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A Guide to Conducting Business along the Houston, Texas-Veracruz, Mexico Trade Corridor describes both the logistics chain and steps that need to be taken to conduct business between the United States and Mexico along the sea corridor joining the ports of Houston, Texas and Veracruz in Mexico. To that end, the *Guide* is structured in three general sections. The first section provides an overview of Houston-Veracruz trade and describes the network of physical, commercial, and service infrastructure that exists in each port. The second section describes the logistics chain (southbound) along which goods move from the U.S. to Mexico through the port of Houston, including a description of the steps involved in exporting to Mexico as well as the actors and services involved. The third section describes the chain (northbound) along which commodities are transported from Mexico to the U.S. through the port of Veracruz, including a description of the steps involved in importing into the United States. It specifies the actors, services, and requirements for importing in to the U.S. using the Houston-Veracruz trade corridor.

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A Guide to Conducting Business Along the Houston, Texas-Veracruz, Mexico Trade Corridor

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Research Report SWUTC/03/167821-1

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Mr. Walter Krauklis, General Manager, Jarvis International Freight, Inc., Houston, Texas;
Mr. Rainer Lilienthal, General Manager, Trade Development, Port of Houston Authority, Houston, Texas;
Mr. Alistair M. Macnab, President, Greater Houston Port Bureau, Houston, Texas;
Mr. Jose Martinez, Sales Representative, Jarvis International Freight, Inc., Houston, Texas.

ABSTRACT

A Guide to Conducting Business along the Houston, Texas-Veracruz, Mexico Trade Corridor describes both the logistics chain and steps that need to be taken to conduct business between the United States and Mexico along the sea corridor joining the ports of Houston, Texas and Veracruz in Mexico. To that end, the *Guide* is structured in three general sections. The first section provides an overview of Houston-Veracruz trade and describes the network of physical, commercial, and service infrastructure that exists in each port. The second section describes the logistics chain (southbound) along which goods move from the U.S. to Mexico through the port of Houston, including a description of the steps involved in exporting to Mexico as well as the actors and services involved. The third section describes the chain (northbound) along which commodities are transported from Mexico to the U.S. through the port of Veracruz, including a description of the steps involved in importing into the United States. It specifies the actors, services, and requirements for importing in to the U.S. using the Houston-Veracruz trade corridor.

EXECUTIVE SUMMARY

Mexico and the United States enjoy a thriving commercial relationship. After the North America Free Trade Agreement (NAFTA) came into effect on January 1, 1994, two-way trade between the U.S. and Mexico soared. Whereas in 1990 total U.S. trade (exports and imports) with Mexico was $58.43 billion, by 2002 this figure had more than quadrupled. In 2002, bilateral trade between Mexico and the U.S. totaled $214.72 billion. As a result of the agreement, Mexico became the United States' second largest trading partner, Canada being the first.

Trade between the U.S. and Mexico is conducted by air, sea, and land (rail and truck). Ground transportation is the dominant mode for moving goods from centers of production in Mexico and the U.S. to consumer markets on either side of the border. In 2002, trucks moved $70.92 billion worth of U.S. merchandise exports to Mexico, which represents 72.72 percent of exports to Mexico. Railways moved $10.14 billion exports to Mexico, representing 10.39 percent of total exports. Exports by vessel amounted to $6.2 billion, which is 6.42 percent of total exports to Mexico. Similarly, air transport's share of total exports was $6.10 billion or 6.25 percent of total exports.

A significant amount of the trade flowing between the U.S. and Mexico does so through the ports of Houston and Veracruz. Houston is the main port of entry and exit for goods traveling to and from Mexico by vessel. In 2002, the port of Houston handled U.S. $5.16 billion in trade with Mexico, making that country the port's number one trading partner in terms of tonnage and value. The port of Veracruz is the oldest in Mexico and one of the most modern. Its proximity to Mexico's capital city has made the port a strategic point of entry for goods being imported from the United States and destined to different locations within its sphere of influence. This report provides an overview of trade between the ports of Houston and Veracruz and the physical, commercial, and service infrastructure of both ports.

The report offer readers a description of the logistics involved in the export and import process as it relates to the Houston-Veracruz trade corridor. The chapter describes the flow of goods from the point of view of the U.S. exporter interested in moving cargo by sea to Mexico from the port of Houston to the port of Veracruz, and will focus on several logistics functions including labeling and packing of merchandise, transportation, pricing and terms of sale, licensing and documentation requirements, risk and insurance, as well as terms of payment.

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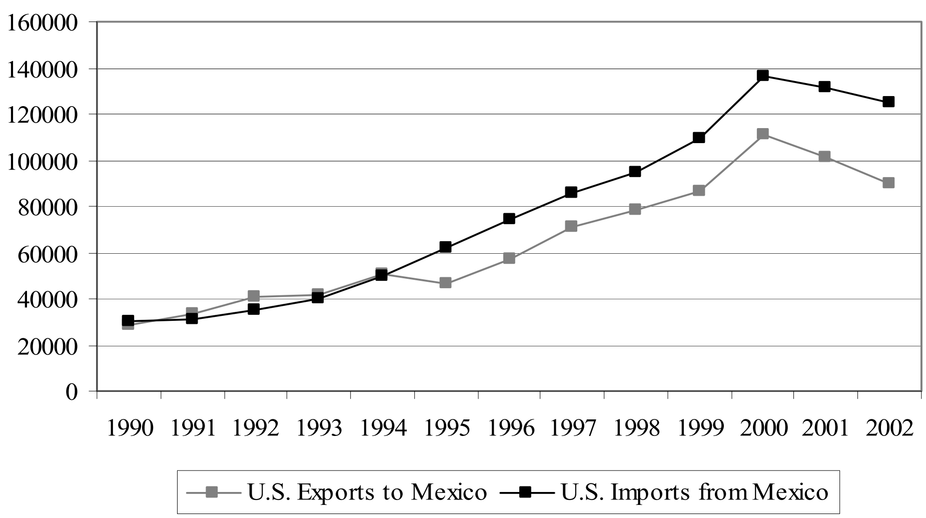
Mexico and the United States enjoy a thriving commercial relationship. After the North America Free Trade Agreement (NAFTA) came into effect on January 1, 1994, two-way trade between the U.S. and Mexico soared. Whereas in 1990 total U.S. trade (exports and imports) with Mexico was $58.43 billion, by 2002 this figure had more than quadrupled. In 2002, bilateral trade between Mexico and the U.S. totaled $214.72 billion. As a result of the agreement, Mexico became the United States' second largest trading partner, Canada being the first. Figure 1.1 shows the growth of U.S. exports to Mexico and U.S. imports from Mexico between 1990 and 2002.

Figure 1.1 U.S.-Mexico Trade (millions of U.S. $)



Source: U.S. Census Bureau, Online. Available: http://www.census.gov/foreign_trade/balance/c2010.html. Accessed: February 2, 2003.

Mexico accounts for 14 percent of U.S. exports which in 2002 totaled $97.53 billion.[1] It is the second most important export destination for U.S. products after Canada. The U.S. exports mostly intermediate and capital goods to Mexico, including, in descending order, electrical machinery (22.46 percent of exports), machinery (15.24

percent), vehicles (10.97 percent), plastics (6.86 percent), medical and surgical instruments (3.53 percent),mineral fuel/oil (3.36 percent), paper and paperboard (2.13 percent), organic chemicals (1.98 percent), and iron/steel products (1.79 percent).[1]

Mexico also ranks second among countries from which the U.S. imports. In 2002, the U.S. imported $134.73 billion from Mexico, representing 11.6 percent of total worldwide imports. The U.S. imports electrical machinery (24.28 percent of imports), vehicles (19.56 percent), machinery (13.22 percent), mineral fuel (9.07 percent), optical and medical instruments (3.97 percent), furniture and bedding (3.37 percent), woven apparel (3.34 percent), knit apparel (2.33 percent), and vegetables (1.34 percent).[2]

Trade between the U.S. and Mexico is conducted by air, sea, and land (rail and truck). Ground transportation is the dominant mode for moving goods from centers of production in Mexico and the U.S. to consumer markets on either side of the border. In 2002, trucks moved $70.92 billion worth of U.S. merchandise exports to Mexico, which represents 72.72 percent of exports to Mexico. Railways moved $10.14 billion exports to Mexico, representing 10.39 percent of total exports. Exports by vessel amounted to $6.2 billion, which is 6.42 percent of total exports to Mexico. Similarly, air transport's share of total exports was $6.10 billion or 6.25 percent of total exports.

In terms of the modal shares of U.S. imports from Mexico, 67.23 moved by truck, 15.43 percent by rail, 12.69 percent by vessel, and 2.40 percent by air. The relatively large percentage of waterborne shipments from Mexico involves oil-related products being transported from the Mexican Gulf Coast to the Texas Gulf Coast.

The commodities traded between the U.S. and Mexico travel along certain routes from origin to destination, depending upon what mode of transportation is used. There are three types of transportation corridors along which trade flows between the U.S. and Mexico: land (or surface), air, and sea. Land corridors are used by motor vehicles and railroads and are usually linked by networks of warehouses, truck terminals, and rail yards. Air corridors are used by airlines to transport air-freight and are linked by networks of airports and general aviation facilities. Sea corridors are used by vessels and shallow-water barges. They are linked by a network of ports and inland waterways.[3] If more than two different modes are used to transport a commodity, the corridor is referred to as intermodal.

Transportation corridors are often confused with trade corridors. Transportation corridors are used to describe the route along which goods move from origin to destination. Its definition includes the physical infrastructure (such as highways and bridges) that is used by businesses and industries conducting trade between two geographic areas. The definition of trade corridors goes beyond just physical infrastructure to include commercial and technological infrastructure as well as a body of business professionals, all of which add value to the traded commodity as it moves along a geographic route.[4]

For trade to take place along a corridor there needs to be a well-developed physical infrastructure including highway, rail, and sea linkages as well as border ports of entry to facilitate transportation. There also needs to be an established commercial infrastructure that encourages trade, including distribution and warehousing facilities, foreign trade zones and industrial parks, a harmonized regulatory environment, and other trade incentives. A trade corridor also includes a well-developed network of business professionals offering services to promote trade development and assure its seamless operation. Such professionals would include attorneys, freight forwarders, customs brokers, associations, and financial institutions, among others.[5]

Notes

[1] Ibid.

[2] Ibid.

[3] Lyndon B. Johnson School of Public Affairs, *U.S.-Mexico Trade and Transportation: Corridors, Logistics Practices and Multimodal Partnerships*. Policy Research Project, no. 113. Austin, Tex.,1995.

[4] Ibid., p.13.

[5] Ibid.

Chapter 2. Houston-Veracruz Trade and Transportation

A significant amount of the trade flowing between the U.S. and Mexico does so through the ports of Houston and Veracruz. Houston is the main port of entry and exit for goods traveling to and from Mexico by vessel. In 2002, the port of Houston handled U.S. $5.16 billion in trade with Mexico, making that country the port's number one trading partner in terms of tonnage and value. The port of Veracruz is the oldest in Mexico and one of the most modern. Its proximity to Mexico's capital city has made the port a strategic point of entry for goods being imported from the United States and destined to different locations within its sphere of influence. This chapter provides an overview of trade between the ports of Houston and Veracruz and the physical, commercial, and service infrastructure of both ports.

General Overview: Port of Houston

Trade with the world

In terms of volume, the port's top five trading partners are, in descending order, Mexico, Venezuela, Saudi Arabia, Iraq, and Algeria. The main commodities by volume include petroleum, organic chemicals, cereals, crude fertilizers and minerals, and iron and steel. The table below lists the leading partners and commodities by tonnage.

