

FIRST SALE

A NEW CONCEPT FOR USA EXPORT MARKET

Jones A. Botleroo - FCMA
Senior General Manager - Finance
Buildtrade Group
botleroo.jones@yahoo.com

Abstract

The economy of Bangladesh is dependable on Garments Industries to a great extent. If it collapses, the socio-economy of Bangladesh will be greatly affected. The objective of this study is to create awareness of survival in the international market, specially Garments Exports to the US Market. All information here is based on my practical experience of implementation on First Sale mechanism in association of STR Law Firm in USA.

Keywords: international business, first sale.

Introduction

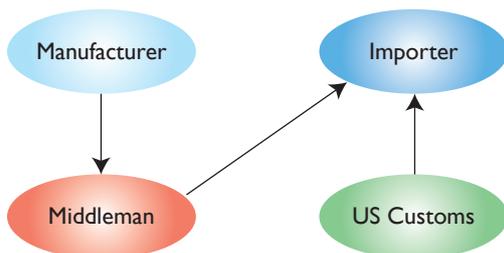
There is always and everywhere one and more middleman in the market to reach the products to the ultimate consumers from the manufacturers. As such, price of the products increases and the consumers pay the high price. Similarly, in international business, importers pay duty on the end value of the invoice. To reduce the cost of the imported goods, US Government introduced the First Sale Mechanism.

What is First Sale ?

The First Sale is one which occurs between the manufacturer and the middleman, i.e., transaction between the manufacturer and the middleman. The Second Sale is one which occurs between the middleman and the importers, i.e., transaction between the middleman and the importer.

There is a Three-Tiered Transaction: Manufacturer to Middleman, Middleman to Importer.

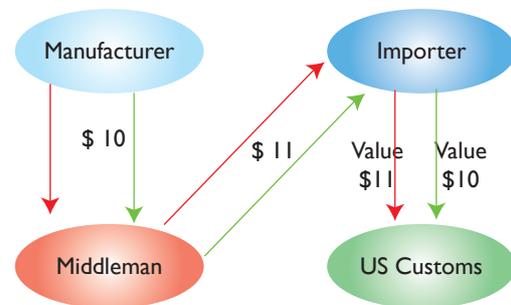
Three-Tiered Transaction



First Sale - Why ?

Declaring value based on the first sale of a multi-tiered transaction reduces the import value. Hence the customers are benefited. Below is the example of impact on duty on First Sale.

First Sale Example



Red = Regular Sale Duty = \$ 1.10
Green = First Sale Duty = \$ 1.00

First Sale Savings :

- * Assume 20% rate of duty across apparel product line
- * Assume 10% mark-up by the Middleman
- * USD 50,000,000 in annual exports to the U.S

Mark-up = approximately USD. 5,000,000

Duty Savings = approximately USD. 1,000,000
(Landed Cost Reduction)

Documentation:

To prove First Sale Price, huge documentation is required for the satisfaction of US Customs. The documents required are as under:

- * Agreement between Manufacturer & Middleman.
- * Agreement between Middleman & Importer
- * Separate invoice for First Sale & Second Sale
- * Costing sheet of First with mark-up
- * Proof of Payments from importer to Middleman and from Middleman to Manufacturer.
- * All papers in support of First Sale to be preserved for 5 years for US Customs audit.

First Sale Mechanims:

There are some pre-conditions to execute First Sale.

- * There must be available a completed paper trail of transaction before US Customs approves it.
- * A complete set of papers of First Sale & Second Sales to be sent to US Customs for examination.
- * If there is any query that must be answered until US Customs is satisfied.
- * After approval by US Customs, the First Sale Mechanism may be started to get the benefit of duty.
- * During the running period of First Sale Transaction, US Customs may audit the documents any time by their representatives.
- * If any irregularity is proved, there is a provision of penalty on the importer.
- * Profit of Manufacturer Comparable to Firm Overall
- * Price comparable to sales to unrelated company.
- * Profit of Manufacturer comparable to similar Manufacturers.

Future of First Sale in our Garments Sector :

First Sale is applicable for Garments Industries of Bangladesh. Bangladesh has huge market in USA. By adapting First Sale Mechanic, Garments Industries may boost its exports to US market. By adopting First Sale procedure, Buyer & Manufacturer both can be equally benefited by reduction of landed cost in USA.

The Owners of Garments Industries should take this opportunity. They may propose the US buyers to do all the requirements of First Sale to reduce duty and may share a percentage of that savings.

As a result, both the parties will be gained and that may enable higher garments exports to US Market.

- * National Retail Federation of US expects wholesale import apparel prices to decline by 8-10% in the coming years
- * Retail Federation of USA predicts retail apparel prices to decline 4% a year for the next 5 years

In the scenario of decline of retail prices and wholesale import prices, there is only way to subside it: through the First Sale Mechanism, the new concept of exports to US Market. □

Conclusion:

Garments Industries is the major foreign currency earning sectors of Bangladesh. USA is the biggest market of Bangladeshi Garments. US Buyers are looking for competitive markets to cope with the decline of prices of apparel in US Market as per the forecast of National Retail Federation for the coming years. The owners of Garments Industries should grab the opportunity of First Sale to be Price Competitive in landing cost for US Buyers. The other countries are already advanced in First Sale Process to attract US Buyers. The giant US law firms have been involved for implementation of First Sale Legally in the USA. Once the First Sale system is introduced in India, China and other countries, Bangladesh will lose US export market, no doubt. © C&M

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