CERTIFIED GLOBAL BUSINESS PROFESSIONAL

Exam Prep Study Guide

NASBITE
INTERNATIONAL
Advancing Global Business

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Introduction

NASBITE International is a non-profit 501(c)3 corporation organized under the laws of Ohio. Established over 30 years ago as an association of North American Small Business International Trade Educators (NASBITE), NASBITE has become the leading U.S. organization supporting training and education in the field of global business. We are a professional organization of educators, trainers, service providers, and practitioners and our mission is "to advance global business practice, education, and training".

The CGBP "Practice Delineation" is the foundational reference document that articulates the trade skills certified through the attainment of the NASBITE Certified Global Business Professional (CGBP) credential. It is comprised of four top-level domains along with supporting task and knowledge statements and five threads, which represent topics that cut across all four domains.

Top Level Domains	Threads (topics that cut across all four domains)
1. Global Business Management 2. Global Marketing 3. Supply Chain Management 4. Trade Finance	a. Documentation b. Legal & Regulatory Compliance c. Intercultural Awareness d. Technology e. Resources

The CGBP is designed to meet the needs of individuals working in the profession or studying for a career related to global commerce. Candidates from both small and large companies will benefit as will students in two-year or four-year post-secondary programs. The credential is also suitable for individuals working in trade assistance organizations, trade promotion agencies, and related educational institutions.

Candidates receiving the NASBITE CGBP designation may use the credential logo and wordmark on resumes and business cards identifying them to employers and the public as individuals proficient and current in global commerce. For companies, the credential establishes a professional development goal for current and future employees. The credential also helps individuals diversify their skills in global commerce and assure they understand a broad range of topics rather than just the specific field within international trade where they have experience.

This document consists of content that is aligned with the four domains – Global Management, Global Marketing, Global Supply Chain, and Trade Finance - found with the CGBP Practice Delineation. These domain summaries are intended to serve as a CGBP Exam Preparation supplement, with content that addresses all of the knowledge statements found in the CGBP Practice Delineation document.

Note that this document is not intended to serve as a standalone study guide. Rather, it is best used as a supplement to augment training or other resources that can more fully speak to the task statements that are found in the CGBP Practice Delineation. The study guide content has been designed to ensure that those who are planning to sit the CGBP exam have an appreciation for the full scope of the resources, references, and content that is described within the CGBP Practice Delineation document. If you are planning to sit the CGBP, we hope that you find this aggregate study guide helpful.

Any identified errors, omissions, or questions should be sent to Ask.The.Expert@nasbite.org (responses will generally be sent within 24-48 hours).

Supply Chain Management – Domain III

Task 3.1 - Optimize supply chain solutions to meet the requirements of the international business plan including evaluation of all modes of transportation, inventory, time to market, landed costs, and customer requirements

Knowledge of:

- (i) All transportation modes and costs
- (ii) Trade agreements, free trade zones, and use of regional value content
- (iii) Duties and how to read the Harmonized Tariff Schedule [HTS] duty rate table, duty drawback, taxes, and quotas
- (iv) Product classification regimes (e.g., Harmonized Tariff Schedule [HTS], Schedule B)
- (v) Security issues (e.g., Container Security Initiative [CSI], Customs-Trade Partnership Against Terrorism [C-TPAT], warehouse security issues, Customs and Border Protection)
- (vi) Where to find legal/regulatory packing requirements
- (vii) Non-regulatory packing requirements (e.g., preservation of cargo, types of containers, packing materials)
- (viii) Insurance, transportation liability regimes, and demurrage
- (ix) Resources (e.g., freight forwarders, trade associations, Internet resources)

In the “Supply Chain Management” domain, CGBPs are expected to be able to optimize supply chain solutions to meet the requirements of the international business plan including evaluation of all modes of transportation, inventory, time to market, landed costs, and customer requirements.

(i) International Transportation (Modes and Costs)

International transportation can be as simple as shipping goods in a truck from one facility in one country to a waiting customer in another country. However, companies that are shipping goods are located all over the world and customer locations are equally diverse, so an international shipment can involve multiple modes of transport. The goal is usually to move the goods in a cost-efficient manner while still adhering to deadlines that are associated with the delivery of the product. For this reason, multiple modes of transport may be used and each of the different modes has its strengths and weaknesses. The costs associated with each of the different modes can also vary.

The four primary modes of transport in international business are:

- (i) Truck
- (ii) Ship
- (iii) Rail
- (iv) Air

When a company arranges to have its goods moved under a single contract using a combination of two or more of these modes of transport, it is called **Multimodal shipping**. When an importer and exporter each coordinate a part of the shipping and they organize goods to be moved using two or more of these modes of transport (under separate contracts), it is called **Intermodal shipping**. For example, if an exporter arranged for a shipment of the company’s goods from the factory to a nearby port by truck and then onward to another country by ship, this (truck + ship) would be multimodal shipping. If an importer at the other end of the transaction independently arranged for the goods to be further moved by rail from the port to the destination (truck + ship, under one contract) + (rail, under another contract), this would be referred to as intermodal shipping. Most multimodal and intermodal transport arrangements that don’t involve air transport make use of shipping containers because the standardized size of shipping containers is easily accommodated by trucks, ships, and rail.
The main differences between these different modes of shipment are as follows:
Road

Trucks are a highly popular mode of shipping, mainly because of the speed and flexibility (for pickup and drop-off) that is possible when goods can be moved entirely by land. If only land transport is needed, trucks of many different sizes are also available. When other modes of shipping are going to be involved, trucks can add a chassis that is specifically fitted to carry a container (instead of a normal road trailer), which then can be transported by rail or ship without having to handle the goods inside.

Ocean Freight

Ocean freight is quite inexpensive, and many ocean routes have frequent and regular service, making shipping by the ocean a very popular mode of transport for most international shipments. Watch this short video (10 min) about container shipping (to get a better understanding of why ocean shipping by containers is so popular.

Shipping containers are mostly standardized in size and are either 20' or 40' in length. Although there are other sizes and configurations as well (read this brief blog on the topic). Most companies fill a container for the greatest economies of scale. This is known as FCL (Full Container Load) shipping. However, some companies that want to ship only a small amount of cargo opt for LCL (Less than Container Load) using a freight consolidation service. The LCL option is usually slightly more expensive and may involve delays while the freight consolidation company finds other customers with LCL goods that need to go to the same destination (to help fill the container).

Cars and other forms of wheeled cargo are often shipped on special RORO (Roll-on, Roll off) ships that are configured for vehicles. While bulk carriers are specially designed to carry unpackaged bulk cargo (e.g., wheat, grains, coal, etc.).

Rail

Rail is the least expensive form of land transportation and railcar chassis are available to handle shipping containers. However, rail schedules are not nearly as flexible as trucks, and rail cargo can only be loaded and offloaded at designated locations, which do not always coincide with customer needs. For this reason, rail is used less frequently than trucking, but it can work well for customers that have rail siding and it is sometimes also combined with trucking to lower overall costs while still meeting customer needs.

Air Freight

Air shipping is the fastest way to ship cargo, but it is extremely expensive in comparison to other modes of transport. Air shipping is best suited to small, lightweight, and expensive goods and not particularly well suited to anything bulky and low cost. It is frequently used for anything that needs to be delivered very quickly.

Commercial air freight is transported by a wide range of aircraft which come in a variety of sizes. Air shipments frequently use a unit load device (ULD), which is a pallet or container used to load the freight into an aircraft. ULDs can be easily handled using a forklift or other specialized equipment, which makes loading and unloading an aircraft with cargo much more efficient.

Which is Best?

Ultimately, companies make trade offs related to speed, convenience, reliability, and cost. These decisions can vary by product type and priorities are usually driven by customer needs. To summarize, read this short blog on the tradeoffs that are made when choosing between these various modes of transportation. Also, here is a short article that shows some price comparisons between these various transport modes.

(ii) Trade Agreements

A free trade agreement (FTA) is an agreement between two or more countries that usually aims to reduce or eliminate duties on goods that are being bought and sold by exporters and importers located in the countries that are party to the agreement. The United States has 14 free trade agreements with 20 countries. These agreements are negotiated by specialists at the Office of the United States Trade Representative (USTR).

Regional Value Content

Since goods that are produced in any one country can contain components from other countries, it can be challenging at times for customs authorities to know whether or not goods being shipped from one country qualify for special treatment under a free trade agreement. For this reason, exporters often need to disclose the percentage of the goods that have been produced in the exporter's country. This is called *Regional Value Content***.** For example, under the United States-Mexico-Canada Agreement (USMCA)), which is between Canada, the USA, and Mexico, certain rules require a minimum percentage of regional value content if the goods are to qualify for reduced duties.

Free Trade Zones

Free-trade zones (FTZs) are designated areas within a country where goods can be landed, used in manufacturing, or reconfigured, and then re-exported without any intervention by the local customs authorities (i.e., no duty charged on importation). Typically, FTZs are located near or at a seaport, an airport, or a land border adjacent to another country. In an FTZ, duties are only levied if the goods are sold within the country. If goods are exported directly from the FTZ, no import duties are payable. Here are two short articles (Part 1 and Part 2) on FTZs in Canada and the USA.

(iii) The Harmonized Tariff Schedule (HTS) Duty Rate Table

The Harmonized System (HS) is a standardized numerical system that is used by most customs authorities around the world to classify goods to help them determine duty payable on traded goods. The system is based on a six-digit code at the international level. Product descriptions consist of headings and subheadings, arranged in 99 chapters, and grouped into 21 sections. These six digits can be broken down into three parts. The first two digits identify the chapter the goods are classified in (e.g. 09 = Coffee, Tea, Maté, and Spices). The next two digits identify groupings within that chapter, (e.g. 09.02 = Tea, whether or not flavored). The next two digits are even more specific (e.g. 09.02.10 Green tea (not fermented)). However, most countries then add 4 more digits to create a 10-digit code (i.e., the last four digits are uniquely assigned at the country level and correspond with additional sub-categorizations that the country has decided to use for classification purposes).

From a practical standpoint, this means that most exporters will have to research and find the correct HS code for the product or service being exported. While the first six digits for a given product will be the same for all countries, the last four digits will vary (depending on how the target country has further subdivided the classification at the country level). A common mistake by some exporters is to look up the HS Code using the Harmonized Tariff Schedule in their own country and then that same code gets (incorrectly) used for every country when the goods are shipped. Since the last four digits of the ten-digit code are country assigned, this can easily result in the wrong code being provided to customs authorities in another country.

Tariffs and Duties

*A **tariff** is specifically related to the Harmonized Tariff Schedule. It is the percentage rate that is used to calculate the duty payable. The tariff rate can range from zero percent to a very high percentage, depending on the product and it is identified by its 10-digit Harmonized Tariff Schedule (HTS) code and/or country of manufacture.*

*The **duty** is the amount of money to be paid to the customs authority for the goods being imported. The duty levied is mostly "ad valorem" (i.e., assessed as a percentage of the invoice value). A few countries, such as Hong Kong and Singapore Dubai, Abu Dhabi, and Malta, are essentially "free" ports with no duties on most products. Many developing countries still have high import duties for protectionist reasons. Generally, however, duty rates are trending toward zero or very low for many goods. This is largely the result of World Trade Organization efforts to promote free trade and an increasing number of bilateral or multilateral Free Trade Agreements (FTAs).*

Generally speaking, import tariffs (duty rates) are published by the official customs agency in each country and can also be searched in tariff look-up databases, such as Harmonized Tariff Schedule of the United States (U.S. only) and WTO Tariff Schedules by Country & Product and FTA Tariff Search Tool by Country (foreign countries). The tariff schedules need to be read with these distinctions in mind and because tariff rates can change at any time, it is best to verify any published tariff with a freight forwarder, customs broker, or another authoritative source.

To get a feel for how the HS codes are used to classify goods, take a few minutes and search for "green tea" (using quotation marks) using the Harmonized Tariff Schedule of the United States - link here.

When making this search, note that the tariff schedule uses the product classification combined with the country of origin to assign appropriate duty rates.

Since these tariff classifications can be quite technical, it is advised that exporters spend some time reviewing the tariff schedule in detail while consulting with a customs broker. When an HS code isn't provided to customs authorities, a customs broker may have to intervene and quickly assign an HS code. Since customs brokers focus on expediting shipments that are stuck at the border and given that they are not product experts, this sort of rapid intervention on your behalf may or may not result in the best or most appropriate code being assigned to the goods. Moreover, doing this repeatedly (with a different customs broker intervening each time) can result in an inconsistent classification of goods. Although this may be an innocent procedural error by the exporter, if this happens, it could result in a customs audit at some point and possible fines and/or other penalties.

A careful review of the tariff schedule is therefore highly recommended. At a minimum, the identification of the correct HS Code for each item in each destination country will result in accurate and consistent submissions to local customs procedures. However, a careful review may also reveal ways to legally reduce the duty owed on each transaction. For example, it may be possible to get a lesser duty on a product by reclassifying it into a different category when two definitions are similar (e.g., "doll" vs "toy"). When a tariff categorization appears to be ambiguous, or when a product could seemingly fit into more than one category, most customs authorities are receptive to written arguments or requests for a definitive ruling, and most will quickly issue a decision to resolve the ambiguity. Also, using a process called "tariff engineering," some companies that face an unfavorable tariff with a high duty rate will even make changes to their products to make the product fit into a more favorable tariff classification with a lower duty rate. So, this is not a process to be delegated to a customs broker. Rather, this is a process that should be taken on as a collaborative effort between the manufacturer/producer and a customs broker.

Duty Drawback

Duty drawback is a no-duty approach for products that are being re-exported. When the product is imported, the duty is paid as usual. However, when that item is used to manufacture a product that is being exported, the exporter can apply for a refund or drawback of the original duty that was paid on the imported component(s)/portion. A company can submit paperwork for a duty drawback up to three years in arrears.

Taxes

In addition to duties, many countries charge a **Value Added Tax (VAT)** that is typically between 5-20% of the value of the imported goods. The VAT is paid by the importer.

Quotas

Many countries also impose several non-tariff barriers (NTBs) to control imports. These can take the form of quotas, which are quantitative restrictions that limit the amount of product that can be imported into the country. Other common NTBs include outright prohibitions on certain goods (e.g., considered dangerous or immoral), and restrictions based on health, safety, and other technical "standards" that may require adaptations of the product, labeling, packaging, etc. to comply.

(iv) Product Classification Regimes

The most widely used trade classification systems are the **Harmonized System (HS) Code**, a universal standard; the **Schedule B** and **Harmonized Tariff Schedule of the United States (HTSUSA)**; and the **Standard International Trade Classification (SITC)**, used by the United Nations. Other coding systems may be used to categorize products by industry sector rather than for trade purposes, such as the **North American Industry Classification System** (NAICS), which replaced the **Standard Industrial Classification** (SIC).