Table 2.1 Port of Houston: Leading Trade Partners and Commodities by volume (short tons)

Trading Partners	Tonnage	Commodities	Tonnage
Mexico	34,799,673	Petroleum	92,809,593
Venezuela	11,349,462	Organic Chemicals	9,137,236
Saudi Arabia	10,198,552	Cereals	6,597,620
Iraq	7,828,746	Crude Fertilizers	5,287,994
Algeria	4,799,765	Iron and Steel	4,807,224

Source: Port of Houston Authority, *2001 Foreign Trade Statistics*. Online. Available: http://www.portofhouston.com/overview/portstat.htm. Accessed: April 25, 2003.

In terms of value, the most important trading partners for the port of Houston are, in descending order, Mexico, Germany, Brazil, Venezuela, and Saudi Arabia, while the leading commodities by value are petroleum and petroleum products, machinery, organic chemicals, iron and steel, and electrical machinery. Table 2.2 shows the port's leading partners and commodities by value for 2001.

Table 2.2 Port of Houston: Leading Partners and Commodities by value

Trading Partners	Value (U.S. $)	Commodities	Value (U.S. $)
Mexico	$5,159,968,314	Petroleum	$13,429,404,936
Germany	$3,101,492,230	Machinery	$7,247,697,457
Brazil	$2,461,848,826	Organic Chemicals	$5,059,261,268
Venezuela	$2,283,053,087	Iron and Steel	$2,609,703,529
Saudi Arabia	$2,050,068,336	Machinery	$2,345,077,434

Source: Port of Houston, *2001 Foreign Trade Statistics*. Online. Available: http://www.portofhouston.com/overview/portstat.htm. Accessed: April 25, 2003.

Trade with Mexico

Mexico is the port of Houston's primary import and export partner in terms of volume and value. Tables 2.1 and 2.2 reveal that in 2001, the port's trade with Mexico totaled $5.16 billion in value and 34.8 million tons in volume.

Port Traffic

The port of Houston is ranked first in the U.S. in foreign waterborne commerce, having moved $44.5 billion in foreign trade in 2001. The port traded with 201 foreign countries and 1,013 foreign ports during 2001. That same year the port handled a total volume of 192 million short tons, making it the second ranking U.S. port in terms of tonnage and sixth worldwide.[6] Container traffic has doubled in the past decade reaching 1.2 million TEUs (twenty foot equivalent units) in 2002.

Port Infrastructure

The port of Houston is a 40 kilometer-long complex of public and private facilities located in southeast Texas and only a few hours sailing time from the Gulf of

Mexico. The public facilities are owned and operated by the Port of Houston Authority. The port of Houston's facilities include the following:

- **Turning Basin Terminal**: general cargo facility located about 11.2 kilometers from downtown Houston. The terminal's 37 docks are equipped to handle break bulk, containerized, and heavy-lift cargo;
- **Barbours Cut Terminal**: intermodal container handling facility with 6,000 feet of continuous quay, twelve wharf cranes, and a Ro-Ro platform;
- **Jacintoport Terminal**: terminal is located on a 125 acre site on the north side of the Houston Ship Channel. It is equipped with 1,836 feet of quay and 18,580 square meters of refrigerated and covered storage space;
- **Bulk Materials Handling Plant**: dry bulk export/import facility;
- **Bayport Terminal**: chemical and chemical specialty complex with facilities owned by more than 70 U.S. and foreign companies;
- **Woodhouse Terminal**: general cargo handling and warehousing facility providing 235,000 square feet of covered storage and two acres of open storage space;
- **Care Terminal**: terminal equipped to handle project and heavy-lift cargo.[7]

The port's terminals are designed for handling general cargo, containers, grain and other dry bulk materials, and heavy-lift cargo. The public facilities include 43 cargo wharves and two liquid cargo wharves. The port also operates and manages a 700 acre foreign trade zone (FTZ) site. Some of the services provided by the Houston FTZ are: general purpose warehousing, liquid bulk storage and blending, steel and pipe storage, and bagging and packaging operations.[8] For more information on the port of Houston's facilities, visit the port's website at http://www.portofhouston.com.

Port Hinterland

Between 80 and 85 percent of the cargo arriving at the port of Houston has its final destination in the state of Texas, primarily in large population centers such as Houston, Dallas/Fort Worth, Austin, and San Antonio. The remaining 15 to 20 percent of cargo is transported mostly to the surrounding states of Oklahoma, Arkansas, and New Mexico.

With respect to merchandise moving outbound from Houston, the major sources of cargo are similar to the inbound destinations, with the exception of the last three months of the year when the port hinterland extends further. During these months, there is a strong flow of products such as beans, peas, lentils, fruits, dates, and raisins originating in California and Washington state, and moving through the port of Houston to Mexico, Central America, the Caribbean, and the North and East coasts of South America.[9]

Sea and Land Access

The port has access to 14,000 miles of U.S. intracoastal and navigable inland waterways. In terms of land access, there are extensive highway and rail linkages joining the port to its hinterland. Two railroads (Burlington Northern-Santa Fe and Union Pacific) and 150 trucking lines link Houston to locations within the U.S., Mexico, and Canada. The port is also in close proximity to two major airports, George Bush Intercontinental and Hobby, as well as dozens of private terminals.

General Overview: Port of Veracruz

Port Traffic

In 2002, the port of Veracruz ranked first among ports in Mexico in terms of volume of cargo handled. That year the port handled 14.6 million tons of cargo, representing 22.4 percent of the country's total.[10] Along Mexico's Gulf Coast, the port is first in container movements with a total of 548,422 TEUs in 2002, and second in the country, representing 35 percent of total container throughput during the same year. Over 1,600 vessels called at the port of Veracruz, the bulk of which were vessels engaged in international trade.

Port Infrastructure

The port of Veracruz has nine terminals for handling specific types of commodities, including containerized cargo, agricultural bulk, liquid and mineral bulk, general cargo, vehicles, and petroleum products.[11] The port of Veracruz is managed by the Integral Port Administration (Administraciones Portuarias Integrales, API), an autonomous port operator. Under a "landlord port" system, the API is the government entity which owns and operates the port infrastructure but private firms are responsible for service provision.

Port Hinterland

The port's primary hinterland includes the city of Veracruz and surrounding areas, Mexico's capital city, Distrito Federal, and the state of Morelos. The port's secondary hinterland includes Mexican states in the north-central and south-central regions like Guanajuato, Jalisco, Hidalgo, Queretaro, Puebla, Michoacan, Tlaxcala, Tabasco, Oaxaca, and Chiapas. In total, the port's influence zone covers a surface area of 603,418 square kilometers which represents 30.81 of the country's total land surface area. Approximately 67.9 million people live within the port's hinterland, accounting for 69.8 percent of the country's population.[12]

Sea and Land Access

The port of Veracruz is connected to all of Mexico's central and southern states with extensive rail and highway networks. The port has a rail service which allows for the movement of dry bulk and liquid bulk cargo to and from the port through two railway lines. One rail line, operated by Transportacion Ferroviaria Mexicana (TFM), connects the port directly with Mexico City and from there to states in the northern and central regions. TFM is a joint venture between Transportacion Maritima Mexicana and Kansas City Southern Industries which emerged in 1997 as a result of the privatization of Mexico's national rail system. The second railway line is operated by Ferrosur and it connects the port with Orizaba, Oaxaca, and the rest of the southeastern region of Mexico.

The port is also linked to Mexico City by Federal Highway 150, a double-lane superhighway. Highway 180 extends along the Gulf of Mexico connecting Veracruz to Altamira/Tampico and the Texas border. The distance from the port to the capital city is 443 kilometers by road and 419 kilometers by rail.

Houston-Veracruz Trade

Port data provided by the Journal of Commerce indicates that trade between the port of Houston and the port of Veracruz amounted to 1,077,588 short tons and 10,956 TEU in 2001. Table 2.3 shows trade between the two ports in 2001 and the first nine months of 2002.

Table 2.3 Port of Houston Trade with Veracruz

	January-December 2001		**January-September 2002**	
	Tons	**TEUs**	**Tons**	**TEUs**
Imports	125,921	3,911	80,802	2,338
Exports	951,667	7,045	833,578	2,635
Total	1,077,588	10,956	914,380	4,973

Source: Journal of Commerce, *Port Import Export Reporting Service (PIERS)*. Port of Houston trade statistics for 2000/01 compiled from the Port of Houston Authority.

With respect to the leading commodities traded between these two ports, table 2.4 lists top ten commodities imported and exported between these two ports for 2001 in terms of volume.

Table 2.4 Port of Houston Trade with Veracruz by Commodity

	Imports		Exports	
Rank	**Commodities**	**Tons**	**Commodities**	**Tons**
1	Oilwell equipment	32,770	Bulk barley, corn, oat, wheat, sorgum	709,351
2	Pipe; cast iron, steel, seamless	24,731	Coke, petroleum coke	108,992
3	Steel tubes	20,354	Vegetables	19,999
4	Ale, porter, stout, beer	7,199	Miscellaneous	11,973
5	Pipe fittings; elbow	5,553	Sulfonic acid	9,258
6	Honey	3,861	Float glass	9,085
7	Miscellaneous	3,635	Chemicals	7,434
8	Empty container	2,521	Oil well equipment	7,433
9	Coffee	1,991	Soybean	4,917
10	Hardware	1,889	Misc resins and additives	4,780

Source: Journal of Commerce, *Port Import Export Reporting Service (PIERS)*, Port of Houston Trade Statistics 2000/01 compiled from the Port of Houston Authority.

Houston-Veracruz Transportation

There are several web-based resources from which to obtain carrier schedules for the Houston-Veracruz corridor water route. One alternative is to use the Port of Houston Authority's All-Water Services Guide which gives the names of carriers to specific countries, the local agent, contact information, and frequency. For a printed copy of the Guide call 1-800-688-DOCK. Another alternative is to search the online version of The Gulf Shipper magazine at http://www.gulfshipper.com which provides export sailing schedules from ports located along the U.S. Gulf Coast to international destinations, including Veracruz. The Journal of Commerce online also provides a user-friendly online shipping schedule in the Tools and Guides section of its main homepage, http://www.joc.com.

There are currently eighteen regularly scheduled all water services between the ports of Houston and Veracruz, most with a weekly frequency. A listing of carriers, their frequency, and contact information is provided in table 2.5.

Table 2.5 Houston-Veracruz: Regularly Scheduled All Water Services

Carrier	Contact Information	Frequency
Alianca	(713) 504-1008	11 days
American President Line	(281) 222-1501	7 days
CMA/CGN	(713) 686-7313	14 days
Compania Sudamericana de Vapores (CSAV)	(713) 861-0601	7 days
Columbus Line	(713) 690-7200	14 days
Compania Chilena de Navegacion Interoceanica (CCNI)	(908) 412-3430	7 days
CP Ships	(281) 421-7900	7 days
Crowley American Transport	(713) 690-7200	7 days
Crowley Liner Services	(800) 276-9539	7 days
Deppe Line	(713) 353-5260	7 days
Hapag-Lloyd	(281) 405-4800	7 days
Maersk Sealand	(281) 297-7200	7 days
Mediterranean Shipping Co.	(713) 681-8880	7 days
MOL	(713) 864-3140	7 days
Nordana	(713) 462-0665	7 days
Orient Overseas Cont Line	(713) 329-9200	7 days
Yang Ming Line	(713) 965-0244	7 days
Zim	(713) 688-7447	7 days

Source: Port of Houston Authority, *Frequently Asked Questions*. Online. Available: http://www.portofhouston.com/overview/faqs.htm. Accessed: April 26, 2003.

Exporters have the option of transporting merchandise from Mexico City by land to Houston, a route which takes approximately five days. Research conducted in 2002 by Jose Martinez, sales representative for Jarvis International, a freight forwarding company located in Houston, reveals that transporting cargo by truck from Mexico City to Nuevo Laredo can cost anywhere between $600 and $1,300 per truck. Once in Laredo, the merchandise must be transported by land to Houston at a cost ranging between $650 and $700 per truck. Due to restrictions imposed by NAFTA, Mexican trucks cannot cross the border into the United States. Thus, before entering U.S. territory, cargo must be transferred from a Mexican to an American truck to complete the inland haul to Houston. In total, land transport from Mexico City to Houston is estimated to cost approximately $2,100 per truck.

