



In Theory
In Practice

International Landed Cost

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- ✓ Training in all areas of trade & compliance



Michael D. Easton

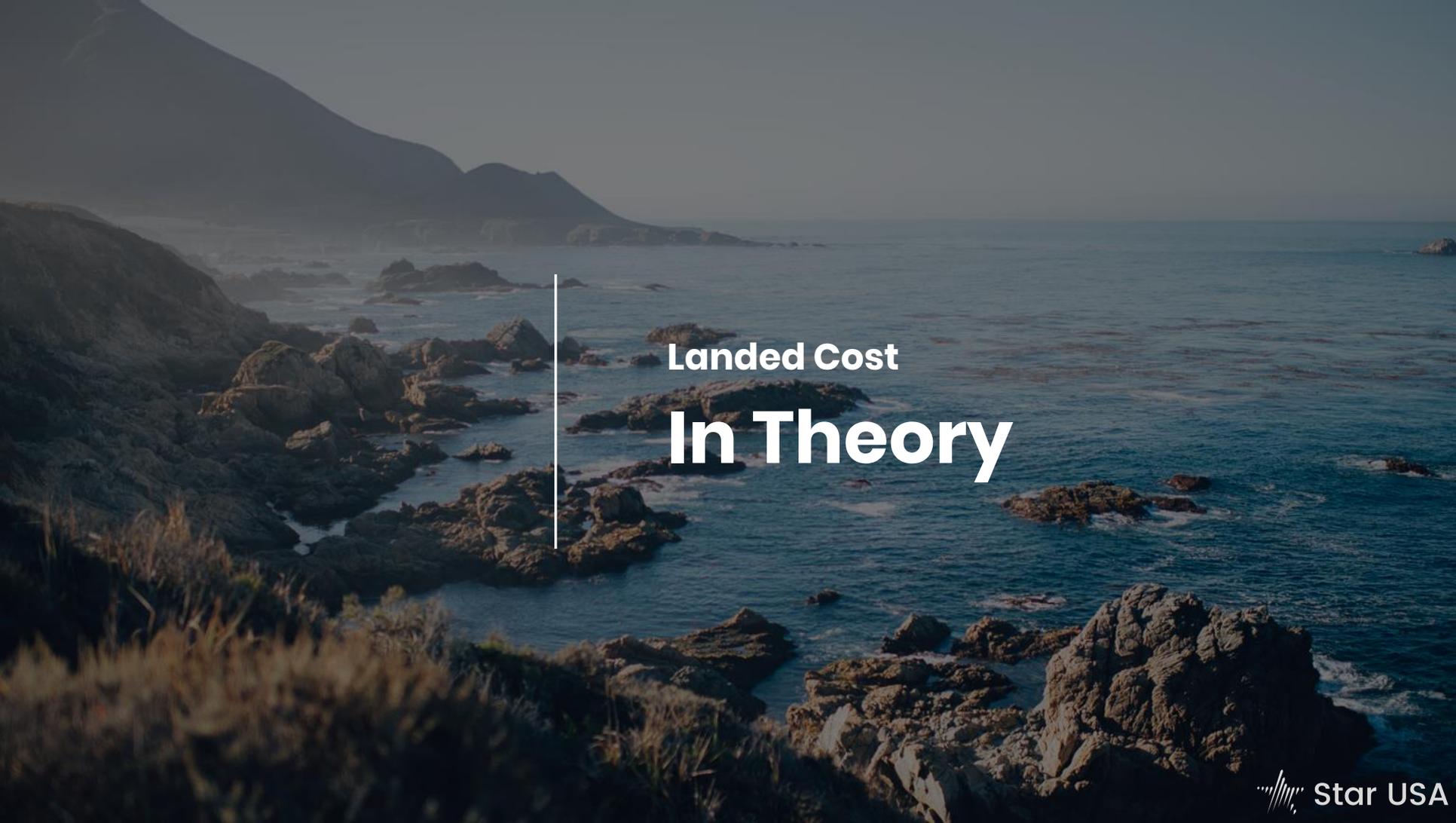
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Landed Cost

In Theory

What is Landed Cost?

- Sourcing Strategy
- Market Opportunity

Landed Cost is **the total cost to have goods produced and delivered from one point to another.**

On the Procurement side, this means the cost to have goods delivered “free and clear” to your location.

On the Sales side, this is the cost to produce and deliver the goods from your location to the customer.

Landed Cost Pricing Factors

Critical Pricing Factors to consider:

1. Cost of Goods
2. Freight & Insurance
3. Customs Duties & Fees
4. Taxes

Applying these factors correctly requires knowing where to begin, what questions to ask, and where you want to end up.

Customs duties, fees, and taxes can be applied on an FOB or a CIF Basis



Tip!

