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Import Procedures and Documents in the Philippines: Universal Motors Co. - Nissan ¹

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1. Introduction

This case study aims to document the entire process involved in a specific import transaction in 1992. It should familiarise the reader with the Filipino import procedures and the documents which are to be used. To fully grasp the complexity of these transactions a thorough reading of the relevant documents is commended (see Appendix).

The importing company, Universal Motors Corporation, is based in the Philippines, while the exporting company, Nissan Motor Co. Ltd., is from Japan.

Not all of the documents provided in this case study are copies of the actual documents used in this particular transaction, because of the confidential nature of the operations. Whenever Universal Motors Corp. was not able to provide the actual documents, blank (unfilled-up) copies of the same documents are used here.

2. Company background

Universal Motors Corporation (UMC) is a family-owned company which started as an auto service centre. In 1984, UMC concluded a contract with Nissan Motor Co. Ltd. in Japan, resulting in exclusive import rights in the Philippines for Completely Knocked-Down units (CDKs) and spare parts from Nissan Japan. UMC has about five hundred employees and basically specialises in the assembly of Nissan vehicles. However, UMC does not engage in any export activities and only caters for the local market of these vehicles through distributors and UMC-owned sales offices. Moreover, UMC directly sells spare parts for Nissan vehicles in its domestic market.

3. Ordering

Universal Motors Corp. channels its imports through a Japanese trading company, Nichimen Corporation, that has a local branch in the Philippines. UMC makes a monthly projection of the demand for its spare parts and derives from this quantity to be ordered for that particular month. The pricing by Nissan for these spare parts is constant over a year and only varies according to the volume of the order. To place the order, UMC sends a specification letter to Nichimen Corp. (Manila) indicating the specific parts and quantities desired.

Nichimen Corp. (Manila) then performs two tasks. First, it issues a **Proforma Invoice** (see Doc. 1) to UMC indicating the description, part number, quantity, price, terms of delivery (FOB), payment scheme (irrevocable and confirmed L/C at sight), packing, shipment, inspection, insurance (by UMC), sales contract number, and validity of the order, all as previously agreed upon. Second, Nichimen (Manila) prepares an **Order Sheet** (see Doc. 2 for Order Cover Sheet), in which the same specifications as in the Proforma Invoice, are provided for Nissan. It sends this Parts Order Sheet to Nichimen (Japan), who in turn forwards it to Nissan.

4. Getting an import permit and import entry declaration

Universal Motors Corp. does not need to apply anymore for an import license (from the Dept. of Trade) since it already has one.

Hence, UMC's next step is to apply for an Authority to Import (ATI) (see Doc. 3a & 3b) from the Board of Investments Authority (BOI). The BOI is a government office that has to approve the import items per transaction and is responsible for issuing the import permit and the certificate of prior authorisation to the interested party. In applying for an ATI, UMC has to submit three copies of the Proforma Invoice and application forms. Then, UMC further applies for a **BOI Certification of Prior Authorisation to Import under the Motor Vehicle Program** (see Doc. 4.). This latter request can only be processed after the issuance of the ATI.

Universal Motor Corp.'s freight forwarder also prepares an Import Entry Declaration (IED) (see Doc. 5a) which is submitted for approval to the Bureau of Customs. The IED specifies the description and commodity code number of the parts, their prices, the tariff headings, the rate(s) of the duty and the duty amounts. This document is needed for payment of the advances of the duties and taxes and is computed by the broker based on the Proforma Invoice. The IED has to be accompanied by the **Importer's Sworn Statement** (see Doc. 5b) attesting to the accuracy of the information in the IED.

5. Applying for a letter of credit

The application for an L/C is conducted by UMC itself. For this particular transaction, the bank involved is the Bank of the Philippine Islands (BPI). First of all, this application requires that UMC has an existing account with BPI. Next, UMC has to submit as documents: L/C application forms (see Doc. 6a-d); 8 copies of the Proforma Invoice; BOI certifications, and the IED. Also UMC, has to make advance payments of the duties to BPI. Moreover, UMC negotiates for an irrevocable and confirmed L/C at sight, as is customary in international trade..

6. Shipping of Nissan spare parts and knocked-down parts

Universal Motors Corporation hires a local freight forwarder who is asked to arrange for the shipment of the goods. On the basis of the advice of the freight forwarder UMC nominates the shipping lines which in this case are EVERETT STEAMSHIP and WESTWIND. However, the freight forwarder is in charge of handling the transactions with the vessels. The goods, shipped in crates with order numbers for reference, are usually placed in different vessels for safety purposes. It takes approximately one month for the shipment to arrive in the port of destination: Manila, Philippines.