Maritime transportation is another alternative open to exporters interested in moving cargo from Mexico's hinterland to Houston, Texas. This intermodal alternative consists of land transport from Mexico City to the port of Veracruz, from where merchandise is transported by vessel to the port of Houston. This route takes an average transit time of six days. The approximate cost of moving cargo from Mexico City to Veracruz by truck is $650-$700 and travel time by land ranges between 4 and 6 hours. The study conducted by Jarvis International reveals that this alternative would have a total cost of approximately $1,537, which is 25 percent less than the all-land route, making it a more cost-effective alternative.[13]

Notes

[6] Port of Houston Authority, *2001 Foreign Trade Statistics*. Online. Available: http://www.portofhouston.com/overview/portstat.htm. Accessed: April 25, 2003.

[7] Port of Houston Authority, *Facilities*. Online. Available: http://www.portofhouston.com. Accessed: April 25, 2003.

[8] Port of Houston Authority, *Foreign Trade Zone*. Online. Available: http://www.portofhouston.com/facility/ftz.htm. Accessed: April 25, 2003.

[9] Email from Rainer Lilienthal, General Manager, Trade Development, Port of Houston Authority, "Preguntas sobre Estudio," to Carolina Freire, May 1, 2003.

[10] Coordinacion General de Puertos y Marina Mercante, *Estadisticas*. Online. Available: http://www.sct.gob.mx/. Accessed: April 25, 2003.

[11] Lyndon B. Johnson School of Public Affairs, *Maritime Transportation in Latin America and the Caribbean*. Policy Research Project, no. 138, Austin, Tex., 2001.

[12] Administracion Portuaria Integral de Veracruz S.A. de C.V. , *Zona de Influencia*. Online. Available: http://www.apiver.com. Accessed: April 25, 2003.

[13] Interview with Jose Martinez, Jarvis International Freight, Houston, Texas, February 2003.

Chapter 3. Exporting to Mexico from Houston to Veracruz

International Trade Logistics

Export and import transactions involve the production and movement of cargo from its point of origin or manufacture to the point of use or consumption. In any international commercial transaction, exporters are interested in selling their products abroad in a cost-effective manner, while importers are concerned with timely and safe delivery of the goods they acquire. Logistics is the term used to describe a system designed to control the flow and storage of materials as they move from production centers to consumers.[14] Logistics covers a wide range of functions, some of which are: demand forecasting, documentation flow, inter-plant movements, inventory management, materials handling, order processing, warehouse site selection, packaging methods, purchasing, transportation, and distribution management.[15]

The scope of logistics functions can be divided into three channels that describe some of the steps involved in the physical movement and distribution of goods to a foreign buyer: transaction, distribution, and documentation. The transactions channel is related to the buying, selling, and collection of payment. The distribution channel deals with the physical movement of a product and the documentation channel concerns the paperwork and documentation requirements of moving goods across international boundaries.

Every step along the logistics chain of moving cargo overseas can be facilitated by logistics intermediaries, many of whom can help first-time exporters and importers save time and money. Some of the logistics intermediaries involved in international logistics are freight forwarders, customs brokers, consultants, and banks. Shipping goods by vessel requires additional services like stevedoring, container leasing, and export packing. For these and other functions, there is a wide array of available companies and services.

The following two sections offer readers a description of the logistics involved in the export and import process as it relates to the Houston-Veracruz trade corridor. The chapter describes the flow of goods from the point of view of the U.S. exporter interested in moving cargo by sea to Mexico from the port of Houston to the port of Veracruz, and will focus on several logistics functions including labeling and packing of merchandise, transportation, pricing and terms of sale, licensing and documentation requirements, risk and insurance, as well as terms of payment.

Exporting to Mexico

The decision to export can be challenging, especially if a company is new to the activity and is unaware of the practical steps involved in shipping a product to a foreign location. Commercial experts recommend that, before exporting, companies should develop an export plan and conduct market research to determine their product's likelihood of success in a foreign market. Once a firm decides to sell its products abroad, however, it must consider the technical or logistical aspects of moving those products overseas.

Methods of Exporting

The first of these aspects is for a firm to determine whether it will export its goods directly or hire an intermediary to manage the export-import operation. The most common methods of exporting are indirect selling and direct selling.

Indirect Exporting

When exporting indirectly, a sales intermediary such as an export management company or an export trading company assumes responsibility for marketing and shipping the product overseas. There are several advantages to hiring the services of intermediaries. While they are helpful in reducing costs, they also offer expertise and trade contacts which are especially valuable to firms with little experience in international trade. The main disadvantage of turning these functions over to an export trading company is that often manufacturers lose control over the marketing of their products and miss out on developing commercial relationships with foreign customers.

Exporting Directly

Exporting directly also has its benefits and drawbacks. Exporting directly has the potential for being more costly and time consuming since this method of exporting requires that the exporter use his firm's resources to handle every aspect of the exporting process, from market research and planning to transportation, foreign distribution, and collection of payment.[16] Despite the costs, direct exporting offers producers the opportunity to retain control over sale of their products abroad and obtain higher profits. The most common form of direct export selling is that in which a firm sells its product or services directly to end users in foreign countries. However, producers can also use representative agents or distributors overseas to facilitate direct marketing. This Guide is designed to provide information for firms or exporters involved in direct exporting.

Representatives

Overseas representative **agents** are independent sales representatives who reside in the country where the export product is sold. Using agents can be advantageous when firms are selling to small markets with few channels for distribution or when products are being sold to an individual customer.

Distributors

Unlike agents, foreign distributors purchase goods directly from a U.S. exporter and resell it for profit. Distributors take responsibility for the marketing and promotion of the product as well as keeping inventory of the product and sufficient supply of spare parts.[17] The main advantage of distributors is that they save the manufacturer the time and effort involved in marketing a product overseas.

Export Assistance

Exporters in the United States interested in shipping to Mexico have a variety of resources available to help them locate clients, foreign representatives, and trade shows which may prove useful in facilitating trade.

Department of Commerce

The U.S. Department of Commerce has a variety of programs and publications available to help U.S. exporters identify potential customers, foreign distributors, and commercial partners abroad.[18] Some of these resources and their descriptions are listed below. For more information, exporters should visit the U.S. Commercial Service website at: http://www.usatrade.gov.

Trade Information Center

The Trade Information Center (TIC) offers information on all U.S. federal government export assistance programs. Available through the worldwide web at http://www.trade.gov/td/tic/ or by phone at 1-800-USA-TRADE, the TIC is a comprehensive resource for exporters. It provides general and country-specific export counseling, sources of international market research and trade leads, calendars of overseas trade events, sources of export finance, and information on tariffs, taxes, customs, and other regulations.

Houston Export Assistance Center

The Houston Export Assistance Center is part of a network of over 100 offices in the U.S. and representatives in 70 countries and 142 embassies and consulates.[19] Export assistance centers help exporters identify markets for their products and locate appropriate representation in those markets, while also providing information on trade events as well as federal, state, and private resources in the U.S. and abroad. The Center also provides reports and trade statistics as well as customized market analysis to help exporters assess their product's potential in international markets.

The Houston Export Assistance Center is located in Houston's Intercontinental Center at 15600 John F Kennedy Blvd. and can be reached by phone at (281) 449-9417.

National Trade Data Bank (NTDB)

The NTDB offers trade data from 25 federal agencies and includes 190,000 documents such as market research reports, trade leads, contacts, and statistics. It is available on CD-Rom for purchase or at http://www.stat-usa.gov/ntdb. Recently, the Commerce Department developed a Global Trade Directory, a searchable database with information on 61,500 unique products and services intended to help buyers and sellers find partners who meet their specific requirements. The Directory is accessible on the NTDB website.

NTDB Publications

Other resources available through NTDB are:

- Census data on exports
- Industry Sector Analysis: reports provide comprehensive country information on specific industries and their business potential as well as business contacts overseas for specific markets. Further information is available through commercial specialists of the U.S. Foreign Commercial Service located in the U.S. Embassy in Mexico City, accessible on-line at: http://www.usembassy-mexico.gov.
- International Market Insight: provides market and country research reports.
- Country Commercial Guide (CCG): CCGs are prepared by US Embassy Staff once a year and contain information on the business and economic situation of foreign countries including topics such as marketing, trade regulations, investment climate, and business travel. The latest Mexico CCG can be found in U.S. Department of Commerce's site (http://www.usatrade.gov). The Department of Commerce posts new CCGs as they are released.
- Basic Guide to Exporting: last published in 1998 by the U.S. Department of Commerce, this book familiarizes first-time exporters with all the steps involved in an export transaction—from marketing a product abroad to shipping and payment.

Customized Market Analysis

Through Export Assistance Centers such as the one located in Houston, exporters can access custom-tailored research reports that assess the market for a specific product or service in a specific foreign market. These customized reports offer information on sales potential, competitors, distribution channels, potential buyers, quotas, duties, and regulations.

Business Contact Programs

The Department of Commerce also has programs aimed at helping exporters find distributors, agents, representatives and customers. This is by no means an exhaustive list, and more information is available through Export Assistance Centers and the Commercial Service website: http://www.ita.doc.gov/uscs.

BuyUSA.com

BuyUSA.com is a web portal providing U.S. exporters with thousands of export leads, international business contacts, and personalized trade counseling.[20] The purpose of the website, accessed via the internet at http://www.buyusa.com, is to help exporters initiate and expand their sales by identifying foreign prospects. In that regard, the website lists 17,794 foreign companies with a combined purchasing power of $76 billion.[21]

International Partner Search

The International Partner Search is used to locate foreign agents, distributors, and representatives for U.S. firms. Commercial officers abroad identify up to five interested and qualified foreign representatives for a U.S. exporter. The exporter is given the names and contact information of the foreign firms and their stated interest in the business proposal. The service is priced at $600.[22]

Commercial News USA

Commercial News USA (CNUSA) is an illustrated catalog-magazine and electronic bulletin board designed to market U.S. products and services. The catalog-magazine is available in other countries through embassies and consulates and also at trade events. Listings in CNUSA describe the major features of an export product or service. It also features a U.S. Export Directory with the name, address and contact information of U.S. exporters. An on-line version of CNUSA is also available at the following website: http://www.cnewsusa.com.

Gold Key Service

The Gold Key Service, offered by the U.S. Commercial Service in different countries throughout world, provides assistance to exporters who travel abroad in search of business opportunities. Some of the services include pre-scheduled business appointments and commercial briefings at the foreign embassy or consulate, in addition to an interpreter and driver. Fees vary from $50 to $600 per day.

Trade Events

The Department of Commerce also organizes events for to present their merchandise in different export markets and also meet potential buyers. These events include trade shows, fairs, trade missions, matchmaker delegations, and catalog exhibitions.

Certified Trade Missions

The Department of Commerce supports, or "certifies," appropriate missions organized by state and private-sector trade promotion agencies. The advantage to exporters of enrolling in the Certified Trade Missions Program is that it arranges market briefings, business appointments and meeting with government and industry officials.

Matchmaker Trade Delegations

These delegations are especially organized by the Commerce Department for first-time exporters or businesses entering a new market. Commercial specialists evaluate the potential of U.S. participating products and services, and try to match them with foreign clients by setting up one-to-one business meetings.[23]

Trade Fair Certification Program

This program is designed to assist U.S. firms in promoting their products at trade fairs abroad. Private show organizers who are certified by the International Trade

Administration of the U.S. Department of Commerce are authorized to recruit and manage a U.S. pavilion at the trade show, and can help small- and medium- size firms to arrange for the shipping of their product, customs clearance, exhibit design and other services.

U.S. Agency for International Development (USAID)

USAID is an agency of the U.S. government charged with the responsibility for managing most of the U.S. foreign economic assistance programs. In the area of international trade, USAID offers export opportunities to U.S. suppliers in aid-recipient countries.

