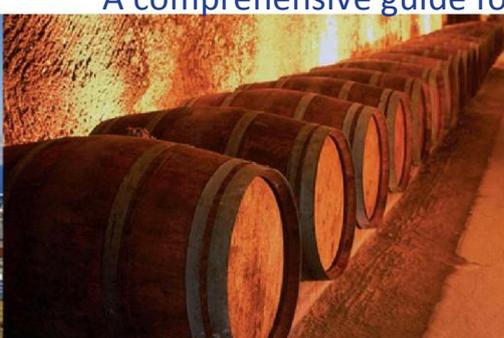


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LOGISTICS

A comprehensive guide for the Wine and Spirit industry



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INTRODUCTION

The Freight Forwarders Group was formed on 30 December 1971 through the initiative of several Freight Forwarders who were members of the then Wine and Spirit Association. At the inaugural meeting, it was agreed that the primary objectives of the Group were to strengthen liaison with the Trade and to promote the interests of Freight Forwarders specialising in the movement of wines and spirits. H.M. Revenue and Customs indicated informally its approval of the formation of the Group, as a central point of communication between the Department and Freight Forwarders handling wines and spirits.

In October 2007, the remit of the Group was changed to include broader logistics issues including:

- Environment (Carbon Footprinting)
- Ownership of goods in Warehouse
- Parking/Delivery in London
- Transport Costs (Fuel Duty)

A number of other logistics companies joined the Group which was renamed the WSTA Logistics Group. The Group is established as a Committee of the WSTA and all its activities are conducted within the framework and constitution of the WSTA and in consultation, where necessary, with the WSTA Executive Board. Membership of the Group shall be open to all Logistics Service Providers which:

- a. are paid-up members of the WSTA;
- b. have been directly involved in wine and spirits movements for a minimum of three years; and,
- c. are full trading members of an approved professional body.

Over recent years many changes have taken place in the world of shipping in general and logistics for the wine and spirit trade in particular. These changes include, amongst others, the Single European Market, the Channel Tunnel, deregulation, re-structuring of various HM Revenue & Customs departments, including rationalisation of Excise laws as well as the review of financial securities amongst others. Changes will also include implementation of the EU's Excise Movement and Control System and trade facilitation at international level.

The Freight Forwarders Group, and later the Logistics Group, has taken an active part and contributed greatly to the smooth implementation of these changes by representation and consultation at the highest level with the relevant UK authorities.

It is hoped that this publication, compiled by the Group members, will help newcomers to the Trade not only to understand the way changes affect the daily working of their companies but also to identify and clarify some of the main basic concepts of freight and Customs processes. Even though the subject is varied and complex we have endeavoured to keep this publication as easy to follow and understand as possible, one of its aims being to provide a sound grounding for further studies.

LOGISTICS, IMPORTATION AND FREIGHT FORWARDING

PREFACE

Just imagine: the vineyard has been visited, continuity ensured, production methods approved, labels designed, glass selected, carton quality confirmed, credit terms agreed, wine chosen. Now you wish to establish a selling price in the UK, but two crucial factors remain to be resolved:

1. Buying Terms (your supplier may suggest supplying F.O.B. or C.I.F. or in bond delivered. Which method is best for you?), and
2. How best to get the product from the centre of Chile to the shelves or tables of your customers? How much will that cost and how much tax will apply?

Both are inextricably linked and both fall into the area of expertise of the freight forwarder.

If you had the time you could, of course, research all the methods of transport available (wasting a little time initially on dismissing airfreight as a viable option for carriage of commercial volumes). Frequency of sailings, sailing times, transshipment possibility, UK clearances and haulage costs are some of the factors you would need to establish before your costings are complete and, of course, rates of excise and customs duty could only be certainly established once you had identified which of the 10 digit customs tariff codes were applicable to your product.

Or you could ask a reputable Freight Forwarder

CHAPTER 1

THE FREIGHT FORWARDER AND THE WINE & SPIRIT TRADE

General Logistics and Forwarding

Choosing a Freight Forwarder

THE FREIGHT FORWARDER AND THE WINE & SPIRIT TRADE

“I don’t know what the hell this “logistics” is that Marshall is always talking about, but I want some of it”.
(Admiral E. J. King, 1942)

GENERAL LOGISTICS AND FORWARDING

Huge changes have swept the Trade during the last fifty years and the close relationship, or partnership, between the forwarder and the merchant or distiller has developed and deepened accordingly. Interpreter of fiscal changes is traditionally the forwarder’s role and certainly since the advent of the European Union, the forwarder has been in the front line in the battle to make sense of, and to executing, the new regimes affecting our trade.

The Freight Forwarders Group of the Wine and Spirit Association played a large part in interpreting the implications of the arrival of the Single European Market, for the Trade. ‘The same applies to the more recent impact of Security Measures imposed by the Port Authorities after the events of 9/11’.

In addition, the speed with which the Trade can adapt to changes in the market-place is assisted by the forwarder’s traditional flexibility. In the past, merchants turned stock over four or five times a year which meant that the delivery window could be several weeks long, nowadays it can be of a few minutes duration.

In general, the need for a structured dependable supply system has whittled down lead times to the bare minimum. The forwarder therefore needs to have systems of transportation and communication which dovetail with those of the supplier, his customer, the warehouse and even the retail outlet.

Known under the general heading of “Logistics” these systems have been developed to cater for JIT (Just in Time) and TQM (Total Quality Management) requirements, the end product being the fulfilment of the need for goods to be delivered at the right time, at the right cost and in the right place.

‘Logistics’ is the control of all the factors of production, transportation and handling which go between the supplier and the final consumer and take into consideration the following factors:

- How long does the supplier take to prepare and order?
- What is the optimum production batch?
- Are the goods palletised?
- How long does it take to transport the goods from the supplier to the first receiving warehouse for a) full loads and b) groupage loads?
- What are the vital factors in the receiving warehouse?
- How large or small is the delivery window?
- How quickly can the goods be brought to account?
- How quickly can they be delivered to the next warehouse or client?
- What is the optimum delivery order size?
- What is an acceptable stock level a) financially, and b) practically?
- Are the cost savings per unit obtained by shipping full loads rather than groupage outweighed by the extra cost of financing and storage?

In providing answers to these questions, the forwarder will ensure that the following essential principles are observed:

- Accurate identification of client's actual needs
- Reliability of service offered
- Security from physical and financial risk
- Suitability to client's requirements
- Rate durability

Actually, freight forwarding is the oldest profession. When stone-age man first picked more nuts than he could eat or carry in his hands, it was his freight forwarder companion who arranged for the nuts to be taken back to the cave. There is still some doubt as to the number of nuts charged as his (or her) fee.

In simple terms, a freight forwarder is a company involved in the international movement of goods on behalf of another company or person. This definition, however, cannot stand alone as a freight forwarder's business is difficult to define in a single sentence.

In short, the freight forwarder provides the following services:

- Expert advice
- Interpretation of fiscal changes
- Arranging transportation
- Control of documentation
- Liaison with H.M. Revenue and Customs
- Payment of freight and other charges
- Provision of packaging and warehousing
- Arranging insurance
- Consolidation and specialist services
- Consignment tracing and tracking
- EMCS / Registered Consignee (replaced REDS system in 2010)
- Intrastat service

CHOOSING A FREIGHT FORWARDER

It is recommended that the selection is made from the list of specialist wine and spirit forwarders who are members of the WSTA Logistics Group, full details are available from the Association.

The trade body responsible for freight forwarders, the British International Freight Association (BIFA), will also provide a list of reputable forwarders who subscribe to the Standard Trading Conditions of BIFA. Individuals within the forwarding industry can gain professional accreditation through membership of the WSTA.

CHAPTER 2

ORDERING, SHIPPING AND DELIVERY

ORDERING

Considering a company's objectives and strategies within its particular market sector freight forwarders are able to determine a customer's requirements covering the ordering, shipping and delivery functions. These will be influenced by such considerations as budgetary framework, marketing and sales targets, scope of suppliers production capability, stock holding and distribution costs, amongst others.

Based on scheduled or immediate customer requests, it is imperative to strike the right economic and efficient balance to order, ship and deliver or hold in stock, precisely what your customers require. At the same time one must be careful to avoid over production and overstock positions. Conversely, ordering, shipping and the delivery of goods to match exactly the orders received from customers without considering replenishment of minimal buffer stocks, may potentially result at best in lost sales and at worst lost customers. This might occur in spite of JIT shipments being available.

Against the above criteria, agreed order quantities are placed with European or International wine suppliers against existing reserved stocks or as new orders. The orders are prepared according to previously agreed specifications, such as quality control, including origin, production and storage, labelling, packaging etc.

Orders are subsequently made available for immediate or scheduled shipment based upon agreed production and shipping lead time and in the case of stock replenishment according to sales targets. Increasingly, volume traders are making their own arrangements for shipments and storage with the result that an even closer relationship must be forged between the parties involved, namely the UK agent, foreign supplier and the freight forwarder to ensure adequate and efficient management to control floor stocks, accurate and timely flow of documentation as well as service levels at all stages in the process.

