International Trade Center
Providing Value. Delivering Results. Globally.

IMPORT & EXPORT GLOSSARY

International Trade related words, terms and phrases defined and demystified.

South-West Texas Border
Small Business Development Center Network
The University of Texas at San Antonio

UTSA Institute for Economic Development

www.texastrade.org

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WELCOME TO THE INTERNATIONAL TRADE CENTER

On behalf of the International Trade Center, I would like to thank you for your interest in our services. Since our founding in 1992 we have taken great pride in assisting small and medium sized businesses grow and nurture their international business presence.

The International Trade Center is the only source of comprehensive trade consulting and market research services in the State of Texas. Our clients receive technical trade assistance provided by experienced and Certified Global Business Professional (CGBP) credentialed International Business Consultants and a market research team that uses state-of-the-art resources.

Our services are always 100% confidential, customized and offered at no cost. Whether your company is just starting its international operations or is an experienced firm looking to expand into new global markets, the International Trade Center can provide you with the consulting and market research assistance that will help you make better decisions and increase profits.

In addition to our one-on-one consulting and market research, we offer real-world information and expertise on how to be successful in global trade through our training program. Companies can choose from a wide variety of market specific or trade skill programs that are conducted by industry experts, provide strategic contacts and deliver a high level of take-away value that you can immediately apply in your business.

So whether you are just beginning in international trade, or are an established firm looking to expand, we look forward to working together with you to help your company grow.

Fondest Regards,

Cliff Paredes

Import & Export Glossary of Terms

Agency/Distributor: A direct market entry method where the exporter contracts a partner or representative in the country of import to sell and/or represent their products. Although the terms agent, sales agent, sales representative, distributor, etc. are often misused interchangeably, there are some important differences to note.

Agent/Sales Representative: Overseas, a sales agent or sales representative is the equivalent of a manufacturer's representative in the United States. The representative uses the company's product literature and samples to present the product to potential buyers. A representative usually handles many complementary lines that do not conflict. The sales representative usually works on a commission basis, assumes no risk or responsibility, and is under contract for a definite period of time (renewable by mutual agreement). The contract defines territory, terms of sale, method of compensation, reasons and procedures for terminating the agreement, and other details. The sales representative may operate on either an exclusive or a non-exclusive basis. Firms in the US, and other developed countries have stopped using the term "agent" and instead rely on the term "representative," since agent can imply the authority, perhaps even a power of attorney, to make commitments on behalf of the firm he or she represents.

Cash in Advance: An international payment method where payment for goods is received via wire transfer from the buyer before the exporter ships the goods. This payment method results in zero risk for the seller and 100% of the commercial risk for the buyer.

CCC Mark: An acronym for China Compulsory Certification mark. A symbol printed on a product or product label by its manufacturer or importer declaring compliance with the requirements of various Chinese government laws for manufactured products related to human life and health, animals, plants, environmental protection and national security.

CE Mark: A mandatory European product marking and certification system. When affixed to a product and product packaging, CE marking indicates that a particular product complies with all applicable European product safety, health and environmental requirements within the CE marking system. CE marking covers approximately half of all US products exported to Europe. Over 50% of all US products sold to Europe require CE marking.

Certificate of Origin: A statement signed by the exporter or the exporter's agent and attested to by a local Chamber of Commerce, indicating that the goods being shipped, or a major percentage of them were produced in the exporter's country. The Certificate of Origin may be asked for by the customs authorities of the country of import, because it proves the country of manufacture for particular goods.

Distributor: The foreign distributor is a merchant who purchases goods from a US exporter (takes title of the goods and often at a substantial discount) and resells it for a profit. The foreign distributor generally provides support and service for the product, thus relieving the exporter of these responsibilities. The distributor usually carries an inventory of products and a sufficient supply of spare parts and also maintains adequate facilities and personnel for normal servicing operations. Distributors typically handle a range of non-conflicting but complementary products. End users do not usually buy from a distributor; they buy from retailers or dealers.

Documentary Collection: This payment term is known by a number of names including documentary collections, cash against documents and payment against documents. When the product is shipped, the seller forwards the documents to the foreign buyer's bank which holds the documents until the payment term is met. The payment term may be at sight, which means the buyer must pay prior to taking possession. The payment term also may be against acceptance of a time draft payable a predetermined number of days from the date of shipment. Unlike letters of credits (L/Cs), there is no commitment from the buyer's bank to make payment upon presentation of the documents.

Ex-Im Bank: The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of US goods and services to international markets. Ex-Im Bank enables US companies — large and small — to turn export opportunities into real sales that helps to maintain and create US jobs and contribute to a stronger national economy.

Ex-Im Bank does not compete with private sector lenders but provides export financing products that fill gaps in trade financing. We assume credit and country risks that the private sector is unable or unwilling to accept. We also help to level the playing field for US exporters by matching the financing that other governments provide to their exporters. Ex-Im Bank provides working capital guarantees (pre-export financing); export credit insurance; and loan guarantees and direct loans (buyer financing). No transaction is too large or too small. On average, 85% of Ex-Im Banks transactions directly benefit US small businesses.