Global Trade and Technology Network

Recently, USAID developed a new program in partnership with the International Executive Service Corps (IESC) called Global Trade and Technology Network (GTN). GTN assists small- and medium-size enterprises all over the world to build trade linkages, identify investment opportunities, and access new technologies. Participating firms interact through an Internet-based trading platform, which matches registered companies via technology and product codes.[24] In the U.S., a business development specialist helps U.S. companies with trade and investment leads. GTN also promotes and develops relationships through a network of partnerships with state trade offices, chambers of commerce, trade associations, and other organizations.

U.S.-Mexico Partnerships

GTN programs also facilitate business relationships between U.S. and Mexican firms through trade and investment business matching, technology transfer, business development missions, and disseminating market information. For further information on the GTN Mexico program, contact the Mexico Senior Trade Analyst at the GTN headquarters in Washington, D.C. –(202) 326-0280— or visit their website at http://www.usgtn.net. The GTN Mexico Field Office can also be contacted through the

Centro de Estudios Economicos Aplicados at the following website: http://www.ceea.com.mx/gtn.

Chambers of Commerce

American Chamber of Commerce of Mexico

Amcham-Mexico is the largest American Chamber of Commerce outside the United States. It is a non-profit organization dedicated to promoting trade and investment between Mexico and the United States. The organization is active in hosting trade events and conferences as well as publishing directories, economic studies, and its monthly magazine "Business Mexico" for the benefit of the U.S.-Mexican business community. For more information on the American Chamber of Commerce of Mexico visit their website at: http://www.amcham.com.mx.

Order Processing

The first step in any export-import transaction is related to order processing. Once an order is placed for merchandise to be exported to a prospective buyer, the exporter (seller) confirms receipt of the order and commits to fill the order based on the agreed upon terms and conditions. The seller's acceptance of the terms of sale creates a binding contract between the two parties. An exporter may also prepare a pro forma invoice which details the terms and conditions of the sale, and when accepted by the foreign customer may also serve as a contract.

The terms of sale in international trade transactions are intended to define the method of delivery of the goods sold and clarify the financial responsibilities of each party. The terms of sale also help the buyer and seller determine the final price of the transaction.[25] From a legal standpoint, each country has laws governing the terms of sale in international transactions. In the United States, the Revised American Foreign Trade Definitions and the Uniform Commercial Code govern the terms of sale.[26] Since 1980, the former recommends the use of Incoterms, which are published by the International Chamber of Commerce, and are accepted widely throughout the world. Some common examples of Incoterms which will be used in this chapter to explain the terms of sale are: free on board (FOB); cost, insurance, freight (CIF); and free alongside ship (FAS).

When choosing the terms of sale, exporters and importers must look at the distribution channel and determine when and where to transfer the following between them:

- The physical goods
- Payment for the goods
- Legal title to the goods
- Responsibility for insuring the goods
- Paying for the transportation of the goods

The exporter, or seller of the merchandise, has several options when quoting a price to an overseas buyer[27]:

- At the seller's dock
- Loaded aboard carrier that will take it to the port of export
- Delivered next to the ship, ready for loading
- Loaded aboard the ship
- Crossed ocean
- Unloaded at the port of destination
- Passed through customs and other inspections
- Loaded aboard surface carrier that will take it to the importer
- Delivered to the importer's receiving dock

Some of the most frequently used terms of sale for waterway transport are CIF, CFR, FOB, FAS, and Ex Works and its variants.

Cost, Insurance and Freight (CIF)

- Term of sale used in ocean transportation meaning that the price quoted includes the cost of the goods, freight charges for the shipment to the named port of destination (for example, CIF Veracruz), and insurance coverage;
- The seller is also in charge of preparing documentation such as the invoice, bill of lading, and insurance policy;

- Title to the goods is transferred to the buyer upon delivery, or when he or she receives the bill of lading, which certifies ownership.

Cost and Freight (CFR)

- Pricing term meaning that the price quoted includes the cost of the goods and freight charges to the point of destination.

Free on Board (FOB)

- Pricing term indicating that the price quoted covers all the expenses up to and including delivery of the goods;
- Once the seller delivers the goods aboard the ship, the buyer is responsible for all subsequent charges including freight, marine insurance, unloading charges, import duties, and other expenses due on arrival at the port of destination;
- Title to the goods is transferred to the buyer when the merchandise is onboard the vessel.

Free Alongside Ship (FAS)

- Pricing term according to which the price quoted includes delivery of the goods alongside the vessel;
- "Alongside a vessel" means that the seller is responsible for the cost of **wharfage**. However, the buyer must cover the costs of loading, ocean transportation, and insurance.
- Title to the goods is transferred to the buyer once the merchandise is delivered alongside the ship at the exporting port.

Ex Works, Ex Warehouse, Ex Store

- Pricing terms according to which the seller places the merchandise at the buyer's disposal and at a specified place. The overseas buyer is in charge of collecting the goods at the seller's work, warehouse, or store.

Ex Quay and Ex Ship

- Ex Quay is a pricing term in which the seller is responsible for the goods until they are delivered at the quay of the overseas port of destination. As a result, the seller pays for unloading charges, import duties, port charges, and dock dues.

- The Ex Ship pricing term requires the seller to arrange for shipment of the goods to the port of destination and subsequent delivery of the goods to the buyer.

Shipping a Product

The second step in an export-import transaction is the shipping of the product. Once the terms of sale have been accepted by the overseas customer, the exporter prepares the transportation of the merchandise to Mexico.

There are generally three methods an exporter can use to ship from inland Texas to inland Mexico. First, the exporting company may elect to arrange the necessary documentation and establish contracts with individual service providers for shipment of the cargo. Second, it may use a freight forwarder who will provide all the necessary services for shipping cargo. Third, the exporter may use only some freight forwarding services while making all other necessary arrangements in house.

Freight Forwarders

Freight forwarders are agents, or trade intermediaries, who assist exporters in moving cargo to an overseas destination, including Mexico. In the case of a company with little experience in shipping cargo between Texas and Mexico, it is to their advantage to use the services of a freight forwarder who is licensed by the Federal Maritime Commission (FMC).

Freight forwarders are familiar with the rules affecting cargo movements such as the import rules and regulations of Mexico and the export regulations of the U.S. government. They are also familiar with methods of shipping, and can reserve the necessary space on a vessel, truck, or train for the shipment of cargo. They also ensure that goods are properly labeled, packed, and that they meet all customs documentation regulations so that cargo is cleared without delays at the port of destination. With regard to documentation, freight forwarders are familiar with forms and regulations related to trade under NAFTA, and have contacts overseas that allow them to manage transportation both in Texas and in Mexico. It is estimated that over 90 percent of export firms in the U.S. use the services of an international freight forwarder.[28]

For a referral to international freight forwarders in Texas, contact the National Customs Brokers and Freight Forwarders Association of America at 212.432.0050 or visit their website at http://www.ncbfaa.org.

A company that is more experienced in export-import transactions may choose to manage all shipping logistics from within instead of relinquishing control of the process while incurring fewer costs for each service provided.

Prior to arranging for the goods to be picked up and delivered to the vessel operator in the port of Houston, exporters or freight forwarders must ensure the proper packing and labeling of the product, and prepare the necessary export-import documentation.

Packing

There are four potential problems that exporters or their agents should be weary of when packing merchandise for export: breakage, moisture, pilferage, and excess weight. Improper packing may result in delays in the delivery of the goods and even entitles the overseas customer to reject the goods or claim damages. For a list of export packers in the Houston area, see the Port of Houston Authority's Business Directory available online at the following web address: http://www.portofhouston.com.

In its "Basic Guide to Exporting," the Department of Commerce lists specific guidelines to help exporters avoid damage that could result from inappropriate packing. Some of the tips for packing merchandise are:

- Pack in strong and adequately sealed containers;
- Weight inside containers should be evenly distributed;
- Goods should be packed on pallets and containerized;
- Moisture resistant material should be used in packaging;
- To prevent goods from being stolen, avoid writing brand names on the packages;
- Make sure hazardous materials conform to special packing requirements.

Although these general guidelines can be helpful, the manner in which goods are packaged varies depending on the type of cargo being shipped. Containers are one of the most popular methods of packing and shipping goods. Containers vary in size, material, and construction, and as such, can accommodate most cargo, including cargo that requires refrigeration. Containers can be leased or bought from container leasing and sales companies. For a list of container leasing and sales companies in the Houston area, see the Port of Houston Authority's Business Directory. An exporting firm can containerize its cargo at the shipper's location or at a consolidator's. There, the cargo is loaded onto an 8 x 8 x 20 to 40-foot-long container and tendered to the vessel line as a full container.

Labeling

Labeling shipping cartons and containers is necessary in order to meet shipping regulations, ensure proper handling, conceal the identity of the contents, help receivers identify shipments, and insure compliance with environmental and safety standards.[29] Exporters need to put the following markings on the carton to be shipped:

- Shipper's mark
- Country of origin (USA)
- Weight marking (in pounds or kilograms)
- Number of packages and size of cases (in inches and centimeters)
- Handling marks (international pictorial symbols)
- Cautionary markings, such as "This side up" or "Use no Hooks" (in English and the language of the country of destination)
- Port of entry (Veracruz)
- Labels for hazardous materials
- Ingredients (if applicable, also included in the language of the country of destination)

Mexico has specific labeling laws that must be complied with. Below is a description of these regulations.

Normas Oficiales Mexicanas (NOMs)

In Mexico, all products, goods, and services imported into the country must comply with any applicable standards and labeling requirements. Mandatory and proposed standards are published by the Secretariat of Economy (SE) in the Diario Oficial de la Federacion (Official Gazette) –the Mexican equivalent of the U.S. Federal

Register. Additionally, all regulatory actions are published in the SE's Standardization Plan every year. The latest standardization plan was published on March 25, 2002. Labeling and product standards requirements are published in the form of a Norma Oficial Mexicana (NOM) or Official Mexican Standard. To obtain a copy of the proposed and enacted standards, go to the Mexican SE at http://www.economia.gob.mx. On the menu, select *Lo Mas Consultado*, then *Catalogo de Normas* to see the full text of proposed and enacted standards. The *Catalogo de Normas* describes Mexico's enforcement of product standards and contains a list of products by Harmonized System number, for which proof of compliance with standards must be shown upon entry of the goods into Mexico.

Mexico's Federal Law on Metrology and Standardization which entered into force on July 1, 1992, is the legal basis for the current standardization system. Revisions to the law took effect on August 1, 1997, and will be subject to more changes in the future. For that reason, exporters are advised to consult with the Commerce Department's National Institute of Standards and Technology (NIST) or the NAFTA office of the Commerce Department for the most current list. Exporters should also consult with importers to determine whether or not the product they are selling is subject to a mandatory standard or NOM.

The Mexican NOMs can be mandatory or voluntary. Thus, if a certain good has a mandatory product standard, then all domestic and imported goods must comply with the applicable NOM. Not all goods have to comply with mandatory standards. The use of voluntary standards, called just Normas Mexicanas (NMX), is becoming more common. Voluntary standards are used mostly as a reference and not required as a condition of sale.

There are three kinds of mandatory standards affecting products being imported into Mexico: 1) NOMs related to product information, such as labeling, that must be available to the consumer; 2) NOMs related to product performance and safety; and 3) NOMs that contain both product performance and safety requirements, and product specific labeling requirements.

Mexico enforces all mandatory requirements and technical regulations at the ports of entry. In order for Mexican customs officials to identify goods subject to NOMs, they must be marked by their Harmonized Tariff System (HTS) classification number. Customs may deny entry to any shipment not accompanied by proof of NOM certification.