Once the decision to place an order has been made, which will contract the freight forwarder to purchase, ship and deliver, it must be communicated without delay using the best means available:

- Phone (confirmed in writing)
- Post
- Fax or e-mail
- Via EDI (Electronic Data Interchange)
- The Internet

The order must be sent to all parties involved in the chain and depending on the size of an organisation these will include all or some of the following:

- Supplier and/or his/her agent
- Freight forwarder
- Warehouse(s) - Receiving and distribution point(s)
- The company's finance department
- The company's stock control department
- The company's quality control/buyers(s)
- The company's marketing and sales department.

As well as communicating the order as speedily and widely as possible it is necessary that the information must be clearly stated and includes the following:

1. Order Number

This is vital as it is the common data available to all parties to communicate and refer to at all stages.

2. Parties to the contract These include:

- Supplier and supplier's agent if any.
- Collection point, if different from supplier's address.
- Delivery point.

3. Order terms and status

- Terms of purchase (Ex cellars/FOB etc.).
- Responsibility for goods and duty transit insurance.
- Terms and method of payment.
- Expected availability date and collection date.
- Expected delivery date.
- Your VAT number preceded by GB (for EU purchases).
- Order status, i.e. delivery under duty suspension or duty deferred etc.
- Provide consignee's excise and VAT numbers be they tax warehouse or Registered consignee, for accurate completion of the E.A.D. document by the consignor in the case of EU purchases.

4. Goods details

- Full description and nature of goods including alcoholic strength.
- Purchase price.
- Quantities expressed in
 - cases/cartons
 - bottles per case/cartons, bottle size
 - number of case/cartons per pallet
 - number of pallets per load
 - hectolitres for bulk shipments

Other information might include

- Product codes/bar coding.
- Weight per case/carton/pallet.
- Pallet types, if applicable.
- Request for cargo to be loaded loose or on slipsheets, i.e. if pallets not required.
- When applicable, reference number of batch/cuvée approved when product was originally tasted.
- Specific label requirements.

5. Mode of Transport

- Freight forwarder.
- Equipment type to be used.
- Route to be used if choice is available, i.e. sea/road or rail.

6. Other miscellaneous information might include

- Specify extreme of temperatures which goods must not travel under or type of equipment to be used in such cases.

SHIPPING AND DELIVERY

Tightly organised and constantly monitored freight management systems on a real time basis by phone, fax, e-mail and EDI are fundamental to the efficient and economic control of the logistic process.

It is also essential that such freight management systems integrate the logistics function of a company with its suppliers, forwarder and third party warehouse or contract distribution companies so that the objective of a complete logistics system, subject to appropriate security measures, is achieved.

It is imperative that rate negotiations with the Freight Forwarder is ranked equally with high quality of customer service so that a company can take advantage of the benefits of these freight/logistic systems. For example: reduction in stocks; lead times; logistic costs; increased efficiency; as well as productivity of the freight/logistic functions.

Establishing these objectives, systems and relationships with the forwarder is a continuous and vigorous process, one of a partnership and performance review as opposed to that of reactive firefighting.

This professional approach of partnership will foster and increase the expertise, experience and quality of service you receive from your forwarder so that performance targets and levels are set and measured in terms of:

- Constant progress chasing, communication and reporting procedures.
- Strict adherence to pre-agreed availability/loading dates as instructed.
- Efficiency level in delivering against agreed shipment lead times in the order of 95-100% success rate.
- Total quality control of product throughout transit.
- Full control of agreed freight and HM Revenue & Customs documents and procedures.
- Daily order status reports - available/loaded/shipped/arrived/cleared/delivered.
- Periodic performance review and negotiations.
- Full compliance with Health and Safety and gross Vehicle Weight laws.
- Defined strategy for JIT priority, emergencies and missed bookings.
- Accurate invoicing for all freight charges.

CHAPTER 3

TERMS OF PURCHASE AND INSURANCE

Terms of Purchase

Insurance

TERMS OF PURCHASE AND INSURANCE

TERMS OF PURCHASE

When entering into any purchasing contract or agreement it is important to clearly define the terms of purchase with the supplier. These terms are commonly known as INCOTERMS and are recognised internationally. Whilst there is no legal requirement to use Incoterms, it is strongly advisable as the terms clearly define the responsibilities of both the vendor and the buyer. This includes where delivery is to be made, who insures and bears the risk of any loss or damage in transit

The following provides a brief summary of the most commonly used Incoterms:

EXW - Ex Works, best known in the wine & spirit trade as Ex Cellars/Ex Winery/Ex Distillery.

The supplier makes the goods available at their premises, the buyer has the responsibility of organising the collection, including the loading of the goods (however in practice the suppliers will organise the loading in the majority of cases). The supplier must provide the goods in conformity to the contract, arrange suitable packing of the goods with any appropriate marking and render assistance in obtaining any export licences.

The buyer is responsible for paying the freight, insurance and documentation charges in addition to the purchase cost of the goods.

FOB - Free On Board

The supplier completes his obligation once the goods are loaded on to the ship at the named port of shipment. From FOB, the buyer bears the full freight and insurance costs of the shipment to its delivery address. The terms can only be used for sea or inland waterway transport.

FCA - Free Carrier

A relatively new Incoterm devised in the 1980's, it is used when the goods are moved door to door by multimodal or road freight methods. The supplier is responsible for placing the goods into the care of the nominated carrier at a point named by the buyer, the buyers is then responsible for the loading, freight and insurance costs. Whilst similar to ex works/cellars terms, the basic distinction is that the place of loading is normally at an ICD (Inland Clearance Depot or Freight Terminal).

FOR - Free on Rail

This Incoterm has been used in the trade since the 1980s and means that the supplier is responsible for loading the goods onto a rail wagon at their private sidings or alternatively is responsible for delivery the goods to an appointed nearby railhead. The buyer bears the costs for the rail freight and all other charges to destination, together with the insurance costs.

CFR - Cost and Freight

Previously known as C&F, this is another relatively new Incoterm and means that the supplier is responsible for delivery and loading the goods onto a vessel, clearing for export and organising shipment to a named port of destination, paying the sea freight charges including the unloading charges ex vessel. The buyer is then responsible for any customs clearance formalities and delivery costs to destination. Insurance costs and arrangements remain the responsibility of the buyer.

CIF - Cost Insurance and Freight (named port)

This is basically the same as CFR except that the supplier is responsible for arranging and payment of all risks insurance cover to the named port. The responsibilities regarding the payment of sea freight and other charges remain exactly the same as for FCA.

DAP – Delivered At Place (at agreed destination)

This term relates to shipments that are delivered to the agreed destination (buyers premises or nominated tax warehouse) by the supplier. All freight and transport costs being paid by the supplier, payment of all duties or taxes remains the responsibility of the buyer.

DDP - Delivered Duty Paid

This term is for shipments that are to be delivered in a duty paid state to a delivery point nominated by buyer. All costs, including duties are paid for by the supplier.

INSURANCE

This is a vitally important subject which all too frequently is either totally neglected or not fully understood. Wines and spirits, perhaps more than most other types of cargo (or “goods in transit”) are vulnerable to theft, damage or loss whilst being transported or warehoused. It is a mistake to assume that a ‘carrier’ will pay in full (or at all) for loss of or damage to cargo. In that context Cargo Insurance is indispensable.

Virtually all ‘carriers’ (freight forwarders, hauliers, warehouse keepers, shipping lines, airlines and rail freight operators) LIMIT, or in certain circumstances EXCLUDE liability for loss (including theft) and damage either by contract under standard trading conditions / conditions of carriage or by statute / international convention. Carrier’s liability is an extremely complex subject. and the following brief summaries are intended as a practical but superficial guide only:

Freight Forwarders/Freighting Companies/Transport Operators

For the most part these companies trade under the British International Freight Association (BIFA) standard trading conditions. Under these conditions they are able to avoid liability completely if for example, loss or damage is caused by:

“Any cause or event which the (freighting) Company is unable to avoid and the consequences whereof (it) is unable to prevent by the exercise of reasonable diligence” (Clause 24 (B) of the BIFA Conditions - 2005 edition)

Even if a freight forwarder/freighting company/transport operator is liable, that liability will be subject to a limit of 2 SDR's (Special Drawing Rights) per kilo, equivalent to approximately £1.82. Claims must be notified within 14 days or they may be declined for "late notification". Legal action to enforce a claim must be brought within 9 months of the event.

N.B. Special Drawing Rights (or SDRs) are an international "currency" (XDR) most commonly used in International Conventions or laws regulating carriers' liabilities. The value of the XDR against the £ Sterling (and other national currencies) fluctuates daily. The XDR/£ Sterling exchange rate is published by the Financial Times, Lloyds List and IMF. As of May 2014 1 XDR = £0.91.

Most freight forwarders will, on request, agree to arrange "all risks" insurance for you - alternatively it would be wise to arrange your own "all risks" cargo/goods-in-transit insurance through a specialist insurance broker.

Road Hauliers - UK Haulage

Road hauliers carrying goods domestically within the UK mainly trade under either Road Haulage Association (RHA) or Freight Transport Association (FTA) Conditions of Carriage. These conditions provide complete defences to liability in certain circumstances (for example loss or damage due to Act of God or insufficient/improper packing or strike, riot or civil commotion) and even when liability is admitted the haulier will be liable only up to a limit - £1.30 per kilo in the case of the RHA Conditions (2009 edition) and £1.30 per kilo or £500 per consignment, whichever is the greater, under the FTA Conditions (2002 edition).