Harmonized System (HS): The Harmonized System (HS) of tariff nomenclature is a product classification system used as a basis for the collection of Customs duties and international trade statistics by almost all countries. Use of the HS ensures that a Customs administration produces statistics in exact accord with international classification standards. Currently 179 countries and Customs or Economic Unions (including 104 Contracting Parties to the HS Convention), representing about 98% of world trade, use the Harmonized System. It is therefore one of the most important instruments in world trade.

Developed as a multipurpose nomenclature by the World Customs Organization (WCO), the HS is now used as the basis for:

- Customs tariffs
- Collection of international trade statistics
- Rules of origin
- Collection of internal taxes
- Trade negotiations (e.g., the WTO schedules of tariff concessions)
- Transport tariffs and statistics
- Monitoring of controlled goods (e.g., wastes, narcotics, chemical weapons, etc.)

Harmonized Tariff Schedule (HTS): Also known as the harmonized Tariff Schedule of the United States (HTSUS). The US International Trade Commission (Office of Tariff Affairs and Trade Agreements) is responsible for publishing the Harmonized Tariff Schedule of the United States Annotated (HTSA). The HTSA provides the applicable tariff rates and statistical categories for all merchandise imported into the United States; it is based on the international Harmonized System, the global system of nomenclature that is used to describe most traded goods. An organized listing of goods and their duty rates which is used as the basis for classifying imported products and identifying the rates of duty to be charged on them. It is based on the international Harmonized System Convention.

The HTS comprises a hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes. This structure is based upon the international Harmonized Commodity Description and Coding System (HS), administered by the World Customs Organization in Brussels; the 4- and 6-digit HS product categories are subdivided into 8-digit unique US rate lines and 10-digit non-legal statistical reporting categories. Classification of goods in this system must be done in accordance with the General and Additional US Rules of Interpretation, starting at the 4-digit heading level to find the most specific provision and then moving to the subordinate categories.

Hedging Tools: Hedging tools provide a way to protect against the potential currency exchange risks of the market. The frequently used hedging tools for international trade are netting, forward contract, futures contracts and currency options. Regarding exports from the US, it is an agreement with a bank whereby the exporter is guaranteed a definite rate of exchange upon presentation of a specified foreign currency on a predetermined rate.

Incoterms: Created by the International Chamber of Commerce (ICC), Incoterms are international rules that are accepted by governments, legal authorities and practitioners worldwide for the interpretation of the most commonly used terms in international trade. They either reduce or remove altogether uncertainties arising from differing interpretations of such terms in different countries. The scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the delivery of goods sold, but excluding “intangibles” like computer software. They define the division of risk, cost and responsibility in an international shipment. In Incoterms 2010 (the latest version) there are 11 terms – EXW, FAS, FCA FOB, CFR, CIF, CPT, CIP, DAT, DAP, DDP.

International Monetary Fund (IMF): The International Monetary Fund (IMF) was established by international treaty in 1945 to help promote the health of the world economy. Headquartered in Washington, D.C., it is governed by its almost global membership of 184 countries. The IMF is the central institution of the international monetary system—the system of international payments and exchange rates among national currencies that enable business to take place between countries.

The IMF’s statutory purposes include promoting the balanced expansion of world trade, the stability of exchange rates, the avoidance of competitive currency devaluations, and the orderly correction of a country’s balance of payments problems. It aims to prevent crises in the system by encouraging countries to adopt sound economic policies; it is also—as its name suggests—a fund that can be tapped by members needing temporary financing to address balance of payments problems.

International Trade Administration (ITA): As part of the US Department of Commerce, the mission of the International Trade Administration is to help US businesses participate fully in the growing global marketplace. The ITA overseas the Commercial Services that is a global network of professionals charged with promoting US exports, Manufacturing and Services that is the government’s link to American industry and that has industry sector specialists can help identify trade opportunities for specific US products or services, and the Market Access and Compliance that keeps world markets open to US products and that has country specialists can help you benefit from our trade agreements with other countries.

International Joint Venture: One of the strategies for entering international markets is through joint ventures—where the risks, costs, management, and success of the venture are shared by the partners. The international nature of joint ventures subjects them to a multitude of statutes, regulations and legal requirements which must be understood by the players: the US business executive, the overseas partner, the investment banker, and their professional advisors. Add to this the complex business considerations which must be satisfied—often within the framework of a foreign culture and foreign practices—and you have a situation in which informed guidance is essential.

Letter of Credit (L/C): A L/C is a commitment, usually by a bank on behalf of a client, to pay a beneficiary (usually the exporter) a stated amount of money provided the beneficiary has complied with all the terms and conditions of the letter of credit. This usually involves the exporter presenting specified trade documents such as the commercial invoice, bill of lading, inspection and insurance certificates, etc. The foreign buyer applies for issuance of a letter of credit from the buyer’s bank to the exporter’s bank and therefore is called the applicant; the exporter is called the beneficiary. An Irrevocable Letter of Credit cannot be changed or amended unilaterally by either the applicant (buyer) or the beneficiary (seller) unless both parties mutually agree and is the most common form of L/C. A Confirmed Letter of Credit adds the payment guarantee of the exporter’s bank in case the buyer and the buyer’s bank cannot make payment when the exporter has complied with the terms of the L/C. A Standby Letter of Credit is a continuous “back-up” letter of credit that guarantees the exporter will receive payment by the issuing bank if the importer defaults on the order.

