Everywhere you export

The Canadian Trade Commissioner Service

tradecommissioner.gc.ca

STEP-BY-STEP GUIDE TO EXPORTING

Global Affairs Canada
Trade Commissioner Service

Affaires mondiales Canada
Service des délégués commerciaux

Canada

Welcome to exporting

The Canadian Trade Commissioner Service (TCS) is pleased to introduce the new *Step-by-Step Guide to Exporting*, an essential reference tool for all Canadian companies currently active or interested in exploring business opportunities in international markets.

The Guide provides insight gathered from trade commissioners around the world — Canada's most comprehensive network of international trade professionals.

Whether you're doing business in established markets, such as the E.U. and U.S., or considering reaching out to markets like China, India, South Korea, Colombia or Brazil, global markets offer you access to new customers, revenue and ideas. They also provide you with the flexibility to spread your business risk and extend the lifecycle of your products and services. These advantages are not possible when you sell only to a smaller consumer market in Canada.

Trading abroad can boost your company's profile, credibility and bottom line. Companies that export their products or services sell more, and are more profitable than those that don't. Whatever your company size or sector, the rewards from selling your products and services overseas can have exponential returns.

The following Guide is intended to help prepare you to take your business to the world. Our global team of trade commissioners are located in more than 160 cities worldwide to guide your journey and support your export success.

LEARN MORE

See how Trade Commissioners help companies make better, timelier and more cost-effective decisions to achieve their goals abroad.

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Make exporting easier

Doing business outside Canada can be a complex undertaking. The ***Step-by-Step Guide to Exporting*** (the Guide) is intended to help get your business export-ready and well positioned for commercial success abroad. Learn the essential principles of exporting whether you are a novice, intermediate or advanced exporter. The Guide compiles practical insight and proven tips used successfully by thousands of Canadian firms of all sizes and in all sectors. The Guide will help you to:

- assess your company's export readiness
- build an export plan
- research and select your target market
- realize the benefits of free trade agreements
- create an export marketing plan
- identify delivery methods for your target market
- develop a sound financial plan
- understand the key legal aspects of international trade
- apply corporate social responsibility practices

Acknowledgments

Some "Tips" were adapted from the Canadian Trade Commissioner Service (TCS) publication, Expand Your Horizons. "Export myths" were adapted from Exporting Basics by Maurice Kogon, Director, Centre for International Trade Development, El Camino College, Torrance, California.

Disclaimer

This information is to be considered solely as a guide and should not be quoted as, or considered to be, a legal authority. It may become obsolete in whole or in part at any time without notice.

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Please note

The information provided in the *Step-by-Step Guide to Exporting* is general in nature. To ensure your particular needs are met, start right here in Canada by consulting trade commissioners of the Regional Network of the TCS. As part of Global Affairs Canada, the TCS has more than 160 offices across Canada and around the world where dedicated officers support Canadian companies with international business development advice and connections to qualified local contacts that will best serve new and expanding exporters' needs.

Web: tradecommissioner.gc.ca

1-888-306-9991 (toll free in Canada and the United States)

613-944-9991 (in the National Capital Region and outside Canada) or 1-888-576-4444 to speak with a Canada Business Network information officer

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Take your business to the world

The Trade Commissioner Service (TCS) helps Canadian companies navigate the complexities of international markets. If you want your business to grow internationally, tap into our expertise.

Located in over 160 cities worldwide, we provide key business insight and access to an unbeatable network of international contacts. We gather market intelligence, uncover commercial opportunities and help reduce the costs and risks of doing business abroad.

Each year, we help thousands of Canadian small and medium-sized enterprises tackle concrete problems and uncover export opportunities. We make exporting easier for companies.

FACT:

We accelerate a company's export success. On average, companies using TCS services export 20.5% more than those that don't, and access 20.9% more markets.

Get the TCS advantage

A world of opportunity is waiting. Find a Trade Commissioner specializing in your sector or market to help you to accelerate your export success. With offices across Canada, we can help companies prepare for international markets, right here at home. We can assist with export advice and guidance to help you achieve your international business goals.

EXPAND TO GLOBAL MARKETS

We can help your business navigate the complexities of global markets.

FIND KEY CONTACTS

Trade Commissioners can help you find qualified contacts.

CONNECT YOUR BUSINESS

Tap into the TCS network of business professionals.

SAVE TIME & MONEY

The TCS helps your company to save time and money.

GAIN BUSINESS INSIGHT

We provide key market insight and practical business advice.

REDUCE RISKS

We can help reduce risks and avoid costly mistakes.

FIND NEW OPPORTUNITIES

The TCS opens the door to a world of business opportunities.

RESOLVE BUSINESS PROBLEMS

We can help you resolve problems in foreign markets.

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STEP #1

Getting started: assessing your export potential

1.1 Exporting: What's in it for you

1.2 Are you ready?

1.3 Evaluating your export potential

1.4 International business and science, technology and innovation

1.5 Export quiz: are you ready?

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1.1

Exporting: what's in it for you

Canada has always been a trading nation. Exports and imports consistently account for about two thirds of the country's GDP. As the liberalization of global commerce continues, more and more Canadian companies are joining the international market every year.

"The demand is out there. Canadian companies should be, too."

– Export Award Winner

Why would a company that's already doing well within Canada consider becoming an exporter? There are several good reasons to export, including:

- **Increased sales.** If your domestic sales are good, exporting is a way to expand your market, find foreign niche markets and take advantage of demand around the world.
- **Higher profits.** If you can cover fixed costs through domestic operations or other types of financing, your export profits can grow very quickly.
- **Economies of scale.** When you have a larger market base, you can produce on a scale that lets you make the most of your resources.
- **Reduced vulnerability.** If you diversify into international markets, you avoid depending on a single marketplace and suffering from a domestic downturn.
- **New knowledge and experience.** The global marketplace abounds with new ideas, approaches and marketing techniques that could also prove successful in Canada.
- **Global competitiveness.** The experience your company gains internationally will help keep you competitive in Canada and the global marketplace.
- **Domestic competitiveness.** If your company succeeds in the global marketplace, it will ensure your resilience to potential foreign competition in Canada.

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Exporting has many challenges, but you can surmount them through careful preparation and planning. Among these challenges are:

- **Increased costs.** You may have to modify packaging or your products or services, and account for short-term costs such as extra travel, production of new marketing materials and additional staff to adapt to markets abroad.
- **Level of commitment.** It takes time, willingness, effort and resources to establish and maintain yourself in foreign markets.
- **Staying in for the long haul.** While exporting holds great economic promise for most companies, months or even several years can pass before you see a significant return on your export investment.
- **Language and cultural differences.** Familiarize yourself with the differences in language, culture and business practices so you don't inadvertently offend your potential customer and lose a sale.
- **Paperwork.** There's no way around it, both Canadian and foreign governments require a lot of documentation from exporters of products and services.
- **Accessibility.** You have to be easily available to your foreign clients.
- **Competition.** You must be sure you're thoroughly familiar with the competition in your target market.

Source: Adapted with permission from the Forum for International Trade Training, (FITT) *Going Global.*

Finding help

The Canadian Trade Commissioner Service (TCS) provides resources and contact information to help businesses with export counselling, marketing strategy information, market-entry support, export financing and in-market support.

Access export information and tools through MY TCS, an online platform for Canadian SMEs brought to you by the TCS.

- Learn about upcoming trade events and webinars.
- Listen to podcasts on a wide variety of export topics.
- Watch video testimonials to enhance your trade knowledge.
- Read editorial content from our flagship magazine, *CanadExport*.
- Select sectors and markets of interest to receive information tailored to your needs.

Make the TCS your personal link to business intelligence from around the world! Create your profile for MY TCS today.

Find other resources on the subject of exporting at the Canada Business Network.

Exporting *goods* versus exporting *services*

Exporting goods and exporting services present quite different challenges. The former must deal with packaging, customs and physical delivery, for example, while the latter confronts issues such as work permits, credential validation, language and travel to and from the market. When exporting goods it is also important to remember that there is often a service component that should be anticipated (installation, training, service, warranty, etc.).

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

The TCS helped this small Moncton company to become the global leader in virtual remote sensing technology.

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1.2

Are you ready?

An export-ready business is one that has the capacity, resources and management to deliver a marketable product or service on a global scale at a competitive price. The trick is to determine whether this is true of your company – and if it isn't, how to make it happen.

Your first step is to think about the resources and knowledge your business already has. Consider the following as a starting point.

EXPORT MYTH:

My company is too small to be successful at exporting.

To succeed in international markets, you don't have to be a big firm. Tens of thousands of Canadian small and medium-sized companies (SMEs) – those with foreign sales of between $30,000 and $5 million – are currently exporting and are doing very well.

Your expectations.
Do you have:

- clear and achievable export objectives?
- a realistic idea of what exporting entails and the timelines for results?
- an openness to new ways of doing business?
- an understanding of what is required to succeed in the international marketplace?

Human resource requirements.
Do you have:

- the capacity to handle the extra demand associated with exporting?
- senior management committed to exporting?
- efficient ways of responding quickly to customer inquiries?
- personnel with culturally sensitive marketing skills?
- ways of dealing with language barriers?
- a local contact or "go to" person?

Financial and legal resources.
Can you:

- obtain enough capital or lines of credit to produce the product or service for new orders?
- find ways to reduce the financial risks of international trade?
- find people to advise you on the legal and tax implications of exporting?
- deal effectively with different monetary systems and ensure protection of your intellectual property?

Competitiveness.
Do you have:

- a product or service that is potentially viable in your target market?
- resources to do market research on the exportability of your product or service?
- proven and sophisticated market-entry methods?

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1.3

Evaluating your export potential

Can your product or service find a worthwhile market outside Canada? Answering this question is crucial. If there's no demand for what you're offering, it would be unwise to proceed.

When analyzing the export potential of your products / goods or services, you may want to account for the following considerations:

Customer profiles

- Who already uses your product or service?
- Is your product or service in broad general use or limited to a particular group?
- Is your product or service popular with a certain age group?
- Are there other significant demographic patterns to its use?
- What climatic or geographic factors affect the use of your product or service?

Product modifications

- Are modifications required to make your product appeal to foreign customers?
- What is the shelf life of your product? Will this be reduced by time in transit?
- Can the packaging be easily modified to satisfy the demands of foreign customers?
- Is special documentation required? For example, does your product have to meet any technical or regulatory requirements?

Transportation

- How easily can your product be transported?
- Would transportation costs make competitive pricing a problem?
- How efficiently does the target market process incoming shipments?
- Are specialized containers or packaging materials required?

Local representation

- Do you require a local marketer, salesperson or other local representation?
- Do products require professional assembly or other technical skills?
- Is after-sales service needed? If so, is it available locally or do you have to provide it? Do you have the resources to do this?

Exporting services

- If you're exporting services, what is unique or special about them?
- Are your services considered to be world-class?
- Do you need to modify your services to allow for differences in language, culture and business environment?
- How do you plan to deliver your services: in person, with a local partner or by electronic means such as the Internet?

Capacity

- Will you be able to serve both your existing domestic customers and new foreign clients?
- If your domestic demand increases, will you still be able to look after your export customers and vice versa?

TIP:

Special events like conferences, seminars or business networking sessions offer excellent opportunities to explore market potential and profit from other people's experience with exporting.

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1.4

International business and science, technology and innovation

Historically, Canada's leading exports have been natural resources and commodities. But in a global marketplace, diversifying our exports into the area of science, technology and innovation (ST&I) is essential to maintain a robust and adaptable economy. The Government of Canada has built formal ST&I relationships and partnerships with both established and emerging innovation networks around the world. International partnerships are an essential catalyst for ST&I, as these collaborations often accelerate the pace of discovery and result in improved commercialization.

Partnerships include research and development (R&D) and the transfer of ST&I to the global market. An outward-looking approach to development will ensure that our exporters have access to leading-edge research and will ultimately lead to a higher standard of living for all Canadians.

Canada's domestic market for many advanced technologies is relatively small. The aerospace sector, for example, can't support the full-fledged commercialization of a service or product domestically. Finding an international market or supplying companies in Global Value Chains can, therefore, be essential to an ST&I company's survival.

If your company falls into this category, you will almost inevitably have to internationalize. Remember that "internationalizing" can mean R&D collaboration with an overseas company, forming an international partnership or investing in a foreign business that complements your own.

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1.5

Export quiz: Are you ready?

Want to start exporting today? Take this quiz, check your score and be sure that you are ready.

1. Is your management committed to sustaining your export effort?

Yes / No

2. Does your management have international business experience?

Yes / No

3. Have you undertaken any foreign market research?

A. Completed primary and secondary market research, including a visit to the target market
B. Completed some primary and secondary market research
C. No

4. Do you have the surplus production capacity or available specialists to meet increased demand for your product or service?

Yes / No

5. Do you have the financing required to adapt your product or service to suit your target market and to promote it?

A. Financing is in place
B. Financing is being arranged
C. No financing is available / I don't know

6. Does your firm have a good track record of meeting deadlines?

Yes / No

7. Does your product or service have a distinct competitive advantage (e.g. quality, price, uniqueness, innovation) over the competition in your target market?

Yes / No

8. Have you adapted your packaging (labelling and / or promotional materials) to suit your target market?

Yes / No

9. Do you have the capacity and resources to provide after-sales support and service in your target market?

Yes / No

10. Is your promotional material available in the language of your target markets? (e.g. business cards, brochures, websites)

Yes / No

11. Have you started marketing your product or service in your target market(s)?

Yes / No

12. Have you engaged the services of a sales representative / distributor / agent, or partnered with a local firm?

Yes / No

13. Have you hired a freight forwarder or customs broker?

Yes / No

14. Do you have a free on board (FOB) or cost, insurance and freight (CIF) price list for your product, or a rate list for your service?

Yes / No

15. Have you checked if you can sell or use the technology and trade name associated with your product in your target markets without infringing on existing intellectual property (IP) rights?

A. My IP strategy includes IP searches before entering new markets.
B. My IP is registered in Canada only.
C. What is IP?

Note: For a more detailed quiz, visit Global Affairs Canada, Business Women in Trade Online Assessment.

TIP:

Trade commissioners can help you prepare for international markets and assess the market potential of your product / goods or service.

HOW DID YOU SCORE?

If you selected "A" or answered "Yes" to:

11–15 questions, congratulations!
You understand the commitment, strategies and resources needed to be a successful exporter. At the very least, you have the foundation in place to take on the world and succeed. This would be an appropriate time to reach out to the TCS.

7–10 questions, not bad!
However, there may be weaknesses in your export strategy. It may be wise to seek advice and guidance from government experts, export consultants or the international trade branch of your financial institution. This may be an appropriate time to reach out to a business development specialist, such as Business Development Canada (BDC), to further develop your business plan.

Less than 7 questions
While you may be ready to visit faraway lands, you may need to do more homework before you export. Consider getting help from the sources mentioned in this chapter.

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STEP #2

Globalization: linking to global value chains

2.1 About globalization

2.2 Understanding global value chains

2.3 Growth of global value chains

2.4 GVCs and Canadian exporters

2.5 GVCs and your business

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2.1

About globalization

The term "economic globalization" refers to the rapid expansion of international trade and capital flows since the 1990s. The world's economies have become even more closely integrated than ever.

Globalization has caused many businesses to divide their products or services into components. Instead of producing the components themselves or obtaining them from domestic suppliers, businesses outsource certain aspects of the work to other countries. Economists call this co-dependency a Global Value Chain (GVC).

2.2

Understanding global value chains

A value chain (whether global or not) consists of activities that bring a good or service from its conception to its end use and beyond. This includes design, production, marketing, distribution and support to the final consumer.

The activities that comprise a value chain can be contained within a single firm or divided among different firms. When those activities are no longer contained within a single geographic location, such as a country, we have a GVC.

Global value chains aren't new. Trade and investment were becoming broadly internationalized in the late 19th and early 20th centuries. But due to the outbreak of the First World War, followed by the Great Depression and the Second World War, globalization didn't really move to the forefront until the last quarter of the 20th century.

International trade has evolved from companies that once manufactured products in one country and sold them in another. It is also departing from the branch-plant approach, wherein a business produced its goods in a foreign market and sold them almost exclusively in that market. Instead, international trade is now increasingly characterized by intermediate inputs (for both goods and services) who may be found anywhere in the world.

