

## Laws and Regulations

When importing merchandise from foreign countries there are certain trade laws and regulations. U.S. Customs oversees the compliance of those laws. Our International Department is responsible for training and compliance for the company. They are there to help the import process go smoothly.

Because of your knowledge of each product, International relies on you to provide them with proper information that allows them to classify each item, and to move freight quickly through Customs.

It is the policy of **Hobby Lobby** to comply with all the laws, rules and regulations governing the importation of goods. Strict adherence to the U.S. Customs' laws and regulations is required of every employee whose work causes, affects or supports our imports.

Each member of our organization must meet the highest standards of compliance and fully support the compliance process. Any employee, who has knowledge of any circumstances that may reflect noncompliance, is required to immediately contact the appropriate personnel.

**Missing paperwork, lack of details or wrong country of origin marking can cause shipments to be delayed, the overpayment of duty, or worse case scenario – having our freight confiscated by Customs.**

The following is a summary of the most important aspects of importing you should be aware of. If you have any question or need further information, please call the International Department.

## Valuation

All imported merchandise entered into the commerce of the United States must be properly valued. Most duties due to U.S. Customs are calculated as a percentage of the value of the merchandise. Therefore, the value declared for imported merchandise must be accurate. In the case where merchandise is not subject to duty, the declared value is still utilized by U.S. Customs to determine user fees and for statistical reporting purposes.

## Assists

In most cases, valuation of an item is straightforward. You buy an item for \$1.00, we are invoiced for \$1.00 and we pay duty on the \$1.00. The purchase order and sales confirmation show \$1.00 for the item. In some cases though, there may be costs incurred that are not included in the \$1.00 invoice price which may be considered an “assist” by Customs. Following are examples of what might be considered as assist:

1. Packing cost incurred separately
2. Selling commission not included on the invoice
3. Artwork provided to a vendor
4. A royalty or license fee that is to be paid
5. Tools, molds or dies that are provided to a vendor

If you have any of these situations or something similar, you should contact the International Department for clarification on how it should be handled. The following items are not included when determining the value of imported merchandise:

1. Freight costs
2. Insurance
3. Assembly after importation
4. Duties
5. Taxes

## **Country of Origin Requirements**

All products imported from outside the U.S. must be marked conspicuously and legibly for the ultimate consumer. The item must have the country of origin marking at the time of importation. Most products require a sticker or string tag.

On domestic orders, if the product is of foreign origin, it must have the country of origin marked on the item. Advise your domestic vendors of this requirement.

There are other requirements that apply to various products. You should work with the International Department when importing new products to see if there are any special requirements that might apply to that product. Listed below are some examples of other requirements.

1. Items packaged in a poly bag that will not be sold in the poly bag, country of origin must be marked on the item itself.
2. Boxed items, sold in the box, must have the country of origin marked on the box.
3. Fabric items such as wallets, toy bags, etc. the marking should be sewn in the article.
4. Clocks have special instructions for Country of Origin markings. See "Instructions for Importing Clocks" for more information.
5. Proper markings must be determined for items repackaged in the United States.
6. Ceramic items that are not for food use must be marked accordingly.

## **Classification**

An item when imported must be properly classified. The company has hired a licensed customhouse broker for this process. The description of the product is how the proper classification is determined. Therefore, an accurate and detailed description is very important.

The government uses the classification of an item for several purposes:

1. To determine duty rate
2. To determine if it can be imported
3. To determine if other government agencies should be involved, such as USDA, FDA, or Fish & Wildlife
4. To compile statistical information

While classifying products can be extremely complex, it can be greatly helped by our vendors giving us an accurate and detailed description.

There are two primary factors that determine how to properly classify an item. They are the material content of the item (what it is made of), and what the item is used for.

If the description does not have enough information to properly classify it, the vendor and buyer will have to be contacted and the shipment may have to be delayed.

Although the company has hired a licensed customhouse broker to classify our products, the company is ultimately responsible for the proper classification. Therefore, if you feel an item has been improperly classified, you should notify the International Department.

If you are importing a new item and do not know what its classification is, thus do not know what duty rate it will have, a “**Request for Classification**” form should be filled out (a copy of this form can be found in the form section of this guide). The International Department will let you know what the classification and duty will be.

**Note:** If it is determined that an item cannot be clearly classified, it may be suggested that a “Binding Ruling” be sought. This is when Customs is asked to determine what the classification for an item will be and they are bound by that ruling.

## **Fumigation**

The following countries require fumigation of Solid Wood Packing Materials (SWPM):

1. Argentina
2. Australia
3. Brazil
4. China
5. European Union.

The Payment Instruction Sheets and the Letters of Credit list the requirements for SWPM certificates. If the product contains untreated wood, the container must be fumigated. If not, the negative declaration **must** be on the invoice or Bill of Lading.