There are strict time limits for notifying and making claims. Whilst the RHA and FTA are the most widely used conditions in the UK, some hauliers prefer to operate under their own, individual conditions of carriage some of which are more and some less generous than either the RHA or FTA conditions.

Therefore it is prudent to discuss the exact conditions of liability/carriage before entering into any arrangement with road hauliers and negotiate, if possible, new liability limits to reflect the value of the cargo. Some hauliers may be prepared to agree higher limits of liability to reflect the value of cargo or to arrange "all risks" insurance for you - however, an alternative approach is to arrange your own "all risks" cargo/goods-in-transit insurance through a specialist insurance broker.

Road Hauliers - International (CMR)

The international carriage of goods by road vehicle to or from the UK (except currently between the UK and the Republic of Ireland) is regulated by the so-called CMR rules. These are enacted in the UK by the Carriage of Goods by Road Act 1965 as amended by the Carriage by Road and Air Act 1979. The CMR rules have attained considerable every day significance given the substantial increase in trade between the UK and continental Europe over the last 30/40 years.

The CMR carriers' liability for loss or damage to goods is subject to a limit of 8.33 SDRs (approximately £7.58) per kilo. Additionally if liable for loss or damage the CMR carrier would also be liable in full for any duty or taxes e.g. excise duty. Whilst this appears reasonably generous, the carrier has several possible defences. The following are 3 examples:-

- i) "....Circumstances which the carrier could not avoid and the consequences of which he was unable to prevent." (Article 17.2 of the CMR). This defence has been used successfully on many occasions, the following examples being of interest:-
 - Violent hi-jack of vehicle parked overnight at supposedly "safe" lorry parks, whilst the driver

was sleeping on-board.

- Road traffic accident involving a third party vehicle where the third party vehicle was completely to blame.
- Road traffic accident caused by a deer on the road resulting in the lorry jack-knifing and complete loss of the load.
- Fire started by vandals spreading to carriers vehicle from an adjacent vehicle whilst both were parked up overnight in a supposedly "safe" lorry park (the drivers of both vehicles were asleep on board their vehicles).

ii) Lack of or defective condition of packing to the goods.

iii) Damage caused during handling, loading, stowage or unloading of the goods by the exporter, the importer or their agents.

It is important to note that in the cases of the defences mentioned under ii) and iii) above, the carrier only has to show that the loss or damage COULD have been caused in this way. It is then up to the exporter or importer to prove that it was not so caused.

Claims must be made immediately in the case of the apparent loss or damage and within 7 days in other cases. Legal action must be brought within 1 year.

Consequently it is wrong to assume that just because a carrier's liability is covered under CMR conditions, compensation is available for loss or damage to goods. It is recommended that an All Risks insurance cover is arranged and in place before the commencement of the movement. The CMR carrier may be able to arrange this for you on a shipment by shipment basis - alternatively you can arrange an annual insurance through a specialist insurance broker.

Warehouse Keepers

Warehouse keepers most frequently trade under the United Kingdom Warehousing Association (UKWA), or the Bonded Warehousekeepers Association (BWA) for Scotland, Contract Conditions For Logistics which provide them with a complete defence to liability for loss or damage unless caused by their 'negligence or wilful act or default'. Even when the warehouse keeper is liable, the conditions limit their liability to £100 per tonne in the case of the UKWA Conditions. Under the latest (2006) UKWA Conditions the customer has an option to specify his required Limit per tonne but, in the absence of this, the warehouse keeper's liability is limited to £100 per tonne.

This is woefully inadequate in the case of wines and spirits and warehouse keepers may be prepared to negotiate a higher limit more in line with the value of goods they store. However this may be subject to increased warehousing costs the trader/goods owner is best advised specifying a higher Limit with the warehouse keeper or arranging his own insurance. Again, a specialist insurance broker should be able to help in this regard.

Shipping Lines

Shipping Lines have their potential liability regulated by The Hague Visby Rules (enacted in the UK by the Carriage of Goods by Sea Act 1971) or the Hamburg Rules. The Hague Visby Rules provide the sea carrier with a variety of potential defences to liability for loss or damage to cargo, for example:-

- i. Act, neglect, or default of the Master Mariner, Pilot or servants of the carrier in the navigation or management of the ship;

- ii. Fire, unless caused by the actual fault or privity of the carrier;
- iii. Perils, dangers and accidents of the sea or other navigable waters.

Claims must be made immediately for apparent loss or damage and within 3 days in other cases. Legal action must be brought within 1 year. Sea carrier liability under Hague Visby is limited to 2 SDRs per kilo or 666.67 SDRs per package whichever is the greater.

The alternative regime of the Hamburg Rules has still only been adopted by a small number of Nations. These rules however may favour the cargo owner better. The carrier is presumed to be liable, unless he can prove that "his servants or agents took all reasonable measures required to avoid the occurrence and its consequences".

The liability limitation is more generous, at either 2.5 SDRs per kilo or 835 SDRs per package whichever is the greater. Under Hamburg the carrier can under certain circumstances be liable for delay. Liability for delay is limited to 2.5 times the freight payable. Finally Hamburg Rules allow 2 years for legal action to enforce a claim.

International Carriage by Rail

The basic applicable regime is known as the COTIF/CIM. Carriers have traditionally been the nationalised, state railway authorities. Again there are numerous defences to the liabilities for loss and damage to goods with a limit to the amount of liability possible, in cases where the railway authorities are responsible. There are rules for making claims which must be strictly followed. If these are not followed there is a strong risk that claims will not be paid.

As will have been seen by from the above the rules, regulation, laws and practices affecting the international carriage of goods are extremely complex. Any attempt to challenge these should not be undertaken without expert legal assistance.

It is therefore strongly advised that to avoid difficulties in obtaining recompense for loss or damage to goods in transit or in store, an All Risks insurance cover is purchased by the trader/goods owner. To operate without insurance - especially in the field of wines and spirits - is short-sighted and ill advised.

One of the simplest methods is to organise Marine Cargo Open Cover. The two most common ways of arranging insurance are either to give your appointed freight forwarder/haulier a standing instruction to arrange cover on a shipment by shipment basis or alternatively to arrange your own Marine Cargo/Goods-in-Transit Annual Open Cover. The advantages to the supplier/buyer, includes the knowledge that the goods are fully covered and legitimate claims will not be limited to the carrier's liability i.e. be paid in full without having to go through complicated, time consuming, expensive and frequently fruitless negotiations with carriers. As Customs Authorities require excise duty to be paid even if the goods are lost/stolen in transit, it is important to ensure that the cargo insurance also includes cover for duty.

Despite the use of the word 'Marine', Marine Cargo Insurance is designed to cover goods in transit by any means of transport and can also cover physical loss or damage to the insured cargo whilst in stores. As well as providing protection against loss or damage Marine Cargo Insurance also provides some useful extra cover benefits against other costs such as:

General Average and Salvage Charges

These are historical names for what are nonetheless important, modern financial threats to any uninsured importer or exporter.

A General Average act is an extraordinary sacrifice or expenditure incurred in time of peril for the common safety of a maritime adventure. These might include, costs of extinguishing a fire on board a vessel, jettison of cargo to lighten a stranded vessel, damage to ship's engine when forcing stranded vessel off sandbank, costs of tug hire, discharging, storing and reloading cargo to allow for repairs to vessel etc.

The essence of General Average is that all parties (vessel owners and cargo owners) must contribute to cover the costs which can run into £millions. If the cargo is insured the insurer will pay. However, if you do not have insurance you will have to pay the costs yourself. If you do not do so the ship owners will, perfectly legally, seize your cargo, sell it and you will have no means of recourse against them.

A recent, well publicised "General Average/Salvage Charges" incident was the stranding and partial breaking up of the vessel "MSC Napoli" off the Devon coast in 2006 with many containers washed overboard and many others the subject of extensive (and very expensive!) salvage operations. Uninsured cargo owners would have had to pay the General Average and Salvage charges themselves (or risk losing it) whereas those with insurance would have had the charges, as well as any damage to the cargo, paid by their insurers.

Extraction and On-Carriage Costs

These are costs associated with difficulties encountered when, for example, a shipping line or other "bailee" of goods gets into financial difficulties and its suppliers or sub-contractors who are owed money may retain cargo entrusted to them by the line. In such cases the Marine Cargo Insurer would meet the cargo owner's costs incurred for Extraction and On-Carriage of the cargo, if the insurance policy provides cover for such costs (many do not).

CHAPTER 4

METHODS OF PAYMENT

Methods of payment

Bill of exchange

Letter of credit

CHAPTER 4

METHODS OF PAYMENT

METHODS OF PAYMENT

It is essential that a clear agreement is established between the buyer and the seller as to the method of payment together with the terms of purchase for each and every contract.

As payment will usually be required in the currency of the supplier, it may be advantageous for the buyers to establish a foreign currency account with their bank. This is due to the ever-changing exchange rates and allows the buyer to speculate on the currency market, buying in currency at advantageous rates for future funding.

If in doubt as to how to proceed importers or exporters are strongly recommended to consult with their bankers or financial advisers before entering into an agreement.

