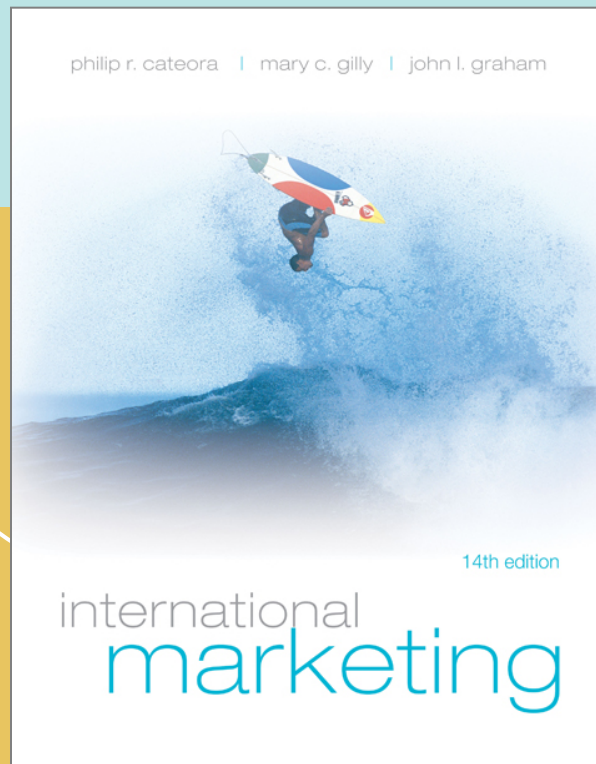


International Marketing



14th Edition
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Exporting and Logistics: Special Issues For Business

Chapter 15



Discussed questions

- L/C: letter of Credits?
- BOL: Bill of Lading
- Invoice
- Incoterms 2010



What Should You Learn?

- How the U.S. government helps exporters
- The steps necessary to move good across country borders
- How various import restrictions are used politically
- Means of reducing import taxes to remain competitive



What Should You Learn?

- The mechanics of export documents and their importance
- The main instruments of foreign commercial payments
- The logistics and problems of the physical movement of goods
- The impact of antiterrorism regulations on the export-import process

Global Perspective

An Export Sale: From Trade Show to Installation

- Specific export mechanics occur when goods are shipped from one country to another
- The Internet has helped speed up process
- Most countries control the movement of goods crossing their borders – imports and exports
- The international marketer must meet the legal requirements involved in moving goods from one country to another
 - Export regulations
 - Import regulations

The Exporting Process

Exhibit 15.1

Leaving the Exporting Country

Licenses

General
Validated

Documentation

Export declaration
Commercial invoice
Bill of lading
Consular invoice
Special certificates
Other documents

Physical Distribution

International shipping
and logistics
Packing
Insurance

Entering the Importing Country

Tariffs, taxes

Nontariff barriers

Standards
Inspection
Documentation
Quotas
Fees
Licenses
Special certificates
Exchange permits
Other barriers



Export Restrictions

- Controlled by the Bureau of Industry and Security (BIS) of the Department of Commerce
- Export Administration Regulations
 - Serve the national security, foreign policy, and nonproliferation interests
 - Includes some export controls to protect the U.S. from the adverse impact of the unrestricted export of commodities in short supply
- NLR (no license required)

Determining Export Requirements

- Exporter must determine the appropriate license for the product (general or validated)
 - Export Control Classification Number (ECCN)
 - Commerce Control List (CCL)
 - End-use restrictions
 - Determination of ultimate end customer and ultimate end uses of the product
- Details of exporting must be followed to the letter

