# Chapter 20: Customs Clearance

**TRUE/FALSE**

 1. Most countries welcome imports.

ANS: F DIF: Easy REF: page 716

 2. The Harmonized System of classification is used to classify both exports and imports.

ANS: T DIF: Easy REF: page 716

 3. Since the World Trade Organization has pressured importing countries to reduce tariffs, importing countries have done away with non-tariff barriers.

ANS: F DIF: Moderate REF: page 728

 4. Countries’ efforts to make imports adhere to national standards are not considered to be trade barriers.

ANS: F DIF: Moderate REF: page 732

 5. Pre-shipment inspections are inspections performed by independent companies at the point of departure of goods destined to be exported.

ANS: T DIF: Easy REF: page 734

 6. In most countries, only certified Customs brokers or Customs agents are allowed to file the paperwork necessary to clear Customs.

ANS: T DIF: Moderate REF: page 736

 7. A substantial tax break to companies that use imported parts as components of products they eventually export is called a duty drawback.

ANS: T DIF: Easy REF: page 741

 8. A medical device is not legal in country A, but is legal in country B. Despite being restricted from country A, the product is allowed to go through the foreign trade zone of country A on its way to country B.

ANS: F DIF: Hard REF: page 742

 9. For textile goods imported in the United States, the country of origin is the country in which the last change in Harmonized System classification occurred.

ANS: T DIF: Easy REF: page 721

 10. An importing country usually manages its imports under a tariff system that is called an “N-column tariff system.”

ANS: T DIF: Moderate REF: page 722

 11. Customs offices sometimes can use a “countervailing” duty to tax products that the exporting government is found to have subsidized.

ANS: T DIF: Moderate REF: page 727

 12. The concept of a value-added tax is simple and easy to administer.

ANS: F DIF: Moderate REF: page 727

 13. National standards on imports are always thinly-disguised non-tariff barriers to trade.

ANS: F DIF: Moderate REF: page 732

 14. Sometimes the “made in [country]” marking on the product is different from the country of origin for Customs duty purposes.

ANS: F DIF: Hard REF: page 740

 16. In the United States, the Customs Service will refund 75 percent of the duty paid by an importer for, among other things, merchandise that is rejected by the importer as non-conforming to the original purchase order.

ANS: F DIF: Hard REF: page 741

 16. Goods in a foreign trade zone can be warehoused until they are sent to their final destination, either in the host country or to a foreign destination. If the goods are sold in the host country, they are only dutiable at the time of that transaction. If they are sold abroad, they are dutiable both to the country where they are sold and to the host country of the foreign trade zone.

ANS: F DIF: Hard REF: page 742

 17. The last four digits of the numbers in the Harmonized System of classification are country-specific.

ANS: T DIF: Moderate REF: page 717

 18. The Brussels Definition of Value has been replaced by what is called “arbitrary” value.

ANS: F DIF: Hard REF: page 720

 19. The deductive method of valuation is when Customs determines at what price identical or similar goods are sold within 90 days of importation in the importing country, and determines an entry value based upon “normal” mark-ups in the distribution channel.

ANS: T DIF: Hard REF: page 720

 20. The determinations by Customs officials of product values are sometimes arbitrary.

ANS: T DIF: Easy REF: page 720

 21. The United States requests the “sewing tickets” for some garments, an internal work document of the garment factory, as well as the time cards of the employees working there in an attempt to determine the country of origin of textile products. This can be an example of a non-tariff barrier.

ANS: T DIF: Easy REF: page 734

 22. Pre-shipment inspections are used when the importer is purchasing on a “cash-in-advance” or on a letter of credit basis.

ANS: T DIF: Easy REF: page 734

 23. Because of the complexity and time-consuming nature of filling out Customs entries, many countries demand that importers delegate the task of interacting with Customs to a freight forwarder, a representative of the importer that has acquired the knowledge and experience required to deal effectively and efficiently with Customs.

ANS: F DIF: Moderate REF: page 736

 24. In order for an importer to be found compliant under the concept of informed compliance, it must demonstrate that it has exercised reasonable care in the filing of its Customs entries.

