Ministry of Industry and Commerce

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MANUAL

Manual for the U.S. Silk Products Market
A Tool for Lao Exporters of Silk Products

April 2011

This publication was produced by the USAID-funded LUNA Project at the request of the Lao PDR Ministry of Industry and Commerce.

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FTA	Free Trade Agreement
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HOPE	Hemispheric Opportunity through Partnership Encouragement
HTS	Harmonized Tariff Schedule
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ISF	Importer Security Filing
OTEXA	Office of Textiles and Apparel of the U.S. Department of Commerce
PAPS	Pre-Arrival Processing System
U.S.	United States
USAID	United States Agency for International Development
USAITA	U.S. Association of Importers of Textile and Apparel
WTO	World Trade Organization

PREFACE

This manual provides background and references for Lao exporters of silk products seeking to develop business opportunities in the U.S. market, following the normalization of economic relations between the United States and Lao PDR. It is one of five manuals prepared by the USAID/LUNA-Lao Project and the Foreign Trade Policy Department (FTPD) of the Ministry of Industry and Commerce (MOIC). Other manuals have been prepared for textiles and apparel, handicrafts, wood products, and agricultural products.

The primary author of this manual is Michael Blakeley, LUNA-Lao's marketing expert, who conducted the study under the supervision of Teri Lojewski, former Project Director, and Steve Parker, current LUNA Project Director. It benefited from inputs and comments by FTPD/MOIC staff.

The LUNA Project supports the Lao PDR to draft, analyze, promulgate and implement the legal and economic policy reforms and institutional capacity building needed to accomplish the following objectives:

- Support the effective implementation of the U.S.-Lao PDR Bilateral Trade Agreement (BTA);
- Support the timely accession of Lao PDR to the World Trade Organization (WTO); and,
- Support Lao PDR to fulfill its commitments to the ASEAN Economic Community (AEC).;

Effective implementation of these trade agreements contributes importantly to support the long-term development strategy of Lao PDR to sustain strong, broad-based economic growth and poverty reduction with strengthened rule of law and governance.

LUNA is one of four technical assistance projects funded by the ADVANCE Project. The U.S. Agency for International Development (USAID) and U.S. State Department launched the ASEAN Development Vision to Advance National Cooperation and Economic Integration (ADVANCE) program in October 2007. It was established to deliver targeted, quick-response technical assistance on a regional, sub-regional, and bilateral level in collaboration with the ASEAN Secretariat and Member States. ADVANCE is the main U.S. mechanism for supporting public and private sector integration in the ASEAN region.

We hope that this manual will provide useful information to Lao exporters about the U.S silk products market.

Bounsom PHOMMAVIHANE

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Foreign Trade Policy Department
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Project Director
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INTRODUCTION

In 2008, Laos exported $41.9 million in goods to the United States, including more than $20,000 in silk products. The U.S. is the largest market for Laos' silk exports, and those exports are concentrated in silk fabric. Thus, this manual focuses on silk products imported under the Harmonized Tariff System code 50 "Silk," which includes silk fabric. It provides an overview of the market (Chapter 1), details on market characteristics (Chapter 2), overviews of U.S. import requirements (Chapter 3) and related Lao export requirements (Chapter 4), and a listing of market-related resources (Chapter 5).

OVERVIEW OF THE U.S. MARKET FOR SILK PRODUCTS

In 2008 the U.S. imported over $250 million worth of silk products under HTS code 50 "Silk" (Table 1). Most of those imports were silk fabric and yarn, of which there are 30 separate tariff lines.

The world's leading importers of silk fabrics are the United States, Hong Kong and Italy. The U.S. accounts for 13.4 percent of world imports, Hong Kong for 10.6 percent and Italy for 9.6 percent[1]. China and India—the world's top two silk exporters—are the major suppliers of silk fabrics and yarn to the United States, accounting for nearly 60 percent of imports (Table 2). European countries such as Italy, the United Kingdom, and France are also significant exporters of purely silk products (e.g. silk products where 85 percent or more of the material used is silk). Purely silk products are generally considered a "luxury" good because of their high cost.

<1> "Unleashing the potential of the Rwandan silk industry." OTF Group, May 2009.

Table 1
U.S. Imports of Silk by Product and Value, 2008

Product	HS Code	Import Value ($000's)
Woven fabrics of silk or of silk waste	5007	245,052
Silk yarn (other than yarn spun from silk waste)	5004	5,557
Silk yarn & yarn spun from silk waste, put up for retail sale	5006	2,305
Yarn spun from silk waste, not put up for retail sale	5005	1,507
Silk waste, nes	5003	322
Raw silk (not thrown)	5002	173
Silkworm cocoons suitable for reeling	5001	3
Total		254,919

Source: International Trade Centre, TradeMap database www.trademap.org

Table 2
Major Suppliers of Silk Products (HS 50) to the United States

Country	Import Value 2008 ($000's)
China	72,197
India	71,957
Italy	54,882
Republic of Korea	23,435
United Kingdom	10,506
Thailand	5,276
France	5,239
Switzerland	2,144
Japan	1,735
Dominican Republic	1,715

Source: International Trade Center, TradeMap database www.trademap.org

The U.S. imports other products made in part from silk. For example, the fabric used to cover chairs and sofas is often produced overseas and imported. U.S. demand for furniture and household furnishings made with silk fabric or yarn -- led by products such as sheets, duvet covers, and lampshades -- is increasing.[2] Imported raw silk is used mostly in the production of accessories like scarves and neckties.

In 2008, the U.S. imported more than 66 percent of Laos's silk product exports, yet this amounted to only $22, 600 in value (Table 3). These imports were concentrated in fabric and were likely used in apparel manufacturing.

Under the U.S.-Lao PDR Bilateral Trade Agreement (BTA) implemented in 2005, the U.S. extended Normal Trade Relations status (NTR) to products of Laos. The BTA reduced tariff rates significantly for Lao exports to the United States. Pre-and post-BTA tariff rates for select silk products imported to the U.S. from Laos in recent years are specified in Chapter 3. As part of the BTA, Laos agreed to implement a variety of reforms to its trade regime, including providing most favored nation and national treatment for products of the United States, improving transparency in rule-making, establishing a regime to protect intellectual property rights, and implementing a WTO-compliant customs regulations and procedures. [3]

<2> "Global Silk Industry." Rajat K. Datta & Manesh Nanavaty, 2007.

<3> USTR at www.ustr.gov/countries-regions/southeast-asia-pacific/laos.

Table 3
U.S. Imports of Silk Products (HS 50) from Laos (2008)

Product	HTS Code	Laos Export Value to the U.S. ($000's)
Woven fabrics of silk or silk waste, other than noil silk, not jacquard woven, less than or equal to 127cm in width, greater than or equal to 85% silk	5007200085	13.7
Woven fabrics of silk or silk waste, other than noil silk, jacquard woven, containing 85 percent or more by weight of silk or of silk waste, >77 cm width	5007200095	5.5
Other woven fabrics of silk, containing less than 85 percent by weight of silk or of silk waste, not subject to cotton and man-made fiber restraints	5007906090	2.0
Other woven fabrics of silk or silk waste, not jacquard woven, greater than 127 cm in width, containing 85 percent or more by weight of silk or waste	5007903020	0.5
Silk yarn and yarn spun from silk waste, put up for retail sale; silkworm gut: containing 85 percent or more by weight of silk or silk waste	5006001000	0.9
Total		**22.6**

Source: U.S. International Trade Center (USITC).

U.S. MARKET CHARACTERISTICS

Silk fabric and yarn are sold through different channels in the United States. Importers and distributors normally buy directly from overseas factories. They purchase finished silk fabric, usually in the form of "bolts" that can be resold by the bolt or by the square meter. Fabric is also sold to the textile and fabric finishing industry. In this industry "operators" finish textiles, fabrics, yarn, thread, and apparel. "Converters" buy fabric in the "gray,"[4] contract out its finishing, and sell it wholesale. The finishing industry supplies textile mills, downstream apparel manufacturers, wholesale fabric outlets, and retail fabric stores.

<4> "Gray" refers to unfinished fabric just off of a loom or knitting machine; "greige" and "grey" also have the same meaning.. southeast-asia-pacific/laos.

Industry Trends

Independent retail stores and retail chains that specialize in the sale of fabrics and yarns sell silk fabric and yarn directly to individual U.S. consumers. Because of their modest size these retail establishments typically purchase inventory from fabric importers and distributors rather than to import it directly.

Innovation and Environment

The textile industry in general relies on the development of new and innovative finished fabrics. Different printed patterns, new fabrics, embossing, new denims and other products, can stimulate downstream demand. Silk fabrics and yarns have become increasingly important in the development of apparel products, especially performance apparel made with lycra or other synthetics blended with silk. Product development usually occurs in finishing mills, which typically develop products for niche markets.

Consumers' environmental concerns are also influencing the textiles trade. For example, silk and other natural fiber products are capturing market share from manmade fiber products such as rayon. Most manmade fibers are produced in chemical plants using a variety of chemicals that could cause pollution.

"Ethical" Silk

Other interesting trends among U.S. consumers include the desire for "green" and "fair trade" ("ethical" products"). For example, apparel and home furnishings made of natural materials (e.g., organic cotton) and labeled "organic" are surging in popularity and commanding a higher price than items made of nonorganic materials. Fair trade products are made in factories that pay wages higher than the local minimum wage and that provide working conditions superior to what the local labor laws require. Typically, these products appeal to relatively small "niche" markets, but they are gaining in popularity as evidenced by a proliferation of retailers selling ethical products.

Further, some American consumers disapprove of the silk production process whereby live silkworms are boiled or placed into ovens so as not to harm the silk cocoon. Animal rights organizations disapprove of the destruction of several thousand domesticated silkworms to produce one pound of silk. In keeping with the organic and fair trade trends, some silk manufacturers produce "peace silk" or "vegetarian silk" that does not require killing the worm before the silk is harvested from the cocoon.[5]

Impact of Trade Preferences on U.S. Silk Textile Imports

Import duties applied to textiles, including silk textiles, are relatively high. As a result, U.S. buyers seek manufacturers in countries whose goods are given duty-free preferences when imported into the United States.

Trade Agreements and Preferential Trade Acts

Manufacturers in Laos should note the proliferation of U.S. trade agreements and preferential trade acts that provide duty-free preference to imports of qualifying apparel from many other countries (see sidebar). These countries enjoy a competitive advantage in market access that may outweigh traditional advantages attributed to Asian suppliers, such as low labor cost and ready access to inputs.

Because agreements vary in their market access provisions and rules of origin, however, different countries may be able to produce certain types of textiles more competitively than others for the U.S. market. Information on the textiles provisions of each agreement is publicly available through the website of the U.S. Trade Representative (http://www.ustr.gov).

U.S. Generalized System of Preferences

The U.S. GSP is a trade preference program for imports from developing countries.[6] Currently, it provides duty-free entry for about 4,800 products from 131 developing countries and territories. In 2008, the most recent year for which data are available, the U.S. extended duty-free treatment under the program to imports worth $31.7 billion from eligible countries. Each year, the U.S. reviews the list of articles and countries eligible for duty-free treatment. Any person may petition to

<5> "Raw and Organic Silk: Facts Behind the Figures", OrganicClothing.blogs.com.

U.S. Trade Agreements That Provide Trade Preferences

FTAs in Force
- Australia
- Bahrain
- Central America and Dominican Republic
- Chile
- Israel
- Jordan
- Morocco
- North America (Mexico and Canada)
- Oman
- Peru
- Singapore

Preferential Trade Acts
- African Growth and Opportunity Act
- Andean Trade Promotion and Drug Eradication Act
- Caribbean Basin Initiative
- Hemispheric Opportunity through Partnership Encouragement (HOPE) Haiti

Agreements Pending Congressional Approval
- Colombia (pending since 2006)
- South Korea (pending since 2007)
- Panama (pending since 2007)

request modifications to the list of countries eligible for GSP treatment. Petitions are subject to public hearings and a full review by the major executive branch departments sharing a role in U.S. trade policy. Modifications made pursuant to the annual review are implemented by Executive Order, or Presidential Proclamation.

The GSP statute sets forth eight mandatory criteria that a country must satisfy before it can be designated a GSP beneficiary.

1. The first of these mandatory criteria specifies that a Communist country may not be a GSP beneficiary unless it receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the International Monetary Fund, and is not dominated by international communism. By virtue of the fact that Laos is not a member of the WTO alone, it currently is not eligible to be designated as a GSP beneficiary.

In addition to the first mandatory GSP designation criterion regarding Communist countries, a country, before it can be designated a GSP beneficiary, must also

2. Not be a party to an arrangement of countries nor participate in actions the effect of which are (a) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and (b) to cause serious disruption of the world economy.
3. Not afford preferential treatment to products of a developed country that has, or is likely to have, a significant adverse effect on U.S. commerce.
4. Not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations without providing, or taking steps to provide, prompt, adequate and effective compensation, or submitting such issues to a mutually agreed forum for arbitration.
5. Not have failed to recognize or enforce arbitral awards in favor of U.S. citizens or corporations.
6. Not aid or abet, by granting sanctuary from prosecution, any individual or group that has committed an act of international terrorism.
7. Have taken or be taking steps to afford internationally recognized worker rights, including a) the right of association, b) the right to organize and bargain collectively, c) freedom from compulsory labor, d) a minimum age for the employment of children, and e) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.
8. Implement any commitments it makes to eliminate the worst forms of child labor.

In determining whether to designate a country as a GSP beneficiary, the President must also consider the following six discretionary criteria:

- Expression by a country of its desire to be designated as a GSP beneficiary country.
- The level of economic development, including per capita GNP, the living standards of its inhabitants, and any other economic factors that he deems appropriate.
- Whether other major developed countries are extending generalized preferential tariff treatment to such country.
- The extent to which such country has assured the U.S. that it will provide equitable

<6> For more information on the GSP program please visit http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp

and reasonable access to its markets and basic commodity resources and the extent to which it has assured the U.S. it will refrain from engaging in unreasonable export practices.
- The extent to which such country provides adequate and effective protection of intellectual property rights, including patents, trademarks, and copyrights.
- The extent to which such countryhas taken action to reduce trade distorting investment practices and policies, including export performance requirements, and to reduce or eliminate barriers to trade in services.

Finally, before designating a country as a GSP beneficiary, the President must consider the following four factors:

- The effect such action will have on furthering the economic expansion of the country's exports.
- The extent to which other major developed countries are undertaking a comparable effort to assist a developing country by granting generalized preferences with respect to imports of products of the country.
- The anticipated impact of such action on the U.S. producers of like or directly competitive products.
- The extent of the country's competitiveness with respect to eligible products.

U.S. IMPORT REQUIREMENTS

Treatment of Goods Imported from Laos

While the process for importing goods into the U.S. is routine, the tariff rate applied to each product can vary depending on the status of the trading partner. Table 4 compares the pre- and post-BTA tariffs for several silk products imported into the U.S. from Laos in recent years. The extension of NTR tariff rates greatly reduced the U.S. tariff rates applied to Lao exporters of silk products, which will allow Lao silk exports to the U.S. to be priced much more competitively and which should open up new opportunities for export to the United States.

Although tariff rates applied to imports from Laos fell greatly as the U.S. extended NTR rates through the BTA, however, the BTA served only to eliminate the quite high rates that discriminated against imports from Laos because of the lack of economic relations between the two countries. With NTR rates, Lao exporters face the same tariff rates as exporters from almost every other country in the world. With regard to trade policy, a country's exports into the U.S. gain a competitive advantage only as a result of U.S. free-

Table 4
Pre- and Post-BTA Tariffs on Select U.S. silk imports from Laos

		U.S. Tariff Rate (%)	
Product	**HTS Code**	**Pre-BTA**	**Post-BTA**
Woven fabrics of silk or silk waste, other than noil silk, not jacquard woven, less than or equal to 127cm in width, greater than or equal to 85% silk	5007200085	90.0	Free
Woven fabrics of silk or silk waste, other than noil silk, jacquard woven, containing 85 percent or more by weight of silk or of silk waste, >77 cm width	5007200095	90.0	Free
Other woven fabrics of silk, containing less than 85 percent by weight of silk or of silk waste, not subject to cotton and man-made fiber restraints	5007906090	90.0	3.9
Other woven fabrics of silk or silk waste, not jacquard woven, greater than 127 cm in width, containing 85 percent or more by weight of silk or waste	5007903020	90.0	0.8
Silk yarn and yarn spun from silk waste, put up for retail sale; silkworm gut: containing 85 percent or more by weight of silk or silk waste	5006001000	40.0	Free

Source: U.S. International Trade Commission.

trade or preferential-trade arrangements, where better than NTR rates are provided in line with the terms of the preferential agreement. For products such as silk, however, NTR rates are low enough that exporters with preferential agreements gain a relatively small competitive advantage over Lao silk exporters.

Applied Tariffs

All goods imported into the U.S. are subject to tariffs according to their tariff classificaton. Tariffs are applied at the time of import and paid by the importing entity. If the importer of record is a third party, such as a freight forwarder hired by the buyer, the buyer will pay the duty as part of the payment to the third party.

In determining a unit price for purchase negotiations with the producer, buyers will factor in tariff payments. Producers should determine the applied tariff rate for a product imported into the U.S. by consulting websites. [7] One must determine the tariff classification for the product, which is expressed as a 10-digit code in the Tariff Schedule of the United States and which then is matched to the appropriate tariff rate.

<7> A popular website for determining tariff rates is http://dataweb.usitc.gov/scripts/tariff_current.asp .

Sensitivity of Textile Imports

Like any other good, U.S. textile imports are subject to standard import rules and regulations. Since textile imports often face relatively high tariff rates, which provides a greater incentive to utilize tactics such as under-invoicing, textiles imported under the terms of a free-trade agreement or preferential-trade arrangement may be subject to special scrutiny to ensure that proper rules of origin and tariff classifications are followed. Thus, exporters and import buyers must pay close attention to assure the validity of the documents that accompany textile shipments and that are used to file import declarations. Document submission is one step of the import process described below; actual import documents required are identified in Chapter 4.

The Import Process

Buyers importing goods into the U.S. are responsible for paying duties applied to the goods and ensuring compliance with all applicable import regulations. The importer usually hires third parties, such as licensed customs brokers and freight forwarders, to undertake steps in the import process and relies on the exporter to provide specific documents (see Chapter 4). In general, the U.S. import process is efficient and straightforward, as follows:

1. **File an import declaration with the U.S. Customs and Border Patrol (CBP).** U.S regulations require that import declarations be made by licensed customs brokers who are usually hired by the importer for each transaction. In filing the declaration, the broker uses documents submitted by the exporter—either to the importing client or directly to the broker at the client's request—at the time of shipment. Brokers use a

Pre-Arrival Processing System (PAPS) to file declarations in advance of the arrival of the goods.

2. **Clear goods for entry into U.S. commerce.** After receiving the declaration, the CBP informs any other relevant agencies of any actions required of them, such as an inspection at the port of entry. If no inspection or other action requiring goods to be at the port of entry is necessary, goods can be "cleared for entry into U.S. commerce" before they arrive. Clearance, however, may be delayed or prolonged if a declaration is not made correctly or if import traffic is heavy. In such cases, the sea container will remain at the port of entry "in bond," which means the goods are not yet imported and are not eligible to be recovered by the importing party.

3. **Recover goods.** Once goods are cleared for entry, the CBP informs the customs broker, who then informs the importer client that the goods are eligible for recovery. A freight forwarder hired by the importer will recover the goods from the port and deliver them. In order to recover the goods, the freight forwarder must have a copy of the import declaration that shows the goods have been cleared by the CBP.

For textile and apparel imports, the CBP is the only agency that has oversight at the port of entry. It is especially diligent in monitoring those imports given the complicated rules of origin for determining apparel origin and tariff treatment.

Given the necessity for precise documentation of textile and apparel imports under free-trade agreements, U.S. companies working with these products usually have an import department or a point of contact to work with overseas factories for each shipment. The import process is highly prescribed and failure to comply imposes high costs on the supplier and buyer alike.

Importer Security Filing

A new rule—Importer Security Filing and Additional Carrier Requirements—went into effect on January 26, 2010. Under the rule, the Importer Security Filing (ISF) Importer, or its agent (e.g., licensed customs broker), must electronically submit certain cargo information to the CBP in the form of an Importer Security Filing before merchandise arriving by vessel can be imported into the United States. The ISF Importer is the party causing the goods to arrive within the limits of a port in the U.S. and is usually the goods' owner, purchaser, consignee, or agent, such as a licensed customs broker. The rule applies only to cargo arriving in the United States by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

Eight data elements must be submitted no later than 24 hours before the cargo is laden aboard a vessel destined to the United States:

1. Seller
2. Buyer
3. Importer of record number/FTZ applicant identification number

4. Consignee number(s)
5. Manufacturer (or supplier)
6. Ship to party
7. Country of origin
8. Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

For elements 5-8 above ISF Importers may submit a range of acceptable responses based on facts available at the time of submission. The filing, however, must be updated as soon as more accurate or precise data become available and no later than 24 hours before the ship is due to arrive in port.

Two additional data elements—consolidator name and the location of container stuffing—must be submitted as early as possible, but no later than 24 hours before the ship's arrival at a U.S. port.

RELATED EXPORT REQUIREMENTS

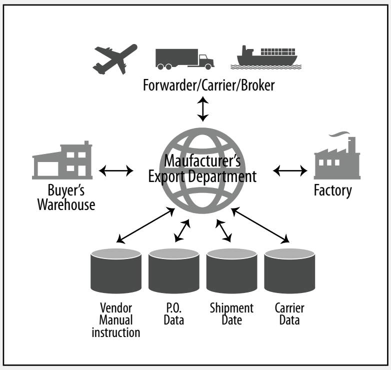
Exporter Responsibilities

U.S. companies use a variety of payment terms when sourcing products overseas and those terms affect exporters' responsibilities and requirements in ensuring sound export of merchandise. Because most major U.S. companies have an in-house entity or a third party coordinate shipments, exporters have few responsibilities when shipping under Free on Board (FOB) or even Cargo Insurance Freight (CIF) terms. But under other terms, such as Delivered Duty Unpaid (DDU), exporters not only provide documents but may also coordinate shipment, pay duties applied to merchandise when it enters the United States, and arrange for delivery of merchandise to the customer's preferred location. Freight forwarders can manage most of these activities as well as the customs entry given their close relationships with customs brokers. U.S. sourcing executives normally use forwarders or request the factory to use them when coordinating delivery of an order. Nonetheless, exporters should anticipate managing the activities described below.

Table 5
Typical Shipping Documentation and Party Responsible for Importing into the U.S.