- **Schedule B Export Codes** are used only in the U.S. and only for export shipments. The 10-digit Schedule B codes are required entries on U.S. Electronic Export Information (EEI) filings (formerly Shipper's Export Declarations). At the 6-digit level, Schedule B codes are equivalent to Harmonized System (HS) codes.

- **Harmonized System (HS) Codes** were developed in 1989 by more than 60 countries to provide a uniform classification system for export and import statistics and to determine applicable import duties by product. The first 6 digits of an HS number are the same regardless of country.

- **Harmonized Tariff Schedule of the United States (HTSUSA) Codes** are specific to the U.S. for exports (comparable to 10-digit Schedule B codes) and imports (to determine applicable U.S. import duties).

- **Standard International Trade Classification (SITC) Codes** were developed by the United Nations in 1950 for use solely by international organizations for reporting international trade. The SITC has been revised several times; the current version is Revision 3. Trade data is submitted voluntarily by countries so it may be difficult to find the most up-to-date information. For example, in May of 2019, only about 60% of trade statistics for 2018 had been made available.

- **Standard Industrial Classification (SIC) Codes** are organized into 99 Major groups under 9 divisions. Items are classified by industry. The SIC codes are four digits in length and were first established in the United States in 1937. The Codes were revised in 1987 due to the tremendous changes occurring in the economy. Every company falls into a SIC code category based on the industry it operates in. The first two digits of the assigned code are the major group number in the specific division. The third number is from the industry group with the fourth digit being the most specific description. For example, 2521, indicates that first and foremost the company makes furniture and fixtures, the "2" then indicates that it is office furniture, and the final "1" indicates it is wood office furniture. When NAFTA established a code system used by Canada, Mexico, and the United States in 1997, the SIC system lost considerable importance.

- **North American Industry Classification System (NAICS) Codes -** Before the United States- Mexico-Canada Agreement (USMCA) was ratified, Mexico, Canada, and the United States worked together to develop this six-digit system which is used for product classifications of goods moving between these partner countries. As with SIC codes, each number in the string has a specific level of detail within the industry. 20 sectors reflect the first 2 digits of the final code. Adding the third digit indicates which of the 99 subsectors the product belongs to. The remaining three digits are industry related with the four-digit segment the most general information of the industry where the 6th digit indicates the most specific information. See SIC-NAICS Code Concordance to look up SIC or NAICS Codes for specified products.

(v) Security Issues

Security issues have always been important globally but after September 11, 2001, a dramatic increase in awareness in the United States of America occurred. Due to the attacks by terrorists that day, a new set of programs and protocols were initiated. In the process, the movement of goods and services met with more documentation and delays. While The Department of Homeland Security was created to determine threats and how to stop these, the U.S. Customs and Border Protection agency (CBP) carries out the enforcement of the initiatives. Several of the key programs are as follows:

Container Security Initiative (CSI)
Since the announcement of the new program in January 2002, the U.S. Customs and Border patrol agency have refined the inspection process and is working in ports all over the world. Today, CSI is now operational at ports in North America, Europe, Asia, Africa, the Middle East, and Latin and Central America. CBP's 61 operational CSI ports now prescreen over 80% of all maritime containerized cargo imported into the United States.

Three core aspects of the program are in place to protect the United States:

1. The identification of potential high-risk containers that might pose a risk for terrorism is key. The CBP uses information gathered by agencies globally that are aware of shipments by groups or individuals that may have intentions that might hurt U.S. National Security.
2. Containers are prescreened and evaluated prior to being loaded onto vessels destined for United States Ports. The earlier these can be inspected in the supply chain the better.
3. Large-scale X-ray and gamma-ray machines are used to prescreen containers quickly to allow for the most efficient screening process WITHOUT impacting the flow of trade.

Customs-Trade Partnership Against Terrorism (C-TPAT)

The Customs-Trade Partnership Against Terrorism was initiated in November 2001 to also counteract possible terrorist threats in trade. The program was developed with both public and private organizations coming together to set standards and develop the protocols necessary for protecting cargo not only in the shipping process but also in warehouse situations. Cooperation between all segments of the supply chain (both private and regulatory) is required to make this program work. This initiative includes importers, carriers, consolidators, licensed customs brokers, and exporters/manufacturers.

CTPAT
YOUR SUPPLY CHAIN'S STRONGEST LINK.

An organization becomes certified after setting up strict policies and protocols which have been approved by the CTPAT partnership. When an entity joins CTPAT, an agreement is made to work with CBP to protect the supply chain, identify security gaps, and implement specific security measures and best practices. Applicants must address a broad range of security topics and present security profiles that list action plans to align security throughout the supply chain. This network now includes over 11,000 certified partners.

The program is voluntary but has a tremendous amount of benefits for those organizations that make the effort to comply with the program. Within the certification process, partners learn to better identify vulnerabilities and are provided with training and insight into best practices to implement specific security measures. Partners are checked often for compliance. Because of measures required for certification, CTPAT partners are seen as low-risk and are less likely to be examined at a U.S. port of entry than non-CTPAT companies. Accordingly, CTPAT Partners enjoy a variety of benefits, such as:

- Reduced number of CBP examinations
- Front-of-the-line inspections
- Shorter wait times at the border
- Assignment of a Supply Chain Security Specialist to the company
- Access to the Free and Secure Trade (FAST) Lanes at the land borders
- Access to the CTPAT web-based Portal system and a library of training materials
- Possibility of enjoying additional benefits by being recognized as a trusted trade Partner by foreign Customs administrations that have signed Mutual Recognition with the United States
- Eligibility for other U.S. Government pilot programs, such as the Food and Drug Administration's Secure Supply Chain program
- Business resumption priority following a natural disaster or terrorist attack
- Importer eligibility to participate in the Importer Self-Assessment Program (ISA)
- Priority consideration at CBP's industry-focused Centers of Excellence and Expertise

There are six CTPAT field offices where Supply Chain Security Specialists work from a national help desk. A duty officer of the day can be reached by either phone or email. The CBP has a website with details on how to become involved.

Warehouse Security

In addition to the need to protect against trade-related terrorism at entry points, there is also a need to protect inland warehouses from unauthorized access, whether by terrorists or just thieves. Products stored in warehouses not only have monetary value but also include items "controlled" for national security purposes. To protect their financial interest and prevent access by maligned parties, companies can secure the facility in several basic ways, such as by using construction materials that resist break-ins and protect from outside tampering and installing a burglar alarm and video management systems.
Under the CTPAT guidelines, there are Minimum Security Criteria and Guidelines that are required to become a CTPAT partner. Even if not a certified partner, following the best practices and guidelines is wise. It is the Importer's responsibility to verify that all entities in the supply chain have security measures in place. For example, all business partners must develop security processes and procedures consistent with C-TPAT security criteria. Periodic reviews must be carried out by the importer to maintain the standards.

Physical access controls need to be in place for anyone accessing the facilities – as follows:

1. Employees should only be given access to secured areas needed for carrying out specific job requirements. A system to identify the employees should include specific identification badges. Procedures need to be in place for the issuance, use, and removal of identification and be fully documented.
2. Visitors should be documented upon arrival and be escorted and provided with very visible temporary identification.
3. Deliveries (mail included) should have proper identification information with them and be screened before being handled.
4. Physical barriers and deterrents should be provided to guard against access by any unauthorized vehicles or individuals. Unauthorized persons that have gained access without direct permission should be challenged and removed from the premises.

Customs and Border Protection

As early as 1789, the United States government created the U.S. Customs Service which was eventually changed to the U.S. Customs and Border Protection (CBP) on March 1, 2003. At that point, the agency became the nation's first comprehensive border security agency focusing on maintaining the integrity of boundaries and ports of entry. This reorganization of the agency was again due to the awareness of how vulnerable the United States was on September 11, 2001.

The organization now has more than 60,000 employees charged with not only keeping terrorists and weapons out of the U.S. but also facilitating safe and lawful travel and trade. The agency in its new form is now one of the world's largest law enforcement agencies. Any person or product entering the United States from any type of transportation system is subject to the inspection and approval of the CBP.

(vi) Legal/Regulatory Packing Requirements

Many countries and several international organizations have packaging and recycling laws or standards to protect public health and the environment and to protect against damage to goods and packages while in transit. Exporters need to ensure that their packaging materials and packing methods are compliant in both respects. Failure to comply could result in severe penalties and fines for the shipper and sequestration or delays for the entire cargo. The importer could also face costly litigation and reputational damage. The risk is particularly high when shipping hazardous materials and dangerous goods.

The United States has requirements that the Federal Trade Commission both sets and enforces. The Fair Packaging and Labeling Act was enacted in 1967 that requires specific information on the commodity being sold, the name and place of the supplier, and the net quantity of the contents. When shipping quantities of the product to another country there are specific regulations for shipping materials.

Packaging Materials

Export products are typically packed in cartons, boxes, crates, drums, bottles, or bags of various materials (e.g., wood, cardboard, burlap, plastic, glass, etc.). The regulations apply mostly to the materials used for the packaging, particularly materials subject to pest infestation (e.g., wood crates and pallets), adversely impacting the environment (e.g., non-recyclable plastics), or used to ship dangerous goods (e.g., toxic chemicals).

Wood Packaging

Solid wood packaging material (WPM) is regulated under the UN Food and Agriculture Organization (FAO) **International Plant Protection Convention (IPPC).** The IPPC issues the **International Standards for Phytosanitary Measures (ISPMs),** including ISPM 15. This set of regulations is for the prevention of pests being shipped unintentionally that could impact the environment of the importer's country. Approved phytosanitary measures have been set with essential technical justification. The measures adopted are based on the range of pests, the efficacy of the treatment used, and the technical or commercial feasibility to carry out the chosen method.

There are two main methods for treating raw lumber to comply with the regulations. To comply with ISPM 15, all wood must be debarked for use in shipping. Additionally, a stamp must be applied to the packaging to signify treatment as provided by the National Plant Protection Organizations (NPPOs) of importing and exporting countries. To apply the mark, the facility (i.e. pallet manufacturer or recycler, pest control, cargo forwarding, export brokerage) must be certified by an inspection agency. These agencies provide inspection and auditing services to certify that facilities use the treatment mark as stipulated by the American Lumber Standard Committee (ALSC). To find a comprehensive list of agencies, consult the ALSC website.

The roughly 85 countries that participate in the ISPM 15 program only accept and export properly treated and marked WPM. The U.S. Department of Agriculture (USDA) regulates wood packaging material in the United States. An export packing declaration, used for ISPM 15 compliance, specifies the type of packaging materials used to pack the goods. The guidelines cover crates, boxes, packing cases, dunnage, pallets, cable drums, and spools/reels. There are some exemptions due to the lower level of risk of pests being transferred. It is wise to review the standards as a set and not make assumptions.
Non-compliance and emergency actions are outlined in the ISPM 20 and ISPM 13 United Nations Materials guideline. The exporting country and manufacturing country if applicable should be notified.

Environment-related Packaging

The International Standards Organization (ISO) has six global standards to minimize the environmental impact of packaging and harmonize localized approaches.

- ISO 18601:2013 General requirements for the use of ISO standards in the field of packaging and the environment
- ISO 18602:2013 Optimization of the packaging system
- ISO 18603:2012 Reuse
- ISO 18604:2013 Material recycling
- ISO 18605:2013 Energy recovery
- ISO 18606:2013 Organic recycling

The ISO standards are aligned with European CEN standards to promote responsible packaging development. The EU Packaging and Packaging Waste Directive is the main European legislation on packaging and packaging waste. The Directive sets out recovery and recycling targets and deadlines for EU Member States and obliges them to address the recovery and recycling of used packaging. It also contains The Essential Requirements for Packaging that aim to reduce packaging waste. Packaging that meets these requirements is guaranteed free circulation in the European Economic Area. The European Organization for Packaging and the Environment (EUROPEN), an industry organization, guides how to comply with the Essential Requirements (see Understanding the CEN standards on Packaging and the Environment).

Dangerous Goods Packaging

Goods classified as dangerous -- potentially harmful to any person or animal, or that could damage the environment -- must have leak-or break-proof packaging and must be properly marked, labeled, documented, and classified. Dangerous goods fall into nine classifications, each with further subclasses and each requiring its unique label that identifies the potential dangers the goods present and must appear somewhere on the packaging.

- Class 1 Explosives
- Class 2 Gasses
- Class 3 Flammable Liquids
- Class 4 Flammable solids; substances liable to spontaneous combustion; substances which, in contact with water, emit flammable gasses
- Class 5 Oxidizing substances and organic peroxides
- Class 6 Toxic and Infectious substances
- Class 7 Radioactive material
- Class 8 Corrosive substances
- Class 9 Miscellaneous dangerous substances and articles, including environmentally hazardous substances

(vii) Non-Regulatory Packing Requirements

Non-regulatory Packing Requirements

Preserving cargo in transit is a high priority for exporters and foreign buyers and shipping containers are used for most products. The rigid construction of these containers generally protects most shipments from intrusion, but the handling of these containers between modes (e.g., by cranes, port handling equipment, etc.) can cause cargo to be damaged in many ways (e.g., by jolting, vibration, pressure, heat/cold, and contamination from moisture, dust, and dirt). As a result, exporters may take extra precautions (quite apart from any country-specific or international packing requirements or standards) when packing shipments and foreign buyers may even specify their packing requirements in purchase orders or contracts. Either way, it is important to make every effort to use packaging and packing material that has the best chance of protecting the cargo in transit.

Packing Materials

- **Pallets (wood or synthetic)** should be solid and double-decked to adequately support the load during transport and storage. They should have a flat surface and enough capacity to support the load weight. The pallet's design must allow for safe handling by forklifts, cranes, etc., and storage on potentially rough surfaces. The pallets should be covered with shrink-foil or stretch-foil wrapping. For shrink foil, use at least one layer with a thickness of 175 microns. The stretch foil needs at least three layers. All horizontal and vertical corners should be protected with cardboard protection strips. The pallets should be tied on all sides with steel or synthetic straps, at least three straps per side.

- **Cases or crates** need to provide maximum protection against damage, breakage, and pilferage from likely multiple handling by cranes or forklifts in transport and storage. The cases or crates must be made of new, treated wood with a maximum of 18% moisture. Not allowed are used wood or cardboard, bark sides, big knots, tears, or rotten spots. Thickness for sides and top must be at least 12mm at least. For cases and crates where the center of gravity creates a risk to unbalance during handling, the center of gravity should be marked using the international symbol (ISO 7000-0027).

- **Protective packaging within containers.** All packed items that could be loosened by internal movement should be bolted, clamped, or supported by strong beams. Any beams should be fixed under the top cover of any cases or crates to allow for safe stacking and to avoid any compression. Shock-absorbing filling material (e.g., “Styrofil” or “Pelaspanpack”) should be used for any items vulnerable to vibration or shock damage. Not usable as packing or filling materials are straw, hay, wood, wool, or newspaper.