Using the Incoterms® Rules in Landed Cost

Incoterms® Rules divide the costs and responsibilities between buyers and sellers.

You can shop multiple suppliers based on your preferred Incoterm® Rule and compare/contrast from there, but you may inadvertently obscure costs or invite unnecessary overcharging in order to cover unknowns.

When calculating Landed Costs, you're typically considering two price options:

1. the Ex Works (EXW) Price
2. the Delivered Price

These definitions can have some correlation with the Incoterms® Rules, but all parties need to be on the same page.

Note that “FOB” and “CIF” have a different definition when factoring in Customs and Taxes, and do not correspond with Incoterms® .

If you need a refresher on the Incoterms® Rules, [check out our Incoterms® Webinar](#)

Ex Works Pricing

The EXW Price is the raw price of the goods sold “as-is” – best used for contrasting suppliers on a 1:1 basis.

Sets the stage for identifying the other costs in the international transaction

EXW Pricing:

- Has a clear and (mostly) universal understanding
- Avoids obfuscation of other costs
- Limits unnecessary buffering
- Sets the stage for true Landed Cost calculation

Delivered Pricing

Delivered pricing is the cost to deliver the goods to a particular place.

It may or may not include some key cost factors, and will generally include some amount of buffer to cover “unknowns”

Delivered Pricing:

- Is usually an alternative to determining Landed Cost
- Puts a burden on the seller to establish all costs up front
- May hide cost saving opportunities from the buyer
- Is more likely to result in the buyer paying more than expected

Considering Freight Costs



Pre-Carriage ● - - - ►
Main Carriage ● - - - ►
On-Carriage ● - - - ►

Pre-Carriage. Transport from the point of origin to the first port of lading

Main Carriage. Transport from the port of lading to the port of discharge

On-Carriage. Transport from the port of discharge to the final destination

Each country has their own tariff schedule, duty rates, and customs fee structure

You need to know the tariff number and duty rate of the product as it enters country of destination.

For imports into the United States, that means you need the HTSUS. The duty rate can be found at [hts.usitc.gov](https://www.usitc.gov)

For exports from the U.S. to other countries, the U.S. ITA [directs](#) you to the Descartes™ CustomsInfo Database [Tariff Lookup Tool](#).

For cross-trades, it's either legwork or paid services.

In addition to duties, countries can apply any number of additional import fees that can create substantial variance in Landed Costs.

U.S. Customs fees:

MPF @ 0.3464% (Min \$27.75/Max \$538.40)

HMF @ 0.125%

Mexico Customs fees:

DTA @ 0.8%

Brazil is notorious for having half a dozen customs fees, and many countries have no additional import fees.

Don't forget to include brokerage costs, which are usually a nominal fee as a flat cost.



Tip!

Special Import Programs can work either *for* or *against* you!

Virtually every country has special import programs that can come into play.

On the helpful side, there are trade preference programs (like Free Trade Agreements), temporary imports, foreign trade zones, Chapter 98, and duty drawback.

There are also things like Quotas, Antidumping & Countervailing duties, federal restrictions like Section 232 & 301, and PGA fees that can increase your effective duty rate.

Check out our other webinars on [Duty Preference Programs](#), [USMCA](#), [AD/CVD Overview](#)

Taxes can be a significant factor in the destination market.

Taxes apply separately from customs duties & fees.

Most countries use a VAT or GST tax structure that apply to imports.

- EU countries have a minimum 15% VAT
- Canada has a 5% GST on imports
- Mexico has a 16% VAT

Taxes can be applied at different stages – on the price of the goods, goods + freight, or goods + freight + duty.

The United States is one of a few countries/regions that do not have an import tax.

FOB Countries vs. CIF Countries

FOB Countries apply duties based on the cost of the goods.

CIF Countries apply duties based on the cost of the goods + insurance + freight.

Some FOB Countries

- United States
- Canada

Calculations

Goods price	\$10,000
Freight & Insurance	\$3,500
Duty rate	10%

FOB Method

$$(\$10,000 \times 10\%) + \$3,500 = \$14,500$$

CIF Method

$$(\$10,000 + \$3,500) \times 10\% = \$14,850$$

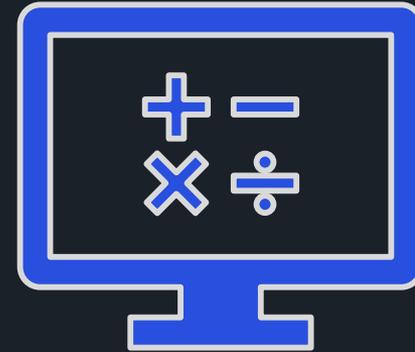
~ 2.4% difference (\$350)

These differences can compound with other customs fees as well as taxes, and can be significant cost factors when evaluated at scale.