Documentation	Prepared By
Mandatory	
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter (official government document)
Inward cargo manifest	Shipping company
Bill of lading	Freight forwarder
Not Mandatory	
Shipper's export declaration	Freight forwarder
Insurance certificate	Freight forwarder
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)

Figure 1
Coordinating Responsibilities of the Export Department



Shipping Documentation

Documentation for exports of goods is just as important as the quality of the goods themselves. Faulty information or incomplete documentation can cause transport delays. Freight forwarders and especially buyers that are regularly importing silk products can often provide assistance for shipping documentation. Table 3 lists documentation required for import into the U.S. and some documents that can be requested by buyers, such as insurance or third-party inspections. As always, exporters are encouraged to confirm all documentation requirements with their buyers.

Export Logistics

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. Generally in the silk products business, finished goods are delivered to U.S. buyers' warehouses. To deliver to a U.S. customer's warehouse, silk product manufacturers should have their own logistics specialists to ensure effective coordination and efficient shipment tracking. Most successful suppliers of the U.S. market have export departments staffed with English speakers familiar with documentation required to export apparel to the United States. The department must manage communication among three to five entities, as shown in Figure 4.

Use of Express Air Service Companies

For small shipments of silk products (e.g. an order of scarves), most exporters use specialty express air shipping services, such as Federal Express or UPS. Using such services is relatively easy and efficient and small buyers often prefer to take delivery of products through these services. U.S. importers that take frequent deliveries from overseas manufacturers often have their own accounts with the express services, which allow the buyer to manage the import process directly through the service and pay the exporter on an FOB or ex-warehouse basis versus upon delivery. Express air companies usually have offices or affiliates in multiple countries. Exporters should consult their export agents and freight forwarders to identify a company in Laos that can manage express air shipments.

RESOURCE GUIDE

U.S. Government

U. S. Trade Representative—information on trade agreements and apparel provisions in those agreements
www.ustr.gov

U.S. International Trade Administration, Office of Textiles and Apparel (OTEXA)—import data and regulations for textiles and apparel
www.otexa.ita.doc.gov

U.S. Customs and Border Protection—import regulations and documentation requirements
www.cbp.gov

Market Intelligence

Fashion Trends and Market News

Just Style
www.just-style.com

Emerging Textiles.com
www.emergingtextiles.com

Technical Resources

U.S. Association of Importers of Textile and Apparel
http://www.usaita.com/

Ecotextile News
www.ecotextile.com.

U.S. Industry Associations

U.S. Association of Importers of Textile and Apparel (USAITA)
www.usaita.com

The Organic Trade Association
www.ota.com

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- Support Lao PDR to fulfill its commitments to the ASEAN Economic Community (AEC).;

Effective implementation of these trade agreements contributes importantly to support the long-term development strategy of Lao PDR to sustain strong, broad-based economic growth and poverty reduction with strengthened rule of law and governance.

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We hope that this manual will provide useful information to Lao exporters about the U.S. handicrafts market.

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INTRODUCTION

Laos exported $41.9 million to the U.S. in 2008, which included more than $400,000 of handicrafts.[1] The U.S. is the largest market in the world for handicraft purchases, offering the potential for Lao exporters to expand their exports of handicrafts significantly. The U.S. market for Lao handicrafts should become particularly more attractive given the major reductions in U.S. tariff rates for many handicraft goods through the implementation of the U.S.-Lao PDR Bilateral Trade Agreement.

This manual focuses on the U.S. handicrafts market, providing an overview of the market (Chapter 1), details on market characteristics (Chapter 2), an overview of U.S. import requirements (Chapter 3), an overview of exporting requirements (Chapter 4), and a listing of resources available for the U.S. market, including trade show venues (Chapter 5).

<1> Handicrafts include jewelry, wood crafts, paper products, ceramic, basketwork, leather goods, and fine art.

OVERVIEW OF THE U.S. HANDICRAFT MARKET

Handicrafts are usually defined by how they are made and the end-market they serve. UNESCO's definition of artisanal products is a useful reference:[2]

> *Artisanal products are those produced by artisans, either completely by hand, or with the help of hand tools or even mechanical means, as long as the direct manual contribution of the artisan remains the most substantial component of the finished product. These are produced without restriction in terms of quantity and using raw materials from sustainable resources. The special nature of artisanal products derives from their distinctive features, which can be utilitarian, aesthetic, artistic, creative, culturally attached, decorative, functional, traditional, religiously and socially symbolic and significant.*

In the U.S. market, handicrafts are typically included as part of the much larger "home accessories" market, which includes handcrafted, semi-handcrafted, and machine-made goods.[3] They are usually sold as decorative accessories, furniture, or art, including items used for dining or entertaining ("tabletop") in department stores. Handicrafts are also sold in specialty retail stores, gift stores, home and office decorative accessory stores, craft and hobby stores,

<2> Definition adopted by the UNESCO/ITC Symposium "Crafts and the international market: trade and customs codification" - Manila, 6-8 October 1997.

<3> In "Global Market Assessment for Handicrafts," a study published by USAID in 2006, handicrafts are described as part of the broader home accessories market (pg. 1). This guide uses the home accessories market as the basis for discussion of the U.S. market for handicrafts.

Table 1
Export Value of Laos Handicraft Exports, Global and to the United States, 2008

Product	Global Handicraft Exports $000's	Exports to the U.S. $000's
Jewelry	256	255
Wood Crafts	463	102
Ceramic	12	0
Paper	197	0
Basketwork	36	12
Leather Goods	287	12
Fine Art	124	60
Total	**1,375**	**440**

Source: International Trade Centre www.intracen.org and U.S. International Trade Commission www.usitc.gov.

galleries and museums, wholesaler/distributors, and souvenir shops. Jewelry products are also a significant product category associated with handicrafts.

Because of the wide range of handicraft goods and the variety of retailers who sell them, it is difficult to describe the U.S. handicrafts market as one entity. From a marketing perspective, however, one can say that the U.S. consumer has a high appreciation for unique, handmade handicrafts; and from a business perspective, that the handicrafts trade is focused on high quality, cost competitiveness, and the ease of doing business with the suppliers.

The U.S. handicraft market includes many of the types of products produced in Laos and that are supported by the Laos Handicrafts Association:[4] including wood crafts, jewelry, ceramic, paper, textiles and fine art. For the purposes of this guide, Laos' handicraft exports are evaluated as the products that the Association considers to be handicrafts (excluding organic food products, which are not considered a handicraft product in the United States; see Table 1). Laos exported more than $1.3 million handicraft products in 2008, mainly to the U.S. and Asian markets, especially Thailand. About 30 percent of Lao handicraft exports went to the U.S., with jewelry accounting for more than half of those exports. The value of Laos' handicrafts exports globally and to the U.S. are presented in Table 1.

<4> For more information on the Laos Handicrafts Association see: http://www.laohandicrafts.com/.

As noted, understanding the scale of the U.S. handicrafts market without a common trade indicator is challenging. Because handicrafts fit into the broader category of home accessories, however, measuring the size of the market for home accessories can provide a useful indication of U.S. demand for handicrafts. In 2007, the value of the U.S. home accessories market was estimated at $74.2 billion.[5] The U.S. is by far the largest market in the world for home accessories' exports – the U.S. imports significantly more home accessories than all European countries combined, with the U.S. and EU representing the largest markets for handicrafts worldwide. The value of jewelry imported into the U.S. in 2008 is estimated to have been $8.5 billion.[6]

<5> Universe Study, Home Accents Today, 2006.

<6> "Jewelry (except costume) Manufacturing Industry in the U.S. and its International Trade [Q3 2009 Edition] Markets and Research", September 2009. Some jewelry from Laos may be "costume" jewelry but the author could not determine this from trade data reviewed.

Given the wide range of goods that make up home accessories (handicrafts and others), many countries are considered "suppliers", each tending to specialize in certain products but none dominating the trade as a whole. For example, Asian exporters tend to dominate in accent furniture and other goods produced with tropical hardwoods, while European exporters tend to dominate in decorative accessories, such as glass or ceramic products. Jewelry, meanwhile, has many suppliers worldwide. Despite the lack of a dominant supplier of handicrafts, the industry has experienced a "commoditization" effect, whereby unique designs from one country are mass produced in another country where production costs are lower. This trend is a result of large U.S. mass market retailers diversifying and expanding their product offerings to include home accessories. As a result, larger, more cost-competitive countries such as China and India have been capturing a greater U.S. market share for handicraft-type products.

The U.S. handicrafts marketplace is increasingly competitive and demanding of its suppliers. Improved trade logistics (lower transportation costs) have enabled many small foreign producers to enter the U.S. handicrafts market, causing some segments, like decorative accessories, to become saturated. Market saturation has given buyers the luxury of being more demanding with regard to the production and related services for foreign handicraft suppliers. Thus, producers are now expected not only to meet product specifications, but also to provide competitive pricing, on-time delivery, responsive communications, good packaging, and the capacity to increase production quantity while retaining standards for quality and deliverability. These demands can weigh heavily on a small artisan producer who is usually more concerned with design and quality than scale and delivery time. Nonetheless, such demands now dictate how the U.S. business of handicrafts is conducted.

Under the U.S.-Lao PDR BTA implemented in 2005, the U.S. extended Normal Trade Relations status (NTR) to products of Laos and, accordingly, much lower tariffs than before the BTA. Pre-and post-BTA tariff rates for select handicraft products imported to the U.S. from Laos in recent years are specified in Chapter 3. The BTA greatly reduced U.S. tariffs facing Lao exporters of traditional handicrafts, opening solid opportunities for expanding exports. As part of the BTA, Laos agreed to implement a variety of reforms to its trade regime, including providing most favored nation and national treatment for products of the United States, improving transparency in rule-making, establishing a regime to protect intellectual property rights, and implementing a WTO-compliant customs regulations and procedures.[7]

<7> The BTA is available from the USTR at www.ustr.gov/countries-regions/southeast-asia-pacific/laos.

U.S. MARKET CHARACTERISTICS

The unique characteristics of the U.S. handicrafts market require producers to adapt products to follow norms and standards distinct from what may prevail in other markets. Because of the huge scale of the market, artisan producers should understand: (1) how handicrafts are sold in the United States; (2) the sourcing criteria of key industry players; and (3) trends in products and business operations. For example, consumer preferences tend to change rapidly in response to trends in color or lifestyle, and advances in technology and trade logistics have enabled buyers to do more direct sourcing that eliminate intermediaries in the supply chain. In sum, producers doing business in the U.S. market must acquire significant market intelligence.

How Handicrafts Are Sold in the United States

Selling Targets

Handicrafts in the U.S. are sold largely by home accessory retailers. As shown in Figure 1, key players in the distribution channel from export to consumer include three selling targets for the producer: an in-country exporter (exporter in the exporting country), a U.S.-based wholesaler, or a U.S. retail operator for a certain type of store (e.g. department or specialty store). Internet commerce has created a fourth selling target: direct sales to the consumer. For U.S. retailers of all goods, the rise of direct-to-producer supply chains is a growing trend, one that places a new burden on artisan producers who are expected to manage export logistics. A producer who can manage as much of the export logistics function as possible has an advantage in dealing with U.S. buyers.

Retailers

The size of the retailer dictates how it procures its handicrafts inventory. For example, a boutique that manages a limited inventory and cannot afford to source directly will usually buy from a wholesaler. A department store that operates at a national level and has dozens of stores is more likely to work directly with a producer or an in-country exporter – large retailers can manage import processes, purchase on a large scale, and control costs by eliminating elements in the supply chain.

Specialty stores are typically organized around a theme, such as "modern contemporary" or "traditional French country." Consumers shop at these stores for items, such as furniture or wood frames, of a specific style. These stores may have products from various countries and designers, but each store tends to follow the same theme. Specialty stores include chain stores with multiple locations across the United States.

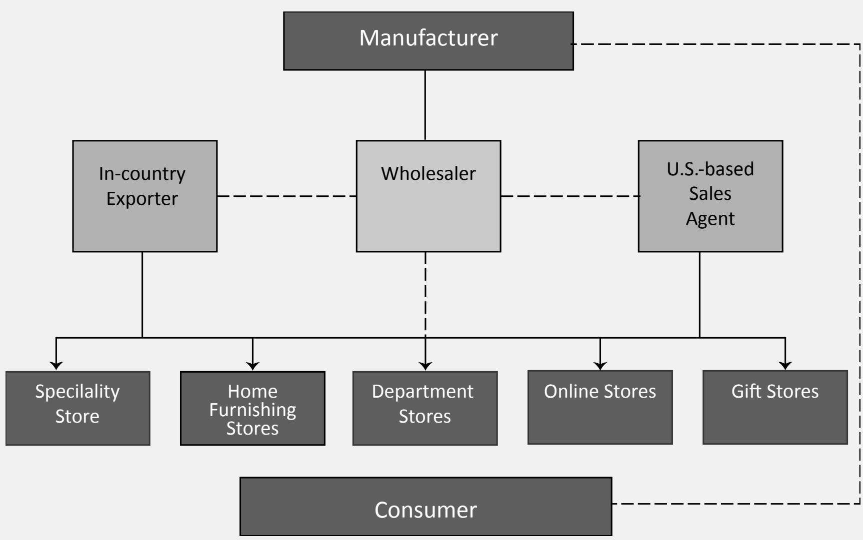
Home furnishings stores carry all types of products, ranging from kitchen to bath to bedroom accessories. Some are national chains large enough to handle direct sourcing, while others are smaller and rely on import wholesalers. Items such as furniture and decorative ceramic accessories (e.g., bowls, vases) are most appropriate for these stores.

Department stores are large, national retailers organized by department (e.g., kitchen, bath, clothing, and electronics) and source handicraft products that complement furniture offerings. For example, the store may offer baskets or vases that complete the theme for a suite of living room furniture. These large stores do a great deal of importing, but are unlikely to source handicraft products directly because volumes may be small (less than a sea container load). In the absence of direct importing, department store will purchase from importer wholesalers.

Online stores sell goods via the internet, eliminating the need for costly physical space for retailing. Online companies such as "10,000 Villages" search the world for unique handicrafts and specialize in selling goods made by artisans. These stores tend to have narrowly focused product offerings, such as handicraft accessories, but they typically do not sell furniture or other home furnishings.

Gift stores tend to be small and specialize in selling handicrafts products, including jewelry and handicrafts that do not necessarily fit in the home accessories market space. Because of the small scale of these stores, most purchases are made through wholesalers.

Figure 1
Sales Channels for a Handicraft Product



In sum, while a market as large as the U.S. has a number of different types of retailers, the lines that separate which retailers sell what kind of merchandise are increasingly blurring – with different types of sellers increasingly competing against each other. Nevertheless, foreign artisan producers tend to sell to in-country exporters or wholesalers who impose relatively few requirements on suppliers other than the production of the good at a competitive price. Producers who wish to sell to specialty stores or department stores, on the other hand, must be able to operate on a large scale and manage at least some portion of the export logistics function.

Purchasing and Social Criteria

While buyers tend to apply their own set of criteria for purchasing, there are a few common themes that apply to sourcing handicrafts for the U.S. market. The following describes the main purchasing practices used in the U.S. handicraft market.

Design and Value

The main sourcing criterion for most buyers of handicrafts is design, not price. Buyers seek products with characteristics unique to a producer, region, or culture – characteristics that suit the image and feel of products that customers demand. Although U.S. buyers focus on providing customers with handicraft products that are attractive and appealing relative to current tastes, they also consider "value" –whether the product is priced in line with the quality of its materials, labor inputs, and application. The U.S. consumer has many choices in handicrafts and home accessories products, and will be able to compare similar products made from similar raw materials. In particular, price or value is a key consideration for goods at lower-end price points.

Capacity for High-Volume Production

Once large retailers commit to market a particular line of goods, buyers for the large retailers will seek producers who can guarantee sufficiently large quantities to meet national-level sales. In selecting a producer for large quantities, buyers will gauge a manufacturer's volume capacity and access to raw materials. For smaller artisans (like most Lao handicraft producers) to sell to this type of market, it is typically preferable to work with local exporters or agents who consolidate volume from multiple producers. This requires an additional margin for the exporter who consolidates supply, but otherwise, it is almost impossible for small producers to sell into these major high-volume market segments.

Exclusivity and Formal Representation

Exclusivity and formal representation rights are also important in the U.S. market – these are where a buyer requires a foreign supplier to sell its products to the U.S. market "exclusively" through one buyer. Retailers buying directly from producers devote a great deal of time and energy to developing product lines and supply chains, and to promoting items in retail venues. To protect their investment, retailers who purchase in significant volume often request exclusivity in the U.S market. Likewise, to protect their investment in marketing and promotion, U.S.-based agents frequently request exclusivity or the right to formally represent a producer. Such arrangements have become increasingly important as retailers seek to purchase more directly from producers.

Working Conditions

To protect the reputation of sellers in the U.S. market, how a good is produced is increasingly important for U.S. buyers. Many U.S. consumers and non-government organizations monitor whether products produced in developing countries comply with local labor law, and in many cases demand working conditions that may exceed the requirements of local labor law (abiding by what is considered fair labor standards). Producers should ensure they meet at least local labor laws. Some larger retailers who source from developing countries will have their own standards for labor and factory conditions (often more stringent than local labor law), and will not work with factories that do not meet their standards.

Product Trends

Market trends in home accessories follow trends in clothing and personal accessories quite closely.[8] Demand for the output of artisan producers are also influenced by trends in lifestyle, speed to market, quality, and social and environmental awareness.

<8> "End-market Study for Indonesian Home Accessories," USAID 2006.

Lifestyle

Lifestyle trends constantly create new sales opportunities for handicraft producers, but also can limit sales opportunities for traditional products that do not keep up with changing styles. Consumers purchase more and more goods according to a certain lifestyle focus, such as health and fitness, environmental conscientiousness, or social justice. In response, retailers are opening stores, and designing and procuring product lines, that embody these evolving lifestyles. For example, a women's cooperative that uses reclaimed wood in creating jewelry might traditionally have sold its products to wholesalers, but may now sell directly to boutiques specializing in environmentally-conscious goods or directly through an online firm that sells only products made by women in developing countries.

Speed to Market

An important trend in fashion and home accessories is the shortening of time from design to production to shipping to retail. This "speed to market" trend focuses on how quickly a product lands on a retail shelf and how frequently products change. Today, a product's life cycle might be no more than six months. As a result, artisans must be able to increase their number of designs and to develop new designs more frequently.

Product Quality

While handicrafts are generally appreciated for their handmade aesthetic, the commoditization of the industry mentioned earlier has made uniformity in product quality important. Achieving uniformity in handmade goods is challenging. For this reason, countries that can produce quality at scale, such as China and India, have been able to capture a large share of the handicrafts market. Increasingly, producers must pay attention to strict guidelines for quality, especially for goods designed by the buyer that are expected to look exactly the same from item to item.

Social and Environmental Awareness

Because many handicrafts in the U.S. market are produced in relatively poor countries, U.S. buyers are increasingly seeking goods that meet environmental and social standards. Consumers are willing to spend more for goods whose materials come from sustainable resources and whose manufacturing practices follow fair labor standards. As the fair trade market niche develops as an aspect of the lifestyle trend described above, "fair trade" labeling is becoming an important marketing tool.[9]

<9> Fair trade products are those that comply with principles of the Fair Trade Labeling Organization (FLO), a collection of more than 20 organizations that certify products. There is no process for certifying handicrafts, but several retail operators employ the same criteria and apply it to their product sourcing. For more information about fair trade in the U.S. market, please visit the Transfair USA website: www.transfairusa.org.

Business Trends

As participants in a global business, handicrafts producers need to keep pace with business trends, especially if they hope to enter the largest consumer market for their products. The following are the most important trends affecting handicraft producers today.

Flattening Distribution Networks

Globalization and improved trade logistics have eliminated many traditional intermediaries in supply chains. In the past, a product might have been passed through a number of agents and wholesalers before reaching the consumer. Now, most retailers seek direct relationships with producers in order to reduce costs. As a result, producers have had to take on more responsibility in communicating with buyers in end markets and managing some, if not all, aspects of transport logistics.

Preference for Local Agents

In the absence of a direct relationship with a producer, buyers will prefer to work with local sourcing agents rather than import wholesalers. A local agent's ability to consolidate orders from different producers and to organize shipping in-country appeals to retailers and is usually more cost effective than buying from a wholesaler who has already imported the product. Purchasing decisions (discussed below) depend on the needs of the individual buyer and the level of risk they choose in procuring goods. In addition to seeking direct clients in the U.S. market, Lao producers will benefit from identifying local sourcing agents to collaborate with.

Internet Sales

U.S. consumers are increasingly comfortable making purchases via the internet. In response, most major retailers have organized their websites to accommodate consumer purchasing. Some companies exist only in the internet space, with all their sales made via their websites. Producers may also make sales through the internet using tools such as "PayPal", which allows a vendor (possibly the producer) to accept payment by credit card or wire transfer using a website. PayPal has enabled many artisans and producer groups to sell goods directly to final consumers in other countries. Specialty websites, such as "World of Good" (www.worldofgood.ebay.com), also provide an internet-based sales mechanism for producers to sell goods directly to consumers.

The Diminishing Mid-Price Market and Expanding Low and High-End Markets

Stores in the U.S. market usually operate at one of three price points: low, middle, and high-end. The middle-price point, especially for home accessories, has been shrinking as low-end mass market retailers increasingly offer a broad range of products at ever lower prices. The recent economic crisis (2008/2009) has also forced many retail chains operating in the middle-end space to close. As a result, handicraft producers may find more success in the high-end market by offering unique, high-quality items made of good raw materials. Or, if their products were traditionally offered in the middle-end markets, they may find success by focusing on cost-effectiveness and volume production for the price-sensitive low-end market.

Trade Fairs

In handicrafts and home accessories markets, trade fairs play a major role in sales, especially among small retailers who have a limited ability to source directly from overseas producers. Trade fairs offer buyers the opportunity to see and touch products, and to compare firsthand the offerings of different producers from throughout the world. Thus, trade fairs present an excellent opportunity for producers to interact directly with U.S. buyers, observe trends in the handicraft market, and organize direct sales to smaller buyers who lack the resources to travel to foreign countries to find new suppliers. A list of important trade fairs is presented in Chapter 5.

Market Access for Handicrafts

As there is no one trade category for handicrafts it is difficult to pinpoint market access problems or preferences applicable to handicrafts imported into the United States. Certain products of countries that have free-trade agreements with the U.S. or that are party to a preferential trade arrangement, like the Generalized System of Preferences (GSP) program, are granted duty-free import status.