- **Waterproofing.** Airtight bags with sufficient desiccant material (e.g. silica gel) should be used for items subject to moisture damage. If waterproofed packing is needed, the cases including the cover should be internally lined with waterproof paper or plastic foil. The bottom should also be watertight. To better protect against rainfall, items should be packed in self-draining polyethylene or aluminum foil. Fragile and easily damaged loose or spare parts should be packed separately from any equipment but can be enclosed in the main case.

Types of Containers

Dry Storage Containers – The most basic containers are for dry freight and these are the most common type of shipping container in use today. They are referred to as cargo, ISO, freight, shipping, ocean, or sea containers and they are also commonly referred to as “boxes” or “cans”.

Refrigerated Containers – Refrigerated containers (also called “reefers”) are used for temperature-sensitive cargo. These containers rely on a refrigeration unit that is built into the container and powered externally. Diesel generators are used on trucks and rail and ports and ships provide direct electrical power as well. Refrigerated containers can generally be used to maintain very low temperatures and very high (warm) temperatures depending on the need.

Other Types of Containers - Other types of specialized containers include car carriers, open-top containers, flat rack containers, tunnel containers (i.e., can open at both ends), etc. (see this website to get a sense of the range of specialized options).

(viii) Insurance, Transportation Liability Regimes, and Demurrage

Insurance

Any shipment by any mode of transportation runs risks that the cargo will not arrive as specified in the contract, undamaged, or at all, due to any number of potential causes (e.g., –breach of contract, damage in transit, catastrophic loss of the carrier). Various transportation liability regimes have developed under domestic and international law to determine liability and claim procedures in these situations. The negotiated terms of the sale will determine how much of the transaction needs to be insured by the exporter and how much will need to be insured by the importer. In most cases, the shipper or the freight forwarder will contract with an insurance company at your request (on the exporter's behalf) to provide insurance for the goods. Exporters should consult with a freight forwarder to ensure that adequate coverage is obtained, but coverage is generally 110 percent of the CIF (Cost, Insurance, and Freight) value of the shipment.

Transportation Liability

Each transportation mode has its own rules on liability and the filing of claims. Motor, rail, domestic water, international ocean, domestic air, or international air all have different time limits for filing claims and different deadlines for initiating lawsuits if a claim is denied.

- **Ocean cargo liability -** Ocean shipments to and from the U.S. were initially governed by the Carriage of Goods by Sea Act (COGSA), based on an international treaty known as the Hague Rules. COGSA was superseded in 2008 by the United Nations Convention of Contracts for the International Carriage of Goods Wholly or Partly by Sea (AKA the “Rotterdam Rules”). The Rotterdam Rules provide a legal framework that takes into account the many technological and commercial developments that have occurred in maritime transport since the adoption of those earlier conventions, including the growth of containerization, the desire for door-to-door carriage under a single contract, and the development of electronic transport documents. The Convention provides shippers and carriers with a binding and balanced universal regime to support the operation of maritime contracts of carriage that may involve other modes of transport.

- **Air cargo liability -** For international air shipments, the Montreal Convention of 1999 establishes airline liability in the case of death or injury to passengers, as well as in cases of delay, damage, or loss of baggage and cargo. It unifies all of the different international treaty regimes covering airline liability that had developed haphazardly since 1929. A claim must be filed within 14 days of delivery for damage and 21 days for the delay. While the Convention does not provide a time limit for claims for non-delivery, the airlines typically set a limit of 120 days from the issuance of the air bill for notice of non-delivery. The statute of limitations for filing a lawsuit is two years; and under the Convention, the current limit of liability is 19 Standard Drawing Rights (SDRs) per kilo, which translates to approximately $12.95 per pound.

- **Cargo insurance & cargo liability insurance -** Shippers should not rely solely on the carrier's cargo liability insurance, which is very limited. Shippers should purchase their cargo insurance, and for ocean shipments, shippers should specifically consider the addition of "general average" coverage, or have their freight forwarder obtain it.

Insurance Claims - Whatever the mode, when damage occurs, the first step is to file a claim for any transportation-related losses or damage. The claim must be filed with the transportation carrier, not just the insurance carrier. A claim filed with the insurance carrier, rather than the transportation carrier, is not considered a duly filed claim for purposes of meeting the claim filing time limit. The carrier will begin the investigation upon receipt of the claim, and decide whether to pay it, decline it, or offer a compromise amount in settlement.

Demurrage is a transportation liability and cost stemming from delays in unloading cargo at either end.

- **Import cargo.** Demurrage fees are charged when the consignee fails to pick up the cargo within the free time set by the carrier. The free period starts when the container has been discharged from the vessel to the ocean or rail terminal, inland depot, or container yard. Demurrage charges begin after the free time has expired and end the day when the cargo has been picked up and departed from the terminal.

- **Export cargo.** Demurrage charges occur after the loaded export container has been returned to the possession of the steamship line, but cannot be shipped out due to non-carrier-related errors once the allotted free time has expired. For example, if the exporter fails to provide the required export information or documentation in a timely manner, the steamship will be unable to load the container onto the originally scheduled vessel and will roll the container to a new vessel. Demurrage charges would apply for the additional storage period until the container is shipped on board the next vessel.

(ix) Resources

Related Resources
Although product packaging, shipment packing, and containerized shipping can pose special challenges, depending on the product, there are many resources available to help exporters and importers make good choices.

Freight Forwarders – These specialists help exporters by providing a wide range of services such as arranging inland transportation, preparing export documents, organizing warehousing, booking ocean cargo, coordinating multimodal transportation, consolidating freight (as needed), purchasing cargo insurance, etc. The benefit of working with a freight forwarder is that they have a lot of experience with many shipments, and they are often involved in insurance claims, so they can generally provide advice on packaging, packing, and container choices (based on the nature of the product).

Trade Associations – Most industries also have trade associations which are composed of many members that are also involved in exporting. As a result, these associations are a good place to find other companies that have expertise in export shipping. Major associations in the United States that fall into this category include the National Association of Manufacturers (NAM) and the American Association of Exporters and Importers (AAEI).

Internet resources
Advice on cargo insurance and export packing can also be found at www.Trade.gov.

Task. 3.2 - Evaluate and select the potential intermediaries (e.g., carriers – all modes, third party logistics providers [3PL's], forwarders, brokers, contract carriers) necessary to support the international business plan (including evaluation of outsourcing alternatives and/or partners)

Knowledge of:

(i) Major transportation modes and methods (e.g. consolidation and costs)
(ii) Third-party logistics providers (3 PLs)
(iii) Forwarder's role in the transaction
(iv) Customs broker and other service providers
(v) Usage of power of attorney
(vi) Databases available to search for intermediaries
(vii) Resources available in support of intermediary selection (e.g., World Trade Centers [WTCs], local trade associations, state, and federal government).

In this study topic, we are going to focus on transportation modes, freight forwarding, and establishing relationships with service providers and intermediaries. .

(i) Major Transportation Modes

International transportation can be as simple as shipping goods in a truck from one facility in one country to a waiting customer in another country. However, companies that are shipping goods are located all over the world and customer locations are equally diverse, so an international shipment can involve multiple modes of transport. The goal is usually to move the goods in a cost-efficient manner while still adhering to deadlines that are associated with the delivery of the product. For this reason, multiple modes of transport may be used and each of the different modes has its strengths and weaknesses. The costs associated with each of the different modes can also vary.

The four primary modes of transport in international business are:
(1) Truck
(2) Ship
(3) Rail
(4) Air

When a company arranges to have its goods moved under a single contract using a combination of two or more of these modes of transport, it is called **Multimodal shipping**. When an importer and exporter each coordinate a part of the shipping and they organize goods to be moved using two or more of these modes of transport (under separate contracts), it is called **Intermodal shipping**. For example, if an exporter arranged for a shipment of the company's goods from the factory to a nearby port by truck and then onward to another country by ship, this (truck + ship) would be multimodal shipping. If an importer at the other end of the transaction independently arranged for the goods to be further moved by rail from the port to the destination (truck + ship, under one contract) + (rail, under another contract), this would be referred to as intermodal shipping. Most multimodal and intermodal transport arrangements that don't involve air transport make use of shipping containers because the standardized size of shipping containers is easily accommodated by trucks, ships, and rail.

The main differences between these different modes of shipment are as follows:

Road

Trucks are a highly popular mode of shipping, mainly because of the speed and flexibility (for pickup and drop-off) that is possible when goods can be moved entirely by land. If only land transport is needed, trucks of many different sizes are also available. When other modes of shipping are going to be involved, trucks can add a chassis that is specifically fitted to carry a container (instead of a normal road trailer), which then can be transported by rail or ship without having to handle the goods inside. Road transport is relatively low-cost and highly flexible which makes it a very popular choice for ground transport.

Rail

Rail is the least expensive form of ground transportation and railcar chassis are available to handle shipping containers. However, rail schedules are not nearly as flexible as trucks, and rail cargo can only be loaded and offloaded at designated locations, which do not always coincide with customer needs. For this reason, rail is used less frequently than trucking, but it can work well for customers that have rail siding and it is sometimes also combined with trucking to lower overall costs while still meeting customer needs.

Ocean Freight

Ocean freight is quite inexpensive and many ocean routes have frequent and regular service, making shipping by the ocean a very popular mode of transport for most international shipments. Watch this short video about container shipping (10 min) to get a better understanding of why ocean shipping by containers is so popular.

Shipping containers are mostly standardized in size and either 20’ or 40’ in length. Although there are other sizes and configurations as well (read this brief blog on the topic). Most companies fill a container for the greatest economies of scale. This is known as FCL (Full Container Load) shipping.

Cars and other forms of wheeled cargo are often shipped on special RORO (Roll-on, Roll-off) ships that are configured for vehicles. While bulk carriers are specially designed to carry unpackaged bulk cargo (e.g., wheat, grains, coal, etc.).

Air Freight

Air shipping is the fastest way to ship cargo, but it is extremely expensive in comparison to other modes of transport. Air shipping is best suited to small, lightweight, and expensive goods and not particularly well suited to anything bulky and low cost. It is frequently used for anything that needs to be delivered very quickly.

Commercial air freight is transported by a wide range of aircraft which come in a variety of sizes. Air shipments frequently use a unit load device (ULD), which is a pallet or container used to load the freight into an aircraft. ULDs can be easily handled using a forklift or other specialized equipment, which makes loading and unloading an aircraft with cargo much more efficient.

Contract Carriers

While many transportation companies serve as carriers that are accessible to the general public, some carriers act exclusively under contract and serve shippers with whom they have a continuing contract. For example, some large multinational freight forwarding companies will secure the exclusive services of a contract carrier for ocean shipping at a fixed fee (effectively purchasing all of the carrier’s shipping capacity for certain negotiated routes and a specific period of time) and then they resell that shipping capacity at a higher price to their clients. This term is also used on a smaller scale as well. For example, some smaller companies such as independent trucking companies will sign exclusive, long-term contracts with larger shipping companies that provide trucking services. The term contract carrier simply means that the carrier is operating under an exclusive contract to a single entity rather than making its services directly available to the general public.

Consolidators

Although a large percentage of goods being shipped internationally are shipped in Full Container Load (FCL) quantities, there is an occasional need for Less than Container Load (LCL) quantities. Manufacturers/producers that secure contracts to provide smaller quantities of goods can still make use of containerized shipping by opting for freight consolidation. Consolidated freight services are offered by companies that serve clients by combining multiple LCL shipments destined for the same location into a single container. In general, the cost for consolidated freight is more expensive (per LB/KG) than shipping a full container load of goods (per LB/KG), but the total cost for an LCL shipment using consolidated freight is generally less than it would be to ship a single container (i.e., with only a small amount of goods in the container). Also, consolidated shipments usually take longer than shipping a single container directly, because freight consolidators need time to aggregate the needs of multiple clients who have small shipments that are destined for the same location.

(ii) Third-Party Logistics Providers (3PLs)

A 3PL is a company that offers logistics services to manufacturers and producers. 3PL services can involve the outsourcing of one or more elements of the supply chain management activities of a company, such as procurement and fulfillment (e.g., warehousing, shipping, and delivery). In some instances, 3PL services are offered by narrowly scoped logistics businesses but increasingly, 3PL companies are offering bundled services that allow companies to outsource a considerable portion of their supply chain management activities. To better understand the scope of these services, watch this short video (8 min) that highlights "Best Practices for Choosing and Using a 3PL."

(iii) Freight Forwarders

A freight forwarder (also commonly referred to as a forwarder, or forwarding agent) is a person/company that organizes shipments for companies to help them ship the goods from their location to the final destination. Freight forwarders can be thought of as professional shipping assistants since they generally act as an intermediary and expediter between a shipper and various transportation providers (e.g., ocean carriers, trucking companies, air freight, rail carriers, etc.). Freight forwarders also organize and monitor port-related activities and help exporters understand/navigate fees and transportation-related regulatory hurdles. Here is a short (4 min) video that explains the role of freight forwarders in exporting.

(iv) Customs Brokers

Customs brokers are professionals who work at border locations around the world to help companies by expediting their shipments when customs officials need anything related to the specifics of the shipment. They can assist exporters with the preparation of import or export documents and they are experts in the assignment of Harmonized System classification codes (which are used to determine the duty payable on a shipment). They can also assist with rules and regulations that are related to the clearance of imported or exported goods. Customs brokers submit information and payments to the customs authority on behalf of the exporter.

(v) Power of Attorney

A Power of Attorney (POA) is a legal instrument that permits one person to authorize another person to act on their behalf for a specified legal purpose for a fixed time period. There are different types of POAs and different authentications required, depending on a) the particular purpose specified, and b) where the power is intended to be exercised (e.g., in a particular U.S. State or foreign country). A typical POA used in shipping is for an exporter to grant a freight forwarder the authority to handle legal and financial aspects of delivering the goods, such as preparing documentation, selecting the carrier, negotiating rates, and booking cargo. A POA must be signed by an officer of the company making the shipment. Similarly, companies that are using a customs broker to clear goods through customs (across any border) typically give POA to the customs broker who is handling the shipment so they have authority to act on behalf of the company, even though they are not a company official.

(vi) Databases

International logistics intermediaries play a critical role in the movement of goods from a source point (e.g., the factory) to an ultimate destination. Intermediaries typically specialize by function – storage, pickup and delivery, and packing, loading, and booking the cargo. Most companies that produce the goods, unless very large, generally lack the in-house capability to perform these functions cost-effectively or at all, and so outsource them to the intermediaries, such as warehouse providers, international customs brokers, freight forwarders, and providers of 3PL if at services.