ANS: T DIF: Easy REF: page 739

 25. The commercial invoice is used to determine the value of goods imported.

ANS: T DIF: Easy REF: page 739

**MULTIPLE CHOICE**

 1. Most duty is collected *ad valorem* which means

|  |  |  |  |
| --- | --- | --- | --- |
| a. | it is based on the value of the import. | d. | the duty reduces the price of the product. |
| b. | it is based on the value that is added in each process of manufacturer/improvement. | e. | it is based on the cost of the carriage contract. |
| c. | the duty adds value to the product. |

ANS: A

*Ad valorem* means the duty is based on the value of the import. It has nothing to do with adding value, but, if anything, it may add to the price of the product.

DIF: Moderate REF: page 719

 2. Tariffs can be calculated

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| --- | --- | --- | --- |
| a. | *ad valorem*. | d. | based on weight. |
| b. | as a fixed amount per unit imported. | e. | on any type of data, including value, unit count, and weight. |
| c. | in a mixed system of a fixed amount per unit imported plus a percentage of the value of the goods imported. |

ANS: D

All of these are forms of tariff calculation.

DIF: Hard REF: page 716

 3. A value-added tax is eventually only paid by

|  |  |  |  |
| --- | --- | --- | --- |
| a. | producers. | d. | manufacturers. |
| b. | importers. | e. | Customs brokers. |
| c. | consumers. |

ANS: C

Eventually all value-added taxation is reflected in the price paid by consumers.

DIF: Moderate REF: page 728

 4. A two-tiered tariff rate on a specific category of products in which the tariff that is low until a quota is reached and then it goes much higher is called a(n)

|  |  |  |  |
| --- | --- | --- | --- |
| a. | indirect quota. | d. | designated quota. |
| b. | tariff-rate quota. | e. | stepped tariff. |
| c. | limited quota. |

ANS: B

A tariff-rate quota places a two-tiered tariff rate on a specific category of products, while the other quotas do not exist.

DIF: Moderate REF: page 729

 5. Generally speaking, countries with scarce foreign currency resources will attempt to limit the granting of import licenses to companies that have generated export revenues and

|  |  |  |  |
| --- | --- | --- | --- |
| a. | companies that have been nationalized. | d. | companies that pay high income taxes.  |
| b. | companies purchasing goods for which no close domestic substitute is available. | e. | companies that have acquired foreign patents.  |
| c. | multi-national companies. |

ANS: B

The concepts of companies that have been nationalized and multi-national companies are not relevant. Import licenses are usually granted according to a number of criteria, including the availability of foreign currency and domestic substitutes.

DIF: Moderate REF: page 736

 6. If an importer has a good reputation regarding its following of Customs regulations, the likelihood that one of its shipments is going to be inspected is minimal, therefore minimizing delays at entry and allowing the importer to organize its supply chain more predictably. This is an application of the concept of

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| --- | --- | --- | --- |
| a. | bonding. | d. | Customs expediting. |
| b. | *stare decisis*. | e. | Informed Compliance. |
| c. | Electronic Data Interchange. |

ANS: E

The correct answer is informed compliance.

DIF: Hard REF: page 739

 7. Required documentation for entry into essentially all countries includes

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| --- | --- | --- | --- |
| a. | a form designated for entry, a Certificate of Origin, and a commercial invoice. | d. | a form designated for entry, a pre-shipment inspection, and payment of duty.  |
| b. | a bill of lading, EDI documentation, and a value-added tax certificate. | e. | a form designated for entry, a bill of lading, and a VAT certificate. |
| c. | a packing list, health certification, and corporate identification. |

ANS: A

A form designated for entry, a Certificate of Origin, and a commercial invoice are usually required to enter all countries. A bill of lading may not be required, and EDI documentation and a value-added tax certificate may not apply. A packing list may not be required, a health certificate may not apply, and corporate identification may be included in other required documentation.