Illustration of Commerce Control List Requirements for ECCN 0A984

Exhibit 15.2

<p>0A984 Shotguns, barrel length 18 inches (45.72 cm) or over; buckshot shotgun shells; except equipment used exclusively to treat or tranquilize animals, and except arms designed solely for signal, flare, or saluting use; and parts, n.e.s.</p>	
<p>License Requirements</p>	
<p><i>Reason for Control:</i> CC, FC, UN</p>	
<p>Control(s)</p>	
	<p>FC applies to firearms</p>
CC 1	<p>applies to shotguns with a barrel length greater than or equal to 18 in. (45.72 cm), but less than 24 in. (60.96 cm) or buckshot, shotgun shells controlled by this entry, regardless of end-user.</p>
CC 2	<p>applies to shotguns with a barrel length greater than or equal to 24 in. (60.96 cm), regardless of end-user.</p>
CC 3	<p>applies to shotguns with a barrel length greater than or equal to 24 in. (60.96 cm) if for sale or resale to police or law enforcement.</p>
UN	<p>applies to UN sanctions that ban shipments of all firearms, regardless of type, to countries listed.</p>
	<p>Country Chart</p>
	<p>FC Column 1 CC Column 1</p>
	<p>CC Column 2</p>
	<p>CC Column 3</p>
	<p>Rwanda; Serbia and Montenegro (formerly Yugoslavia)</p>
<p>List of Items Controlled</p>	
<p>Unit: \$ value</p>	
<p><i>Related Controls:</i> this entry does not control shotguns with a barrel length of less than 18 inches (45.72 cm). These items are subject to the export licensing authority of the Department of State.</p>	

Commerce Country Chart – Reasons for Control (Selected Countries)

Exhibit 15.3

Country	Chemical & Biological Weapons			Nuclear Nonproliferation		National Security		Missile Tech	Regional Stability		Firearms Convention	Crime Control			Antiterrorism	
	CB 1	CB 2	CB 3	NP 1	NP 2	NS 1	NS 2	MT 1	RS 1	RS 2	FC 1	CC 1	CC 2	CC 3	AT 1	AT 2
Albania	x*	x		x		x	x	x	x	x		x	x			
Argentina	x					x	x	x	x	x	x	x		x		
Australia	x					x		x	x							
Canada	x										x					
China	x	x	x	x		x	x	x	x	x		x		x		
France	x					x		x	x							
India	x	x	x	x	x	x	x	x	x	x		x		x		
Mexico	x	x		x		x	x	x	x	x	x	x		x		
Sudan	x	x		x		x	x	x	x	x		x		x	x	x
Syria	x	x	x	x		x	x	x	x	x		x		x		

Red Flags

The exporter has an important role to play in preventing exports and re-exports that might be contrary to the national security and foreign policy interests of the United States and to ensure that the shipment is not in violation of Bureau of Export Administration regulations. To assist in determining the motives of a buyer, the BXA proposes these indicators as possible signs that a customer is planning an unlawful diversion:

1. The customer or purchasing agent is reluctant to offer information about the end use of a product.
2. The product's capabilities do not fit the buyer's line of business; for example, a small bakery places an order for several sophisticated lasers.
3. The product ordered is incompatible with the technical level of the country to which the product is being shipped. For example, semiconductor-manufacturing equipment would be of little use in a country without an electronics industry.
4. The customer has little or no business background.
5. The customer is willing to pay cash for a very expensive item when the terms of the sale call for financing.
6. The customer is unfamiliar with the product's performance characteristics but still wants the product.
7. The customer declines routine installation, training, or maintenance services.
8. Delivery dates are vague, or deliveries are planned for out-of-the-way destinations.
9. A freight-forwarding firm is listed as the product's final destination.
10. The shipping route is abnormal for the product and destination.
11. Packaging is inconsistent with the stated method of shipment or destination.
12. When questioned, the buyer is evasive or unclear about whether the purchased product is for domestic use, export, or re-export.

Examples of Violations and Penalties of BIS Export Controls

End Use/End User Violation

A \$12 million civil penalty was imposed against an American airframe manufacturer as part of a settlement of charges that the company violated federal export control laws by submitting false and misleading statements about the end use and end user of machine tools. In a related case, the BIS imposed a \$1.32 million civil penalty and a denial of export privileges on a group of Chinese government-owned companies and their U.S. affiliates that had received the machine tools from the American firm.