For more information, visit Global Affairs Canada's Office of the Chief Economist.

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2.3

Growth of global value chains

There are three major forces driving the growth of GVCs, according to the Office of the Chief Economist:

1. Declining costs of transportation

Unless time concerns dictate otherwise, companies can afford to move their goods production and services provisions to locations that offer the best competitive advantages.

2. Improved information and communication technologies

Advances in information and communication technologies (ICT) mean that companies are much less limited by distance when operating in foreign markets.

3. Reduced barriers to trade and investment

New bilateral trade and investment treaties, lower global tariffs and liberalized economies in developing markets, such as China and India, have allowed companies to gain access to markets that were formerly closed to them.

2.4

GVCs and Canadian exporters

Global value chains allow each link of the export chain to specialize in what it does best. This leads to greater efficiency, increased productivity and lower consumer prices for higher-quality goods and services. At the same time, this trade environment stimulates the intense global competition that encourages innovation.

Companies worldwide have had to adapt to the evolution of GVCs. For example, non-core activities may be outsourced to suppliers, partners or affiliates in countries with lower labour costs or other competitive advantages. Alternatively, SMEs may supply goods or services to a GVC established by another company, including a foreign multinational.

In general, Canada has been reasonably successful at adapting. Our excellent R&D environment and highly skilled workforce, together with our long experience as a trading nation, have underpinned this success. However, Canada now has to meet the challenge of supporting a technologically advanced and diversified economy. Canadian businesses can do this by creating GVCs for their industry sector, by participating in existing chains, by merging with larger firms or by acquiring other companies.

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

With the right advice from TCS, this digital health software company has been able to turn heads among industry giants around the world.

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2.5

GVCs and your business

You have a considerable range of strategies for benefiting from GVCs. The following are among the most common.

2.5.1

Provide intermediate input for existing value chain

If your product is something that another company (either Canadian or foreign) uses as an intermediate input, you may be able to link into their GVC by becoming a supplier. This is a very common approach and certainly the simplest. For SMEs, especially those with niche technologies or specializations, new opportunities are constantly emerging to sell to multinationals or their suppliers.

2.5.2

Develop your own GVC through outsourcing

If your company manufactures either finished products or intermediate inputs, you can set up your own GVC. Acquiring intermediate inputs – such as raw materials, components, subsystems and other goods and services – from foreign suppliers can help you manufacture your own products at either lower cost or greater responsiveness to market forces.

2.5.3

Make investments abroad to connect to or establish a global value chain

By investing abroad you can gain immediate access to a foreign market and expand your company's sales and promote its growth. There is a broad spectrum of investment approaches, ranging from the passive to the active.

You might, for example, join a GVC simply by investing in a foreign company while taking little or no part in its operations. Purchasing a foreign firm, or setting up a joint venture or partnership, is another way to increase your competitiveness in the local market. This approach can be very cost-effective if you obtain existing production and distribution capabilities through the investment, so you don't need to build them from the ground up.

At the active end of the spectrum, you could establish a wholly owned subsidiary in a foreign market. This can help you drive and benefit from the GVCs of which your company is a part. The most important advantage is that you aren't dependent on a partner, so you can control the direction your subsidiary will take. You will also have direct contact with your end users, allowing you to build solid customer relationships and helping to ensure that your identity isn't obscured by the presence of a partner. Finally, your overseas staff will answer only to you, and all data related to your foreign operation will be at your sole disposal.

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2.5.4

Focus on service sectors

The demand for service exports is growing all over the world. Even if you're primarily a manufacturer, you may be able to move up the value chain by branching into value-added services related to your sector, such as design, distribution, marketing and logistics.

Secondary industries may provide additional opportunities. Companies are demanding an increasing variety of services to facilitate trade, such as financial, information processing, telecommunications, logistics and legal services. Your company may have specialized expertise that is directly applicable to such activities.

2.5.5

Consider supplier diversity

Corporate supplier diversity initiatives facilitate inclusive sourcing of goods and services from groups that have been traditionally underrepresented in supply chains. Diverse suppliers include businesses owned by women, minorities, indigenous peoples or someone who identifies as LGBT. If your business is more than 51% owned and operated by members of designated groups, there may be opportunities for your business through corporate supplier diversity initiatives. For example, these initiatives are present in most Fortune 500 corporations. Some organizations require that your business be certified in order to qualify as a diverse supplier. Canadian certifiers include WEConnect International in Canada (women-owned businesses), WBE Canada (women-owned businesses), the Canadian Aboriginal and Minority Supplier Council and The Canadian Gay and Lesbian Chamber of Commerce.

TIP:

For more information, see the TCS's Linking in to Global Value Chains: A Guide for Small and Medium-Sized Enterprises.

LEARN MORE

Looking to source from diverse suppliers? The Business Women in International Trade program leads women-focused trade missions drawing together Fortune 500 corporations, government agencies and non-profit organizations.

READ THE ARTICLE

STEP #3

Charting your route: developing your export plan

3.1 Why plan?

3.2 Foundation: your business plan

3.3 Building on the foundation: your export plan

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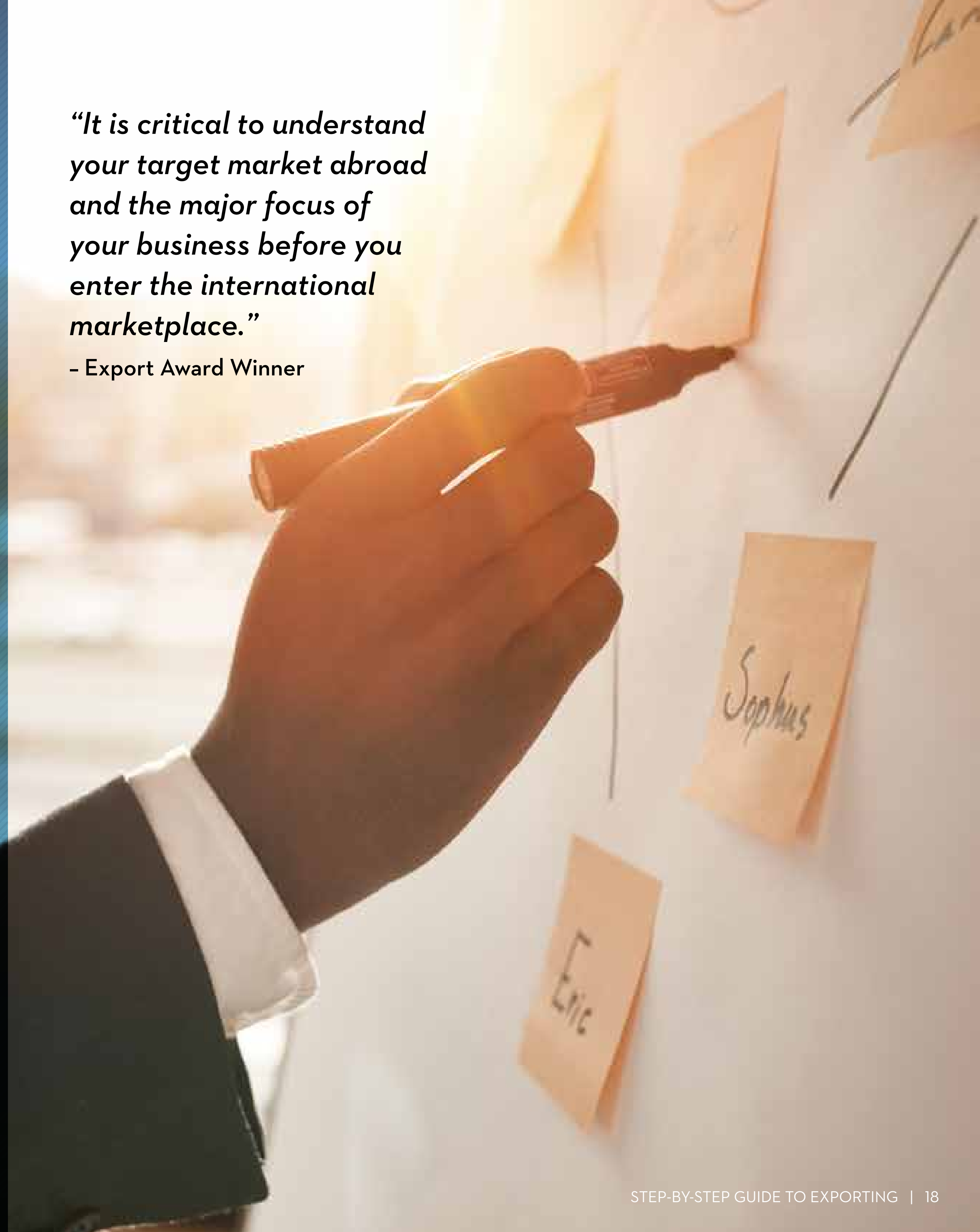

"It is critical to understand your target market abroad and the major focus of your business before you enter the international marketplace."

– Export Award Winner

3.1

Why plan?

If you plan your export project thoroughly, you'll have a better chance of doing well in your target market. Bad planning (or no planning) can lead to major failure abroad and could severely damage your domestic operations as well.

Financial institutions and other lending agencies will not normally provide funds to a business that lacks a well-developed export plan. In addition, potential partners and investors will want to see exactly how you plan to achieve your objectives.

In short, you'll get nowhere without an export plan. This chapter will help you create one.

3.2

Foundation: your business plan

A good export plan begins at home. Now is the time to review and renew your business plan if it is out of date. If you don't have one, this is definitely the time to create one.

TIP:

Contact your industry association to find names of successful exporters who can provide you with practical advice. BDC and the Canada Business Network are two sources for advice.

EXPORT MYTH:

Exporting is too complicated for my company to undertake.

Remember, you don't have to do everything yourself. Outside experts can represent you, find overseas customers, manage sales orders, handle paperwork and deliver the goods.

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3.3

Building on the foundation: your export plan

Once you've polished up your business plan, you can start creating your export plan. This step isn't something you'll finish in a week. Even after you've begun exporting, you'll need to update it regularly.

An export plan is a business plan that focuses on international markets. It identifies your target market(s), export goals, necessary resources and anticipated results.

Your export plan should contain the following:

Introduction

- business history
- vision and mission statements
- purpose of the export plan
- organizational goals and objectives
- international market goals
- short- and medium-term objectives for exporting
- location and facilities

Organization

- ownership
- management
- staffing
- level of commitment by senior management
- relationship between exporting and domestic operations
- corporate experience and expertise in exporting
- strategic alliances
- labour market issues abroad

Products and services

- description of products and services
- key and / or unique features that distinguish your product / services from those in the target market
- adaptation and redesign required for exporting
- production of products and services
- future products / services pipeline
- comparative advantage in production

Market overview

- political environment
- economic environment
- size of market
- key market segments
- purchasing process and buying criteria
- description of industry participants
- market share held by imports
- tariff and non-tariff barriers
- industry trends and other market factors
- market outlook

Market-entry strategy

- target market(s)
- description of key competitors
- analysis of competitive position
- product positioning
- pricing strategy
- terms of sale
- distribution strategy
- promotion strategy / development of sales leads
- description of intermediaries and partners

Regulatory and logistical issues

- intellectual property protection
- other regulatory issues
- modes of transportation and cargo insurance
- trade documentation
- use of trade service providers

Risk factors

- market risks
- credit and currency risks
- political and other risks

Implementation plan

- key activities
- evaluation criteria and process

Financial plan

- revenues or sources of funding
- operating budget
- cost of sales
- marketing and promotion costs
- other expenses or expenditures

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STEP #4

Setting out: identifying your target market

4.1 Understanding international market research

4.2 Types of market research

"Take the time to examine the local culture, find out how things are done there and adapt. Part of the process includes finding the right local partner."

– Export award winner

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4.1

Understanding international market research

After the export plan, market research can be the most important contributor to your international success. There are more than 190 countries in the world and you want to target the right one(s) for your product or service.

To do this, you need information that will provide a clear picture of the political, economic and cultural factors affecting your operations in a given market. Market research is the key to understanding your opportunities. It can confirm that an opportunity actually exists, provide you with insight into how a new market can be developed, or help you discover what's important to your potential customers.

The three basic stages of international market research, while detailed, aren't particularly complex:

TIP:

Be prepared for additional expenses for market research, product launches and personal visits so you don't miss potential opportunities.

STAGE 1

Screen potential markets

Collect statistics that show your sector's product or service exports to various countries.

Identify five to 10 large and fast-growing markets for your product or service. Look at their performance over the past three to five years. Has market growth been consistent year over year? Did import growth occur even during periods of economic slowdown? If not, did growth resume with economic recovery?

Apply the same research questions to select smaller emerging markets that may not have as many competitors as an established market.

Target three to five of the most promising markets for further study.

STAGE 2

Assess target markets

Examine trends that could influence demand for your product or service. Calculate the overall consumption of products or services like yours and identify the amount imported.

Study the competition, both domestic and international. Look at each competitor's Canadian and foreign market shares.

For marketing purposes, become familiar with channels of distribution, cultural differences and business practices.

Identify any foreign barriers (tariff or non-tariff) for the product or service being imported into the country, as well as any Canadian barriers (such as export controls) affecting exports to the country.

Research potential federal, provincial or foreign government incentives to help you promote the export of your product or service.

STAGE 3

Draw conclusions

After analyzing the data, you may decide that you should restrict your marketing efforts to a few countries. In general, one or two countries are usually enough to start with.

With these conclusions in hand, you can begin to develop your marketing strategy (see Step 5).

Source: Adapted with permission from Western Economic Diversification Canada.

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4.2

Types of market research

There are many ways to study a market, but the more detailed and objective your research, the better.

There are two main types of market research: secondary and primary.

4.2.1

Secondary research

Secondary research can be done in Canada, using data sources including periodicals, studies, market reports, books, surveys and statistical analyses. Many of these are available online, as well as from chambers of commerce, economic development organizations, industry and trade associations, and Canadian companies that are already doing business in your target market.

4.2.2

Primary research

After completing your secondary research, collect market information through direct contact with potential customers or other sources. Primary research almost always demands direct, personal involvement through on-site interviews and consultations. State your company's objectives at the outset and present your questions clearly. For example:

Company description: give a brief description of your company, its history, industries and markets served, professional affiliations (if any) and your product or service.

Objectives: briefly list or describe one or more objectives for your planned export product or service, based on your secondary market research.

Product or service: clearly describe the product or service you want to export.

Questions: base your questions on your secondary research and be as specific as possible. You'll get a better response if it's clear that you've carefully researched your subject.

4.2.3

Online resources

Canada Business Network

The Canada Business Network's export section is a hub for the Canadian export market and includes links to market and sector information, trade statistics and sources of trade leads and potential partners.

Canadian Trade Commissioner Service

The TCS site offers access to contact information for trade commissioners that can provide advice and skills to further your business abroad.

MY TCS provides access to hundreds of market reports, export publications and guides as well as upcoming trade events, webinars, podcasts and videos. Create a profile and opt-in to receive email notifications of new opportunities to expand your business through exporting.

Agri-Food Trade Service

The website of Agriculture and Agri-food Canada's Agri-food Trade Service offers a wealth of market studies and country reports for companies in the agri-food sector.

EXPORT MYTH:

I can't compete overseas.

That's not necessarily true. If your business sells domestically, why wouldn't it find customers abroad? Remember, price isn't the only selling point – other factors such as need, utility, quality, service and consumer taste can make you competitive.

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CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

When this Vancouver-based company was ready to expand worldwide, they called upon TCS to sell to the US, Africa, Vietnam and beyond.

4.2.4

Profiling potential markets

Here's a checklist to help you summarize what you can learn about a possible market. After you've created two or three profiles, compare them to see which market(s) present the best overall opportunities.

Market type
Is it:

- a fully developed market (e.g. Germany, the U.S.)?
- a developing market with rapid growth (e.g. China, India)?
- a developing market with marginal growth (e.g. many African nations)?