DIF: Moderate REF: page 739

 8. Duty is usually based upon

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| --- | --- | --- | --- |
| a. | tariff, border traffic taxes, and non-tariff barriers. | d. | product classification, valuation, and origin. |
| b. | value-added taxation, absolute quota, and patriotism campaigns. | e. | weight and value of the products.  |
| c. | pre-shipment inspections and Customs bonds. |

ANS: D

Tariff is the amount of duty, border traffic taxes are not always relevant, and non-tariff barriers have nothing to do with duty. While value-added taxation can be part of a duty, absolute quota is a blanket import restriction and has nothing to do with duty, and patriotism campaigns are a non-tariff barrier. Pre-shipment inspections are not required by all countries, and Customs bonds—if they are used—are based on duty. Duty is usually based upon product classification, valuation, and origin. From these elements, Custom calculates the tariff.

DIF: Moderate REF: page 716

 9. In the Harmonized System of classification, an incomplete or unfinished product is classified

|  |  |  |  |
| --- | --- | --- | --- |
| a. | in several classifications, depending upon the raw materials of the product. | d. | under a special classification designated “unfinished product.” |
| b. | in several classifications, depending upon the classifications of the sub-assemblies of the product. | e. | None of the above |
| c. | in the classification of the closest similar product. |

ANS: E

In the Harmonized System of classification, an incomplete or unfinished product is classified as the product it will be when finished.

DIF: Hard REF: page 718

 10. For countries in the World Trade Organization, the valuation of goods for import purposes is based upon

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| --- | --- | --- | --- |
| a. | value added. | d. | the retail value of the goods once imported. |
| b. | the invoice value minus packaging costs and transportation costs in the exporting country.  | e. | the cost of the materials used to make the product(s). |
| c. | the transaction value of the sale. |

ANS: C

Value added is not relevant, and invoice value is what includes the packaging costs and transportation costs in the exporting country. For member countries of the WTO, the valuation of the goods is based on the transaction value of the sale.

DIF: Hard REF: page 719

 11. The United States has had a tariff-rate quota on a commodity grown in tropical countries for many years. Which commodity is that?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | coffee. | d. | sugar. |
| b. | soybeans. | e. | rum. |
| c. | tobacco. |

ANS: D

The United States has had a tariff-rate quota on sugar.

DIF: Hard REF: page 730

 12. A tariff-rate quota

|  |  |  |  |
| --- | --- | --- | --- |
| a. | places a two-tiered tariff rate on a specific category of products. | d. | is a non-tariff barrier. |
| b. | keeps the tariff low until the quota is reached. | e. | all of the answers in this set of responses apply to a tariff-rate quote. |
| c. | raises the tariff after the quota is reached. |

ANS: E

All of these characteristics apply to a tariff-rate quota.

DIF: Moderate REF: page 729

 13. Non-tariff barriers may appear in the form of

|  |  |  |  |
| --- | --- | --- | --- |
| a. | requiring a special sticker to be applied to an imported product. | d. | making documentation requests that are very difficult to fulfill (sewing tickets) |
| b. | slowing down Customs clearance processes. | e. | all of the answers in this set of responses are examples of non-tariff barriers. |
| c. | multiplying the number of documents required for importing products. |

ANS: E

All of these methods are ways to discourage imports.

DIF: Easy REF: page 728

 14. Countries may require pre-shipment inspections because

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the country wants an expert opinion on the classification and the value of the products about to enter its territory. | d. | it reduces the amount paid by the importing country in fees. |
| b. | it increases the tariff valuation of the product. | e. | it allows the country of origin to be clearly determined.  |
| c. | it simplifies the Customs process. |

ANS: A

Pre-shipment inspections do not normally increase the tariff valuation of the product nor do they simplify the Customs process. Most PSIs are required by countries as part of their import process, and there are several reasons for this, including: the country wants an expert opinion on the classification and the value of the products about to enter its territory.

DIF: Moderate REF: page 734

 15. In most countries, the general process of clearing Customs begins with

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| --- | --- | --- | --- |
| a. | a declaration of “liquidation.” | d. | a review of grounds for a protest. |
| b. | the filing of an “entry.” | e. | None of the above |
| c. | a declaration that the goods are “cleared.” |

ANS: B

Liquidation occurs after the entry is satisfactorily reviewed, the product is not cleared until after the duty is paid or there is evidence it will be paid, and a protest may follow, but it is after liquidation. The Customs process starts in most countries when an importer files an entry—i.e., notifies the Customs authorities that it will import a particular product.

