

6.5: Managing Export and Import

Learning Objectives

1. Learn the main players in export and import.
2. Recognize the role of intermediaries.
3. Identify some of the documents needed for export and import transactions.

Who Are the Main Actors in Export and Import?

The size of exports in the world grew from less than \$100 million after World War II to well over \$11 trillion today. Export and import is big business, but it isn't just for big businesses. Most of the participants are small and midsize businesses, making this an exciting opportunity for entrepreneurs.

Importing and exporting require much **documentation** (i.e., filing official forms) to satisfy the regulations of countries. The value of the documentation is that it enables trade between entities who don't know each other. The parties are able to trust each other because the documentation provides a common framework and process to ensure that each party will do what they say in the import/export transaction.

The main parties involved in export and import transactions are the exporter, the importer, and the carrier. The **exporter** is the person or entity sending or transporting the goods out of the country. The **importer** is the person or entity buying or transporting goods from another country into the importer's home country. The **carrier** is the entity handling the physical transportation of the goods. Well-known carriers across the world are United Parcel Service (UPS), FedEx, and DHL.

Customs administration offices in both the home country and the country to which the item is being exported are involved in the transaction. In the United States, the US Customs Service became the US Bureau of Customs and Border Protection (CBP) after the terrorist attacks on September 11, 2001. The mandate now isn't simply to move goods through customs quickly and efficiently to facilitate international trade; it also ensures that the items coming into the United States are validated and safe as well. Robert Bonner took the position as commissioner of the Customs Service on September 10, 2001. On his second day on the job at 10:05 a.m. EDT, he had to close all the airports, seaports, and border ports of entry. The priority mission of the Customs Service became security—preventing terrorists and terrorist weapons from entering the country. On the third day, however, the trade and business implications of shutting down the borders became visible. Border crossings that used to take ten to twenty minutes were taking ten to twelve hours. Automobile plants in Detroit, using just-in-time delivery of parts for cars, began to shut down on September 14 due to a lack of incoming supplies and parts. Businesses were going to have a difficult time operating if the borders were closed. Thus, the twin goals of the newly created CBP became security as well as trade facilitation. As Bonner explained, "In the past, the United States had no way to detect weapons coming into our borders. We had built a global trading system that was fast and efficient, but that had no security measures." Robert Bonner, "Supply Chain Security: Government-Industry Partnership" (presentation at the Resilient and Secure Supply Chain symposium, MIT, Cambridge, MA, September 29, 2005).

Mary Murphy-Hoye, a senior principal engineer at Intel, put it simply: "Our things move in big containers, and the US Department of Homeland Security is worried about them. Security means knowing what is it, where is it, where has it been, and has anyone messed with it." Mary Murphy Hoye, "Future Capabilities in the Supply Chain" (presentation at the MIT Center for Transportation and Logistics conference, MIT, Cambridge, MA, May 8, 2007).

After September 11, the twin goals of safety and facilitation were met through three interrelated initiatives:

1. The twenty-four-hour rule, requiring advanced information prior to loading
2. An automated targeting system to evaluate all inbound freight
3. Sophisticated detection technology for scanning high-risk containers

Cooperation for Security

The World Customs Organization (WCO) created a framework that calls for cooperation between the customs administrations of different countries. Under the WCO Framework of Standards to Secure and Facilitate Global Trade, if a customs administration in one country identifies problems in cargo from another country, that customs administration could ask the exporting country to do an inspection before goods are shipped. Businesses across the world benefit (in terms of speed and cost) if there is one common set of security standards globally, and the WCO is working toward that goal. World Customs Organization, "WCO Presents Draft

Framework of Standards at Consultative Session in Hong Kong, China,” news release, March 25, 2005, accessed September 7, 2010, www.wcoomd.org/press/default.aspx?lid=1&id=78.

Role of Intermediaries

In addition to the main players described above, intermediaries can get involved at the discretion of the importer or exporter. Entrepreneurs and small and midsize businesses, in particular, make use of these intermediaries, rather than expending their resources to build these capabilities in-house.

A **freight forwarder** typically prepares the documentation, suggests shipping methods, navigates trade regulations, and assists with details like packing and labeling. At the foreign port, the freight forwarder arranges to have the exported goods clear customs and be shipped to the buyer. The process ends with the freight forwarder sending the documentation to the seller, buyer, or intermediary, such as a bank.

As you learned in Chapter 14, [Section 14.1](#), an export management company (EMC) is an independent company that performs the duties a firm’s export department would execute. The EMC handles the necessary documentation, finds buyers for the export, and takes title of the goods for direct export. In return, the EMC charges a fee or a commission for its services.

Banks perform the vital role of finance transactions. The role of banks will be examined in Chapter 14, [Section 14.5](#).

What’s Needed for Import and Export Transactions?

Various forms of documentation are required for import and export transactions.

The **bill of lading** is the contract between the exporter and the carrier (e.g., UPS or FedEx), authorizing the carrier to transport the goods to the buyer’s destination. The bill of lading acts as proof that the shipment was made and that the goods have been received.