Facilitating Export to Denied Persons

The Commerce Department imposed a \$15,000 penalty on FedEx for allegedly facilitating the export of U.S.-origin semiconductor test equipment from the United States to Taiwan to a Denied Person and failure to maintain records of the subject transaction.

Dual-Use Products

Bushnell Corporation, which does business as Worldwide Sports & Recreation, pleaded guilty to conspiracy and violation of export regulations. For a period of two years, more than 500 Night Ranger night vision devices were shipped to Japan and 14 other countries without the required export license. The U.S. attorney warned that "distributors of equipment with potential military use must be vigilant about compliance with export restrictions.... Willful blindness and deliberate ignorance of the law is not an excuse when national security is at issue." Under a plea agreement, Bushnell agreed to pay a criminal fine of \$650,000 and receive five years of corporate probation.

Violation of Antiboycott Provisions

St. Jude Medical Export GmbH agreed to pay a \$30,000 penalty for violating the EAR when it failed to report in a timely manner its receipt of three requests from an Iraqi government agency to adhere to the rules of the Arab League boycott of Israel during a reporting period. On four occasions, St. Jude also violated the antiboycott provisions of the EAR by agreeing to refuse to do business with persons blacklisted by the Arab League.

Illegal Transshipping

All export privileges were denied for eight years to David Portnoy, convicted of violating the International Emergency Economic Powers Act by transshipping electronic components and telecommunications equipment through Switzerland to Libya (a U.S. boycott of Libya was in force) without the required export licenses.

ELAIN, STELA, ERIC, and SNAP

- ELAIN (Export License Application and Information Network)
- STELA (System for Tracking Export License Applications)
- ERIC (Electronic Request for Item Classification)
- SNAP (Simplified Network Application Process)



Import Restrictions

- Tariffs
- Exchange permits
- Quotas
- Import licenses
- Standards
- Boycotts
- Voluntary agreements
- Other restrictions



Terms of Sale

- CIF (cost, insurance, freight)
- C&F (cost and freight)
- FAS (free alongside)
- FOB (free on board)
- EX (named port of origin)

Whose Responsible for Costs under Various Terms?