When exporting to Mexico, U.S. exporters or their agents must include the following information in Spanish on labels:

- Name or business name, address, and fax number of the importer
- Name or business name of the producer of an imported product
- Trademark or commercial brand name of product
- Net content as required by NOM-030-SCFI-1993 (the words "net content" should be on the label)
- Expiration date (required for prepackaged goods and alcoholic beverages) or date of recommended consumption
- Warnings about risk and precautionary measures as required by the relevant NOM for that product
- Directions for usage, handling, and preserving as required by the relevant NOM
- Country of origin
- List of ingredients

Labeling requirements can vary depending on the specific product. Exporters should consult the *Catalogo de Normas* for specific product requirements. Exporters can also obtain an advanced ruling on their labels for a fee by requesting a *constancia* from an authorized verification unit. A *constancia* is a document which certifies that the label in question complies with the relevant NOM. For further questions, exporting companies can call a "labeling hotline" in Mexico City created within the Mexican Commerce Department (SECON) at 011.525.729.9486.

Approval of labels

Labels are approved in one of two ways. Labels can be approved by Mexican Customs (http://www.aduanas.sat.gob.mx/) at the point of importation, requiring correct labeling in Spanish before entry into Mexico. Pre-entry labeling can also be done in English, so long as all the requirements in the NOMs are adhered to. The second option is to apply labels on the products after entry into Mexico. If a company is using the post-entry labeling option, it has two options, depending on the importer. If the importer has been registered with Mexican Customs for a minimum of two years and has imported at least U.S. $100,000 worth of merchandise in the last twelve months, then the importer can do the labeling at his/her own facilities. Once labeling is completed, it is the importer's responsibility to have the goods inspected by a representative from an authorized verification unit. Like the pre-entry option, the verification unit will make sure the labels comply with the appropriate NOMs. If the Mexican importer has not been registered with Mexican Customs for at least two years, or if it imported less than U.S. $100,000 worth of merchandise in the last year, the labeling of the products must be done at an *almacenes general de deposito*, which is an authorized **bonded warehouse**. The labels will be checked at the *almacenes* for compliance with NOMs.

At the time of importation, Mexican Customs requires that labels should be adhered to the container or sown into it. If this requirement is not met, Mexican Customs can impose a penalty on the exporter or his freight forwarder which can be up to 10 or 12 percent of the value of the merchandise.[30] If the shipment does not meet the appropriate labeling requirements the freight forwarder can order the labels from the buyer in Mexico or from a private label manufacturer.

Documentation

Preparing the appropriate documentation is essential for the completion of an export-import transaction. Which documents are used in any particular transaction depends on the requirements of the U.S. government and the government of the importing country, in this case Mexico.

The following documents are required by Mexican authorities at the point of importation.

- ***Pedimento de importacion***: official permit to export and import merchandise issued by the Secretariat of Finance and Public Credit (http://www.shcp.gob.mx);
- **Commercial invoice**: a commercial invoice is used when the customs value of the merchandise exceeds U.S. $300 or the equivalent in another foreign currency.

The invoice must be prepared in Spanish. Otherwise, a translation may be prepared on the reverse side or in the body of the invoice;

- **Bill of Lading**: a bill of lading is a contract between the owner of goods and the steamship company. For vessels, there are two types: a straight bill of lading which is non-negotiable and an order bill of lading which is negotiable and can be bought, sold, or traded. For intermodal transportation, meaning different modes of transportation are used, a through bill of lading is issued by the first carrier;
- Documents demonstrating guarantee of payment of additional duties for undervalued goods;
- Documents demonstrating compliance with Mexican product safety and performance regulations;
- **Certificate of origin**: a certificate of origin is a signed statement as to the origin of the export merchandise. For more information see next item;
- **NAFTA certificate of origin**: should be completed only for products exported to Canada or Mexico that meet the NAFTA rules of origin of production in NAFTA countries. If a product does not qualify for NAFTA tariff preferences, then the certificate must not be completed, as the product is subject to the Most Favored Nation (MFN) tariff rate. Using a NAFTA certificate of origin in these circumstances is illegal and is subject to penalties. Only products that meet the NAFTA rules of origin qualify for preferential tariff treatment. Otherwise, the NAFTA certificate of origin is not required for shipment to Mexico or Canada. It is the exporter's responsibility to complete and sign the certificate of origin. The exporter must then send the certificate to the importer who will claim the NAFTA preferential treatment at Mexican customs. The certificate should be completed in the language of the country of export (English) or the language of the importing country (Spanish), although a uniform certificate is used in all three countries and is printed in English, Spanish, and French. A Certificate of Origin may cover a single importation of goods or multiple importations of identical goods.

Rules of origin are an important aspect of the export-import process between Mexico and the United States. NAFTA grants benefits to a variety of goods from the region. Maximum benefits, though, are reserved for goods that "originate" in the three countries. Only products that meet the requirements described in Article 401 of the free trade agreement are entitled to benefits. Generally, the term "originating" is described in Article 401 as goods wholly obtained or produced entirely in Canada, Mexico, or the U.S. and which contain no foreign materials or parts from outside the NAFTA territory. Examples include: mineral goods extracted in Canada, Mexico or the U.S.; vegetable goods harvested in Canada, Mexico or the US; live animals born and raised in Canada, Mexico or the U.S.; and goods obtained from hunting, trapping, or fishing in Canada, Mexico and the U.S.[31] For more information on NAFTA rules of origin refer to the Customs Service's publication: "NAFTA: A Guide to Customs Procedures."

According to information available from the Trade Information Center of the U.S. Department of Commerce, Mexican customs law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and confiscation of merchandise as contraband. Exporters should ensure that Mexican clients employ competent Mexican customs brokers. Customs brokers are agents for importers and perform the following functions: 1) assure entry and admissibility of the goods; 2) determine classification and valuation of merchandise; and 3) pay duties and other charges assessed by customs.[32] For more information on the role of the customs broker in international trade transactions refer to the section pertaining to the arrival of goods in the port of Veracruz.

The following are documents required by U.S. Customs at the port of shipment.

- **Shipper's Export Declaration** (SED): source document for compiling official U.S. export data. SED is required only for shipments valued over U.S. $2,500;
- **Export packing list** itemizes the material in each individual package, describing the type of package (crate, carton or box) and its size, and showing net and gross weights of each package. It is used by customs in the exporting and importing country to verify that the right product is being shipped, and its total weight and volume as declared by the seller. The packing list is placed on the outside of a package, where it is visible to customs authorities.

Prohibited Products

Mexican Customs does not allow the entry of certain products into Mexican territory. For a complete list of prohibited products refer to the Mexican Customs website (http://www.aduanas.sat.gob.mx) and click on the heading "Temas Aduaneros." On the scroll down menu, open the "Mercancias Prohibidas" section to access the official list. The importation of these products into Mexico is sanctioned by law. Prohibited imports are confiscated and a steep fine of between 70 and 100 percent the value of the merchandise can be imposed.

Special Requirements

Agricultural products are also subject to restrictions upon entry into Mexico. In addition, the Secretariat of Economy, which is the government entity responsible for the coordination of the regulatory process, other Mexican federal agencies establish regulations. Some of the agencies involved in setting standards for agricultural products are: 1) Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA); 2) Secretariat of Natural Resources and Environment (SEMARNAT); and the Secretariat of Health (SSA). Agricultural products and foodstuffs are also regulated by the SSA's *Ley General de Salud* (General Food Law), which is the basic statute defining the public health policy. Additional regulations are imposed by the Animal Health Law and the Plant Health Law.

The U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provides information on all agriculture-related Mexican NOMs in a series of country reports titled Food and Agricultural Import Regulations and Standards (FAIRS). The report for Mexico is available online at http://www.fas.usda.gov. Click on the link marked Exporter Assistance, and then the link titled U.S. Export and Foreign Country Import Requirements and Certifications. In the drop down menu, select Foreign Country Import Requirements to access a list of countries, including Mexico where the list of NOMs for agricultural products can be found.[33]

Transportation

After the necessary packing, labeling, and documentation requirements are completed, the exporter or freight forwarder arranges for the transportation of the merchandise to the port of Veracruz. Traffic management involves planning, arranging, and the purchase of international transportation services necessary to move a firm's freight from one location to another. Logistics experts agree that traffic management is the most important element of international logistics. Traffic management is concerned with freight consolidation, carrier selection, materials handling, and loss and damage claims.[34]

Carrier Selection

First, the freight forwarder contacts a regularly scheduled carrier service calling at the port of Veracruz to schedule an export and book the necessary space for the cargo. Cargo specifics such as dimensions, weight, hazardous materials classifications, and transportation requirements must be available to the freight forwarder at the time of booking. At this point, the forwarder might also contact a container leasing company to reserve the containers needed for shipment.

The role of the freight forwarder in transport should not be confused with that of non-vessel operating common carriers (NVOCC). NVOCCs are international ocean carriers that do not own or operate the vessels being used. NVOCCs guarantee a steamship line a certain amount of freight per week or month and purchase the necessary space on a wholesale basis for shipment of cargo to and from a given port. These trade intermediaries also consolidate cargo belonging to different shippers for transportation to the same port.[35]

Secondly, the freight forwarder confirms the booking with the seller/supplier, who will in turn confirm with the overseas customer.

Freight Transportation and Consolidation

Third, the freight forwarder must arrange for the merchandise to be picked up and moved from the exporter's warehouse or factory to the port of Houston. If a full containerload of cargo is to be shipped, the freight forwarder arranges for the container to be delivered to the shipper's premises. Once the container is fully loaded, it is transported by truck to the port of Houston where it is loaded onto a vessel. Cargo can also be packed by a packing company or by a terminal handler at the port itself.

If the shipment fills less than a containerload, the cargo can also be consolidated, meaning that many small shipments are assembled into a smaller number of larger shipments. This way, the carriers charge less per pound for handling larger shipments because less individual handling is involved. A customer's daily orders to a certain country can be either consolidated into a single weekly order, or into the orders of several different customers whose cargo is bound for the same destination. Thus, the cargo can be handled as a single shipment to a specific destination and then broken down for delivery to each of the customers upon arrival.[36]

Terminal Handlers

The fourth step in the transportation process occurs when cargo is delivered to the marine terminal. There, a terminal handler confirms proper documentation and unloads the cargo or container from the truck. The terminal handler is the shipping line's first contact with the goods being exported. It represents the steamship line by receiving the cargo for loading onto a vessel. At the port of Houston, most containers are received at the Barbours Cut Terminal.

Once in the port's terminal, cargo does not always move directly from the truck aboard the ship. Instead, it arrives early and waits. It if is break-bulk cargo, it can be stored in a transit shed (a warehouse next to the dock). If it is containerized, the containers are kept in an export yard near the vessel.

Stevedores

A stevedoring company is engaged in loading the cargo on the ship. Once this step is completed, the packing list with the description of the shipment's content will be presented along with the Shipper's Export Declaration required by U.S. Customs. Once all required documentation is completed, the steamship line will ship the cargo the port of Veracruz on the scheduled date.

Insurance

Insurance is indispensable for international shipments. Its primary purpose is to cover the losses associated with the risk of theft and damage during transportation. Arrangements for insurance may be made by either the buyer or the seller, in accordance with the terms of sale.

The most common form of insurance policy for exporters and importers is marine insurance. Insurance policies can be written for a single shipment (voyage policy), for a specified period which is usually one year (time policy), or for an indefinite period (open policy). The majority of cargo policies are written on open contracts. An open marine policy is an insurance contract that remains in force until it is cancelled by the shipper and as a result it is not necessary to purchase insurance for every individual shipment. It has the added advantage that it automatically covers shipments made and reported under it.

There are three types of policies: 1) all risks (AR); 2) free of particular average (FPA); and 3) within average (WA).[37] All three policies generally cover the following:

- Total loss of cargo by loss of vessel or while loading or discharging;
- Stranding, sinking, or burning of vessel;
- Damage from fire, explosion, or collision.

The policies, however, do not typically cover delay in delivery, strikes, riots, war, and civil commotion.

Product Entry

The third step in an export-import transaction is related to the arrival of the goods in the port of Veracruz and its passage through Mexican Customs.