Political highlights
Describe:

- the government
- who's who
- major political themes
- relations with Canada, including trade agreements

Economic highlights
Describe:

- the domestic economy
- economic trends
- general imports and exports
- imports and exports to and from Canada

Business information
Specify:

- the currency
- the language(s)
- business practices and regulations
- differences in legal framework
- government procurement practices
- work relationships
- office hours

Partnering options
List:

- Canadian firms doing business in the target market
- major firms from the target market doing business in Canada
- options for local partners

Support for market-entry strategies
Identify:

- industry associations
- trade events in the target market
- other networking options
- trade media
- research facilities
- market research sources

Cultural considerations
Specify:

- greetings and forms of address
- do's and don'ts
- cultural differences
- attitudes toward Canadians
- general tips

Travel tips
Describe:

- visa, work permits or other entry requirements
- business support services
- suitable hotels
- telecommunications standards
- tipping customs
- electrical voltage
- religious or statutory holidays

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STEP #5

Reaching the customer: developing your export marketing strategy

5.1 Understanding export marketing plans

5.2 The many Ps of international marketing

5.3 Building your export marketing plan

5.4 Setting prices

5.5 Promotion

5.6 Marketing tools

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5.1

Understanding export marketing plans

Long before you fill your first order, you'll need an export marketing plan.

You've already examined the elements required to produce an effective export plan under section 3.3. Now, you're ready to tackle the specific marketing components of your export plan. While you're developing it, remember not to confuse marketing with advertising, sales or promotion. Marketing is strategy. The other three are the tools your strategy will use to reach your target audience. Canada Business Network lays out the questions you should be asking while developing a marketing plan and provides a template to create your own.

A good marketing plan should be built around your research and will answer the following questions:

- What are the characteristics of your target market?
- How do your competitors approach the market?
- What is the best promotional strategy to use?
- How should you adapt your existing marketing materials, or even your product or service?

TIP:

Be prepared to translate documents into the language(s) of the target market. Current and potential customers will appreciate it.

5.2

The many *Ps* of international marketing

Commonly referred to as the "marketing mix," *the four Ps of marketing* are:

- **Product.** What is your product or service and how must it be adapted to the market?
- **Price.** What pricing strategy will you use?
- **Promotion.** How will you make your customers aware of your product or service?
- **Place.** How and where will you deliver or distribute your product or service?

International trade is more complicated. Add the following nine Ps to the list to produce the *13 Ps of International Marketing*:

- **Payment.** How complex are international transactions?
- **Personnel.** Does your staff have the necessary skills?
- **Planning.** Have you planned your business, market, account and sales calls?
- **Paperwork.** Have you completed all the required documentation?
- **Practices.** Have you considered differences in cultural and business practices?
- **Partnerships.** Have you selected a partner to create a stronger market presence?
- **Policies.** What are your current and planned policies?
- **Positioning.** How will you be perceived in the market?
- **Protection.** Have you assessed the risks and taken steps to protect your company and its intellectual property?

Source: FITT, *Going Global*

"Treat all markets differently. There are cultural differences out there that you need to respect."

– Export award winner

TIP:

Building business relationships in foreign markets is best done face to face. Faxes, phone calls and email should be reserved for follow-up.

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5.3

Building your export marketing plan

Your marketing plan is a work in progress that you will have to modify continuously.

As you develop it, consider the following questions:

- What is the nature of your industry?
- Who are your target customers?
- Where are they located?
- What is your company's marketing strategy?
- What products or services do you plan to market?
- How will you price your products and services?
- Which segment of the market will you focus on?
- Does your marketing material accurately convey the quality and value of your products or services and the professionalism of your company?

As for content, a good marketing plan is closely related to your export plan and should contain the following sections:

- **Executive summary,** which describes the purpose of your marketing plan and how marketing activities will be used to support your export strategy.
- **Product or service analysis,** which gives a clear description of your export product or service, its unique selling points and how marketable it might be in the target market.
- **Market analysis,** which describes your target market's key economic, social, political and cultural characteristics, and provides a profile of your target customer, including buying patterns and factors influencing purchasing decisions.
- **Competitive analysis,** used to decide pricing and marketing strategies of your product or service.
- **Goals,** which describe how you will achieve your objectives in terms of market share, position, revenue and profit expectations.
- **Marketing strategy**, which includes pricing recommendations, mode(s) of delivery and proposed promotional methods.
- **Implementation,** which identifies the activities and target dates you'll undertake to carry out your marketing plan, including a detailed marketing budget.
- **Evaluation,** which describes how you will evaluate your marketing plan at various stages to determine if your goals are being achieved and what modifications may be needed.
- **Summary,** which describes, in a half page, how your marketing plan goals fit into your overall export plan.

TIP:

Take sufficient time to collect background information on the consumer demand, competitive landscape, local import laws, customs requirements and other important factors in the target market.

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5.4

Setting prices

Strategic pricing is one of the most important factors in achieving financial success. Part of setting a realistic export price, and therefore an appropriate profit margin, is to examine production, delivery and distribution costs, competition and market demand. You should also understand the variables of your target market and other export-related expenses, such as:

- currency exchange rates and fluctuations
- market research
- customer research and credit checks
- receivables / risk insurance
- business travel
- international postage, cable and telephone rates
- translation
- commissions, training charges and other costs involving foreign representatives
- consultants and freight forwarders
- product or service modification and special packaging

5.4.1

Market demand

As in domestic markets, demand in foreign markets can affect your price. In other words, what will the market bear?

For most consumer goods, per capita income is a fairly good way to gauge a market's ability to pay. Per capita income for most industrialized nations is similar to that of Canada or the United States, while it is much lower for much of the rest of the world. Often, simplifying products or services to reduce the selling price may be the best option in less affluent markets.

Remember that currency valuations affect affordability. Try to accommodate currency fluctuations and the comparative value of the Canadian dollar when setting your price.

Export Development Canada (EDC) provides information on managing foreign exchange risk.

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

This environmental technologies company was able to leverage insights on local markets to take their business further thanks to TCS.

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5.4.2

Competition

In domestic markets, few companies can set prices without considering their competitors' pricing. This is also true in exporting.

If you have many competitors in a foreign market, you may have to match or undercut the going price to win a share of the market. However, if your product or service is unique, new or demonstrates superior quality, you may be able to set a higher price.

5.4.3

Pricing strategies

How will each market affect your pricing? Include product modifications, shipping and insurance in your calculations. And, as mentioned above, you can't ignore your competitors' pricing.

Refer to your market objectives when setting your price. For example, are you trying to penetrate a new market? Looking for long-term market growth? Or pursuing an outlet for surplus production?

You may have to tailor your marketing and pricing objectives to certain markets (e.g. developing nations). There are several pricing strategies available:

- **Static pricing –** charging the same price to all customers
- **Flexible pricing –** adjusting prices for different types of customers
- **Full cost-based pricing –** covering both fixed and variable costs of the export sale
- **Marginal cost –** covering only the variable costs of production and exporting, while you pay overhead and other fixed costs out of domestic sales
- **Penetration pricing –** keeping your price low to attract more customers, discourage competitors and gain quick market share
- **Price skimming –** pricing the product high to make optimum profit among high-end consumers while there is little competition

After you've determined your costs and chosen your pricing strategy, establish a competitive price for your product or service that gives you an acceptable profit margin.

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5.4.4

Pricing checklist

Use this handy checklist to track your costs and develop your pricing strategy.

Marketing and promotion

- agent / distributor fees
- advertising, media relations
- travel
- communications
- materials (brochures, business cards)
- trade fairs and exhibitions

Production

- unit cost of manufacture
- product or service modification
- regulatory approval
- increased R&D costs
- labelling / packaging, including translation
- packing / marking

Documentation

- inspection
- certification
- document preparation
- cargo insurance
- freight forwarder's fees

Transportation

- lading and related charges
- carriage
- warehousing and storage
- insurance

Customs

- customs and other duties at port of entry
- customs brokerage fees

Financing

- costs of financing
- interest charges
- exchange rate fluctuations
- export credit insurance

Source: FITT, *Going Global*

The table below outlines some of the differences between marketing goods and marketing services in an export environment.

Different approaches used to market goods versus services

Factor	For marketing goods	For marketing services
Demonstrations	Sample product	Presentation of capabilities
Initial marketing by:	Sales representatives	Firm's principals
What do you market?	Your product	Your firm and your services
Local market presence	Sales / distribution facility	Office or virtual office in target market
Cultural factors	Product design and packaging	Interpersonal dynamics
Local associations	Distributors, marketers	Service industry
Local events	Trade shows	Conferences (as speaker)
Media	Product advertising	Press coverage
Local partners	Production / distribution firms	Other service firms
Government procurement	Goods acquisition	Services contracts

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5.5

Promotion

The outcome of your promotional strategies can make or break your export venture.

Promotion refers to any or all of the communications tools listed below that you may use to convince people to buy your product or service.

Advertising. Carefully select the media that have a wide circulation within your target audience. If few people have televisions, is radio a better bet? Or print? Or online advertising? Or social media? Word of mouth promotion (testimonials, samples, etc.)?

Promotional materials. You may need to remove elements that are inappropriate, offensive or meaningless in the target market. Then have a commercial writer adapt these materials into the native language, and have it double-checked by a native of the country.

Direct mail. A targeted direct mail campaign can be very effective if you do your research and gain experience in your target market.

Media. Prepare a media kit that includes a profile of your company, new products/services, newsworthy activities and any articles published about your company.

TIP:

Be careful to look into the meanings that your name or corporate image may have in the target market.

Personal visits. Many cultures value personal contact as the best means of promotion and building business relationships.

Trade shows. Attending or participating in international trade shows allows you to promote your business, check out the competition and do market research.

Internet. Be prepared to commit time and money to keeping your website up-to-date, useful to customers and maintained in other languages.

Social media. Consider the most appropriate online platform for your audience and market. What is your demographic and where do they congregate, communicate and share information with business peers? Is it Facebook, LinkedIn or Twitter? Or are there local social media platforms relevant to the market (e.g. WeChat in China or XING in Germany)?

Branding Canada for agri-food companies

Is your company in the food and agricultural sector? If it is, you should know about Canada Brand, a program developed by Agriculture and Agri-Food Canada in close partnership with industry and provincial governments. This initiative is designed to leverage Canada's strong international image to increase the sales and profile of Canadian agri-food products.

TIP:

Get your sales brochures, website and marketing proposition translated right away into the local language. Make sure to use local translators to ensure intercultural effectiveness when communicating through the use of text and / or imagery.

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5.6

Marketing tools

Developing the right marketing tools is crucial to the success of your business.

Below is a list of tools and tips to get you started.

Business cards

- Professionally designed and high quality
- Easy to read
- In the appropriate language(s)
- Consistent throughout your firm
- Distinctive and informative
- Up-to-date and complete, including area codes, country, telephone and fax numbers, postal code, email and website addresses

Brochures

- Creative and appealing
- Informative and easy to read, highlighting your uniqueness
- Professionally designed and printed
- Visually pleasing

Customer testimonials

- Demonstrate that your company is highly recommended
- Represent your best customers
- Feature quotes from top executives
- Include in your brochure and on your website

News articles

- Clearly state that your company is a recognized leader
- Quote in your brochure
- Reproduce on your letterhead
- Display in your office
- Send to potential clients

Videos

- Sophisticated and interesting
- Professionally translated and produced
- Oriented to the quality and benefits of your product or service
- Clear and concise
- Make conveniently available on YouTube, Twitter and other social media channels

Website

- Comprehensive and informative
- Professionally designed
- Easy to navigate
- Visually pleasing
- Up to date and reliable
- Enabled to submit online enquiries (via forms or email)
- Capable of allowing online purchasing (if appropriate)

Social media

- Set up accounts in social media such as Facebook, LinkedIn, Twitter, those from consumer organizations and online review sites
- Be aware of the social media that are used in your targeted market
- Be aware of the functionality in these social media, such as the Share button
- Understand how your product shows in search engines on the Internet
- Set up social media analytics so you are aware of your audience, their referrals of your company, as well as associated commentary
- Be prepared to respond in a positive, proactive fashion to address customer concerns or demonstrate appreciation of compliments

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STEP #6

Opening the door: entering your target market

6.1 Understanding entry strategies

6.2 Refining your entry strategy

6.3 Methods of market entry

6.4 Free trade agreements

6.5 Evaluating use of intermediaries

6.6 Selecting the right intermediary

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6.1

Understanding entry strategies

Developing a market-entry strategy simply means finding the best methods of delivering and distributing your goods.

Or, if you're exporting services, it means setting up ways to obtain and manage contracts in the foreign country.

Global Affairs Canada has trade commissioners across Canada who can:

- help you finesse your market-entry strategy.
- connect you to the trade commissioners and global contacts you need – in more than 160 cities around the world – to help you with the challenges of market entry.

6.2

Refining your entry strategy

You've chosen the most promising markets for your product or service.

Now, based on your market research, you must decide which entry method best suits your needs.

Some factors to consider:

- How is business conducted in your target market and industry sector?
- What are your company's export strengths and weaknesses?
- What is your company's financial capacity?
- What product or service are you planning to export?
- How much service and after-sales support will your customers require?
- What trade agreements or barriers apply to your target market?

"It's very important for new exporters to partner with someone who's familiar with the local business culture."

– Export award winner

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6.3

Methods of market entry

The traditional means of market entry fall into four broad categories: *direct exports, indirect exports, partnerships and acquisitions / investments*. We'll examine each of these and then look at the question of intermediaries: agents, distributors and other go-betweens.

6.3.1

Direct exports

For products, you market and sell directly to the client. For services, you negotiate, contract and work directly with the client.

Advantages of direct exporting

- A higher return on your investment than selling through an agent or distributor
- Allows you to set lower prices and be more competitive
- Close contact with your customers

Disadvantages of direct exporting

- You don't have the services of a foreign intermediary
- Customers or clients may take longer to get to know you

6.3.2

Indirect exports

For products, you market and sell to an intermediary such as a foreign distributor. You can also retain a foreign agent or representative who does not directly purchase the goods.

For services, you contract with an intermediary who then negotiates and contracts on your behalf.

For many new exporters, an intermediary may be the best way to enter a market.

6.3.3

Partnerships

You might find it advantageous to partner with a local company whose strategic position complements or enhances your own. A well-structured partnership can benefit both parties in the following ways:

- Your partner can complement your capabilities and provide the local expertise, insights and contacts.
- Each company focuses on what it does and knows best.
- Both partners share the risk.
- You can pool ideas and resources to help keep pace with change.
- You can approach several markets simultaneously.
- Your partner may provide technology, capital or market access that you might not be able to afford on your own.
- Partnerships may help resolve problems related to professional accreditation, movement of personnel across borders and tax and legal status.
- In a highly competitive global market, combining the technical and financial strengths of two businesses can make both more competitive.

TIP:

Consider short-term trial contracts to test-run the arrangement and ensure it will do what you are seeking.

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You develop a partnership strategy in three steps:

1. Decide whether or not a partnership can work for you. If your needs can be satisfied in-house, a partner may not be necessary. If you need financing, you may be better off looking for investors. But if you require special expertise or a local market presence, then a partnership might work very well.
2. Define the form, structure and objectives that a partnership must have to suit your needs. To do this, evaluate your company's goals, its ability to achieve them and where you need help in doing so. Then identify how the partnership must work in order to fill in those gaps.
3. Find a partner who meets these criteria and who will be a good "fit" with your company. It is very important to select a partner that has the values and approach to businesses that match your own for a partnership to be successful.

There are several different forms of partnerships. The primary options are:

Licensing – a licence is the granting of rights to another business so that it can legally use your proprietary technology and / or intellectual property. This usually does not involve granting all the rights to the property.

Franchising – more than licensing, the franchisee is given the right to use a set of manufacturing or service delivery processes, along with established business systems or trademarks, whose use is controlled by a licensing agreement.

Cross-licensing – each firm licenses products or services to the other for sales purposes.

Cross-manufacturing – a type of cross-licensing in which companies agree to manufacture each other's products.

Co-marketing – carried out on the basis of a fee or a percentage of sales to take advantage of existing distribution networks and domestic markets.

Co-production – the joint production of goods, enabling your business to use its skills and resources to provide cheaper manufacturing.

Joint venture – each business contributes capital to a newly created corporation that they operate together, or the Canadian and the local business enter into a general partnership agreement and operate the joint venture as a partnership.

