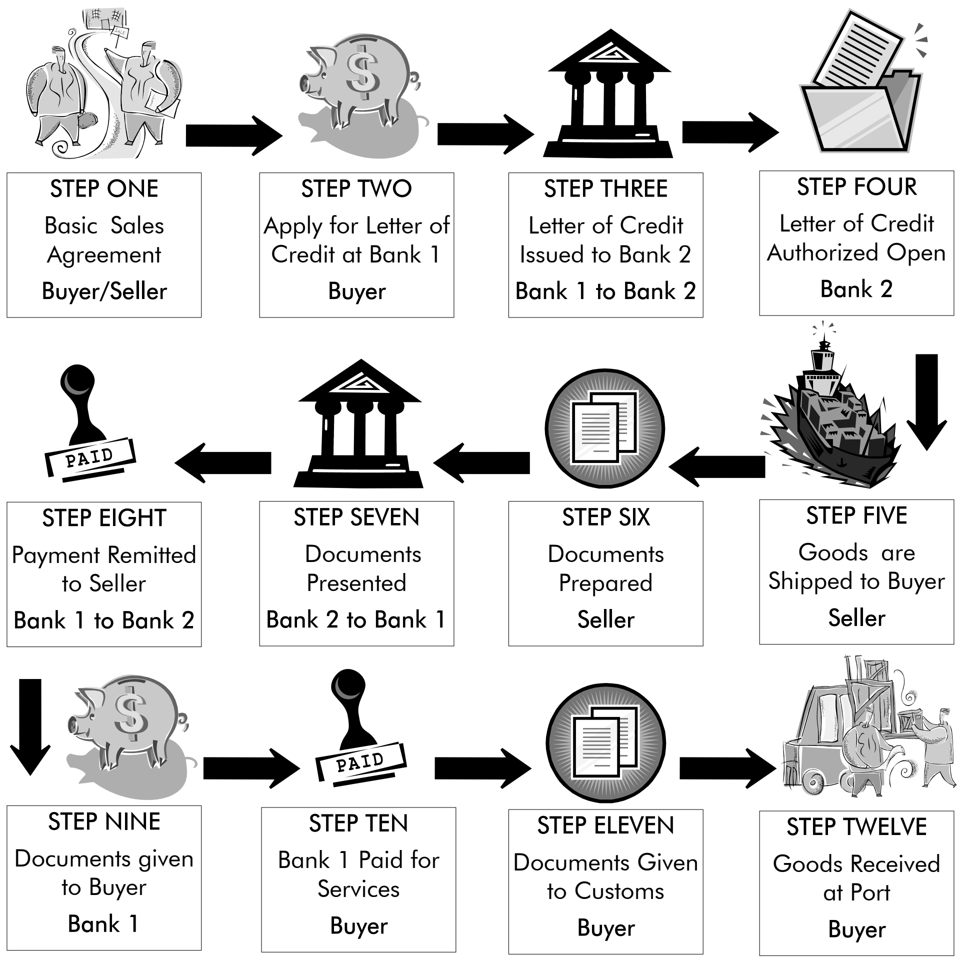
Other Documents as Required by Law
Seller

Bill of Lading
Freight Forwarder

STEP ONE	STEP TWO	STEP THREE
Basic Sales Agreement	Present Documents	Payment Authorized
Buyer/Seller	Seller	Buyer

Bank Services	Example Documentary Collection Bank Fees	Bank Services	Example Documentary Collection Bank Fees
Air Waybill Release	Range: $50 - $75 per quarter	Protest	$100 plus legal expenses
Amendment	Range: $20 - $30	Tracer	Range: $15 - $25
Bill of Lading Guarantee	¼ % per quarter or $50 minimum	Sight	Range: $60 - $80
Direct Collection Letter	Range: $45 - $60	Usance	Range: $80 - $105
Maintenance	Range: $25 - $40 per month, first month free		

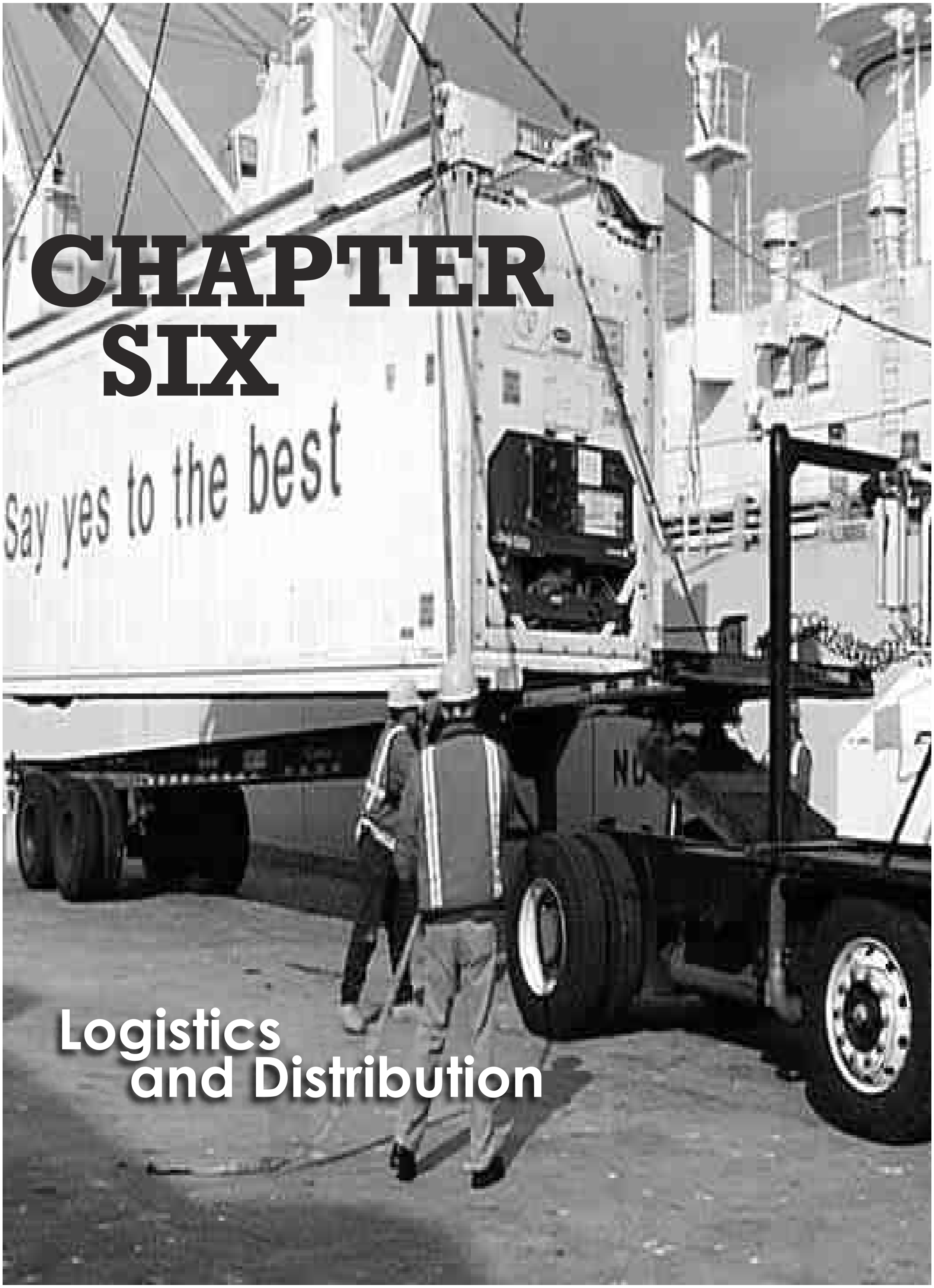
Letter of Credit Diagram



Bank Services	Example Letter of Credit Fees	Bank Services	Example Letter of Credit Fees
Acceptance	2% with $150 minimum	Advising	Range: $75 - $100
Amendment	Range: $65 - $90	Assignment Proceeds	¼ % with $150 minimum
Confirmation	Minimum $100	Deferred Payment	2% with $150 minimum
Discount of Draft	Minimum $100	Discrepancy Fee	$65
Examination	¼ % with $110 minimum	Expired/Unused	$75
Issuance	1/8 % per quarter/$110 min.	Negotiation	1/8 % with $110 minimum
Reimbursement	$75	Transfer	¼ % with $150 minimum

CHAPTER SIX

Logistics and Distribution



Chapter Six

"As a combat arms officer, I learned early on that it's the logisticians that get you to the battle and sustain you in the battle."