Exhibit 15.6

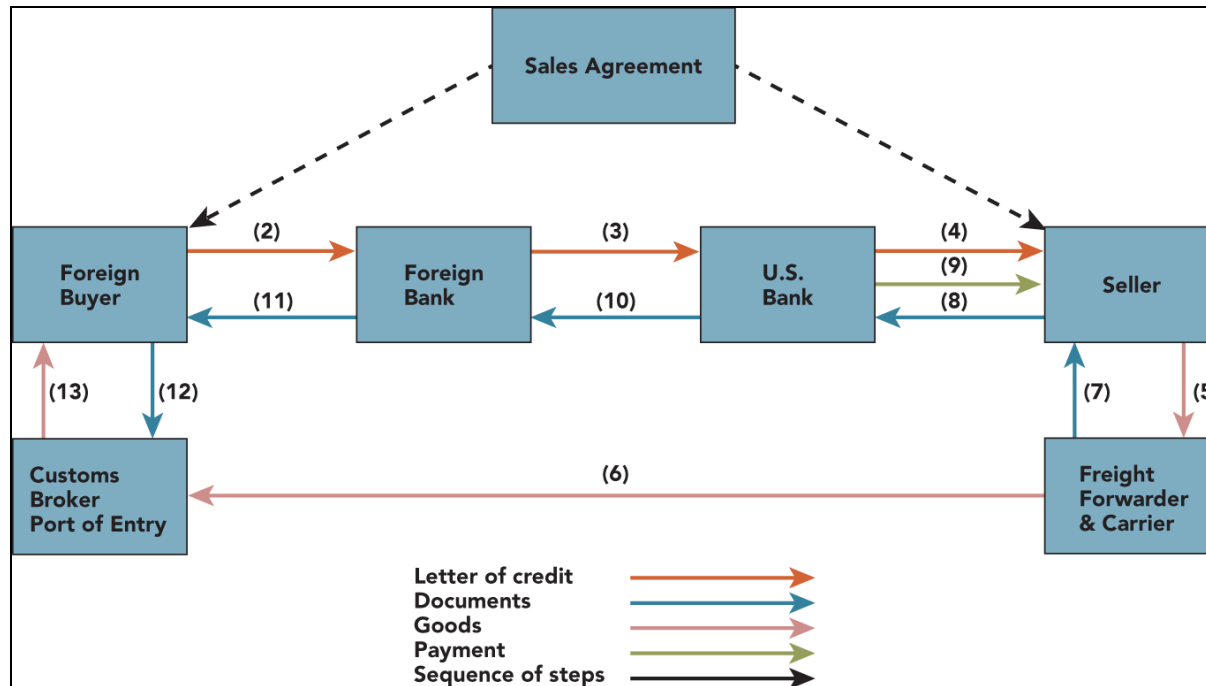
Cost Items/Terms	FOB, Inland Carrier at Factory	FOB, Inland Carrier at Point of Shipment	FAS, Vessel or Plane at Port of Shipment	CIF, at Port of Destination
Export packing*	Buyer	Seller	Seller	Seller
Inland freight	Buyer	Seller	Seller	Seller
Port charges	Buyer	Buyer	Seller	Seller
Forwarder's fee	Buyer	Buyer	Buyer	Seller
Consular fee	Buyer	Buyer	Buyer	Buyer [†]
Loading on vessel or plane	Buyer	Buyer	Buyer	Seller
Ocean freight	Buyer	Buyer	Buyer	Seller
Cargo insurance	Buyer	Buyer	Buyer	Seller
Customs duties	Buyer	Buyer	Buyer	Buyer
Ownership of goods passes	When goods on board an inland ocean carrier (truck, rail, etc.) or in hands of inland carrier	When goods unloaded by inland carrier	When goods alongside carrier, in hands of air or ocean carrier	When goods on board air or carrier at port of shipment

Getting Paid – Foreign Commercial Payments

- Letter of credit
 - Afford the greatest degree of protection for the seller
 - Can be revocable or irrevocable
 - Not a guarantee of payment to the seller
- Bills of exchange
 - Also known as dollar drafts
 - ▶ The seller assumes all risk until the actual dollars are received
 - Sight draft
 - Arrival draft
 - Date draft

A Letter-of-Credit Transaction

Exhibit 15.7





Getting Paid – Foreign Commercial Payments

- Cash in advance
 - Places unpopular burdens on the customer
- Open accounts
 - Not generally made in foreign trade
 - Leaves sellers at a disadvantage
- Forfaiting
 - Seller makes a one-time arrangement with a financial institution to take over responsibility for collecting the account receivable

Principal Export Documents

Exhibit 15.8

Export Documents Presented at the port of exit; includes the names and addresses of the principals involved, the destination of the goods, a full description of the goods, and their declared value.

Consular Invoice or Certificate of Origin Some countries require consular invoices obtained from the country's consulate and returned with two to eight copies in the language of the country, along with copies of other required documents (e.g., import license, commercial invoice, bill of lading), before certification is granted. Preparation of the document should be handled with extreme care because fines are levied for any errors uncovered. In most countries, the fine is shared with whoever finds the errors, so few go undetected.

Bill of Lading The bill of lading is the most important document required for establishing legal ownership and facilitating financial transactions. It serves the following purposes: (1) as a contract for shipment between the carrier and shipper, (2) as a receipt from the carrier for shipment, and (3) as a certificate of ownership or title to the goods.

Commercial Invoice Every international transaction requires a commercial invoice, that is, a bill or statement for the goods sold. This document often serves several purposes; some countries require a copy for customs clearance, and it is one of the financial documents required in international commercial payments.