Using the expertise of lawyers, accountants, bankers and other professionals is vitally important when setting up any type of partnership.

All parties must be absolutely clear on who holds which rights and which responsibilities.

TIP:

Plan your alliances carefully and pay attention to the qualifications of a foreign agent or distributor. The TCS can help vet your potential partner. Talk to a trade commissioner to request a bona fide check to qualify the contact.

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6.3.4

Acquisitions and investments

A partnership isn't the only way to tap into the resources of a foreign company. Acquiring a firm in your target market, or making a substantial investment into one, can achieve the same results.

Through acquisitions and investments, you immediately gain access to the local market, as well as patents and other intellectual property, resource availability, access to capital, specialist expertise, proprietary technology and product differentiation.

You may also enjoy lower operating and production costs in your foreign operation than at home.

Working abroad

Exporters of services should be aware of the personal and business issues involved in working outside Canada. Global Affairs Canada publishes Travel Advice and Advisories to tell service exporters about potential problems, visa requirements and how to best handle issues that arise.

6.3.5

Selling to foreign governments

Foreign governments can present a rich source of contracts for exporters. The United States government alone procures more than $500 billion in goods annually. Canada Business provides information on how to navigate foreign government procurement and has services to help you succeed.

To help Canada's businesses sell to government customers, the federal government established the Canadian Commercial Corporation (CCC), a Crown corporation that acts as Canada's international contracting and procurement agency.

To assist with the negotiation and execution of contracts, the CCC signs one contract with the foreign government buyer and the other with the Canadian exporter. The CCC ensures the conditions of the agreement and transmits the contractual obligations down to the Canadian exporter. The result is a secure, government-to-government contract with the best possible terms and conditions for all concerned. In addition, CCC manages the cycle of payments from the foreign government buyer to the Canadian exporter.

CCC also specializes in managing contracts with the U.S. Department of Defense and NASA.

Your opportunities for selling to the U.S. government aren't limited to defence and aerospace, of course. Global Affairs Canada's Sell2USGov provides a detailed explanation of U.S. government procurement and how you may be able to take advantage of it.

6.3.6

Selling to multinational corporations

To sell goods or services to foreign corporations, it is essential to conduct research to understand their supply chain sourcing practices. Incorporating the mechanism by which you access the supply chain should be considered in developing your market-entry strategy. Corporations have different sourcing needs, practices, guidelines or entry points to their supply chain. Some approach their supply chain management in terms of Tier 1 and Tier 2 suppliers, for example, with Tier 1 suppliers selling directly to the corporation and with Tier 2 selling to Tier 1. Also, some require their potential suppliers to register their business on an online portal for consideration. Many multinational corporations also have corporate supplier diversity initiatives to source from women, indigenous, minorities and other groups that are traditionally underrepresented in supply chains. For these initiatives, the key contacts and process for entering the supply chain are typically different (i.e. potential requirement for certification). This, however, does not preclude designated groups from accessing other parts of the supply chain; it is simply a unique entry point that may provide them with a competitive advantage.

You may be wondering where to start in understanding the complexities of accessing corporate supply chains. Information on websites, talking to corporate representatives in Canadian subsidiaries, or meeting with representatives during business fairs or networking events can shed light on sourcing needs and practices. The Canadian Trade Commissioner Service can also assist with providing business intelligence and qualified contacts. If you are part of a Canadian women-owned business, contact the TCS's Business Women in International Trade Program.

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

TCS led this device development company into the U.S. Northeast and beyond thanks to the Canadian Technology Accelerator.

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6.4

Free trade agreements

Understanding the role of trade policy in reaching your export and investment goals

6.4.1

Navigating the global trading environment

The global trading environment has become increasingly complex. The World Trade Organization (WTO) has provided an effective foundation for establishing and enforcing global trade and investment rules. In addition to pursuing their interests in WTO forums, WTO member countries have increasingly sought out other tools to generate opportunities and ensure fair treatment for their businesses, as well as create advantages relative to competitors.

There has been a proliferation of trade and investment agreements:

on a bilateral or regional basis, that is, outside the WTO:

- free trade agreements (FTAs)
- foreign investment promotion and protection agreements (FIPAs);
- air transport agreements (ATAs); and

sector-specific initiatives within the WTO, including:

- WTO Agreement on Trade Facilitation (TFA);
- WTO Agreement on Government Procurement (GPA);
- Trade in Services Agreement (TISA);
- WTO Information Technology Agreement and its recent expansion (ITA);
- WTO Environmental Goods Agreement (EGA), among others.

So what is the trick to finding your way through all these agreements?

1. Stay focussed on what you sell and where you want to sell it.
2. Identify which barriers and rules could apply to your specific goods or services in these markets.
3. Find out if Canada has any agreements in place that might make it easier for you to sell to, or invest in these markets.

Global Affairs Canada provides information on Canada's FTAs and other trade policy initiatives.

The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) is a landmark agreement that provides Canadian exporters with guaranteed preferential access to the world's second largest economy and Canada's second largest trading partner after the United States. Visit the **CETA** portal for key insights into regional and sectoral benefits, as well as market-specific overviews, testimonials from Canadian businesses, and upcoming CETA events and webinars.

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6.4.2

Advantages of FTAs

So what are some of the benefits of an FTA to Canadian businesses?

FTAs help our economy by:

- enabling Canadian businesses to better compete with:
  a. local firms in the partner country by providing preferential market access, and
  b. competitors from other countries that enjoy preferential access to that market.
- improving market access by eliminating or reducing tariff and non-tariff barriers to trade in goods.
- providing fair and equitable treatment, greater predictability and transparency to Canadian exporters, service suppliers, investors and innovators.

Essentially, FTAs enhance Canada's competitiveness and support business' access to global markets.

Look at the North American Free Trade Agreement (NAFTA) as an example.

NAFTA:

- eliminated almost all duties on goods covered by the Agreement;
- established a framework of rules providing fair and equitable treatment, transparency and predictability;
- addressed certain non-tariff barriers to trade; and
- provided formal mechanisms for resolving disputes.

Since NAFTA's implementation in 1994, Canada-U.S. trade has increased nearly 173%. Over $2.4-billion worth of goods and services now cross the border every day, and some 2.5 million jobs in Canada depend on Canada-U.S. trade.

Canada's free trade agreements (2016)

In force

- Canada – Korea (CKFTA, 2015)
- Canada – Honduras (CHFTA, 2014)
- Canada – Panama (CPaFTA, 2013)
- Canada – Jordan (CJFTA, 2012)
- Canada – Colombia (CCoFTA, 2011)
- Canada – Peru (CPFTA, 2009)
- Canada – European Free Trade Association (CEFTA, 2009)
- Canada – Costa Rica (CCRFTA, 2002)
- Canada – Chile (CCFTA, 1997)
- Canada – Israel (CIFTA, 1997)
- North American Free Trade Agreement (NAFTA, 1994)
- Canada – U.S. Free Trade Agreement (CUSFTA, 1989)

Concluded

- Canada – Trans-Pacific Partnership (TPP, 2015)
- Canada – Ukraine (CUFTA, 2015)
- Canada – European Union: Comprehensive Economic and Trade Agreement (CETA, 2014)

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6.4.3

Market access for goods: an FTA's 'bread and butter'

Parties to an FTA commit to reduce or remove trade barriers for goods.

Not all tariffs are eliminated immediately upon entry into force of an FTA, as countries seek to protect sensitive products or mitigate the effects of tariff elimination by phasing out tariffs over a defined period. The tariff outcome of each FTA is reflected in the parties' tariff schedules. The modalities for tariff elimination are outlined in the National Treatment and Market Access for Goods (NTMA) chapter.

All of Canada's FTAs seek to secure the best possible market access outcome for our producers, manufacturers and exporters, while taking into account Canadian sensitivities. Naturally, our trading partners are seeking to do the same for their stakeholders.

That's why it is important for you to be able to understand the implications of these FTAs for your business.

For example, the existence of an FTA between two countries does not automatically mean that a good exported from one country to the other will not be subject to duties. To take advantage of preferential market access provided in a particular FTA, a good must meet the rules of origin set out in that agreement.

Therefore, you need to be aware of:

1. The product's tariff classification under the Harmonized System (HS) Code, which will allow you to identify the applicable tariff rate.
   - While HS codes are harmonized internationally up to the sub-heading (6-digit) level, each country differs at the domestic nomenclature level. In Canada, the domestic nomenclature is eight digits while other countries may be longer.
   - The Government of Canada offers a HS database search engine tool to help you find the appropriate six-digit level HS code that best describes your product used anywhere in the world
2. The tariff rate that applies to your products in the countries you are targeting.
   - It is also useful to know whether your key competitors from other countries benefit from a lower tariff rate.
3. Whether the tariff rate is being reduced or eliminated for Canadian products as part of a free trade agreement between Canada and the country in question.
   - If so, the staging category for your products will determine if a tariff is being eliminated immediately upon entry into force of an FTA or if it will be reduced or eliminated over a defined period.
4. Whether other tariff treatments apply to your products, such as tariff rate quotas, whereby (products within a specified quantity are eligible for a preferential tariff rate.

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5. Whether safeguards (a temporary re-imposition of tariffs to protect a local industry against import surges) could be applied to your products.
    - Safeguards are typically applied only in exceptional circumstances for certain products as permitted under the WTO or an FTA.
    - You can contact the country's Customs Authority for more information on any safeguards that are in effect in that country.
6. What Rules of Origin (ROOs) apply – both the general ROOs that appear in the body of an agreement's text, as well as the Product-Specific Rules of Origin (PSROs) in the annex.
    - If your products do not meet the ROOs, they will not be eligible for the preferential tariff rates from the FTA.
    - Meeting the ROOs in one of Canada's FTAs does not mean that you meet the ROOs in another. You need to look at the specific provisions of a particular FTA.
7. What are the origin procedures outlined in the FTA (e.g. who can apply for an advance ruling on origin and how).
    - An advance ruling can be a key tool. It can give you an idea of how your product will be treated by the importing party even before the product has left Canada.

NOTE:

- The full text, including tariff schedules and PSRO annexes, for all of Canada's free trade agreements that are in force, can also be found on Global Affairs Canada's free trade agreements.
- For certain FTAs (e.g. the Canada-European Union Comprehensive Economic and Trade Agreement [CETA] and the Trans-Pacific Partnership [TPP]), a draft text is published prior to entry into force.
- Information can also be sought from the Customs Authorities of the target country or from the Tariffs and Goods Market Access Division of Global Affairs Canada.

The U.S. market is vast, complex and highly competitive, and can be intimidating to enter. But thousands of Canadian enterprises — small, medium, and large — have been very successful south of the border. More join them every year and there is no reason that your company cannot be among them.

Find useful information, tips and resources about entering the United States market in **Exporting to the United States – A Guide for Canadian Businesses**.

6.4.4

It's not just about tariffs

There are three important trends to note regarding tariffs and global trade:

1. Overall, global tariffs have decreased as a result of unilateral tariff reductions as well as WTO agreements. Bilateral and regional trade agreements also provide for the elimination or reduction of tariffs, but only on a preferential basis (e.g. only for goods originating from each party to the agreement).
2. Because tariffs have generally decreased, there has been an increased focus on non-tariff measures that can affect trade (known as non-tariff barriers). These measures are permitted to meet legitimate public policy objectives, but governments need to ensure that they are the least trade-restrictive option necessary to achieve those objectives. The goal is for regulations to be in place to protect the public, while at the same time allowing trade to flow.
3. Modern FTAs increasingly address not only tariffs, but also non-tariff barriers that are restricting or distorting trade.

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Examples of non-tariff measures

Technical regulations • Requiring a wine label to indicate volume • Prohibiting the use of Bisphenol A (BPA) in baby bottles **Related processes and production methods** • Requiring a specific type of net to catch a fish **Standards** • Labelling for "fair trade" or "organic" products **Conformity Assessment Procedures** • Requiring testing to determine whether a baby bottle contains BPA	**Sanitary and Phytosanitary Measures (SPS)** • Requiring animals or animal products to come from disease-free areas • Mandating specific fumigation treatments for food products • Setting maximum allowable levels of pesticide residues **Import and Export Restrictions** • Requiring import or export authorizations for certain products **Internal Taxes** • Imposing higher taxes on foreign products than those produced locally **Customs Valuation** • Using indicative or reference prices instead of the actual paid price to determine the value of products for customs purposes

- All countries, including Canada, employ regulations and other measures to meet legitimate public policy objectives, such as ensuring the safety of our food supply or preventing the spread of pests or diseases.
- Regulations are also necessary to ensure that products are not harmful to consumers, such as specifications on an infant's crib.
- However, these measures should not be used to unnecessarily restrict trade or discriminate against foreign products.

6.4.5

Let's get back to the rules

What are some of the shared objectives in strengthening rules around trade and investment in an FTA? Generally, FTAs aim to:

- enhance the predictability and transparency of doing business
- establish an effective framework that will govern how trade and investment is conducted
- address today's common challenges to trade and investment
- level the playing field by seeking to ensure strong labour and environmental standards are upheld as trade is liberalized, as well as provisions on corporate social responsibility (CSR) and anti-corruption

We recognize that with increased trade in the digital environment, more extensive global value chains, rapid integration of emerging economies and higher risks associated with intellectual property protection, among other challenges, companies like yours need clear, effective and predictable rules in targeted markets.

It is important for you to be aware of the provisions related to these issues in a trade agreement. Understanding what the rules are and how they can help you, will go a long way in ensuring you maximize the benefits of an agreement.

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For example, free trade agreements typically contain provisions related to the following subjects:

National Treatment and Market Access for Goods (NTMA)	• Establishes National Treatment – i.e. treatment no less favourable than that accorded to domestic goods and import / export restrictions – ensuring that no prohibition or restriction of importing goods is allowed.
Electronic commerce (e-Commerce)	• Provisions for e-commerce focus on addressing tariff and non-tariff impediments faced by consumers and businesses that trade in the electronic environment. A key element for Canada is a commitment to a permanent customs moratorium on digitized products that are delivered electronically.
Specific competition issues, such as state-owned enterprises (SOEs)	• May establish rules that require greater transparency in the operation of SOEs, or preclude the provision of subsidies to SOEs competing with private sector entities.
Investment	• May include measures to protect Canadian investments abroad. In the event of an expropriation, measures may require that expropriations be restricted to those for a public purpose, be accompanied by due process and non-discrimination, and have prompt, adequate and effective compensation.
Customs administration and / or trade facilitation	• Intended to make it easier and less-costly for exporters to get their products across foreign borders.
Cross-border trade in services	• Intended to promote non-discrimination, as well as greater predictability, stability and transparency for service businesses.
Temporary entry of business persons	• Intended to facilitate the entry of certain categories of business persons and address certain types of restrictions, such as labour market tests and quotas.
Intellectual property (IP)	• May establish rules and cooperation-based activities that set a minimum standard for the protection and enforcement of IP rights.

NOTE:

- Provisions in specific chapters will outline what is covered by the obligations of the agreement, what new access is permitted and how exporters and investors are to be treated in the market.
- Technical summaries, usually by chapter, are available on Global Affairs Canada's website for certain FTA negotiations that have recently concluded (e.g. the TPP and CETA) or certain agreements that have recently entered into force (e.g. Canada-Korea FTA).
- These technical summaries are an excellent source of information on the key elements of an FTA, presented in a way that is easier to "digest" than the full legal text.
- As examples, see the technical summaries of the Trans-Pacific Partnership (TPP), the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Canada-Korea FTA (CKFTA).

6.4.6

What else do you need to know?

Exceptions and reservations

Just as you need to familiarize yourself with the market access benefits associated with free trade agreements, you also need to be aware of the exceptions and reservations – in other words, what is not covered by an agreement.

- Exceptions are typically laid out in an agreement's Non-Conforming Measures (NCMs) and other annexes that contain exclusions from the obligations of the text.
- Exceptions may take the form of specific entities or may refer more broadly to a type of good, service or sector (e.g. health and public education).
- Reservations and exceptions preserve policy space for the government in potentially sensitive areas (e.g. national security).

There are also issues that are beyond the scope of trade agreements, such as visa requirements, immigration and permanent employment.