Payment methods can be summarised under two headings:

- **Open account**
This is the most common form of payment when dealing with intra EU movements. Providing a credit account has been established in advance, the supplier will invoice the client on a shipment by shipment basis. Payment should then be made to the supplier within the pre-agreed time schedule by the buyer. Payment can be made by cheque, Bankers Draft or Electronic Transfer. This system is by far away the most convenient form but it must be based on the goodwill of both parties to comply with their contractual agreement as there is no in-built guarantee for the supplier.
- **Documentary collection**
This provides safeguards to both parties and is particularly popular where deep sea shipping is involved. There are two major documentary systems:
 - Bill of Exchange (Bank Draft)
 - Letter of Credit

BILL OF EXCHANGE

A Bill of Exchange is a signed document issued by the supplier (the drawer) for a determined amount payable at a future specified date, this is then sent to the customer/buyer (the drawee) for their acceptance. The draft will then be signed by the drawee thereby accepting the terms of the bill of exchange which had been previously agreed. This then unconditional order will be returned to the drawer and can be held until maturity. It can then be presented to the bank for payment, allowing a delay of 3 to 4 weeks for the administration procedure.

LETTER OF CREDIT

A Letter of Credit is a written document arranged by the customer/buyer with their bank, the issuing bank, and then sent to the supplier and their bank, the notifying bank. In the letter the issuing bank undertakes to pay the stated amount at a future specified date to the named company/person, providing that all the conditions and information given thereon are adhered to, in return for the delivery of the commercial and shipping documents.

The documentary credit is of significant value when irrevocable as it cannot be withdrawn, amended or modified without the consent of all parties involved. However, it becomes of greater value once confirmed by both banks, as in doing so, both the issuing and notifying banks undertake to honour their obligations. The bank charges involved are high, but this is a guaranteed form of payment for the supplier.

CHAPTER 5

FREIGHT FORWARDING METHODS, EQUIPMENT TYPES, AND LOADING CONFIGURATION

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FREIGHT FORWARDING METHODS, EQUIPMENT TYPES, AND LOADING CONFIGURATION

FREIGHT FORWARDING METHODS

Wines and spirits, of course, require transporting from their place of creation/production to the consumer. The methods, routes, equipment used and costs are almost as varied as the products to move. This is one very good reason to entrust the movement of your goods to a specialist wine trade freight forwarder.

However, in order that you know what is involved and to understand why your freight forwarder will need certain information we will attempt to give enough detail for you to get a feel of the subject. Almost all the following applies to both movements of goods to and from the U.K.

BASIC MODES OF TRANSPORT

Land

Moving from origin to destination on the roads and railways, possibly linked with a tunnel transit or ferry crossing.

Sea

Shorter distance cargo can be either loaded onto :

- Roll On/Roll Off [Ro-Ro] vessel where the truck & trailer simply drive on & off
- Feeder, or mainline container vessel where the cargo is containerised and requires a Lift On / Lift Off [Lo-Lo] the vessel at port of load, and port of discharge.

Longer distance inter-continental cargo is carried on shipping line vessels as containerised traffic. Normally with a shipping bill of lading issued by the carrying line which acts as a) evidence of a contract b) title/ownership to goods c) receipt for goods.

Air

Due to expense, air freight is usually limited to smaller urgent consignments. Goods travel under an air waybill document from shipper to consignee.

FREIGHT COST

In order to calculate the most economical freight costs, you may need to consider the

- Route
- Required transit time
- Cargo weight, dimensions & volume

- Packaging
- Transport equipment employed
- Country transport regulations

Noting that each equipment type listed later has individual benefits & limitations. Your freight forwarder can guide you through this process.

LOADING STYLES

If you have previous experience, you will probably already know what packaging & transport method to employ. Otherwise, here is a summary of available products to match against your requirements i.e. cargo description, packaging, size, weight, volume etc:

All wines and spirits tend to be carried in some form of packaging such as bottles, cans or cartons packed into cases. These are usually palletised for shorter distance within continent movements and either loaded 'loose' or palletised, for longer distance inter-continental movements.

Pallet

Is a standard sized platform capable of holding a number of smaller units (cases). Within the industry the majority of handling machinery is designed to manoeuvre pallets. As a result handling efficiency is improved through an increase in speed and manual labour cost reduction. An indication of the number of pallets allowable per unit is shown below. Assuming only one layer of pallets and the cargo gross weight (cargo, packaging & pallet) being within the unit's limits. Your nominated freight forwarder will check/fine tune how many pallets can load per specific transport company/mode employed.

Pallets are generally available in two sizes:

- Standard: 1.20m x 1.00m
- European: 1.20m x 0.80m

Groupage

Is a term employed to cover 'smaller' shipments, less than a 'full load'. Every shipment is valued, no matter how large or small. Your freight forwarder would offer you a consolidation service where other 'compatible' traffics are linked with your consignment, to build up a 'groupage' shipment by one means of carriage. The individual component cargoes may be collected together in one agreed depot location or an alternative transport unit may visit each supplier's site and build up the complete load.

Full Load

Is when quantity of cargo is sufficient to justify one complete transport unit. This may be decided by the cargo volume, weight or your specific choice/instruction. A full load is usually in the same specific transport unit from origin to destination. In effect a 'sealed' operation.

TRANSPORT EQUIPMENT

Your nominated freight forwarder can guide you, based upon your requirements, their transport contacts, contracts and experience.

The industry tends to mix measurements of imperial feet with metric. Conversions are inserted where helpful. Equipment is designated by length and shown below is an approximated indication of cubic capacity.

The carrying weight capacity of all these units depends on many factors; e.g. the equipment itself has limitations, the carrying trailers have varying axle combination limits and each country may have roads/rails with varying weight regulations. It is therefore recommended that you establish the maximum payload, for your routing, with your freight forwarder.

As a general indication, the UK roads will allow maximum 44 tonnes overall. Subject to vehicle triaxled & certificated to necessary standard this approximately equates to a cargo payload (cargo + packaging + pallets) of:

- 20ft containers 27.5t
- 40ft containers 26.5t
- 45ft taut/tilt trailers 26.5t
- 45ft swapbody 26.5t

Shipping Container: [Standard], {Euro} pallet capacity & cbm available

- | | | | |
|------------------------------|------|------|-------|
| • 20ft standard 8'6" high | [10] | {11} | 33cbm |
| • 40ft standard 8'6" high | [22] | {25} | 67cbm |
| • 40ft pallet wide 8'6" high | [24] | {30} | 70cbm |
| • 45ft pallet wide 8'6" | [26] | {33} | 88cbm |

Shipping containers are basically very strong rigid metal boxes with doors at one end only. They can generally transfer between all transport modes i.e. sea (on ship), road (sitting on trailer attached to truck) & rail (on a rail wagon).

Specific Road Transport

- | | | | |
|-----------------------------------|------|------|-------|
| • 13.6m [45ft] Taut-liner trailer | [26] | {33} | 80cbm |
| • 13.6m [45ft] Tilt-liner trailer | [26] | {33} | 78cbm |
| • 13.6m [45ft] Euro-liner trailer | [26] | {33} | 78cbm |

Heights for above are 2.5m, but can go up to 2.8m.

These are detachable trailers, hooked up to a truck. Taut/Tilt/Euro liners all have tarpaulin sides which allow both sides access, as well as through the rigid doors at the end. Giving flexibility at load & discharge sites, Tilt-liners offer further flexibility (over Taut-liners) by additionally allowing top operations (the roof can be removed) as well as having added cargo stabilising & segregation features i.e. internal longitudinal boarding. Respectively, Euro-liners offer further flexibility (over Tilt-liners) by having a flexible retractable roof & optional longitudinal side boards.

They can usually drive straight onto/off RoRo sailings, or use ferry operations, or drive/rail through tunnel systems.

Specific Road/Rail Combination Transport

- 13.6m [45 ft] Swapbody [26] {33} 80cbm

They can have fixed, or tarpaulin sides, the latter allowing similar operational handling characteristics to the Taut-liner. However, they are specifically designed to transfer from the road chassis to specific rail wagons. With dedicated rail service providers offering swapbody routings over their rail networks ensuring that inter-modal flexibility is achieved.

Rail Wagon

Are of most use for customers with dedicated access railway sidings to their premises. They can have 2 or 4 axle (25 & 50t payloads)

BULK LIQUID

For larger shipments, bulk transportation is now regular practice based on the Product being packaged closer to the Consumer, therefore reducing both transportation costs and Environmental impact

The Wine & Spirit Trade Association has produced 'A Code of Practice relating to the Transportation of Wines, Spirits & Concentrated Grape Musts in Bulk'. This covers all aspects of the transport & cleaning operations. It is available in both English & French from the Association. This has been used as the basis for the Code of Practice issued by the O.I.V. [International Wine Office] ~ although the WSTA recommends the continued use of the British Code of Practice.

Flexitanks

A specially designed non-reusable large 'synthetic' bag which fits inside a standard 20ft shipping container, therefore can swap between Sea, Road & Rail Transport modes. Ideal for transporting non-hazardous Products including Wine, Juices etc. Single Product capacity between 13,000 to 24,000Ltrs. The Container Operators Association (COA) has produced a Code of Operation, '*The COA Flexitank Code of Practice*' which sets standards for their manufacture and movement.