U.S. Generalized System of Preferences

The U.S. GSP is a trade preference program for imports from developing countries.[10] Currently, it provides duty-free entry for about 4,800 products from 131 developing countries and territories. In 2008, the most recent year for which data are available, the U.S. extended duty-free treatment under the program to imports worth $31.7 billion from eligible countries. Each year, the U.S. reviews the list of articles and countries eligible for duty-free treatment. Any person may petition to request modifications to the list of countries eligible for GSP treatment. Petitions are subject to public hearings and a full review by the major executive branch departments sharing a role in U.S. trade policy. Modifications made pursuant to the annual review are implemented by Executive Order, or Presidential Proclamation.

<10> For more information on the GSP program please visit http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp

The GSP statute sets forth eight mandatory criteria that a country must satisfy before it can be designated a GSP beneficiary.

1. The first of these mandatory criteria specifies that a Communist country may not be a GSP beneficiary unless it receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the International Monetary Fund, and is not dominated by international communism. By virtue of the fact that Laos is not a member of the WTO alone, it currently is not eligible to be designated as a GSP beneficiary.

In addition to the first mandatory GSP designation criterion regarding Communist countries, a country, before it can be designated a GSP beneficiary, must also

2. Not be a party to an arrangement of countries nor participate in actions the effect of which are (a) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and (b) to cause serious disruption of the world economy.
3. Not afford preferential treatment to products of a developed country that has, or is likely to have, a significant adverse effect on U.S. commerce.
4. Not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations without providing, or taking steps to provide, prompt, adequate and effective compensation, or submitting such issues to a mutually agreed forum for arbitration.
5. Not have failed to recognize or enforce arbitral awards in favor of U.S. citizens or corporations.
6. Not aid or abet, by granting sanctuary from prosecution, any individual or group that has committed an act of international terrorism.
7. Have taken or be taking steps to afford internationally recognized worker rights, including a) the right of association, b) the right to organize and bargain collectively, c) freedom from compulsory labor, d) a minimum age for the employment of children, and e) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.

8. Implement any commitments it makes to eliminate the worst forms of child labor.

In determining whether to designate a country as a GSP beneficiary, the President must also consider the following six discretionary criteria:

- Expression by a country of its desire to be designated as a GSP beneficiary country.
- The level of economic development, including per capita GNP, the living standards of its inhabitants, and any other economic factors that he deems appropriate.
- Whether other major developed countries are extending generalized preferential tariff treatment to such country.
- The extent to which such country has assured the U.S. that it will provide equitable and reasonable access to its markets and basic commodity resources and the extent to which it has assured the U.S. it will refrain from engaging in unreasonable export practices.

- The extent to which such country provides adequate and effective protection of intellectual property rights, including patents, trademarks, and copyrights.
- The extent to which such country has taken action to reduce trade distorting investment practices and policies, including export performance requirements, and to reduce or eliminate barriers to trade in services.

Finally, before designating a country as a GSP beneficiary, the President must consider the following four factors:

- The effect such action will have on furthering the economic expansion of the country's exports.
- The extent to which other major developed countries are undertaking a comparable effort to assist a developing country by granting generalized preferences with respect to imports of products of the country.
- The anticipated impact of such action on the U.S. producers of like or directly competitive products.
- The extent of the country's competitiveness with respect to eligible products.

Some GSP countries have "certified textile handicraft arrangements" with the U.S., where goods certified by the beneficiary country as a "handicraft" may be imported into the U.S. duty free. Examples include hand-loomed and folklore wall hangings and pillow covers, and certain hand-woven textile floor coverings.

U.S. IMPORT REQUIREMENTS

Tariff Treatment of goods Imported from Laos

While the process for importing goods into the U.S. is routine, the tariff rate applied to each product can vary depending on the status of the trading partner. Table 2 compares the pre- and post-BTA tariffs for handicraft products imported into the U.S. of relevance to Laos. Extension of NTR rates resulting from the BTA reduced U.S. tariff rates substantially for most handicraft products, which should make Laos handicraft exports much more competitively priced on the U.S. market.

Although tariff rates applied to imports from Laos declined as the U.S. extended NTR rates through the BTA, the BTA served only to eliminate the high rates that discriminated against imports from Laos because of the lack of economic relations between the two countries. With NTR rates, Lao exporters face the same tariff rates as exporters from almost every other country in the world. With regard to trade policy, a country's exports into the U.S. gain a competitive advantage due to lower tariff rates only as a result of U.S. free-trade or preferential-trade arrangements, where better than NTR rates are provided in line with the terms of the preferential agreement. The impact of the preference will depend on the magnitude of the NTR tariff – the higher the tariff rate, the greater the competitive impact of the trade preference. As shown in Table 2, NTR rates for some handicraft goods are high enough that exporters with preferential agreements could gain a substantial competitive advantage over Lao handicraft exporters.

Applied Tariffs

All goods imported into the U.S. are subject to tariffs according to their tariff classification. Tariffs are applied at the time of import and paid by the importing entity. If the importer of record is a third party, such as a freight forwarder hired by the buyer, the buyer will pay the duty as part of the payment to the third party.

In determining a unit price for purchase negotiations with the producer, buyers will factor in tariff payments. Producers should determine the applied tariff rate for a product imported into the U.S. by consulting websites.[11] One must determine the tariff classification for the product, which is expressed as a 10-digit code in the Tariff Schedule of the United States and which then is matched to the appropriate tariff rate.

<11> A popular website for determining tariff rates is http://dataweb.usitc.gov/scripts/tariff_current.asp

Table 2
Pre- and Post-BTA Tariffs on Select U.S. Handicraft Imports from Laos

Product	HTS Code	U.S. Tariff Rate (%) Pre-BTA	Post-BTA
Jewelry			
Gold or platinum jewelry	71131950	80	5.5
Silver jewelry, value over $18/doz pcs or pts, nes	7113115080	80	5.0
Wood Crafts			
Statuettes and other ornaments, of wood, Wood marquetry and inlaid wood; caskets for jewelry, cutlery and similar articles, of wood, wooden articles of furniture not in chapter 94, nes	4420	33.3	3.2
Ceramic			
Ceramic (other than porcelain, china or earthenware) ornamental articles, nes	69139050	51.5	6.0
Ceramic sinks, wash basins etc & similar sanitary fixtures, nes	691090	60	5.7
Paper			
Articles of paper pulp, nes	48239010	30	0.0
Paper, in rolls or sheets, ctd, impreg, cov, surf-col, surf-dec or printed, nes	481190	18.5-35	0.0
Basketwork			
Basketwork and other articles of willow/wood, nes	4602194500	45	6.6
Baskets/bags nes whether or not lined with bamboo or wicker	4602110900	50	10.0
Leather Goods			
Handbags, outer surface textile material, wholly or part of braid, of cotton including cont 85% or more by weight of silk or silk waste	42022240	90	7.4
Travel, sports and similar bags, outer surface containing 85% or more by weight of silk or silk waste	4202923010	65	17.6
Fine Art			
Antiques of age exceeding one hundred years, nes	9706000060	0	0.0

Source: U.S. International Trade Commission.

The Import Process

Buyers importing goods into the U.S. are responsible for arranging for the import or the paying of duties while ensuring compliance with all applicable import regulations. The importer usually hires third parties, such as licensed customs brokers and freight forwarders, to undertake steps in the import process and relies on the exporter to provide specific documents (see Chapter 4). In general, the U.S. import process is efficient and straightforward, as follows.

1. **File an import declaration with the U.S. Customs and Border Patrol (CBP).** U.S regulations require that import declarations be made by licensed customs brokers who are usually hired by the importer for each transaction. In filing the declaration, the broker uses documents submitted by the exporter—either to the importing client or directly to the broker at the client's request—at the time of shipment. Brokers use a Pre-Arrival Processing System (PAPS) to file declarations in advance of the arrival of the goods.

2. **Clear goods for entry into U.S. commerce.** After receiving the declaration, the CBP informs any other relevant agencies of actions required of them, such as an inspection at the port of entry. If no inspection or other action requiring goods to be at the port of entry is necessary, goods can be "cleared for entry into U.S. commerce" before they arrive. Clearance, however, may be delayed or prolonged if a declaration is not made correctly or if import traffic is heavy. In such cases, the sea container will remain at the port of entry "in bond," which means the goods are not yet imported and are not eligible to be recovered by the importing party.

3. **Recover goods.** Once goods are cleared for entry, the CBP informs the customs broker, who then informs the importer client that the goods are eligible for recovery. A freight forwarder hired by the importer will recover the goods from the port and deliver them. In order to recover the goods, the freight forwarder must have a copy of the import declaration that shows the goods have been cleared by the CBP.

For imports of handicrafts products, the CBP is the only agency that has oversight at the port of entry.

Importer Security Filing

A new rule—Importer Security Filing and Additional Carrier Requirements—went into effect on January 26, 2010. Under the rule, the Importer Security Filing (ISF) Importer, or its agent (e.g., licensed customs broker), must electronically submit certain cargo information to the CBP in the form of an Importer Security Filing before merchandise arriving by vessel can be imported into the United States. The ISF Importer—the party causing the goods to arrive within the limits of a port in the United States—is usually the goods' owner, purchaser, consignee, or agent, such as a licensed customs broker. The rule applies only to cargo arriving in the U.S. by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

Eight data elements must be submitted no later than 24 hours before the cargo is laden aboard a vessel destined to the U.S.:

1. Seller
2. Buyer
3. Importer of record number / FTZ applicant identification number
4. Consignee number(s)
5. Manufacturer (or supplier)
6. Ship to party
7. Country of origin
8. Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

For elements 5-8 above, ISF Importers may submit a range of acceptable responses based on facts available at the time of submission. The filing, however, must be updated as soon as more accurate or precise data become available and no later than 24 hours before the ship is due to arrive in port.

Two additional data elements—consolidator name and the location of container stuffing—must be submitted as early as possible, but no later than 24 hours before the ship's arrival at a U.S. port.

EXPORTER REQUIREMENTS

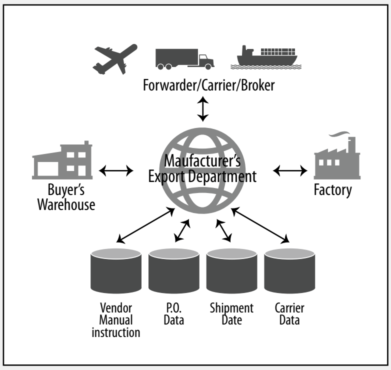
Exporter Responsibilities

U.S. companies use a variety of payment terms when sourcing products overseas, and those terms affect exporters' responsibilities and requirements in ensuring sound export of merchandise. Because most major U.S. companies have an in-house entity or a third party coordinate shipments, exporters have few responsibilities when shipping under Free on Board (FOB) or even Cargo Insurance Freight (CIF) terms. But under other terms, such as Delivered Duty Unpaid (DDU), exporters not only provide documents but may also coordinate shipment, pay duties applied to merchandise when it enters the U.S., and arrange for delivery of merchandise to the customer's preferred location. Freight forwarders can manage most of these activities as well as the customs entry given their close relationships with customs brokers. U.S. sourcing executives normally use forwarders or request that the factory use them when coordinating delivery. Nonetheless, exporters should anticipate managing the activities described below.

Table 3
Typical Shipping Documentation and Party Responsible for Importing into the U.S.

Documentation	Prepared By
Mandatory	
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter (official government document)
Inward cargo manifest	Shipping company
Bill of lading	Freight forwarder
Not Mandatory	
Shipper's export declaration	Freight forwarder
Insurance certificate	Freight forwarder
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)

Figure 2
Coordinating Responsibilities of the Export Department



Shipping Documentation

Documentation for exports of goods is just as important as the quality of the goods themselves. Faulty information or incomplete documentation can cause transport delays. Freight forwarders and especially buyers who import regularly can often provide assistance for shipment documentation. Table 3 lists documentation required for import into the U.S. and some documents that can be requested by buyers, such as insurance or third-party inspections. As always, exporters are encouraged to confirm all documentation requirements with their buyers.

Export Logistics

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. Generally in the handicrafts business, finished goods are delivered to the U.S. buyer's destination. To deliver to a U.S. customer's warehouse, or to comply with Incoterms such as CIF, manufacturers should have their own logistics specialists to ensure effective coordination and efficient shipment tracking. [12] Most successful suppliers to the U.S. market have export departments staffed with English speakers familiar with documentation required to export handicrafts to the United States. The department must manage communication among three to five entities as shown in Figure 2.

Use of Express Air Service Companies

Because handicraft products are often small and shipped in small volumes (e.g., jewelry), most exporters use specialty express air shipping services, such as Federal Express or UPS. Using such services is relatively easy, and small buyers often prefer to take delivery of products through these services. Handicrafts importers that take frequent deliveries from overseas manufacturers often have their own accounts with the express services, which allow the buyer to manage the export process directly through the service and to pay the exporter on an FOB or ex-warehouse basis rather than upon delivery. Exporters should consult their export agents and freight forwarders to identify a company in Laos that can manage express air shipments.

<12> International Commercial Terms (Incoterms) are internationally recognized sales terms such as "CIF" (cost, insurance and freight) or "FOB (free on board).

Cargo Security Requirements and C-TPAT

Since 2001, the U.S. Government has responded to heightened concerns about international terrorism and potential attacks on the United States. The voluntary Customs-Trade Partnership Against Terrorism (C-TPAT) program allows exporting companies to expedite cargo security clearance by implementing certain provisions and activities in factories. The program has become favorable for some importers because it can reduce delays in import processing from certain inspection requirements. For program details, contact an international shipping agent or company, export agent, or certified U.S. Customs broker, or consult the website www.cbp.gov/xp/cgov/trade/cargo_security/ ctpat/what_ctpat/ctpat_overview.xml.

RESOURCE GUIDE

The following resources can assist handicrafts exporters with their U.S. business development.

Trade Shows and Fairs

New York International Gift Fair
www.nyigf.com

San Francisco International Gift Fair
www.sfigf.com

Atlanta International Gift and Home Furnishings Market
www.americasmart.com

High Point Furniture and Home Furnishing Show
www.highpointmarket.org

Maison & Objet, Paris[13]
www.maison-objet.com

<13> This trade fair, along with other high-profile fairs in Europe, set trends for both the EU and U.S. markets.

Publications

Furniture Today
www.furnituretoday.com

Home Accents Today
www.homeaccentstoday.com

Furniture Style
www.furniturestyle.com

Trends

Pantone Color Trends
www.pantone.com

Juststyle.com
www.juststyle.com

Technical Resources

Aid to Artisans
www.aidtoartisans.org

The Crafts Center
www.chfinternational.org/thecraftscenter)

PayPal online payment system
www.paypal.com

Ministry of Industry and Commerce

apparel MANUAL

Manual for the U.S. Apparel Products Market

A Tool for Lao Exporters of Apparel

April 2011

This publication was produced by the USAID-funded LUNA Project at the request of the Lao PDR Ministry of Industry and Commerce.

Ministry of Industry and Commerce

USAID
FROM THE AMERICAN PEOPLE

apparel
MANUAL

Manual for the U.S. Apparel Products Market
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ACRONYMS

AAFA	American Apparel and Footwear Association
ADVANCE	ASEAN Development Vision to Advance National Cooperation and Economic Integration
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
CBP	U.S. Customs and Border Patrol
CFR	Cost and Freight
CIF	Cargo Insurance Freight
C-TPAT	Customs Trade Partnership
DES	Delivered Ex-Ship
DDP	Delivery Duty Paid
DDU	Delivered Duty Unpaid
EXW	Ex-Works
FCA	Free Carrier
FAS	Free Alongside Ship
FOB	Free on Board
FTA	Free Trade Agreement
GSP	U.S. Generalized System of Preferences
HTSUS	Harmonized Tariff Schedule of the United States
ISF	Importer Security Filing
MFA	Multi-Fibre Arrangement
OTEXA	Office of Textiles and Apparel (U.S. International Trade Administration)
U.S.	United States
USAID	United States Agency for International Development
USAITA	U.S. Association of Importers of Textile and Apparel
WRAP	Worldwide Responsible Accredited Production
WTO	World Trade Organization

PREFACE

This manual provides background and references for Lao exporters of apparel products seeking to develop business opportunities in the U.S. market, following the normalization of economic relations between the United States and Lao PDR. It is one of five manuals prepared by the USAID/LUNA-Lao Project and the Foreign Trade Policy Department (FTPD) of the Ministry of Industry and Commerce (MOIC). Other manuals have been prepared for silk, handicrafts, wood products, and agricultural products.

The primary author of this manual is Michael Blakeley, LUNA-Lao's marketing expert, who conducted the study under the supervision of Teri Lojewski, former Project Director, and Steve Parker, current LUNA Project Director. It benefited from inputs and comments by FTPD/MOIC staff.

The LUNA Project supports the Lao PDR to draft, analyze, promulgate and implement the legal and economic policy reforms and institutional capacity building needed to accomplish the following objectives:

- Support the effective implementation of the U.S.-Lao PDR Bilateral Trade Agreement (BTA);
- Support the timely accession of Lao PDR to the World Trade Organization (WTO); and,
- Support Lao PDR to fulfill its commitments to the ASEAN Economic Community (AEC).;

Effective implementation of these trade agreements contributes importantly to support the long-term development strategy of Lao PDR to sustain strong, broad-based economic growth and poverty reduction with strengthened rule of law and governance.

LUNA is one of four technical assistance projects funded by the ADVANCE Project. The U.S. Agency for International Development (USAID) and U.S. State Department launched the ASEAN Development Vision to Advance National Cooperation and Economic Integration (ADVANCE) program in October 2007. It was established to deliver targeted, quick-response technical assistance on a regional, sub-regional, and bilateral level in collaboration with the ASEAN Secretariat and Member States. ADVANCE is the main U.S. mechanism for supporting public and private sector integration in the ASEAN region.

We hope that this manual will provide useful information to Lao exporters about the U.S. apparel market.

Bounsom PHOMMAVIHANE

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Steve Parker

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INTRODUCTION

In 2008, Laos exported $41.9 million in goods to the United States, with apparel exports valued at more than $30 million.[1] The U.S. is the largest market in the world for apparel products, offering the potential for Lao exporters to expand their exports of apparel significantly. The U.S. market for Lao apparel should become particularly more attractive given the major reductions in U.S. tariff rates for many apparel products through the implementation of the U.S.-Lao PDR Bilateral Trade Agreement.

This manual focuses on the U.S. apparel market, providing an overview of the market (Chapter 1), details on market characteristics (Chapter 2), overviews of U.S. import requirements (Chapter 3) and of related export requirements (Chapter 4), and a listing of market resources and trade shows (Chapter 5).

<1> U.S. imports of apparel are reported by the U.S. Office of Textiles and Apparel (www.otexa.ita.gov).

OVERVIEW OF THE U.S. APPAREL MARKET

The U.S. apparel market is the world's largest and most open to imports from developing countries. Many of the world's largest apparel retailing and marketing firms are based in the United States. In 2008, U.S. imports of apparel were valued at more than $71 billion. In the same year, Laos exported more than $226 million in apparel worldwide. While Laos' global apparel exports increased 11.5 percent from 2007 to 2008, its exports to the U.S. almost tripled, from $11 million in 2007 to over $30 million in 2008 (Table 1). This increase is all the more impressive given that total U.S. imports of apparel decreased 3 percent over that same period and that among the top suppliers to the U.S. market, only Vietnam registered a significant increase of 19 percent in 2008.

Table 1
Top Ten Suppliers of Apparel Imports to the U.S., 2008

Exporter	Import Value ($millions)	Change from 2008/2007
World	**71,568**	**-3%**
China	22,922	0.7%
Vietnam	5,223	19%
Indonesia	4,028	1%
Mexico	4,015	-11%
Bangladesh	3,442	11%
India	3,072	-3%
Honduras	2,604	4%
Cambodia	2,376	-2%
Sri Lanka	1,668	-5.5%
Thailand	1,467	-7%
Laos	**31.6**	**177%**

Source: International Trade Centre www.intracen.org and U.S. International Trade Commission www.usitc.gov.

The U.S. apparel market can be broken into segments defined by type of apparel, such as women's sportswear, men's/boy's, "tweens," sport/casual, and formal. Within these segments there are hundreds of different types of garments (and hundreds of corresponding tariff classifications, concentrated mainly in HS code 61 for knitted apparel and HS 62 for woven apparel) that are sold in various retail channels. Women buy more apparel than men, boys, or tweens. The sourcing methods of the many sellers in each segment vary, with some sourcing directly from overseas factories and some sourcing through third parties.

The U.S. apparel market is driven by trends in consumer demand, with demand filtering down from retailers to suppliers. Consumers purchase significant volumes of apparel at all price levels – high end, mid-priced and low-priced. "Mass market" clothing for the middle class is highly price sensitive. At the same time, one of the fastest growing market segments, especially among women, is the premium denim market, where a pair of jeans may exceed $100. One of the most important trends of the past five years (2004-2009) is the emergence of "fast fashion", in which styles and apparel offerings change rapidly. Stores that specialize in fast fashion change inventories weekly. As described in Chapter 2, these trends place new and unique burdens on foreign factories supplying the U.S. market.

Another interesting trend among U.S. consumers is an increasing preference for "green" and "fair trade" products. For example, apparel made of natural materials and labeled "organic" is surging in popularity and commanding a higher price relative to nonorganic apparel. Brands that use organic cotton as a base fabric have carved out a niche market. "Fair trade" apparel is made in foreign factories that pay their workers wages higher than the local minimum wage. Like organic apparel, fair trade apparel is a niche market that is gaining popularity.

Given the vast size and diversity of the U.S. apparel market, the most successful suppliers to this market must adapt quickly to new style trends and standards specified by U.S. business models of apparel sourcing, and must be highly cost competitive. In Chapter 2 we discuss how retailers manage their apparel supply.

Under the U.S.-Lao PDR BTA implemented in 2005, the U.S. extended Normal Trade Relations (NTR) status to products of Laos and, accordingly, tariff rates for many products, including apparel products, were reduced significantly. Pre-and post-BTA tariff rates for selected apparel products imported to the U.S. from Laos in recent years are specified in Chapter 3. As part of the BTA, Laos agreed to implement a variety of reforms to its trade regime, including providing most favored nation and national treatment for products of the United States, improving transparency in rule-making, establishing a regime to protect intellectual property rights, and implementing WTO-compliant customs regulations and procedures.[2]

<2> The BTA is available from the USTR at www.ustr.gov/countries-regions/southeast-asia-pacific/laos.

U.S. MARKET CHARACTERISTICS

The U.S. apparel industry is complex and highly competitive, with many retail sales channels dictating how apparel is sourced, who makes the buying decisions, and what is expected of foreign suppliers.