Colin Powell, Former Chairman, Joint Chiefs of Staff

Basic Logistics Structure

All shipping logistics can be divided into three phases. These three phases are similar to the steps a person takes when going on a trip. When a person goes on a trip, it's not unusual to spend as much (or more) time getting ready for the trip or getting to your ultimate destination as it did to take your flight or train.

The following are the three major phases of basic logistics:

1. Export or outbound operations;
2. En-route or in-transit operations; and
3. Inbound or import operations

Phases of Basic Logistics in Detail

The following represents the steps that take place in most logistics movements.

Export or Outbound Operations

- The Freight Forwarder is advised of the export order.
- The terms of sale are examined to determine the exporter's shipping responsibility and ability to fill the order.
- If a letter of credit is involved, the forwarder must examine it to insure that any shipping conditions (such as shipping date, no partial shipments, discharge port, transshipment restrictions, etc.) are met or, if impossible to meet, arrange for the letter of credit to be amended.
- Quotations on freight rates sought from forwarders.
- A shipping carrier (ocean or air) is selected.
- Space on the carrier is booked as early as possible through a shipping agent. (Space can be difficult to obtain depending on the carrier and destination.) You should always consider the most acceptable estimated time of arrival (or ETA) at the required port of destination.
- Forwarder transmits manifest information to Customs at destination according to regulations.
- Customs forms are filled out for the country of destination.
- The shipment is appropriately packaged and marked.
- The forwarder will arrange for a truck to pick up the goods at the exporter's warehouse.
- The goods will be delivered to the exporting terminal port, where the trucker will present the booking

Logistics and Distribution

number for the shipment on a consignment note.

- Goods will be loaded on to the carrier per the carrier's load or stowage plan.
- A bill of lading is obtained from the shipping company and freight charges are paid.
- The carrier will send a pre-alert to their destination office or agent. The freight forwarder will send a pre-alert or pre-advise to their destination office or agent. The buyer will send a pre-alert or pre-advise to their buyer.

En-Route or In-Transit Operations

- Carrier tracks arrival and notifies origin and destination of any changes.
- Freight forwarder and carrier send or fax original documents to allow for pre-filing of the Customs entry information.
- Inbound agent (break bulk agent) tracks the arrival of the carrier to the destination port and notifies the importer of any significant changes.

Inbound or Import Operations

- Inbound break bulk agent checks on the arrival of the carrier and notifies the importer and/or the importer's Customs broker when the goods have arrived and the documents are available.
- The importer's Customs broker sends a courier (if freight agent is not the Customs broker) to the office of the freight agent and pays any charges due for document turnover and any freight charges.
- The Customs broker uses the original documentation to submit the entry to Customs and effect clearance.
- Once the goods have cleared Customs, the carrier notifies the terminal operation that the goods may be released from the terminal.
- The Customs broker issues a delivery order to the designated trucker for pick up of the goods at the terminal port.
- The designated trucker checks on the availability of the goods for pick up at the terminal operation and dispatches a truck to pick up the goods when ready.
- The trucker presents a consignment note and bill of lading number to allow for release of the goods at the terminal port.
- Goods are delivered to the importer at the designated place of delivery.
- Trucker issues an invoice for all delivery related charges to the Customs broker.
- Customs broker invoices the importer with all Customs, Port, Terminal, and Delivery related charges.

Ocean Freight

Ocean freight transportation is the most prevalent of all modes of international transport, making up over 90 percent of all international trade. Most ocean freight is transported in ocean containers ranging from 20'-40' in length. Transit times in ocean freight can range on average 7-30 days--just for the time on the water. Some basic time guidelines for ocean freight are:

- **Book Space:** Make arrangements 1-2 weeks before the sailing of the vessel.
- **Delivery and Pick up of Cargo:** Allow 1-2 days for trucker to pick up the carrier's container then deliver it to the shipper, and in most cases, wait for the loading of the cargo.
- **Deliver Cargo to the Carrier's Terminal:** Most terminals require that the shipment arrives three days prior to the sailing of the ship.
- **Carrier Transit Time:** Transit times can vary according to the location of origin and destination, but allow 20-30 days.
- **Unloading of the Vessel:** Depending on the size of the ship and the terminal operation doing the unloading, it will take 1-3 days.
- **Customs Clearance**: Allow 1-4 days, depending on the type of goods being cleared through Customs and whether clearance is dependant on other government agencies.
- **Delivery at Destination:** Depending on the distance of the importer from the port, allow 1-2 days for delivery.

Various Types of Charges and Fees for Ocean Freight:

It is important to understand all charges and fees involved with ocean freight shipments. Each of these fees must be included to complete a price. Some carriers and forwarders will combine some of these fees to create a flat rate for the customer asking for a price. Since some elements of cost may or may not be added to all ocean freight quotes, it is important to be able to identify whether these costs are included in your price. The following are common charges and fees that may be added into the cost of your ocean shipping rates:

- **Cartage or Trucking Pick-up Charge:** Trucks that deliver ocean containers to shippers or importers must first drive to the ocean terminal to pick up both the Chassis (trailer that the ocean containers are carried on) as well as the ocean container, which carries the cargo. Ocean container delivery requires a "round trip," so the pricing is based accordingly.
- **Terminal Handling Charge or (THC):** This represents the fees that the terminal charges to load the container on to the carrier's vessel.
- **Fuel Surcharge:** This charge represents a percentage fee for the carrier (truck or ship) to recover the cost of their fuel.
- **Bunker Adjustment Fee (BAF):** This fee represents the costs associated with the fueling of a vessel.
- **Freight Charge:** This represents the total cost of shipping the goods from origin to destination.
- **Destination Delivery Charge (DDC):** This represents the charge by the terminal for the unloading of the vessel.
- **Peak Season Surcharge (PSS):** This fee is charged during the select times of the year when carriers incur additional costs associated with higher port volumes during peak seasons.

- **Currency Adjustment Factor (CAF):** Ocean carriers impose a percentage to hedge against their currency risk.
- **Security Fee:** Security fees are to recover additional costs associated with homeland security measures.
- **Automated Manifest Service (AMS**): This is a fee to cover costs of transmitting manifest information to US Customs regarding shipments inbound into the United States.
- **Demurrage:** This charge represents storage fees that can occur by leaving goods in the port facility past the initial "free period."

Weight and Measure

All transportation carriers price and allocate the booking and handling of cargo space based on both the actual weight and the amount of space the cargo occupies. Carriers use weight and measure in the following ways:

- To determine how to allocate space on a given mode of transport or transport container.
- To distinguish between dense cargo and high volume cargo. Carriers charge based on the actual weight or volume weight, whichever is greater. Rule of thumb: On shipments of 1,000 kg per cbm or less, the price is based on cbm. If greater than 1,000 kg per cbm, the price is based on weight.
- To determine safety and regulatory issues regarding how much weight can be safely loaded on the designated mode of transport.

Ocean Containers and Cubic Meters

It is a common mistake for importers to over or under estimate the amount of space that is needed to move their shipments. Such mistakes can result in shipments that don't move because the proper amount of space was not been booked. However, over estimating the space required to move cargo can result in money being lost through wasted cargo space. It is important to correctly calculate the cubic meters (CBM) of a shipment to determine the number of containers required.

A 40-foot cargo container measures 67 cubic meters inside. A 20-foot container measures 33 cubic meters. However, most companies estimate the "useable space" of a container at ***57 cubic meters for a 40-foot container or 28 cubic meters for a 20-foot container.*** This is due to space allotted for pallets, empty space between cartons, etc.

Ocean Container Dimensions and Capacities			
Size	Interior (W xH x L)	Max. Payload	Capacity
40	7'8" x 7'10" x 39'5" 235 x 239 x 1203cm	58,870 lbs 26,700 kg	2,390 cu.ft. 67.7 cbm
20	7'8" x 7'10" x 19'4" 235 x 239 x 590cm	67,200 lbs 28,230 kg	1,172 cu.ft. 33.2 cbm
Allow two inches or 100 mm less for the door opening on containers for the threshold and hinges.		Because it's shorter, the 20-ft container can hold more weight, a good choice for dense , heavy shipments.	

