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## **What is a U.S. Customs Bond?**

According to U.S. Customs and Border Protection (CBP) regulations, a Customs bond is... "a contract which is given to ensure the performance of an obligation imposed by a law or regulation." The parties involved in the bond contract are the principal (importer), surety company and obligee (CBP). The primary purpose of a Customs bond is to guarantee the payment of import duties and taxes as well as to assure compliance with all laws and regulations governing the entry of merchandise from foreign shipping points into the United States.

## **Why is an Importer Required to Post a Bond with Customs?**

A Customs bond is required on all commercial shipments of goods entering the commerce of the United States. According to Customs regulations, importers are required to post a bond... "to protect the revenue of the United States and to assure compliance with any pertinent law, regulation or instruction." When a Customs bond is executed, the bond principal agrees to the following conditions:

- Agreement to pay duties, taxes and charges in a timely manner.
- Agreement to make or complete entry.
- Agreement to produce documents and evidence.
- Agreement to redeliver merchandise.
- Agreement to rectify any non-compliance with provisions of admission.
- Agreement for examination of merchandise.
- Reimbursement and exoneration of the United States.
- Compliance with special requirements on duty-free entries or withdrawals.
- Compliance with CBP regulations applicable to Customs security areas at airports.

## **What Constitutes Default Under the Bond?**

Default under a Customs bond occurs when the principal fails to comply with the conditions of the bond which provide for compliance with the law and CBP regulations. Defaults result in the assessment of liquidated damages or in the issuance of demands to pay duties, taxes and other charges guaranteed by the bond. If the principal fails to pay these liquidated damages or other lawful charges assessed by CBP, the surety must pay CBP the appropriate sum up to the bond amount. It is important to understand that a Customs bond is not insurance. With insurance, some losses are expected, and a portion of the premium is set aside to pay losses. With a surety bond, each applicant is reviewed individually, and no portion of the premium is set aside for losses; no surety would knowingly issue a bond for a principal likely to default. A Customs bond does not protect an importer, nor relieve an importer of its obligation to pay amounts due to CBP. When the surety has been forced to pay CBP amounts due under the terms of the bond, the surety has the right to demand reimbursement from the bond principal. The importer of record is also liable for penalties assessed under Section 592 of the Tariff Act (19 U.S.C. 1592) for material misstatements of fact. Customs bonds do not cover such penalties.

## **What are the Alternatives to Posting a Customs Bond?**

In lieu of a bond, an importer has the option of posting cash or other U.S. government obligations (Treasury bills, notes or bonds other than U.S. savings bonds) in a sum equal to the bond amount. However, if an importer deposits money with CBP, such funds will not be released until some time after the entry is liquidated—this could take months or even years. Instead, CBP gives an importer the option of posting a bond that doesn't tie up the importer's cash supply or credit lines.