Recognizing the limitations of an agreement can be just as important as being aware of the new market access the agreement affords.

Administration of the agreement

- The provisions in an agreement will also provide guidelines when there is more than one agreement in place in a market (e.g. a trading partner is covered by both a bilateral agreement and a plurilateral or regional agreement).
- Typically, agreements will operate on the basis of "co-existence," whereby exporters can continue to use the rules that are the most appropriate and most trade-facilitating in a particular situation.

Information on how an agreement's rules will intersect with those of other agreements (i.e. the agreement's relation to other agreements) is typically contained in an agreement's Initial Provisions and General Definitions section. This section, along with any preambular language, is a good starting point for understanding the overall objectives of the agreement, as well as familiarizing yourself with the terminology used in the text.

What can you do if you believe your business is facing unjustified barriers to trade or investment?

Report the issue to your Trade Commissioner in market, providing as many details as possible.

Additional sources of information

The World Trade Organization (WTO) website is a good source of information on the multilateral trade policy framework:

- Understanding the WTO: Basics – Principles of the trading system. Here you will find explanations for common terms such as Most-Favoured Nation (MFN) – treatment no less favourable than that accorded to any other member as well as National Treatment – treatment no less favourable than that accorded to domestic businesses;
- Understanding the WTO: The Agreements – Non-tariff barriers: red tape, etc.
- The WTO Agreement on Technical Barriers to Trade (TBT Agreement);
- The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures (SPS Agreement); and
- The WTO's glossary.

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6.5

Evaluating the use of intermediaries

Before you jump on a plane and start knocking on doors, think about using an intermediary. The right one can save you an enormous amount of time and money. There are several types: agents, representatives, trading houses and distributors.

6.5.1

Agents and representatives

Agents and representatives aren't exactly the same. An *agent* secures orders from foreign customers in exchange for a commission. A *representative* specializes in sales within a specific geographic area.

Both types of intermediaries may be authorized and commissioned to enter into contractual sales agreements with foreign customers on your behalf. This is usually less costly than setting up your own direct sales operation. Such an arrangement also gives you control over the price of your product or service – an important advantage.

Good foreign agents or representatives can research markets, advise on financing and transportation options, clear goods through customs, provide access to potential customers, make collections and supply information on local business practices, laws and cultural traditions.

6.5.2

Trading houses

Trading houses are domestic intermediaries that market your goods or services abroad. A full-service trading house handles a great many aspects of exporting, such as market research, transportation, appointing distributors or agents, exhibiting at trade fairs and preparing advertising and documentation.

Some trading houses act as "principals" or "export merchants," buying products outright from Canadian suppliers, while others act as "agents," selling on commission.

If you prefer not to sell directly to foreign customers or worry about finding a foreign intermediary, you might consider using a trading house.

6.5.3

Foreign distributors

Unlike agents, *distributors* actually purchase your product or service and resell it to local customers. Often, they set the selling price, provide buyer financing and look after warranty and service needs.

A bonus is that the distributor can usually provide after-sales service in the foreign market. On the other hand, using a foreign distributor may reduce your profit margins and result in a loss of control over your product and / or price.

TIP:

Do your due diligence on a potential agent or representative to make sure they will serve your interests. For example, to ensure that they aren't pushing for an exclusive relationship just to keep your product or service out of the market. Consider negotiating a trial period.

TIP:

Treat foreign agents or distributors as true partners and equals to domestic distribution channels.

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6.6

Selecting the right intermediary

You can obtain information about potential intermediaries from the Canadian Trade Commissioner Service in Canada and abroad, as well as from Canadian and foreign trade associations, business councils and banks.

Before you meet in person, talk to several firms and then carry out your due diligence to make certain they're reputable. You can also protect yourself by entering into a limited term trial agreement.

To evaluate a prospective intermediary in detail, use the questionnaire below.

Size of sales force

- How many field sales personnel does the agent or distributor have?
- What are its short- and long-range expansion plans, if any?
- Will it have to expand to accommodate your needs properly? If yes, would it do so?

Sales record

- Has its sales growth been consistent over the past five years? If not, why not?
- What are its sales objectives for the next year? How were they determined?

Territorial analysis

- What territory does it now cover? Is it consistent with the coverage you're looking for? Is it willing and able to expand?
- Does it have any branch offices in the territory you wish to cover?
- Are its branch offices located where your sales prospects are greatest?
- Are there plans to open additional offices?

Product or service mix

- How many product or service lines does it represent?
- Are they compatible with yours?
- Does it represent any other Canadian firms?
- Would there be any conflict of interest?
- Would it be willing to alter its present product or service mix to accommodate yours, if necessary?
- What would be the minimum sales volume needed to justify handling your lines?
- Do its sales projections reflect this minimum figure?
- From what you know of the territory and the prospective agent or distributor, is its projection realistic?

Facilities and equipment

- Does it have adequate warehouse facilities?
- What is its method of stock control?
- Are their computers compatible with yours?
- What communications facilities does it have?
- If servicing is required, is it equipped and qualified to do so?
- If new equipment and / or training are required, to what extent will you have to share these additional costs?
- If necessary, would it be willing to inventory repair parts and replacement items?

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Marketing policies

- How is its sales staff compensated?
- Does it have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific lines?
- How does it monitor sales performance?
- How does it train its sales staff?
- Would it be willing to share expenses for sales personnel to attend seminars?

Customer profile

- What types of customers is it currently in contact with?
- Are its interests compatible with your lines?
- Who are its key accounts?
- What percentage of total gross receipts do these accounts represent?

Principals represented

- How many principals does it currently represent?
- Would you be its primary supplier?
- If not, what percentage of its total business would you represent? How does this percentage compare with other suppliers?

Promotional thrust

- Can it help you research market information?
- What types of media does it use, if any, to promote sales?
- How much of its budget is allocated to advertising? How is it distributed?
- Would you be expected to share promotional costs? If so, how will this amount be determined?
- If it uses direct mail, how many prospects are on its mailing list?
- What printed materials are used to describe its company and the lines it represents?
- If necessary, can it translate your advertising copy?
- Does it have its own website?

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

TCS assisted this Quebec-based automotive safety company to get into gear to take on two new markets.

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STEP #7

Shippers and shipping: delivering the goods

7.1 International trade regulations

7.2 Export declarations

7.3 Export permits

7.4 Delivering products

7.5 Freight forwarders and brokers

7.6 Packing your goods

7.7 Labels and marks

7.8 Transportation insurance

7.9 Export documentation

7.10 Duty deferral and duty relief

7.11 Delivering services: How it's different

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7.1

International trade regulations

You'll have to familiarize yourself with your target market's import regulations, product standards and licensing requirements. If you're a service exporter, you may have to acquire professional or other accreditation from the country where you'll be operating.

Trade and international security

The World Customs Organization (WCO) has developed an initiative to help protect the international supply chain against terrorist exploitation: the SAFE Framework. It aims to establish and integrate standards for supply chain security and management, strengthen cooperation among customs administrations and promote the seamless movement of goods through well-secured international supply chains.

7.2

Export declarations

Unless you're exporting to the United States, reporting your exports is mandatory under Canadian regulations.

For details on how to do this, download or read online the Canada Border Services Agency's Guide to Exporting Commercial Goods from Canada.

The B13A Export Declaration, along with the appropriate permits and licences, must also be prepared by exporters prior to exporting to all non-U.S. destinations.

7.3

Export permits

You'll need an export permit if:

- the destination country is on the Area Control List (where any export, except humanitarian items, requires an export permit); and / or
- the goods are on the Export Control List (goods and technologies that require export permits pursuant to the Export and Import Permits Act).

Global Affairs Canada provides detailed information about export and import controls and permits. A publication called A Guide to Canada's Export Controls is also available.

Companies in the agri-food sector can learn about export regulations and certifications for food products at the Canadian Food Inspection Agency.

"Choosing the right shipping method is vital to your export success."

– Exporter award winner

TIP:

Avoid spreading yourself too thin by entering too many different markets too quickly.

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7.4

Delivering products

There are four ways of getting your product to your customer's doorstep: by truck, rail, air or ocean. Choosing the right shipping method, or combination of methods, is vital to export success – you want the product to get there on time and at the lowest cost.

Agriculture and Agri-food Canada's Agri-food Trade Service has a useful list of shipping resources that are applicable to most sectors.

Truck	Rail	Air	Ocean
Trucking is popular for shipments within North America, but service declines once you go beyond the major industrialized countries.	Rail is widely used when shipping to the United States or to and from seaports.	Air is more expensive than surface or sea transport, but the higher costs may be offset by faster delivery, lower insurance, cheaper warehousing, exotic markets and better inventory control.	Shipping large items, bulk commodities and goods to offshore markets that do not require fast delivery is more economical by sea.

Using Incoterms

To provide a common terminology for international shipping and minimize misunderstandings, the International Chamber of Commerce has developed a set of international commerce terms known as Incoterms. Familiarize yourself with these terms so that you know you are speaking the same language as your buyer or intermediary.

7.5

Freight forwarders and brokers

You'll need to deal with a lot of documents when delivering products to foreign countries.

You don't normally do it all yourself, however – use freight forwarders and customs brokers to help reduce the workload abroad.

Freight forwarders will help you improve your delivery times and customer service. These agencies will negotiate rates for you with shipping lines, airlines, trucking companies, customs brokers and insurance firms. They can handle all of your logistical requirements, or just negotiate your shipping rate; it's up to you.

7.6

Packing your goods

Assume your products will have a bumpy ride, particularly if you're shipping overseas.

Pack them to survive rough-and-ready cargo handlers and poor roads.

During transit, handling and storage, your goods may be exposed to bad weather and extreme temperatures. If they need special temperature controls or other protective measures, be sure they get them.

The type of shipping may determine the kind of packing you should use. For example, if the goods are carried by ship, you need to know whether they will be placed above or below deck.

7.7

Labels and marks

Labelling regulations vary widely from nation to nation, so verify the required labels before you ship.

Your product may not clear customs if labels don't conform to local requirements such as product weight or electrical standards.

Marking distinguishes your goods from those of other shippers. Marks shown on the shipping container must agree with those on the bill of lading or other shipping documents; they may include some or all of the following:

- buyer's name or some other form of agreed upon identification
- point / port of entry into the importing country
- gross and net weight of the product in kilograms and pounds
- identification of the country of origin, e.g. "made in Canada"
- number of packages
- appropriate warnings or cautionary markings

Provide a packing list that identifies and itemizes the contents of each container. Each container must also contain a packing list itemizing its contents.

For information on packaging your goods for the EU marketplace, refer to the CE Marking Guide.

7.8

Transportation insurance

International carriers assume only limited liability and make the seller responsible for the goods up to the point of delivery to the foreign buyer. For this reason, you must have international transportation insurance.

Marine transportation insurance protects both ocean- and air-bound cargo. It also covers connecting land transportation. There are three main types of marine transportation insurance:

1. **Free of particular average** (FPA) insurance is the narrowest type of coverage. Total losses are covered, as well as partial losses at sea if the vessel sinks, burns or is stranded.
2. **With average** (WA) offers greater protection from partial losses at sea.
3. **All risk** is the most comprehensive insurance, protecting against all physical loss or damage from external causes. Once the documents transferring title are delivered to the foreign buyer, you are no longer liable for the goods.

TIP:

Proper packing can also reduce the risk of theft during transit.

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7.9

Export documentation

Export documentation identifies the goods and the terms of sale. It also provides title to the goods, evidence of insurance coverage and certifies a certain quality or standard. Several documents are required for overseas shipping and fall into two categories:

7.9.1

Shipping documents

Shipping documents are prepared by you or your freight forwarder. They allow the shipment to pass through customs, be loaded onto a carrier and be transported to the destination. Key shipping documents include:

- commercial invoice
- special packing or marking list
- certificate of origin
- certificate of insurance
- bill of lading / air waybill*

* A *bill of lading* is used for land and ocean freight, while an *air waybill* is used for air freight. Note that the ocean bill of lading can be a negotiable instrument that passes title to the goods. Other types of bills pass title to the consignee as soon as the goods are delivered.

7.9.2

Collection documents

The most important collection document is probably the *commercial invoice*, which describes the goods in detail and lists the amount owing by the foreign buyer. This form is also used for customs records and must include:

- the date of issue
- the names and addresses of the buyer and seller
- the contract or invoice number
- a description of the goods and the unit price **including** the total weight and number of packages
- shipping marks and numbers
- the terms of delivery and payment

FACT:

Goods shipped by sea are typically insured for 110% of their value, to compensate for the extra costs involved in replacing lost goods.

Other collection documents include:

- certificates of origin
- certificates of inspection, used to ensure that goods are free from defect
- import and export licences, as required (e.g. a NAFTA certificate of origin)

7.10

Duty deferral and duty relief

If you're importing goods in order to re-export them, you might be able to use the Duties Deferral Program, administered by the Canada Border Services Agency (CBSA). The program relieves or defers payment duties if the goods are in transit through Canada and will not be sold here.

There are three components to the Duties Deferral Program:

1. The **Duties Deferral Program** enables eligible companies to import goods without having to pay customs duties, as long as they export the goods after importing them. For more information, refer to Memorandum D7-4-1, Duty Deferral Program.
2. With the **Drawback Program**, duty is refunded on previously imported goods when these goods have been exported. For more information, refer to Memorandum D7-4-2,"Duty Drawback Program.
3. **Customs Bonded Warehouses** are regulated by the CBSA. A bonded warehouse is a facility, operated by the private sector, in which you may store goods without having to pay duties and taxes. This could be beneficial if you're planning on importing goods for the purpose of exporting them. For more information, refer to Memorandum D7-4-4, Customs Bonded Warehouses.

7.11

Delivering services: how it's different

The challenges of delivering services to a foreign market are just as complex as those of delivering products. The challenges are different, however, and often depend on factors in your target market, such as:

- extent and reliability of telecommunications / internet links
- existence of a reliable IT infrastructure
- frequency and convenience of air links between Canada and the market
- technological sophistication, receptivity and flexibility of customers
- potential support through official channels, government departments and international development agencies
- ability to satisfy legal regulations governing work permits or professional certification
- potential to enter into a local partnership

You'll most likely be delivering your services by one, or a combination of, the following methods:

- **Provider visits client.** This is the most common export activity and involves meeting the client repeatedly, often at the site.
- **Client visits provider.** In industries such as tourism, thousands of Canadians earn income by meeting the needs of foreign visitors.
- **Establishment in the market.** Large legal and accounting firms, as well as major banks, are most likely to use this method to establish their presence abroad.
- **Electronic delivery.** E-business is increasingly more important for conducting global business.

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STEP #8

Identifying your export financing requirements

8.1 Understanding the risks of export financing

8.2 Leveraging capital

8.3 Where to get financial help

8.4 Methods of collecting payment

8.5 Insuring against non-payment

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8.1

Understanding the risks of export financing

If by chance your first international order is far larger than you expected, how are you going to finance the expansion you need? Payments can take months, and buyers may default or go out of business.

Self-financing a growing export business can be very risky, especially for new or smaller exporters. Fortunately, there are options that can minimize your risks and even give you a competitive edge.

Information to help you learn about export financing is also available from the Canada Business Network.

Export Development Canada provides an extensive list of tailored online resources to help you determine your financing needs.

TIP:

International trade payments usually take longer to arrive than domestic ones, so allow for this in your cash flow planning.

8.2

Leveraging capital

Even though Canada is one of the least expensive countries in the world in which to do business, the costs of exporting can add up.

Because of this, your export drive will need a reliable cash flow. You will also need a comprehensive financial plan for the export venture. If you don't have one, it will be very difficult to arrange the financing your venture may need.

The most important objective of your plan, however, is ensuring that your company always has sufficient cash or operating lines of credit. To do this, the plan must include:

- **a cash budget** that highlights your financing requirements over the next two or three years, so you can determine the timing and amount of your cash expenditures.
- **a capital budget, which is** a longer-term overview of the funds you'll need to complete your export project, that provides an operating plan against which you can measure actual expenditures and revenues and tells you when the project will start generating positive cash flows.

You'll need to know the timing of both cash inflows and outflows. Cash flow planning can help you defend against such problems as:

- exchange rate fluctuations
- transmission delays
- exchange controls
- political events
- slow collection of accounts receivable

Accurate details are important to the overall effectiveness of your export plan.