When an importer/exporter has a shipment that is less than a full container, he must weigh the benefits between letting the shipment go in a less than full container (LCL) and risk paying for cargo space un-utilized, or to engage the services of a freight consolidator.

A freight consolidator is a company that purchases full 40-foot container space, then consolidates the cargo of several shippers, offering a price per cubic meter than may be more affordable.

Calculating Cubic Meters

Example: A shipment of 120 cartons measuring 50cm x 50cm x 150cm each.

1) Move the decimal two places to the left. (50cm = .50, 150cm =1.50)
2) Multiply the dimensions. (.50 x .50 x 1.50 =3.75 CBM)
3) Multipy 120 cartons by 3.75 CBM. (120 x 3.75 =45 CBM)

The total for this shipment is 45 cbm.

US Conversion: Inches to Cubic Meters

1) L" x W" x H" divided by 1728=Cu Ft
2) Cubic Feet divided by 35.314=CM
(Always round inches up.)

Choosing Between a Freight Consolidator or Container.

For the following examples, let's assume the following shipping costs:

- Freight consolidator: $95/CBM
- 20-foot container: $2,250
- 40-foot container: $2,800

Example *1: 12 pallets @ 1.5 cbm per pallet for a total of 18 cbm @ 16,000 kg.*

Choice	Charge	cbm Cost
Freight Consolidator	$1,710 (18 x $95)	$95
20-foot Container	$2,250	$125 ($2,250÷18)
40-foot Container	$2,800	$156 ($2,800÷18)

Based on this example, the shipper should use a freight consolidator.

Example *2: 17 pallets @ 1.5 cbm per pallet equaling 25.5 cbm @ 22,000 kg.*

Choice	Charge	cbm Cost
Freight Consolidator	$2,422 (25.5 x $95)	$95
20-foot Container	$2,250	$88 ($2,250÷25.5)
40-foot Container	$2,800	$110 ($2,800÷25.5)

This shipper should consider booking a 20-ft container for this shipment.

Now let's look at a situation where the CBM is considerably less than a full 40-foot container. Freight consolidator or container?

Example *3: 17 pallets @ 2 cbm per pallet for a total of 34 cbm @ 25,000 kg .*

Choice	Charge	cbm Cost
Freight Consolidator	$3,230 (34 x $95)	$95
40-foot Container	$2,800	$82 ($2,800÷34)

Although the shipper will technically pay for cargo space that he will not be using, at a cost of $82/CBM, he will still save $430 over consolidating the shipment.

Let's examine an example where the weight exceeds the the standard formula of 1,000 kg per cbm.

Example *4: 10 pallets @ 2 cubic meters per pallet for a total of 20 CBM but at a weight of 26,000 kg.*

Choice	Charge	CBM Cost
Freight Consolidator	$2,470 (26 x $95)	$95
20-foot Container	$2,250	$87 ($2,250÷26)

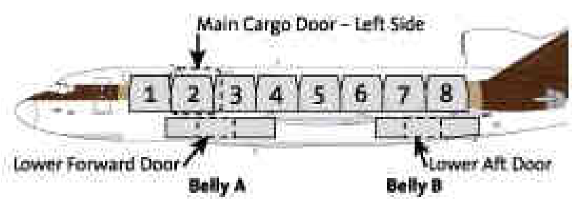
Here, the consolidator would charge by weight rather than volume so the price would be based on a greater cbm.

Therefore, always know the weight and cbm of your shipment and examine your options every time.

Air Freight

Airfreight is both the fastest and most expensive form of transportation logistics. Goods traveling by airfreight on average take about three to four days from origin to destination. One of the main considerations when using airfreight is to consider the space available on different types of aircraft. A large amount of airfreight travels on passenger aircraft making up an average of 10 percent of all airline revenues.

Aircraft that carries freight and passenger cargo has not only limited cargo space, but limited dimensions as the cargo travels in the lower deck or "belly" space under the passenger cabin. In cargo planes, there is both upper deck as well as lower deck or belly space. The lower deck or belly space on a plane is not only smaller then the upper deck space, but also has smaller doors. The picture below is of a 727 which has the following door dimensions:



Cargo Door Dimensions

Cargo Door	Measurement	Metric
Main	134" x 91"	340 cm x 231 cm
Forward	48" x 35"	122 cm x 89 cm
Lower Aft	48" x 36 "	122 cm x 91 cm

If the only flight you could make to transport your goods was a passenger 727, then your cargo would have to be small enough to fit in a 48" X 35" door. This is why it is always important to confirm the type of aircraft that is being booked to move your freight as there are many types of aircraft cargo specifications that can change according to the cargo carrier's schedules.

Airfreight Dimensional Weight Factor

Because space is a premium commodity on an airliner, airlines not only look at the weight of a shipment, but they look at the space that it uses to determine cargo pricing. To price cargo space, they will convert the volume of the shipment into kilograms and charge for whichever is greater-- the actual weight or the dimensional weight.

Metric Calculation Formula

Length in cm X Width in cm X Height in cm divided by 6,000.

Example: 1 Pallet @ 100cm x 150cm x 200cm weighing 250 kg.

1) 100 x 150 x 200= 3,000,000

2) 3,000,000 ÷ 6,000= 500 kg

In this example, the chargeable weight is the dimentional weight since it is twice the amount of the actual weight.

US Calculation Formula

Length in inches X Width in inches X Height in inches divided by 166.

Example: 1 Pallet @ 48"x 48"x 56" weighing 1,800 lbs.

1) 48 x 48 x 56= 129,024

2) 129,024 ÷ 166 = 777.25 lbs

In this example the actual weight is greater than the dimensional weight, therefore, the airline would charge for the actual weight.

Air Cargo Terminology

Another consideration is how airfreight services and charges are calculated. The following is a brief outline of terms used in air cargo.

Booking of Cargo: Most air cargo movements are arranged through freight forwarders or integrated carriers such as FEDX or UPS. Booking has to be made as soon as possible since space is always limited on airfreight. For airfreight shipments importing into the United States from other countries, the forwarder has to transmit manifest information (the information regarding the seller and buyer) prior to the goods being loaded through the "Advanced Manifest System or AMS."

Inland Trucking (Cargo pick-up at origin): Once the freight forwarder has booked the cargo, the next step is for the freight forwarder to arrange for the goods to be picked up. Inland trucking for airfreight is charged per pound or kilo based on the distance the shipper is from the airport area (or the forwarder's warehouse terminal).

Terminal Handling and Documentation: Since most airfreight ships in cartons as apposed to shipper loaded containers (such as ocean freight), the individual cartons or pallets must be processed in order to:

- Prepare export documentation, manifest and airway bills of lading.
- Label cartons, pallets etc. with the lot labels, airway bill numbers, and other required information.
- To send pre-alerts to the freight forwarder's agents at the destination.

Transfer from Warehouse to Airport: Once the freight forwarder has completed all preparation for the cargo, the next step is to contract a trucker to transfer the goods from the forwarder's warehouse to the air carrier's cargo terminal at the airport of departure. The charge for these services can be built into the price for "trucking" or be billed as a separate "Transfer Fee."

Air Carrier's Warehouse: The air carrier's warehouse will sort all cargo by destination and create a loading plan. The carrier will also re-weigh and measure the cargo to audit the information declared on the airway bill.

Destination: Typical destination charges for airfreight include, the delivery charge and document transfer fees from the airfreight forwarder.

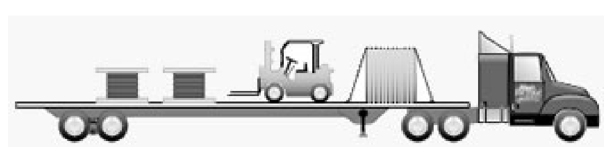
Truck Freight

Truck freight plays an important role in all forms of transportation both in support and as a primary carrier. There are thousands of truck companies operating all over the world in different capacities with different pricing and operational structures. The most common types of truck carriers are as follows:

Full Truck Load Carriers (FTL): Many truckers offer service on a full truckload basis. Full truckload transportation is most common with large companies who have enough cargo to fill a truckload. It is important to understand the basic measurements of most common types of full load trucks. The following is an example of these types of trucks. Again as in our examples of other types of transportation, it is critical to be able to calculate the amount of cubic meter or cubic feet that is needed to move your freight.