How Apparel is Sold in the United States

Knowing how to sell finished apparel, or apparel manufacturing services, to the U.S. market requires understanding how apparel is sold to the U.S. consumer. There are two primary markets:

- The mass market, which sells huge volumes of apparel under private-label programs (the store's own label) and as branded merchandise (a private label selling their brand in the store); and
- The specialty store market, which tends to sell only one brand or designer label for a specific consumer demographic.

Apparel is generally classified in the industry by three "price points" – those sold at high prices, medium prices and low prices. The price point influences how the apparel is sourced. For example, low-price apparel is usually manufactured in large volumes by the most cost-efficient (typically low-wage) supplier countries, whereas high-price apparel, which uses expensive fabrics or inputs, may be produced in supplier countries with higher labor costs.

Six primary retail sales channels are utilized. These purchase supply in several different ways – directly sourcing apparel from factories, sourcing from contract manufactures, taking delivery from third-party buyers, or doing no sourcing at all, relying instead on brand merchandisers to deliver a final product to their stores.

1. ***Mass merchants*** such as Walmart and Target concentrate on the value-oriented customer; they keep prices low in order to sell large quantities of product. As a result, most of their apparel purchases are in price- and volume-sensitive basics like T-shirts, cotton pants, and undergarments. Apparel brands often develop products specifically for mass merchants, adapting them to meet price points that merchants set.

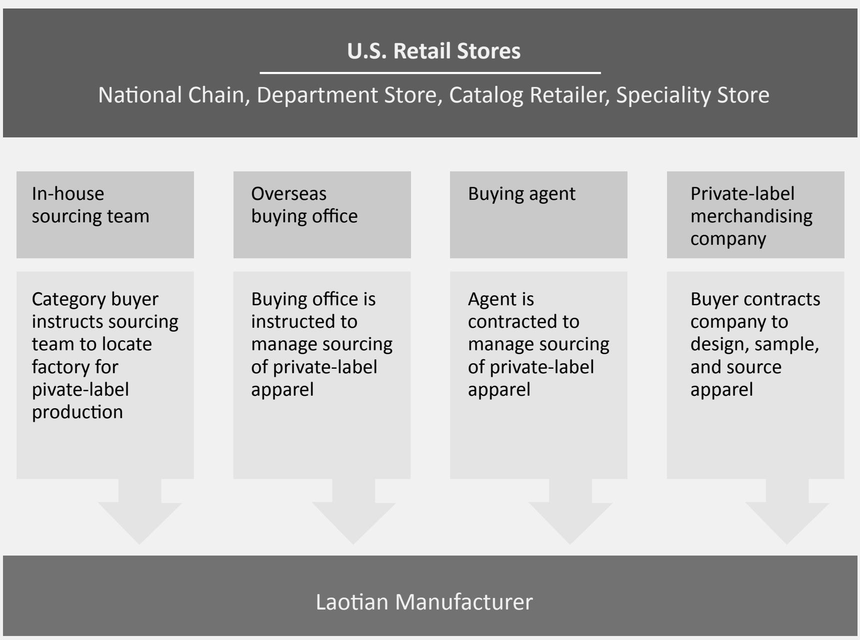
2. ***Department stores,*** such as Macy's and Bloomingdales, offer a wide array of products besides apparel, including accessories, makeup, housewares, furniture, and electronic

appliances. Many department stores belong to merchandising groups or use third-party buying agencies that develop and source private-label apparel on their behalf. Department stores carry branded apparel in their merchandise mix, but they also develop and source their own private-label apparel, which can make up 20 percent or more of the store's apparel offerings. In addition to working with merchandising groups to manage apparel sourcing, department stores work with private-label development firms in the United States, which, in turn, contract production to factories in other countries.

3. ***National chains,*** such as Nordstrom, offer a narrower range of products than department stores, omitting furniture, appliances, and similar departments. Their product mix also includes branded apparel and their own private labels. Depending on the store and its target customer, they may offer national brands at various price points (e.g., Levi's jeans, which are relatively inexpensive, as well as more expensive Calvin Klein jeans), and private labels at corresponding price points.

4. ***Specialty stores***, such as Gap and Victoria's Secret, sell branded garments manufactured for their own label or a branded label under a licensing agreement. They may carry branded labels to fill a niche market, but they are identified closely with their own core product and brand name. These stores target a specific demographic, such as "high-end" price point, "fair trade" or a particular style (dress or sportswear).

Figure 1
Sourcing Possibilities for Private-Label Apparel by a Retail Store



5. ***Catalogue firms and e-tailers*** sell directly to consumers through printed or online catalogues. Some began as established companies seeking additional distribution channels through catalogue and online sales, while others, such as Banana Republic or L.L. Bean, established themselves through catalogue sales and are now opening retail stores. Those that originally offered a variety of brands are also starting to offer private-label merchandise.

6. ***Outlets.*** Some retailers, such as Ross Stores and TJ Maxx, specialize in clearance sales of off-price merchandise, such as overstock and returned merchandise from other retailers. Most major U.S. brands and retailers now operate their own discount outlet stores. Initially, they sold overstock and unsold merchandise returns, but today, most create and source apparel especially for their outlet stores.

Stores make direct purchasing decisions only for apparel with their own private labels. Specialty stores may source private-label apparel through their own sourcing departments or through third-party sourcing agents (discussed below). For branded merchandise, department stores and national chains take delivery of the final product but do not take responsibility for production or transport. Supplying department stores and national chains with branded merchandise is the responsibility of the brand. Figure 1 summarizes retailers' various tactics for sourcing private-label apparel.

Basics of U.S. Apparel Sourcing after the Multi-Fiber Arrangement

In addition to understanding which sales channels to target and who in the supply chain to contact for sales opportunities, foreign apparel manufacturers should develop an appreciation for the competitive factors and strategies that influence how U.S. apparel buyers place orders in overseas factories. Manufacturers should ensure that they are prepared to satisfy the buyers' demands before seeking orders.

Before 2005, the WTO Multi-Fiber Arrangement (MFA) applied quotas that limited the quantity of apparel a country could export to the United States. The quotas forced U.S. buyers to place orders in multiple countries because quotas from some countries were filled quickly. When the MFA expired on January 1, 2005, buyers stopped distributing orders according to quota availability and began placing them on the basis of competitive factors such as price and quality. At the same time, consumer pressure drove U.S. companies to adopt socially responsible sourcing practices and to ensure acceptable working conditions in the factories where they placed orders. U.S. companies expect, and increasingly demand, "compliance audits" and third-party certification such as the Worldwide Responsible Accredited Production (WRAP). These three factors—low price, high quality, and decent working conditions—are now standard in U.S. apparel sourcing and are no longer a competitive advantage among factories supplying the U.S. market. Competitive advantage is now found in two additional capability factors: being a "full package" supplier and providing "speed to market."

Being a "full package" supplier means assuming responsibility for more of the supply chain (e.g., sourcing fabric and trim inputs, ensuring merchandise is ticketed for the retailer, and sometimes packaging the product directly for retail distribution on a hangar). These responsibilities put a premium on the manufacturer's management and technology, which in turn requires that managers and office workers be more educated and have more sophisticated skills.[3]

<3> Another ADVANCE project, the VALUE Project, is promoting and supporting the creation of full-package suppliers in Southeast Asia through the Source ASEAN Full Services Alliance. The project is working to forge partnerships between garment factories in Cambodia, Vietnam, and Laos with textile mills in Indonesia, Thailand, and Malaysia to form virtual, vertically integrated factories. More information can be found at http://advanceiqc.com/category/advance/value/.

Buyers also expect suppliers to be efficient and offer "speed to market" capability by reducing time spent on design, order, manufacturing, and shipment processes. Factories that can produce high-quality products with short lead times are the most in demand. As described in Chapter 1, business models such as "fast fashion" have forced factories to be more efficient in all facets of apparel production. A period of 30 days from receipt of raw materials to the export of the finished product is a typical goal, regardless of order size.

Since 2005 and the expiration of the trade-regulating MFA, buyers have been pursuing relationships with far fewer "strategic suppliers" who provide critical services. In a survey of U.S. apparel retailers and wholesalers, the sourcing executives of 20 high-volume importers described the qualities they seek in a strategic partner:[4]

<4> Minor, Peter J. and Jane B. O'Dell. 2005. Survey of U.S. Buyers. Institute of Development Studies, University of Sussex. Research report for DFID.

- Creative ability to contribute to product design;
- Expertise to add value to product development;
- Manufacturing expertise and market knowledge to identify and manage factories that meet buyers' standards for quality and social responsibility;
- Procurement skills to manage acquisition of inputs such as fabrics and trims; and,
- Financial strength to share liability.

Strategic partners who provide value-added services command higher prices and retain a larger share of profits from the apparel trade.

Trends in U.S. Apparel Sourcing

Exporters should also understand that the competitive nature of the U.S. market causes frequent changes in sourcing strategies. The date of expiration of the MFA was known well in advance, giving countries and factories ample time to prepare for new demand. Shocks, however, such as the recession in the U.S. (2008/2009), may also affect sourcing trends unexpectedly. In addition, in 2007 and 2008 major apparel brands began to diversify their manufacturing countries and to respond aggressively to demand trends for "green" products.

According to a recent survey of apparel sourcing executives, the recession-related factors affecting sourcing in 2008/2009 are "cost reduction" and "risk management."[5] Both factors demand that sourcing executives efficiently manage suppliers to ensure product is provided at the right cost while minimizing risks (such as delays).

<5> "Excellence in Global Sourcing" Third Annual Apparel Research Study and Analysis, 2009.

U.S. apparel buyers also take practical steps to make sourcing more competitive. To improve speed-to-market, they may place production orders in countries closer to the final market for retail sales. To ease procurement, they may consolidate production orders of different brands in the same country or factories. Regional consolidation lowers travel costs for factory inspections and makes import paperwork easier. To shorten the supply chain, some buyers are no longer using agents and are closing foreign-sourcing offices while others, depending on their business model, have eliminated in-house sourcing departments and are contracting all activities to an agent or representative.

Impact of Trade Preferences on U.S. Apparel Imports

Import duties applied to apparel are relatively high, providing a strong incentive for U.S. buyers to seek manufacturers in countries whose goods are given duty-free preferences when imported into the United States. Manufacturers in Laos should note the proliferation of U.S. trade agreements and preferential-trade acts that provide duty-free preference to imports of qualifying apparel from a number of other countries (Exhibit 1). Due to these preferences, these countries enjoy a competitive advantage in market access that may outweigh traditional advantages attributed to Asian suppliers, such as low labor cost and ready access to inputs.

Because agreements vary in their market-access provisions and rules of origin, however, different countries may be able to produce certain types of textiles or apparel more competitively than others for the U.S. market. Information on the apparel provisions of each agreement is publicly available through the website of the U.S. Trade Representative (http://www.ustr.gov).

U.S. Generalized System of Preferences

The U.S. GSP is a trade preference program for imports from developing countries.[6] Currently, it provides duty-free entry for about 4,800 products from 131 developing countries and territories. In 2008, the most recent year for which data are available, the U.S. extended duty-free treatment under the program to imports worth $31.7 billion from eligible countries. Each year, the U.S. reviews the list of articles and countries eligible for duty-free treatment. Any person may petition to request modifications to the list of countries eligible for GSP treatment. Petitions are subject to public hearings and a full review by the major executive branch departments sharing a role in U.S. trade policy. Modifications made pursuant to the annual review are implemented by Executive Order, or Presidential Proclamation.

U.S. Trade Agreements that Provide Trade Preferences

FTAs in Force

- Australia
- Bahrain
- Central America and Dominican Republic
- Chile
- Israel
- Jordan
- Morocco
- North America (Mexico and Canada)
- Oman
- Peru
- Singapore

Preferential Trade Acts

- African Growth and Opportunity Act
- Andean Trade Promotion and Drug Eradication Act
- Caribbean Basin Initiative
- Hemispheric Opportunity through Partnership Encouragement (HOPE) Haiti

Agreements Pending Congressional Approval

- Colombia (pending since 2006)
- South Korea (pending since 2007)
- Panama (pending since 2007)

<6> For more information on the GSP program please visit http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp

The GSP statute sets forth eight mandatory criteria that a country must satisfy before it can be designated a GSP beneficiary.

1. The first of these mandatory criteria specifies that a Communist country may not be a GSP beneficiary unless it receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the International Monetary Fund, and is not dominated by international communism. By virtue of the fact that Laos is not a member of the WTO alone, it currently is not eligible to be designated as a GSP beneficiary.

In addition to the first mandatory GSP designation criterion regarding Communist countries, a country, before it can be designated a GSP beneficiary, must also

2. Not be a party to an arrangement of countries nor participate in actions the effect of which are (a) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and (b) to cause serious disruption of the world economy.
3. Not afford preferential treatment to products of a developed country that has, or is likely to have, a significant adverse effect on U.S. commerce.
4. Not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations without providing, or taking steps to provide, prompt, adequate and effective compensation, or submitting such issues to a mutually agreed forum for arbitration.
5. Not have failed to recognize or enforce arbitral awards in favor of U.S. citizens or corporations.
6. Not aid or abet, by granting sanctuary from prosecution, any individual or group that has committed an act of international terrorism.
7. Have taken or be taking steps to afford internationally recognized worker rights, including a) the right of association, b) the right to organize and bargain collectively, c) freedom from compulsory labor, d) a minimum age for the employment of children, and e) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.
8. Implement any commitments it makes to eliminate the worst forms of child labor.

In determining whether to designate a country as a GSP beneficiary, the President must also consider the following six discretionary criteria:

- Expression by a country of its desire to be designated as a GSP beneficiary country.
- The level of economic development, including per capita GNP, the living standards of its inhabitants, and any other economic factors that he deems appropriate.
- Whether other major developed countries are extending generalized preferential tariff treatment to such country.
- The extent to which such country has assured the U.S. that it will provide equitable and reasonable access to its markets and basic commodity resources and the extent to which it has assured the U.S. it will refrain from engaging in unreasonable export practices.
- The extent to which such country provides adequate and effective protection of intellectual property rights, including patents, trademarks, and copyrights.

- The extent to which such country has taken action to reduce trade distorting investment practices and policies, including export performance requirements, and to reduce or eliminate barriers to trade in services.

Finally, before designating a country as a GSP beneficiary, the President must consider the following four factors:

- The effect such action will have on furthering the economic expansion of the country's exports.
- The extent to which other major developed countries are undertaking a comparable effort to assist a developing country by granting generalized preferences with respect to imports of products of the country.
- The anticipated impact of such action on the U.S. producers of like or directly competitive products.
- The extent of the country's competitiveness with respect to eligible products.

Note that whereas textile and apparel products do receive tariff preferences in free-trade agreements, they do not receive preferences through GSP treatment.

U.S. Companies that Source Apparel

As recently as 20 years ago, apparel production for the U.S. market both domestically and internationally was the business of U.S. branded firms, such as well known brands like "The GAP." Branded firms designed and developed products, arranged production overseas or domestically, organized delivery, and sold products to retail stores, which then sold the products to consumers. Today, a significant percentage of apparel sold in the U.S. is sourced directly by retailers who have developed their own private-label brands to compete with national brands. As a result, the industry is multilayered, with companies managing similar functions but operating in different sales channels or in different locations in the supply chain (i.e., agent, manufacturer or retailer). In selecting a market segment and type of buyer to pursue, Lao apparel exporters need to understand sourcing functions in the U.S. apparel industry.

Retailers of Private-Label Merchandise

A private-label merchandise product bears a store's proprietary label. It may be designed and created for a particular chain of stores or it may be a standard piece of apparel, such as a polo shirt, that is purchased from stock-lots and has the chain's label sewn onto it. Originally, private-label production was limited to basic apparel such as knit and woven shirts, pants, and sweaters. Today, retailers consider their private-label brands critical to differentiating themselves from competitors, and private labels are prevalent in niche, fashion, and value-added apparel categories.

Key Contacts

- Chief sourcing officer (vice president or executive vice president)
- Product-specific sourcing officer
- Regional buying officer or product sourcing manager

Key Contacts

- Chief sourcing officer (usually a vice president or director)
- Product-specific sourcing officer (e.g., for knits, wovens, tops, bottoms)
- Buying or sourcing agent representing the company

U.S. Branded Merchandisers

Limited amounts of apparel are still manufactured in the United States, but even U.S. brands classified as manufacturers outsource a significant share of production to foreign suppliers. The brand owner continues to control product development and design, fabric research, sourcing, quality control, sales of brands to retailers, and advertising and marketing to consumers in the United States, but plays only a small role in production. Some major brands have moved even further from the traditional model and now rely on specialty sourcing agents to manage sourcing and production functions; these agents may be regional, but the largest have global operations and can support production in many countries. As a result of this trend, foreign manufacturers hoping to expand their market to U.S. branded products must build relationships with sourcing agents, who can often introduce them to more than one brand. Furthermore, the consolidation of brands under umbrella groups is growing. A small number of U.S. corporations increasingly controls a large number of national apparel brands.

Key Contacts

- Regional branded product sourcing officer
- Regional product-specific sourcing manager
- U.S. brand sourcing officer or merchandiser

Private-Label Development Companies

Thirty years ago, retailers introduced private-label versions of popular branded products, such as denim pants or polo shirts, to increase revenue streams and diversify offerings to customers. The work of developing products, identifying manufacturers, and coordinating logistics, however, distracted them from their core retail activities. Service companies were created to provide support to retailers in the design, product development, and sourcing of private-label apparel. These companies may be commissioned agents or sellers, but are distinctive in their role as a "contracted product development and sourcing department" for the companies they serve.

Key Contacts

- Regional product sourcing manager
- Country product sourcing manager

Overseas Buying Offices and Sourcing Agents

When the U.S. apparel trade was regulated by quotas under the MFA, U.S. companies either found new production every year or faced price increases and growth limits. Moreover, lacking time to build relationships with new factories, they needed representatives to oversee production and protect their interests. Larger companies established their own buying offices in producer countries, but the need for personal representation could be met only at great expense. In response, buying agents built global businesses around their ability to help buyer companies manage sourcing and production in diverse countries.

One of the best examples of a buying office is Li & Fung, a Chinese company that has now grown to include offices in several countries. Because of the predominance of Asian suppliers to the

United States, many buying offices are located in Asia, especially China. "The Gap", a major apparel company, maintains a regional buying office in Singapore, which handles procurement for Asia and the Indian sub-continent. Visiting the website of any major apparel company will likely reveal whether they maintain an overseas buying office or not.

Whether there are overseas buying offices or contracted sourcing agents, these representatives influence the sourcing decisions of their U.S. clients. They research and oversee the apparel contractors working with their clients' brands; monitor production, quality, and social compliance; and often test new manufacturers. Some overseas buying offices owned by retailers (for sourcing of private labels) are being closed as the supply chain tightens. Approaching the U.S. market through a sourcing agent may increase the overall cost of a garment, because these firms work on commission, but many U.S. companies will not work with a new supplier directly. Importantly, therefore, the sourcing agents and offices can be the most direct route to a test order. The major overseas buying offices and sourcing agents often have U.S. offices to provide customer service to their U.S. clients and to participate in major trade shows.

U.S. Apparel Customer Relationship Management

Doing business with the U.S. apparel market introduces several unique business circumstances, including that U.S. buyers may be relatively more demanding on foreign factories in business processes related to payments, communication, and shipment timing.

Payment Terms

Apparel buyers work on a variety of payment terms following the International Commercial Terms, or Incoterms. Incoterms divide transaction costs and responsibilities between buyer and seller, depending on current transportation practices. Figure 2 presents a summary of Incoterms. The most common terms used by U.S. companies are free on board (FOB), delivery duty unpaid (DDU), and delivery duty paid (DDP). As demonstrated in the figure, payment terms will determine how much responsibility the exporter has for the shipment; specifically, whether the exporter has any responsibility for delivery of the goods after they have reached the U.S. border and passed through customs, which is the case under 'DDU" and "DDP" terms.

Communication

Good communication, with much back-and-forth during order fulfillment, is essential to successful business in the U.S. apparel market. To build relationships with U.S. customers, vendors must be able to communicate in a timely manner in English. The following steps improve communication with customers.

- Take the time to know the buyer's team and obtain their phone numbers and e-mail addresses.
- Establish a reporting schedule and forms for each production cycle, such as
  - Work-in-process report, daily or weekly
  - Out-of-production report
  - Finished-garments status.

- Provide regular feedback, especially about any situation or event that could jeopardize delivery or work flow.
- Ensure that all conversations in which decisions are made and deadlines agreed to are documented.
- Adopt the software and technology used by clients—such as product lifetime management software, virtual sampling, new fit technologies, radio frequency identification—and train staff on them.

Figure 2

Summary of Incoterms (the division of transportation and logistics costs in an apparel shipment)

	EXW	FCA	FAS	FOB	CFR	CIF	DES	DDU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free on Board	Cost and Freight	Cost, Insurance, Freight	Delivered ex-Ship	Delivered Duty Unpaid	Delivered Duty Paid
Service	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pa ys	Who Pays	Who Pays
Warehouse storage at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse labor at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading at point of origin	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland freight	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Port receiving charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarders fee	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on ocean carrier	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air freight charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Charges at destination port or airport	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Customs, duties, and taxes at destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery charges to final destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller

Timely Shipment

Timely delivery is critical in the apparel business, and speed-to-market is a significant criterion buyers use to select manufacturers. As a result, filling orders in a timely manner is a major part of working with U.S. buyers. When a manufacturer's ability to meet a confirmed delivery date is jeopardized, the manufacturer must contact the buyer immediately to plan corrective action or seek approval for a revised delivery date.

In the absence of approval of a revised delivery date, or when a vendor has not notified the client, penalties for late delivery may apply. Penalties will depend on the length of the delay and according to the noncompliance fee schedule, which is usually stated in the purchase order or vendor manual.

The following are common penalties.

- **Air prepaid.** For a delay of a few days, the vendor pays the difference between the cost of shipping by ocean and the cost of air freight.
- **Air prepaid 100%.** For a considerable delay, the vendor pays the total cost for an air freight shipment.
- **Discount on cost.** For goods undelivered to the agreed incoterms point after a certain number of days after the confirmed delivery date, the buyer might request a considerable discount on the agreed incoterms point cost, as well as full cost for air shipment, at the vendor's expense.

In summary, apparel manufacturers who want to do business in the U.S. market must meet specific industry norms and provide some competitive advantage to convince the buyer to place orders in their factories. They must also be prepared to assume responsibility for delivering final products and to provide services beyond simply manufacturing apparel and making it available for pick-up at the factory door. Not all manufacturers are prepared or willing to adapt to these market norms and demands, but success in the market depends on understanding the unique requirements that drive U.S. apparel sourcing.