Tank Shipping Containers [ISO tanks]

Both single & multi-compartmental with total capacity between 24,000 to 26,000Ltrs. Can swap between Sea, Road & Rail Transport modes. Suitable for transporting both Wines & Spirits with certified cleaning required prior to Loading

Road Tankers

Both single & multi-compartmental with total capacity between 20,000 to 26,000Ltrs. Suitable for transporting both Wines & Spirits with certified cleaning required prior to Loading. Generally used where shorter distances are involved.

Intermediate Bulk Containers (IBC)

Reusable Single compartment Solid Plastic Container housed in a metal Frame, mounted on a pallet to allow stacking & movement by a Forklift Truck. Standard capacity being 1,000Ltrs. Can be used for the majority of transport modes including Air. Suitable for transporting both Wines & Spirits with certified cleaning required prior to Loading

CHAPTER 6

REVENUE AND CUSTOMS

Revenue & Customs

CHAPTER 6

REVENUE AND CUSTOMS

*“... in this world nothing can be said to be certain,
except death and taxes”*

(Benjamin Franklin, 1789)

REVENUE AND CUSTOMS

Customs duties (taxes) have probably been levied on imported and exported goods since Roman times, but the earliest reference to import duty dates from 743, when King Aethelbald of Mercia granted Worcester Abbey the duty on two ships ‘that for my sins they vouchsafe to be frequent mediators with the Lord’.

Excise duties, levied on goods produced or sold within the country are, by comparison, fairly modern as they were introduced in 1643, when Cromwell wanted to raise revenue to support the Parliamentary army. For most of their history the two forms of duty were administered separately. It was not until 1909 that they were united under the Board of Customs and Excise.

HM Revenue & Customs, is responsible to the Treasury for the collection of all duties, including revenue and VAT. They control all movements of excisable goods, whether they be consigned from another member state or from a third country, (any country outside the EU).

Certain procedures must be adhered to in order to protect and collect the revenue due, and these vary depending upon the status of the goods i.e. in free circulation, meaning that customs duty on third country products has been paid.

With the advent of the Single European Market numerous changes have taken place in respect of the documentation and procedures for the handling of excisable goods and these are explained in the next chapter.

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SINGLE MARKET

SINGLE MARKET

The inception of the Single Market in 1993, by allowing the free movement of people, goods, capital and services, abolished Customs checks at UK ports for goods of EU origin. The majority of movements through UK ports now proceed directly to their destinations, resulting in the reduction of transit times and enabling greater certainty in the control of the logistic process.

Whereas imports and exports from and to third countries are controlled through the use of the Single Administrative Document (SAD), it is the Electronic Accompanying Document (EAD) following implementation of the Excise Movement and Control System (EMCS) from 1 January 2011, which monitors and identifies duty liability for excisable products moving within the EU.

Export procedures from the UK are by and large similar to Import procedures, your freight forwarder will be able to advise you on these as necessary.

Upon their arrival in the UK the goods can either be forwarded to a tax warehouse or to a duty paid warehouse and documentary requirements will depend upon the country of origin.

There are two classes of movement:

1. Goods which are destined for a tax warehouse in the UK.

Goods destined for a tax warehouse (previously known as a bonded warehouse) are despatched directly by the supplier (who will be classed as a tax warehouse in his own member state) to the tax warehouse in the UK and no excise duty is payable until the goods are cleared for home use.

2. Goods which are destined for a duty paid delivery point in the UK.

Goods destined for a duty paid delivery point are handled under EMCS (Excise Movement and Control System). These goods are dispatched to a Registered Consignee, depending upon the status of the consignee, direct from the suppliers' tax warehouse and the duty is accounted for on a calendar monthly basis under the prescribed system.

There is also a facility for "occasional acquisitions" whereby excise duty can be paid in the UK prior to shipment, but this should not affect commercial enterprises of any reasonable size.

Registered Consignee

In order to account for and subsequently pay duty on arrival in the UK for goods due to be delivered to duty paid premises, you need to either be a Registered Consignee or use the services of a Registered Consignee.

Your specialist freight forwarder will be able to act on your behalf either as an agent, if you have your own duty deferment or as a principal if your forwarder's duty deferment is used.

TAX WAREHOUSES

These warehouses, often called bonded warehouses, are registered premises which are allowed to hold and despatch goods in duty suspension, duty and VAT liabilities are paid once the goods are released for consumption (home use). Tax warehouses are also used to hold goods which are exported or for diplomatic privilege use; goods can also be transferred between them in the UK.

ELECTRONIC ADMINISTRATIVE DOCUMENT (EAD)

The Electronic Administrative Document or EAD replaced the AAD in 2010. The EAD is raised via EMCS by the consignor using the Excise details of the Consignee then the ARC (Administrative Reference Code) is automatically generated. This number must accompany the goods at all times whilst being shipped/in transit. The EAD document can only be viewed by the Consignee once the goods have arrived the Consignee will submit a Report of Receipt.

The only exception to this is where a consignment of wine is being dispatched by a small wine producer based in a Member State that exempts such traders from the requirements of EMCS. In these cases the movement should be accompanied by a document drawn up by the small wine producer in accordance with EU Commission Regulation 436/2009 (i.e SAAD)

CROSS BORDER SHOPPING

Legitimate cross border shopping and of course smuggling, which is illegitimate, both account for a significant amount in lost revenue to the Treasury. The situation has been largely brought about by the imbalance of excise duties amongst the member states (UK in particular) and several large UK supermarket chains and smaller retailers have now taken the advantage of the relaxed rules by opening retail outlets for wines, spirits and beers in the French Channel ports.

Concern is being expressed, however, regarding the effects of cross border shopping on employment levels in certain manufacturing areas and on sales in the on and off trade sectors in parts of the UK.

Trade bodies such as the WSTA continue to lobby the UK Government in an effort to at least stabilise rates of excise duty in the UK or at best reduce and/or harmonise with those applicable in other EU states.

HOLDING AND MOVEMENT OF EXCISE GOODS

In October 1999 the Warehouse Keepers and Owners of Warehoused Goods Regulations (WOWGR) was introduced as a new tool for Revenue and customs to combat fraud. This will be followed in October 2006 with the introduction of strip stamps for spirits. These measures, along with others, follows the Alcohol and Tobacco Fraud Review (ATFR) carried out by Customs in consultations with all the relevant Trade Bodies, including the WSTA through the Freight Forwarders Group and other committees.

The regulations provide for the registration with the authorities of all warehouse keepers and owners of excisable goods. Wine and made wine as well as hydrocarbon oils are temporarily excluded from WOWGR.

The main changes resulting from the new regulations are as follows:

- Goods can only be held in duty suspension by authorised warehouse keepers who have been approved and registered in respect of that warehouse.
- Owners who wish to deposit goods in an excise warehouse and/or buy warehoused goods must be registered with Customs.
- All bottles of spirits, and wine or made wine, with a strength of 30% alcohol by volume or more, in retail container sizes of 35cl or more, will be required to bear a duty stamp when removed to home use in the UK.

CHAPTER 8

BONDED WAREHOUSES

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CHAPTER 8

BONDED WAREHOUSES

WHAT IS A BONDED WAREHOUSE?

A bonded warehouse is a warehouse authorised to hold products liable to Excise duty in temporary suspension of that duty. Some warehouses have the status of both Customs & Excise warehouse, others have a status of one or the other. Confusion is caused as all are frequently given the generic term of 'bond'. Where the goods are alcoholic products, this is often referred to as a 'wet bond'; where the goods are other, it is often called a 'dry bond'. It is important to ensure that the bond selected is authorised to hold the class and tax status of the product to be bonded. Categories for alcoholic beverages are whisky, other spirits, wine, beer and cider. There are two types of wet bond - General Storage & Distribution Warehouses and Trade Facility Warehouses [e.g. warehousing goods for export only].

As with freight forwarders, bonded warehouses employ staff with specialist knowledge of H.M. Revenue & Customs regulations. Use of such professionals is of great use to the alcohol industry in general, since use of such specialists frees the trade to do what it does best - buy and sell alcoholic products for profit. Experience forwarders and bonded warehouse keepers will assist in avoiding costly errors with officialdom and their time sapping consequences. It is strongly recommended that the advice of such parties is always sought at the earliest possible moment.

TYPES OF TAX

Alcoholic beverages attract a UK national tax known as excise duty. An EU tax, Customs duty, is also liable if goods are not in Free Circulation. Free Circulation means that goods were either made in the EU and have never left, or that the goods were imported from outside the EU and have had any Customs duty they attract already paid to the relevant authorities. VAT is a national tax which is accountable on removal from bonded storage to home use, based on the value of the product in store, plus any Customs and Excise duties chargeable, at a rate which is 17.5% in the UK (from 1 Jan 2010).

WHY DO WET BONDS EXIST?

Such bonded warehouses exist for three main reasons:

1. Exports

A considerable amount of excise goods are exported from the UK, some of which are made here such as whisky, cider and the increasing wine production. When goods are exported, they are entitled to zero rating of taxes. By dispatching stocks from bonded storage, the export trade is facilitated, as taxes never become payable once the required proof of export is available.