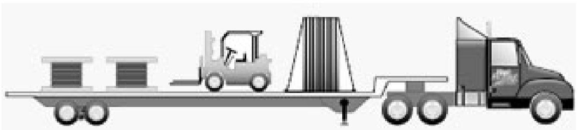
Inside	Length	Height	Width
	52'6"	8'2"	8'3"
Capacity	44,000 lbs or 26 standard pallets		

Flatbed Trailer



Length	Width	Deck Height
48' or 53'	8' to 8'6"	5'

Drop Deck Trailer



Length	Width	Deck Height
48'	8' to 8'6"	3'- 5'

Less Than Truck Load (LTL) Carriers: Shippers that do not have enough freight to fill an entire truck can contract a truck consolidator. These types of carriers consolidate between to-points or use a series of terminals to form a "hub and spoke" network.

Team Drivers: Many companies offer an expedited service for truck shipments. Team driver services involve two drivers that share the duties of driving a single truckload. This allows one driver to rest (not exceed the legal amount of hours they can drive) while the other driver takes a turn at the wheel. This allows the truck to cover more miles in any 24-hour period.

Truck Transportation Pricing Methods

Cost Per Mile: All trucks, no matter how they price to the customer, run on a cost per mile basis. The cost per mile on a given truck route is based on the cost of operating the truck, including the fuel, the driver's pay rate and the other charges such as tolls, meals, authorities, etc.

Note: to check the truck miles for any two North American points log on to www.truckmiles.com or www.mapquest.com

Class Rate: Freight rates are based on many factors, including:

1. The distance of the truck route;
2. The total weight of the shipment;
3. The density of the goods being shipped;
4. The goods' susceptibility to damage;
5. The value of the goods; and
6. The ease in which the goods can be loaded.

Elements 3-6 are the key elements used to establish the classification of a commodity. *The National Motor Freight Classification Tariff* contains all product classifications. There are 18 classifications numbered from 50 to 500. The higher the class, the higher the rate for every hundred pounds shipped. Most less-than-truckload (LTL) rates are stated as a rate per *hundred weight*. Rates are structured so that as the weight of your shipment increases, the rate per hundred pounds decreases. However, most LTL carriers will have a stated minimum charge.

Example: *Shipment of like goods going to the same destination in varying weight amounts.*

Shipment Weight	Per 100 lbs	Total
100 lbs	$75	$75
500 lbs	$50	$250
1000 lbs	$35	$350
10,000 lbs	$25	$2,500

Note: for more information regarding truck classifications please see the website for the National Motor Freight Traffic Association website at http://www.nmfta.org.

Linear Foot Rate: A linear foot rate uses the total length of the truck as the measurement for pricing. Each linear foot on a truck represents the total amount of space in all directions. In practical terms, four linear truck feet would equal a space 8' 3" x 8' 2" x 48".

¼ Truck, ½ Truck, ¾ Truck Rates: Rates are established by taking the total amount to run the truck on a given route, then dividing the truck into fractional sections and assigning a price to that fraction.

Pallet Rates: Many truck carriers will price according to how many pallets will fit on a full truck load, then charging based on the cost of the route divided by the pallet number. For example a 53 foot truck could hold a total of 26 standard pallets. If a full truck load price from Los Angeles to Toronto was calculated at $4,000, then the per pallet rate would be $153.00 per pallet.

Intermodal (Truck & Rail)

Intermodal transportation, if used right, can be an economical alterative to trucking shipments over extended distances. The term *intermodal* describes any coordinated transport of freight using multiple methods of transportation. In this section we will address some important considerations when making a decision on whether to use intermodal rail/truck transportation:

- **Distance:** Because of the distance between rail terminals, the further cargo travels, more cost effective intermodal transportation can be. As a general rule, intermodal transportation should be considered for any shipment that needs to travel beyond 1,000 miles.

- **Time Considerations**: Pick-up and delivery usually takes a full day because an intermodal trailer may be loaded in the morning, but the train may not leave until midnight. If more than one railroad is used, the transfer can take 1-2 days. However, Intermodal units are not required to take mandatory breaks within each 24-hour period as in the case of trucking. Therefore, the longer the distance of the shipment, even with the scheduled stops at rail terminals, the closer the transit times are to a team driver truck shipment.

- **"Free Days" at Terminals:** On average, a shipper is allowed two free days at origin and destination built into the rate.

- **Piggyback:** Piggyback is the term used for *Trailers on Flatcars* (TOFC) where the wheels are permanently attached to the box just like a highway trailer. *Containers on Flatcars* (COFC) have a removable chassis similar to ocean containers.

- **Blocking and Bracing of Cargo:** Intermodal is generally a rougher ride. Because of this, some products like liquids, may need to be secured with additional blocking and bracing. The shipper is ultimately responsible to secure the load. All intermodal loads are subject to the American Association of Railroads specifications for blocking, and securing of loads.

Third Party Logistics Providers (3PL)

Third party logistics (3PL), is when the owner of the goods outsources various elements of their supply chain management to a 3PL company. A 3PL company provides services such as inbound freight, Customs clearance, warehousing, order fulfillment, distribution, or outbound freight. Companies have different levels at which they use a 3PL. Below some of the most common levels of use:

Levels of 3PL use:

- **Transactional Outsourcing:** Based on an "ad-hoc" basis with no long term contracts and no bonding between the 3PL and the company that uses them. These types of relationships usually involve simple reloading or unloading of cargo with some kind of transfer to an inland truck service.

- **Tactical Outsourcing:** This type of distribution outsourcing involves negotiated contracts and integrated systems to facilitate free information flow and create supply chain visibility between the warehouse and the customer.

- **Strategic Outsourcing:** This is generally a long-term, contract relationship where the 3PL functions as a partner in the customer's supply chain management.

Why Use 3PL?

- **Save Time and Resources:** Logistics functions can free up resources to focus on core competencies.

- **Expertise:** Companies that have the capability to handle all components of their supply chain management may still opt to use a 3PL. This is because many 3PLs have a focused expertise such as distribution, warehousing, etc. and can provide a more accurate and cost effective handling of product, thereby reducing mistakes, penalties and customer complaints.

- **Re-engineered Distribution:** Logistics outsourcing can be a quick way to re-engineer distribution market demands and gain a competitive edge.

Services Provided by a 3PL

3PL's can provide a variety of services. The following are some of the more common services a 3PL can offer.

- **Transportation Management:** Provides coordination of both incoming and outgoing shipments via truck, air and ocean freight. A 3PL can also work with the client's existing transportation companies and work off the customer's freight accounts with chosen carriers.

- **Warehouse Management:** A 3PL can provide warehousing as well as inventory tracking using technology such as radio frequency scanning and bar code labeling to manage and track the movement of goods from initial receipt to outbound shipment.

  A good 3PL provider can provide real time, periodic, and accurate information to manage inventory. Additional services like advanced shipment notifications can be generated to inform retail customers.

- **Packaging:** 3PLs have the ability to perform final product packaging, thus eliminating the need to ship product to off-site packaging providers. 3PL's can offer a variety of packaging services ranging from custom pallets, display shippers, inserts and coupons, labeling and printing, repackaging/conversion plus wrapping or bundling and container or truck loading and bracing.

3PL Considerations and Definitions

The following are important considerations and definitions in understanding third party warehouses.

- **Radio Frequency Identification (RFID):** The receiving and picking of items of inventory is done through a handheld scanner that scans bar codes thereby increasing efficiency and accuracy.

- **Electronic Data Interchange (EDI 850, EDI 856 and EDI 810):** Many large companies and retailers use EDI as a standard protocol for transmitting purchasing and sales data. The EDI 850, 856 and 810 are the most common for large retailers. The 850 is the electronic purchase order that is transmitted from a major retail chain to a supplier or vendor when placing the order. The 856 is the electronic advanced shipping notification that is sent to the retailer as an alert that an order has been completed and is being shipped. The 810 is the electronic invoice that is sent to the retailer after the order has been shipped.