U.S. IMPORT REQUIREMENTS

Tariff Treatment of Goods Imported from Laos

While the process for importing goods into the U.S. is routine, the tariff rate applied to each product can vary depending on the status of the trading partner. Table 2 compares the pre- and post-BTA tariffs for recent apparel products imported into the U.S. from Laos. Extension of NTR rates resulting from the BTA reduced U.S. tariff rates substantially for most apparel products, which should make Laos apparel exports much more competitively priced on the U.S. market.

Although tariff rates applied to imports from Laos declined as the U.S. extended NTR rates through the BTA, the BTA served only to eliminate the high rates that discriminated against imports from Laos because of the lack of economic relations between the two countries. With NTR rates, Lao exporters face the same tariff rates as exporters from almost every other country in the world. With regard to trade policy, a country's exports into the U.S. gain a competitive advantage due to lower tariff rates only as a result of U.S. free-trade or preferential-trade arrangements, where better than NTR rates are provided in line with

Table 2
Pre- and Post-BTA Tariffs on Common Laos' Apparel Imports into the U.S.

		U.S. Tariff Rate (%)	
Product	**HTS Code**	**Pre-BTA**	**Post-BTA**
Men's or boys' underpants and briefs, knitted or crocheted, of cotton	61071100	90.0	7.4
T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	61091000	90.0	16.5
Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nes	61103030	90.0	32.0
Men's or boys' underpants and briefs, not knitted or crocheted, of cotton	62071100	37.5	6.1
Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nes	62046240	90.0	16.6
Men's or boys' shirts, knitted or crocheted, of cotton	61051000	45.0	19.7

Source: U.S. International Trade Commission.

the terms of the preferential agreement. For apparel imports, given generally high tariff rates, countries with free-trade agreements with the U.S. can benefit greatly from preferential tariff rates. But, since apparel products are not included under GSP arrangements, GSP has little impact on apparel imports.

Sensitivity of Apparel Imports

Like any other good, U.S. apparel imports are subject to standard import rules and regulations. Apparel imported under the terms of a free-trade agreement or preferential-trade arrangement may be subject to special scrutiny to ensure that rules of origin are followed. Tariffs on apparel imports are relatively high (10-30 percent), so it is not unusual for products to not qualify as originating from the country claimed, or for products to have been found to be transhipped, or for product documents to be falsified. Thus, exporters and import buyers must pay close attention to the documents that accompany each shipment and that are used to file import declarations. Document submission is one step of the import process described below; actual documents required are identified in Chapter 4.

The Import Process

Buyers importing goods into the U.S. are responsible for arranging for the import or the paying of duties while ensuring compliance with all applicable import regulations. The importer usually hires third parties, such as licensed customs brokers and freight forwarders, to undertake steps in the import process and relies on the exporter to provide specific documents (see Chapter 4). In general, the U.S. import process is efficient and straightforward, as follows.

1. **File an import declaration with the U.S. Customs and Border Patrol (CBP).** U.S regulations require that import declarations be made by licensed customs brokers who are usually hired by the importer for each transaction. In filing the declaration, the broker uses documents submitted by the exporter—either to the importing client or directly to the broker at the client's request—at the time of shipment. Brokers use a Pre-Arrival Processing System (PAPS) to file declarations in advance of the arrival of the goods.
2. **Clear goods for entry into U.S. commerce.** After receiving the declaration, the CBP informs any other relevant agencies (e.g., the Food and Drug Administration) of any actions required of them, such as an inspection at the port of entry. If no inspection or other action requiring goods to be at the port of entry is necessary, goods can be "cleared for entry into U.S. commerce" before they arrive. Clearance, however, may be delayed or prolonged if a declaration is not made correctly or if import traffic is heavy. In such cases, the sea container will remain at the port of entry "in bond," which means the goods are not yet imported and are not eligible to be recovered by the importing party.
3. **Recover goods.** Once goods are cleared for entry, the CBP informs the customs broker, who then informs the importer client that the goods are eligible for recovery. A freight forwarder hired by the importer will recover the goods from the port and deliver them. In order to recover the goods, the freight forwarder must have a copy of the import declaration that shows the goods have been cleared by the CBP.

For apparel imports, the CBP is the only agency that has oversight at the port of entry. Customs is especially diligent in monitoring apparel imports, given the high tariff rates and complicated rules of origin used for determining origin, make-up, and tariff classification. The high duties on apparel are a temptation for fraud in stating origin on customs declarations and in asserting that goods qualify for special market access (e.g., zero duty) based on a trade agreement between the originating country and the United States.

Given the necessity for precise documentation of apparel imports under free-trade agreements, U.S. apparel companies usually have an import department or a point of contact who works with the factory to ensure that each shipment is properly documented. The import process is highly prescribed. Failure to comply with the many detailed requirements can impose high costs on the supplier and buyer alike.

Importer Security Filing

A new rule—Importer Security Filing and Additional Carrier Requirements—went into effect on January 26, 2010. Under the rule, the Importer Security Filing (ISF) Importer, or its agent (e.g., licensed customs broker), must electronically submit certain cargo information to the CBP in the form of an Importer Security Filing before merchandise arriving by vessel can be imported into the United States. The ISF Importer—the party causing the goods to arrive within the limits of a port in the United States—is usually the goods' owner, purchaser, consignee, or agent, such as a licensed customs broker. The rule applies only to cargo arriving in the U.S. by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

Eight data elements must be submitted no later than 24 hours before the cargo is laden aboard a vessel destined to the United States:

1. Seller
2. Buyer
3. Importer of record number / FTZ applicant identification number
4. Consignee number(s)
5. Manufacturer (or supplier)
6. Ship to party
7. Country of origin
8. Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

For elements 5-8 above ISF Importers may submit a range of acceptable responses based on facts available at the time of submission. The filing, however, must be updated as soon as more accurate or precise data become available and no later than 24 hours before the ship is due to arrive in port.

Two additional data elements—consolidator name and the location of container stuffing—must be submitted as early as possible, but no later than 24 hours before the ship's arrival at a U.S. port.

EXPORTER REQUIREMENTS

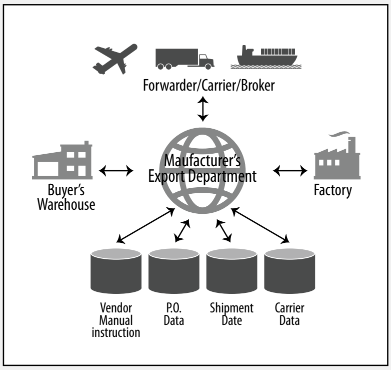
Exporter Responsibilities

U.S. companies use a variety of payment terms when sourcing apparel overseas and those terms affect exporters' responsibilities and requirements in ensuring sound export of merchandise. Because most major U.S. apparel companies have an in-house entity or a third party to coordinate shipments, exporters have few responsibilities under FOB or even CIF terms. But under other terms, such as DDU, exporters not only provide documents but may also coordinate shipment, pay duties applied to merchandise when it enters the United States, and arrange for delivery of merchandise to the customer's preferred location. Freight forwarders can manage most of these activities, including customs entry, given their close relationships with customs brokers. In today's trading environment, many freight forwarders specialize in apparel. U.S. sourcing executives normally use forwarders or request the factory to use them when coordinating delivery of an order. Nonetheless, exporters should anticipate managing the activities described below.

Table 3
Typical Shipping Documentation and Party Responsible for Importing into the U.S.

Documentation	Prepared By
Mandatory	
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter (official government document)
Inward cargo manifest	Shipping company
Bill of lading	Freight forwarder
Not Mandatory	
Shipper's export declaration	Freight forwarder
Insurance certificate	Freight forwarder
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)

Figure 3
Coordinating Responsibilities
of the Export Department



Shipping Documentation

Documentation for exports of finished apparel is just as important as the apparel themselves. Faulty information or incomplete documentation can cause transport delays. Freight forwarders and especially buyers that are regularly importing apparel can often advise on and provide assistance for documentation for shipping goods. Table 3 lists documentation required for import into the U.S and some documents that can be requested by buyers, such as insurance or third party inspections. As always, exporters are encouraged to confirm all documentation requirements with their buyers.

Export Logistics

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. Generally in the apparel business, finished goods are delivered to U.S. buyers' warehouses. To deliver to a U.S. customer's warehouse, or to comply with Incoterms such as CIF or DDP that are commonly demanded by U.S. apparel buyers, manufacturers should have their own logistics specialists to ensure effective coordination and efficient shipment tracking. Most successful suppliers of the U.S. market have export departments staffed with English speakers familiar with documentation required to export apparel to the United States. The department must manage communication among three to five entities as shown in Figure 3.

Cargo Security Requirements and C-TPAT

Since 2001, the U.S. Government has responded to heightened concerns about international terrorism and potential attacks on the United States. The voluntary Customs-Trade Partnership Against Terrorism (C-TPAT) program allows exporting companies to expedite cargo security clearance by implementing certain provisions and activities in factories. The program benefits apparel importers because it reduces the likelihood that imports will be detained for inspection and that products will be tampered with – making it more likely that delivery schedules are met. For program details, contact an international shipping agent or company, export agent, or certified U.S. Customs broker or consult the website www.cbp.gov/xp/cgov/trade/cargo_security/ ctpat/what_ctpat/ctpat_overview.xml.ctpat_overview.xml..

RESOURCE GUIDE

U.S. Government

U. S. Trade Representative—information on trade agreements and apparel provisions in those agreements
www.ustr.gov

U.S. International Trade Administration, Office of Textiles and Apparel (OTEXA)—import data and regulations for textiles and apparel
www.otexa.ita.doc.gov

U.S. Customs and Border Protection—import regulations and documentation requirements
www.cbp.gov

U.S. Consumer Products Safety Board—information on Consumer Product Safety Improvement Act governing labeling and composition of apparel, especially for children's clothing and sleepwear
http://www.cpsc.gov/about/cpsia/cpsia.html

U.S. International Trade Commission—import data and tariff treatment by product
www.usitc.gov

Market Intelligence

Fashion Trends and Market News

Women's Wear Daily
www.wwd.com

James Girone's Guide to Childrenswear
http://www.jamesgirone.com

Just Style
www.just-style.com

Apparel Magazine
www.apparelmag.com

Emerging Textiles.com
www.emergingtextiles.com

California Apparel News
www.apparelnews.net

Technical Resources

Fashionindex.com web resource
www.fashiondex.com

Apparel research.com resource
www.apparelsearch.com

Cotton Council International
http://www.cottonusa.org/

Cotton USA Sourcing Program
www.cottonusasourcing.com

American Apparel and Footwear Association
www.apparelandfootwear.org

U.S. Association of Importers of Textile and Apparel
http://www.usaita.com/

Ecotextile News
www.ecotextile.com.

Apparel Industry Associations

U.S. Association of Importers of Textile and Apparel (USAITA)
www.usaita.com

American Apparel and Footwear Association (AAFA)
http://www.apparelandfootwear.org/

The Organic Trade Association
www.ota.com

Organic Exchange
http://www.organicexchange.com/

Trade Fairs for the U.S. Apparel Industry

Manufacturers should attend trade fairs that pertain to the market they are seeking to enter. Not all apparel industry trade fairs in the U.S. are appropriate for Lao manufacturers. Some are regional and target the small retail buyer who is unlikely to purchase apparel from overseas. The trade fairs listed below are appropriate for overseas manufacturers seeking to enter the U.S. market.

Large Trade Shows

MAGIC Show—the most important apparel trade show—includes WWD MAGIC, Sourcing at Magic, Kids, Men's Marketplace, Ecollections, SWIM, and Slate.
www.magiconline.com

Material World—held twice a year, alternating between Miami and Los Angeles, covers textiles, machinery and technology, and apparel sourcing.
www.material-world.com

FAME—a recent addition to the trade show calendar, FAME features exhibitors from contemporary apparel branded firms.
www.fameshows.com

International Sourcing, Customs and Logistics Integration Conference—an annual conference organized by the leading trade association for apparel, the American Apparel and Footwear Association
www.apparelandfootwear.org/

Smaller Trade Shows

Smaller trade shows target a specific market niche.

E.N.K. Productions—displays the latest fashion trends; visited by leading designers and niche manufacturers
www.enkshows.com

Coterie—small trade show on the piers in New York City (West Side) that exhibits about 1,500 higher-end brands, mostly bridge to designer levels, both U.S. and international.
www.infomat.com/calendar/infse0000016.html

Blue—A trade show for contemporary denim apparel held at the same time as The Collective, an ENK better men's wear show
www.enkshows.com/blue/

Children's Club—held in New York at the Jacob K. Javits Convention Center this trade show is for higher-end U.S. and international children's fashions, accessories, shoes, etc.
http://www.enkshows.com/childrensclub/

Ministry of Industry and Commerce

USAID
FROM THE AMERICAN PEOPLE

agricultural products MANUAL

Manual for the U.S. Agricultural Products Market

A Tool for Lao Exporters of Agricultural Products

April 2011

This publication was produced by the USAID-funded LUNA Project at the request of the Lao PDR Ministry of Industry and Commerce.

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MANUAL

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CONTENTS

ACRONYMS

ADVANCE	ASEAN Development Vision to Advance National Cooperation and Economic Integration
AEC	ASEAN Economic Community
APHIS	Animal and Plant Health Inspection Service
ASEAN	Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
CAFTA	Central American Free Trade Agreement
CBP	U.S. Customs and Border Patrol
CIF	Cargo Insurance Freight
C-TPAT	Customs Trade Partnership
DDU	Delivered Duty Unpaid
FOB	Free on Board
FAS	Foreign Agricultural Service
FAVIR	Fruits and Vegetables Import Requirements
FSIS	Food Safety and Inspection Service
FTA	Free Trade Agreement
GSP	U.S. Generalized System of Preferences
HACCP	Hazard Analysis and Critical Control Points
HTSUS	Harmonized Tariff Schedule of the United States
IFOAM	International Federation of Organic Agriculture Movements
IPPC	International Plant Protection Convention
ISF	Importer Security Filing
ISO	International Organization for Standardization
NAFTA	North American Free Trade Agreement
NOP	U.S. National Organic Program
NTR	Normal Trade Relations
OCIA	Organic Crop Improvement Association
OIE	Office of International Epizootics
PPQ	Plant Protection and Quarantine
QAI	Quality Assurance International
SPS	Sanitary and Phytosanitary
U.S.	United States
USAID	United States Agency for International Development
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

PREFACE

This manual provides background and references for Lao exporters of agricultural products seeking to develop business opportunities in the U.S. market, following the normalization of economic relations between the United States and Lao PDR. It is one of five manuals prepared by the USAID/LUNA-Lao Project and the Foreign Trade Policy Department (FTPD) of the Ministry of Industry and Commerce (MOIC). Other manuals have been prepared for textiles and apparel, handicrafts, wood products, and silk.

The primary author of this manual is Michael Blakeley, LUNA-Lao's marketing expert, who conducted the study under the supervision of Teri Lojewski, former Project Director, and Steve Parker, current LUNA Project Director. It benefited from inputs and comments by FTPD/MOIC staff.

The LUNA Project supports the Lao PDR to draft, analyze, promulgate and implement the legal and economic policy reforms and institutional capacity building needed to accomplish the following objectives:

- Support the effective implementation of the U.S.-Lao PDR Bilateral Trade Agreement (BTA);
- Support the timely accession of Lao PDR to the World Trade Organization (WTO); and,
- Support Lao PDR to fulfill its commitments to the ASEAN Economic Community (AEC).;

Effective implementation of these trade agreements contributes importantly to support the long-term development strategy of Lao PDR to sustain strong, broad-based economic growth and poverty reduction with strengthened rule of law and governance.

LUNA is one of four technical assistance projects funded by the ADVANCE Project. The U.S. Agency for International Development (USAID) and U.S. State Department launched the ASEAN Development Vision to Advance National Cooperation and Economic Integration (ADVANCE) program in October 2007. It was established to deliver targeted, quick-response technical assistance on a regional, sub-regional, and bilateral level in collaboration with the ASEAN Secretariat and Member States. ADVANCE is the main U.S. mechanism for supporting public and private sector integration in the ASEAN region.

We hope that this manual will provide useful information to Lao exporters about the U.S. agricultural products market.

Bounsom PHOMMAVIHANE	**Steve Parker**
Director General Foreign Trade Policy Department Ministry of Industry and Commerce	**Project Director** USAID/LUNA-Lao Project

INTRODUCTION

In 2008, total Laos' exports exceeded $1 billion. Its major agricultural exports consist mostly of food products—coffee, locust beans, tea, ginger, preserved fruits, cabbages and cauliflowers, sweet potatoes, dried fruit, bananas and plantains, maize, and other fruit or vegetable or seed-based products in preserved forms.[1] Laos' exports to the U.S. were $41.9 million in 2008, which included $3.67 million in agricultural goods, nearly all of it coffee and a small quantity of nuts (cashews).

With the U.S. tariff rate reductions authorized by the U.S. – Lao PDR Bilateral Trade Agreement (BTA) in 2005, Laotian exporters should be able to increase exports of agricultural products to the U.S. market. This manual provides guidance for exporters seeking to develop new business or increase existing business in the U.S. market for agricultural and food products. It provides an overview of the U.S. market (Chapter 1), details on market characteristics (Chapter 2), overviews of U.S. import requirements (Chapter 3) and of related export requirements (Chapter 4), and a listing of market resources (Chapter 5).

<1> These goods were identified by analyzing Laos export performance for 2008. Each commodity group had exports greater than $1 million.

OVERVIEW OF THE U.S. AGRICULTURAL PRODUCTS MARKET

According to the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA), the U.S. imported more than $80 billion in agricultural products in 2008.[2] This marks a 12 percent increase over 2007 and a significant increase of 36 percent over 2005, the first year that U.S. agricultural imports exceeded its exports. Not surprisingly, the leading suppliers to the U.S. are from North America and Europe (Table 1).

Four of the top ten supplier countries to the U.S. are in Asia: China (4), Indonesia (5), Thailand (9), and Malaysia (10). In 2007, China increased it shipments 26 percent and India 21 percent; and since 2003 Brazil, Indonesia, Thailand, and Mexico have registered increases in exports to the U.S. ranging from 14 to 19 percent. Most U.S. imports of fresh produce are from Latin America, but processed products are increasingly shipped from Asia.

U.S. food consumption consists increasingly of imported food products, a vast difference from the 1970s and 1980s. Many agricultural-product imports with a large share of domestic consumption are items the U.S. does not produce in large quantities, such as bananas or coffee. As the number of different products imported into the U.S. has grown, so has the number of source countries. In 2007, 319 fruit products were imported from 121 countries; 41 of these products and 10 of the countries were new since 1998.[3] New products included fresh and processed fruit and vegetables, including exotic tropicals such as durian, lychee, and guava, and many other fresh and processed fruit, vegetables, and spices.[4]

Table 1
U.S. Imports of Agricultural Products 2008

Supplier	Value ($billions)	Share of U.S. Imports of Agricultural Products
North America	28.9	36%
European Union-27	15.5	19%
South America	9.5	12%
Southeast Asia	8.44	10.4%

Source: U.S. Bureau of the Census Trade Data. Reported by the U.S. Department of Agriculture Export/Import Statistics for Bulk, Intermediate, and Consumer Oriented (BICO) Foods and Beverages

<2> The USDA defines agricultural products to include live animals, meat, and products of livestock, poultry, and dairy; hides and skins (but not leather products); animal fats and greases; food and feed grains and grain products; oilseeds and oilseed products; fruits, nuts, and vegetables and products of these; juices, wine, and malt beverages (not distilled spirits); essential oils; planting seeds; raw cotton, wool, and other fibers (not manufactured products of these); unmanufactured tobacco (not manufactured tobacco products); sugar and sugar products; coffee, cocoa, tea, and products of these; rubber and allied products; and stock for nurseries and greenhouses, spices, and crude or natural drugs. Fish, shellfish, and forestry products are not included in "agriculture."

<3> "Amber Waves" September 2009.

<4> Ibid.

All U.S. agricultural import groups have continued to grow since 1990. Horticultural products, which make up half of these imports, include fruits, vegetables, nuts, wine, and nursery products, mostly imported from Canada and Mexico. The North American Free Trade Agreement (NAFTA) is partly responsible for expansion of this trade between Canada, Mexico, and the United States. Most tropical products—such as coffee, cocoa, and rubber—come from Indonesia, Brazil, and Mexico. Animals and animal products are next in importance among U.S. agricultural imports, with Canada, Mexico, and Oceania the top suppliers of these.

Laos exports a wide range of agricultural products, but few are destined to the United States. In 2008, Laos exported only coffee and cashews (cashews are included under the category "edible fruits and nuts, dried nes" in Table 2 below) to the United States, with exports to the U.S. making up approximately 7 percent of the total value of Lao agricultural exports. Coffee imports from Laos to the U.S. in 2008 were significantly less than in 2007.

Table 2
Laos Exports of Agricultural Products to the World and the United States (2008)

	Export Value ($000's)	
Product	**To the World**	**To the United States**
Cabbages, kohlrabi, kale and sim edible brassicas nes, fresh or chilled	2,869	0
Manioc (cassava), fresh or dried, whether or not sliced or pelleted	843	0
Sweet potatoes, fresh or dried, whether or not sliced or pelleted	814	0
Bananas including plantains, fresh or dried	3,003	0
Edible fruits and nuts, dried nes	1,590	101
Fruits, fresh nes	473	0
Coffee	22,956	3,566
Tea	579	0
Maize (corn) nes	16,168	0
Cereals unmilled nes	2,186	0
Rice in the husk (paddy or rough)	552	0
Rice, husked (brown)	489	0
Vegetable products nes used primarily for human consumption	4,653	0
Plants & parts of plants (incl seed & fruit) used in pharm, perf, insect etc nes	1,157	0
Sesamum seeds, whether or not broken	891	0
Total	**59,223**	**3,667**

Source: International Trade Centre, TradeMap www.intracen.org.

The U.S. market for agricultural products is quite competitive, with imports of coffee totaling $3.4 billion and cashews $633 million in 2008.[5] Both of these goods have a zero tariff, so trade preferences have no impact. U.S. tariff rates for agricultural products are discussed in more detail in Chapter 3.

Exporting agricultural products to the U.S., however, is challenging because of the many regulations applied by numerous agencies, and how the presentation and form of the product (e.g., fresh, preserved, packed for retail consumption) affect the application of those regulations. Given the intense competition among supplier countries, U.S. importers are demanding in what they require of foreign suppliers. Nevertheless, as the largest consumer market in the world—and one with an appetite for diverse and innovative food offerings—many different types and quality of agricultural products are imported into the U.S. market.