## **Factory Visits**

During a factory visit there are many things to be learned. It is suggested that when visiting a factory you document that visit on a “**Factory Evaluation Form**” (a copy of this form can be found in the appendix of this guide). This will document basic information about a factory and have it for future reference when comparing multiple factories. A copy of this evaluation should be filed with the International Department for their records.

## **Mexico Purchases and Shipments**

Without properly getting the payment terms to Mexican vendors there can be some confusion. The primary issues are how the goods are received and how the vendor is set up on the system. We ask that you please assist us by buying from each vendor under International or Domestic terms, but not both. Also, assist your vendor by setting up any thirty-day or shorter terms under International.

Mexico goods that are considered International orders have FCA terms. The International Department handles the Customs clearance on both sides and the payment of the invoice. The invoice is paid before the merchandise is received into the

warehouse. Controls are in place to insure proper receipt and reconciliation of the invoice.

Vendors received with domestic terms are set up as domestic vendors. Distribution Accounting controls all documentation. Domestic for Mexico means FOB Laredo or any other U.S. point. An invoice is only paid when it is entered on the system after the receipt of goods.

Confusion occurs when buyers bring goods in as an International vendor at times, then a Domestic vendor at other times. Distribution receiving can't determine if the goods were International or Domestic shipments. We then have a chance to double pay an invoice.

Additionally, it is fairly optimistic to give a vendor out of Mexico less than thirty days Domestic terms. A chance of invoices running through the Domestic system from Mexico in a short period is remote. The recommendation is to make the vendor International so payment can be made before the goods are checked through the system.

### **North American Free Trade Agreement Requirements**

An original NAFTA certificate, signed by the Exporter, must be obtained on every shipment from Mexico. Advise your vendor of this and the International Department will obtain this certificate and maintain the document with the entry.

Requirements of the Certificate include:

1. Must be dated prior to the arrival of the goods, and not expire for at least one month after receiving the goods.
2. Must include a classification number, and proper country of origin information.
3. Classification should match information on the commercial invoice.
4. Should be signed by someone in authority.

### **Import Purchase Information Sheet (IPI)**

When placing an order, the Import Purchase Information sheet, and the first page on all international orders, must be completely filled out. The following information must be complete before giving a copy to the International Department:

1. Vendor/beneficiary name and complete street address
2. E-mail address if available
3. Telephone and fax numbers
4. Banking information including street address
5. Ship date and cancel date
6. Invoice terms (L/C, D/P, T/T, etc.)
7. Quoted exchange rate (if out of Taiwan)
8. Country of origin
9. FOB Point
10. Total cost (include all costs associated with PO; i.e. color separation charges, etc.)
11. Total cubic meters or feet
12. Description of goods

If you cannot fill in all information, fill in what you can. Fax the vendor for any information needed to complete the Import Purchase Information sheet.

If you revise any information in the order, please make change and write "Revised" on Import Purchase Information form in red and turn in to International Department.

The International Department must have the following information for all import PO's;

1. A complete Import Purchase Information sheet
2. Copy of purchase order
3. Proforma Invoice or Sales Confirmation
4. Fax from vendor stating quoted exchange rate (if out of Taiwan)

On the Import Purchase Information sheet there is a section on Shipping Information. OOCL Logistics is our consolidator. Their primary duties are to arrange shipping for all of our containers and to consolidate any orders that are not full containers. OOCL Logistics is not a shipping company, but they book space with the carriers with whom we currently have contracts.

Please fill out all the information in this section including the cube and the FOB point. This information is used by OOCL Logistics to determine the size of the container and if there is a balance left to ship in the future. OOCL Logistics makes direct contact with our vendors to fill containers to their fullest capacity.

The shipping information on the Import Purchase Information sheet should be sent to the vendor with the order so that they will know whom to contact at the OOCL Logistics office at the time of shipment. If you fax the order over the AS400, this sheet will automatically be sent with the order.

After you have placed an order with the vendor and the vendor has requested a Letter of Credit for payment, negotiate with them. Recommend using D/P terms or T/T payment in order to free up our line of credit with the bank. D/P payment is the preferred method of payment for Hobby Lobby.