EXPORT MYTH:

I can't afford to export.

Yes, you can! Expanding your capacity to fill foreign orders won't necessarily demand large capital outlays or a lot of new staff. Sources such as the Canadian Trade Commissioner Service (TCS), Export Development Canada (EDC), and the Business Development Bank of Canada (BDC), offer help ranging from market-entry support to the provision of working capital. Their services are inexpensive and often free: the TCS doesn't charge for any of its services.

TIP:

Be prepared to meet increased demand from a successful foreign sale. Ask for advanced payments to cover the cost of increased demand and reduce risk.

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8.3

Where to get financial help

There are several sources of financial aid available to Canadian exporters. The TCS can help you navigate through which of these programs may be of value to your company. A sample of relevant programs from Global Affairs Canada and other government departments include:

8.3.1

CanExport

CanExport is a new program that increases the competitiveness of Canadian companies. It will provide up to $50 million over five years in direct financial support to SMEs in Canada seeking to develop new export opportunities, particularly in high-growth priority markets and sectors. Delivered by the Trade Commissioner Service (TCS) of Global Affairs Canada, in partnership with the National Research Council Industrial Research Assistance Program (NRC-IRAP), CanExport provides financial support for a wide range of export marketing activities.

8.3.2

Global Opportunities for Associations (GOA)

Global Opportunities for Associations (GOA) provides contribution funding to support national associations undertaking new or expanded international business development activities, in strategic markets and sectors, for the benefit of an entire industry (member and non-member firms). Annual non-repayable contributions range from a minimum of $20,000 to a maximum of $250,000; funding approvals are made for a one-year period for activities and related expenditures taking place between April 1 and March 31 of the following year. GOA provides matching funds of up to 50% of eligible expenses.

8.3.3

EDC's working capital solutions

Export Development Canada (EDC) offers several financing products for Canadian companies to support their international transactions: to pay for the up-front costs associated with the production of a large export order, to expand into new markets or to respond to a buyer's request for financing. EDC's role is to help Canadian companies go, grow and succeed internationally. They do this by providing you with financing to cover costs such as work in progress, buying equipment or setting up an office overseas; providing insurance to protect against risks such as not getting paid, political unrest or customer bankruptcy; working with your bank to get the bonds you need posted; and helping you break into new markets which includes introducing you to potential customers. For more information, visit EDC online or call 1-800-229-0575.

8.3.4

BDC's market expansion financing

The Business Development Bank of Canada can help you meet your working capital needs through long-term financing and flexible repayment options. BDC's Market Xpansion Loan helps Canadian companies finance the expansion of their domestic market or explore new and larger foreign markets. The BDC Market Xpansion Loan is designed to help exporters realize projects that are key to their growth and success, without putting their cash flow at risk. For more information, visit their website or call 1-877-232-2269.

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8.3.5

CCC's government contracting

One of the greatest challenges for a Canadian exporter is standing out from international competitors in the eyes of interested buyers. With the Canadian Commercial Corporation (CCC) at your side, your proposal will benefit from the same profile as a direct purchase from the Government of Canada. When engaged as the prime contractor on your export sale, CCC signs the contract with the other government buyer and then signs a back-to-back contract with you. For the buyer, this becomes a purchase from the Government of Canada, complete with assurance that the contract will be completed in accordance with its terms and conditions. For you, it's added credibility that can help you secure more contracts worldwide. CCC specializes in international contracting for complex procurements and offers foreign governments an expedited procurement process – all of which gives you the credibility, access and backing required to help secure more contracts worldwide. For more information refer to their contact information online.

8.3.6

AAFC's AgriMarketing Program

The AgriMarketing Program, overseen by Agriculture and Agri-food Canada (AAFC), aims to enhance marketing capacity and competitiveness of Canada's agriculture, agri-food, fish and seafood sectors. The Program assists industry associations to identify market priorities and equip themselves for success in global markets, and provides funding for industry associations to develop and implement long-term international strategies.

Additional resources

Canada Business Network has links to international, federal and provincial bodies that offer financial information and assistance to both new and experienced exporters.

EXPORT MYTH:

Exporting is too risky.

Exporting doesn't need to be riskier than doing business at home – it's just different. Letters of credit, export credit insurance and reference checks through banks and international credit reporting agencies can help protect your business. Trade laws also tend to be straightforward and legal advice about them is easily available.

LEARN MORE

In need of a credit insurance that is quick and hassle-free? See how EDC's Trade Protect allowed an Ottawa-based company to focus on making commercial drones instead of worrying about getting paid.

READ THE ARTICLE

8.4

Methods of collecting payment

There are several ways for customers to pay an invoice in international trade: cash in advance, letters of credit, documentary credit, documentary collection and open account. We'll examine them in order of increasing risk to your company.

8.4.1

Cash in advance

Cash in advance is your most secure option because it eliminates all risk of non-payment and adds to your working capital. Unfortunately, few foreign buyers are willing to pay cash in advance, although some will pay a portion when goods or services are specially ordered. For services, a retainer might be paid upon signing a contract, after which progress payments are matched to deliverables.

8.4.2

Letters of credit

Letters of credit (L / Cs) name a bank to receive and check shipping documents and to guarantee payment. With an L / C, the costs of financing a transaction may be borne by either the exporter or importer.

Both sight- and term-payment provisions can be arranged.

Letters of credit can be *confirmed* or *unconfirmed*. For example, a Canadian bank can *confirm* an L / C issued by a foreign bank, thus guaranteeing that the Canadian bank will pay the exporter even if the foreign bank doesn't. This kind of L / C is much better for you than the unconfirmed one.

L / Cs can also be *irrevocable*, which means they can't be cancelled or amended without your approval. The most secure L / C is one that is both confirmed and irrevocable.

In practice, an L / C works like this:

- The customer arranges an L / C with his or her bank.
- The customer's bank prepares an irrevocable L / C. This includes specifications as to how you'll deliver the goods.
- The customer's bank sends the L / C to your Canadian bank for confirmation.
- Your bank issues a letter of confirmation and sends the letter and the L / C to you.
- You check the L / C *very* carefully. In particular, you ensure that it agrees in all respects with the terms of your contract with the customer. If the L / C's terms and those of the contract are different, and if you don't meet the L / C's terms because you overlooked the discrepancy, the L / C may be deemed invalid and you might not get paid.
- You arrange shipping and delivery with your freight forwarder. Once the goods are loaded, you get the appropriate shipping documents from the forwarder; you use these to prove that you have fully complied with the terms of the contract.
- You take these documents to your bank, which sends them to the customer's bank for review. The customer's bank sends them to the customer and the customer obtains the documents that will allow the goods to be claimed.
- The customer's bank pays your bank, which then pays you.

TIP:

The type of your currency holding increases business opportunities abroad. For example, Canadian companies can now use renminbi (RMB) to trade with Chinese counterparts. In addition, RMB is now in the International Monetary Fund's Special Drawing Rights (SDR) basket, which also brings advantages for Canadian business.

TIP:

Give your foreign markets adequate attention, even if your domestic economy is booming.

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8.4.3

Documentary credit

Exporters can also use *sight* and *term* documentary credits:

A documentary credit calling for a *sight draft* means that the exporter is entitled to receive payment on sight, i.e. upon presentation of the draft to the bank.

A *term* documentary credit, in contrast, may allow for payments to be made over terms of 30, 60 or 90 days, or at some other specified future date.

8.4.4

Documentary collection

In a collection, you ship goods to an importer (your customer) and forward the shipping documents to a collecting bank. Next, the customer pays the collecting bank in exchange for the documents. You then obtain the money from the bank.

With a collection, no bank has guaranteed that you'll get paid, and you're required to finance the shipment until your customer receives the goods and pays through a sight or term draft.

8.4.5

Open account

Open accounts require you to ship goods and pass title to the customer before payment is made. In these cases, you're fully exposed to any credit risk associated with the customer until payment is received. In addition, because open account terms usually allow 30, 60 or 90 days (or even longer) before payment is due, you are, in fact, financing the transaction for your buyer.

8.5

Insuring against non-payment

The effects of your buyer not paying can be severe and lasting.

You can protect your company through EDC's Accounts Receivable Insurance (ARI). ARI protects you against non-payment by covering up to 90% of losses resulting from a wide variety of commercial and political risks. Better still, you'll be able to free up your capital and, possibly, extend more attractive payment terms and credit options to new customers.

"It's important to be diplomatic, especially when 'securing payment' for overseas sales. Demanding payment up front can be a terrible insult in some cultures."

– Exporter

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STEP #9

The fine print: understanding the legal side of international trade

9.1 Understanding international contracts

9.2 Understanding ‘proper law’

9.3 Contracts for sale of goods

9.4 Contracts for sale of services

9.5 Negotiating in other business cultures

9.6 Corporate social responsibility

9.7 Meeting international standards

9.8 Protecting IP rights

9.9 Resolving disputes

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9.1

Understanding international contracts

In international trade, contractual arrangements can be much more prone to complications than domestic ones. Language barriers may cause misunderstandings. Cultural and geographical impediments may crop up. Words often have different meanings in different places.

International business contracts must, therefore, be specific and all-encompassing. This will go a long way toward reducing misunderstandings, misconceptions and disputes.

Finding a legal professional who specializes in international trade will help you sidestep regulatory and legal pitfalls and, if necessary, resolve disputes. You should also acquire some knowledge of international conventions, the business laws governing your target market and existing trade agreements between that market and Canada.

9.2

Understanding ‘proper law’

Problems in international business contracts can occur because of differences in the laws of the countries involved.

When different laws are applied, results may be inconsistent and substantive rights may depend on whose law applies. For example, one law may require that a contract be written, whereas another may not. Or, under one law, persons who are not a party to the contract may have certain rights, whereas under another law they may have no rights.

9.3

Contracts for sale of goods

A contract covering the sale of goods involves transferring, or agreeing to transfer, goods to a buyer for a sum of money.

The actual transfer of the property distinguishes the sale of goods from other transactions such as leases or property loans.

The term “goods” includes all movable things and excludes real estate and intangibles such as debts, shares, patents and services. Furthermore, the fact that money changes hands distinguishes a sale of goods from other transactions, such as barter or counter-trade.

“It takes years to build a market, but only days to lose it.”

– Export award winner

TIP:

From the outset, it is important to establish which law is the “proper law.”

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9.3.1

Transfer of title and effects of transfer

Several factors hinge on the exact legal moment when the buyer takes ownership of the goods (in formal terms, when title passes or is transferred from you to the buyer).

Risk: the transfer of title affects the parties' rights in case of total or partial loss, damage or destruction of the goods.

Rejection: once the transfer of title has occurred, it may preclude your buyer from rejecting the goods, despite valid complaints regarding quality, quantity or description.

Price: once your buyer takes title, you can take legal action against him or her for the full unpaid price, rather than merely for the lost profit.

Rights of action: after taking title, the buyer can enforce his or her property rights through court action or other methods.

9.3.2

Delivering goods

You must deliver the goods to your buyer in one of two ways:

- *Physically*, by delivering a legal document of title, such as a bill of lading; or
- *Symbolically*, by delivering, for example, the key to where the goods are stored.

Your contract should specify where the delivery will take place. In international matters, this is usually defined by using terms as Cost, Insurance and Freight (CIF) or Free on Board (FOB).

FACT:

Unless otherwise specified, the place of delivery is understood to be your place of business.

9.3.3

Acceptance or refusal of goods

If you meet all the conditions of the contract, your buyer must accept the goods. Refusal to accept them without justification gives you the right to sue for damages. If you breach a condition of the sale, the buyer can legally reject the goods.

Upon request, you must allow your buyer to examine the goods. The buyer can accept or reject them by:

- conveying his/her acceptance to the seller
- acting in a manner that is inconsistent with the seller's ownership of the goods, e.g. by reselling the goods after they are delivered
- keeping the goods without notifying the seller that he or she has decided to reject them

Once any of these types of acceptance or rejection have taken place, the buyer can no longer refuse the goods, even if you have breached a condition of the contract.

9.3.4

Unpaid seller's rights

Your best protection as seller is payment in advance or upon delivery. Next is payment by confirmed letter of credit (preferably irrevocable). If neither is possible, then you should take out security for the unpaid purchase price. This can take several forms, but the most common method is to reserve title or to take a secured interest in the goods.

TIP:

Modify products in compliance with foreign regulations and cultural preferences to avoid conflicts.

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9.4

Contracts for sale of services

Service contracts can range from a handshake to pages of legal and technical specifications.

Whatever the form, both parties should have the same understanding of:

- the service(s) to be provided
- the personnel who will provide the service
- the facilities to be made available to the client
- the date on which the provision of service is to begin and end
- the payments to be made
- the benchmarks or dates when payments are to be made
- the circumstances under which the contract may be terminated and any implications in terms of completion of the work, handing over the work completed to date, partial payments, penalties, and so on
- the procedure in case the client is unable to provide the agreed personnel, information or facilities
- conditions for holdbacks
- conditions for the return of bid or performance bonds or guarantee
- procedures for resolving disputes

9.5

Negotiating in other business cultures

The usual Western business practice is to negotiate a transaction and then build a buyer-seller relationship around it. In the business cultures of many countries, however, this process is reversed. One starts out by building a personal relationship with a prospective customer and, once that relationship has been established and everyone is comfortable with it, the actual business negotiations can begin.

While the *ultimate* goal of all parties is to sign a contract, the *immediate* objective in a relationship-based business culture is to establish the personal connections. Your non-Canadian counterparts often see this as a necessary precondition for serious negotiations.

TIP:

Be patient. Pushing negotiations onto someone who isn't ready will be seen as rudeness, which can greatly diminish the possibility of a sale.

9.6

Corporate social responsibility

Corporate social responsibility (CSR) is generally defined as the voluntary activities undertaken by an organization, over and above legal requirements, to operate in an economically, socially and environmentally sustainable manner.

Socially responsible practices can enhance a company's ability to manage stakeholder relations, prevent conflicts, mitigate social and environmental risks and contribute to the sustainable development of communities, regions and countries.

CSR involves companies understanding the impact of each of their functions on the surrounding economy, community and environment, and adjusting their activities and operations to create value for themselves and other stakeholders.

9.6.1

Operating according to CSR principles

The Government of Canada expects that Canadian companies will promote Canadian values and operate abroad with the highest ethical standards. They are expected to respect human rights and all applicable laws and to meet or exceed widely recognized international standards for responsible business conduct.

There are good business reasons for integrating CSR practices into operations and these are becoming increasingly important to companies' success abroad.

Among them are:

- establishing a good corporate reputation
- improving management of social, environmental, legal, economic and other risks
- enhancing the company's ability to recruit and retain staff, and maintaining staff morale
- obtaining higher operational efficiencies and cost savings
- increasing access to markets and capital
- fostering good relations with investment partners and surrounding communities

CSR tools and practices can contribute to an organization's long-term business success by helping them to develop sustainable business practices, manage social risks and build strong relationships with a broad range of stakeholders.

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9.6.2

Dealing with corruption

No country is entirely free of corruption. But if corruption is deep enough it can hinder economic growth and good governance, and decay the fabric of society. Corruption is an obstacle to sustainable development, with the potential to enlarge economic gaps and breed organized crime. Unchecked corruption leaves little room for democracy to flourish, little room for freedom to expand and little room for justice to prevail.

Significant gains have been made in the global fight against corruption. Better understanding of its economic, political and social costs have spurred on recent international efforts to fight corruption, encourage transparency and increase accountability. Canada strongly supports international efforts to combat corruption, regarding it as a good governance issue, a crime problem and a drag on economic, social and political development.

The reputation of Canada and Canadian companies as trustworthy business partners enhances the impact of TCS advocacy and makes Canadian businesses more attractive to local partners. In 2015, Canada ranked as the ninth least corrupt country in Transparency International's Corruption Perceptions Index and second in the TRACE Matrix Country Rankings of Business Bribery Risk.

Canada, like many other countries, has passed laws against corrupt practices. The *Corruption of Foreign Public Officials Act* makes it a criminal offence to bribe a foreign public official in the course of business. Businesses convicted under the Corruption of Foreign Public Officials Act could face heavy fines and individuals could be sentenced to a maximum of five years in jail.

