



The Beginner's Guide to Importing & Exporting

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Introduction

- The UK is no longer a member of the European Union. From 1st January 2021 customs formalities have applied to goods that are traded between the UK and any of the EU member states.
- This means export and import declarations are required for all goods moving between the UK and the EU and vice versa.
- A bilateral free trade agreement - the UK-EU Trade and Cooperation Agreement (TCA) came in to force on January 1st 2021. It secures tariff and quota free trade subject to rules of origin.
- This presentation will explain the principles you need to understand to comply with the new customs regulations.



The Process

When selling to a customer or buying from a supplier abroad it is advisable to agree the terms of business as early in the transaction as possible. The process is likely to be along these lines;

- Quotation requested
- Quotation provided including itemised costs for products, and delivery if the supplier is happy to arrange, incoterms, payment terms, lead-time.
- Purchase order sent with payment / deposit if agreed
- Goods manufactured
- Transport arranged and commercial invoice generated
- Customs agent prepares export entry and security declaration
- Goods cleared to depart by HMRC
- Goods shipped to destination country



What is a Customs Declaration?

The customs declaration is a legal statement that provides all the details required when exporting goods from or importing goods in to the UK. It includes, amongst other things;

- Who is sending/receiving goods?
- What is being sent/received?
- Why are they being sent/received?
- Where are they being sent from or to?
- The customs value of the goods
- The origin of the goods
- The commercial terms of trade
- How the goods are moving – air/sea/road/rail



Information Required

To get authorisation to import or export goods, you or your freight forwarder / customs agent must complete a SAD / C88. This is done electronically and the information feeds in to CHIEF (the Customs Handling of Import & Export Freight system) which is managed by HMRC. CHIEF is being replaced by CDS (Customs Declaration Service). Information required to complete the C88 includes;

- Box 20 – Incoterms
- Box 33 – Commodity Code
- Box 36 – Preference Code
- Box 37 – Customs Preference Code (reason for import/export)

The following slides explain these terms, and rules of origin, in more detail.

EXW, FCA, CPT, CIP, DAP, DPU, DDP

FAS, FOB, CFR, CIF

Incoterms

- The Incoterms determine where the obligations, risks and costs of any international transaction lie.
- They should be agreed between the buyer and seller during the quotation stage as they will affect the overall price of the purchase.
- Ex-Works (EXW) puts all the responsibility on the buyer. They must arrange collection from the supplier's premises, arrange and pay for the export and import declarations, the cost of moving the goods from the seller to the buyer is borne by them and if they want the goods insured they must also arrange and pay for it.
- At the other end of the spectrum Delivered Duty Paid (DDP) means the seller arranges and pays for all of the above.
- There are nine other Incoterms currently in use and some of them are only valid for certain types of movement e.g. by sea and inland waterway transport.
- It is essential to ensure that both parties understand the implications of the Incoterms agreed in case something goes wrong as they determine who pays to solve the problem.



Commodity Code

- All goods that are traded internationally can be identified by a number – the commodity code.
- As a general rule, export codes are 8 digits and import codes are 10 digits – the export code + 2 digits.
- It is essential to use the correct commodity code for the goods you are moving because it indicates what level of duty is applicable and whether any controls are in place e.g. whether you need a licence.
- Each territory has a Tariff where you can check duties and controls – it is advisable to check the tariff of the country you're exporting from and to, in order not to miss anything.

<https://www.trade-tariff.service.gov.uk/sections> (United Kingdom)

<https://www.trade-tariff.service.gov.uk/xi/sections> (Northern Ireland)

https://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en (EU)

Preference Code

If the UK has an agreement with a country you buy goods from, your business may be able to get a reduced rate of Customs Duty (known as a tariff preference or preferential rate of duty) for those goods. The 3 digit preference code tells the customs agent on what grounds you are claiming the tariff preference. To check if your goods qualify for a preferential rate of duty you need to;

- Find the right commodity code
- Check if your goods are covered by a trade agreement with the country you're importing from
- Check that your goods meet the rules of origin (see slide 11)
- Check what documents you need to provide to prove that the goods meet the rules of origin
- Keep complete records for at least 4 years

Customs Procedure Code

The CPC identifies the reason for import / export of goods and indicates whether duties and taxes are to be collected, suspended or waived.

The 7-digit code is made up of two sets of two numbers, followed by a 3-character alphanumeric code.

The first two digits identify the customs procedure being applied for. The second 2 digits identify the previous customs procedure which applied to the goods.

The most often used CPCs for import are;

40 – standard import of goods in to free circulation

51 – imported under the Inward Processing Special Procedure

61 – return of temporary export

71 – import in to a customs warehouse

You can find the full list here <https://www.gov.uk/government/publications/uk-trade-tariff-customs-procedure-codes>

Commercial Invoice

- The commercial invoice will be used to complete the customs declaration so it's essential that all the information is correct. It should include;
- Your company name, address, VAT number and EORI number
- Name, address, VAT and EORI number of the customer
- Unique invoice number
- Value of goods per unit and total
- Export and Import commodity codes with corresponding product descriptions
- Customs Procedure Code
- Dimensions and weights for each box/pallet listed separately
- Statement to the effect that no license is required if that is the case
- Declaration re preferential origin (if applicable)
- Place, date, signature, job title of signee, company name
- Incoterms

Information
Required



Rules of Origin

Rules of Origin are used to determine the country of origin of imported goods so that they receive the appropriate treatment at their importation.

There are 2 types of Rules of Origin.

Non-preferential rules of origin are used when there are no preferential trade agreements applying. They are therefore used to enforce trade measures set by both the WTO and national legislations, such as anti dumping duties, quotas, labels, etc.

There are two concepts of defining the non-preferential rules of origin.

The goods will have their origin in a country if the goods are wholly obtained from a single country or the country in which goods have undergone last substantial transformation.

Rules of Origin

The origin category of “Wholly obtained goods” covers the cases in which a good is entirely obtained, extracted, or manufactured in a single country without using parts imported from other countries.

There is wide variation in the practice of governments with regard to the rules of origin. While the principle of substantial transformation is universally recognized, some governments apply the ad valorem percentage criterion, others the change of tariff criterion and yet others the criterion of manufacturing or processing operations.

- “Percentage” or “Value” Criterion - Origin is based on a product characteristics, such as its final price (“value”), the price and the proportion of foreign or local inputs.
- “Tariff Classification” Criterion - Origin is based only on the tariff classification of a final good and the components used using the Harmonised System (HS).
- “Specific Processes” Criterion - Origin is based on specific manufacturing or other specific processes which were necessary to produce a good.

Rules of Origin

Preferential Rules of Origin will be agreed as part of a free trade agreement and will be very precise about what products qualify for preferential treatment under what circumstances.

It is essential to read the trade agreement to see which criteria have been chosen for the Rules of Origin relating to the commodity code you're importing or exporting.

There are 3 main Rules of Origin that can be used to qualify goods for preferential treatment;

1. Tariff shift rule
2. Value-percentage rule
3. Specific Process rule



Rules of Origin

Examples of what the Rules of Origin could look like;

- "Percentage" or "Value" criterion: At least 60% of the final value of the goods must have been added locally. Non originating materials (imported inputs) must not be more than 40% of the final price.
- "Tariff Classification" criterion: Change of Tariff heading" all material used (inputs) must be classified in a tariff heading different from the final product (fertiliser).
- "Specific Process" criterion: Origin is determined by the place where the ammonium was obtained or where the blending was performed.



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