A **commercial or customs invoice** is the bill for the goods shipped from the exporter to the importer or buyer. Exporters send invoices to receive payment, and governments use these invoices to determine the value of the goods for customs-valuation purposes.

Did You Know?

IBM does business with 160 countries. Daily, it sends 2,500 customs declarations and ships 5.5 million pounds of products worth \$68 million. Theo Fletcher, “Global Collaboration for Security” (presentation at the Resilient and Secure Supply Chain symposium, MIT, Cambridge, MA, September 29, 2005).

The **export declaration** is given to customs and port authorities. The declaration provides the contact information for both the exporter and the importer (i.e., buyer) as well as a description of the items being shipped, which the CPB uses to verify and control the export. The government also uses the information to compile statistics about exports from the country.

Humorous Anecdote

Customs regulations in some countries—particularly emerging-market countries—may impede or complicate international trade. A study of the speed and efficiency of items getting through customs in different countries found that it can take anywhere from three to twenty-one days to clear incoming goods. This variation causes problems because companies can’t plan on a steady flow of goods across the border. Some countries have customs idiosyncrasies. In Brazil, for example, no goods move within the country on soccer game days and documents that are not signed in blue ink will incur delays for their accompanying goods. “Supply Chain Strategies in Emerging Markets” (roundtable discussion at the MIT Center for Transportation and Logistics, MIT, Cambridge, MA, March 7, 2007).

The **certificate of origin**, as its name implies, declares the country from which the product originates. These certificates are required for import duties. These import duties are lower for countries that are designated as a “most favored nation.”

Certificate of Origin as Marketing Tool

Not all governments or industries require certificates of origin to be produced, but some companies are seeing that a certificate of origin can be used for competitive advantage. For example, Eosta, an importer of organic fruit, puts a three-digit number on each piece of fruit. At the website <http://www.natureandmore.com>, customers can type in that number and get a profile of the farmer who grew the fruit, getting a glimpse into that farmer’s operations. For example, Fazenda Tamanduá, a farm in Brazil, grows mangoes using a variety that needs less water to grow and a drip-irrigation system that optimizes water use. This database gives customers a way to learn about growers and provides a way for growers and others to share what they learn. Daniel Goleman,

Ecological Intelligence (New York: Crown Business, 2009), 191. Providing this type of certification to customers differentiates Eosta products and makes them more attractive to sustainability-minded consumers.

Although not required, **insurance certificates** show the amount of coverage on the goods and identify the merchandise. Some contracts or invoices may require proof of insurance in order to receive payment.

Some governments require the purchase of a **license** (i.e., permission to export) for goods due to national security or product scarcity. Interestingly, licenses for import and export date back to the 1500s at least, when Japan required a system of licenses to combat the smuggling of goods taking place. Maritza Manresa, *How to Open and Operate a Financially Successful Import Export Business* (Ocala, FL: Atlantic Publishing, 2010), 20.

Impact of Trade Agreements

Trade agreements impact the particulars of doing business. For example, the North American Free Trade Agreement (NAFTA) makes Mexico different from other Latin American countries due to the ease of movement of goods between that country and the United States. Changes in agreements can affect the competitiveness of different countries. When China joined the World Trade Organization (WTO), the rapid elimination of tariffs and quotas on textiles harmed US makers.

The **letter of credit** is a legal document issued by a bank at the importer's (or buyer's) request. The importer promises to pay a specified amount of money when the bank receives documents about the shipment. Simply put, the letter of credit is like a loan against collateral (in this case, the goods being shipped) in which the funds are placed in an escrow account held by the bank. Letters of credit are trusted forms of payment in international trade because the bank promises to make the payment on behalf of the importer (i.e., buyer) and the bank is a trusted entity. Given that the letter of credit is like a loan, getting one issued from the bank requires proof of the importer's (or buyer's) ability to pay the amount of the loan.

Chapter 14, Section 14.5 is devoted to the broad topic of the payment and financing associated with import and export transactions.

KEY TAKEAWAYS

- There are several main parties involved in export and import transactions:
 - The exporter, who is the person or entity sending or transporting the goods out of the country
 - The importer, who is the person or entity buying or transporting goods from another country into the importer's home country
 - The carrier, which is the entity handling the physical transportation of the goods
 - The customs-administration offices from both the home country and the foreign country
- Intermediaries, such as freight forwarders and export management companies (EMC), provide companies with expert services so that the firms don't have to build those capabilities in-house. You could argue that such intermediaries make the world flatter, while the regulations and institutions that they help the firm deal with actually make the world less flat. Freight forwarders specialize in identifying the best shipping methods, understanding trade regulations, and arranging to have exported goods clear customs. EMCs handle the necessary documentation, find buyers for the export, and take title of the goods for direct export.
- Essential documents for importing and exporting include the bill of lading, which is the contract between the exporter and the carrier; the export declaration, which the customs office uses to verify and control the export; and the letter of credit, which is the legal document in which the importer promises to pay a specified amount of money to the exporter when the bank receives proper documentation about the shipment.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Name the four main players in export and import transactions.
2. What role do intermediaries play in export and import transactions?
3. Explain the purpose of a letter of credit.
4. What is the difference between the export declaration and the commercial or customs invoice? How are they related?

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