IMPORT FAQs — A Guide for Beginners

This guide is intended to give you answers to some general import questions prior to an initial consultation with a consultant of the Kutztown University Small Business Development Center.

Why consider importing?

- Need a new product or service not available from a domestic supplier
- Need an alternative/additional source of a product to supplement an existing supplier or to diversify sourcing
- Seek products to broaden your product offering
- Need a lower cost source to remain competitive

Successful importing may enhance your domestic competitiveness and potential expansion of your business.

What are the risks you should be aware of?

- **Performance Risk** — An accurate assessment of the ability of the exporter to supply the product as promised is of prime importance in the import of any product. References from established (non-competitor) customers are a good indication of the overall ability of the exporter to satisfactorily produce and ship the products you order. Key questions to ask a reference is what type of disputes have you had with the exporter and how were they resolved. A site visit to the importer's plant is very desirable although out of reach for small importers and start ups. If possible, establish one contact within the company who is responsible for correspondence and the accurate, timely shipment of your order.
- **Product Risk —** Quantity, quality and consistency of the products you order are obviously important. The reputation of the exporter is therefore of prime importance. However, small and new importers assume a risk that what you ordered isn't what you receive. Third party inspections can resolve this issue but at an additional cost to the importer. It is advisable to have an agreement in place with the importer prior to purchasing products that addresses product disputes. However, a written agreement may not provide you with protection since legal recourse or

arbitration take time and can be expensive, beyond the reach of small importers.

- **Delivery Risk —** Beyond the obvious performance of the exporter in shipping the product, the importer is dependent on the weather conditions, seasons, customs clearance and delivery to a plant or warehouse. A political crisis can also frustrate an ocean or air shipment. The experience of the freight forwarder and the licensed customs broker (usually the same entity) can be helpful in identifying potential obstacles and assist you in tracking the shipment.
- **Damage in Transit** — The importer may have to specify packing instructions and materials to assure that products arrive undamaged. This may differ from domestic shipments, adding cost and delays to the order. It is advisable, if possible, to maintain a buffer inventory so that your customers have adequate supply of products despite the risks described above. Some importers permit their customers to maintain products on consignment to maintain a reliable supply their customers. Air and ocean shipments should be insured, which is generally a nominal cost, for 110% of the value of the shipment, transportation cost and the insurance.

- **Payment/Exchange Risk** — Currency fluctuations, bank charges and unbudgeted costs can lead to payment disputes between exporters and importers. Discussions and agreements that address banking charges, product and shipping disputes and currency fluctuations can reduce disagreements and create a framework for positive resolution of disputes. Some exporters and importers agree to split difference in currency fluctuation based on a defined exchange rate and a fluctuation exceeding a percent or number. Early notice of price increases, changes in market conditions or special concessions may ease the often tense discussions of payment and price change. As an importer, you must have a clear idea of both market conditions and what customers will pay for the imported product.

How do I start?

- **Product Description —** Obtain a complete and accurate description of the product and its origin.

- **Harmonized Code Number —** Proper classification of the product for customs and tariff purposes is necessary and incorrect classification can delay your import and increase costs. The current Harmonized Tariff Schedule of the United States (HTSUS), issued by the United States international Trade Commission, can be found at http://www.usitc.gov/tata/hts/index.htm . You may also email the ITC for assistance on determining product classification by clicking on the "Contact Us" button on the home page above. Your freight forwarder may also help you classify your product. For US Custom's purposes, the tariff is based on the ex-works cost of the product, not on an *ad valorem* value (freight and marine insurance added) common to other major developed countries.
- **Licensed Customs Broker —** *Prior* to your first order, consult with your designated licensed customs broker/freight forwarder to understand all of the costs, documentation, insurance, bonding and time requirements to import. This should be a written quotation. You may wish to consult with several brokers to identify the best service and pricing. The price and time constraints will help determine the quantities and frequency of your orders. The importer should also discuss at an early with the customs broker when the import fees need to be paid. Experienced importers *may* post their own bonding and import without the services of a customs broker but this should only be undertaken with a full understanding of the required documentation and bonding regulations.
- **Manufacturer/Seller —** An accurate evaluation of the capability of the exporter to provide you with the product you wish in the time and quantities you need is essential to your successful import. (See "Performance Risk" above.) Other important factors in the purchase decision are: 1.) your ability to communicate with the seller whether in English or another language: 2.) manufacturing capacity to meet your orders in a timely manner; and 3.) their financial ability to meet working capital and capacity expansion as needed.
- **Written Agreement —** A written agreement outlining the obligations of both buyer and seller is highly recommended so that the

responsibilities are clearly outlined in writing and understood. While this may delay the initial order, in the long run, an agreement can reduce misunderstandings between buyer and seller.

- **Sample Order —** If possible, place a sample order to test the performance of the seller and the ability to obtain the product ordered within a defined timeframe.

What else should I consider at an early stage?

- **Import License —** Generally, US companies do not need an import license unless the import is a restricted item due to reasons of public safety or health, such as arms, plants, exotic animals or dangerous substances. However, products that are subject to US regulations, such as certifications or standards, would also have to meet the same US standards. This also applies to labeling, origin, English language, nutritional information for food products and safe handling instructions.
- **US Regulatory Compliance —** Safety, health, regulatory compliance is required which can add time and expense to your efforts to import the product. US agencies such as the Food and Drug Administration, Environmental Protection Agency and the Department of Agriculture among other have requirements. Other approvals from private entity such as Underwriters Laboratories for certain products, may be desirable though not required for successful sales in the US.
- **TIN —** Generally an importer will need their Tax Identification Number for customs clearance form. The Social Security Number may be a substitute for the TIN.
- **Quotas —** While most imports are governed by tariffs agreed between countries or with trade blocs, products may be subject to quotas, especially in textiles and commodity agricultural products. For the Harmonized Code for the import, make sure that the product is not subject to a quota.
- **Penalties/Delays —** Failure to follow US regulations can result in delays, penalties, storage costs, US Customs inspection costs or denial of entry altogether. The importer of record may be responsible for return shipping or disposal costs.

HOW TO PREPARE FOR AN INITIAL SBDC CONSULTATION

By answering the four questions below, prior to your initial appointment, your first meeting will likely be more productive. Try to answer each question concisely. Your advance work means that the Kutztown University SBDC consultant can address your concerns more quickly and help you engage in international trade at an earlier date.

1. **Briefly describe your business (Products/Services, Sales & Profitability, Brief History)**

2. **What products do you wish to import and from where?**

3. **What are the key questions that you have regarding the import of these products?**

4. **What is your time frame for assistance?**