2. Cash Flow

When goods are released for consumption from a bonded warehouse, VAT will be payable

in addition to any Customs duty and the excise duty. These taxes can be considerable, particularly in northern European countries, with the United Kingdom being no exception. While the goods remain unsold to home consumption, storage in a bonded warehouse allows the owner to delay payment of taxes to H. M. Revenue & Customs. This makes it cost effective to buy in larger quantities and thereby reduce unit shipping costs. For example, the value of the product for spirit may typically comprise only ten per cent of its total value, with the remainder being made up of the taxes liable on the product. If such a product is stored in a bonded warehouse, ninety per cent of the cash flow implication is deferred until the time of sale, which may be years later.

3. **Producer Status**

Wineries, breweries, distilleries, cider mills and so on would find their continued existence severely challenged if they were not granted tax suspension status. Effectively, every such EU enterprise was automatically granted the status of tax warehouse automatically with the inception of The Single Market on 1st. January, 1993. In terms of the alcoholic products, tax warehouse status enables these producers to act as bonded warehouse keepers. Products are not chargeable with taxes until release for home consumption and may be dispatched for export or to other UK bonded warehouses in temporary suspension of taxes.

LEGAL BASIS

The storage of excise goods in temporary suspension of taxes is governed by the strictest of legal controls. These include:

- EU Directives, which are legally binding in all EU member states and affect all in equal measure. For example, the rate of Customs duty on a product and its classification are the same in all member states.
- UK law, including The Customs & Excise Management Act 1979 [CEMA], The Alcoholic Liquor Duties Act 1979 [ALDA] & The Value Added Tax Act 1994 [VATA].

H.M. Revenue & Customs interprets the law through the UK Tariff and an extensive series of Public Notices, the most relevant of which are notices 196 & 197 which deal with how to apply for bonded status and how to operate a bonded warehouse, 201 WOWGR [see below], DS5 [Duty Stamps [see below] & 703 on proof of export [listing types of evidence acceptable to authorities to zero rate taxes].

GUARANTEES

Whilst goods are in storage under temporary suspension of taxes, H.M. Revenue & Customs requires a guarantee that any taxes which become payable will be paid. This is known as a premises guarantee.

Equally a guarantee is required whilst such goods are in transit - in the case of goods liable to excise duty only a movement guarantee is required; for goods liable to customs and excise duties a transit guarantee is needed.

WAREHOUSE KEEPERS' STANDARD TERMS & CONDITIONS

The warehouse keeper has a joint and several liability for any taxes on the goods with the owner and any transporter. Warehouse keepers will naturally endeavour to limit and in some cases exclude their liability to the owner of the goods by means of their standard terms and conditions of trading. The law allows for the application of such terms and conditions as it is recognised that as a bailee, the warehouse keeper's opportunity for profit is greatly less than that of the owner.

These terms and conditions will be made known to the owner before the contract of storage commences. Owners need to be aware of limits and exclusions to liability and ensure they cover all risks to full value with a reputable insurer. This is of particular relevance to the alcoholic beverage industry, where products are theft attractive and fragile. The risk of unrecoverable excise & customs taxes can be insured in addition to the value of the goods. The logistics provider can often offer cover at greatly reduced premiums owing to buying power.

GOODS IN

Bonded warehouses are no exception to standard warehouses when it comes to staffing and operations. For maximum efficiency, all goods must be booked in advance for delivery. HMRC regulations actually enhance the importance of booking deliveries in advance of arrival. Unexpected arrival of cargo may be taken as an indication of fraudulent activity and is reportable to H. M. Revenue & Customs.

This could lead to unwelcome official investigation and action against the owner of the goods. The existence of a booking will protect all interests, including those of the owner, freight forwarder and shipping line, in as much as it is standard industry practice to charge a penalty known as demurrage for excessive waiting time. At some bonded warehouses HMRC require 'standing time', where all arrivals must wait a limited time before seals on trailers or containers may be broken and unloading commenced.

This in theory gives authorities the opportunity to be present when seals are broken. Certain products being placed into suspended regimes, namely wine, spirits, beer and tobacco, require the owner to be specially registered under the provisions of 'WOWGR' - The Warehouse Keepers and Owners of Warehouse Goods Regulations 1999. Without registration, such goods must immediately be duty paid or abandoned to the crown.

On arrival, all goods on which duty is suspended must be accompanied by the relevant supporting documentation, in addition to any standard shipping documents. Failure to produce accompanying documentation will inevitably lead to discharge delays and will contravene HMRC regulations since the documents bear the necessary guarantee of duty payment. Lack of appropriate documents could lead to seizure of both goods and transport equipment by H. M. Revenue & Customs, the imposition of civil penalties [more commonly known as fines] and potentially, official destruction of the goods.

The advantages of utilising the services of experienced freight forwarders are clear. They will be aware of these requirements and make allowance for them in formulating delivery schedules. Goods may come from a number of origins and their status will be clear to the warehouse of receipt by virtue of the supporting accompanying documentation. For example:

- Goods from another UK bonded warehouse under excise duty suspense arrangements will be under cover of a W8 document
- Goods from another bonded warehouse or producer within the EU under excise duty suspense

arrangements will be under cover of an Administrative Accompanying Document [AAD]

- Goods from outside the EU will be under cover of a C88 Customs entry, the coding of which will indicate duty status

It is worth noting that duty paid goods do not need any supporting documentation, although it is extremely helpful if the commercial transport documents indicate duty has already been paid. Again, experienced freight forwarders will know this and endeavour to assist bonded warehouse keepers by including such information in their documents.

The information from supporting documentation will be cross checked against the physical goods and the results entered into the bonded warehouse keeper's HMRC approved computer stock control system. The data entered will directly affect the taxes paid on removal to home use or the documents raised on removal to other regimes. Data entry on arrival is therefore treated with great care by bonded warehouse staff.

STORAGE

Once cargo has arrived in the bonded warehouse and any discrepancies have been noted on commercial delivery documentation, it will be 'broken down to marque'. Since regulations require the stock to be clearly auditable at all times, HMRC insists different products are clearly stored in separate warehouse locations.

This not only includes differences in product class and type [e.g. beer / wine, sauvignon blanc / chardonnay], but also in pack size [e.g. 12 x .75 litres / 6 x .75 litres]. Each of these 'marques' must be entered as a separate arrival on the Customs approved computer system and will be identified by a unique 'rotation' number. Most warehouses will have computerised stock control systems which will allocate a warehouse location per rotation and per pallet of goods.

At all times in its warehouse existence, the product must bear an identifying label, which will include such information as:

- Rotation number
- Product code and description [possibly incorporating bar coding]
- Alcoholic strength
- Date of arrival
- Quantity of cartons
- Warehouse location
- Owner of the goods

The warehouse keeper will exercise various stock control measure, many of which are Customs requirements. These will include:

- Minimum once a year complete warehouse stock reconciliation
- Monthly stock checks of all bulk products
- Quantity spot checks
- Location spot checks
- Picked order checks
- Security checks

The wet bond warehouse keeper is required to submit a monthly 'W1' declaration to H.M. Revenue & Customs. Per goods class, this includes opening and closing stock balances, expressed in cartons, casks and quantity of liquid, details of intakes, removals from stock and officially authorised

adjustments which make the two figures agree. Taxes are immediately payable on any unexplained shortages. Information is also submitted regarding new clients, departing clients and outstanding documentation not returned by consignees.

GOODS OUT

All orders for removal of stock from a bonded warehouse will be required in writing form the cargo owner. Instructions will need to include:

- Rotation number
- Quantity to be picked from stock
- Date order is to be ready for collection or delivery address and required delivery date
- Details of consignee's excise registration number for removals to other bonds
- Details of movement guarantee number to be used where appropriate
- Details of deferment account to be used to pay taxes to H. M. Revenue & Customs where appropriate
- Special packing instructions [e.g. labelling, palletisation and so on]

If the order is to be removed in duty suspense to another bonded warehouse in the U.K. or in the EU, details of that warehouse and its excise registration will be checked with Customs by the dispatching warehouse using the 'SEED' system. This verifies the validity of the destination warehouse and its approval to accept the class of goods being dispatched. Delays in SEED verification may lead to extended lead times and must be borne in mind by sales staff and those liaising with freight forwarders.

DESTINATIONS AND DOCUMENTATION

Bonded goods may be removed from the liability of the warehouse in a variety of ways. The required documentation will vary, depending on the type of removal. The main removal types are:

- Duty Paid; often referred to as 'Home Use'. Removals are supported by document W5D or W5 [accounting for excise duty and VAT] and C88 [accounting for customs duty, sometimes called CCT].
- Under bond to another UK bonded warehouse. Removals are supported by document W8 [guaranteeing the excise duty] or C88 [covering goods liable to customs duty].
- Under bond to another bonded warehouse in the EU. Removals are supported by document AAD [guaranteeing the excise duty] or C88 [covering goods liable to customs duty].
- Under bond removal to a non EU country. Removals are covered by C88 and W8 [direct export from the UK] or C88 and AAD [export via another member state of the EU].

It should be noted that removals under tax suspension arrangements [under bond], require the documentation to bear either a movement guarantee [excise duty] or a transit guarantee [customs duty]. For goods travelling under a movement guarantee, documentation often has a specified transit time within which it must arrive at the destination bonded warehouse. Time limits apply to the return of page three of the documentation to the warehouse of despatch by the warehouse of receipt.