Under the U.S.-Lao PDR BTA implemented in 2005, the U.S. extended Normal Trade Relations (NTR) status to products of Laos and, accordingly, tariff rates for many products were reduced significantly. Pre-and post-BTA tariff rates for select agriculture products imported to the U.S. from Laos in recent years are specified in Chapter 3. As part of the BTA, Laos agreed to implement a variety of reforms to its trade regime, including providing most favored nation and national treatment for products of the United States, improving transparency in rule-making, establishing a regime to protect intellectual property rights, and implementing WTO-compliant customs regulations and procedures.[6]

<5> Values are for "Cashew nuts, fresh or dried, shelled" and "Coffee, not roasted, not decaffeinated." These definitions are consistent with the actual product exported from Laos. Additional import categories for coffee and cashew exist, which means that the actual total value imported is likely higher.

<6> The BTA is available through USTR at www.ustr.gov/countries-regions/southeast-asia-pacific/laos.

U.S. MARKET CHARACTERISTICS

Consumer Influence on Food Imports

Growing demand among U.S. consumers for a more varied and healthy diet has contributed to growth in imports of many tropical products, such as spices, fruits, vegetables, green tea, and unsaturated oils. Imported food products are also one of the fastest growing categories in U.S. supermarkets. More American shoppers seek ethnic foods that originate in other countries or fruits and vegetables that may not be in season in the United States, but are in season elsewhere. A growing immigrant population is also driving demand for imported foods. For example, General Mills Inc., a major global food producer and seller, is beginning to import frozen flat breads such as "roti" and "nan" from India. Such ethnic foods are claiming more and more shelf space in supermarkets.

Industry Trends in Sourcing

Various factors influence U.S. import patterns of food and agricultural products. For example, imports of fresh fruit are influenced by the proximity to sourcing countries and U.S. phytosanitary requirements. Meanwhile, preserved or processed food products can be readily transported across great distances and are not subject to the same level of regulation as fresh, perishable products. This has enabled countries in Asia and other distant regions to increase exports of (especially processed) food products to the United States. The dominance of Western Hemisphere suppliers not only benefit from close proximity and ease of transport, but also from free-trade agreements, such as NAFTA, which ease some of the phytosanitary requirements. Phytosanitary regulations are explained in more detail in Chapter 3.

A growing share of U.S. imports reflects intra-industry trade, whereby U.S.-based agricultural processors have some processing carried out offshore and then import products at different levels of processing from subsidiaries and other sources in foreign markets.[7] Spreading food manufacturing over many countries minimizes production and distribution costs, and enables quick replenishment of inventories. For example, imports of fruit juice have grown significantly as U.S. fruit growers send bulk commodities (e.g., apples for apple juice) overseas for less expensive processing and eventual re-export to the United States. U.S. growers also source or even invest overseas to import fruits and vegetables from countries with opposite growing seasons in order to ensure year-round delivery of certain fruits and vegetables. In fact, the U.S. consumer has come to expect fruits and veg-

<7> Extracted from "Market Access for High-Value Foods, Agricultural Economic Report No. 840", U.S. Department of Agriculture, Economic Research Service.

etables to be available regardless of the time of year. Thus, Sunkist Growers Inc., a large citrus cooperative owned by growers in California and Arizona, imports navel oranges from South Africa for sale under its brand when U.S. oranges are out of season.

Buyers' Norms and Standards for U.S. Food Imports

The norms and standards of U.S. buyers often go above and beyond minimal regulatory requirements for processed foods imports. Competitive suppliers must comply with at least some, if not all, of these norms and standards. For example, most U.S. food importers will not import from factories that do not have a certified Hazard Analysis and Critical Control Points (HACCP) plan in place.

Hazard Analysis and Critical Control Point

As a management system, HACCP strives to ensure food safety through analysis and control of biological, chemical, and physical hazards at each stage of product development – from raw material production, procurement and handling to manufacturing, distribution and final consumption. HACCP is not legally mandatory for food imports, but most U.S. buyers require it. Once a supplier implements HACCP procedures, ISO standards are much more easily achieved (discussed below).

Traceability

Traceability entails developing an "information trail that follows the food product's physical trail."[8] It is important to U.S. buyers given the health risks of agricultural products used for and in food. Major retailers, such as chain stores, want to be able to tell their customers what happens to their products at all stages of production. In essence, manufacturers and exporters need to document and keep records of all purchasing transactions, processing steps, labor used, dates of processing, and locations for the product before it arrives in the United States. Thus, manufacturers are strongly encouraged to keep accessible records of production to ensure compliance with buyers' traceability requirements.

<8> "Traceability from a U.S. Perspective" Meat Science, Volume 71, Issue 1, September 2005, Pages 174-193.

International Organization for Standardization

The International Organization for Standardization (ISO) is a global network that identifies and develops international standards for business, government, and societies. It has member organizations in every country that propose and develop new standards. ISO came into being when many companies in Europe decided they needed standardized rules to ensure that they received quality goods from suppliers. The ISO website is http://www.iso.org.

While ISO is not traditionally requested by U.S. companies, the process for certification is respected and helps convince a U.S. buyer that a factory is in good working order with efficient systems in place. Manufacturers also seek ISO certification because they find that being certified gives them a marketing advantage over uncertified competitors. ISO has two series of standards:

- ISO 9000, which is concerned with quality management in terms of enhancing customer satisfaction by meeting customer needs and applicable regulatory requirements; and,

- ISO 14000, which is concerned with environmental management, especially minimizing harmful environmental effects caused by company activities.

Organic Certification and Labeling

Demand for organically-certified products is growing in the United States. Organic products are those that have been produced from raw materials that are grown in areas free of pesticide or other chemicals in the growing area, that have been produced without the introduction of chemical inputs and remain purely "natural", and that have been certified by a third party confirming these characteristics. It may require up to three years for a facility to gain certification by a third-party certifier (discussed below). Being able to put the word "organic" on a product is a valuable advantage in today's consumer market.

Certification is intended to protect consumers from misuse of the term and to facilitate purchases of organic goods. U.S. law defines three levels of organics. Products made entirely of certified organic ingredients and methods can be labeled "100% organic." Products with 95 percent organic ingredients can be labeled "organic." Products containing a minimum of 70 percent organic ingredients can be labeled "made with organic ingredients." Products may also display the logo of the certification body that approved them. Products made with less than 70 percent organic ingredients cannot advertise this fact to consumers and may only mention it in the product's ingredient statement.

International certification bodies, recognized by the USDA, include the International Federation of Organic Agriculture Movements (IFOAM), the Organic Crop Improvement Association (OCIA), and Oganisme de Controle et de Certification (ECOCERT). ECOCERT is the world's largest organic certification organization and would be an appropriate certifier of goods produced in Laos.[9] It has offices in 20 countries, operates in more than 85 countries, and certifies more than 40,000 farms and companies worldwide. Where formal agreements do not exist between countries, organic exports are often certified by agencies from the importing countries, who may establish permanent foreign offices for this purpose.

<9> For more information on ECOCERT, see: http://www.ecocert.com/?lang=en.

Fair Trade

The "fair trade" system ensures consumers that products have been produced by persons who have been treated fairly, especially with regard to wages and working conditions. The principles of fair trade require that producers receive a guaranteed price for their goods and the security of long-term trading contracts; that producers benefit from guaranteed minimum health and safety conditions; that no producers, workplaces, or environments are unfairly exploited; and that opportunities for education and training among producers, especially women and children, are actively fostered.

As with organic products, some companies have chosen to make fair trade certification a matter of policy in sourcing goods, especially from developing countries. The certification system covers a growing range of products, including bananas, coffee, cocoa, cotton, dried and fresh fruits and vegetables, honey, juices, nuts and oil seeds, oranges, quinoa, rice, spices, sugar, tea, and wine. Certification involves independent auditing of producers to ensure that certain standards are met. Companies offering products that meet fair trade standards may apply for licenses to use the Fairtrade Certification Mark on their labels. Fairtrade Labeling Organizations International oversees fair trade labeling.

Relevant Product Segments

Numerous countries supply the U.S. with the types of agricultural products that Laos exports. Import patterns are influenced by proximity and growing seasons. The following categories are most relevant for Laos' exports.

Coffee and Tea

The total volume of coffee imported into the U.S. increased from 1.13 million metric tons in 1998 to 1.37 million metric tons in 2007. During that period, imports of roasted coffee grew more rapidly than imports of non-roasted coffee, yet roasted coffee still accounted for less than 10 percent of total coffee imports in value and volume.[10] Import volumes from newer sources have grown rapidly in recent years, while a decline in prices is causing a downward trend in value. Between 1998 and the early 2000s, coffee prices declined globally, largely because of expanded production in Brazil and Vietnam.

In the first quarter of 2009, U.S. coffee imports increased by 1.8 percent, at 5.83 million bags compared to 5.72 million bags imported in the fourth quarter. But that first quarter amount was less than the amount imported during any of the first three quarters of 2008, and was down 7.9 percent from the high of 6.33 million bags imported in the second quarter of 2008.[11] Accounting for 19 percent of U.S. coffee imports in 2007, Colombia remains the largest supplier, but Brazil is catching up fast, accounting for 18 percent of U.S. imports in 2007. Imports from other countries such as Guatemala, Vietnam, Indonesia, and Costa Rica are also growing and becoming substantial.

Coffee is a type of agricultural product that U.S. consumers are willing to pay a premium for to ensure "organic" production.[12] The U.S. organic coffee market topped $1.3 billion in 2008. Forty countries supply the world with organic coffee, with Peru, Ethiopia, Brazil, and Mexico the leading suppliers.

Another trend is "cause coffee" or "fair trade" coffee, which is produced by workers who are paid a higher relative wage than workers producing conventional coffee and whose working conditions comply with or are better than what local labor laws require. Two organizations, Transfair and the Rainforest Alliance, provide fair trade labeling. From 2001-2006, fair trade coffee sales rose 54 percent.[13]

While the U.S. imports coffee from more than 80 countries, it has fewer than 100 importer companies. Arabica is the dominant variety imported into the U.S. – mostly in green form by well-known coffee roasters and distributors. Sourcing of coffee beans is done primarily by importers and traders in the United States. Traders identify sources and then work through local traders and exporters to secure import. Sometimes sourcing is driven by the traders' customers, usually coffee roasters who tend to procure smaller volumes and therefore don't usually import directly themselves.

<10> "U.S. Food Import Patterns, 1998-2007" http://usda.mannlib.cornell.edu/usda/current/FAU/FAU-08-06-2009_Special_Report.pdf.

<11> National Coffee Association of USA, Inc., "CoffeeTrax."

<12> According to research conducted by The Hartman Group and reported in the Coffee Reporter Newsletter (July 2009), when consumers were asked about which organic food categories they'd be willing to pay a premium for, 52 percent of them said coffee.

<13> "Sales" considered at the consumer level, not importer level. Reported by Transfair USA.

Fruits and Nuts

U.S. imports of fresh fruits come primarily from the Western Hemisphere, with Mexico alone accounting for 30 percent of all such imports in 2007. Mexico's supply dominance is due to proximity and ease of transport, but also to NAFTA, which expedited phytosanitary qualification of certain produce. Countries in the Western Hemisphere also dominate U.S. imports of preserved fruits, with Canada, Mexico, and Chile accounting for about 60 percent of such import value in 2007.[14] Canada was the leading source, with frozen berries and dried fruits accounting for most of its exports to the United States. China has also emerged as a major supplier of preserved fruit to the U.S. market.

<14> "U.S. Food Import Patterns, 1998-2007" http://usda.mannlib.cornell.edu/usda/current/FAU/FAU-08-06-2009_Special_Report.pdf.

The value of U.S. imports of nuts in 2007 was $948 million. India, Vietnam, Brazil, and Mexico together accounted for about 70 percent of such imports. India is the largest exporter to the U.S., followed by Vietnam. Although both countries export a variety of nuts, the bulk of their exports were cashews, which Laos also exports to the United States.

Vegetables

U.S. imports of vegetables exceeded $1 billion in 2007. About 60 percent of these imports are in fresh form; 15 percent in frozen, dried, or otherwise preserved form; and 25 percent in processed form. Given their proximity and the advantages of trade preferences with the U.S., Mexico and Canada are the dominant suppliers of vegetable products to the United States. As U.S. consumers have become more and more aware of the health benefits of vegetables, their demand for fresh vegetables has risen and several U.S. firms are investing in foreign production facilities to ensure year-round availability of certain vegetables.

Frozen, dried, or otherwise preserved vegetables can be transported easily across long distances. As a result, middle-income countries, led by China, India, and other countries in Central and South America, have emerged as significant sources of preserved vegetable product imports into the United States.

Grains

Imports of bulk grain rose steadily from 1998–2007, but still make up only 2 percent of total food imports. Wheat, mainly from Canada and Mexico, accounted for most of the rise. In keeping with growing demand for ethnic foods, demand for rice has also grown. Rice imports grew from $133 million in 1998 to $247 million in 2007. Thailand was the main source (60 percent), followed by India, China, and Pakistan. The four countries together accounted for more than 90 percent of U.S. rice imports.[15]

<15> Ibid

While most bulk grain imports consist of wheat, corn, and rice, imports of semi-processed grain forms, such as meal and flour, have grown rapidly. The largest component of U.S. grain and grain product imports, however, consists of processed products, such as breads, cookies, pasta, breakfast cereals, mixes, and doughs. The U.S. imported $3.6 billion worth of processed cereal products in 2007.[16]

<16> Ibid

Market Access for Agricultural Products

Trade preference programs can have a major impact on trade flows, given the wide range of tariffs and regulations to which agricultural imports are subject. In particular, a free-trade agreement (FTA) can not only reduce tariff rates but, often quite importantly, it can also expedite phytosanitary qualification processes.

Free-Trade Agreements

Ordinarily, trading partners must follow a routine procedure whereby U.S. officials qualify each product as meeting U.S. import requirements. Some FTAs, such as NAFTA, have sanitary and phytosanitary chapters that help expedite approval processes. NAFTA member Canada is the top U.S. source of bulk and semi-processed food imports, while Mexico is the top source for consumer-ready food products. Australia's share of U.S. milk powder imports grew from 16 percent in 1998 to 25 percent by 2007 after the U.S.-Australia FTA came into effect in 2005. U.S. imports of fresh fruits and vegetables from Chile grew after the US-Chile FTA, as have imports of fruits, vegetables, and horticultural products from signatories of the U.S.-Central America FTA (CAFTA).

U.S. Generalized System of Preferences

The U.S. GSP[17] is a trade preference program for imports from developing countries. Currently, it provides duty-free entry for about 4,800 products from 131 developing countries and territories. In 2008, the most recent year for which data are available, the U.S. extended duty-free treatment under the program to imports worth $31.7 billion from eligible countries. Each year, the U.S. reviews the list of articles and countries eligible for duty-free treatment. Any person may petition to request modifications to the list of countries eligible for GSP treatment. Petitions are subject to public hearings and a full review by the major executive branch departments sharing a role in U.S. trade policy. Modifications made pursuant to the annual review are implemented by Executive Order, or Presidential Proclamation.

The GSP statute sets forth eight mandatory criteria that a country must satisfy before it can be designated a GSP beneficiary.

1. The first of these mandatory criteria specifies that a Communist country may not be a GSP beneficiary unless it receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the International Monetary Fund, and is not dominated by international communism. By virtue of the fact that Laos is not a member of the WTO alone, it currently is not eligible to be designated as a GSP beneficiary.

In addition to the first mandatory GSP designation criterion regarding Communist countries, a country, before it can be designated a GSP beneficiary, must also

2. Not be a party to an arrangement of countries nor participate in actions the effect of which are (a) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and (b) to cause serious disruption of the world economy.
3. Not afford preferential treatment to products of a developed country that has, or is likely to have, a significant adverse effect on U.S. commerce.

<17> For more information on the GSP program please visit http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp

4. Not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations without providing, or taking steps to provide, prompt, adequate and effective compensation, or submitting such issues to a mutually agreed forum for arbitration.
5. Not have failed to recognize or enforce arbitral awards in favor of U.S. citizens or corporations.
6. Not aid or abet, by granting sanctuary from prosecution, any individual or group that has committed an act of international terrorism.
7. Have taken or be taking steps to afford internationally recognized worker rights, including a) the right of association, b) the right to organize and bargain collectively, c) freedom from compulsory labor, d) a minimum age for the employment of children, and e) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.
8. Implement any commitments it makes to eliminate the worst forms of child labor.

In determining whether to designate a country as a GSP beneficiary, the President must also consider the following six discretionary criteria:

- Expression by a country of its desire to be designated as a GSP beneficiary country.
- The level of economic development, including per capita GNP, the living standards of its inhabitants, and any other economic factors that he deems appropriate.
- Whether other major developed countries are extending generalized preferential tariff treatment to such country.
- The extent to which such country has assured the U.S. that it will provide equitable and reasonable access to its markets and basic commodity resources and the extent to which it has assured the U.S. it will refrain from engaging in unreasonable export practices.
- The extent to which such country provides adequate and effective protection of intellectual property rights, including patents, trademarks, and copyrights.
- The extent to which such country has taken action to reduce trade distorting investment practices and policies, including export performance requirements, and to reduce or eliminate barriers to trade in services.

Finally, before designating a country as a GSP beneficiary, the President must consider the following four factors:

- The effect such action will have on furthering the economic expansion of the country's exports.
- The extent to which other major developed countries are undertaking a comparable effort to assist a developing country by granting generalized preferences with respect to imports of products of the country.
- The anticipated impact of such action on the U.S. producers of like or directly competitive products.
- The extent of the country's competitiveness with respect to eligible products.

U.S. IMPORT REQUIREMENTS

Key U.S. Regulatory Agencies for Food Imports

Several U.S. agencies may have authority over the import of agricultural and food products, depending on the presentation of the product (perishable or preserved). As with any import, food or otherwise, the U.S. Customs and Border Patrol (CBP) oversees the import process, including verification of documents required for goods entering the United States. Food imports are also subject to scrutiny from the U.S. Food and Drug Agency (FDA) and in some cases by the U.S. Department of Agriculture (USDA).

U.S. Food and Drug Agency

The FDA is the federal agency responsible for ensuring that foods are safe, wholesome, and sanitary. The FDA also ensures that these products are honestly, accurately, and informatively represented to the public. Imports of food products must receive clearance from the FDA. When the importer files the import declaration for a food product or any product regulated by the FDA, the CBP will notify the FDA and seek "clearance," meaning that the import was not rejected for health or sanitary reasons. Exporters should be aware that U.S. buyers typically impose payment terms on foreign suppliers that do not allow payment before imports have received "FDA clearance." In some cases, imports may be subject to random inspection by the FDA at the port of entry.

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act) placed new responsibility on foreign facilities exporting food products to the United States. Due to certain provisions of the Bioterrorism Act, the FDA has established new regulations for food imports requiring that (1) food facilities be registered with the FDA and (2) the FDA be given advance notice of shipments of imported food. Owners, operators, or agents in charge of U.S. or foreign facilities that manufacture, process, pack, or hold food for consumption in the United States are required to register the facility with the FDA. More information on this matter can be found on the FDA website listed in Chapter 5.

U.S. Department of Agriculture

In regulating domestic and imported agriculture, the USDA aims to protect food, agriculture, and natural resources. The USDA's Animal and Plant Health Inspection Service (APHIS) is charged with monitoring imports of animal and plant imports that could include pests or other risks to domestic agriculture. APHIS determines the "enter-ability" of a commodity on the basis of the disease and pest status of the exporting country. APHIS does not inspect imports for quality or safety, which is a duty of the FDA. For more information, please visit the APHIS website identified in Chapter 5.

Within APHIS, the Plant Protection and Quarantine (PPQ) branch regulates the importation of plants and plant products under the authority of the Plant Protection Act. PPQ maintains its import program to safeguard U.S. agriculture and natural resources from risks associated with the entry, establishment, or spread of animal and plant pests and noxious weeds. APHIS and the PPQ branch have direct input to the U.S. sanitary and phytosanitary regulations (discussed below).

APHIS recently launched a new, searchable database, known as FAVIR, to monitor fruit and vegetable imports. FAVIR allows users to search for authorized fruits and vegetables by commodity or country, and to determine the general requirements for importing them into the United States. The database includes emergency pest notifications to alert users should the import status of a commodity or country change. It also allows APHIS officials and the CBP's agricultural inspectors to quickly determine whether or not a commodity is authorized entry into the United States, as well as the general requirements for importation.

The Food Safety and Inspection Service (FSIS), another branch of the USDA, has specific regulatory oversight of imports of meat, poultry, and egg products.

Import Documentation for Agricultural and Food Products

Agricultural and food imports must be accompanied by standard documentation (described in Chapter 4) and, depending on product presentation, a phytosanitary certificate. This is applicable to any product imported in fresh or perishable form. Food products that have been transformed or further processed are usually considered industrial and are not subject to this certification requirement. In most cases the U.S. buyer who imports the product will know what documentation is necessary and will advise the exporter. Under the Bioterrorism Act of 2002, exporters must also provide documentation proving that they are registered with the FDA.

As with any imported product, exporters are encouraged to work with their U.S. buyer, or the buyer's freight forwarder or customs representative, to ensure that documentation requirements are met at the time of export.

Labeling

Labeling is extremely important in the process of importing goods, especially food products. Every imported item must be conspicuously and indelibly marked in English to indicate to the "ultimate purchaser" its country of origin. The CBP generally defines the ultimate purchaser as the last U.S. person who will receive the article in the form in which it was imported. So, articles arriving at the U.S. border in retail-ready packages—including food products, such as a bottle of Italian olive oil—must carry such a mark. However, if the article is destined for a U.S. processor, where it will undergo "substantial transformation" (as determined by Customs), then that processor or manufacturer is considered the ultimate purchaser.

Each master carton or other outside packaging of the good inside a shipping container should have a label showing, at a minimum, accurate weights (gross and net), a product description, and the names and addresses of the importer and exporter.

Sanitary and Phytosanitary Measures

U.S. food safety programs operate within the constraints of internationally-accepted trade rules. Most important is the WTO "Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures" adopted in the 1994 "Uruguay Round" of agreements. This document sets out the basic rules for ensuring that each country's laws and regulations on food safety and animal and plant health are transparent, scientifically defensible, and fair. Regional and bilateral FTAs entered into by the U.S. may contain SPS language as well. Such language in most of the FTAs generally references the signing parties' rights and obligations under the multilateral SPS agreement.

The U.S. also participates in the three major international scientific bodies designated by the WTO to deal with SPS matters. One, the Codex Alimentarius Commission, focuses on human food safety. The others are the Office of International Epizootics (OIE) for animal health and diseases, and the International Plant Protection Convention (IPPC) for plant health. These bodies meet regularly to discuss threats to human and agricultural health, evaluate SPS-related disputes, and develop scientifically-based SPS standards.