- **Bar Codes:** A bar code is the reference number that the computer uses to look up associated records containing descriptive data and pertinent information. The bar code found on an item in the store doesn't contain the price or description of the food item, it refers to a 12-digit product number. When the item is scanned into the register at the time of purchase, the computer then finds the corresponding file for that item referencing the price, vendor name, quantity on-hand, description of the item, etc. Bar codes are generally for identification only.

- **Universal Product Code (UPC):** UPC codes are labeled on almost all retail products in America. This code identifies the product and allows a warehouse to check all numbers and codes for accuracy by referencing product descriptions.

- **Cross Docking:** Cross docking is the process used to take goods from a manufacturer or port facility and deliver directly to the customer with a minimum of handling. In other words, cross docking is shipping items door to door without putting them in storage.

- **"Chep Pallets":** The Chep Company provides a pallet exchange program that many large companies use. Pallets are provided by Chep USA (or any of the other 42 countries where they operate) on a rental basis to a company. When product is shipped out on these pallets, the rental title is transferred to the company's customer. When that customer uses the same pallet to ship to their client, the rental title is transferred again.

- **Stock Keeping Unit (SKU):** A common term for a unique numeric identifier. Most commonly used in online business to refer to a specific product in inventory or in a catalog.

- **Order Picking**. The act of assembling an order by selecting various items that make up that particular order. A basic example of order picking (or order assembling) would be the example of product that is stored on static shelving or pallet rack. A person in charge of putting an order together or picking the order would select (or pick) one order at a time following a route up and down each aisle until the entire order is picked. One of the common functions of a 3PL is to assemble (or pick) orders.

- **Container "De-Stuffing" or Unloading:** The process of unloading a container can vary depending on whether the contents of the container are loaded onto pallets or loaded with loose merchandise or cartons. On average, it can take anywhere from 30-minutes to four-hours. Many companies will use a 3PL to do this work as an alternative to having staff and warehouse space in which to unload inventory.

- **Receiving and Shipping Procedures:** 3PLs designate fees to perform both shipping and receiving functions. Warehouse fees are dependant upon the type of shipment and the work involved in processing the shipment in a warehouse.

- **Warehouse Costs**: 3PLs will usually set up a fee for administration and designated warehouse space reserved from month to month. If additional space is needed it is provided as available.

- **Inventory and Reporting costs**: There are a variety of technology-based solutions that can assist companies with monitoring and managing inventory, tracking shipments, and providing any other required information. Some of these solutions however, require a large amount of planning and additional costs. For many smaller companies, simple paper forms, faxes and e-mails will suffice and advanced technological options are not required. A company should always review what their true needs are and evaluate the cost benefit of using technology-based solutions.

Ocean Freight Worksheet

Country of Origin: ______ **Arrival:** ______	**Product Description:** **# or Cartons:** __________	**# of Pallets:** ___________	**Total CBM:** ______________ **Weight:** ____________
Description	**Carrier ONE** ____________________	**Carrier TWO** ____________________	**Carrier THREE** ____________________
Inland Freight			
Documents			
THC			
BAF			
CAF			
Customs			
Security			
PSS			
Total Origin Fees			
LCL Fee			
20'			
40"			
40HC			
45'			
Refer			
40' Open			
Total Freight Charges			
DDC			
Inland Freight			
Pier			
Alameda			
Forklift			
Dock			
PSS			
Other			
Total Inbound Charges			
Total Charges			
Timeline	Depart ______________ Transit Time ___________ Arrival ________________	Depart ______________ Transit Time ___________ Arrival ________________	Depart ____________ Transit Time ________ Arrival _____________

Air Freight Worksheet

Country of Origin: ______ **Arrival**: ______	**Product Description:** **# or Cartons:** __________ **# of Pallets:** ___________ **Dimension of cartons** _________________________		**Total** **CBM**: ______________ **Weight**: _____________
Description	**Carrier ONE** ____________________	**Carrier TWO** ____________________	**Carrier THREE** ____________________
Inland Freight			
Documents			
Handling			
AES (US only)			
Transfer			
Customs			
Security			
Fuel			
Other			
Total Origin Fees			
Minimum			
+45 kg			
+ 100 kg			
+500 kg			
+1,000 kg			
War Risk			
Other			
Total Freight Charges			
Document			
Inland Freight			
CFS			
Forklift			
Dock			
Other			
Total Inbound Charges			
Total Charges			
Timeline	Depart ______________ Transit Time ___________ Arrival ________________	Depart ______________ Transit Time ___________ Arrival ________________	Depart ____________ Transit Time ________ Arrival _____________

Truck/Intermodal Worksheet

City of **Origin:** ______ **Arrival:** ______	**Product Description:** **Commodity & Class:** ________________________ **# or Cartons:** __________ **# of Pallets:** ___________ **Dimensions per piece:** ________________________		**Total** **CBM:** ______________ **Weight:** ____________ **Stackable:** **YES** _______ **NO**_____
☐ Rolls ☐ Bales ☐ Other	☐ Crated ☐ Drums ☐ Loose	☐ Pallets ☐ Bundles ☐ CPH/Chep	☐ Totes ☐ Pails ☐ Coils
Hazardous Material	YES _______ NO _______	UN#:________________ Class: _______________	Packaging Group:
Description	**Carrier ONE** ___________________	**Carrier TWO** ___________________	**Carrier THREE** ___________________
48' Truck			
53' Truck			
Tandem			
Refrigerated Trailer Temperature ____________			
Flatbed			
Tailgate			
Step Deck			
Tanker			
Van			
Straight Truck			
Other			
Total Truck Charges			
Intermodal	☐ Dry Unit	☐ Heated Unit Temperature:_________	☐ Refrigerated Unit Temperature:_______
20'			
40'			
45'			
48'			
53'			
Other			
Total Intermodal Charges			

Warehouse & 3PL Worksheet

PRODUCT DESCRIPTION:

# of Units: __________ # of Units per Carton:_________ Weight per Carton:______________

Dimension/Carton: ________________ Is this Product Bar-Coded? YES _______ NO ______

Is Product Palletized? YES ____ NO ____# Pallets: ______ Dimension/Pallet:_____________

Stackable? YES ___ NO ___ How High? ____________ Floor Loaded? YES ____ NO ____

INBOUND/RECEIVING	**OUTBOUND/SHIPPING**
# Loads per Month: _________________	# Orders per Month: _______________________
# Cartons per Month: _______________	Average Cartons per Order: ________________
# SKUs per Load: __________________	# SKUs per Order: __________________________
# Pieces per Load: _________________	Order Picked: Unit ____ Carton _____ Pallet____

WAREHOUSE

Square Footage per Month __________________

Total SKUs in Inventory ____________________

Orders Placed by:
- ☐ Fax
- ☐ E-mail
- ☐ FTP
- ☐ EDI

LABELING

- ☐ Shipping Label
- ☐ Store Label
- ☐ Price Tags
- ☐ UPC Label
- ☐ Lot Label

Description	**Provider ONE**	**Provider TWO**	**Provider THREE**
Receiving			
Unloading			
Stocking			
Forklift			
Admin.			
Warehouse			
Order			
Pick			
Labeling			
Documents			
Shipping			
Tracking			
Other			
Total Charges			

Customs Clearance Worksheet

PRODUCT DESCRIPTION:

# of Imports per Month: ____________ # of Classifications per Import: ________________

HTS CODES: ________________________
____
____
____
____

VALUATION:
Average Value per Shipment: ______________
Value of Any Assist to Supplier: ______________
Value of Royalties: ________________________
Commissions: ____________________________