After the goods are transported to the port of Veracruz, the freight forwarder in the U.S. sends the necessary documentation, meaning the commercial invoice, packing list, bill of lading, and certificate of origin, to the customs broker in Mexico who clears goods for the customer at the port of Veracruz.

Customs Broker

A customs broker acts as an agent for importers for activities involving: 1) the entry and admissibility of merchandise; 2) its classification and valuation; and 3) the payment of duties and other charges assessed by customs.[38]

Typically, the Mexican importer hires the customs broker. However, in case a U.S. exporter will have to hire a Mexican import broker, the exporter should obtain a recommendation from business associates, clients, or customers. Exporters can also contact the Confederation of Mexican Customs Brokers (Confederacion de Asociaciones de Agentes Aduanales de la Republica Mexicana) at http://www.caaarem.gob.mx, or the Association of Customs Brokers of the Port of Veracruz (Asociacion de Agentes Aduanales del Puerto de Veracruz) at http://www.aaa.vera.net.

Mexican Customs Administration

The Mexican Customs Administration (Administracion General de Aduanas, AGA) is a government entity under the jurisdiction of the Tax Administration Service (Servicio de Administration Tributaria, SAT). Similar to the U.S. Customs Service, its primary function is to collect tariffs and duties levied on the export and import of merchandise. It has 48 offices throughout Mexico, including one in the state of Veracruz. It also has a representative office in the United States with the following contact information:

Secretaria de Hacienda y Credito Publico
Servicio de Administracion Tributaria
Oficina de Representacion
Embajada de Mexico en los Estados Unidos de America
1911 Pennsylvania Ave NW
Washington, D.C. 20006
Phone: (202) 728-1621

Inspection

The customs agent submits import documents to Mexican customs to obtain release of the merchandise. If assessed taxes or duties are owed, the broker pays the money owed to the private bank located within customs. The customs broker then takes the merchandise along with proof of payment to customs inspectors. The customs official activates a mechanism for random selection, which determines whether or not the shipment will be examined. If selected, the shipment will be examined within three hours. If the shipment is not selected for review, it will be released immediately so it can proceed to its destination within Mexico.

There is an important consideration regarding inspections in Mexico. Mexican Customs Law holds brokers liable when import documents fail to correspond with the goods. Penalties and fines can be applied. For that reason, customs brokers feel compelled to carry out preliminary inspections of the cargo prior to submitting their documents for Customs clearance. This leads to a high percentage of containers being opened, sometimes several times, for inspection.

Entry of products into Mexico, or the act of filing the necessary documentation with customs in order to secure the release of the goods, must be done within five working days of the arrival of the merchandise. During this time, the merchandise is placed in a warehouse free of charge. After the five days, the importer must pay for storage of the merchandise. However, Mexican law allows imported merchandise to remain in storage for up to two months in government-owned warehouses. If the goods remain unclaimed at the end of the two month period, they may be sold at public auction, donated, or destroyed.[39]

Delivery to Consignee

After the customs broker obtains the release of the merchandise, the fourth step in the export transaction is the delivery of the goods to the **consignee**. If the terms of sale provide for the seller/exporter to obtain release of the merchandise from Mexican customs and deliver them to the buyer, the freight forwarder must arrange for delivery of the goods to the consignee. However, the way in which this step is managed depends on the terms of sale.

Land transport from the port

One of the last stages of the export and import movements involves the transportation of the goods between the port of import and the inland point of destination. For bulk products, the loading/unloading facility may be located at water's edge in a port. However, for most shipments arrangements must be made to haul the goods from the port, usually by truck or rail.

Intermodalism

Intermodal implies the use of two or more modes to handle a shipment. Containerization has greatly simplified the transport process, and increased the importance of intermodal transport. Containers can be transferred between ship and rail, and moved by truck from the railroad's intermodal ramp to the consignee.

In the case of the Houston-Veracruz trade corridor, shipments arriving at the port of Veracruz and bound for commercial centers like Mexico City can be transported inland by truck or rail. The port is linked to Mexico City by Federal Highway 150 and by a rail line that is authorized to carry up to 120 metric tons per four-axle railcar. The distance between Veracruz and Mexico City is 443 kilometers by road and 419 kilometers by rail.[40]

Warehousing

For U.S. firms moving cargo into the interior of Mexico, warehousing and storage are important links in the transportation chain. However, many U.S. firms seeking storage space or a hub from which to distribute their goods run into a variety of barriers. Mexico's warehousing has been described as "rudimentary, featuring low ceilings, poor lighting and security, and substandard operational modes."[41] In recent years, however, warehousing in Mexico has been modernized and standards have improved.

Several types of warehousing services are available to U.S. exporters in Mexico. Goods imported into Mexico can be kept in bonded warehouses where they are stored or manipulated without paying duty until the goods are entered into the country for consumption. Another type of in-bond warehousing is merchandise in transit which enters Mexico under bonded status, to then be added or assembled into a different product, and then exported. International manufacturing companies are using this scheme in order to export to other countries in Latin America, using *maquiladora* assembly factories. Other value-added services offered by Mexican warehousing companies include labeling, telemarketing, packaging, repackaging, end-user services, and computerized inventory control.[42]

Once the merchandise is delivered to the buyer in Mexico, at the port or at the buyer's warehouse, depending on the terms of sale, the consignee signs the bill of lading and receives the merchandise.

Methods of Payment

The final step in the export process is related to collecting payment for the sale of merchandise. One of the major concerns of exporting firms engaged in international transactions is receiving payment for the goods sold. There are a number of ways in which exporters can receive payment when selling their products abroad. Some mechanisms are riskier than others, and it is up the seller to determine the trustworthiness of the client when choosing the terms of payment. The basic methods of payment are:

- Cash in advance
- Letter of credit
- Open account
- Other payment mechanisms such as consignment sales

Cash in Advance

Some export-import transactions are paid using cash, checks, or credit cards. A wire transfer is commonly used and the advantage to the seller is immediate payment. Checks can also be used, although this method of payment may have a longer collection delay. Credit cards can also be used in payment for exports of consumer and other products, generally of a low value, and which are sold directly to the end user.

Cash in advance, in these forms, is advantageous for the seller because payment is received immediately. However, for the buyer, this method may create cash flow problems as well as increase risk.[43]

Letter of Credit

An exporter significantly reduces the risk of non-payment by asking a customer (the buyer in Mexico) to pay under a letter of credit (L/C). A letter of credit is an agreement between the buyer's bank and the seller's bank to guarantee payment provided that the exporter has met all the terms and conditions of the letter of credit. This way, the risk of non-payment shifts from the customer to their bank. The foreign buyer applies for issuance of a letter of credit from the buyer's bank to the exporter's bank and is called the applicant. The exporter or seller is called the beneficiary.

Payment under a letter of credit is based on documents, not on the terms of sale or the physical condition of the goods. The letter of credit specifies the documents that are required to be presented by the exporter, such as the ocean bill of lading, commercial invoice, and insurance policy. Before payment, the bank responsible for making payment verifies if all the documents conform to the letter of credit requirements. A letter of credit may be irrevocable, meaning that it cannot be changed without the consent of both parties. A revocable letter of credit, on the other hand, may be changed unilaterally by either party. Any change made to the letter of credit is called an amendment and carries a fee.

The steps involved in a letter of credit transaction are specified below:

1. Once the exporter and buyer in Mexico agree on the terms of sale (CIF, FOB, FAS), the buyer arranges for its bank to open a letter of credit that lists the documents required for payment. The buyer determines which documents will be required.
2. The buyer's bank issues a letter of credit and includes all instructions to the seller concerning the documents relating to shipment.

3. The buyer's bank sends its irrevocable letter of credit to the U.S. bank and requests confirmation. The confirmation means that the U.S. bank adds its promise to pay to that of the foreign bank.
4. The U.S. bank prepares a letter of confirmation to forward to the exporter along with the irrevocable letter of credit.
5. The exporter reviews the letter of credit and contacts his freight forwarder to make sure the shipping date specified in the letter of credit can be met.
6. The exporter arranges with the freight forwarder to deliver the goods to the Port of Houston.
7. Once the goods are loaded, the exporter or the freight forwarder presents the documents showing compliance with the letter of credit to the U.S. bank.
8. The U.S. bank reviews the documents and sends them to the buyer's bank for review which, in turn, sends them to the buyer.
9. The buyer or the Mexican customs broker uses the documents to claim the goods.[44]

Open Account

An open account is generally used as a method of payment in cases in which the purchaser has a well established record of payment and has been checked for creditworthiness. With an open account the exporter simply bills the customer who agrees to pay under agreed terms at a future date.

Other Payment Mechanisms

Other methods of payment, like consignment sales, can be used in international transactions. With a consignment sale, the goods are shipped to a foreign distributor who sells them on behalf of the exporter. The exporter retains title to the goods until they are sold, at which point payment is sent to the exporter.

Generally, letters of credit are the most common and recommended method of payment in export-import operations. As a bank's promise to pay upon satisfactory compliance with the L/C terms and conditions, the L/C is the least risky of all payment methods. Additionally, the terms and conditions of an L/C are recognized internationally, and the document is therefore not subject to change according to a country's particular laws. Banks charge a fee for issuing a letter of credit, which is usually a percentage of the sales value.

Notes

[14] Donald F. Wood, Anthony Barone, Paul Murphy, and Daniel L. Wardlow. *International Logistics* (New York, NY: International Thomson Publishing, 1995), p.5.

[15] Ibid., p.4.

[16] U.S. Department of Commerce, *A Basic Guide to Exporting* (Washington, D.C.: U.S. Government Printing Office, 1998), p.19.

[17] Ibid., p.22.

[18] Ibid., p.29.

[19] Presentation by Alan Richel, U.S. Commercial Service at The Greater Houston Partnership, Houston, Texas, February, 2003.

[20] Ibid.

[21] Ibid.

[22] Ibid.

[23] U.S. Department of Commerce, *Basic Guide to Exporting*, p.31.

[24] United States Agency for International Development, Global Trade and Technology Network. Online. Available: http://www.usgtn.net. Accessed: March 5, 2003.

[25] Belay Seyoum, *Export-Import Theory, Practices, and Procedures* (Binghamton, NY: The Hawthorne Press, 2000), p.130.

[26] Ibid, p.130.

[27] Wood, *International Logistics*.

[28] Seyoum, *Export-Import Theory, Practices, and Procedures*, p.118.

[29] U.S. Department of Commerce, *Basic Guide to Exporting.*

[30] Asociacion de Agentes Aduanales del Puerto de Veracruz, Departamento de Operaciones, Questionnaire, March 29, 2003.

[31] U.S. Customs Service, *The North American Free Trade Agreement: A Guide to Customs Procedures* (Washington, D.C.: Department of the Treasury, 1993), p.4.

[32] Seyoum, *Export-Import Theory, Practices, and Procedures*, p.336.

[33] U.S. Department of Agriculture, Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards*. Online. Available: http://www.fas.usda.gov/itp/ofsts/fairs_by_country_results.asp?Cntry=MX. Accessed: April 25, 2003.

[34] Wood, *International Logistics*.

[35] Export Import, p.118.

[36] Wood, *International Logistics*.

[37] Seyoum, *Export Import Theory, Practices, and Procedures*, p.170.

[38] Ibid., p.336.

[39] Asociacion de Agentes Aduanales del Puerto de Veracruz, Departamento de Operaciones, Questionnaire, March 29, 2003.

[40] Lyndon B. Johnson School of Public Affairs, *U.S.-Mexico Trade and Transportation: Corridors, Logistics Practices and Multimodal Partnerships*, Policy Research Project, no. 113 (Austin, Tex., 1995), p.27.

[41] Ricardo Castillo Mireles, "Mexico moves to modernize its warehousing," *Transportation and Distribution*, vol. 39 (January 1998).

[42] Ibid.

[43] U.S. Department of Commerce, *A Basic Guide to Exporting*, p.89.

[44] Ibid.