These intermediaries can be found in various free online databases and directories, including Yellow Pages or a Google search by type of intermediary, industry association membership lists (e.g., NCBFAA Membership Directory), and specialized functional directories (e.g., Directory of Freight Forwarding Services and 3PL Finder). Bear in mind that companies that are identified using these methods still need to be vetted to see if they are the right fit. Companies should always exercise due diligence in selecting intermediaries or any business partner.

(vii) Other Resources

Selecting the "right" intermediary involves first identifying the prospects and then vetting them to determine which can best meet the need. The need can be functional (e.g. warehousing or freight forwarding generally) or a specialty within the function (e.g. handles refrigerated or toxic items or specializes by country or product). The "right" intermediary must also be a quality performer at whatever it does (reputable, reliable, etc.). A number of organizations can help with intermediary identification and referral, but they are generally "neutral" as to their members and will not recommend any particular provider.

World Trade Centers (WTCs) have offices in most major cities around the globe. These organizations are members of the Word Trade Center Association (Headquarters in New York City) and some are involved in the provision of trade services and trade promotion. However, some WTCs only use the World Trade Center trademark and name as a strong brand to attract real estate tenants to their office tower/complex. Only a small percentage of WTCs worldwide (roughly one-third) have a trade office that is focused on serving a local membership that is focused on international trade. It is therefore important to first determine whether any given WTC has an active office that is focused on trade services (e.g., trade training, trade research, trade missions, trade promotion, etc.) before reaching out to them for assistance. If the WTC has a trade office, the staff in that office will likely be able to assist with referrals to credible service providers.

Local Trade Associations, such as the Los Angeles Customs Brokers & Freight Forwarders Association (LACBFFA) and its regional equivalents, have directories of members that perform intermediary functions. These associations might be willing to provide a tailored list of candidates with the specializations sought.

State and Federal Government Agencies, such as community-based international trade assistance centers, Small Business Development Centers (SBDCs), and U.S Commercial Service International Trade offices, are not specialists in logistics and would more likely refer companies seeking intermediaries to the local WTC or trade association for that purpose.

The company searching for intermediaries should list any functional or other specialized needs it has for the service, develop a checklist of qualifications and capabilities sought from the provider, and interview each prospect to find the best fit. The company should also ask the provider for trade references – names of existing clients that could vouch for the quality of their service – and follow-up to get a first-hand assessment of user satisfaction.

Task 3.3 - Complete the documents required for the international movement of products and services

Knowledge of:

(i) Standard export and import documents for goods and services (e.g., proforma invoice, commercial invoice, transport documents, documents relating to services contracts)
(ii) U.S. export regulations for involved countries and seller-buyer document requirements (e.g., Bureau of Industry and Security [BIS], Office of Foreign Asset Control [OFAC])
(iii) U.S. import regulations and sources for involved countries (e.g., Customs and Border Protection, Animal and Health Inspection Service [APHIS])
(iv) Incoterms (e.g., ExW - ExWorks, Free Carrier, FOB - Free on Board, CIF – Cost Insurance and Freight, CIP -Carriage and Insurance Paid, DDP - Delivery Duty Paid, etc)
(v) U.S. legal and regulatory requirements regarding documentation for goods/services (e.g., export/import control regulations, export declaration)
(vi) Where to find foreign language documentation requirements when applicable
(vii) The technology available for document completion (e.g., Automated Commercial Environment [ACE], Automated Export System [AES], Simplified Network Application Process Redesign [SNAP], private sources)
(viii) Offshore legal and regulatory requirements regarding documentation for goods/services (e.g., certificate of origin, sanitary certificate, export/import control regulations)
(ix) Country of origin determination

In this study topic, we are going to complete the documentation required to ship goods and services internationally. This section will also focus on the technology available to process export licenses and determine the country of origin.

(i) Standard Export and Import Documents for Goods and Services

Export documents are required to export any product from the US to another. Additional documents may vary depending on the product, service, or destination. Common export documents include Electronic Export Information (EEI), proforma and commercial invoices, export packing lists, dock receipts, and bills of lading.

Electronic Export Information (EEI) - The EEI replaced the Shipper's Export Declaration (SED) and is a required U.S. Government filing for all exports valued at $2,500 or more, or $500 or more if shipped by mail. The exporter is responsible for preparing the EEI and the carrier files it with U.S. Customs and Border Protection (CBP) through the AES or AES Direct (Automated Entry System) online system (a free service from Census and Customs).

Proforma Invoice - A pro forma invoice is a formal quotation issued by the seller that details the commitment by the seller to provide specified goods to the buyer at specific prices, along with any other terms and conditions that would apply to an order. Unlike less formal quotations (standard pricing sheets, brief email replies, etc.), this fully detailed form of quotation represents a complete preview of what the commercial invoice will look like if the buyer follows through by submitting a purchase order. Importantly, buyers can use a pro forma invoice for customs purposes (during) importation, especially if a commercial invoice will not be issued by the seller until a later point in the delivery process. Here is a sample pro forma invoice.

Commercial Invoice - This is a bill for the goods from the seller to the buyer. It lists the quantity, weight, unit price, and total price of each exported item, along with other basic transactional information. The buyer may require a commercial invoice and other documents to show the transfer of ownership before releasing payment. Additionally, some governments use Commercial Invoices to assess customs duties. Here is a sample commercial invoice.

Export Packing List - This document describes the quantity and types of packages (e.g., box, crate, drum, carton, etc.) being shipped, along with a description of the contents. A packing list also usually names the seller, the buyer, the shipper, the invoice number, the date of shipment, and the mode of transport. Here is a sample export packing list.

Dock Receipt - This document is issued by a direct ocean freight carrier to acknowledge receipt of an ocean freight shipment at the carrier's pier or shipping terminal. The Dock Receipt is surrendered to the shipping terminal when the delivery is completed. Here is a sample dock receipt.

Bills of Lading - Transport Documents are also required for all shipments by sea or air. The bill of lading is a receipt for freight services. It is the basis of the contract between a carrier and a shipper and also a document of title.

An **Ocean Bill of Lading** (B/L) is for exports by sea only. It is issued by the ocean freight carrier and describes the goods being shipped, the parties to the transaction, and other basic information. A "Negotiable" B/L holds/conveys title to the goods. Transferring title or ownership using this document (i.e., by providing the B/L to the buyer or buyer's bank) is often a critical step to getting paid. When payment has been made in advance, a "Non- Negotiable" B/L (aka Straight B/L) specifies a consignee to whom the goods are to be shipped, but the document itself does not hold/convey title to the goods.

Air shipments use **Airway Bills** which are issued by the air carrier and have formats that vary (depending on the carrier).

Unlike the Ocean Bills of Lading and the Airway Bills which are issued by the carriers, **Truck Bills of Lading** are often prepared by the shipper and provided to the carrier on pickup. A sample truck Bill of Lading can be found here.

Other Documents

Countries may also require additional documents for a variety of purposes, but most often to protect public health and safety or to determine eligibility for trade preferences. The documents most often required for these purposes include consular invoices and the certificate of origin.

Consular Invoice - A few countries still require this document to assure that the exporter's trade papers are in order and the exported goods comply with any laws or trade restrictions. A Consular Invoice must be purchased from the consulate of the importing country. Formats vary by country but typically ask for the same information needed for the Commercial Invoice and Packing List.

Certificate of Origin - Many countries grant trade preferences or restrict imports based on the country where a product originated. A Certificate of Origin identifies the country where the export product was originally manufactured in whole or in part. If the product contains material manufactured, produced, or grown in more than one country, the product belongs to the country where it last went through a substantial transformation. Generally, to qualify, at least 51% of the product's labor and materials must come from the claimed country of origin.

USMCA Certificate of Origin - The United States – Mexico – Canada Agreement (USMCA) grants zero or preferential duty status to U.S., Canadian, and Mexican products traded within the region. A formal Certificate of Origin is no longer required under the USMCA. For most shipments, it is assumed that the products originate in the United States, Mexico, or Canada. In some cases, the importing country may request a written certificate of origin statement. qualify for the preferences. The exporter must be ready to submit the statement if requested. The statement can be handwritten, typed, or attached to the commercial invoice. In some cases, the exporter may choose not to provide a statement and pay the duty required. In that case, the exporter has up to one year to claim the tariff preference. USMCA Certificates of Origin do not need to be certified.

Special certificates of origin may be required to qualify for preferences in countries with which the U.S. has free trade agreements (FTAs). For more information, see the Commerce Department's FTA webinars and information on documenting origin under specific FTAs.

Export documentation may be needed based on the product. Various product-specific certificates may be required by the importing country for health, safety, or quality assurance purposes. Examples include Phytosanitary

Certificates for food and agricultural products; Certificates of Free Sale for medical devices, cosmetics, and pharmaceuticals; and Dangerous Goods Certificate for hazardous materials.

(ii) U.S. Export Regulations for Involved Countries and Seller Buyer Document Requirements

Knowledge of U.S. export regulations for involved countries and seller/buyer document requirements (e.g., Bureau of Industry and Security [BIS], Office of Foreign Asset Control [OFAC] are also important export information for the business to be aware of.

The Bureau of Industry and Security (BISO) is located in the US Department of Commerce. The mission of the BIS is to "advance U.S. national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership" (BIS, 2019).

Notably, BIS promulgates the Export Administration Regulations (EAR), a set of regulations that govern whether a person may export a product or service from the U.S., reexport the product or service from a foreign country, or transfer a product or service from one person to another in a foreign country. Part of the EAR is The Commerce Control List (CCL), a resource that companies can use to determine whether or not an export license will be needed from the Department of Commerce.

The Office of Foreign Asset Control (OFAC) serves under the governance of the US Department of the Treasury. OFAC is the administrator and the enforcer of economic and trade sanctions and goals of national security. These sanctions are created to protect the US against "targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States" (OFAC, 2019). OFAC publishes lists of those companies and individuals that are owned and/or controlled by, acting for, or on behalf of, those targeted countries that U.S. companies should avoid conducting business with. The lists also include individuals, entities, and groups (i.e. Terrorists, narcotics traffickers) that may not be specified in one country. The specific lists referenced by OFAC include:

- **Specially Designated Nationals and Blocked Persons List** - a list of individuals and companies owned or controlled by, or acting for, or on behalf of, targeted countries. It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers designated under programs that are not country-specific. Collectively, such individuals and companies are called "Specially Designated Nationals" or "SDNs." Their assets are blocked and U.S. persons are generally prohibited from dealing with them. (Treasury.gov, 2019)

- **Consolidated Sanctions List** – a compilation of all non-SDN sanctions lists in a consolidated set of data files (link here)

- Additional OFAC Sanctions Lists (link here)

These lists above are kept up to date and are posted on the US Treasury website https://www.treasury.gov. OFAC also provides US companies guidance on sanctions-related issues.

(iii) U.S. Import Regulations and Sources for Involved Countries

Lastly, international businesses should be knowledgeable of U.S. import regulations and sources for involved countries (e.g., Customs and Border Protection, Animal and Health Inspection Service [APHIS]). Customs and Border Protection's (CBP) mission is to "protect the American people, safeguard our borders, and enhance the nation's economic prosperity. (CBP, 2023)

Importers must therefore assure that merchandise complies with other agencies' requirements (e.g., FDA, EPA, DOT, CPSC, FTC, Agriculture, etc.) and obtained licenses or permits, if required, from them.

For example, the Animal and Health Inspection Service [APHIS] provides information on U.S. import regulations and sources for import-related. APHIS ensures that both importers and exporters keep the U.S. agricultural industries free from disease and pests. Items of interest for regulation purposes for imports include plants and plant products, organisms and soil, animal or animal products, organisms, and vectors, veterinary service forms, and importing dogs into the U.S. for resale. For more information on the functions of APHIS, please see this short video.

For more information on importing, refer to "Importing into the United States - A Guide for Commercial Importers," a document provided by the CBP.

(iv) Incoterms

Incoterms is an acronym for International Commercial Terms, which were developed by the International Chamber of Commerce to specify international transportation costs and liability for the cargo from a named start point to a named endpoint. The foreign buyer typically specifies the desired Incoterm when requesting a price quote. For example, the buyer may quote me a price from your factory, or a port of exit, or to the destination country. The agreed-upon Incoterms should be specified in all appropriate documentation for the transaction, such as in Proforma invoices, Letters of Credit, etc., to indicate the point at which title will pass and liability for the cargo will be incurred. There are eleven Incoterms which are categorized into two groups based on the mode of transport. Group 1 Incoterms include any mode of transport whereas group 2 Incoterms apply only to sea and inland waterway transport. Some of the more frequently used INCOTERMS can be explained as follows:

· **EXW (Ex Works)** at a named point of origin, such as your factory or warehouse. The EXW price is essentially your domestic selling price, excluding delivery costs. Under this term, the buyer agrees to take possession of the goods at the named point of origin. The buyer would then bear all costs and liabilities to get the goods from that point to the importer's port and through customs, including payment of any import duties and taxes.

· **FAS (Free Alongside Ship)** at a named port of export (e.g., FAS Port of Los Angeles). This includes the EXW price, plus your costs to transport, unload, and deliver the goods alongside the departing vessel or aircraft. The buyer covers the cost to load the goods onto the carrier, plus all the cargo insurance and transportation costs to get the goods from that point to the importer's port and through customs, including payment of any import duties and taxes.

· **FOB (Free On Board)** at a named port of export (e.g., FOB Port of Los Angeles). This includes the FAS cost, plus the cost to load the goods onto the carrier. The buyer pays for cargo insurance, transportation to the destination, and any applicable import duties and taxes.

· **CIF (Cost, Insurance, Freight)** to a named overseas port of import (e.g., CIF Singapore). This includes all FOB costs, plus all cargo insurance and transportation costs to the foreign port. The buyer pays only the import duties and taxes to clear customs.

· **DDP (Delivered Duty Paid)** to a named place of destination (e.g., DDP Singapore). This includes all CIF costs, plus any applicable import duties, taxes, and other costs to clear the goods through customs. In effect, DDP is the "landed cost" to the foreign buyer.
The Incoterms are managed by the International Chamber of Commerce and updated regularly. See **Incoterms 2020** and this short video on Incoterms for a complete list of the most recent version of Incoterms, their definitions, and the risks and responsibilities of each party.

(v) U.S. Documentation Requirements

The U.S. has many legal and regulatory requirements for export as well as import documentation. To comply, U.S. exporters and importers, or their designees (freight forwarders or customs brokers), must file the necessary documents prescribed for each regulation.