REGULATIONS

Country of Origin: ____________________

Are Goods Marked?
YES ______ NO ______

NAFTA: YES ____ NO ___

FDA: YES ____ NO ___

FCC: YES ____ NO ___

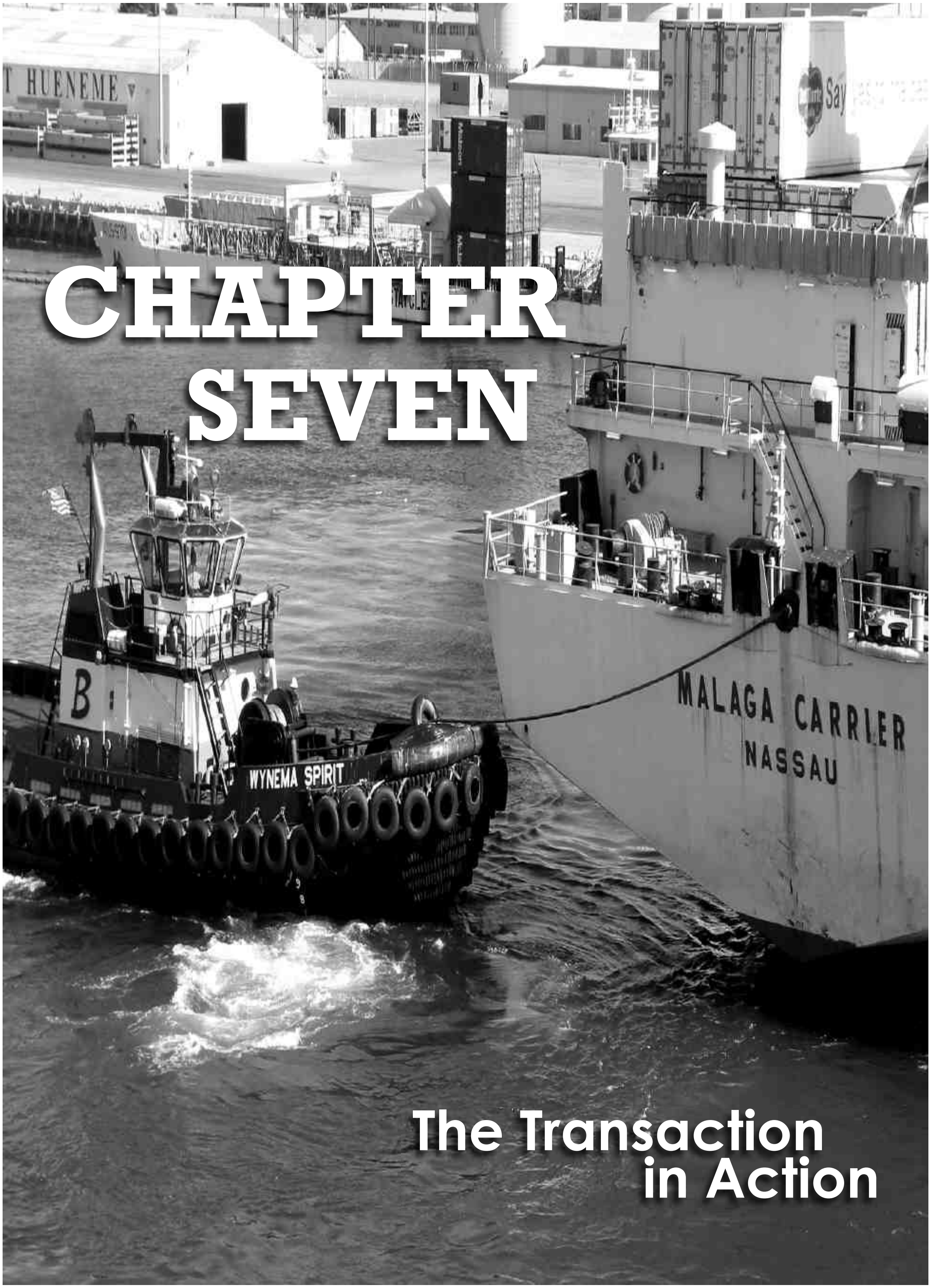
Other Government Agencies:

Are you Related to Exporter?
YES ______ NO ______

CUSTOMS CHARGES:		**CUSTOMS BROKER CHARGES:**	
Duty	__________________	Brokerage Fee Air	__________________
Taxes	__________________	Brokerage Fee Ocean	__________________
Inspection	__________________	Brokerage Fee Truck	__________________
HMF	__________________	Continuous Bond	__________________
MPF	__________________	Single Entry Bond	__________________
Warehouse	__________________	NAFTA	__________________
Demurrage	__________________	FDA Prior Notice	__________________
Other	__________________	FDA Filing	__________________
Other	__________________	Advancing of Funds	__________________
Other	__________________	Tem. Import Bond	__________________
Other	__________________	Other Gov't Org.	__________________
Total Customs Fees	__________________	Total Broker Fees	__________________

CHAPTER SEVEN

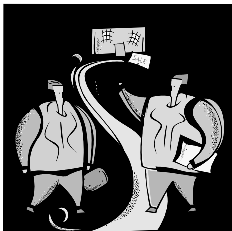
The Transaction in Action



Chapter Seven

Scenario: **An ocean shipment using a letter of credit.**

The buyer/ importer requests a quote from the supplier/seller/ exporter for goods and/or services.



1

Participants:
Buyer/Importer
Seller/Exporter

Documents:
Request for Quote

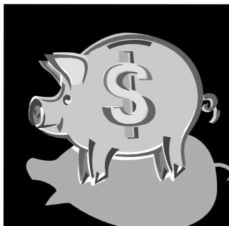
The seller/ exporter sends a pro forma invoice and/or a selling agreement.

2

Participants:
Buyer/Importer
Seller/Exporter

Documents:
Pro Forma Invoice

The buyer/ importer uses the pro forma invoice to apply to its bank for a letter of credit or for a loan.



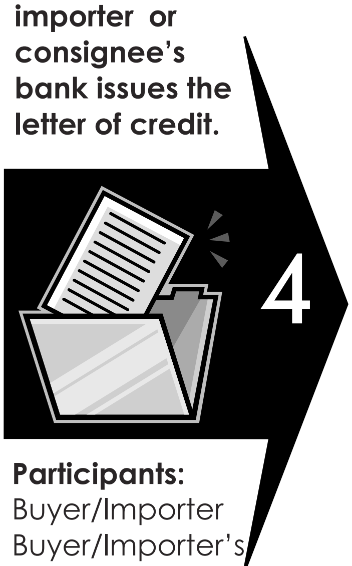
3

Participants:
Buyer/Importer
Buyer/Importer's Bank

Documents:
Pro Forma Invoice

The Transaction in Action

The buyer/ importer or consignee's bank issues the letter of credit.



Participants:
Buyer/Importer
Buyer/Importer's Bank

Documents:
Letter of Credit

The purchase order and letter of credit are sent to the seller/ exporter and/or their bank.

Participants:
Seller/Exporter
Seller/Exporter's Bank

Documents:
Purchase Order or Purchasing Agreement

Shipper/exporter issues instructions to the freight forwarder for shipping the goods as well as a request for freight quote if needed.

Participants:
Seller/Exporter
Freight Forwarder

Documents:
Freight Quote Request
Shipper's Letter of Instruction

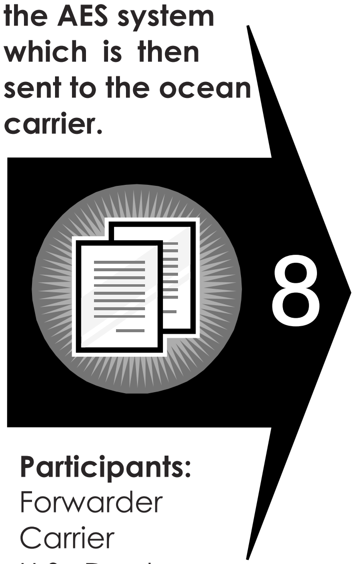
The Transaction

The freight forwarder books space with an ocean carrier (and inland carrier if requested by the shipper). When the booking is made, the carrier assigns a booking number to identify the shipment.