Chapter 4. Exporting to the U.S. from Veracruz to Houston

The steps a shipper must take when shipping from Veracruz to Houston are similar to the steps taken when exporting from Houston to Veracruz. Logistics procedures as well as regulatory and documentary requirements differ in the shipment of cargo northbound between Mexico and the U.S. This section is written from the point of view of an exporter in inland Mexico interested in shipping cargo to Texas from the port of Veracruz to Houston.

Shipping a Product

After the terms of sale have been established between the exporter and importer, the seller in Mexico must arrange the shipment of the goods to the United States. Mexican exporting firms that transport merchandise through the port of Veracruz and are primarily located in the Mexican capital, can hire the services of a freight forwarder to facilitate the distribution and documentation channels of the export-import transaction.

A directory of freight forwarders in Mexico is available from the Confederation of Mexican Customs Brokers (Confederacion de Asociaciones de Agentes Aduanales de la Republica Mexicana) at http://www.caaarem.gob.mx, or the Association of Customs Brokers of the Port of Veracruz (Asociacion de Agentes Aduanales del Puerto de Veracruz) at the following website: http://www.aaa.vera.net.

Prior to arranging for the goods to be picked up and delivered to the vessel carrier at the port of Veracruz, exporters or freight forwarders must ensure the proper packing and labeling of the product, and prepare the necessary documentation.

Packing

It is the exporter's responsibility to appropriately pack merchandise in order to avoid delays at the moment of the product's entry into the United States. The U.S. Customs Service recommends that the following guidelines be used in order to allow Customs to examine, weigh, measure, and release goods promptly:

- Show the exact quantity of each item of goods in each box, bale, case, or other package;
- Put marks and numbers on each package;
- Show marks and numbers on the commercial invoice opposite the itemization of goods contained in the package that bears those marks and numbers.

Another aspect that facilitates inspections by Customs is how the cargo is loaded in a container. If cargo is "palletized," meaning that it is loaded onto pallets or other consolidated units it can be removed quickly using a forklift compared to the time it would take manually. Containers can also be loaded in such a way that there is space at the top of the container and an aisle down the center which allows access by narcotics inspectors who physically examine cargo when it arrives at the port in the U.S.

Labeling

Imported foreign goods must be marked with the country of origin (i.e., Made in Mexico, Product of Mexico). The markings should be:

- Legible and in English
- Easily seen
- Indelible
- Permanent[45]
-

Documentation

In exporting to the U.S. from Mexico, two sets of documents must be prepared. The first set of documents is presented to Mexican Customs at the port of shipment, Veracruz. The second set of documents is presented to the U.S. Customs Service upon entry of the goods at the port of Houston.

Mexican Customs Law requires that exporters present the following documents at the port of shipment:

- *Pedimento oficial*: official document requested by Mexican authorities regarding the payment of taxes on international commercial transactions. The exporter should include information detailing the type of merchandise to be exported, its tariff classification code, commercial value, duties to be paid, and country of destination.

- Commercial invoice
- Documents showing compliance with U.S. import rules and regulations (i.e., certificate of origin, sanitary and phytosanitary certificates, if applicable, and NOMs)

The documentation channel in the U.S. consists of a two-part process: 1) filing documents necessary to determine whether merchandise may be released from Customs custody; and 2) filing the documents that contain information for duty assessment and statistical purposes.

The following documents must be presented to the U.S. Customs Service within 15 days of arrival of the shipment at the Port of Houston:

- Entry Manifest (Customs Form 7533) or Application and Special Permit for Immediate Delivery (Customs Form 3461) or other form of merchandise release required by the port director;
- Evidence of right to make entry: since goods may only be entered by their owner, purchaser, or a licensed customs broker, a bill of lading, properly endorsed by the consignor, serves as evidence of the right to make entry. A customs power of attorney made in the name of the customs broker is also evidence of the right to make entry;
- Commercial invoice or pro forma voice when the commercial invoice cannot be produced. The commercial invoice, signed by the seller or shipper, must provide the following information:
    - The port of entry to which the merchandise is destined;
    - Names of buyer and seller;
    - Detailed description of the merchandise, including the name by which each item is known, the grade or quality, and the marks, numbers, and symbols under which it is sold;
    - Quantities in weights and measures;
    - Country of origin;
    - Packing lists;

- § Other documents necessary to determine admissibility of the merchandise.

If goods are entered for consumption, an entry summary for consumption (Customs Form 7501) must be filed and estimated duties deposited at the port of entry within 10 working days of the date of importation.

Importers should be aware that the Customs Modernization Act (Title VI of the North American Free Trade Agreement Implementation Act which became effective on December 8, 1993) has altered the relationship between importers and the Customs Service by shifting to the importer the legal responsibility of declaring the value, classification, and duty applicable to the imported merchandise. The Mod Act, as it is known, establishes that Customs and the import community share the burden of responsibility in the entry process. This relationship, known as informed compliance, holds Customs responsible for effectively communicating its requirements to the trade community, while the people and businesses subject to those requirements conduct their activities in accordance with U.S. laws and regulations. The importer, thus, is expected to exercise reasonable care when conducting import transactions.

Since informed compliance requires that the importer know what Customs' requirements are, the importer should also be aware that agencies other than Customs may have special requirements for the entry of certain goods. For example, questions about products regulated by the Food and Drug Administration (FDA) should be forwarded to the nearest FDA district office. The same is true for alcohol, tobacco, firearms, wildlife products (furs, skins), motor vehicles, and other products and merchandise regulated by other federal agencies for which Customs enforces entry laws. The following section describes how special requirements should be conformed with.

Special Requirements

Certain kinds of merchandise are prohibited from entry into the U.S. for reasons of economic protection or national security, as well as to safeguard health and well-being, and to preserve animal and plant life.[46] Many products are subject to restrictions not only imposed by the Customs Service but by other federal agencies. Some examples of sensitive products and their special requirements are provided.

Cheese, Milk, and Dairy Products

Cheese and cheese products are subject to requirements of the Food and Drug Administration and the Department of Agriculture (DOA). Most importations of cheese require an import license and are subject to quotas administered by the Department of Agriculture's Foreign Agricultural Service.[47] Likewise, the importation of milk and cream is subject to requirements of the Food, Drug, and Cosmetic Act and the Import Milk Act. Permits from the Department of Health and Human Services, FDA, Center for Food Safety and Applied Nutrition, and the Office of Food Labeling, and the Department of Agriculture, are required in order to import these goods.

Meat and Poultry

All commercial shipments of meat and poultry arriving in the U.S. are subject to laws and regulations administered by several federal agencies. These include the U.S. Customs Service, the Animal and Plant Health Inspection Service (APHIS), and the Food Safety and Inspection Service (FSIS). Although a license is not required for importing meat or poultry into the U.S., FSIS requires that two documents be presented to the Customs Service upon entry of a meat or poultry shipment:

1. *Certificado Tipo Inspeccion Federal* (TIF) or Certificate of Federal Inspection issued by the Mexican Secretaria de Ganaderia, Pesca y Alimentacion (SAGARPA) (Secretariat for Meat, Fish, and Nutrition).[48] The document, which is required upon the shipment's entry into the U.S., certifies that the meat products are wholesome, not adulterated, or misbranded, and that they meet U.S. quality control and health standards.

2. Import Inspection and Application Report (FSIS Form 9540-1).

Additionally, FSIS' Labeling and Consumer Protection Staff (LCPS) checks that meat, poultry, and egg shipment meet the agency's labeling requirements. For more information on FSIS and its labeling requirements, visit their webpage http://www.fsis.usda.gov.[49]

Plant and Plant Products

Plants and plant product imports are regulated by APHIS. These products include: fruits, vegetables, plants, bulbs, roots, seeds, cut flowers, sugarcane, and certain cereals. APHIS has an online Import Authorization System (IAS) which allows customers to submit an application to import fruits and vegetables online or check the status of an existing application. More information on APHIS is available at the agency's website http://www.aphis.usda.gov.

Consumer Products

The U.S. Consumer Product Safety Commission regulates the importation of consumer products like toys and children's articles, bicycles, fireworks, and household appliances. These products must meet safety standards in order to be allowed into the U.S. market and comply with labeling and certification requirements.

Hazardous Substances

Substances that are considered dangerous, caustic or corrosive are regulated by the Hazardous Substance Act, the Caustic Poison Act, the Food, Drug, and Cosmetic Act, and the Consumer Product Safety Act. The marking, labeling, packaging, and transportation of hazardous materials, substances, and wastes are regulated by the Office of Hazardous Materials Transportation of the Department of Transportation (DOT).

Transportation

After the necessary packing, labeling, and documentation requirements are completed, the freight forwarder in Mexico arranges for the transportation of the goods to the United States. Since most of the cargo that leaves the port of Veracruz bound for the U.S. originates in Mexico City, the freight forwarding company must first arrange for the transport of the merchandise by land to the port of Veracruz, where it will be loaded onto a vessel, and then for the movement of the goods by vessel to the port of Houston, the U.S. port of entry. The general steps for completing this process are as follows:

1. Freight forwarder books necessary space for the cargo on a regularly scheduled carrier calling at the port of Houston.

2. Freight forwarder confirms the booking with the seller/supplier in Mexico who in turn notifies the U.S. buyer.

3. Freight forwarder arranges for the goods to be picked up at seller's warehouse or factory in Mexico City and transported to the port of Veracruz. Transporting merchandise from Mexico City to Veracruz is done mostly by truck. The road corridor linking Mexico City and Veracruz is the third most important road corridor in the country, transporting an estimated 33,200 metric tons of merchandise per day in 3,460 trucks.[50]

4. The cargo is delivered to the marine terminal where it will be loaded onto the vessel for transport to the port of Houston.

5. A few days before the shipment arrives at the terminal in Houston, the customs house broker in the U.S. prepares the necessary documentation and arranges for the containers to be unloaded.

Product Entry

When the shipment arrives in the United States, the importer of record (i.e., the owner, purchaser, or licensed customs broker designated by the owner or purchaser) will file entry documents for the goods with the port's director at the port of Houston.

Customs Procedures

Customs brokers are the only persons authorized by the tariff laws of the U.S. to act as agents for importers in the transaction of their customs business. Customs brokers are agents for importers who are authorized by the Customs Service to prepare and file the necessary Customs entries, arrange for the payment of duties, and obtain release of the goods. When entry is made by a customs broker, a Customs power of attorney is made in the name of the customs broker who is acting as the agent. Foreign corporations may also issue a power of attorney to a customs broker to act in the U.S. on behalf of the firm.

Imported goods are not legally entered until after the shipment has arrived within the port of entry, delivery of the merchandise has been authorized by Customs, and estimated duties have been paid.

Goods may be entered for consumption, entered for warehouse at the port of Houston, or they may be transported in-bond to another port of entry and entered there under the same conditions as at the port of arrival. Prior to the good's arrival, arrangement must be made for entry at the port where documentation will be filed.

Merchandise entered for warehouse is usually placed in a bonded warehouse. Such merchandise can remain in the bonded warehouse for up to five years from the date of importation. At the bonded warehouse, goods may be manipulated by cleaning, sorting, repacking, or otherwise changing their condition by processes that do not amount to manufacturing. After manipulation, the goods may be withdrawn for consumption, at which point duties must be paid.

In some cases, importers may not want to enter merchandise at the port where it arrives, but rather, at a different location in the United States. If this is the case, then merchandise can travel in a bonded status from the port of arrival (Houston) to the intended port of entry. This process is known as *traveling under Immediate Transportation procedures* and requires the filing of Customs Form 7512 (Transportation Entry and Manifest of Goods Subject to Customs Inspection and Permit). The merchandise is placed with a carrier who accepts it under bond for transportation to the intended destination, where the entry process will be completed.

Inspection

Customs will examine goods and documents to determine the following:

- The value of the goods for customs purposes and their dutiable status;
- Whether the goods are marked with their country of origin;
- Whether the shipment contains prohibited articles;
- Whether the shipment contains illegal narcotics.