For more information, please see the Department of Justice's *Guide to the Act*. For a plain-language guide to this legislation, download EDC's pamphlet, *Keeping Corruption Out*.

For more information on how to prepare your business for international markets and related potential CSR concerns, find a trade commissioner to gain their knowledge of local business practices. Refer also to Canada's approach to CSR for Canadian companies operating abroad.

LEARN MORE

The Trade Commissioner Service is focusing on helping firms avoid the dangers associated with corruption. That's because "the risk to our brand is huge" if Canadian companies get ensnared in cases of bribery.

READ THE ARTICLE

The benefits of an extensive compliance program became clear to this small Toronto-based renewable energy company when it helped to limit their exposure to bribery and corruption.

READ THE ARTICLE

9.7

Meeting international standards

There are international standards for almost everything, from the ingredients in food to the certification of electrical equipment.

If you're an exporter, you need to ensure that the standards you use in your export product or service comply with those of your intended target market.

Adopting international standards will increase your competitiveness, make it simpler for you to exchange technical information with foreign experts and save you money and effort when it comes to testing and recertifying to move into a new market.

The best source to learn about standards is the Standards Council of Canada. The Council's website includes a section devoted to industry-related issues and provides a free information service that can help you:

- understand SCC's accreditation programs, services and activities
- identify applicable standards, regulations and conformity-assessment procedures that would apply to market acceptance of your product
- find competent standards authorities to contact in Canada or abroad
- identify Canadian, international or foreign standards in a particular area
- locate published or under devel opment by a specific technical committee standards

For more information, contact an SCC information officer at 613-238-3222.

Export Alert! is a free service operated by the SCC that allows you to monitor regulatory changes and developments to trade-related regulations, including changes under the World Trade Organization Agreement on Technical Barriers to Trade, and under its Agreement on the Application of Sanitary and Phytosanitary Measures.

Learn about or subscribe to Export Alert!, which is available through the SCC with the support of Global Affairs Canada.

Additional SCC tools include RegWatch, a database of standards referenced in federal legislation and Standards Alert!

9.8

Protecting IP rights

Intellectual property (IP) rights are valuable tools to protect various aspects of innovative business activities. IP rights very broadly mean legal rights that result from intellectual activity in the industrial, scientific, literary and artistic fields.

Trademarks, patents, copyrights and industrial designs are referred to as "IP rights."

- **Trademarks** represent branding and goodwill
- **Patents** represent technology and technological improvements
- **Copyrights** represent all original forms of creative works and their expressions
- **Industrial designs** represent a product's shape, look and configuration

IP rights are "property" in the sense that they are based on the legal right to exclude others from using the property. Ownership of the rights can also be transferred. Like physical assets, IP assets must be acquired and maintained, accounted for, valued, monitored closely and properly managed in order to extract their full value.

Every country has an IP office, whose main responsibility is to administer their national IP system. The Canadian Intellectual Property Office (CIPO) is an agency of Innovation, Science and Economic Development Canada (ISED).

TIP:

Registration of IP in Canada provides protection only in Canada. Similar protection must also be sought in targeted markets.

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9.8.1

Protecting your business' IP assets

Enlisting the guidance of an IP specialist as you follow these steps will be beneficial.

1. **Learn the basics of IP rules and laws,** both where your business is based and in the major countries in which you intend to do business. IP knowledge within your target markets can help you save time and money.

   The [World Intellectual Property Organization] offers useful information and resources specifically for SME's.

2. **Take stock of your IP assets.** Don't make assumptions about which IP assets you actually hold. IP can provide a foundation for mergers, joint ventures or R&D agreements.
   Conduct "freedom to operate" searches on trademarks and patents before commercializing products and services that may conflict with the IP rights owned by others in the marketplace.

3. **Develop an IP strategy** and be in a better position to understand how intellectual property can support you in achieving your business goals.

4. **Search international IP databases** in the markets you are interested in developing to:

   - identify potential competitors
   - find possible partners and markets
   - anticipate changes in the marketplace
   - avoid possible infringement

   To find a national IP office in your target market, visit the [Directory of Intellectual Property Offices].

5. **Formally protect your IP rights.** Seek professional advice for protecting your products and services as the formal IP system can be complex.

6. **Properly mark your products and services.** The following are some examples for indicating your IP rights on products and packaging:

   - **Trademarks:** Trademark owners often indicate their registration through certain symbols, namely, ® (registered), TM (trademark), SM (service mark), MD (marque déposée) or MC (marque de commerce). Although Canada's *Trademarks Act* does not require the use of these symbols, it is advisable to use them. The symbols TM, SM and MC may be used regardless of whether the trademark is registered. The ® and MD, on the other hand, can be used only if the mark is registered.
   - **Patents:** You may wish to mark your invention with "Patent Applied For" or "Patent Pending" and the patent application number. These phrases have no legal effect but may warn others that you will be able to enforce your exclusive right to make the invention, once a patent is granted.
   - **Copyrights:** You may mark your work with the symbol ©, the name of the copyright owner and the year of first publication. Marking serves as a general reminder that the work is protected by copyright.
   - **Industrial designs:** The proper mark is a capital "D" in a circle and the name, or abbreviation, of the design's proprietor on the item, its label or packaging.

7. **Preventing / remedying infringement.** When conflict arises, it is preferable to attempt to reach a negotiated settlement. IP litigation, especially in foreign jurisdictions, should be taken as a last resort. With awareness and proper strategic planning, however, this outcome can usually be avoided. Ask for IP advice from a registered professional as early as possible.

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IP professionals, like registered patent or trademark agents or IP lawyers, can help you avoid the common IP pitfalls made by exporters, such as:

- not covering IP issues in contracts with distributors or outsourcing partners
- infringing others' IP rights
- assuming laws are the same everywhere
- not checking trademark registrations
- not using regional / international systems to streamline IP registration
- using inappropriate local branding
- applying for protection too late
- disclosing information too early

Visit CIPO's website for a list of registered qualified agents for trademarks and patents.

Take advantage of expert services for searching and registering your IP. The realm of IP is a legal one and you would be ill-advised to navigate it alone or even ignore IP all together.

In addition, you may wish to consult the TCS.

9.9

Resolving disputes

Many issues can become controversial in international trade transactions.

For example:

- Disputes with agents
- Collection of payments due
- Breach of contract or warranty
- Intellectual property rights
- Secured creditors' rights, e.g. seizure of assets
- Enforcement of foreign judgments

Consult with legal counsel in the jurisdiction of the contract should a dispute arise to explore options for dispute resolution.

In certain circumstances, arbitration could be an option. Also called alternative dispute resolution, arbitration uses a tribunal to consider the questions over which the parties are in conflict and to decide how to resolve the questions.

Both the ADR Institute of Canada and the American Arbitration Association are available to help with arbitration and offer plenty of resources for further information.

EXPORT MYTHS

By slightly modifying a patented invention, I can go "around" the patent and sell my modified product without any worry.

WRONG: If a patent has been properly written and filed with the help of a registered patent agent, chances are it would stand as a solid defence.

My Canadian IP right protects me worldwide.

WRONG: IP rights are territorial – recognized and enforceable only within the country or region where they were granted

TIP:

CIPO, through the Patent Cooperation Treaty, can concurrently seek patent protection in over 140 countries.

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STEP #10

Selling online: e-commerce for exporters

10.1 Understanding e-commerce

10.2 e-exporting: using the Internet to export

10.3 Applications and benefits

10.4 Assessing your e-commerce potential

10.5 Localization

10.6 Technical side of e-commerce

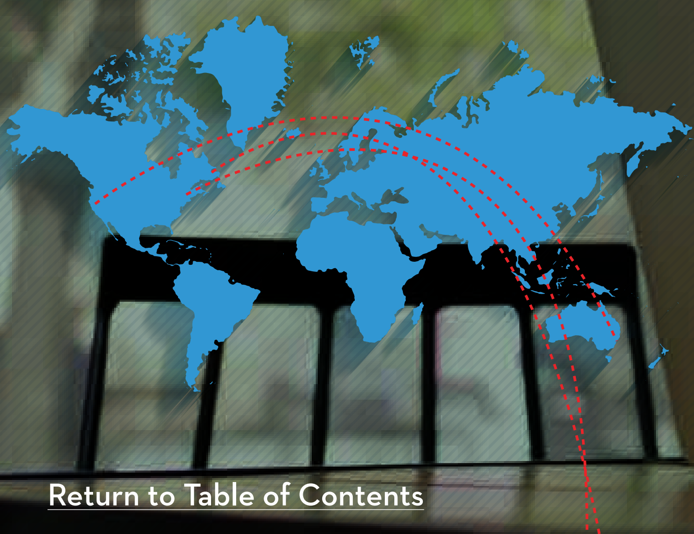
10.7 Finding e-leads

10.8 Checking e-leads

10.9 e-payments

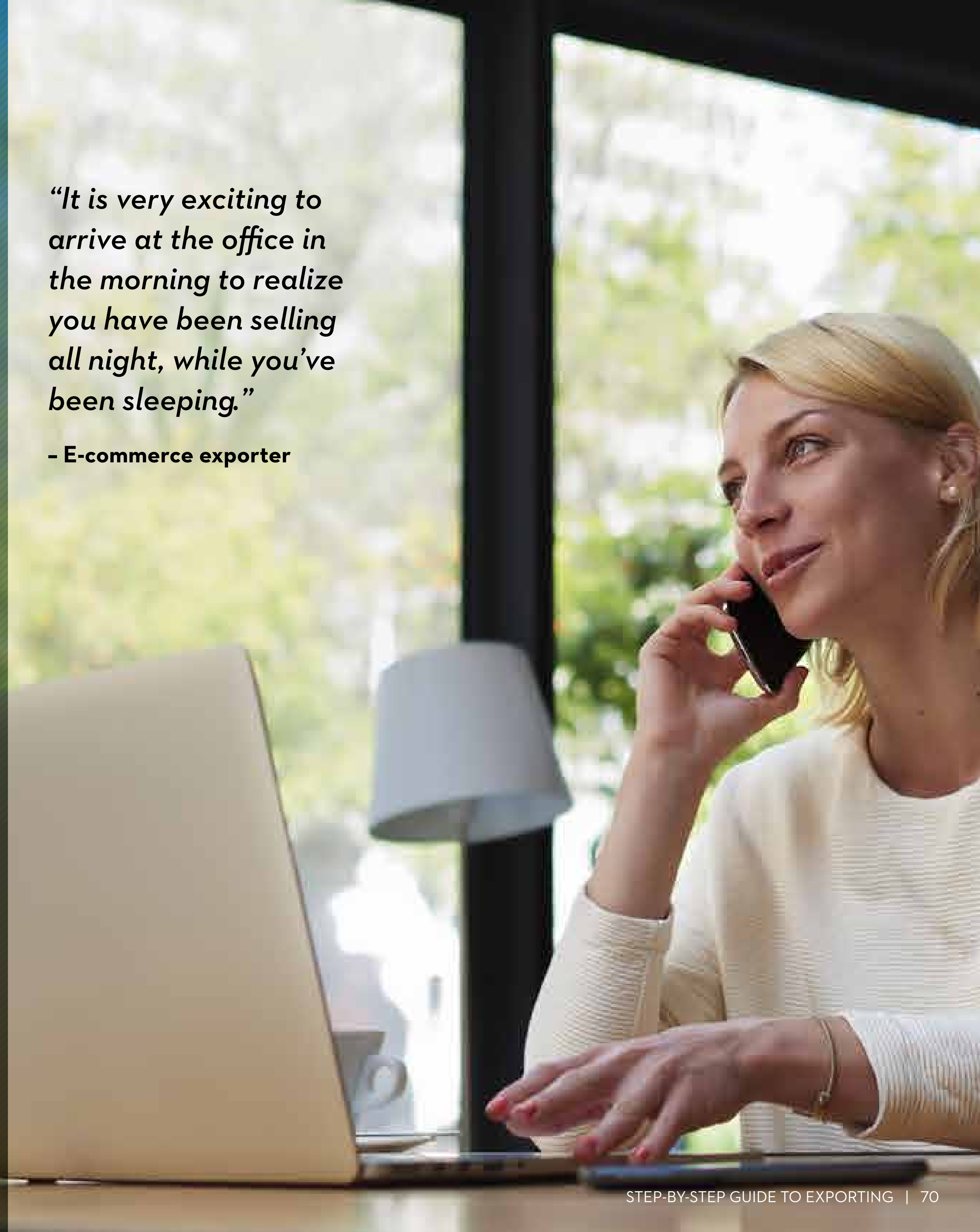
10.10 Supporting your online customers

10.11 Social media networks



"It is very exciting to arrive at the office in the morning to realize you have been selling all night, while you've been sleeping."

– E-commerce exporter



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10.1

Understanding e-commerce

E-commerce (also known as digital commerce) refers to the act of selling and buying via the Internet.

This definition includes transactions in which not all of the activity takes place online. A website may play a role in informing a buyer about a product or offer for which the purchase takes place offline. That is a common model that is not typically captured in e-commerce statistics. Similarly, a goods producer or wholesaler may depend on distributors or retailers in other countries to sell goods to customers using their own e-commerce channels.

E-commerce is virtually an essential approach for both large and small businesses now that almost all products and services are online. Having a strong e-commerce presence can increase efficiency and productivity, while lowering costs. Indeed, if you haven't already moved at least some of your business operations to an online model, you could face major threats from those competitors who are already doing so.

The following section assumes that your business is already a potential exporter of goods or services through the Internet.

If you don't have a Web presence, now is the time to build one. International business assumes an online presence now. The Canada Business Network has resources to help you learn how to develop your website and sell online. Refer to BDC's web design and consulting services to help you prepare to take your business online.

Why sell online?

Opportunities for online sales are huge and growing. By selling online, Canadian companies can:

- find new customers in overseas markets
- conduct business 24 / 7
- build brand awareness
- access new markets in a low-cost manner
- monitor real-time sales to understand what customers are searching for

10.2

e-exporting: using the Internet to export

By definition, exporting is the practice of sending or transporting goods or services to a foreign country for trade or sale.

In comparison, e-exporting is the practice of receiving and processing orders online from customers located in foreign countries. The Internet offers some digital advantages over traditional exporting approaches. Not only can you reach a large number of potential customers from around the globe without needing to establish a physical presence in other countries, but you can also:

- **Customize your product or service offerings based on the customer's location** by offering special links on your website for different markets (e.g. provide information in the language and currency of the target market).
- **Offer electronic customer support** through a list of frequently asked questions (FAQ) on your website or through email assistance, rather than by operating a costly and time consuming toll-free number.
- **Highlight the features and benefits of your products or services** using pictures, descriptions, technical details, pricing, shipping and return policies, as well as include customer testimonials and video demonstrations.
- **Promote your company and build your brand** with potential customers by telling them more about your company's history, staff, location, partners and so on.
- **Facilitate communication with international customers** through email. Respond to questions instantly, notify your customers of their product shipment status and send them the latest news or information on special offerings.

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There are seven principal steps when you are considering e-exporting:

1. **Evaluate your e-export potential.** Before spending a great deal of time, effort and money on e-exporting, take some time to reflect on your current operations and product offerings. This assessment phase will help you avoid headaches later and will educate you on what you need to do to get ready to e-export (refer to section 10.4).

2. **Develop an e-export plan.** If you are being proactive and thinking about actively marketing your products in foreign markets, an export plan is a definite must. An e-export plan will help you to tackle the digital aspects of commerce.

3. **Modify your products for foreign markets.** Before entering a foreign market, you need to be sure your products are suitable in their current form. You need to consider both the tastes and preferences in your foreign markets, as well as the specific foreign regulations that apply to your products. Note that these will vary by country, so you may have to limit the foreign markets where you sell or intend to sell your products.

4. **Research the legal issues related to e-exporting.** As with most business transactions, informing yourself about the laws and regulations that govern e-exporting transactions is critical. Consult a lawyer specializing in international law to make sure you are in compliance with the various domestic and foreign regulations.

5. **Leverage your website to sell abroad.** The Internet represents a critical sales tool for SMEs with limited resources. Consider developing a multilingual website, one that offers content in more than one language. This will be necessary if you are aiming to reach customers in multiple countries where different languages are used.