This Trade.gov page outlines the Documentation requirements for Export Compliance. For reporting purposes, the US Census Bureau places this responsibility of *The U.S. Principal Party in Interest (USPPI)* which is the person in the United States who receives the primary benefit, monetary or otherwise, of the export transaction. The required documents are mainly to assure an accurate count of U.S. export statistics, protect national security, and prevent unsafe products from leaving the country. Some of the key documentation requirements are described below:

- **Electronic Export Information (EEI)**. The EEI is a required U.S. Government filing for all exports valued at $2,500 or more, or $500 or more if shipped by mail. This electronic document is used for export control purposes and to compile official U.S. export statistics. Data on the EEI records go to the Census Bureau, the Department of Commerce-BIS or the Department of State-DDTC, and Customs. The EEI must be electronically filed via the AESDirect online system, a free service from Census and Customs. See EEI filing instructions and videos, including Registering for AESDirect, Filing a Shipment in AESDirect, Response Messages from AES, Proof of Filing Citations, AESDirect - The Shipment Manager, and Elimination of the SSN in the AES. All EEI information must be filed before export. The lead time varies depending on the transport mode. Although certain carriers will automatically file AES for you via their shipping software, it is your responsibility to make sure that this requirement has been completed.

- An **Export License** is a document authorizing the export of specific quantities of goods that are to be exported to a particular destination. In the United States, a license may be required for most or all exports to some countries or for other countries under special circumstances.

U.S. export licenses are issued by the Department of Commerce's Bureau of Industry and Security (BIS) for dual-use items; the State Department's Directorate of Defense Trade Controls (DDTC) for defense articles); the Nuclear Regulatory Commission (NRC) for nuclear materials); and the U.S. Drug Enforcement Administration (DEA) for controlled substances and precursor chemicals.

See these videos for details related to export licenses: Export Compliance Introduction, Exporting Commercial Items: ECCNs and EAR99, The Commerce Control List and Self-Classification, and Exporting EAR99 Items: Screening Your Transaction, Lists to Check and Red Flags.

- A **Destination Control Statement,** required by the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations (ITAR), states that the exported goods are subject to U.S. export controls, can only be exported to the country indicated in all the shipping documents (the commercial invoice, ocean bill of lading, or airway bill), and may not be diverted to any other country. The EAR and ITAR versions of the DCS were harmonized into a single DCS form in November 2016. The DCS is generally required for all U.S. exports of items on the Commerce Control List not classified as EAR99 (no license required).

- A **Shipper's Declaration for Dangerous Goods** is required by the International Air Transport Association (IATA) for exports classified as dangerous goods. It is especially important to identify dangerous goods by their proper name and to comply with IATA's packaging, marking, and labeling requirements, which vary depending on the type of product, shipper, and the country shipped to.

- A **Fumigation Certificate**, also referred to as a pest control certificate, is proof that any wooden packing materials used in shipping from the U.S. (e.g., wooden pallets and crates, wood, wool, etc.) have been fumigated or sterilized before transport. Although not always required, this form assists in the quarantine clearance of any goods of plant or animal origin (e.g., agricultural products, used clothing, etc.). The fumigation must be done within 15 days of transport and is typically at the seller's expense.

- An **International Health Certificate (IHC)** is issued by the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) for shipment of live animals and animal products (pets, processed foodstuffs, poultry, meat, fish, seafood, dairy products, and eggs and egg products). Some countries require that the health certificates be notarized or certified by a chamber and legalized by a consulate.

- A **Phytosanitary Certificate** from the Animal and Plant Health Inspection Service (APHIS) is required for all shipments of fresh fruits and vegetables, seeds, nuts, flour, rice, grains, lumber, plants, and plant materials. The certificate must verify that the product is free from specified epidemics and/or agricultural diseases. Additional information and forms are available.

- A **Pre-Shipment Inspection (PSI) Certificate** may be required by an importer or the importing country to assure that the goods are not substandard, defective, or different from what was ordered and that the price reflects the true value of the goods and is not undervalued to avoid full payment of customs duties. If required, the exporter must arrange for a physical inspection by an approved PSI organization in the exporting country. The findings are documented in a PSI inspection certificate. If defects or discrepancies are found, the exporter must take immediate steps to rectify any problems.

Although there are a lot of elements here to consider, watch this short video on Export Compliance to better understand how companies stay on top of all of these requirements. Also, note that this BIS Document is a good reference resource for companies that want to establish an effective export compliance program.

Required Documents for Import Compliance

The required import documents are mainly to enable the U.S. to compile accurate import statistics (total and by-product) and to prevent the entry of dangerous or unsafe goods. Documentary compliance is a two-part process: (1) filing documents needed to determine if Customs & Border Protection (CBP) can release the goods from customs; and (2) filing the documents needed for duty assessment and statistical purposes. Both can be done electronically via the Automated Broker Interface (ABI) program of the Automated Commercial System (ACS).

Upon the arrival of imported goods at the entry port, the importer of record (i.e., the owner, purchaser, or designated licensed customs broker) must file all required entry documents with the port director. For products regulated by other agencies, the importer has the responsibility to contact them in addition to CBP, the enforced agency on their behalf (e.g., FDA for food and drugs, APHIS for animals and plants, ATF for alcohol, tobacco, and firearms; FWS for fish and wildlife products, EPA for motor vehicles, etc.)

- An **Entry Summary** (CBP Form 7501) is needed by CBP to identify, appraise, classify, and determine the origin of the product.

- An **Entry General Manifest** (CBP Form 7533) or **Application and Special Permit for Immediate Delivery** (CBP Form 3461) or other form of merchandise release is required by the port director.
- A **Customs Bond** is required for all customs entries into the U.S. to cover any potential duties, taxes, and charges that may accrue. Bonds may be secured through a resident U.S. surety company but may be posted in the form of United States currency or certain United States government obligations. If a customs broker is employed to make entry, the broker may permit the use of his bond to provide the required coverage. A single bond, valid for only one entry, is typically used by occasional importers. A continuous bond is best (less costly, more convenient) for frequent importers.

- An **Importer Security Filing** (ISF), also known as 10+2, is required only for **ocean shipments**. An ISF must be filed at least **2 days** before the cargo sails from its original location to avoid CBP penalties and fees.

- Other certifications that may be required by U.S. government agencies for the specific products they regulate (e.g., FDA for food and drugs, APHIS for animals and plants, ATF for alcohol, tobacco, and firearms; FWS for fish and wildlife products, EPA for motor vehicles, etc.

(vi) Foreign Language Documentation Requirements

Lastly, it should be noted that many countries have specific language requirements that are legal or regulatory requirements that must be met. To determine what those requirements are for the target market where the goods are being shipped, exporters should consult with the importer who is buying the goods and also contact The U.S. Commercial Service (which has more than 70 international offices) in the country of interest.

(vii) Document Completion Technology

Many different documents are required in international trade - some by the customer, the freight forwarder or customs broker, and/or regulatory compliance agencies at either end. Speed and accuracy are critically important. Challenges include:

- Identifying and completing all the documents needed to satisfy the governments and agencies regulating the transaction
- Producing the documents needed by forwarders, customers, and brokers
- Distributing the correct documents to each appropriate party
- Managing the revision, transmission, and storage of documents
- Tracking document requirements, such as notarization or whether an "official" version is needed
- Establishing and enforcing business processes around document functions
- Generating Safety of Life at Sea (SOLAS) verified gross mass documentation (i.e., the weight of the cargo including dunnage/supports and bracing plus the weight of the container carrying this cargo)

In the current era of technology, there are software systems available to assist with your supply chain requirements. In this section, we will focus on the following three technology software solutions:

U.S. Documentary Compliance Systems

The primary U.S. compliance systems are the Automated Export System (AES), and the Simplified Network Application Process Redesign (SNAP-R).

- **Automated Commercial Environment (ACE)**, is the system through which the trade community reports imports and exports and the government determines admissibility. See the Customs & Border Protection (CBP) "Getting Started" page and ACE Basics page for introductory information about ACE and how to establish an ACE account and begin interacting with ACE.
- **The Automated Export System (AES)** is the system used by U.S. exporters to electronically declare international exports, known as Electronic Export Information (EEI), to the Census Bureau to help compile U.S. export and trade statistics. This information assists in reporting on the position of the U.S. in terms of merchandise trade, and economic indicators and determining the GDP of the U.S. economy. The AES system also serves to provide information to the U.S. Customs and Border Protection (CBP) to ensure compliance and for the interest of homeland security. The reporting of exports is required by law in many cases. AESDirect is the primary filing tool for submitting Electronic Export Information (EEI) to the Automated Export System (AES). When a filer submits their EEI, AES will process the information and, if accepted, respond with an Internal Transaction Number (ITN).

The following parties are the main users of the AES system: U. S. Principal Parties in Interest (USPPIs), Authorized Agents, Service Centers, and Software Developers. The application is hosted on the Automated Commercial Environment (ACE) portal. See the AES User Guide and this census.gov page for more details.

- **Simplified Network Application Process Redesign** (SNAP-R) allows users to electronically submit export license applications, commodity classification requests, reexport license applications, and license exception AGR (Agricultural commodities) notifications. Every applicant who requires authorization to use SNAP-R will be assigned a Company Identification Number (CIN). To submit electronic requests in SNAP-R, an applicant must register with BIS via the online registration process by entering the requested information and agreeing to the stated terms and conditions. See SNAP-R procedures and requirements for more detail.

Commercial Documentary Completion Software

Over the years, many private sources have developed software to simplify and expedite the completion of trade documentation, both for export and import. These tools typically flag the documents needed for each transaction (usually based on the product or destination or source country), generate all the fill-in forms needed for documentary compliance, and enable the exporter or importer to electronically submit the completed forms to their freight forwarders, customers, and the government compliance systems that require these documents. Many vendors share this space – some specialize in export and some in import documentation. Illustrative of each are:

- **Shipping Solutions export software** automates the process of completing more than two dozen standard export forms, printing them out on plain paper or email directly from the software, and filing the export information electronically through the AES. The Export Compliance Module checks what documents are required by the destination country, flags whether an export license is required under the U.S. Export Administration Regulations (EAR), and screens the U.S. restricted party lists to determine if any denied persons or entities are involved in the transaction.

- **Import Solutions ABI software** provides increased awareness and visibility over the import processes—from pre-notification (ISF/10+2) through release, entry (ABI), and liquidation. It also delivers Alerts and Notifications when compliance violations are discovered—notifying the right people to help rectify problems at their source in purchasing, manufacturing, distribution, or at the customs brokers. The ABI Software allows for the direct submission of import entries to U.S. Customs, quickly, cost-effectively, and correctly.

For additional vendors and information on the specialized services they offer, see Export Doc Software Providers compiled by the Commerce Department.

(viii) Offshore Documentation Requirements

All countries take steps to control imports, mostly to protect domestic industries from foreign competition or to protect the public from potentially harmful goods (unsafe, unhealthy, immoral, technically incompatible, etc.). Import controls can take many forms – e.g., tariffs and non-tariff barriers such as quotas, exchange controls, health, safety and technical standards, buy-local procurement requirements, etc.). A documentary requirement mandated by law or regulation is the primary instrument of control. Unless the exporter or importer submits the required document(s), the goods will **not** be released from customs.

- **Certificate of Origin** - A Certificate of Origin identifies the country where the export product was originally manufactured in whole or in part. A company must determine and state the product's country of origin so that the appropriate tariff rate can be applied when a product is being processed by customs officials. Many countries treat imports differently -- preferentially or adversely -- depending on their country of origin. For example, imports from "favored" developing and/or Free Trade Agreement (FTA) countries generally get preferential low or zero duty rates, while imports from less favored countries typically face high duties, quotas, or even outright bans. The Certificate of Origin is therefore used to ensure regulatory compliance.

  The critically important country-of-origin determination is largely governed by a system of Rules of Origin. There are two criteria under the Rules to determine the country of origin -- "wholly obtained" and "substantial transformation." Unfortunately, there is still wide variation among countries in how these criteria are applied. United Nations (UN) efforts to harmonize them have not yet borne fruit. The "wholly obtained" criterion applies to goods that are "wholly the growth, product, or manufacture" of a particular country. For example, Mexico would be the country of origin for avocados grown in and shipped from

Mexico. The more complicated "substantial transformation" criterion is for products that have been "substantially transformed into a new and different article of commerce with a name, character, and use distinct from that of the article or articles from which it was so transformed." In this situation, the country of origin is deemed to be a product of the last country in which it was substantially transformed. For example, an automobile that includes many parts made in different countries would be considered of Mexican origin if mostly assembled in Mexico. Accordingly, there are different strategies available to assist a business with determining the country of origin for its products. For manufactured products, each component of your product must be identified, assigned a value, and the country of origin. The following article provided by Trade.gov provides additional detail on the country of origin determination.

Generally, to qualify as the country of origin, at least 51% of the product's labor and materials must come from the claimed originating country. The exporter can use company letterhead if allowed or a Certificate of Origin form to declare the percentage of original content. This document must then be "certified" or notarized. In the U.S. this is typically done by a local chamber of commerce. The chamber will want a copy of the commercial invoice to verify the claimed origin. For some countries, however, a local chamber certification is not acceptable. Many Middle Eastern countries, in particular, require certification by specific organizations, such as the U.S.-Arab Chamber of Commerce (for Kuwait, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen); American Egyptian Cooperation Foundation (for Egypt); and the U.S.-Saudi Business Council (for Saudi Arabia). Trade.gov recommends that "the exporter verify whether a Certificate of Origin is required with the buyer and/or an experienced shipper/freight forwarder."

For trade within North America, a USMCA Certificate of Origin is not needed to qualify for the preferences, it is assumed that the products shipped originated in the United States, Mexico, or Canada. USMCA Certificates of Origin statements do not need to be certified. The declaration of the exporter is sufficient. The statement should be handwritten, stamped, typed on, or attached to the commercial invoice if required in certain circumstances The exporter completes and delivers the statement to the importer, who submits it to customs in the importing country. Certificates of Origin may, at the discretion of the exporter, cover a single importation of goods or multiple importations of identical goods. In some cases, an exporter may not have the USMCA Certificate of Origin statement ready at the time of export; however, the importer still has up to one year after the goods go through customs to make a claim for the USMCA tariff preference and to apply for a refund of duties paid at the time of entry.

- **Sanitary or health certificates** are required by some countries to import animals, animal products, fish, plants, and food products. These generic certificates may also have different names for different products (e.g., Phytosanitary Certificates specifically for products such as fresh fruit and vegetables, lumber, plants, seeds, nuts, flour, rice, grains, and plant materials which are susceptible to insect infestation), but all essentially confirm that the goods are free from disease or pests and that the products have been prepared in accordance with prescribed standards. Normally, these certificates are issued by the Department of Agriculture of the exporter´s country.
- **Export/Import Control documents** generally refer to licenses (for export or import) required for national security purposes. An export license is a government document that authorizes the export of specific goods in specific quantities to a particular destination. This document may be required for most or all exports to some countries or for other countries only under special circumstances. Examples of U.S. export license certificates include those issued by the Department of Commerce's Bureau of Industry and Security (dual-use articles), the State Department's Directorate of Defense Trade Controls (defense articles), the Nuclear Regulatory Commission (nuclear materials), and the U.S. Drug Enforcement Administration (controlled substances and precursor chemicals). A Destination Control Statement (DCS) is also required for U.S. exports of items on the Commerce Control List that are outside of EAR99 (products for which no license is required) or controlled under the International Traffic in Arms Regulations (ITAR). A DCS appears on the commercial invoice, ocean bill of lading, or airway bill to notify the carrier and all foreign parties that the item can be exported only to certain destinations.