Participants:
Forwarder
Carrier
Inland Trucker

Documents:
Shipper's Letter of Instruction
Booking Confirmation

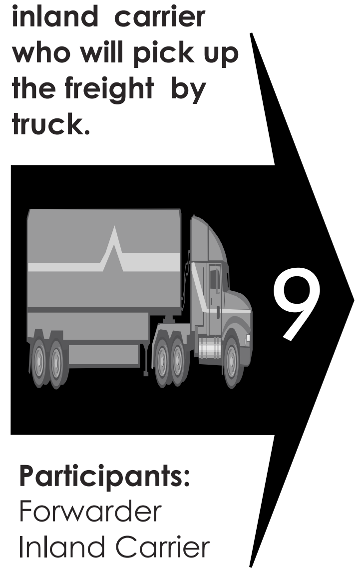
Freight forwarder prepares and submits a master copy of the bill of lading and a Shipper's Export Declaration (SED) is transmitted electronically via the AES system which is then sent to the ocean carrier.



Participants:
Forwarder
Carrier
U.S. Dept. Commerce

Documents:
Shipper's Export Declaration
Bill of Lading

Freight forwarder transmits an inland bill of lading and delivery instructions to the selected inland carrier who will pick up the freight by truck.



Participants:
Forwarder
Inland Carrier

Documents:
Inland Bill of Lading

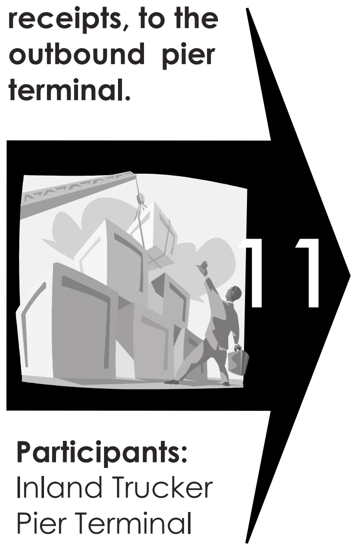
… in Action Continued

The inland carrier picks up the cargo at the specified location and issues a cargo receipt or truck bill of lading copy to the seller/exporter.

Participants:
Seller/Exporter
Inland Carrier

Documents:
Inland Carrier Bill of Lading
Cargo or Dock Receipt

The cargo is delivered, along with a set of prepared dock receipts, to the outbound pier terminal.



Participants:
Inland Trucker
Pier Terminal

Documents:
Inland Carrier Bill of Lading
Carrier Receipt

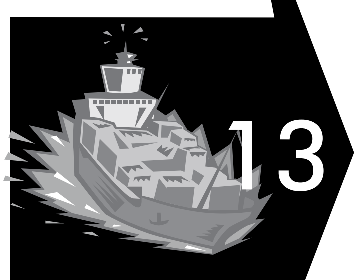
After taking delivery of the cargo, the outbound terminal gives a signed copy of the dock receipt to the inland carrier and a another copy is sent to the ocean carrier's office.

Participants:
Pier Terminal
Inland Carrier
Ocean Carrier

Documents:
Dock Receipt

The Transaction

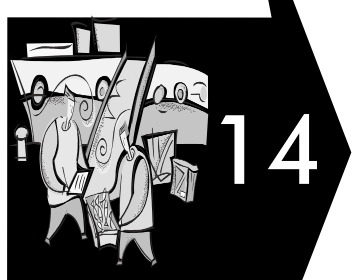
Ocean carrier's office matches the dock receipt with the booking number and prepares a loading stowage plan.



Participants:
Ocean Carrier
Pier Terminal

Documents:
Dock Receipt
Stowage Plan

The cargo is lifted aboard and stowed on the vessel according to the stowage plan.



Participants:
Pier Terminal
Ocean Carrier

Documents:
Stowage Plan

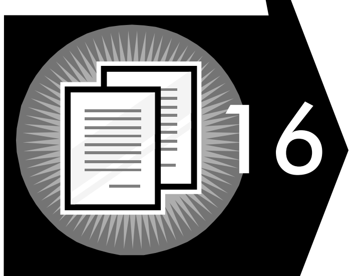
After cargo has been loaded on the ship, the terminal sends the invoices for stevedoring and wharfage to the outbound carrier's office.

Participants:
Ocean Carrier
Pier Terminal

Documents:
Invoice

… in Action Continued

Outbound carrier's office issues an ocean bill of lading with on-board certification, to the seller/ exporter's freight forwarder (if required). The bill of lading is a negotiable instrument and acts as title to the goods.



Participants:
Seller/Exporter
Freight Forwarder
Inland Carrier

Documents:
Ocean Bill of Lading

Upon receipt of the due bills from the outbound carrier's office, the seller/ exporter's freight forwarder pays the amounts due (if not prepaid).

Participants:
Ocean Carrier
Freight Forwarder
Seller/Exporter

Documents:
Pier Terminal Invoices

If the sale indicates the shipper is responsible for all transportation costs, and the shipper has not prepaid, the freight forwarder will collect payment from the shipper in exchange for the transportation documents.

Participants:
Freight Forwarder
Other Responsible Party for Payment

Documents:
Bill of Lading

The Transaction

Exporter submits the documents required for collection of payment as stated in the letter of credit, typically a negotiable bill of lading, an invoice, an insurance certificate, and a customs invoice, as necessary to the bank.

Participants:
Seller/Exporter
Seller/Exporter's Bank

Documents:
Commercial Invoice
Bill of Lading
Packing List and Bank draft

The banks review the documents to ensure that there are no discrepancies. Upon document acceptance, the seller/exporter is paid in accordance with the letter of credit. Documents and debit invoice are transmitted to consignee's bank.

Participants:
Seller/Exporter's Bank
Buyer/ Importer's Bank

Documents:
Any Documents Required by the Letter of Credit

A non-negotiable copy of the bill of lading is sent to the consignee/ importer/buyer as notification that the cargo was shipped.

Participants:
Banks

Documents:
E-mail or Fax Confirming Shipment and Carrier Information

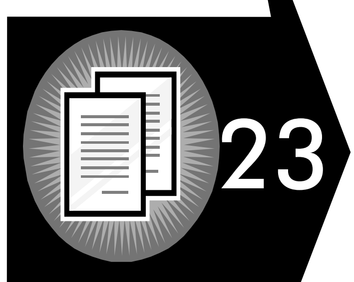
… in Action Continued

After the vessel has sailed, the manifest, freight bills (if sent freight due), delivery receipts, container list, and arrival notice are sent to the carrier's overseas office.

Participants:
Carrier's Inbound and
Outbound Offices

Documents:
Manifest, Bill of Lading,
Commercial Invoice, Packing List
Delivery Receipts

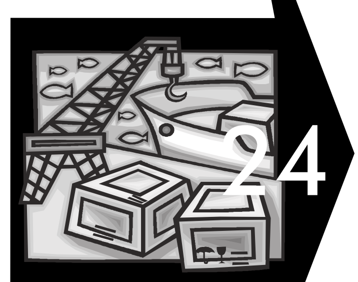
Within 4 working days of the vessel's clearance, U.S. Customs receives a non-negotiable bill of lading copy with the shipper's export declaration.



Participants:
Carrier
US Customs

Documents:
Bill of Lading
Export Declaration

Copies of the manifest are provided to the inbound pier terminal.



Participants:
Outbound Carrier
Inbound carrier
Pier Terminal

Documents:
Manifests

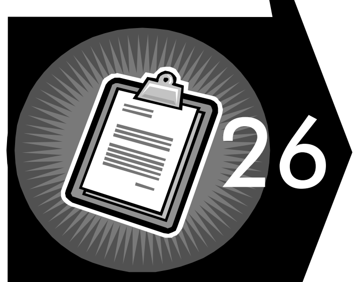
The Transaction

Bank releases documents to the buyer/ importer against payment of the invoice amount.

Participants:
Banks

Documents:
Bill of Lading
Commercial Invoice
Packing List

Before the ship's arrival, the carrier's overseas office issues an arrival notice and invoice covering the ocean freight and other charges due if freight charges are for the buyer's account.



Participants:
Carrier
Buyer/Importer

Documents:
Arrival Notice

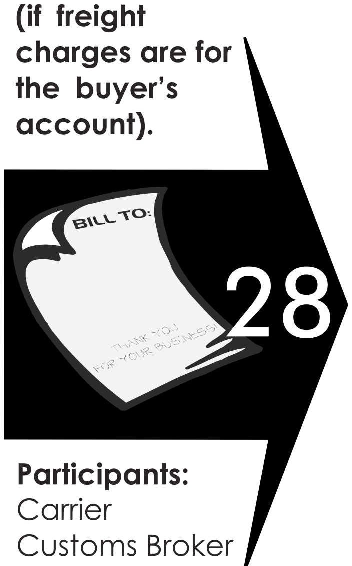
Buyer sends the documents, arrival notice, invoice, and forwarding instructions to its Customs broker.