This returned document acts as evidence of discharge of liabilities. For goods travelling under a transit guarantee, Customs declarations must be made to discharge the guarantee. It is important that freight forwarders are alerted to the need for guarantees, instructed to take great care in delivering documentation to the consignee and recognise the need for specific Customs declarations where necessary.

A number of other, less common removals exist, including removals to ships' stores, aircraft floors, other duty free uses, diplomatic privilege, supplies to visiting forces and so on. Each of these requires specific documentation. Liabilities can also be discharged by the authorised destruction of goods, losses in operations allowed by the authorities or with the specific agreement of H.M. Revenue & Customs.

PROOF OF DISCHARGE

As above, time limits apply to the return of copies of certain documentation to the bonded warehouse of despatch in order to extinguish liability to taxes. Cargo owners should be sure of the buyer's ability to process documentation in accordance with regulations. Although the bonded warehouse will chase missing documentation, primary duty liability remains on the owner of the goods.

Hefty tax bills could result from failure to check such technicalities when agreeing supply of stock. The owner must be prepared to bring commercial pressure to bear if necessary and should ensure insurance cover exists not only for the value of goods, but also for tax liabilities.

VALUE ADDED SERVICES – INSURANCE RISK

Bonded warehouses are authorised to perform a number of basic value added services under their standard authorisation. This includes pick and pack operations, labelling and so on. However, the cargo owner should realise that intensive handling of the goods will result in increased risk of breakage and insurance cover should be arranged to cover such operations. Some value added services may include assembly and special insurance cover must be sought to cover potential negligence claims resulting from assembly errors.

Other operations may require the specific approval of H. M. Revenue & Customs. Cargo owners should always discuss requirements with the bonded warehouse keeper well in advance so any authorisation necessary may be put in place in good time.

TEMPERATURE CONTROL

Some bonded warehouses will offer temperature controlled environments. For the alcoholic beverage trade, this is particularly attractive for high value wines and those with keeping qualities of a less than robust nature. As with temperature controlled transport, there will be a considerable premium to pay for temperature controlled storage. There are relatively few fully temperature controlled facilities, so space is at a premium.

Cargo owners should discuss anticipated space requirements in advance with the warehouse keeper. At certain times of year and from certain origins it is recommended that temperature controlled transport is used, especially if the product is destined for temperature controlled storage. Cargo

owners should consult insurance providers to discuss cover - there will usually be no cover for wines going bad due to an 'inherent vice' in the product.

DUTY STAMPING/OBLITERATION FOR EXPORT

It is a requirement that all alcoholic beverages sold on the UK home market bear a duty stamp if they contain an alcoholic strength of 30% vol. or more and are in immediate containers of 35 centilitres or more. These stamps are an indication that excise duty has been paid, or that there is an intent for duty to be paid on removal from bonded storage. Regulations surrounding duty stamps are draconian - for example, contravention can lead to a civil penalty of £ 250.00 per bottle.

Stamps may be integral to existing labelling if authorised by H.M. Revenue & Customs. Alternatively, free standing stamps may be applied. To be supplied such stamps, authorisation is required. Bonded warehouses are one of the limited type of businesses allowed to apply for authorisation under the duty stamps scheme. Freight forwarders may also apply for authorisation, but only if they are already authorised under the Registered Excise Dealer & Shipper [REDS] scheme (REDS will be replaced by 'Registered Consignee' in 2010).

There will be considerable handling charges from such parties for this service, since the work is labour intensive and the record keeping complicated. These costs must be borne in mind when costing the supply of such beverages. It is illegal for stamped products to be exported, unless stamps are either obliterated or obscured. Such operations require a minimum of three days notice to H. M. Revenue & Customs. An officer may be sent as witness.

AVOIDING TAXES

For the sake of completeness, it should be noted that taxes on alcoholic products are not always unavoidable. Evading taxes is illegal - avoiding them, under the strict control of H. M. Revenue & Customs, is not. There are a very limited number of ways to avoid taxes:

- Permanent export of the product
- Testing to destruction [e.g. chemical analysis]
- Certain supplies to specific regimes [e.g. diplomatic privilege, visiting forces]
- Travellers allowance, being goods imported in person by the traveller and for his/her private consumption, subject to indicative limits
- Denaturing, where the product is rendered non potable by the addition of chemical additives, such as salt
- Authorised destruction
- H.M. Revenue & Customs sanctioned waiver following breakage [evidence of intact bottle tops required]
- Evidence of theft outside the United Kingdom [local tax will be charged in accordance with the rates in force in the country in which the authorities deem the loss to have occurred]
- Losses due to natural causes

It should be noted that any supply of alcoholic goods with a commercial nature is subject to taxation. Therefore, goods for tasting are subject to taxes, on the basis that their purpose is commercial in that they are intended to elicit further sales of the product. Essentially, the rule is that if it goes in the mouth, taxes are due.

LIAISON WITH BONDED WAREHOUSES AND FREIGHT FORWARDERS

The liaison between freight forwarders, bonded warehouses and cargo owners is vital for effective and timely delivery to the consignee. All parties, including the buyer, should always be made aware of the fact that goods may be travelling under suspension of taxes and as such are under the control of the Customs authorities. Certain requirements are mandatory and may lead to delays in intended delivery schedules, such as SEED checks. Other controls may be exercised on the whim of an officer of H.M. Revenue & Customs and lead to unforeseen delivery delays - for example, physical examination of the goods.

Therefore, it should always be borne in mind that timely delivery, according to agreements between cargo owner and bonded warehouse or freight forwarder, is potentially the subject of official intervention which is outside the scope of control of any of the parties involved, other than the authorities themselves. To maximise efficiency, bonded warehouses and freight forwarders must be required to maintain regular contact, to ensure prompt removal of orders which are confirmed ready for despatch. Equally, cargo owners must expect charges for wasted trips, either for unloading delay or refusal, or for collection failure where goods are confirmed available for despatch, but turn out to be unavailable when the vehicle arrives.

The most success may be achieved in the supply chain by the cargo owner who intimately understands official regulations and the consequences arising from these. Thorough preparation and professional liaison between owner, bonded warehouse keeper and freight forwarder is the key to effective supply.

CHAPTER 9

CUSTOMS AND EXCISE DUTY

Excise duty

Customs Duty

Tariff quota Duty

deferment

CHAPTER 9

EXCISE AND CUSTOMS DUTY

Excise Duty is purely a Revenue tax due to the UK states authorities whereas Customs Duty is a protective duty collected for the EU by the member where it is actually paid.

With the recent changes to the structures of excise duties and the multiplicity of new products coming into the market place (e.g. alcoholic lemonade, cola and low alcohol products etc) it is essential to establish the duty liability of a product prior to shipment in order to determine costings.

Duty liability is identified by using the Commodity Code, which will be available from the supplier, and by reference to the Customs Tariff which details the amounts payable.

For example the Commodity Code for quality (AC) white wine NE.13% vol from Bordeaux is 2204 2112.

22 = Chapter 22 of Customs Tariff 04
= Wine
21 = Imported in bottle (29 for bulk)
12 = Bordeaux white wine NE 13% vol

All rates and figures quoted in this and the subsequent chapter are valid as of 13th May 2014. The Euro conversion rate used was HMRC's Monthly Euro Conversion rate for May 2014.

EXCISE DUTY

The Excise duty on wine is charged in various bands according to the alcoholic strength of the product with especially low rates applicable to wines not exceeding 5.5% vol. and a higher rate for sparkling wines. Duty is expressed in Pounds Sterling per hectolitre of liquid and the duty rates are normally set in the Chancellor's yearly budget.

Example 1: The current rate is £273.31 per hectolitre therefore one case of 12 X 75cl European wine @ 13% vol would attract excise duty of £24.60.

9.00	X	273.31	÷	100	=	£24.60
Litres per case	X	Rate per hectolitre	÷	100	=	Excise payable per case

The excise duty on spirits and fortified wines exceeding 22% vol is expressed in Pounds Sterling per litre of alcohol.

Example 2: The current rate is £28.22 per litre of alcohol therefore one case of 12 X 70cl vodka at 40% (Commodity Code 2208 60 11) would attract excise duty of £94.81

8.40	X	40%	X	28.22	=	£94.81
Litres per case	X	ABV	X	Rate per litre of alcohol	=	Excise payable per case

The excise duty on beers is expressed in Pound Sterling per hectolitre, per degree.

Example 3: The current rate is £18.74 per hectolitre per degree of alcohol therefore one case of 25 X 33cl at 5.5% (Commodity Code 2203 00 09) would attract excise duty of £8.50

8.25	÷ 100	X	5.5	X	18.74	=	£8.50
Litres per case	100	X	ABV	X	Rate per HL/degree	=	Excise payable per case

CUSTOMS DUTY

Customs Duty is common to all members of the EU, known as Common Customs Tariff (C.C.T.), and is paid in addition to any national excise duties. It applies to wines and spirits entering the EU from third countries and can be paid in any Member state, allowing the goods to move in what is called “free circulation” after the tax has been paid.

The Customs duty on wine is expressed in Euros per hectolitre of liquid which is converted into Sterling using an “Industrial” rate, published monthly and is expressed as % vol by Tariff Classification and product type.

Example 1: One case 12 X 75cl of Third Country wine NE 13% vol (Commodity Code 2204 2197 11) would attract customs duty of £0.97

9.00	X	0.131	÷	1.21536218	=	£0.97
Litres per case	X	Liquid Euro rate	÷	Conversion rate (exchange rate on 01/05/2014)	=	Customs duty per case

The customs duty on spirits is calculated in both liquid litres and litres of alcohol using Euros and the conversion rate issued by Customs with reference to the tariff classification. The only imported spirit that may be liable to Customs duty is Rum.

Example 2: One case of 12 X 70cl, Rum @ 40% (Commodity Code 2208 4011 00) would attract customs duty of £1.87.

0.60	÷	1.21536218	X	40	X	0.084	+	3.2	1.21536218	0.084	=	£1.87
Alcohol Euro rate	÷	Conversion rate (exchange rate on 01/05/2014)	X	Alcohol strength	X	Hectolitres per case	+	Liquid Euro rate	Conversion rate (exchange rate on 01/05/2014)	Hectolitres per case	=	Customs duty per case

TARIFF QUOTA

Certain products are eligible for a reduced rate of duty under Tariff Quota arrangements on a first come first served allocation which can become “critical” or “exhausted” and need to be borne in mind as regard to costings. However payment of customs duty on quota products can be made with the goods remaining in a tax warehouse regime.

DUTY DEFERMENT

Duty Deferment is a facility extended to the Trade which effectively grants a credit period for payment of duties. This facility must be backed up by a risk-based guarantee to HM Revenue & Customs given by a recognised institution.

All duties due can then be debited to your account. Although beneficial to your cash flow payment terms are somewhat complicated.

- Registered Consignee (Still known as REDS in the trade)

Excise duty due under the EMCS is declared in month 1 is collected by direct debit on the 15th of month 2 for wines and spirits, but on the 25th for beers.

- Port and Tax Warehouse

All duties due are accounted either at the port of entry or at a tax warehouse for third country imports and collected as follows:

All excise amounts declared between the 15th of month 1 and the 14th of month 2 are debited on the 29th of month 2.

All customs duty and VAT amounts declared in month 1 are debited on the 15th of month 2.

And finally, as if the above was not confusing enough, duty on beers is debited on the 25th of month 2.

The WSTA is continually putting the authorities under pressure to align the excise payment periods and seizes any opportunities afforded by its discussions with HM Revenue & Customs on the rationalisation of Excise Laws.

CHAPTER 10

VALUE ADDED TAX, INTRASTAT AND EU SALES LISTINGS

Value Added Tax (VAT)

Intrastat

EU Sales Listings

VALUE ADDED TAX, INTRASTAT AND EU SALES LISTINGS

VALUE ADDED TAX

For goods of non EU origin - VAT is accounted for, along with Revenue & Customs duties, upon import into the UK via a SAD entry document. The duty is paid under deferment arrangements or immediately on arrival for delivery to a duty paid warehouse, or on delivery for home use from a tax warehouse when goods are delivered from the port to the tax warehouse under duty suspension.

For goods of EU origin - VAT is accounted for on acquisition of the goods once they have arrived at their destination, either a tax warehouse (duty suspended delivery) or a REDS (duty deferred delivery)

The acquisition and destination system applies only to VAT registered traders whose acquisitions are subject to the standard UK VAT rate of 20% if the goods are sold via a UK agent or broker VAT must be charged by them as usual. For non VAT registered traders the supply of goods is also zero rated, but they must account for the VAT due to the UK authorities, either by direct payment or via his/her REDS agents VAT return (form VAT 100).

The quarterly VAT return comprises 9 boxes covering:

- VAT due in period on sales and other outputs
- VAT due in period on acquisitions from other EU Member States
- Total VAT due
- VAT reclaimed in period on purchases and other inputs (including acquisitions from the EU).
- Net VAT to be paid to Customs / or reclaimed
- Total value of sales and all other outputs excluding VAT
- Total value of purchases and all other inputs excluding VAT
- Total value of all supplies of goods and related services, excluding VAT, to other EU Member States
- Total value of all acquisitions of goods and related services, excluding VAT, from other EU Member States.

To allow the status of zero rated movement from one EU VAT registered trader to another, it is necessary that the dispatching trader selling the goods shows on his/her invoices the buyer's VAT number prefixed by the initials of the country where the buyer is registered.

All traders dealing in goods to and from EU countries need to have their VAT number with their appropriate prefix printed on their invoices. The 28 EU countries are listed below with their respective prefixes:

AT Austria	SI Slovenia	PL Poland
EE Estonia	HR Croatia	SE Sweden
HU Hungary	CY Cyprus	DK Denmark
LU Luxembourg	FR France	EL Greece
SK Slovakia	IT Italy	LT Lithuania
BE Belgium	NL Netherlands	PT Portugal
FI Finland	ES Spain	BU Bulgaria
IE Ireland	CZ Czech Rep	RO Romania
MT Malta	DE Germany	GB United Kingdom
	LV Latvia	

Whereas the freight and insurance cost for third country imports is accounted for on the SAD document along with the purchase price of the goods to determine the VAT value, a different system is operated for EU movements. In this case VAT is charged on freight invoices if the freight forwarder is based in the same EU state as his/her customer, which is recoverable by the customer as input tax.

However, if the freight forwarder is from a different EU state than that of his/her customer then VAT will have to be accounted for under the reverse charge procedure at the prevailing rate in the customer's country. This means that the customer will simultaneously account for the other EU country's forwarder's VAT supply - as output tax - and declare its receipt - as input tax.

The reverse charge procedure only applies to EU VAT registered traders. If not registered the origin system applies whereby, for example, a French forwarder would charge freight plus VAT on the rate applicable in France to his/her UK customer

INTRASTAT

Intrastat is the system for collecting trade statistics between EU countries effective since the inception of the Single Market. This new system replaces a previous source for statistics namely the SAD documents, which are still in force for statistical purposes for third country imports.

All businesses registered for VAT must show the values of Supplies and Acquisitions from other EU states on their VAT returns.

Large traders with acquisitions and/or supplies in excess of £1,200,000 per annum (2014) have to submit monthly returns known as SSDs (Supplementary Statistical Declaration) for either or both of their acquisitions (on Arrivals SSDs) and supplies to other EU states (on Dispatches SSDs).

There is no requirement for declaring acquisitions under £1,200,000 p.a. for Intrastat purposes, but dispatches, however small in value, must be recorded and declared, which will be declared on ESL, see below.

If produced on paper, monthly declarations for larger traders of arrivals or dispatches need to be returned to H. M. Revenue & Customs by the 10th working day after the end of the period during which the goods were received. As from the 1 January 2001 and for declarations made electronically the submission deadline has been extended to the end of the month following acquisition period. This is usually a calendar month but can be for specially approved periods in order to coincide with the traders own accounting cycles and agreed with their local VAT office.

It is worth noting here that for tax warehouse keepers a reference date for an SSD can be different from the VAT tax point date or date of issue of an invoice, e.g. where excise goods received into a tax warehouse would have, as the Intrastat reference date, the date of arrival of the goods, but a VAT acquisition date has the date that the goods leave the warehouse for home use.

Regular audits of traders' records take place by H. M. Revenue & Customs staff to check and reconcile accounts and any differences between VAT and Intrastat records.

EU SALES LISTINGS

ESLs (EU sales listings) are quarterly returns to H. M. Revenue & Customs for traders making supplies of goods to VAT registered customers in an EU state. Returns must be made within six weeks of the period it covers and can, if required, be on a plain paper schedule or via EDI.

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GLOSSARY

A.A.D.....	Administrative Accompanying Document
A.B.V.....	Alcohol by Volume
B.W.K.A.	Bonded Warehouse keepers Association
C.C.T.	Common Customs Tariff
C.F.R.	Cost and Freight
C.I.F.	Cost, Insurance and Freight
C.I.M.	Convention Internationale Concernant le Transport des Marchandises par Chemin de Fer
C.M.R.....	Convention on the International Carriage of Goods by Road Vehicle
C.O.T.I.F.	The Convention Concerning International Carriage by Rail
D.A.P.....	Delivered at Place
D.D.P.....	Delivery Duty Paid
D.D.U.	Delivery Duty Unpaid
E.A.D.....	Electronic Administrative System
E.D.I.	Electronic Data Interchange
E.X.W.	Ex. Works (Ex. Cellars)
E.U	European Union
F.C.A	Free Carrier
FSA.....	Financial Services Authority
F.O.B.....	Free on Board
F.O.R.....	Free on Rail
F.T.A.....	Freight Transport Association
H.M.R & C.	Her Majesty's Revenue & Customs
I.C.D.....	Inland Clearance Depot
I.F.P.	Institute of Freight Professionals
I.S.O	International Standard Organisation
INCOTERMS	International Contracts Terms
INTRASTAT.....	Intra EU States Trade Statistics
LO-LO.....	Lift On - Lift Off
J.I.T	Just In Time
R.E.D.S	Registered Excise Dealers and Shippers
R.H.A.....	Road Haulage Association
RO-RO	Roll On - Roll Off
RPA.....	Rural Payment Agency
S.A.D.	Single Administrative Document
S.D.R.....	Special Drawing Rights
S.E.M	Single European Market
T.Q.M.....	Total Quality Management
U.K.W.A	United Kingdom Warehousing Association
V.A.T.	Value Added Tax
WOWGR	Warehouse keepers & Owners of Excise Goods Regulations

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