(ix) Country of Origin Determination

A Certificate of Origin identifies the country where the export product was originally manufactured in whole or in part. A company must determine and state the product's country of origin so that the appropriate tariff rate can be applied when a product is being processed by customs officials. Many countries treat imports differently -- preferentially or adversely -- depending on their country of origin. For example, imports from "favored" developing and/or Free Trade Agreement (FTA) countries generally get preferential low or zero duty rates, while imports from less favored countries typically face high duties, quotas, or even outright bans. The Certificate of Origin is therefore used to ensure regulatory compliance.

The critically important country-of-origin determination is largely governed by a system of Rules of Origin. There are two criteria under the Rules to determine the country of origin – "wholly obtained" and "substantial transformation." Unfortunately, there is still wide variation among countries in how these criteria are applied. United Nations (UN) efforts to harmonize them have not yet borne fruit. The "wholly obtained" criterion applies to goods that are "wholly the growth, product, or manufacture" of a particular country. For example, Mexico would be the country of origin for avocados grown in and shipped from Mexico. The more complicated "substantial transformation" criterion is for products that have been "substantially transformed into a new and different article of commerce with a name, character, and use distinct from that of the article or articles from which it was so transformed." In this situation, the country of origin is deemed to be a product of the last country in which it was substantially transformed. For example, an automobile that includes many parts made in different countries would be considered of Mexican origin if mostly assembled in Mexico. Accordingly, there are different strategies available to assist a business with determining the country of origin for its products. For manufactured products, each component of your product must be identified, assigned a value, and the country of origin. The following article provided by Trade.gov provides additional detail on the country of origin determination.

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For trade between the US, Canada, and Mexico a USMCA certificate may be needed to qualify for the preferences and attest that the exported products meet the USMCA Rules of Origin requirements. USMCA Certificates of Origin statements do not need to be certified. The declaration of the exporter is sufficient. The statement should be handwritten, stamped, typed on, or attached to the commercial invoice. The exporter completes and delivers the document to the importer, who submits it to customs in the importing country. Certificates of Origin may, at the discretion of the exporter, cover a single importation of goods or multiple importations of identical goods. In some cases, an exporter may not have the USMCA Certificate of Origin statement ready at the time of export; however, the importer still has up to one year after the goods go through customs to make a claim for the USMCA tariff preference and to apply for a refund of duties paid at the time of entry.

Task 3.4 – Coordinate with other departments to calculate the true cost, benefits, and risks of proposed transactions to implement risk management policies

Knowledge of:

(i) Marine insurance (e.g., delays, losses, claims, and other insurances, general average)
(ii) Transportation options and documents (e.g., ocean bill of lading versus air waybill, negotiable vs. non-negotiable bill of lading)
(iii) International conventions (e.g., Warsaw Convention and the United Nations Convention on Contracts for the International Sales of Goods - CISG) and international conditions of contract (e.g., Force Majeure, arbitration)
(iv) Packaging for cargo protection and loss prevention
(v) Insurance companies and brokers, consultants, freight forwarders

In this study topic, we are going to focus on the types of insurance, international governing conventions, and packaging and shipping relationships to ensure risk mitigation.

(i) Marine Insurance

Marine Insurance broadly refers to insurance coverage on goods shipped via ocean. Policies may be purchased from commercial insurers for an individual shipment, multiple shipments, or as needed through the freight forwarder's policy. Typical coverage is for 110% value of the cargo, freight, and marine insurance. Policies generally cover goods while in transit (including during routine delays) and cover losses related to specific events, such as damage to cargo from bad weather, rough handling, collision, overturn, theft, or non-delivery. Policies can vary and the coverage may specify first-loss deductibles, exclusions, and waiting periods, so the person/company purchasing the insurance should read the policy carefully.

The cost of marine insurance is minimal, generally less than 1% of the cost of the cargo, freight, and insurance. It is advisable for exporters to read and understand the terms and conditions of the marine insurance policy. Modifications to such policies may be possible on a case-by-case basis.

The risks associated with export cargo are determined by the Incoterm used (i.e., the Incoterm defines the point at which the risk is transferred from the seller to the buyer). For example, if the buyer picks up the goods at the supplier's factory ExWorks (EXW), the buyer is liable for any damages from that point on. On the other hand, if the contract specifies the Incoterm Cost Insurance & Freight (CIF), the transfer of risk from the seller to the buyer occurs after shipment to the port in the foreign destination, and the supplier is liable for any loss or damage to the goods from the port to the final destination. Exporters should therefore check the Incoterms 2020 definitions to ensure they fully understand when the transfer of shipment risk occurs. The responsible party must ensure the cargo for its portion of the risk. The needed insurance can be obtained directly from marine insurance companies or through the freight forwarder.

General average coverage is a widely accepted insurance concept of sharing the loss among all of the shipping parties, including the shipping company and the exporting parties when a portion of cargo has to be jettisoned for the common good of the crew, vessel, and the remaining cargo. The general average is declared by the ship's captain and the shipping company. The most common occurrences are a fire on board, a collision, or being stranded at sea. If the foreign buyer has responsibility for insurance coverage, an exporter shouldn't assume (or even take the buyer's word) that the general average insurance has been purchased. In the event of an accident where liability is to be shared, the exporter could still be liable if the buyer has failed to obtain general average coverage or obtained too little coverage. For international shipments, the carrier's liability is frequently limited by international agreements, so general average coverage is important.

(ii) Transportation Options and Documents

Export goods can be shipped by land (truck or rail) or by air or sea. The correct choice is a function of speed, cost, and the nature of the product -- how much it weighs, how much space it takes up, and if it needs any special handling, such as for refrigeration or hazard protection. Shipping by air is typically used for perishables, “just-in-time” (JIT) deliveries, and low-weight, low-volume items. However, faster transport by air will likely cost more, so for bulkier items, and/or where longer delivery times are acceptable, shipping by sea is the most cost-effective.

Spot quotations for all modes of transport are generally available from a freight forwarder, rail, or trucking company and online. Quotations for a longer shipment period or multiple shipments may be available on request. Experienced freight forwarders can advise on the most cost-effective modes and rates for all transport options. In general, freight forwarders have access to the air and ocean carriers' schedules, and they can negotiate better rates through volume discounts and are well-positioned to coordinate shipping arrangements.

Most of the export shipping and compliance documents commonly needed for air and sea transport are the same (e.g., Commercial Invoice, Export Packing List, Electronic Export Information (EEI), and Certificate of Origin). Some form of a Bill of Lading will also be needed, depending on air vs. sea shipment. Each carrier issues a document to the exporter or to the designated representative which includes the carrier’s name, the date of accepting the cargo, a description of the cargo, the quantity, and the name of the buyer or consignee. The terms for these documents are:

- For Ocean Shipment—Ocean Bill of Lading
- For Air Transport—Air waybill
- For Truck Transport—Truck Bill of Lading
- For Rail Shipment—Railway Bill of Lading
- Combined/Multiple Transport Means—Multimodal or Port-to-Port Bill of Lading

A bill of lading is a contract between the owner of the goods and the carrier (as with domestic shipments). For vessels, there are two types: a non-negotiable straight bill of lading, and a negotiable or shipper's order bill of lading. A straight bill of lading is non-negotiable, which means that the goods can only be delivered to the consignee and cannot be endorsed/transferred to any other party. A negotiable bill of lading, on the other hand, can be sold or traded (i.e., transferred to a third party with a proper endorsement) while the goods are in transit. The customer usually needs to present the original as proof of ownership to take possession of the goods, so this is commonly used by exporters to transfer the title to a buyer in consideration of payment.

(iii) International Conventions

The United Nations Convention on Contracts for the International Sale of Goods (CISG; also called the Vienna Sales Convention) governs the rights and responsibilities of the sellers and buyers of goods to avoid misunderstandings between the parties. The CISG went into effect on January 1, 1988, with the U.S. as a party. More than 60 countries are ratified under the CISG. The CISG can be both a discretionary and mandatory set of rules. It is discretionary when both parties agree to be bound by its rules. It has a mandatory application when the parties do not choose to use it but become bound to it by virtue of its automatic application. As a result of the mandatory application of the CISG, most international sale of goods contracts with parties in western countries will be subject to the CISG, unless specifically excluded in accordance with the CISG's terms.
Significant provisions of the CISG address:

- The features, duration, and revocability of offers;
    - The manner, timing, and effectiveness of acceptances of offers;
    - The effect of attempts to add or change terms in an acceptance;
    - Modifications to international sales contracts;
    - The seller’s obligations with respect to the quality of the goods as well as the time and place for delivery;

- The place and date for payment;
- The buyer's obligations to take delivery, to examine delivered goods, and to give notice of any claimed lack of conformity;
- The buyer's remedies for breach of contract by the seller, including rights to demand delivery, to require repair or replacement of non-conforming goods, to avoid the contract, to recover damages, and to reduce the price for non-conforming goods;
- The seller's remedies for breach of contract by the buyer, including rights to require the buyer to take delivery and/or pay the price, to avoid the contract, and to recover damages;
- The passing of risk in the goods sold;
- Anticipatory breach of contract;
- Recovery of interest on sums in arrears;
- Exemption from liability for failure to perform, including force majeure;
- Obligations to preserve goods that are to be sent or returned to the other party.

Notably, the CISG governs contracts for the international sales of goods between private businesses but excludes sales to consumers, as well as services, leasing, distribution agreements, finance, and other areas not related to the shipment of goods. For reference's sake, the full text of the agreement can be found here.

The Warsaw Convention of 1929 establishes international standards for the transport of goods by air. The convention establishes insurance liability limits for air carriers as well as limits of liability for delays and product damage. The Warsaw Convention regulates liability for air carriers that cross international boundaries. It was originally signed in 1929 in Warsaw, amended in 1955 at The Hague (Hague Protocol 1955), amended again in 1975, and then ultimately replaced in 1999 in Montreal. The Montreal Convention of 1999 (MC99), has since been ratified in the United States and 135 other countries.

For those who are involved in international trade, the International Air Transport Association (IATA) explains that in "countries that have not ratified MC99 but continue to be subject to the Warsaw Convention 1929 (WC29) and Hague Protocol 1955 (HP55) regimes, physical paper records are required for the carrier to rely on the liability limits set out in the Convention. This means that paper documents of carriage such as the air waybill must accompany the shipment throughout its journey." However, MC99 permits the use of electronic airway bills and other documents of carriage.

The most significant issue for exporters is the fact that MC99 and the earlier conventions all created unbreakable (and relatively low dollar value), weight-based, liability limits for air cargo carriers. So, the standard compensation of most claims allowed by an air carrier will typically be lower than the actual financial loss. Exporters/shippers should therefore always ensure that they have air cargo insurance (especially for high-value, low-weight items)

International Conditions of Contract

The following clause is commonly used in international sales contracts and agency/distribution agreements:

Force Majeure (French for "major force") is defined as a major event outside the control of the contractual parties. The circumstances go beyond just "acts of God" (e.g., floods, earthquakes, hurricanes, etc.), and include human or technical failures (e.g., acts of war, terrorist activities, labor disputes, or interruption or failure of electricity or communications systems). A Force majeure clause is typically inserted in a contract to relieve the parties of the obligation to perform their responsibilities under the contract when faced with extreme circumstances that are beyond their control. Without this clause, the parties must rely on the much weaker common law contract doctrines of "impracticability" and "frustration of purpose," which will rarely protect them in a lawsuit if they are being sued for non-performance.

In general, it is advisable to have an attorney draft the force majeure clause, but a typical clause would at least state that - "A party shall not be liable for any failure of or delay in the performance of this contract or agreement for the period that such failure or delay:

- Is beyond the reasonable control of a party
- Materially affects the performance of any of its obligations under this agreement could not reasonably have been foreseen or provided against
- But will not be excused for failure or delay resulting from only general economic conditions or other general market effects"

Alternative Dispute Resolution

Given that the costs associated with cross-border litigation can be extremely high, combined with the fact that the time commitment to pursue litigation can be unreasonable, companies frequently seek to avoid litigation and instead add language to their international contracts that mandate alternative forms of dispute resolution. Mediation and arbitration are two approaches that are often specified:

- **Mediation** - Mediation is a structured process where a neutral third party assists two companies in a dispute in attempting to resolve the conflict themselves. The mediation process is private, and it can be relatively low cost (compared to litigation). The disadvantage is that mediators are not usually given any authority to force an agreement between the two parties, so a mediation effort can fail. Nonetheless, it is often favored as a first step in a formalized attempt to resolve a dispute. Sample contract clauses can be viewed here.

- **Arbitration** - Arbitration is a method of resolving disputes between trading partners, either voluntarily or contractually, through an impartial, third-party arbiter. The parties typically split the costs for this service. The contract between the buyer and seller specifies the arbitration entity, commonly the American Arbitration Association www.adr.org or the International Chamber of Commerce in Paris www.iccwbo.org. Arbitration is more like a court case, in that the two parties both present their arguments and an arbiter makes a decision. Again, this process is private, and it can be relatively low cost (compared to litigation). The main disadvantage of arbitration is that the decision cannot be appealed.

Consequently**,** the two parties to the agreement will usually decide in advance if the arbitration will be binding or non-binding. In non-binding arbitration, if the two parties don't want to abide by an arbitration decision after learning the outcome, they can defer to litigation. In binding arbitration, the two parties must abide by the arbitration decision because the decision is final and the courts will recognize and enforce the terms of an arbitration decision if the arbitration was agreed upon in the original contract.

A typical arbitration clause would state something along the following lines – "*All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."*

Parties can mutually agree to adapt the clause as needed for particular situations. For example, instead of the customary sole arbitrator, the parties can specify that a panel of arbiters is to be used. Additionally, they can stipulate the place and language of the arbitration.

(iv) Product Packaging and Shipment Packaging

Product packaging and shipment packing are particularly important for international business. Shipping containers are typically handled by many pieces of equipment and moved many times on an international journey, which means that normal packaging and packing may not be adequate for cargo protection and loss prevention. The exporter and importer should agree to package and packing details when discussing payments, pricing, delivery, INCOTERMS, and shipping details. The key considerations of an overseas shipment are:

- **Packaging**--Products may require stronger cardboard or plastic cartons, resulting in a higher cost. Products may need to be stacked higher on pallets to make the best use of available container space. They may also be subject to greater loads/forces as the container is handled by various pieces of machinery. Superior packaging may also help protect the products from moisture, leakage, and infestations in transit.