6. **Ship your products.** Once you have made a sale, you need to get your products to your customer. The international shipping process can be complicated at best. To ease the burden of shipping products abroad, you can call upon the assistance of freight forwarders, customs brokers and fulfillment houses.

7. **Get paid.** Arranging for online payment before the goods are shipped will help you to avoid having to collect payment after the goods have been shipped. Online payment options include third-party credit card processing companies, online fund transfer services and prepaid credit services, all of which allow payments and money transfers to be made through the Internet. The services these companies offer are not available in all countries.

The seven steps are described in more detail in the Ontario government's e-Business Toolkit.

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10.3

Applications and benefits

E-commerce has many applications, including sales, customer relations, finance, market research, market intelligence and procurement.

Some of the benefits these applications can bring to exporters are:

- reduction of the time needed to deliver and update information about products or services
- flexibility and adaptability of online marketing and advertising
- customer access to your products or services 24 hours a day, 365 days of the year
- faster responses to customers' needs
- more efficient ordering and order processing
- easier access to intelligence about export essentials such as demographics, market characteristics and competitors
- electronic rather than physical delivery of certain products and services
- access to world markets and, therefore, more export opportunities

Of course, you'll still have to deal with the traditional side of exporting – shipping, customs regulations and work permits – just as you would if you were doing business without the Internet. From this angle, e-business hasn't changed exporting all that much. What it *has* done is make all kinds of export-related communications and connections much easier.

For more information, check out e-Commerce: what to consider when selling online.

10.4

Assessing your potential

If you're going to succeed in e-commerce, you have to start with a clear-sighted evaluation of your company's potential for online business.

Ask yourself the following questions:

- **IT resources:** How sophisticated is your Web presence? How much experience do you have in managing IT projects? Are you aware of new technology and how you can use it?
- **Management:** Your e-business strategy needs to be developed in the context of your overall corporate objectives. Do you know what parts of your business should be put online? Is senior management committed to going in this direction?
- **Personnel:** Do your employees understand your e-business strategy? Have you asked for their input? Do you have a plan for training them in the new skills they might need?
- **Customers:** Do you use online resources to track competitive trends and identify potential new business? Does your e-business strategy address the security and privacy concerns of your customers? Is your website customer-friendly?
- **Competition:** Are you aware of your competitors' e-commerce initiatives and how they could affect your competitiveness?
- **Suppliers:** Do you know if you can reduce procurement costs by purchasing online? Do you use the Internet to look for suppliers? Have you used supplier input to help plan your e-business strategy?
- **Profitability:** Have you done cost-benefit analyses for your e-business strategy? Do you know how long it will take to amortize the start-up costs?

At the end of the diagnostic, you'll have a detailed analysis of how ready you are to adopt an e-business strategy. You will also identify ways to improve your competitiveness in this venture.

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Are you ready for e-commerce?

If you are thinking about making e-commerce a bigger part of your daily operations, you should first determine if your company is ready for e-commerce and the return on investment. If the picture looks good, you can follow-up with a plan. The Canada Business Network can help you further develop your plan.

To discover how to grow your sales abroad through e-commerce, download BDC's free e-book, Succeed with e-commerce.

10.5 Localization

Adapting your website to suit your target market is called *localization*.

At least part of an exporter's website has to present information in the native language of the target market.

Completely translating a website can be expensive, so you may prefer to begin by having professional translators localize only the most important pages.

Other suitability issues relative to localization to consider are branding, currency denomination and payment methods. Branding that reflects the market's customs, laws and traditions, as well as language, will make a potential buyer feel more at home. Using local currency for pricing, shipping and tax calculations will do the same and will allow customers to compare prices more easily.

Also related to this is the ability to accept payment in local or U.S. funds and to do so efficiently and simply and securely.

As international search engine optimization (SEO) requirements present additional challenges to traditional SEO, a targeted domain name and hosting strategy could help ensure your site will be easily found by your international customers. Refer to the Canada Business Network for more insight on SEO and how to increase web traffic to your site.

10.6 Technical side of e-commerce

Trying to set up your own online presence using in-house resources is usually not a good idea, unless your business is quite small and you have access to some very adept IT people. As a rule, you'll get much better results if you outsource the creation of your Web presence to a service provider specializing in website development.

10.7 Finding e-leads

The Internet is a fruitful source of electronic business leads from around the world, usually called e-leads.

There are several ways to track down such virtual opportunities in international e-marketplaces. For example, Canadian retailers and their brands can reach consumers overseas through e-marketplaces, which are online locations that provide a platform for retailers of all sizes to conduct business through e-commerce.

TIP:

One good pathfinding tool for accessing e-leads abroad is available through the Enterprise Canada Network, "an industry-led single window platform that connects Canadian small businesses and researchers to qualified global opportunities, facilitates international partnerships and creates trade through access to public and private sector resources." – Enterprise Canada Network

More than 400 e-marketplaces have been identified worldwide such as Amazon.com or Alibaba.com. In China alone, major established e-marketplaces include Tmall, Jumeii, ASOS China, JD.com, VIP.com, Kaola.com and Suning.com; each operates dedicated portals selling popular consumer products such as fashion, health food, skincare and cosmetics. The benefits of selling online through e-marketplaces are that you can reach new customers and build awareness for your brand to help your business to grow. You can also find out what consumers want and need through analyzing real-time sales data, to help you to make better-informed business decisions.

10.8

Checking e-leads

The precautions you take in traditional exporting also apply to the world of e-business, including:

- Know who you're dealing with. Always verify addresses and if you can't identify a potential customer or the country in which an order originates, don't proceed with the deal. The TCS can help validate a potential customer with a bona fide check.
- Verify other characteristics of the potential customer's country. How good is its communications infrastructure? How stable are its financial systems? What level of political risk does it represent?
- Conduct market research. It is a key component of evaluating e-leads. The principles of market research are the same for e-business exporting as they are for traditional exporting.
- Monitor credit assessments. They are just as important in e-business.

Shipping and documentation

You can transmit documents electronically via the Internet, which is much faster than moving the information around on paper and can be just as secure. Internet tools and systems can also give you better control of your shipping logistics.

10.9

E-payments

An e-commerce exporter can, of course, be paid by any of the traditional methods. Retail customers, though, tend to pay by credit card. When a credit card payment is not possible or advisable, you might consider using the services of a company that, for a transaction fee, obtains the customer's electronic payment (e-payment) and then remits it to you. These specialized businesses often integrate their payment systems with services such as:

- creating online storefronts including catalogues, stock control and order processing
- providing fraud protection
- offering multilingual and multicurrency support
- issuing letters of credit
- providing online, real-time transaction processing

TIP:

As in all export operations, due diligence is an essential precondition of success.

TIP:

Arranging for online payment (before the goods are shipped) will help you to avoid having to collect payment after the goods have been shipped. Online payment options include third-party credit card processing companies, online fund transfer services and prepaid credit services, all of which allow payments and money transfers to be made through the Internet. The services these companies offer are not available in all countries. Canadian companies should be aware of different e-payment tools used in other countries.

Profile of e-commerce in China: The rapid expansion of e-commerce in China has grabbed headlines around the world and reshaped the business landscape for both foreign and domestic firms. Already the world's largest, China's e-commerce market has grown by 50% per year since 2011 and is expected to be worth USD$1 trillion by 2019. More than half the population in China use Alipay to pay for online purchases.

For Canadian exporters, selling online in China can be as simple as shipping directly from Canada to the consumer, or via engaging one of several third-party service providers who can facilitate the entire logistical process, including customs, branding, marketing and payment. In what traditionally has been a difficult market for small Canadian companies to access, e-commerce provides a relatively straight-forward path to gaining a foothold in China. The Canada Pavilion on Alibaba's online shopping site provides Canadian products and services with a platform to connect with Alibaba's 400 million consumers.

For more information, the TCS at the Consulate General of Canada in Shanghai has prepared a guidebook, *An Introduction to e-Commerce in China*, to help Canadian companies begin to understand the Chinese e-commerce landscape.

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10.10

Supporting your online customers

Support for your customers is crucial to ensuring repeat business. You can do this, of course, through traditional methods such as telephone, email, fax and the postal system. But a good e-business customer support system can give you an edge. The potential impact of social media – positive and negative – should also be considered, especially when dealing with tech-savvy customers.

Privacy is a major concern for potential online customers. You'll need to convince them that any electronic transactions they make with you are secure and that their privacy and personal information will be protected. In this regard, Canada's *Personal Information Protection and Electronic Documents Act* sets the rules that a business must obey when it collects, uses or discloses personal information. The Privacy Commissioner of Canada provides more information.

There are several strategies that can help you reduce the risks you and your customers face when doing business online. Be aware of these risks and take steps to deal with them before they become problematic. For more information, refer to the Canada Business Network for insight on e-commerce security, privacy and legal requirements.

CUSTOMER SUCCESS STORY

Canadian businesses AND TCS working together

This payroll software company was able to get entrenched in new markets faster than ever thanks to TCS's Canadian Technology Accelerator.

10.11

Social media networks

Social media is an effective business development tool.

It is best used as an interactive platform for listening to and sharing information with members of an online community. Social media can also represent a cost-effective channel to directly reach out to, and engage with, thousands of potential consumers and enterprise customers. Remember to keep your posts social and conduct yourself appropriately, in compliance with the established practices of the community.

A common social media mistake made by many businesses is to rush out and create a Facebook page or Twitter feed before proper planning. The result can be wasted resources and poor results. A well-researched social media strategy is essential to your investment yielding a favourable return.

To start a strategy, you need to determine your target audience and its receptivity to using various social media platforms. Next, focus your initial social efforts on the platforms your target audience is most likely to use often. It is important to consider the most appropriate online platform:

- What is your demographic and where do they congregate, communicate and share information with business peers?
- Is the preferred media Facebook, LinkedIn or Twitter? Are there other or local social media platforms relevant to your target market (e.g. WeChat in China or XING in Germany)?

To be successful using social media, you must provide regular updates. Without them, you won't build the kind of engagement with your followers that you're looking for. Work out an informal schedule that specifies how often each of the platforms will be updated and by whom.

When it comes to content and messaging, potential customers are more likely to follow brands in social channels that offer them benefits (i.e. information, entertainment or discounts). Social media is about using interesting content to engage with both existing customers and potential customers, not about landing a big name client who "liked" your post or re-tweeted your message. It is important to first establish the relationship and be open to engagement. You can add value to your brand simply by being helpful and by engaging regularly in the conversation as a subject matter expert or influencer on topics related to your company's product or service offerings.

Include infographics and pictures wherever possible to make your content more visually interesting. Share or re-tweet information from recognized authorities in your sector – such as individuals, associations, government organizations, reputable news sources – to help reinforce your message ensure all teams (IT, marketing, social media etc.) work together to keep links to your products / services and company are automatically updated.

Consider following LinkedIn and Twitter for updates from the TCS and watch for trade commissioners from across Canada and from your target markets.

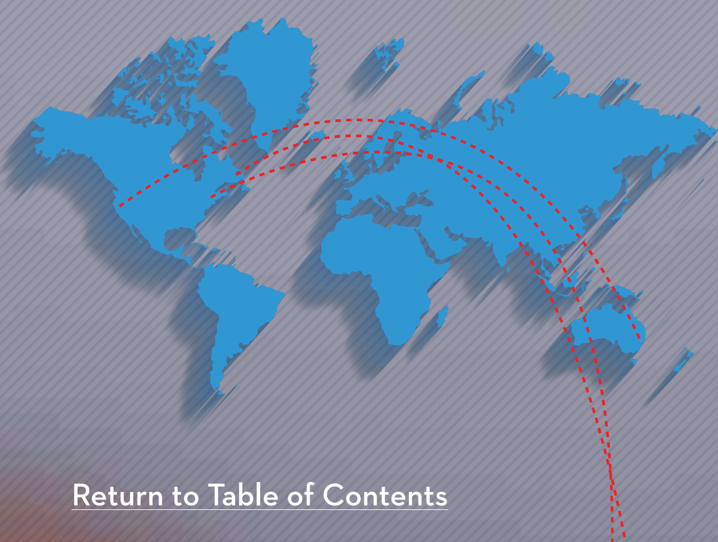
For more information on how to make the most of social media networks, refer to BDC's Social Media Guide for entrepreneurs.

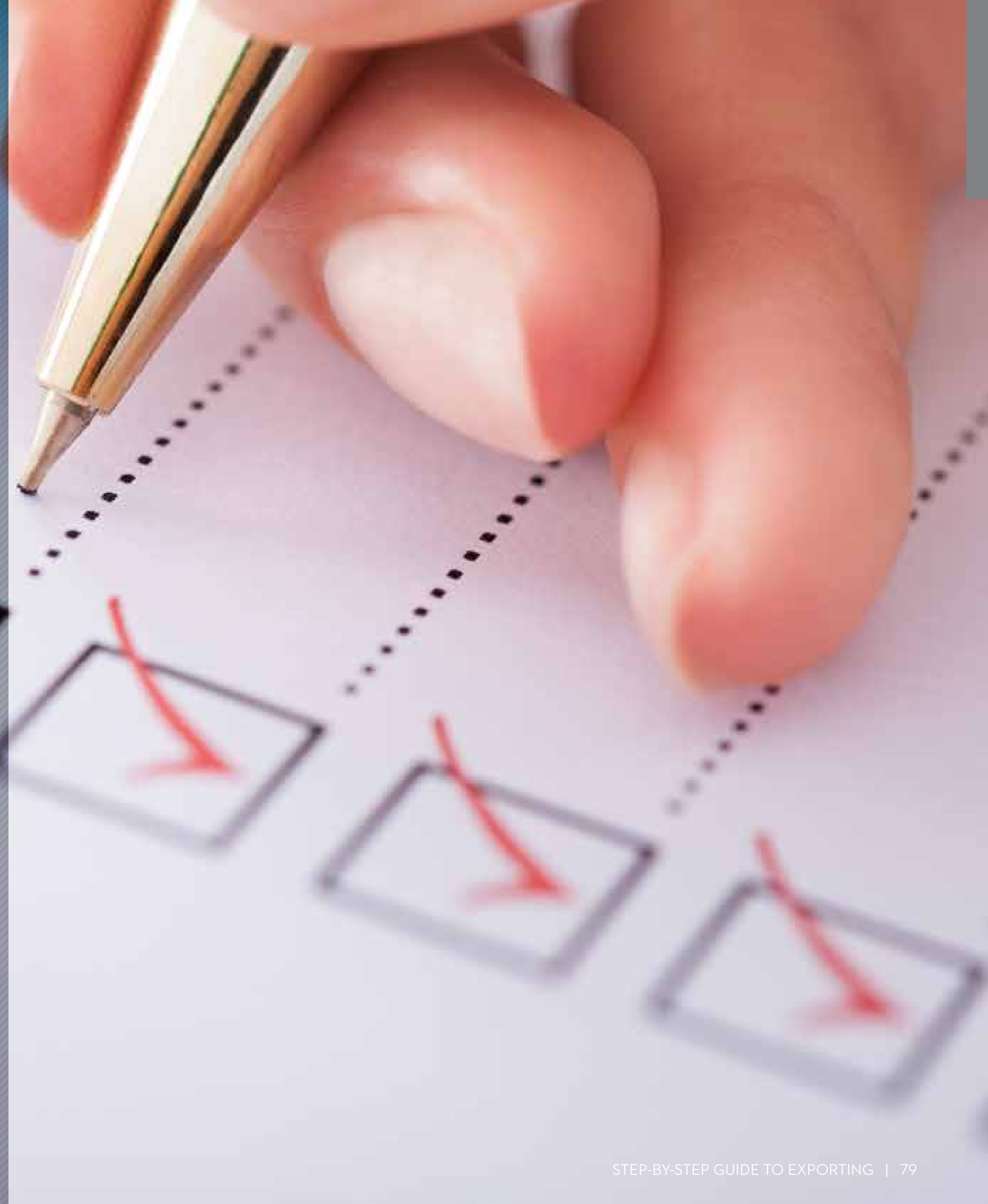
TIP:

Resist the urge to push sales-related information only. Consumers will tune out and not follow your brand. Don't sell first. