
Level 2 Certificate in International Supply Chain Logistics

International Trade and Customs Compliance

International Trade and Customs Compliance Key Terms and Vocabulary

International trade is the exchange of goods and services between different countries. It is essential for the global economy as it allows countries to specialize in the production of goods and services in which they have a comparative advantage, leading to increased efficiency and economic growth.

Customs compliance refers to adhering to the laws and regulations governing the movement of goods across borders. Failure to comply with customs regulations can result in penalties, delays, and even the seizure of goods. Understanding key terms and vocabulary related to international trade and customs compliance is crucial for professionals working in supply chain logistics. Below are some important terms in this field:

1. Tariff

A tariff is a tax imposed on imported goods. It is used to protect domestic industries from foreign competition or to generate revenue for the government. Tariffs can be ad valorem (based on a percentage of the value of the goods) or specific (a fixed amount per unit of the goods).

Example: The United States recently imposed tariffs on steel and aluminum imports to protect its domestic industry from foreign competition.

2. Free Trade Agreement (FTA)

A free trade agreement is a pact between two or more countries to reduce or eliminate barriers to trade, such as tariffs and quotas. FTAs help promote economic growth and cooperation among member countries.

Example: The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico eliminated most tariffs on goods traded between the countries.

3. Incoterms

Incoterms are standardized international trade terms published by the International Chamber of Commerce (ICC) that define the responsibilities of buyers and sellers in a transaction. They cover key aspects such as delivery, risk transfer, and costs.

Example: FOB (Free on Board) and CIF (Cost, Insurance, and Freight) are common Incoterms used in international trade to specify when ownership and risk transfer from the seller to the buyer.

4. Customs Broker

A customs broker is a licensed professional who helps importers and exporters comply with customs regulations and facilitate the clearance of goods through customs. They ensure that all necessary documentation is in order and help navigate complex customs procedures.

Example: ABC Logistics hires a customs broker to handle the clearance of its imported goods through customs to ensure compliance with regulations and expedite the process.

5. Harmonized System (HS) Code

The Harmonized System is an international nomenclature for the classification of products used by customs authorities around the world. Each product is assigned a unique HS code, which helps facilitate the movement of goods across borders.

Example: A shipment of electronic devices may be classified under HS code 8517, which covers telephones, cell phones, and other communication devices.

6. Certificate of Origin

A Certificate of Origin is a document that certifies the country in which the goods were produced or manufactured. It is used to determine the eligibility of goods for preferential treatment under free trade agreements or to comply with import regulations.

Example: A Certificate of Origin may be required to prove that goods imported under a free trade agreement meet the rules of origin criteria to qualify for reduced or zero tariffs.

7. Anti-Dumping Duty

An anti-dumping duty is a tariff imposed on imported goods that are priced below fair market value, usually to protect domestic producers from unfair competition. It is meant to prevent "dumping," where foreign producers sell goods at artificially low prices to gain market share.

Example: The European Union imposed anti-dumping duties on Chinese steel imports to prevent Chinese producers from flooding the market with cheap steel.

8. Import License

An import license is a permit issued by the government authorizing the importation of specific goods into the country. It is used to regulate trade in sensitive or restricted products and ensure compliance with import regulations.

Example: Some countries require an import license for the importation of agricultural products, pharmaceuticals, or firearms to control the quality, quantity, and safety of imported goods.

9. Rules of Origin

Rules of origin are criteria used to determine the national source of a product for customs purposes. They are essential for applying preferential tariffs under free trade agreements and ensuring that goods are eligible for special treatment based on their origin.

Example: Under the US-Mexico-Canada Agreement (USMCA), automobiles must meet specific rules of origin requirements to qualify for preferential tariffs when traded between the member countries.

10. Export Control

Export control refers to regulations that restrict the exportation of certain goods, technologies, and services for reasons of national security, foreign policy, or non-proliferation. It aims to prevent the unauthorized

transfer of sensitive items to prohibited destinations.

Example: The United States restricts the export of certain dual-use technologies that could have military applications to countries deemed high-risk for proliferation.

11. Letter of Credit (LC)

A Letter of Credit is a financial instrument issued by a bank on behalf of a buyer, guaranteeing payment to the seller upon the presentation of specified documents. It provides security to both parties in an international transaction.

Example: A seller may require a Letter of Credit from the buyer to ensure payment for a large shipment of goods before they are shipped.

12. Supply Chain Security

Supply chain security refers to measures taken to protect the flow of goods, information, and finances throughout the supply chain from security threats such as theft, terrorism, or natural disasters. It aims to ensure the integrity and safety of the supply chain.

Example: Implementing physical security measures, conducting background checks on employees, and using technology such as GPS tracking can enhance supply chain security and reduce the risk of theft or tampering.

13. Trade Compliance

Trade compliance involves ensuring that all activities related to international trade, including import/export processes, documentation, and transactions, comply with relevant laws and regulations. It helps companies avoid penalties, fines, and reputational damage.

Example: ABC Inc. has a trade compliance program in place to ensure that its international trade activities adhere to customs regulations, export controls, and sanctions programs.

14. Export Declaration

An export declaration is a document submitted to customs authorities that provides information about the goods being exported, their value, destination, and other relevant details. It is used to facilitate customs clearance and ensure compliance with export regulations.

Example: Before shipping a container of goods overseas, exporters must submit an export declaration to customs authorities to declare the contents of the shipment and comply with export control laws.

15. Trade Facilitation

Trade facilitation aims to simplify and streamline international trade procedures to reduce costs, increase efficiency, and enhance competitiveness. It includes measures such as automation, harmonization of processes, and the use of electronic documentation.