4 Main Cost Factors

- Cost of Goods
- Freight & Insurance
- Customs Duties & Fees
- Taxes



You'll need to find out:

- Tariff & Tax rates
- Customs Fee Structure
- Special Programs
- FOB vs CIF



Landed Cost

In Practice

Cost of Goods

When soliciting or providing pricing, specify the cost basis for the goods:
EXW Price or Delivered?

If using a delivered price, further specify what degree of *delivered* you intend:

- Transport to a specific place?
- Delivered “free and clear”?

Financial Instruments and Methods of Payment can add some additional costs.

Freight & Insurance

Freight costs are *wild* right now. It's anyone's guess who will have a cost advantage.

When importing, ask your suppliers to provide freight & insurance costs to various points.

Consider joining a Shipper's Association or securing your own carrier contracts if you have the volume. Avoid spot pricing whenever possible.

Consider securing a global cargo insurance policy to avoid paying for insurance on every shipment.

Customs Duties & Fees

Request or specify the 6-digit HS codes for the products and pre-emptively research the duty rates and customs fees.

Identify if you're using an FOB or CIF basis for calculation.

Research special import programs that may apply or consult with an expert.

For exports, consult with an expert or contact a U.S. Commercial Services office near you for market opportunities.

Taxes

Taxes are generally not a factor when importing into the U.S., but may require thorough understanding when trying to access new markets.

Research the tax structure in the country of destination and identify whether they're calculated on CIF Basis, CIF + Duty, or some other basis.

Consult with an expert or contact a U.S. Commercial Services office near you.

Cost of Goods

$(\text{Unit Price} \times \text{Quantity}) + \text{Financial Instruments}$

Freight & Insurance

Pre-Carriage + Main Carriage +
On-carriage + Forwarder Fees +
Insurance

Basic Equation

Cost of Goods
+ Freight & Insurance
+ Customs Fees
+ Taxes

Landed Cost

Customs Fees

Duty + Custom Fees - Special
Import Programs + Special Import
Programs

Taxes

Landed Cost Example: Canada Supplier



Purchasing 100,000 items at \$0.83 each from a supplier in Canada.
HTSUS 3926.90.9985

Cost of Goods:	\$83,000
Financial Instruments:	\$0
Pre-carriage:	\$0
Main Carriage:	\$750
On-carriage:	\$0
Forwarder Fee:	\$150
Insurance:	\$100
Duty Rate:	\$0 (USMCA) (FOB)
Other Fees:	\$347 (MPF) (FOB)
Broker Fee:	\$125
Taxes:	\$0

Landed Cost: \$84,472

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Broker Fee:	\$125
Taxes:	\$0

Landed Cost: \$84,472



Purchasing 100,000 items at \$0.80 each from a supplier in Germany. HTSUS 3926.90.9985

Cost of Goods:	\$80,000
Financial Instruments:	\$0
Pre-carriage:	\$750
Main Carriage:	\$3200
On-carriage:	\$750
Forwarder Fee:	\$150
Insurance:	\$100
Duty Rate:	\$4,280 (5.3%) (FOB)
Other Fees:	\$381 (MPF + HMF) (FOB)
Broker Fee:	\$125
Taxes:	\$0
Landed Cost:	<hr/> \$89,736

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Landed Cost: \$89,736

Landed Cost Example: Mexico Customer



Selling 10,000 items at \$5.00 to a customer in Mexico.
HTSMX 3926.90.9999

Cost of Goods:	\$50,000
Financial Instruments:	\$0
Pre-carriage:	\$750
Main Carriage:	\$0
On-carriage:	\$750
Forwarder Fee:	\$150
Insurance:	\$100
Duty Rate:	\$0 (CIF)
Other Fees:	\$0 (CIF) (USMCA)
Broker Fee:	\$200
Taxes:	\$8,136 (CIF + Duty + DTA)
Landed Cost:	\$60,086



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HTSMX 3926.90.9999

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Other Fees:	\$0 (CIF) (USMCA)
Broker Fee:	\$200
Taxes:	\$8,136 (CIF + Duty + DTA)
Landed Cost:	\$60,086



Landed Cost Example: Japan Customer



Selling 10,000 items at \$5.00 to a customer in Japan.
HTSJP 3926.90.029

Cost of Goods:	\$50,000
Financial Instruments:	\$0
Pre-carriage:	\$750
Main Carriage:	\$2750
On-carriage:	\$750
Forwarder Fee:	\$150
Insurance:	\$100
Duty Rate:	\$2,091 (3.9%) (CIF)
Other Fees:	\$0
Broker Fee:	\$200
Taxes:	\$5,570 (10%) (CIF + Duty)
Landed Cost:	<u>\$62,361</u>



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Thank you! Q&A Time



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