Following presentation of documentation and after completing inspections at Customs, the shipment may be examined, or examination may be waived. The shipment is released if no legal or regulatory violations have been found.

Entry of products into the U.S. must be done within 15 calendar days after their arrival at the port of entry. If no entry has been filed for the goods after that time, the goods may be placed in a general-order warehouse at the risk and expense of the importer. If the goods are not entered within six months from the date of importation, they can be sold at public auction.

Duty Assessment

All goods imported into the U.S. are subject to duty or duty-free entry in accordance with their classification under the Harmonized Tariff Schedule of the United States. However, rates of duty vary depending on the country of origin. In the case of trade between Mexico and the United States, duties are assessed based on the provisions of NAFTA.

The NAFTA eliminates tariffs on most goods originating in Canada, Mexico, and the U.S. over a maximum transition period of 15 years. However, tariffs will only be eliminated on goods that originate in Mexico. Transshipping goods made in another country through Mexico will not e entitled to preferential NAFTA rates of duty. Additionally, U.S. Customs recommends that importers should make no assumptions regarding the dutiable status of their commodity.[51]

<u>User Fees</u>

Customs charges a users fee according to the Consolidated Omnibus Budget Reconciliation Act of 1985. In 1986, the legislation was expanded to include a merchandise processing fee. The merchandise processing (MPF) is a 0.21 percent ad valorem fee on imported merchandise (usually entries valued over $2,000), subject to a minimum fee of $25 per entry and a maximum fee of $485 per entry. Since June 30, 1999, goods imported directly from Mexico are exempted from the MPF if the goods conform to country of origin requirements.

Notes

[45] Presentation by Jeffrey Mitchell, U.S. Customs Service at The Greater Houston Partnership, Houston, Texas, February 2003.

[46] U.S. Customs Service, *Importing into the United States: A Guide for Commercial Importers*. Online. Available: http://www.customs.gov/xp/cgov/toolbox/publications/trade/. Accessed: March 1, 2003.

[47] Ibid., p.113.

[48] Bancomext, *Guia de Exportacion de Mexico*. Online. Available: http://www.gob.mx/wb2/egobierno/id_negcom_guidexp. Accessed: February 27, 2003.

[49] United States Department of Agriculture, Food Safety and Inspection Service, *Importing to the United States*. Online. Available: http://www.fsis.usda.gov/OPPDE/IPS/Importing.htm. Accessed: April 18, 2003.

[50] Alfonso Rico, Alberto Mendoza, and Emilio Mayoral, "Main Freight Land Transport Corridors in Mexico," *Transportation Research Record*, vol. 1613.

[51] Presentation by Jeffrey Mitchell, U.S. Customs Service at The Greater Houston Partnership, Houston, Texas, February 2003.

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U.S. Government	URL
BuyUSA.com	www.buyusa.com
Commercial News USA	www.cnewsusa.com
Global Trade and Technology Network	www.usgtn.net
National Trade Data Bank	www.stat-usa.gov/ntdb
Trade Information Center	www.trade.gov/td/tic
U.S. Department of Agriculture, Animal and Plant Health Inspection Service	www.aphis.usda.gov
U.S. Department of Agriculture, Foreign Agricultural Service	www.fas.usda.gov
U.S. Commercial Service	www.usatrade.gov
U.S. Embassy in Mexico	www.usembassy-mexico.gov
Mexican Government	
Aduana de Mexico	www.aduanas.sat.gob.mx
Bancomext	www.bancomext.com
Secretaria de Hacienda y Credito Public	www.shcp.gob.mx
Secretaria de Economia (SECON)	www.economia.gob.mx
Ports	
Puerto de Veracruz	www.apiver.com
Port of Houston Authority	www.portofhouston.com
U.S. Associations	
American Chamber of Commerce-Mexico	www.amcham.com.mx
National Customs Brokers and Freight Forwarders Association of America	www.ncbfaa.org
Mexican Associations	
Asociacion de Agentes Aduanales del Puerto de Veracruz	http://www.aaa.vera.net
Centro de Estudios Economicos Aplicados	http://www.ceea.com.mx/gtn
Confederacion de Asociaciones de Agentes Aduanales de la Republica de Mexico	http://www.caaarem.gob.mx
Maritime Resources	
Gulf Shipper Magazine	http://www.gulfshipper.com
Journal of Commerce	http://www.joc.com

Glossary

A	
Agent	A person authorized to transact business for and in the name of another.
Alongside	Point of delivery beside a vessel.
B	
Bill of lading	Transaction document between the owner of the goods and the carrier setting forth a contract for carriage. There are negotiable and non-negotiable bills of lading. Types of bills of lading include: Straight Bill of Lading, Shippers Bill of Lading, Ocean-Marine Bill of Lading.
Bonded warehouse	Warehouse approved by the Treasury Department in which imported goods are stored or manipulated without paying duty until the goods are removed and entered into the country for consumption.
Booking	Arrangement with a steamship company for the carriage of freight.
Broker	Agent who arranges for the movement of goods by other carriers.
C	
Cargo	Freight transported in a vehicle.
Carrier	Individual or company who provides transport of goods or passengers for a fee.
Cash in advance (CIA)	Method of payment in which goods are paid for in full before shipment.
Cash before delivery (CBD)	Method of payment in which seller assumes no risk because he is paid for the goods before shipment.
Certificate of origin	A document required by customs officials for tariff purposes indicating the country producing the goods.

Cost and Freight (CFR)	Term of sale used in ocean transportation indicating that the price quoted includes the cost of the goods and transportation charges to the point of destination.
Cost, Insurance, Freight (CIF)	Term of sale indicating that the seller will pay insurance and freight charges to the point of destination.
Commercial Invoice	List issued by seller/exporter describing goods (quality and quantity), showing price, terms of sale, and weight, and identifying seller and buyer (full names and addresses).
Consignee	Person who receives goods shipped from owner (consignor).
Consignor	Person or firm that ships goods to customers (consignees).
Consolidation	Practice of combining less-than-containerload (LCL) shipments.
Container Load	A loading which does not use the full capacity of a container.
Container Ship	Vessel which is specially designed for the transport of containers.
Containerization	Shipping system based on large cargo-carrying containers (20 or 40 feet in length) that can be interchanged between trucks, trains, and ships without discharging the contents.
Customs brokers	An individual or firm licensed by the Treasury Department to enter and clear goods through Customs on behalf of a customer for a fee.
Customs	Government authority charged with the responsibility to collect duties levied by a country on imports and exports.
Customs bonded warehouse	See bonded warehouse.

D

Devanning	The discharging of cargo from a container.
Double-stack	Railcar movement of containers stacked two high.
Duty	A tax levied on imports by the customs authority of a country. Duties are levied according to the value of the goods (ad valorem), weight or quantity (quota), or a combination of value and other factors (compound duties).

E

Ex	From. When used to denote terms of payment, it means that the seller agrees to place the goods at the disposal of the buyer at the specified place in a given period of time (i.e. Ex-quay, Ex-ship).
Export declaration	Document required by the Department of Commerce specifying the nature and value of export activity. See also Shipper's Export Declaration.
Export license	Document required by the U.S. Government authorizing the export of specific commodities.
Export management company	Private firm acting as an export department for several producers by taking title to the goods or transacting export business on their behalf for a fee.
Export packing list	Document itemizing the merchandise inside each individual package and showing the package's weight and measurements. Used by shipper or forwarding agent to determine total shipment weight and volume.

F

Free Alongside Ship (FAS)	Term of sale indicating the quoted price includes the cost of delivering the goods alongside a vessel.
Free on Board (FOB)	Term of payment indicating that the price quoted covers all expenses up to and including delivery of goods upon a vessel provided by or for the buyer.
FOB Destination	Freight cost is paid for by the seller to the point of destination.

FOB Factory	Title to the goods and responsibility for the transportation of freight transfers from the seller to the factory.
FOB Vessel	Title to the goods and transportation costs are the responsibility of the buyer until the goods are delivered on vessel to the buyer.
Forwarding Agent	Firm specializing in shipping goods abroad.
Free Trade Zone (FTZ)	An area designated by the government of a country for duty-free entry of nonprohibited goods. Goods may be stored in the FTZ and reexported without paying duty. Duty is levied only when goods leave the FTZ into an area of the country subject to customs authority.
Freight Forwarder	Freight forwarders are agents, or trade intermediaries, who assist exporters in moving cargo to an overseas destination.

H

Harmonized System	Universal classification system according to which every product is assigned the same 6-digit number regardless of country of origin or language used to describe it.

I

Import License	A document required by some governments authorizing the importation of goods.
In Bond	Storage of goods in custody of the government.
In Transit	Cargo being transferred along a route between home terminal and point of destination.
Incoterms	Terms of international sale issued by the International Chamber of Commerce (i.e. FAS, FOB, CFR, CIF).
Irrevocable letter of credit	A letter of credit in which the payment is guaranteed by the bank if all terms and conditions are met.

L

Letter of credit (L/C)	A document, issued by a bank upon instruction of the buyer, authorizing the seller to withdraw a specified amount upon receipt by the bank of certain documentation within a given period of time. L/Cs can be revocable or irrevocable.
Liner service	International water carriers offering fixed routes through published schedules.

M

Marine insurance	Insurance that compensates the owners of goods for loss or damages suffered by a shipment during overseas transport.

N

NAFTA certificate of origin	Type of certificate of origin required for products traded among the NAFTA countries (Canada, U.S., and Mexico).
Non-vessel operating common carrier (NVOCC)	International ocean carriers that consolidate small shipments but do not own or operate their own vessels. NVOCCs guarantee a steamship line a certain amount of freight per week or month and purchase the necessary space on a wholesale basis for shipment of cargo to and from a given port.

O

Open insurance policy	Marine insurance policy that covers all shipments for an exporter during a specified period of time.

P

Packing list	A list, normally prepared by shippers, describing the type and quantity of goods being transported.
Phytosanitary certificate	A certificate issued by the U.S. Department of Agriculture to satisfy import regulations for foreign countries. It certifies that the U.S. shipment has been inspected and is free from pests and diseases.

Pilferage	In transportation, refers to breaking into cartons or containers and removing items.
Port authority	A state or local government that owns and operates terminals at a port.
Port charges	Charges assessed for services performed at ports, including pilotage, towage, harbor dues, dockage, and wharfage.
Pro forma voice	Invoice sent by supplier to the buyer prior to shipment describing the type and quantity of merchandise, value, and terms of sale and payment.

Q

Quota	Quantity restriction on a certain imported goods.
Quay	Manmade docking area for loading and unloading vessels.

R

Revocable letter of credit	A type of letter of credit that can be cancelled or changed by the buyer of its bank after it has been issued.

S

Ship agent	Representative of a liner company who facilitates ship arrival, loading/unloading of cargo, and fee payment at the port.
Ship broker	A firm that serves as a go-between for the ship owner and the exporter or consignor.
Shipment	Merchandise being transported in one or more containers to a single destination.
Shipper's bill of lading	A bill of lading that can be bought, sold, or traded while the goods are in transit.
Shipper's Export Declaration	Document required by the Treasury Department and completed by the shipper listing value, weight, destination, consignee, and other information.

Stevedore	Individual or firm in charge of loading/unloading vessels.
Straight bill of lading	A non-negotiable bill of lading in which goods are consigned directly to a named party.

T

Through bill of lading	Bill of lading covering goods moving from point of origin to final destination, even though transfers are made to different carriers in transit and different modes of transportation.
Title	Document conferring right of ownership. Can be in form of a bill of lading or warehouse receipt.

V

Vessel	Craft used for waterborne transportation.

W

Warehouse	Area used for storing goods or merchandise.
Wharf	Loading/discharging terminal built parallel to shoreline.

Source: U.S. Department of Commerce, A Basic Guide to Exporting (Washington, D.C.: U.S. Government Printing Office, 1998) and Journal of Commerce, *Handbook of International Trade*. Online. Available: http://www.joc.com. Accessed: May 1, 2003.