- **Pallets**--For ocean and overland freight shipments, products are generally palletized, which increases shipping weight, takes up additional space, and adds cost. Pallets (wood or synthetic) should be solid and double-decked to adequately support the load during transport and storage. They should have a flat surface and enough capacity to support the load weight. The pallet's design must allow for safe handling by forklifts, cranes, etc., and storage on potentially rough surfaces.

- For stability in the shipment, pallets should be covered with shrink foil or stretch foil wrapping. For shrink foil, use at least one layer with a thickness of 175 microns. The stretch foil needs at least three layers. All horizontal and vertical corners should be protected with cardboard protection strips. The pallets should be tied on all sides with steel or synthetic straps, at least three straps per side.

Unpalletized loads are referred to as being "floor loaded." Floor loading allows more items to fit in a single container but the loading of unpalletized goods takes additional worker time which can also increase the costs involved.

- **Cases or crates** -- Cases or crates need to provide maximum protection against damage, breakage, and pilferage from likely multiple handling by cranes or forklifts in transport and storage. The cases or crates must be made of new, treated wood with a maximum of 18% moisture. Not allowed are used wood or cardboard, bark sides, big knots, tears, or rotten spots. Thickness for sides and top must be at least 12mm at least. For cases and crates where the center of gravity creates a risk to unbalance during handling, the center of gravity should be marked using the international symbol (ISO 7000-0027).

- **Protective packing within containers** -- All packed items that could be loosened by internal movement should be bolted, clamped, or supported by strong beams. Any beams should be fixed under the top cover of any cases or crates to allow for safe stacking and to avoid any compression. Shock-absorbing filling material (e.g., "Styrofil" or "Pelaspanpack") should be used for any items vulnerable to vibration or shock damage. Not usable as packing or filling materials are straw, hay, wood wool, or newspaper.

- **Waterproofing** -- Airtight bags with sufficient desiccant material (e.g. silica gel) should be used for items subject to moisture damage. If waterproofed packing is needed, the cases including the cover should be internally lined with waterproof paper or plastic foil. The bottom should also be watertight. To better protect against rainfall, items should be packed in self-draining polyethylene or aluminum foil. Fragile and easily damaged loose or spare parts should be packed separately from any equipment but can be enclosed in the main case.

- **Concealing Labels & Packaging** -- In markets where theft is possible, the buyer and seller should consider covering the carton labeling with blank paper or cardboard to conceal the products' true identity.

- **Shipment Weight & Space** -- Shipping containers of the same length can have some variation in capacity and weight constraints, so the exporter should obtain the exact internal cubic foot capacity and weight limitation of the shipping container from the freight forwarder.

- **Specialized Containers--** Specialized ocean containers, such as refrigerated containers, frequently called reefers, high cube containers, and 53-foot containers may be available but should be reserved before shipment. Shipping containers typically are available in 20-foot, 40-foot, and 53-foot sizes. Sometimes a container is called a "box."

- **Air Shipments--** For air shipments, there are a wide variety of container sizes available. Individual air carriers may not handle every size container so the shipper should specify the needed container or the airline to the shipping company or the freight forwarder.

- **Calculating the Cube--** the exporter needs to know the gross weight of individual items in each shipment and the cubic feet, commonly called the "cube" of each item to understand the quantities that will fit in the container. An accurate measure of the cube is attained by multiplying the length, width, and depth of each carton (each dimension measured in inches) to attain the total volume of the box(es) in cubic inches. That figure is then divided by 1728 (i.e., 1728 cubic inches/cubic foot) to determine the volume of the shipment in cubic feet.

- **Variance--** Buyers and sellers can, and sometimes do, agree to allow a variance of 10% higher or lower quantities due to variances in containers, how cartons are situated on pallets, and incremental packing on top of and between pallets.

- **LTL Shipments**-- For orders and shipments of less than a full container load, "LTL," a freight forwarder can arrange to consolidate the shipment with other products going to the same destination. Consolidation is generally less expensive than sending a full container, but it will be more expensive by weight and volume. Also, the timing of the shipment may be delayed (i.e., since it can be dependent on the time it takes to gain interest from other shippers who also want to consolidate their LTL freight for the same destination).

(v) Insurance Companies and Brokers

In contrast to export insurance which covers defined political and commercial risks, marine insurance covers specific defined risks related to the actual shipment of goods. While typically covering ocean transport, this insurance can cover transit by air, rail, or truck. By definition, insurance covers the contingencies stated in the policy, but it is not a blanket guarantee of reimbursement if the goods are damaged or destroyed no matter the circumstances. Therefore, the policy may have exclusions, deductibles, and waiting periods while requiring proof of value and loss.

Generally, cargo is insured for 110% of the products, freight, and marine insurance. Policies may be held by individual exporters, trading companies, or the freight forwarder, the latter two under umbrella policies to cover shipments of their customers. For small or new exporters, the use of the freight forwarder's insurance policy is typical and convenient. Such policies must be purchased before shipment and generally cost approximately 1% of the shipment value. A variety of private insurers offer policies through their agents or from brokers who offer policies from a variety of insurance companies. Some terms of policies may be negotiated between the exporter and insurer to modify coverage and fees. The insurance policy should always be read and understood before shipment.

Consultants

Consultants who specialize in a geographic region, certain industries, products, documentation, financing/insurance, or process (product certifications, standards, inspections) may be helpful to new or established exporters at a defined fee or percent of the shipment value. Such arrangements should be clearly defined in a written agreement between the consultant and the exporter or importer.

Freight Forwarders

Freight forwarders may arrange for the drayage (shipment from the exporter to the port), ocean or air shipment, and even shipment to the buyer. The buyer and seller negotiate shipping terms and decide on whose forwarder will be contacted for defined services. The forwarder may divide office functions into four areas, ocean, air, import, and export segments.

By providing an accurate product description, the gross weight, cubic feet, product location & destination, desired shipping time, and shipping method, the exporter should be able to obtain a quotation for the desired services and destination. It is also worthwhile asking about the length of the voyage, likely arrival date, frequency of service, payment terms, and how long the quotation is valid.

The forwarder may also provide fulfillment services in the importing country, validate Harmonized Code numbers & tariffs, and provide warehousing services in the country of the exporter or importer. Many forwarders offer online, real-time tracking of the shipment which may be communicated to the buyer. Forwarders may also be helpful by offering information about documentation, letters of credit, macroeconomic information, and customs clearing procedures and delays in the importer's country.

Exporters who ship larger quantities by container load regularly can make a booking for a defined number of containers on a monthly or annual basis, saving money by locking in a freight rate for a defined period of time.

Task 3.5 – Facilitate the Offshore Procurement Process

Knowledge of:

(i) Advantages of global sourcing
(ii) Cultural considerations affecting supplier/buyer relationships
(iii) Impact of trade agreements
(iv) Terms and conditions of purchase or sale
(v) Quality considerations (e.g., ISO9000, industry quality specifications)
(vi) Calculation of landed costs
(vii) U.S. Customs regulatory compliance (e.g., product marking)
(viii) Import documents
(ix) Customs brokers and customs management tools (e.g., duty drawback programs, tariff engineering)

This study topic focuses on the advantages of global sourcing, cultural considerations affecting supplier/buyer relationships, and the impact of trade agreements.

Global Sourcing

While global sourcing strategies were once reserved for sophisticated multinational companies, today even small companies may consider a global sourcing strategy for raw materials, components, and various services.

The manufacturing process typically involves the assembly of multiple inputs -- components, ingredients, parts, or other intermediates -- into a finished product. Most manufacturers cannot produce all the needed inputs internally and so must procure them from other suppliers, either domestically or globally. The decision to source globally is primarily driven by economic considerations but outsourcing to foreign suppliers can put the company's reputation at risk as well. Outsourcing is often equated with job losses at home, but cost reductions for some inputs may protect profits and allow some companies to survive and prosper.

Increasingly, services are also sourced globally to take advantage of lower costs and 24-hour-a-day service and access. Common services that are sourced include accounting, bookkeeping, call center customer support, technical support, order placement, website and social media services, and translation services.

Yet, global outsourcing can be complex for products and services. So, here are some advantages and disadvantages that should be carefully considered:

(i) Advantages of Global Sourcing

Potential Advantages of Global Sourcing

- Access to lower foreign labor and other manufacturing costs
- Access to technologies and skills not available domestically
- An alternative supplier may be very helpful if there are quality or shipment problems with the primary supplier
- An alternative supplier may give the buyer some leverage (price and delivery) with the primary supplier
- A weakened U.S. dollar may affect the prices in one country more than another, which may justify a change in supplier to retain profit margins and competitiveness (assuming delivery times and qualitfy are comparable)
- Greater proximity to raw materials and intermediates needed for production
- In some cases, an overseas supplier may have an authorized or exclusive sales agent in the buyer's country, facilitating communication and shortening the supply chain
- Broader exposure to international cultures, traditions and beliefs

Potential Disadvantages of Global Sourcing

Cost	● Costs (tariffs) to import the globally sourced products needed for final assembly ● Supplier may require a large down payment or total payment at the time of order placement ● Increase shipping and handling costs beyond control of the buyer and seller ● Risk of foreign currency fluctuations that could increase costs of importing ● Political fallout from perception that global sourcing costs jobs at home
Quality	● Product quality does not match the quality of samples ● Difficulty of monitoring goods and services quality
Delivery Timing	● Long lead times from more distant sources ● Supplier does not have the capacity or working capital to complete orders in a timely manner ● Supply interruptions from less-stable infrastructure (breakdowns, blackouts, etc.) ● Infrequent ocean freight service causing longer than anticipated shipping times ● Customs clearance delays
Intellectual Property	● Possible loss of confidential documents and privacy from theft of services and documents ● Risk of losing intellectual property (patents, trademarks, copyrights)
Disputes	● Disputes over product count or damage claims ● Laws and regulations favoring local producers
Miscellaneous	● Hidden costs related to different time zones and languages ● Management challenges related to cross-cultural differences

To mitigate misunderstandings the buyer should make every effort to meet with the seller and observe the manufacturing operation before signing an agreement. The buyer should have a written agreement with the supplier or manufacturer defining buyer and seller obligations, payment flows, confidentiality, governing law, sales expectations, timeframes, and procedures for purchase orders and acceptance.

(ii) Cultural Considerations affecting Supplier/Buyer Relationships

Before engaging with potential overseas suppliers, the buyer is well-advised to learn about the seller/manufacturer, his/her country, customs, and culture. This preparation signals both the buyer's seriousness and sensitivity in building a relationship with the manufacturer.

Parties to any potential supplier/buyer relationship need to be able to understand and trust each other. This is especially important internationally, and even more so when seeking a longer-term sourcing partner from a different culture. Cultural differences (clashes) most often stem from the respective religions, ethics, values, mores, and languages of the parties. Some common issues of misunderstanding are the use of a first name versus a title and position, rushing the decision, speaking about money early in the discussion, and engaging in political or religious conversations during a business meeting. Relationships prove their value when there is a dispute or misunderstanding among the parties to the transaction. Buyers should also obtain trade and bank references and place trial orders before relying on the supplier.

Although there are many components to cultural understanding and communications, having some insight/understanding of cultural context can be of value. As conceptualized by Edward Hall, societies in low-and high-context cultures approach business in sharply differing ways – in motives and goals; ways of doing business; concepts of time/urgency; views on profit-sharing; negotiating styles and tactics, including body language, etc. Low-context cultures (i.e. U.S., the English, Germans, Australians) are typically very direct and to the point. These cultures focus on the task itself, include necessary information, and leave out unnecessary information. By contrast, high-context cultures (i.e. China, Japan, French, and many Latin American countries) rely heavily on implicit messages and contextual cues (i.e. the situation and the speaker's tone of voice) to relay the information being communicated.

These contextual differences can make or break a relationship at any point, but especially during the initial negotiation to select a potential partner and later in managing the relationship at both ends. During the initial negotiation, the prospective buyer from a low-context culture tends to be more direct and to the point, looking to sign the contract with the supplier and get the deal done, assuming prior due diligence confirmed likely viability. By contrast, the prospective supplier from a high-context culture prefers more time for "get-to-know-you" preliminaries before getting down to business.

Once a buyer-supplier relationship is operational, cultural differences can expose conflicting styles of management. For example, low-context managers put a premium on time and results. High-context counterparts work in environments where time is not of the essence and results face more hoops and hurdles.

It is best to research the cultures of potential foreign partners before starting the search process. For Web sources on cultural considerations affecting supplier/buyer relationships, see the following links:

- Culture and Global Sourcing
- Kwintessential Global Guide to Etiquette, Customs & Protocol
- Commisceo Country Guides to Culture, Customs, and Etiquette
- International Business Etiquette - Customs & Culture
- World Business Culture, by Country
- Business Strategies International (BSI) Country Guides
- Business Strategies International (BSI) Keys to Success
- Cultures of Different Countries
- Latin America Business Culture
- Business Protocol - Asia
- The Arabian Culture & Customs
- Country Intercultural Insights
- Colors Across Cultures
- Body Language and Gestures Across the World
- Top 10 Tips on International Business Customs

(iii) Impact of Trade Agreements

Trade agreements often have provisions that bear on the offshore procurement process, including which countries would offer global sourcing advantages. Both bilateral and multilateral trade agreements aim toward duty-free access to each party's markets. Thus, a U.S. buyer would benefit by sourcing products in countries that could ship the goods back to the U.S. duty-free or at a much lower duty than from a country not party to a trade agreement. Some trade agreements also include labor and environmental provisions that could add compliance costs to the sourced products and make them uncompetitive. However, if the added costs are tolerable, sourcing from these countries can have a public relations benefit for the company as a good "corporate citizen" that does not exploit "slave labor" or wantonly pollute the environment.

The U.S. has 14 free trade agreements with 20 countries. For new exporters or those considering a new market, a review of which countries have Free Trade Agreements (FTA) with the U.S. can be very helpful. While traditionally an exporter might focus on Canada or Mexico because of proximity and longstanding free trade agreements, the other 18 FTA countries may present additional or alternative options to expand exports. Until the transition or phase-in or zero tariffs are fully realized, there may be a period when the tariffs are gradually reduced annually over a period of years, depending on the Harmonized Code number of the product. In addition to tariffs, customs procedures, inspections and quarantines may also be simplified or harmonized. Each FTA is unique and must be understood to take advantage of its provisions. The U.S. Commercial Service in your region or the importing country or the websites www.Trade.gov are good sources of reliable information about FTAs and the specific provisions an exporter needs to fully utilize the FTA provisions for a particular product.