DIF: Moderate REF: page 736

 16. Customs brokers are usually compensated on

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| --- | --- | --- | --- |
| a. | a percentage of the tariff. | d. | a schedule set by the World Trade Organization. |
| b. | a percentage of the added value of the goods. | e. | a fee per transaction. |
| c. | a schedule set by the United Nations. |

ANS: E

Customs brokers are usually compensated on a fee basis.

DIF: Moderate REF: page 737

 17. A time-sensitive shipment like an express package can be expedited through Customs by

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| --- | --- | --- | --- |
| a. | a liquidation statement. | d. | a Certificate of Origin. |
| b. | a protest. | e. | a certificate of exception. |
| c. | a surety bond. |

ANS: C

When a shipment is express or time-sensitive, Customs authorities allow importers to post a surety bond, which is a guarantee that the Customs will be paid, which allows goods to be entered before the duty is paid.

DIF: Moderate REF: page 737

 18. In order for an importer to come under the scope of informed compliance, it must show that it

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| --- | --- | --- | --- |
| a. | has exercised reasonable care in the filing of its Customs entries. | d. | has paid its income taxes on time for the past three years. |
| b. | pays duties up to three months in advance. | e. | has attended five three-day training programs. |
| c. | has not hired a Customs specialist |

ANS: A

It does not matter if the importer pays duties in advanced, and the importer must demonstrate that it *has* hired a Customs specialist. In order to be compliant, the importer must show that it exercised reasonable car in the filing of its Customs entries—by following a standard of behavior.

DIF: Moderate REF: page 739

 19. Documentation designed to indicate what country a product initially came from is contained in the

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| --- | --- | --- | --- |
| a. | commercial invoice. | d. | entry form. |
| b. | Certificate of Origin. | e. | certificate of free sale.  |
| c. | surety bond. |

ANS: B

A Certificate of Origin ascertains the country of origin and is a required document for entry.

DIF: Easy REF: page 739

 20. An “assist”

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| --- | --- | --- | --- |
| a. | is an item the importer provided to the exporter to produce the good (such as a mold or die used in manufacturing the product). | d. | is an attempt by the importer to subsidize the exporter. |
| b. | is illegal. | e. | is a payment made by the exporter to the importer, so that it pays less in duty.  |
| c. | changes the invoice value of the imported goods. |

ANS: A

An assist is legal, and while it may change the value of the product, it does not affect the invoice value. An assist—an item that the importer provide to the exporter in order to produce the goods—can affect the valuation of the goods.

DIF: Moderate REF: page 720

COMPLETION

 1. The tax an importer must pay in order to be allowed to let goods into the country is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: duty

DIF: Easy REF: page 716

 2. According to the Harmonized System of classification, each product in international trade can have a code that uses up to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ digits.

ANS: ten

DIF: Moderate REF: page 717

 3. The country of origin of a product is most often the country in which it acquired its most substantial \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: transformation

DIF: Moderate REF: page 721

 4. When the invoice’s value is much below what Customs has historically accepted and when a much higher valuation is reached with one of the alternative valuation methods, Customs can determine that the exporter is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the goods in the importing country.

ANS: dumping

DIF: Moderate REF: page 726

 5. A quota that places a yearly limit on the number of items entering a country under a specific HS number is called a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ quota.

ANS: absolute

DIF: Moderate REF: page 729

 6. A system that applies a higher tariff to goods that are imported after a certain quantity has been importer is called a tariff \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

ANS: quota

DIF: Easy REF: page 729

 7. A representative of the importer that has acquired the knowledge and experience required to deal effectively and efficiently with Customs is called a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: Customs broker

DIF: Easy REF: page 739

 8. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a guarantee that the importer or their representative will pay the duty due.

ANS: surety bond, bond, Customs bond

DIF: Moderate REF: 737

 9. A country grants or sells a right to export a set quantity of a specific good to an exporting firm. This authorization is called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

ANS: visa

DIF: Moderate REF: page 729

 10. Customs determines tariffs based upon the type of goods imported, which is determined according to a number of rules of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that essentially have been standardized worldwide.

ANS: classification

DIF: Moderate REF: page 718