To comply with SPS measures in the United States, supplier countries must determine whether a phytosanitary certificate will be required for a particular product. A phytosanitary certificate is a document that is required by many countries for the import of non-processed, plant products. Export commodities must meet certain standards or criteria outlined by the importing country (or state). These plant health requirements pertain to storage pests, plant diseases, chemical treatments, and weeds. Some countries require a growing-season inspection of the field from which a plant product is harvested before a certificate may be issued, particularly if the product is seed to be used for propagation. Usually, however, pre-shipment inspection is all that is necessary.

The purpose of the certification process is to facilitate the entry of plants or plant products into the country of destination. This is accomplished by certifying that the plants or plant products were inspected and conform to any phytosanitary entry requirements of the importing country before they leave the port.

Items that usually require a phytosanitary certificate include plants, bulbs and tubers, seeds for propagation, fruits and vegetables, cut flowers and branches, grain, and growing medium. Certificates may also be required for plant products that have been processed if, by their nature or that of their processing, they could introduce regulated pests (e.g. wood, cotton). A certificate may also be required for other regulated articles where phytosanitary measures are technically justified (e.g., empty containers, vehicles, organisms).

Phytosanitary certificates are not usually required for plant products that have been processed in such a way that they have no potential for introducing regulated pests, or for other articles that do not require phytosanitary measures.

Treatment of Goods Imported from Laos

While the process for importing goods into the U.S. is routine, the tariff rate applied to each product can vary depending on the status of the trading partner. Table 3 compares the pre- and post-BTA tariffs for several agricultural products imported into the U.S. from Laos in recent years. Extension of NTR rates resulting from the BTA reduced tariff rates substantially for dried fruits and nuts, but the tariff rate for coffee remains the same at a zero tariff rate. Thus, the BTA should make Laos cashew exports much more competitively priced on the U.S. market.

Although tariff rates applied to imports from Laos declined as the U.S. extended NTR rates through the BTA, the BTA served only to eliminate the high rates that discriminated against imports from Laos because of the lack of economic relations between the two countries. With NTR rates, Lao exporters face the same tariff rates as exporters from almost every other country in the world. With regard to trade policy, a country's exports into the U.S. gain a competitive advantage due to lower tariff rates only as a result of U.S. free-trade or preferential-trade arrangements, where better than NTR rates are provided in line with the terms of the preferential agreement. The impact of the preference will depend on the magnitude of the NTR tariff – the higher the tariff rate, the greater the competitive impact of the trade preference. As shown in Tables 3 and 4, NTR rates for many agricultural products are low enough that exporters with preferential agreements gain a relatively small competitive advantage over Lao agricultural exporters; whereas for several products such as cassava, the preference can have a significant effect.

Table 3
Pre- and Post-BTA Tariffs on Select U.S. Agricultural Imports from Laos

		U.S. Tariff Rate (%)	
Product	**HTS Code**	**Pre-BTA**	**Post-BTA**
Fruits and nuts, dried nes	081340	35%	1.8%
Fruits, fresh nes	081090	$.028/kg	2.2%
Coffee	090111	Free	Free
Tea	909230	Free	Free
Maize (corn) nes	100590	$.098/kg	$0.0005 - $0.0025 per kg
Cereals unmilled nes	100890	10%	1.1%
Vegetable products nes used primarily for human consumption	121299	$2.74/ton	$1.24/ton or $0.0015 per kg

Source: U.S. International Trade Commission.

Applied Tariffs

All goods imported into the U.S. are subject to tariffs according to the product classification where they fit. For some products the tariff rate is zero, meaning no duty is applied to the product for all trading partners, not only those party to a special trade arrangement with the United States. The tariff is applied at the time of import and is paid by the importing entity. If the importer of record is a third party, such as a freight forwarder hired by the buyer, the buyer will pay the duty as part of its payment to the freight forwarder for services.

Agricultural products are subject to a range of tariff rates. For example, some goods that may compete with domestic agriculture might be subject to a relatively high tariff (exceeding 10 percent), while some frequently imported goods not produced in the United States, such as coffee, have a zero tariff rate. Table 4 presents U.S. tariff information for the most popular exports of agricultural goods from Laos.

Table 4
U.S. Tariffs Applied to Select Agriculture Imports (for NTR Countries)

Product	HTS Code	U.S. Tariff Rate	2008 Lao Export Value to World $000'
Cabbages, kohlrabi, kale and some edible brassicas nes,fresh or chilled	070490	$0.0054 cents/kg for 07049020 and 20% for 07049040	2,869
Manioc (cassava), fresh or dried, whether or not sliced or pelleted	071410	7.9% - 11.3%	843
Sweet potatoes, fresh or dried, whether or not sliced or pelleted	071420	4.5% - 6%	814
Bananas including plantains, fresh or dried	080300	0 - 1.4%	3,003
Fruits, dried nes	081340	1.8%	1,590
Fruits, fresh nes	081090	2.2%	473
Coffee	090111	Free	22,956
Tea	909230	Free	579
Maize (corn) nes	100590	$0.0005 - $0.0025 per kg	16,168
Cereals unmilled nes	100890	1.1%	2,186
Rice in the husk (paddy or rough)	100610	$0.018 per kg	552
Rice, husked (brown)	100620	$0.0083 - $0.021 per kg	489
Vegetable products nes used primarily for human consumption	121299	$1.24/t or $0.0015 per kg	4,653
Plants & parts of plants (incl sed & fruit) used in pharm,perf,insect etc nes	121190	0%	1,157
Sesamum seeds, whether or not broken	120740	0%	891

Source: U.S. International Trade Commission (USITC) and International Trade Centre TradeMap databases.

The Import Process

Buyers importing goods into the U.S. are responsible for arranging for the import or the paying of duties while ensuring compliance with all applicable import regulations. The importer usually hires third parties, such as licensed customs brokers and freight forwarders, to undertake steps in the import process and relies on the exporter to provide specific documents (see Chapter 4). In general, the U.S. import process is efficient and straightforward, as follows.

1. **File an import declaration with the U.S. Customs and Border Patrol (CBP).** U.S regulations require that import declarations be made by licensed customs brokers who are usually hired by the importer for each transaction. In filing the declaration, the broker uses documents submitted by the exporter—either to the importing client or directly to the broker at the client's request—at the time of shipment. Brokers use a Pre-Arrival Processing System (PAPS) to file declarations in advance of the arrival of the goods.

2. **Clear goods for entry into U.S. commerce.** After receiving the declaration, the CBP informs any other relevant agencies (e.g., the Food and Drug Administration) of any actions required of them, such as an inspection at the port of entry. If no inspection or other action requiring goods to be at the port of entry is necessary, goods can be "cleared for entry into U.S. commerce" before they arrive. Clearance, however, may be delayed or prolonged if a declaration is not made correctly or if import traffic is heavy. In such cases, the sea container will remain at the port of entry "in bond," which means the goods are not yet imported and are not eligible to be recovered by the importing party.

3. **Recover goods.** Once goods are cleared for entry, the CBP informs the customs broker, who then informs the importer client that the goods are eligible for recovery. A freight forwarder hired by the importer will recover the goods from the port and deliver them. In order to recover the goods, the freight forwarder must have a copy of the import declaration that shows the goods have been cleared by the CBP.

Importer Security Filing

A new rule—Importer Security Filing and Additional Carrier Requirements—went into effect on January 26, 2010. Under the rule, the Importer Security Filing (ISF) Importer, or its agent (e.g., licensed customs broker), must electronically submit certain cargo information to the CBP in the form of an Importer Security Filing before merchandise arriving by vessel can be imported into the United States. The ISF Importer is the party causing the goods to arrive within the limits of a port in the U.S. and is usually the goods' owner, purchaser, consignee, or agent, such as a licensed customs broker. The rule applies only to cargo arriving in the U.S. by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

Eight data elements must be submitted no later than 24 hours before the cargo is laden aboard a vessel destined to the United States:

1. Seller
2. Buyer
3. Importer of record number / FTZ applicant identification number
4. Consignee number(s)
5. Manufacturer (or supplier)
6. Ship to party
7. Country of origin
8. Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

For elements 5-8 above ISF Importers may submit a range of acceptable responses based on facts available at the time of submission. The filing, however, must be updated as soon as more accurate or precise data become available and no later than 24 hours before the ship is due to arrive in port.

Two additional data elements—consolidator name and the location of container stuffing—must be submitted as early as possible, but no later than 24 hours before the ship's arrival at a U.S. port.

RELATED EXPORT REQUIREMENTS

Exporter Responsibilities

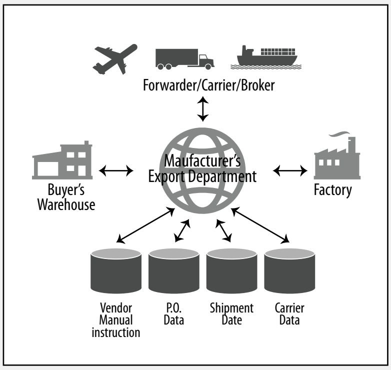
U.S. companies use a variety of payment terms when sourcing products overseas and those terms affect exporters' responsibilities and requirements in ensuring the efficient export of merchandise. Because most major U.S. companies have an in-house entity or a third party coordinate shipments, exporters have few responsibilities when shipping under Free on Board (FOB) or even Cargo Insurance Freight (CIF) terms. But under other terms, such as Delivered Duty Unpaid (DDU), exporters not only provide documents but may also coordinate shipment, pay duties applied to merchandise when it enters the United States, and arrange for delivery of merchandise to the customer's preferred location. Freight forwarders can manage most of these activities as well as the customs entry, given their close relationships with customs brokers. U.S. sourcing executives normally use forwarders or request the factory to use them when coordinating delivery of an order. Nonetheless, exporters should anticipate managing the activities described below.

Table 5
Typical Shipping Documentation and Party Responsible for Importing into the U.S.

Documentation	Prepared By
Mandatory	
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter (official government document)
Inward cargo manifest	Shipping company
Bill of lading	Freight forwarder
Phytosanitary certificate[a]	Exporter
Not Mandatory	
Shipper's export declaration	Freight forwarder
Insurance certificate	Freight forwarder
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)

[a] Whether a phytosanitary certificate is required depends on the form of the good; all shipments of perishable goods must be accompanied by a phytosanitary certificate.

Figure 1
Coordinating Responsibilities of the Export Department



Shipping Documentation

Documentation for exports of goods is just as important as the quality of the goods themselves. Faulty information or incomplete documentation can cause transport delays or import rejections. Freight forwarders, and especially buyers who regularly import agricultural products, can often provide assistance for shipment documentation. Table 5 lists documents required for import into the U.S. and also some documents that can be requested by buyers, such as insurance or third-party inspections. As always, exporters are encouraged to confirm all documentation requirements with their buyers.

Export Logistics

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. Generally importers prefer goods to be delivered to their warehouses. To deliver to a U.S. customer's warehouse, exporters should have their own logistics specialists to ensure effective coordination and efficient shipment tracking. Most successful suppliers to the U.S. market have export departments staffed with English speakers familiar with documentation required to export food products to the United States. The department must manage communication among three to five entities as shown in Figure 1.

Phytosanitary Certificate

If the good to be imported requires a phytosanitary certificate, the exporter will be responsible for obtaining that certificate from the Laotian authorities. The exporter must:

1. Apply for the inspection and certification of each shipment for which they are requesting a phytosanitary certificate – at the point of origin, at a port where the shipment will transit or at the actual port of export. The application must be received far enough in advance of the shipping or loading dates to provide for sampling and inspection (minimum of 1-2 weeks).
2. Make the shipment available for inspection. The plants or plant products must be accessible to the certifying official so that the official can verify and inspect the material described on the application.
3. Provide for any required treatments, reconditioning, or other actions necessary to meet U.S. import requirements.
4. Export only plants or plant products that have been properly inspected and certified.
5. Safeguard the certified shipment from re-infestation between the date of certification and the date of actual shipment.

RESOURCE GUIDE

U.S. Department of Agriculture
http://www.usda.gov

Animal Plant Health Inspection Service (APHIS)
http://www.aphis.usda.gov

Customs Trade Partnership (C-TPAT)
http://www.cbp.gov/xp/cgov/trade/cargo_security/ctpat/what_ctpat/ctpat_overview.xml

U.S. Food and Drug Administration (FDA) and exporter registration
http://www.fda.gov

Food Safety and Inspection Service (FSIS)
http://fsis.usda.gov/oa/programs/import.htm

Hazard Analysis Critical Control Points (HACCP)
http://www.fda.gov/Food/FoodSafety/HazardAnalysisCriticalControlPointsHACCP/default.htm

Homeland Security Customs and Border Patrol
http://www.cpb.gov

National Coffee Association
http://www.ncausa.org/i4a/pages/index.cfm?pageid=39

National Organic Program
http://www.ams.usda.gov/nop/indexIE.htm

USDA Organic certification information
http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB?navid=ORGANIC_CERTIFICATIO&parentnav=PRODUCERS&navtype=RT

Fair Trade Labeling Organization
http://www.fairtrade.net/

WTO Sanitary and Phytosanitary Standards (SPS) page
http://www.wto.org/english/tratop_e/sps_e/sps_e.htm

Ministry of Industry and Commerce

USAID
FROM THE AMERICAN PEOPLE

wood products MANUAL

Manual for the U.S. Wood Products Market
A Tool for Lao Exporters of Wood Products

April 2011

This publication was produced by the USAID-funded LUNA Project at the request of the Lao PDR Ministry of Industry and Commerce.

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DISCLAIMER

CONTENTS

ACRONYMS

ADVANCE	ASEAN Development Vision to Advance National Cooperation and Economic Integration
AEC	ASEAN Economic Community
ALSC	American Lumber Standard Committee
APHIS	Animal and Plant Health Inspection Service
ASEAN	Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
CBP	U.S. Customs and Border Patrol
CIF	Cargo Insurance Freight
DDU	Delivered Duty Unpaid
FOB	Free on Board
FSC	Forest Stewardship Council
FTA	Free Trade Agreement
GSP	U.S. Generalized System of Preferences
HTSUS	Harmonized Tariff Schedule of the United States
NAFTA	North American Free Trade Agreement
NGRC	National Grading Rule Committee
NHLA	National Hardwood Lumber Association
PPQ	Plant Protection and Quarantine
U.S.	United States
USAID	United States Agency for International Development
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

PREFACE

This manual provides background and references for Lao exporters of wood products seeking to develop business opportunities in the U.S. market, following the normalization of economic relations between the United States and Lao PDR. It is one of five manuals prepared by the USAID/LUNA-Lao Project and the Foreign Trade Policy Department (FTPD) of the Ministry of Industry and Commerce (MOIC). Other manuals have been prepared for textiles and apparel, handicrafts, silk, and agricultural products.

The primary author of this manual is Michael Blakeley, LUNA-Lao's marketing expert, who conducted the study under the supervision of Teri Lojewski, former Project Director, and Steve Parker, current LUNA Project Director. It benefited from inputs and comments by FTPD/MOIC staff.

The LUNA Project supports the Lao PDR to draft, analyze, promulgate and implement the legal and economic policy reforms and institutional capacity building needed to accomplish the following objectives:

- Support the effective implementation of the U.S.-Lao PDR Bilateral Trade Agreement (BTA);
- Support the timely accession of Lao PDR to the World Trade Organization (WTO); and,
- Support Lao PDR to fulfill its commitments to the ASEAN Economic Community (AEC).;

Effective implementation of these trade agreements contributes importantly to support the long-term development strategy of Lao PDR to sustain strong, broad-based economic growth and poverty reduction with strengthened rule of law and governance.

LUNA is one of four technical assistance projects funded by the ADVANCE Project. The U.S. Agency for International Development (USAID) and U.S. State Department launched the ASEAN Development Vision to Advance National Cooperation and Economic Integration (ADVANCE) program in October 2007. It was established to deliver targeted, quick-response technical assistance on a regional, sub-regional, and bilateral level in collaboration with the ASEAN Secretariat and Member States. ADVANCE is the main U.S. mechanism for supporting public and private sector integration in the ASEAN region.

We hope that this manual will provide useful information to Lao exporters about the U.S. wood products market.

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INTRODUCTION

In 2008, the U.S. imported more than $14 billion in wood products. Laos exported a total of $41.9 million of goods to the U.S. market, including about $415,000 in wood products, which were concentrated in manufactured goods such as lumber. Laos exported more than $120 million in wood products to the world that year, revealing the potential to increase wood exports to the United States. As well, the major reductions in U.S. tariff rates from the BTA for Lao exports of wood products will make Lao exports of these products much more competitive on the U.S. market.

This manual provides guidance for exporters seeking to develop new business or increase existing business in the U.S. market for wood products. It describes characteristics of the U.S. market (Chapter 1), presents details on market characteristics (Chapter 2), presents overviews of U.S. import requirements (Chapter 3) and of related export requirements (Chapter 4), and a listing of market resources (Chapter 5).

OVERVIEW OF THE U.S. WOOD PRODUCTS MARKET

Approximately 30 percent of U.S. territory is covered by forests. Because of strong U.S. demand for wood products and derivatives, the American timber industry is one of the largest in the world. One third of the timber produced in the U.S. is grown in the American Northwest. The state of Washington, in the American Northwest, produces more wood than any other state in the United States. Imports also play a critical role in the market. According to the Foreign Agricultural Service of the U.S. Department of Agriculture (USDA), the U.S. imported more than $14 billion in wood products in 2008.[1]

Table 1
Value of U.S. Imports of Wood Products by Region, 2008

Partner Region	Wood Products Import Value ($millions)
North America	7,111
East Asia	3,000
South America	1,711
European Union	1,062
Southeast Asia	685

Source: USDA Foreign Agricultural Service http://www.fas.usda.gov/gats/default.aspx

Suppliers and Products

The U.S. and five other countries – China, India, Brazil, Indonesia, and Canada – produce more than half of the world's annual wood output of 3.3 billion cubic meters.[2] The U.S. is also one of the world's largest importers of wood products.

Canada is the dominant supplier of imported wood products to the United States. Canadian wood currently accounts for approximately 18 percent of all timber used in the United States.[3] At one time in the 1990s, 98 percent of U.S. imports of softwood lumber, the category of wood products that accounts for the largest share of U.S. imports, came from Canada; currently Canada provides 80 percent of U.S softwood lumber imports. China is also becoming significant in the wood products market. In 2006, forest products trade in China was worth $47.1 billion, a 23 percent increase over 2005. By 2006, China had emerged as the world's largest exporter of wood furniture, accounting for 43 and 33 percent of U.S. and European wood furniture imports, respectively.

Southeast Asia supplies about $685 million worth (5 percent) of imported U.S. wood products (Table 1). Indonesia and Thailand are the two largest Southeast Asian wood product exporters to the U.S., with the former supplying $294 million worth and the latter $110 million worth.[4]

<1> Imports from Harmonized Tariff System code 44 "Wood."

<2> United States Market for Brazilian Plantation Wood, May 2008 http://wfi.worldforestry.org/media/publications/specialreports/US_markets_Brazil_Camargo.pdf.

<3> The United States has a trade dispute with Canada centering on the claim of U.S. industry that Canadian softwood lumber is subsidized.

<4> U.S. Department of Agriculture's Foreign Agricultural Service Global Agricultural Trade Service.

Wood flooring, the main U.S. import from Laos, is a major product category of U.S. wood imports. In 2008, U.S. imports of hardwood flooring were valued at $47 million and of softwood flooring at $18 million. Table 2 provides details on the values of U.S. wood product imports in 2008.

Under the U.S.-Lao PDR Bilateral Trade Agreement (BTA) implemented in 2005, the U.S. extended Normal Trade Relations status (NTR) to products of Laos. The BTA reduced tariff rates significantly for Lao exports to the United States. Pre-and post-BTA tariff rates for wood products imported to the U.S. from Laos in recent years are specified in Chapter 3. As part of the BTA, Laos agreed to implement a variety of reforms to its trade regime, including providing most favored nation and national treatment for products of the United States, improving transparency in rule-making, establishing a regime to protect intellectual property rights, and implementing a WTO-compliant customs regulations and procedures.[5]

<5> The BTA is avilable from USTR at www.ustr.gov /countries-regions/southeast-asia-pacific/laos.

Table 2
Value of U.S. Imports of Wood Products by Category, 2008

Product	Value ($millions)	Product	Value ($millions)
Softwood lumber	3,848	Assembled flooring panels	133
Other wood products	2,492	Softwood veneers	90
Builder's carpentry	1,802	Softwood logs	74
Hardwood plywood	1,370	Poles	72
Osb/waferboard	578	Softwood siding	67
Hardwood lumber	536	Prefabricated buildings	64
Softwood molding	474	Hardwood flooring	47
Medium-density fiberboard	451	Hardwood logs	20
Hardboard	342	Softwood flooring	18
Other panel products	288	Treated lumber	11
Hardwood veneers	287	Pencil slats	10
Hardwood molding	268	Railroad ties	8
Softwood plywood	235	Pulpwood	8
Cooperage products	231	Hardwood chips	4
Particleboard	182	Softwood chips	2
Wood packing material	140	Hardwood siding	1

Source: USDA Foreign Agricultural Service, http://www.fas.usda.gov/data.asp.

Import Outlook

Overall demand for wood products in the U.S. has decreased since 2006, particularly since the financial crisis of 2008. On a dollar-value basis, total U.S. wood-product imports have declined by 24.3 percent since 2007, with the largest decreases in: oriented-strand board[6] (down 78.6 percent); hardwood panels (down 60.1 percent); softwood lumber (down 53.4 percent); and softwood moldings (down 33.4 percent).[7]

In 2008, U.S. imports of softwood lumber declined by 31.5 percent.[8] Exports of Canadian softwood lumber to the U.S. dropped by the same percentage and imports from other countries fell by 46 percent. Non-Canadian imports were especially affected by higher shipping costs, longer delivery times, less favorable currency exchange rates, and low U.S. lumber prices.

The rapid decline in the overbuilt and over-financed U.S. housing market continues to affect lumber demand in North America. Construction of new houses has declined by a massive 78 percent since 2005. Until the economy recovers, the excess inventory of houses and weak demand for new housing are likely to continue, which will continue to repress prices for related wood products.[9]

Imported wood products, as a share of the overall market, have actually increased despite an overall recent decrease in demand for wood products (since 2006). This can be attributed partly to restrictions on timber harvesting in the United States. In particular, harvesting of wood from federally-owned land has declined, in response to public criticism for both esthetic and environmental reasons. Table 3 presents data on wood products imported from Laos into the United States.

<6> Oriented strand board is a structural wood panel similar to plywood or other panel boards. For more information visit: http://www.forestinfo.org/Products/eco-links/11-4EWP2001.PDF

<7> "Wood Markets Monthly International Report." May 2009.