Licensing: Licensing is a contractual arrangement in which the licensor’s patents, trademarks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee for compensation that is negotiated in advance between the parties. This compensation, or royalties, may be a lump sum royalty, a running royalty (royalty that is based on volume of production), or a combination of both. US companies frequently license their technology to foreign companies that then use it to manufacture and sell products in a country or group of countries defined in the licensing agreement. Licensing is not limited to the manufacturing sector. Franchising is also an important form of technology licensing used by many service industries. In franchising, the franchisor (licensor) permits the franchisee (licensee) to employ its trademark or service mark in a contractually specified manner for the marketing of goods or services. The franchisor usually continues to support the operation of the franchisee’s business by providing advertising, accounting, training, and related services and in many instances also supplies products needed by the franchisee.

North American Free Trade Agreement (NAFTA): Effective January 1, 1994, the NAFTA is a regional trade pact that was signed by the United States, Canada and Mexico. Its goal is to eliminate tariffs and trade barriers between the three countries and create a common trade bloc of over 380 million consumers. By 2008, it will have systematically eliminated tariff barriers on the 9000 product categories of good produced and sold throughout North America.

Schedule B: In the United States, numbers used to classify exported products are called “Schedule B” numbers. The US Bureau of Census is responsible for publishing the Schedule B codes. Schedule B commodity codes are 10-digit numeric codes used to identify products that are exported to other countries from the US and it is based on the international Harmonized System. Transactions are classified under approximately 8,000 different products leaving the United States. Every item that is exported is assigned a unique 10-digit identification code.

US Commercial Service: The US Commercial Service is a Department of Commerce and International Trade Administration agency that helps US Companies, particularly small and medium-sized businesses make sales in international markets. Founded in 1980, the agency’s network includes 107 US Export Assistance Centers throughout the country, and more than 150 offices overseas. The US Commercial Service provides a multitude of export assistance services for US companies such as the Gold Key Matching Service, the International Partner Search, Commercial News USA, BuyUSA.com and the export.gov trade portal.

US Small Business Administration (SBA): The Small Business Administration (SBA) provides financial assistance to US exporters. SBA targets its assistance to small companies and strives to assist those businesses that otherwise might not be able to obtain trade financing. Applicants must qualify as small businesses under the SBA’s size standards and meet other eligibility criteria. SBA’s Export Working Capital Program gives lenders the comfort they need so small businesses can get the financing they need. Under the program, the SBA backs up a loan request with its repayment guaranty. The SBA guarantees up to $1 million or 90 percent of the loan amount, whichever is less; offers exporters preliminary commitments (PCs) that encourage lenders to provide credit; and offers a simplified application form. SBA’s International Trade Loan SBA guarantees to commercial lenders up to $1.25 million in combined working capital and fixed asset loans, including any other current SBA loan guarantees. Working capital may be made according to the provisions of the Export Working Capital Program or as a permanent working capital loan.

World Trade Organization (WTO): Created in 1995 as a result of the Uruguay Round of the GATT, and hosted in Geneva, Switzerland, the World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At the heart of the system – known as the multilateral trading system – are the WTO’s agreements, negotiated and signed by a large majority of the world’s trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody’s benefit. But their purpose is to help producers of goods and services, exporters, and importers conduct their business.

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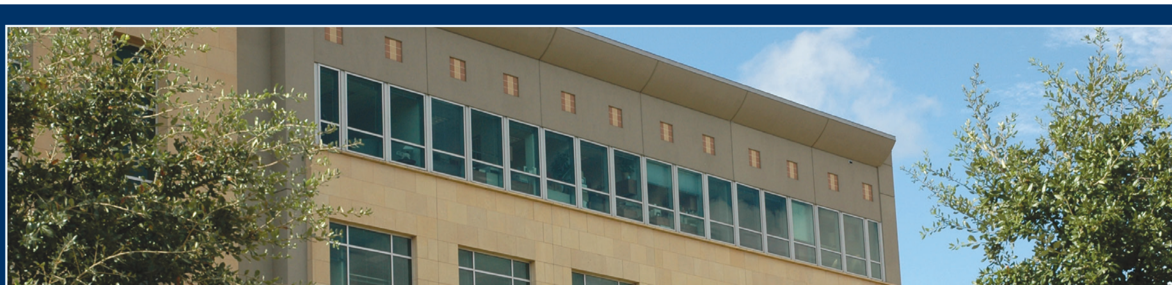

The SBDC International Trade Center was founded in 1992 and is funded by the US Small Business Administration, the State of Texas and is hosted at the University of Texas at San Antonio. It serves the 79 counties of the South-West Texas Border Small Business Development Center (SBDC) Network and is an accredited part of the 1,100-center national Small Business Development Center Network. The International Trade Center provides businesses with high-value trade consulting, cutting-edge market research and innovative training programs that deliver results.

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