Participants:
Customs Broker
Buyer/Importer

Documents:
Bill of Lading
Commercial Invoice

… in Action Continued

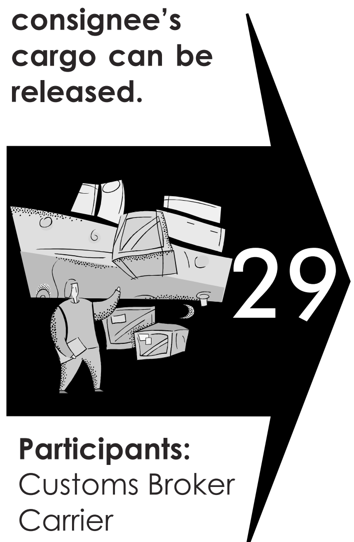
Customs broker presents the endorsed negotiable bill of lading to the inbound carrier's office as proof of title to the goods, and pays the ocean freight (if freight charges are for the buyer's account).



Participants:
Carrier
Customs Broker
Pier Terminal

Documents:
Bill of Lading
Commercial Invoice

Upon receipt of freight due (if a collect shipment) and the negotiable bill of lading, the carrier releases the cargo to the Customs broker. The carrier's office notifies the inbound pier terminal that the consignee's cargo can be released.



Participants:
Customs Broker
Carrier
Pier Terminal

Documents:
Bill of Lading

Customs broker submits a Customs entry to local Customs office with the proper documents and duties due for clearance in accordance with local regulations.

Participants:
Customs Broker
US Customs
Gov't Agencies

Documents:
Any as Required

The Transaction

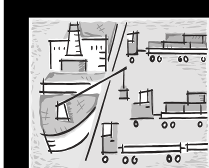
Customs office reviews the documents and may decide to inspect the shipment. Once it is satisfied that the shipment is in compliance with the laws, Customs office may authorize the release of the cargo to the customs broker.

31

Participants:
Customs
Bonded
Warehouse
Trucker

Documents:
Customs Form
7501

The Customs broker issues a delivery order to the inbound pier terminal authorizing delivery of the cargo to the designated inland carrier. Also issues a bill of lading to carrier.



32

Participants:
Inland Carrier
Customs Broker
Pier Terminal

Documents:
Delivery Order
Inland Carrier Bill of
Lading

Inland Carrier picks freight up at inbound terminal, delivers to buyer and submits invoice. Customs broker then presents final invoice with any outstanding charges to the buyer.

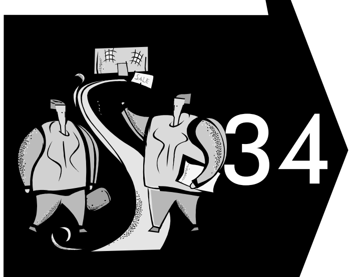
33

Participants:
Customs Broker
Inland Carrier
Pier Terminal
Buyer

Documents:
Invoices

… in Action Continued

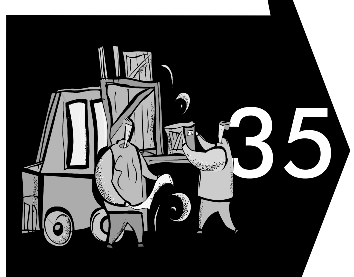
Buyer sells product to retail distributor.



Participants:
Buyer
Distributor

Documents:
Domestic Invoice
Dock Receipt
Truck Bill of Lading
Packing List

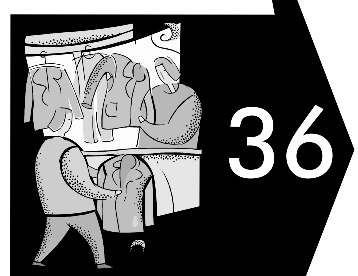
Retail Distributor disperses merchandise to its stores.



Participants:
Retail Distributor
Retail Store

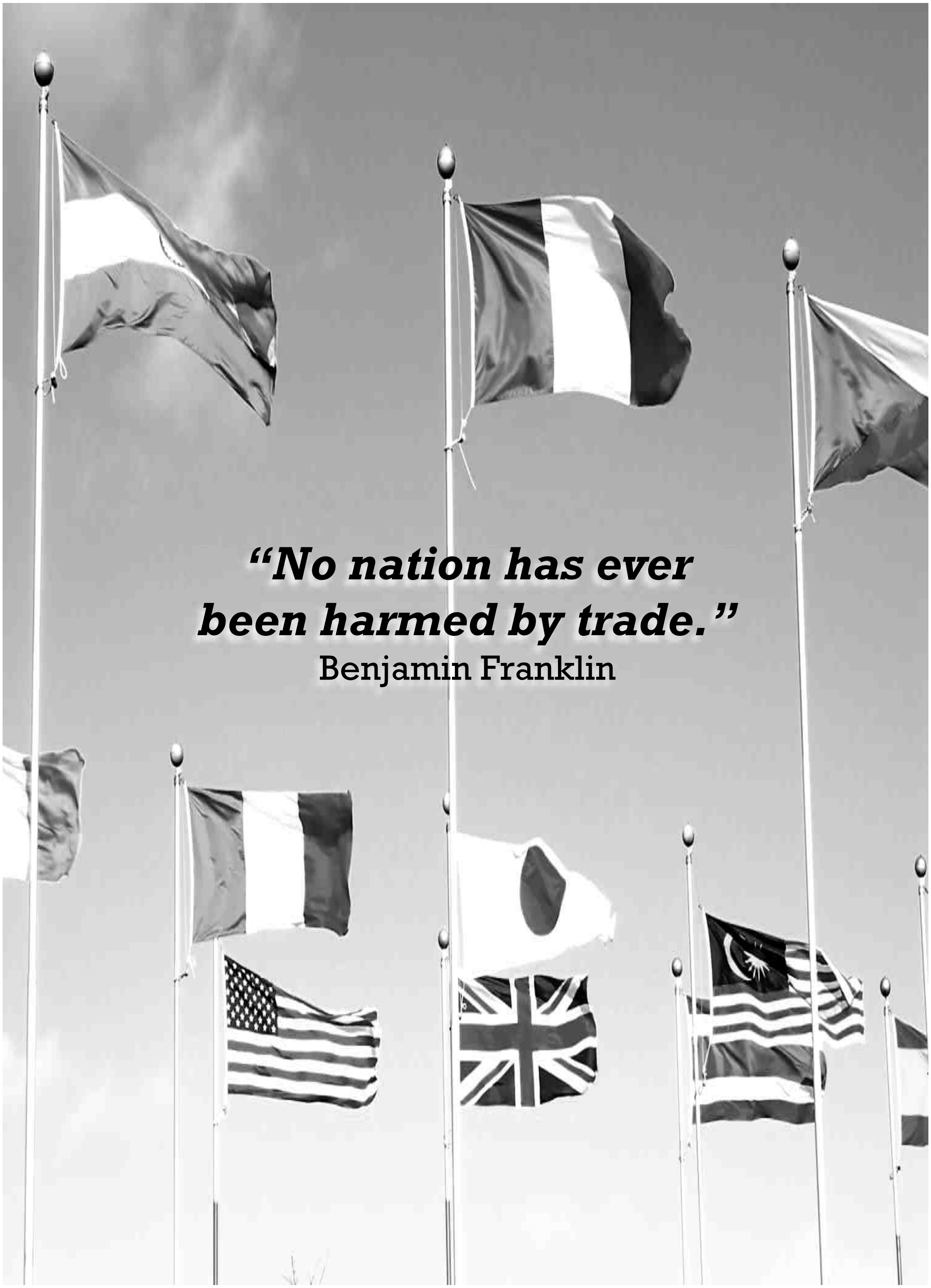
Documents:
Truck Bill of Lading
Packing List

End user (you, the customer) purchases merchandise from the retail store.



Participants:
Retail Store
End User

Documents:
Retail Receipt


"No nation has ever
been harmed by trade."
Benjamin Franklin