(iv) Terms and Conditions of Purchase or Sale

Both domestic and international purchase or sales contracts are necessary to define the business relationship between buyers and sellers. These terms and conditions are typically specified in the initial Request for Quote (RFQ) or proforma invoice and, following negotiation and agreement between the two parties, they are formalized in a legally binding contract. While each sales contract is different, some common characteristics contained include:

- Names & addresses of the concerned parties.
- Definition of goods or services to be sold over a defined period of time.
- When the title for the goods passes from buyer to seller.
- Ordering process i.e. request for quotation followed by a quotation within a defined time frame, order confirmation, and shipping schedule. Samples of these documents may be part of the contract or an attachment.
- Perhaps a designated party on each side of the transaction.
- Specification of special handling, labeling, packaging, or inspection.
- Method of shipment and document required by the importer.
- Price (currency and amount), which is usually specified as being valid for a defined period of time.
- Payment terms vary widely among companies. This will include the percent of any down payment, payment instructions, and notifications in the specified currency and method of payment. Over time, payment terms may be modified to reflect the relationship between the buyer and seller. Generally, producers of customized products will require a larger down payment or payment in full before manufacturing the product or before shipment.
- Delivery terms (applicable Incoterm and estimated delivery date),
- Liability for damage in transit up to and after the Incoterm-specified delivery point.
- Country of law and any defined mediation or arbitration.
- Document to be signed and dated by each party.

For a more detailed explanation of these terms and conditions, see Global Terms and Conditions of Sale.

(v) Quality Considerations (e.g., ISO9000, industry quality specifications)

Quality is important to manufacturers not only to differentiate themselves from competitors but also for compliance with domestic and international quality standards. Quality considerations are especially critical in selecting a foreign supplier for offshore procurement. Many manufacturers can and often do make claims of quality, but the best proof is if they can meet either or both types of recognized industry standards – 1) standards that attest to the quality and safety of their manufactured products; and 2) standards that attest to the quality of their management systems.

Within the contract, any certifications required by the importer or the country of the importer should be stated. This may be a laboratory test, a third-party inspection, a standard certification, an ISO standard, or an ingredients statement. Any such documentation must be understood well before the contract is signed. Sufficient time must be allowed to obtain the specified documentation and the contract should define who is paying for this requirement.

Product standards. Most developed countries have their own sets of industry standards for products. For example, U.S. and Canadian quality/safety standards overseen by Underwriters Laboratories (UL) cover a wide range of electrical, electronic, building materials, plastics, and many other products. The European Union's European

Committee for Standardization (CEN) has also developed an extensive body of industry standards to "ensure quality, performance, and interoperability [and] help to protect the environment, as well as the health and safety of consumers and workers." Not all such industry standards are mandatory for compliance purposes. Some are voluntary, but to the extent, they are recognized domestically and internationally (akin to a "seal of approval"), they offer competitive advantages to manufacturers that meet them.

Management systems standards. The international community has recognized the value of quality standards in how companies are managed, quite apart from the quality of their products. The International Organization for Standards (ISO) has spearheaded this effort by developing a series of ISO standards.

- The ISO 9000 family is the world's most recognized quality management standard for companies and organizations of any size. ISO 9001:2015 specifies requirements for a quality management system for organizations that –
    a) need to demonstrate the ability to "consistently provide products and services that meet customer and applicable statutory and regulatory requirements," and
    b) aim to "enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements."

All the requirements of ISO 9001:2015 are generic and are intended to apply to any organization, regardless of its type or size, or the products and services it provides.

- ISO 14000:2015 applies specifically to an organization's environmental management systems. It specifies requirements that an organization can adopt to enhance the environmental performance of its activities, products, and services; fulfill compliance obligations; and achieve environmental objectives. ISO 14001:2015 applies to any organization, regardless of size, type, and nature. Although ISO 14001:2015 does not state specific environmental performance criteria, claims of conformity are not acceptable unless all its requirements are incorporated into an organization's environmental management system and fulfilled without exclusion.

- ISO/IEC 27001:2013 specifies the requirements for establishing, implementing, maintaining, and continually improving an organization's information security management system. It also includes requirements for assessing and treating information security risks tailored to the needs of the organization. The requirements set out in ISO/IEC 27001:2013 are generic and are intended to apply to all organizations, regardless of type, size, or nature.

(vi) Calculation of Landed Costs

"Landed cost" in a foreign trade context is the total price the buyers pay for a product from the seller's factory to the buyer's door. The buyer's landed cost calculation starts with the original domestic price at the seller's factory (cost of goods plus profit, also known by the Incoterm Ex Works). Additions from there would typically include costs to create the goods for export; drayage (local pick-up and delivery of the container to the exit port); fees for terminal handling, documentation, freight forwarding, currency conversion, and cargo insurance; cost of ocean/air freight to the destination port; any import duties, taxes, port- and customs broker fees; and cost to transport the goods from the port to the buyer's door.

For illustration, assume an export sale of 300 units of product X @ $10 per unit by U.S. Company A in Chicago to Company B in Japan (via Ports of Los Angeles to Yokohama).

Landed Cost Components	**Landed Cost (in $)**
300 units of product X @ $10 per unit	3,000
Special Packing for export	90
Inland transport from Chicago to Port of LA	90
Freight forwarder & terminal handling fees	50
Ocean transport to Port of Yokohama	220
Cargo insurance	58
Customs Brokerage Fee	55
Japanese import duty @ 5%	150
Delivery from Yokohama port to buyer's door	50
Total Landed Cost	**3,763**

For shipments containing one product (or similar products of the same type, cost, and size), the total costs above divided by the number of units will yield the delivered cost per unit. However, if there are a variety of units in a single shipment, the cost per unit may be assigned by value, weight, volume, etc. For an additional perspective on these calculations, please have a look at this page.

(vii) U.S. Customs Regulatory Compliance (e.g., product marking)

Offshore procurement can be risky if the foreign supplier is not fully aware of and/or fails (wittingly or unwittingly) to comply with U.S. Customs regulations. Simply put, the goods will be held up at the entry point until fixes are made, or worse, not allowed entry at all. Most problems can be avoided by consulting with freight forwarders on the export side and customs brokers on the import side to assure that all regulatory and shipping documents required at both ends are properly filled out and submitted.

The Automated Commercial Environment (ACE) is a regulatory requirement for the U.S. Principal Party (defined as the manufacturer, exporter, ***importer***, freight forwarder, exporter of record, or other designated party) requiring the accurate and timely filing via a computer interface. The importer applies for an ACE portal via the secure website www.ace.cbp.dhs.gov. Both the form and training for the user are generally available from the importer's freight forwarder and via seminars from public and private sector specialists. The form is a template that can be used for repeat shipments of the same product to/from the same buyer and destination. The form, filed for the U.S. Customs Service records the Harmonized Code Number, buyer and seller information, and a product description.

Beyond documentary compliance, the goods shipped must also comply with the importing country's product packaging and marking requirements. For example, U.S. Customs laws require that each imported package be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article permits, with the English name of the country of origin. The marking must also name the country of manufacture and the ultimate purchaser in the U.S. Improperly marked packages will be subject to a marking duty equal to 10% of the customs value of the article unless it is sent back, destroyed, or properly marked at the time under Customs supervision. For a more detailed explanation of U.S. marking requirements, see Marking of Imported Articles and Containers (19 U.S. Code § 1304).

(viii) Import Documents

In the offshore procurement process, companies that outsource production depend on their foreign suppliers not just to produce and deliver the products specified (on time and with acceptable levels of quality), but also to provide all documents needed to clear customs during importation. Import documentation is especially important, given the potential risk imports pose to national security and public health and safety. That puts a premium on having the right import documents, correctly prepared, and on time. Late filings, missing documents, or incorrectly prepared documents, can hold up the shipment at customs, cause lost business opportunities, and potentially result in demurrage or detention charges for the delay.

The ultimate parties responsible for filing the required documents are the importer, or the importer's customs broker or clearing agent, or the airline or shipping line. These filings are based on the documents initially provided by the foreign supplier and/or freight forwarder. The required documents must at least include:

A **Commercial Invoice** certifies the sale and provides a description and pricing for all the items shipped, along with the total value of the cargo. Customs valuation is based on the value stated on the commercial invoice. Customs will likely compare the pricing on the commercial invoice against international market norms for like products to determine significant variances, looking especially for under-valuations of invoice values to avoid import duties.

A **Packing List** links the cargo to the Commercial Invoice and specifies the number of parcels in the consignment, their dimension, and the gross and net weights of each parcel, along with the number of units contained in each parcel. It identifies any markings that appear on the packages, and any special instructions for ensuring the safe delivery of the goods to their final destination. Customs officials often use the packing list to identify the location of packed items they specifically want to examine.

A **Certificate of Origin** identifies the country of manufacture of the imported goods. The origin is important to determine if the country qualifies for preferential duties under free trade agreements or the most favored nation (MFN) or punitive treatment. A Certificate of Origin is issued by a designated organization in the exporting country (e.g., by a Chamber of Commerce or a country's consulate office.). Based on this certificate, the Customs agency in the importing country (e.g., Customs & Border Protection in the U.S.) classifies the cargo under the specific country category and applies the appropriate duty for that category. The Certificate of Origin also helps to avoid third-party countries from routing imports through countries not entitled to preferential treatment in attempts to avoid duty, quantity, or license restrictions.

A **Bill of Lading** (for ocean shipment) or an **Air Waybill** (for air shipment) are transport documents issued by the carrier or a freight forwarder. They must be submitted to Customs for clearance, along with the Commercial Invoice and Packing List. There are two types of Bills of Lading: An **Ocean Bill of Lading** and a **Straight Bill of Lading.**

- An **Ocean Bill of Lading** can serve as both a contract of carriage and a document of title to the goods. It is consigned "to order" or "to order of shipper," is negotiable when endorsed on the back by the shipper or their representative and is sent to a bank in the buyer's country. The importer cannot take title to the goods until the bank receives payment, usually by Letter of Credit or Documentary Collection, and releases the original bill of lading.
- A **Straight Bill of Lading** is used when the shipment is consigned directly to the named consignee and no other party. Typically, this type of consignment is used for open accounts or cash-in-advance transactions. The consignee can take possession of the goods at arrival by presenting a signed original bill of lading to the carrier.

An **Air Waybill** is also a contract of carriage between the shipper and the carrier, but only for goods shipped by air. Unlike an ocean bill of lading, an Air Waybill is not negotiable.

Dangerous Goods Forms are just for products considered "dangerous" by either the International Air Transport Association (IATA) or the International Maritime Organization (IMO). The IATA form -- the Shipper's Declaration for Dangerous Goods --is required for air shipments. A different version of the form is used for ocean shipments.

(ix) Customs Brokers and Customs Management tools

Tariff avoidance is a key strategic consideration for global traders. Tariffs increase costs to buyers at both ends and jeopardize international competitiveness. High tariffs can particularly neutralize the benefits of offshore procurement, as high duties on the goods coming back could offset the costs saved by producing overseas. Several strategies are available to mitigate adverse tariff impacts.

Customs brokers, who specialize in imports, can provide crucial advice on all aspects of regulatory import compliance, including strategies, methods, and programs to minimize import duties. Unlike freight forwarders, who specialize in exports, customs brokers must pass a national exam to become licensed. Most licensed customs brokers in the U.S. are members of the **National Customs Brokers & Freight Forwarders Association (NCBFFA)**.

When importing products, it is key to remember that the duties to be paid are based on the country of origin and the **HS Code** assigned to each imported product. Although the main framework of the HS Code classification is the same in every country (first six digits of the 10-digit code), there are variations in the last 4 digits. This variation in classification coding is a reflection of the way that each country has chosen to sub-categorize things at the most detailed level. Therefore, the importer needs to ensure the correct HS Code is assigned to each product being imported. This can be researched in advance and the proper HS Code(s) can be shared with the exporter and added to the invoice and other supporting documentation.

In the absence of HS Codes being researched in advance and added to the paperwork, a customs broker may be called in during customs clearance to quickly categorize the imported products (i.e., at the time of importation). While this effort by the customs broker to expedite the process can be helpful, HS Code classifications can be tricky, so mistakes can be made. Importantly, if a series of different customs brokers are called in to make this determination on successive shipments being imported, mistakes can result in inconsistent HS Code categorizations for the same imported product and that can directly impact the amount of duty to be paid on each shipment. This can result in incorrect amounts of duty paid and if the wrong code has been assigned, the importer can be held responsible in a subsequent customs audit.

Customs Management Tools

Exporters can avoid or minimize tariffs altogether by targeting countries party to Free Trade Agreements (FTAs), or on “free port” markets, such as Hong Kong and Singapore. The U.S. has FTAs with 20 countries that allow virtually duty-free entry for most U.S. goods. Exporters as well as importers can also avoid or minimize tariffs by shipping to **Free Trade Zones** or using **duty drawback programs** in the importing countries.

- Free Trade Zones (FTZs) -- known as Foreign Trade Zones in the U.S. -- are secure areas considered outside the Customs territory of the importing country. FTZs are mostly located in or near ports of entry and are mainly for imported goods destined for re-export, not for release into the economy. While in the FTZ, the goods can be stored for eventual re-export in their original form, or exhibited, assembled, or processed as needed for re-export in value-added form. As long as the imported goods remain within the FTZ throughout this process, they are not subject to the import duties that might otherwise apply. If the product is then exported, duties are not applied. If the product is sold in the FTZ country as an import, the duties will then be assessed and charged.

- A duty drawback is a refund on duties, taxes, and fees paid on imported goods that are later re-exported in their original or value-added form. Many U.S. companies are unaware of this refund option or of how to apply for it, in effect forfeiting an estimated $2 billion annually in unclaimed duty refunds. That mostly owes to the complexity of the rules, regulations, and limitations for claiming duty drawbacks. Importers intending to re-export dutiable products should seek the advice of duty drawback specialists. They can identify drawback opportunities, determine the amount that can be refunded, help make the claim, and handle the documentation needed for filing and audit compliance.

Tariff engineering offers an entirely different strategy to reduce import duties. It essentially involves either:

- Calling a product subject to a high duty by another name with a lower duty. The renamed product would need to be comparable enough to pass muster. For example, calling an “apple” an “orange” would not qualify, but calling a “doll” a “toy” did work in a classic court case. In that case, a U.S. company successfully argued that its action figure should be classified as a “toy” (at a lower duty rate), not as a “doll” (at a higher duty).

- Modifying the character or design of the product, just enough to qualify it under a different tariff code at a lower duty rate. For example, the 26.9% U.S. import duty on a “woman’s woven blouse comprised of 50% cotton-50% polyester” (HTS 62063030) could instead be just 15.4% duty by merely increasing the cotton content to 51% (HTS 62064030).

Both methods of tariff engineering can be problematic. Customs authorities tend to look suspiciously at tariff engineering as potential attempts at duty evasion, not legitimate tax avoidance. Also, with the redesign method, the modification would need to be as slight as possible, lest the added manufacturing costs offset the lower import duty.

For information contact NASBITE International at info@nasbite.org (website: www.nasbite.org).