<8> See the Wood Products Monthly International Report at: (http://www.woodmarkets.com/PDF/wmm/May09%202-pager.pdf pg. 2)

<9> Ibid

Table 3
Value of Laos' Exports of Wood Products to the United States, 2008

Product	HTS Code	Value ($000's)
Nonconiferous wood flooring continuously shaped along any of its edges or faces but not on its ends	4409292560	117
Nonconiferous wood continuously shaped along any of its ends, whether or not also continuously shaped along any its edges or faces	4409290565	20
Nonconiferous woods, nes, sawn or chipped lengthwise, sliced or peeled, over 6mm thick	4407990193	108
Keruing wood sawn/chipped lengthwise, gt 6mm thick	4407290116	25
Statuettes and other ornaments, of wood	4420100000	83
Wood marquetry and inlaid wood; caskets for jewelry, cutlery and similar articles, of wood, wooden articles of furniture not in chapter 94, nes	4420908000	19
Burial caskets of wood	4421909730	35
Articles of wood, nes	4421909740	7
Total		**415**

Source: U.S. International Trade Commission (USITC) database.

U.S. MARKET CHARACTERISTICS

The demand for wood products in the U.S. is highly influenced by economic growth, monetary policy (cost of financing), and international agreements. The performance of the housing sector, specifically new home building, is the leading indicator of demand for wood products. About 95 percent of homes in America are wood frame construction – this subsector accounts for 40 percent of all softwood consumption in the United States.[10] Whereas the U.S. once had a strong domestic wood-furniture producing sector, it is now much smaller. The U.S. is now the world's largest net importer of wood furniture.

<10> United States Market for Brazilian Plantation Wood, May 2008 http://wfi.worldforestry.org/media/publications/specialreports/US_markets_Brazil_Camargo.pdf

Standards for Lumber Imports

Standards for wood-product imports – both for lumber and further manufactured products such as a window frame or flooring – aim to ensure that the final consumers receive a consistent product regardless of their source.

Softwood

All softwood lumber produced or consumed in the U.S. is subject to standards developed by the American Lumber Standard Committee (ALSC) in accordance with the *Procedures for the Development of Voluntary Product Standards* of the U.S. Department of Commerce. Through a consensus-based process, the ALSC maintains standards, establishes policies regarding grading rules, approves design values, accredits agencies to grade and inspect under those rules, and monitors the performance of accredited agencies. The accredited agencies work with mills to ensure correct grade labeling of lumber. Lumber manufacturers, distributors, and users depend on labeling to indicate the grading of structural lumber by visual and mechanical means.[11]

<11> www.alsc.org

Any design values assigned to lumber must be in accordance with criteria determined appropriate by the National Institute of Standards and Technology. A separate consensus-based body, the National Grading Rule Committee (NGRC), develops and maintains nomenclature and descriptions of grades for dimension lumber that conform to the appropriate standard.

Hardwood

The hardwood lumber market has two main categories: grade hardwood lumber and non-graded hardwood products. The grade lumber is graded under the National Hardwood Lumber Association (NHLA) rules (or some variation of those rules). With some exceptions, grade hardwood lumber is graded on the basis of the size and number of cuttings (pieces) that can be obtained from a board when it is cut up and used in the manufacture of hardwood products. A higher grade will have a larger area of clear wood.

Nongraded hardwood products are lumber, cants,[12] or timber normally not sold under NHLA rules. Nongraded lumber is used in pallets, crossties, construction material, bridge timbers, and upholstered furniture frame stock. Some is graded for strength and durability. Railroad crossties (sleepers) and bridge timbers are usually graded for strength and durability, but there are no well-defined grading rules for pallet cants and frame stock. A growing portion of hardwood lumber is being marketed under proprietary grades developed by individual producers.

<12> A cant is a large slabbed log on the headsaw, usually having one or more rounded edges, which is destined for further processing.

Structure of Wood Products Industry

The wood products market is divided into "primary" and "secondary" industry groups. Primary groups include pulp mills (for making paper), saw mills, and other entities that process raw logs into lumber or some other value-added form. Secondary groups include all entities that further manufacture a product using semi-processed wood, such as lumber or boards. Secondary manufacturers include companies that make specialized products such as musical instruments, doors, window frames, or tables.

Distribution and Sales of Wood Products

Wood products may be distributed directly by manufacturers to final consumers or indirectly through independent traders, such as importers and wholesalers, retailers, franchises, or sales agents. Traders, who specialize in trading in imported goods, buy several products from diverse factories (usually factories with short export volume) and inspect cargo in foreign ports, sometimes consolidating shipments from multiple suppliers in the same country. Agents and representatives sell products in various markets. Agents sell multiple products from multiple manufacturers, while representatives sell only one client's products. Wholesalers sell imported and domestic products in large quantities. "Big-box" wholesalers import huge quantities of lumber for sales in retail establishments all over the United States.

Industry Trends

The wood products industry is in the midst of a technological revolution. Computerized machines are eliminating the need for unskilled, manual labor. In sawmills, for example, raw logs are scanned by "optimized" computers that figure out how best to cut logs to get the most lumber possible – yielding less waste and more profits. Secondary manufacturers use computerized machines to mold and shape wood. They also use "robotics," programming machines to carve intricate patterns into pieces of wood that allows for mass production of a variety of detailed wood work.[13]

<13> www.woodlinksusa.org/industry

As with other globally-traded commodities, manufacturers and retailers of wood products are finding market niches for goods certified by a third party as being "sustainable" and as being harvested in a responsible manner. A leading certification scheme in the wood-products industry is offered through the Forest Stewardship Council (FSC), which provides internationally recognized standard-setting, trademark assurance, and accreditation services to companies, organizations, and communities interested in responsible forestry. The FSC label provides a credible link between responsible production and consumption of forest products, enabling consumers and businesses to make purchases that benefit people and the environment as well as providing ongoing business value. FSC is the fastest growing forest certification system in the world.[14]

<14> www.fsc.org

Market Access

Some exporters to the U.S. benefit from a free-trade agreement or from a preferential-trade arrangement, like the Generalized System of Preferences (GSP) program.

Free-Trade Agreements

Free-trade agreements (FTA) provide opportunities to import higher-value-added wood products into the United States. Many U.S. consuming industries are increasingly using wood products that were originally exported from the United States, processed overseas, and then re-imported for final processing or distribution. Flooring, kitchen cabinets, and furniture are a few of the product sectors benefiting from reduced tariffs granted through FTAs.[15] This trend has provided increased opportunity for foreign sawmills and manufacturers to increase business with the U.S. market.

<15> www.woodlinksusa.org/industry.

In the U.S. market, the North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada has an important influence on wood-products trade. Eliminating duties on manufactured wood products through FTAs have boosted the export of lumber, especially from Canada and Mexico, to the United States. Under the U.S.-Chile FTA, Chilean exports to the U.S. of logs and lumber have increased. As shown in Chapter 3, however, since the NTR tariff rates for wood products do not exceed 3.3 percent, the competitive advantage of preferential tariff schemes relative to Lao wood exports to the U.S. tends to have less of an impact than for other sectors with higher NTR tariff rates.

U.S. Generalized System of Preferences

The U.S. GSP is a trade preference program for imports from developing countries.[16] Currently, it provides duty-free entry for about 4,800 products from 131 developing countries and territories. In 2008, the most recent year for which data are available, the U.S. extended duty-free treatment under the program to imports worth $31.7 billion from eligible countries. Each year, the U.S. reviews the list of articles and countries eligible for duty-free treatment. Any person may petition to request modifications to the list of countries eligible for GSP treatment. Petitions are subject to public hearings and a full review by the major executive branch departments sharing a role in U.S. trade policy. Modifications made pursuant to the annual review are implemented by Executive Order, or Presidential Proclamation.

<16> For more information on the GSP program please visit: http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp

The GSP statute sets forth eight mandatory criteria that a country must satisfy before it can be designated a GSP beneficiary.

1. The first of these mandatory criteria specifies that a Communist country may not be a GSP beneficiary unless it receives Normal Trade Relations (NTR) treatment, is a WTO member and a member of the International Monetary Fund, and is not dominated by international communism. By virtue of the fact that Laos is not a member of the WTO alone, it currently is not eligible to be designated as a GSP beneficiary.

In addition to the first mandatory GSP designation criterion regarding Communist countries, a country, before it can be designated a GSP beneficiary, must also

2. Not be a party to an arrangement of countries nor participate in actions the effect of which are (a) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and (b) to cause serious disruption of the world economy.
3. Not afford preferential treatment to products of a developed country that has, or is likely to have, a significant adverse effect on U.S. commerce.
4. Not have nationalized, expropriated or otherwise seized property of U.S. citizens or corporations without providing, or taking steps to provide, prompt, adequate and effective compensation, or submitting such issues to a mutually agreed forum for arbitration.
5. Not have failed to recognize or enforce arbitral awards in favor of U.S. citizens or corporations.
6. Not aid or abet, by granting sanctuary from prosecution, any individual or group that has committed an act of international terrorism.
7. Have taken or be taking steps to afford internationally recognized worker rights, including a) the right of association, b) the right to organize and bargain collectively, c) freedom from compulsory labor, d) a minimum age for the employment of children, and e) acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.
8. Implement any commitments it makes to eliminate the worst forms of child labor.

In determining whether to designate a country as a GSP beneficiary, the President must also consider the following six discretionary criteria:

- Expression by a country of its desire to be designated as a GSP beneficiary country.
- The level of economic development, including per capita GNP, the living standards of its inhabitants, and any other economic factors that he deems appropriate.
- Whether other major developed countries are extending generalized preferential tariff treatment to such country.
- The extent to which such country has assured the U.S. that it will provide equitable and reasonable access to its markets and basic commodity resources and the extent to which it has assured the U.S. it will refrain from engaging in unreasonable export practices.
- The extent to which such country provides adequate and effective protection of intellectual property rights, including patents, trademarks, and copyrights.

- The extent to which such country has taken action to reduce trade distorting investment practices and policies, including export performance requirements, and to reduce or eliminate barriers to trade in services.

Finally, before designating a country as a GSP beneficiary, the President must consider the following four factors:

- The effect such action will have on furthering the economic expansion of the country's exports.
- The extent to which other major developed countries are undertaking a comparable effort to assist a developing country by granting generalized preferences with respect to imports of products of the country.
- The anticipated impact of such action on the U.S. producers of like or directly competitive products.
- The extent of the country's competitiveness with respect to eligible products.

U.S. IMPORT REQUIREMENTS

Treatment of Goods Imported from Laos

While the process for importing goods into the U.S. is routine, the tariff rate applied to each product can vary depending on the status of the trading partner. Table 4 compares the pre- and post-BTA tariffs for several wood products imported into the U.S. from Laos in recent years. Extension of NTR rates resulting from the BTA reduced tariff rates substantially for many Lao exports of wood products to the United States, which will make them much more competitively priced on the U.S. market.

Although tariff rates applied to imports from Laos declined as the U.S. extended NTR rates through the BTA, the BTA served only to eliminate the high rates that discriminated against imports from Laos because of the lack of economic relations between the two

Table 4
Pre- and Post-BTA Tariffs on Select U.S. Wood Product Imports from Laos (2008)

Product	HTS Code	U.S. Tariff Rate (%) Pre-BTA	U.S. Tariff Rate (%) Post-BTA	2008 Lao Export Value to the U.S. ($millions)
Nonconiferous wood flooring continuously shaped along any of its edges or faces but not on its ends	4409292560	8%	0.0%	117
Nonconiferous wood continuously shaped along any end, whether or not also continuously shaped along any edge or faces	4409290565	33.3%	3.2%	20
Nonconiferous woods, nes, sawn or chipped lengthwise, sliced or peeled, over 6 mm thick	4407990193	$1.27/m^3	0.0%	108
Keruing wood sawn/chipped lengthwise, gt 6mm thick	4407290116	$1.27/m^3	0.0%	25
Statuettes and other ornaments, of wood	4420100000	33.3%	3.2%	83
Wood marquetry and inlaid wood; caskets for jewelry, cutlery and similar articles, of wood, wooden articles of furniture not in chapter 94, nes	4420908000	33.3%	3.2%	19
Burial caskets of wood	4421909730	33.3%	3.3%	35
Articles of wood, nes	4421909740	33.3%	3.3%	7
Total				**415**

Source: U.S. International Trade Commission.

countries. With NTR rates, Lao exporters face the same tariff rates as exporters from almost every other country in the world. With regard to trade policy, a country's exports into the U.S. gain a competitive advantage due to lower tariff rates only as a result of U.S. free-trade or preferential-trade arrangements, where better than NTR rates are provided in line with the terms of the preferential agreement. The impact of the preference will depend on the magnitude of the NTR tariff – the higher the tariff rate, the greater the competitive impact of the trade preference. As shown in Table 4, NTR rates for most wood products are low enough that exporters with preferential agreements gain a relatively small competitive advantage over Lao wood exporters.

Importer Requirements to Import Wood Products

The United States Department of Agriculture (USDA) is the primary body for regulating agricultural imports to the Unites States. The Plant Protection and Quarantine (PPQ) division of USDA's Animal Plant Health Inspection Service (APHIS) regulates the importation of plants and plant products under the authority of the Plant Protection Act. The purpose of the PPQ's import program is to safeguard U.S. agriculture and natural resources from risks associated with the entry, establishment, or spread of animal and plant pests and noxious weeds. This program prevents the inadvertent introduction of new plant diseases and pests into the United States, which could impose economic and environmental costs in the form of crops lost to disease and implementation of extensive control measures to limit crop damage.

Because logs and wood products are particularly vulnerable to carrying pests, the USDA requires import permits for logs, lumber, and other unmanufactured wood products. Permits are also required for importation into – and transit through – the U.S. of regulated plants and plant products for consumption or propagation (planting). Current U.S. imports from Laos are manufactured wood products (hardwood flooring), which do not require a permit for importation.

The importer must apply for the permit at least 30 days before the shipment arrives at the U.S. port of entry. There is no fee for the permit. Before making a shipment, exporters should confirm with their U.S. buyers whether a permit is required. Shipments without permits could be rejected at the port of entry and would have to be sent back to exporters at their own expense.

Other Regulations Applied to Imports of Wood Products

The Lacey Act

The Lacey Act combats trafficking in "illegal" wildlife, fish, and plants. In 2008, the Lacey Act was amended (through the 2008 Farm Bill – the Food, Conservation, and Energy Act of 2008) to expand its protection to a broader range of plants and plant products. Under the Lacey Act it is now unlawful to import certain plants and plant products without an import declaration.[17]

The purpose of the amendment to the Lacey Act is to prevent trade in illegally harvested lumber and to prevent trade in wood products made from illegally harvested timber. Only items classified in certain subchapters of Harmonized Tariff System (HTS) Chapters 44, 47, 48, and 94 require the filing of a plant import declaration. Wood products exported by

<17> USDA Website: "Plant Health: Lacey Act"--http://www.aphis.usda.gov/plant_health/lacey_act/downloads/LaceyActPrimer.pdf

Laos under the HTS Chapter sub-heading of 4420 (wood marquetry) require an import declaration, whereas Lao exports under sub-heading 4407 and 4409 (wood flooring) do not. Lao exporters should determine with their U.S. clients whether a declaration under the Lacey Act is required. For more information exporters can consult the USDA website or view the "Lacey Act Primer" at: http://www.aphis.usda.gov/plant_health/lacey_act/downloads/LaceyActPrimer.pdf.

General Regulations Applied to Imports of Wood Products

All tropical hardwood logs and lumber with bark must be fumigated before importation into the United States. Logs, lumber, and other unmanufactured wood products (with or without bark) from areas in Asia that are east of 60° longitude and north of the Tropic of Cancer are not allowed entry into the United States. Kiln-dried materials from the same region, however, are allowed entry with a written permit. This restricted area does not include Laos.

Some wood-product imports are subject to special requirements. Raw softwood-lumber imports, without bark, must be consigned to an approved facility operating under a valid compliance agreement with PPQ at the time they are imported and be heat treated within 30 days. The only softwood logs that can be imported into the U.S. are Pinus radiata and Pseudotsuga menziesii from New Zealand and Pinus radiata from Chile. These softwood log imports must also be consigned to an approved facility operating under a valid compliance agreement with PPQ at the time they are imported and be heat treated within 30 days.

The Import Process

Buyers importing goods into the U.S. are responsible for paying duties applied to the goods and ensuring compliance with all applicable import regulations. The importer usually hires third parties, such as licensed customs brokers and freight forwarders, to undertake steps in the import process and relies on the exporter to provide specific documents (see Chapter 4). In general, the U.S. import process is efficient and straightforward, as follows:

1. ***File an import declaration with the U.S. Customs and Border Patrol (CBP).*** U.S regulations require that import declarations be made by licensed customs brokers who are usually hired by the importer for each transaction. In filing the declaration, the broker uses documents submitted by the exporter—either to the importing client or directly to the broker at the client's request—at the time of shipment. Brokers use a Pre-Arrival Processing System (PAPS) to file declarations in advance of the arrival of the goods.
2. ***Clear goods for entry into U.S. commerce.*** After receiving the declaration, the CBP informs any other relevant agencies (e.g., the USDA) of any actions required of them, such as an inspection at the port of entry. If no inspection or other action requiring goods to be at the port of entry is necessary, goods can be "cleared for entry into U.S. commerce" before they arrive. Clearance, however, may be delayed or prolonged if a declaration is not made correctly or if import traffic is heavy. In such cases, the sea container will remain at the port of entry "in bond," which means the goods are not yet imported and are not eligible to be recovered by the importing party.

3. ***Recover goods.*** Once goods are cleared for entry, the CBP informs the customs broker, who then informs the importer client that the goods are eligible for recovery. A freight forwarder hired by the importer will recover the goods from the port and deliver them. In order to recover the goods, the freight forwarder must have a copy of the import declaration that shows the goods have been cleared by the CBP.

For imports of wood the CBP and, as discussed in the preceding section, USDA are the only agencies that have oversight at the port of entry. Also as discussed in the preceding section the relevant regulating entity within USDA is the PPQ division of APHIS.

Improper Security Filing

A new rule—Importer Security Filing and Additional Carrier Requirements—will go into effect on January 26, 2010. Under the rule, the Importer Security Filing (ISF) Importer, or its agent (e.g., licensed customs broker), must electronically submit certain cargo information to the CBP in the form of an Importer Security Filing before merchandise arriving by vessel can be imported into the United States. The ISF Importer is the party causing the goods to arrive within the limits of a port in the United States and is usually the goods' owner, purchaser, consignee, or agent, such as a licensed customs broker. The rule applies only to cargo arriving in the United States by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

Eight data elements must be submitted no later than 24 hours before the cargo is laden aboard a vessel destined to the United States:

1. Seller
2. Buyer
3. Importer of record number / FTZ applicant identification number
4. Consignee number(s)
5. Manufacturer (or supplier)
6. Ship to party
7. Country of origin
8. Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

For elements 5-8 above ISF Importers may submit a range of acceptable responses based on facts available at the time of submission. The filing, however, must be updated as soon as more accurate or precise data become available and no later than 24 hours before the ship is due to arrive in port.

Two additional data elements—consolidator name and the location of container stuffing—must be submitted as early as possible, but no later than 24 hours before the ship's arrival at a U.S. port.

U.S. RELATED EXPORT REQUIREMENTS

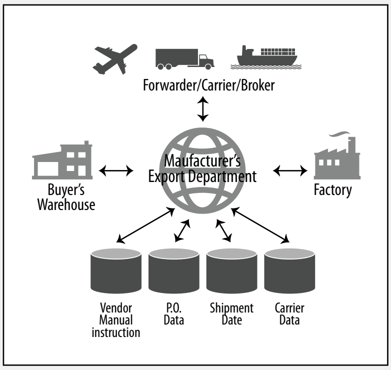
Exporter Responsibilities

U.S. companies use a variety of payment terms when sourcing products from overseas and those terms affect exporters' responsibilities for ensuring sound export of a product. Because most major U.S. companies have an in-house entity or a third party to coordinate shipments, exporters have few responsibilities when shipping under Free on Board (FOB) or even Cargo Insurance Freight (CIF) terms. But under other terms, such as Delivered Duty Unpaid (DDU), exporters not only provide documents but may also coordinate shipment, pay duties applied to merchandise when it enters the United States, and arrange for delivery of merchandise to the customer's preferred location. Freight forwarders can manage most of these activities as well as the customs entry given their close relationships with customs brokers. U.S. sourcing executives normally use specific freight forwarders or request the factory to use them when coordinating delivery of an order. Nonetheless, exporters should anticipate managing the activities described below.

Table 5
Typical Shipping Documentation and Party Responsible for Importing into the U.S.

Documentation	Prepared By
Mandatory	
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter (official government document)
Inward cargo manifest	Shipping company
Bill of lading	Freight forwarder
Wood import permit	Importer
Not Mandatory	
Shipper's export declaration	Freight forwarder
Insurance certificate	Freight forwarder
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)

Figure 1
Coordinating Responsibilities of the Export Department



Shipping Documentation

Documentation for exports of goods is just as important as the quality of the goods themselves. Faulty information or incomplete documentation can cause transport delays. Freight forwarders and especially buyers that regularly import wood products can often advise on and provide assistance for documentation for shipping goods. Table 5 lists documentation required for import into the U.S and some documents that can be requested by buyers, such as insurance or third-party inspections. As always, exporters are encouraged to confirm all documentation requirements with their buyers.

Export Logistics

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. Generally in the U.S. wood products business, finished goods are delivered to the U.S. buyer's destination. To deliver to a U.S. customer's warehouse, exporters should have their own logistics specialists to ensure effective coordination and efficient shipment tracking. Most successful suppliers to the U.S. market have export departments staffed with English speakers familiar with documentation required to export wood products to the United States. The department must manage communication among three to five entities as shown in Figure 1.

RESOURCE GUIDE

U.S. Government

U.S. Department of Agriculture
http://www.usda.gov

Animal Plant Health Inspection Service (APHIS)
http://www.aphis.usda.gov

Plant Protection and Quarantine (PPQ)
http://www.aphis.usda.gov/plant_health

Homeland Security Customs and Border Patrol
http://www.cpb.gov

Standards

American Lumber Standards Committee
http://www.alsc.org

Forest Stewardship Council
http://www.fsc.org

Association

North American Wholesale Lumber Association
http://www.lumber.org/

Woodlinks USA
http://woodlinksusa.org/industry.php

Woods Products Manufacturers Association
http://www.wpma.org/

International Wood Products Association
http://www.iwpawood.org/

Global Wood
http://www.globalwood.org/