Example: Implementing a single window system that allows traders to submit all required trade-related documents electronically can significantly improve trade facilitation by reducing paperwork and processing times.

16. Cross-Border Trade

Cross-border trade refers to the exchange of goods and services between countries that share a common border. It involves complying with customs regulations, tariffs, and other trade barriers that may vary between neighboring countries.

Example: The United States and Canada engage in significant cross-border trade, with goods moving back and forth across the shared border facilitated by trade agreements such as NAFTA.

17. Trade Compliance Software

Trade compliance software is a technology solution used by companies to automate and manage trade compliance processes. It helps ensure that import and export activities adhere to regulations, minimize risks, and maintain accurate records.

Example: XYZ Corporation uses trade compliance software to screen parties, classify products, manage licenses, and track shipments to ensure compliance with customs regulations and export controls.

18. Border Inspection

Border inspection involves the physical examination of goods entering or leaving a country to ensure compliance with customs regulations, safety standards, and import/export restrictions. It is conducted by customs officials at ports of entry.

Example: Customs authorities may conduct random border inspections of shipments to verify the accuracy of documentation, inspect goods for contraband or prohibited items, and assess compliance with import regulations.

19. Import Duty

An import duty is a tax imposed on imported goods by the government of the importing country. It is calculated based on the value or quantity of the goods and is paid by the importer to customs authorities upon entry of the goods into the country.

Example: The United Kingdom imposes import duties on goods imported from outside the European Union to generate revenue and protect domestic industries from foreign competition.

20. Trade Compliance Audit

A trade compliance audit is a systematic review of an organization's import and export activities to assess compliance with customs regulations, trade laws, and internal policies. It helps identify areas of non-compliance and implement corrective actions.

Example: ABC Logistics conducts regular trade compliance audits to ensure that its import/export processes, documentation, and record-keeping practices meet regulatory requirements and best practices.

21. Export Controls Classification

Export controls classification involves determining the export control classification number (ECCN) or export commodity classification number (ECCN) of goods to assess their export control requirements. It helps ensure compliance with export control regulations.

Example: Before exporting sensitive technology products, exporters must classify them under the appropriate ECCN to determine licensing requirements and restrictions for the export of such items.

22. Certificate of Conformity

A Certificate of Conformity is a document issued by a certification body or authority that certifies that imported goods meet specific quality, safety, and technical standards. It is required to demonstrate compliance with regulations and standards.

Example: Before importing electrical appliances, a company must obtain a Certificate of Conformity to verify that the products meet the safety and performance requirements set by the importing country.

23. Export License

An export license is a government authorization granted to exporters to export specific goods to designated destinations. It is required for the export of sensitive items, dual-use technologies, or goods subject to export controls.

Example: Exporters of military equipment or advanced technology products may need to obtain an export license from the government to ensure compliance with export regulations and national security requirements.

24. Preferential Tariff

A preferential tariff is a reduced or zero tariff rate applied to goods traded between countries that have a free trade agreement or preferential trade arrangement. It aims to promote trade, economic cooperation, and market access.

Example: Under the European Union's Generalized System of Preferences (GSP), certain developing countries benefit from preferential tariff rates when exporting goods to EU member states to support their economic development.

25. Risk Management

Risk management involves identifying, assessing, and mitigating risks associated with international trade and customs compliance. It aims to minimize the impact of potential risks on supply chain operations and ensure business continuity.

Example: Implementing a risk management framework that includes risk assessment, monitoring, and mitigation strategies can help companies proactively identify and address potential risks in their international trade activities.

26. Trade Sanctions

Trade sanctions are restrictions or prohibitions imposed by governments on trade with specific countries, individuals, or entities for reasons such as national security, human rights violations, or foreign policy objectives. They aim to influence behavior or enforce compliance.

Example: The United States imposed trade sanctions on Iran to restrict its access to certain goods, technologies, and financial services in response to Iran's nuclear program and support for terrorism.

27. Export Compliance Program

An export compliance program is a set of policies, procedures, and controls implemented by companies to ensure compliance with export regulations and trade laws. It helps prevent violations, penalties, and reputational damage.

Example: XYZ Corporation has established an export compliance program that includes training, screening, record-keeping, and auditing to ensure that its export activities adhere to regulations and best practices.

28. Supply Chain Visibility

Supply chain visibility is the ability to track and monitor the movement of goods, information, and finances throughout the supply chain in real-time. It enables companies to identify inefficiencies, mitigate risks, and improve decision-making.

Example: Using RFID technology, GPS tracking, and cloud-based platforms, companies can enhance supply chain visibility by capturing data on inventory levels, shipment status, and delivery times to optimize supply chain operations.

29. Import Clearance

Import clearance is the process of obtaining approval from customs authorities to bring goods into a country. It involves submitting required documentation, paying duties, and complying with import regulations to release the goods for distribution.

Example: After a shipment of goods arrives at a port of entry, importers must complete the necessary paperwork, pay import duties, and undergo customs inspection to obtain import clearance and take possession of the goods.

30. Trade Documentation

Trade documentation includes all the paperwork required for international trade transactions, such as invoices, packing lists, bills of lading, certificates of origin, and export declarations. Accurate documentation is essential for customs compliance and smooth logistics operations.

Example: Before shipping a container of goods overseas, exporters must prepare trade documentation that details the contents, value, origin, and destination of the goods to facilitate customs clearance and ensure compliance with regulations.

Conclusion

Understanding key terms and vocabulary related to international trade and customs compliance is essential for professionals working in supply chain logistics. By familiarizing themselves with these terms and concepts, professionals can navigate the complexities of global trade, comply with regulations, and optimize supply chain operations. Continuous learning and staying informed about changing regulations and best practices are crucial for success in the dynamic field of international supply chain logistics.