### **Required Documents for the Bank**

1. Two copies of the signed Commercial Invoice in English with full item description.

#### **Invoice must:**

- a. Certify that merchandise is "Made in (Country)" and each item is marked individually with country of origin
  - b. Invoice must show the manufacturer's name and address
  - c. Invoice must state material content of each item
  - d. Invoice must state Terms of Sale (FOB, FCA, Ex-Works, etc)
  - e. Invoice must state "This merchandise is wholly or 100% the growth, product or manufacture of (insert country). If not, please give a breakdown by percentage (%) of value and the origin country of each of the components and manufacturing process."
2. A copy of the original Packing List
  3. A copy of the fumigation certificate, textile declaration, if they are required
    - a. ***Invoice/Information Requirements for Certain Commodities*** (exhibit F)
  4. An original Forwarders Cargo Receipt (FCR) signed and issued by OOCL Logistics

5. A non-negotiable copy of a seaway bill of lading consigned to Hobby Lobby Stores, Inc. **and/or** the Affiliated Company marked freight collect
6. Purchase Order Number and Invoice Number **must** be on all documents!
7. All commercial documents and payment request documents must have the same shipper/exporter name. If different, a written explanation must accompany the documents.

## **Invoice Information Requirements for Certain Commodities**

A complete listing of requirements for certain commodities can be found in Exhibit F in this guide

## **Required Documents to Be Sent To OOCL Logistics**

1. Signed Commercial Invoice in English with **full item description**.

### **Invoice must:**

- a. Certify that merchandise is "Made in (Country)" and each item is marked individually with country of origin
  - b. Invoice must show the manufacturer's name and address
  - c. Invoice must state material content of each item
  - d. Invoice must state Terms of Sale (FOB, FCA, Ex-Works, etc)
  - e. Invoice must state "This merchandise is wholly or 100% the growth, product or manufacture of (insert country). If not, please give a breakdown by percentage (%) of value and the origin country of each of the components and manufacturing process."
2. Packing List, an original and 1 copy
  3. For Hong Kong and China
    - a. Fumigation Certificate from the Chinese Government is required on all shipments, when solid untreated wood or natural products are used for merchandise or for packing merchandise.
    - b. A Negative Declaration statement is needed, if solid wood materials have **NOT** been used.
    - c. A statement stating whether solid wood materials have or have not been used should be shown on the bill of lading and the commercial invoice.
  4. For all other countries, a treatment certificate from your government is required on all shipments when solid wood is used for packing. A statement stating whether solid wood is or IS NOT used for packing should be shown on the B/L and the Commercial Invoice. All solid wood packing material (SWPM) regulations for your country must be met. All SWPM must be marked with appropriate symbols.
  5. Fish & Wildlife trademark and/or copyright agreement, if required
  6. Textile declaration and fabric detail sheet on textiles **REQUIRED**
  7. Samples of ribbon and trim **MUST ACCOMPANY** documents

**Vendor Instruction sheets can be found in the Exhibits Section of this guide**

**Exhibit G – Instruction Sheet for D/P Orders**

**Exhibit H – Instruction Sheet for Trucked T/T (Bank Wire) & Check Orders**

**Exhibit I – Instruction Sheet for Ex-Works D/P Orders**

**Exhibit J – Instruction Sheet for T/T (Bank Wire) & Check Orders**

## **Instructions to Suppliers: Proper Preparation of Commercial Invoices**

The Customs Regulations of the United States outline the rules for documentation necessary to clear U.S. Customs. Our commercial invoices must provide for specific types of information. As a selected vendor for our company, you must ensure the proper preparation of documents. All information is to be accurate and complete.

Below are some requirements for preparing invoices. This is also available in the back of this buyers guide and from International Department to send with the PO if it is being scanned or emailed.

- ◆ **Detailed description of each item.** (Description must state exactly what the item is) A PO description may not meet Customs requirements. Ask buyer if you need help.
- ◆ **Material content of each item must be by percentages**
- ◆ **Net and gross weight and measurement of each item**
- ◆ **Shipping Terms: (FOB, FCA, Ex-Works, etc)**
- ◆ **Must state type of currency (USD, Euro, etc)**
- ◆ **Manufacturer name and address must be stated on the Invoice**
- ◆ **State country of origin of merchandise and that each item is marked individually with the country of origin**
- ◆ List the value and quantity of each item including samples and replacement orders
- ◆ Invoice must show vendor's name and full address
- ◆ If GSP country, state, "This merchandise is wholly or 100% the growth, product or manufacture of (insert country). If not, please give a breakdown by percentage (%) of value and the origin country of each of the components and manufacturing process."
- ◆ All invoices submitted to OOCL Logistics and to the bank must be identical
- ◆ Purchase order number on invoice
- ◆ All rebates, discounts, and commissions, artwork, dies, molds, tools, engineering work, separately itemized at bottom of invoice
- ◆ All invoices should have an invoice number. If multiple invoices are obtained for one B/L, each page should be numbered consecutively by the vendor at the bottom of each page
- ◆ The shipper/exporter name should be the same to match the purchase order and the commercial documents. If different, a written explanation must accompany the documents

All suppliers and vendors are required to prepare commercial invoices in accordance with U.S. Custom's rules and regulations. Any changes to the commercial invoice must be communicated to the International Department prior to the shipment arriving at the U.S. Port, fax (405)745-1547.