UMC is required to provide a **Bank Guarantee** (See Doc. 7 & 8) to the shipping lines. The bank assumes the liability for the payment of shipments by the importer and guarantees that there is such a shipment. The Bank guarantee specifies the extent of the liability that the bank wants to assume. UMC will accept a **Bill of Exchange** drawn by BPI (Doc 9). UMC will get a **Bill of Lading** (B/L) (see Doc. 10a) from the shipping line, but the original B/L is held by Nissan, Japan. Nissan delivers the B/L via

Nichimen to BPI, the bank of UMC. BPI will send the B/L to the shipping line in return for the cancelled bank guarantee.

A non-negotiable **Waybill** (see Doc. 10b), also with the shipping lines, contains the number of packages, the case numbers, the plate number, of the truck(s), etc. and is a replacement for the negotiable B/L.

The goods are shipped Free on Board (FOB). This means that Nissan fulfils its obligation upon delivery of goods to the port of shipment: Yokohama, Japan. Afterwards, UMC will carry all costs i.e. freight and insurance costs. UMC insures under an open cover policy with **FGU Insurance Corporation** or **Prudential Guarantee and Assurance Inc.** (see Doc. 11 & 12). Their marine insurance covers all risks including war, strikes, riots, and civil commotions. It also covers the whole transport process and is open to an extension in case of delay of shipment or delivery.

7. Customs Procedure in Manila, the Philippines

Upon arrival at the port of destination, the freight forwarder (who holds all the documents) picks up the goods, pays for the freight first and gets a certification from BOI for customs purposes. This certification includes: description of items, tariff heading, carrier, identification number (marks and other numbers), invoice number, etc. He will then process the customs clearance. The freight forwarder needs the following documents:

1. SGS Clean Report of Findings
2. Commercial Invoice
3. Bill of Lading
4. Packing List

The Société Générale de Surveillance (SGS) issues a **Clean Report of Findings (CRF)** which specifies the measurement and quality level of the goods. This CRF (see Doc. 13) is passed on to the bank of the exporter as it will be needed later to collect the payment from the bank of UMC i.e. after the L/C opening. Therefore, the CRF has to mention the L/C number. The CRF must also be given to the freight forwarder upon the arrival of the goods to be handed over to the customs officers. SGS also delivers an Import Advice Note (IAN) which certifies the transaction. The IAN (see Doc. 14) needs to mention the proforma invoice number, the name of the exporter and importer, the description of goods, the dutiable value, etc.

The **Commercial Invoice** (see Doc. 15) is to certify the actual shipment of the goods. It is different from the proforma invoice which contains only the orders. Also, it already has an L/C number, the name of the bank of the importer and the SGS reference number or IAN number. At the checking of the packaging the representatives of the SGS, the shipping lines and the trader are present.

The Bill of Lading is transferred from Nissan to Nichimen. Fax copies of the B/L are sent to the freight forwarder for processing, while some copies remain with the shipping lines for the customs.

The **Packing list** (see Doc. 16) also mention the L/C number, the bank, and the SGS reference number or IAN number. It describes the goods, their quantity, weight and measurement.

After the documents are processed, the customs and the freight forwarder calculate the duties that have not been paid yet. The customs give an Order of Payment. It is only when it has been paid that the bank passes on the **Customs authority to release shipments** to the broker (see Doc. 17b). However, the goods are left at the customs offices for at most a week. Storage payment within the customs' premises will be paid for by the freight forwarder.

8. Transport of Goods to Universal Motors Corporation

After the goods are released by the customs, six- or tenwheeler trucks from the freight forwarder or hired by UMC will transport the goods to the warehouse of UMC. The spare parts warehouse is located in Pasong Tamo and the knocked-down parts warehouse is situated in Mandaluyong. Upon delivery, the freight forwarder bills Universal Motors Corporation for his services.

9. Final Transaction

Payment of the goods by Universal Motors Corporation to Nissan is made via the bank (of the importer) to bank (of the exporter) transactions.

10. Summary of Import Procedures and Documents

The assignment of this case study consists of making a summary of the import procedures and documents, which were described above. In doing this, distinction has to be made among the various logical steps connected with the importation, as well as the actors which were involved.

11. Tutorial information

For the tutor's convenience, a tentative diagram is given below, illustrating the route of documents over time. The shaded area of the diagram is related to the actors outside of the Philippines. For the sake of simplicity, the procedures in the exporter's country and the relations between the exporter and his bank were omitted.

DOCUMENTS