Insurance Policy or Certificate The insurance policy or certificate of insurance is considered a key document in export trade.

Licenses Export or import licenses are additional documents frequently required in export trade. In those cases when import licenses are required by the country of entry, a copy of the license or license number is usually required to obtain a consular invoice. Whenever a commodity requires an export license, it must be obtained before an export declaration can be properly certified.

Other Documents Sanitary and health inspection certificates attesting to the absence of disease and pests may be required for certain agricultural products before a country allows goods to enter its borders. Packing lists with correct weights are also required in some cases.



Packing and Marking

- Export packaging must consider:
 - Protection against rough handling, climate, pilferage
 - Effect of gross weight on import fees
- All countries regulate the marking of imported goods and containers
 - All markings must conform exactly to the data on the export documents
- Preparing shipment to (Country) details:
 - Necessary export documents
 - Regulations for labeling, marking, packing, and customs procedures

Customs-Privileged Facilities

- Customs-privileged facilities
 - Areas where goods can be imported for storage and/or processing with tariffs and quota limits postponed until the products leave the designated areas
- Foreign trade zones (FTZs)
 - Drawback
- Offshore assembly (Maquiladoras)
 - Originated in Mexico in the early 1970's
 - NAFTA



Logistics

- Logistics management
 - Total systems approach to management of the distribution process
 - ▶ Physically moving raw material
 - ▶ In-process inventory
 - ▶ Finished goods inventory from the point of origin to the point of use or consumption

Interdependence of Physical Distribution Activities

- Physical distribution system
 - Physical movement of goods
 - Location of plants and warehousing (storage)
 - Transportation mode
 - Inventory quantities
 - Packing
- Interdependence of the costs of each activity
 - A decision involving one activity affects the cost and efficiency of one or all others
 - Sum of each of the different activity costs entails an infinite number of “total costs”

Real Physical Distribution Costs between Air and Ocean Freight – Singapore to the United States

In this example, 44,000 peripheral boards worth \$7.7 million are shipped from a Singapore plant to the U.S. West Coast. Cost of capital to finance inventories is 10 percent annually, or \$2,109 per day, to finance \$7.7 million.

	Ocean	Air
Transport costs	\$ 31,790 (in transit 21 days)	\$127,160 (in transit 3 days)
In-transit inventory financing costs	\$ 44,289	\$ 6,328
Total transportation costs	\$ 76,179	\$133,488
Warehousing inventory costs, Singapore and U.S.	(60 days @ \$2,109 per day) \$126,540	
Warehouse rent	\$ 6,500	
Real physical distribution costs	\$209,219	\$133,488



Benefits of a Physical Distribution System

- Cost advantages
- Optimal inventory levels
- Optimal production capacity
- More dependable delivery service to the market
- Can render natural obstructions created by geography less economically critical for multinational marketer

Export Shipping and Warehousing

- Common shipping modes
 - Ocean shipping
 - Airfreight
 - Air express
 - Parcel post
- Containerization
- Intermodal services
- Intermodal marketing companies (IMCs)
- Rail transportation
- Complete logistics management services
 - UPS
 - FedEx
- Merge-in-transit



Foreign Freight Forwarder

- Licensed by the Federal Maritime Commission
- Arranges for the shipment of goods as the agent for an exporter
 - Arranges for complete shipping documentation
 - Provides information and advice on routing and scheduling, rates and related charges, consular and licensing requirements, labeling requirements, and export restrictions
 - Offers shipping insurance, warehouse storage, packing and containerization, and ocean cargo or airfreight space



International Logistics and Supply Chain Management

- Information technology now allows communication with participants in real time via a single connection point
- NetLinx
- Descartes
- 3PL providers or integrators
 - UPS Logistics Group

Terrorism and Logistics

- Cargo and Container Security Initiative (CSI)
 - 24-hour rule
- Customs-Trade Partnership against Terrorism (C-TPAT)
 - Augments the 24-hour rule by extending security procedures throughout the supply chain
 - Only applies to U.S. importers
- Electronic tracking (C-TPAT-Plus)
 - RFID
 - GPS
 - Cellular
 - Satellite
 - Ultra-wide-band
 - Bluetooth
 - Bar codes
 - Optical character recognition

Radio frequency Identification

As a potential for a security breach, each of the 42 million containers imported annually is a Trojan horse. Companies and customs are seeking ways to ensure the security of cargo without causing undue delays in the movement of goods. RFID is a flexible system that is adaptable to different needs and has the potential to provide both the shipper and customs with information in real time as goods move through the supply chain.

By attaching an RFID tag, any item—shipping container, pallet, packing crate, or package—can be located and/or tracked from point of origin to final destination, gathering information along the way.

The transponder (tag) is the backbone of the RFID system. It stores an identification code and other pertinent data and then transmits the data when the transceiver sends activation signals to it and receives identification data from the tag.

A read-only tag has an ID code plus other information such as the manifest, destination, shipping port, receiving port, and any other pertinent information the shipper desires. Each tag carries a mini-databank that identifies a particular item and contains accounting and inventory system information. Up to 70 pages of text can be coded on a tag. When a container with a tag passes an entry–exit point equipped with readers, its location is precisely recorded so managers can respond to any unanticipated changes. Furthermore, any data desired can be accessed and sent to the shipper, customs, or anyone else needing the information.

RFID is ideal for a shipping company. Multi-ton cargo containers in an Asian port, for example, can be tracked daily using RFID to assist in loading and unloading at numerous ship berths and countless truck loading areas. Transponders are embedded in the ground throughout the port. When cranes hoist cargo on and off ships and trucks, the lifting arm–mounted readers interrogate each transponder and match the code with the yard location. Managers have real-time information on the location and destination of each container, and these data can be relayed to customs authorities before the arrival, thereby expediting border crossings.

Besides the basic read-only tag, transponders also have read and write capabilities, which allow for data to be changed dynamically at any time. Read–write tags have the ability to receive information from a variety of sensors that can also be installed in a container. Sensors to detect changes in humidity within a container and others that detect changes in pressure and light to detect if the door has been opened can feed information to the RFID tag, which can then alert operators to the possibility of tampering or theft. An integrated environmental sensor module monitors temperature, humidity, and shock throughout the container's journey, allowing shippers, carriers, and logistics providers to detect spoilage or damage to goods. One system under development includes sensors that detect specific chemical, biological, and nuclear threats. The sensor data are sent in real time to a powerful transmitter on the ship, which can transmit the data via a satellite to authorities on shore. The system can also include sensors that monitor light, heat, motion, and shock, allowing it to detect conditions that might damage cargo. In addition, each container is monitored by GPS, so its location can be tracked worldwide.

Tags can verify that a container was loaded at a secure loading point, significantly reducing the likelihood that tampering will occur in transit; gather enough data to conduct a "virtual inspection" in advance of arrival; and guarantee that shipping containers meet governmental security regulations. Shipments that satisfy government regulations will avoid extensive delays in shipment and receipt and minimize cost of handling.



Summary

- The mechanics of exporting require little room for interpretation or improvisation
- Nature of regulations and restrictions surrounding importing and exporting can lead to frequent and rapid change
 - The manufacturer must keep abreast of all foreign and domestic changes in requirements and regulations
- Foreign-freight-forwarders can handle many details for a nominal fee

Summary

- Transportation mode affects total product cost
- Physical distribution system
 - Determines everything from plant location to final customer delivery in terms of most efficient use
 - ▶ Capital investment
 - ▶ Resources
 - ▶ Production
 - ▶ Inventory
 - ▶ Packaging
 - ▶ Transportation
- Continuous innovations in IT, the Internet, and software programs can minimize much of the burden associated with global marketing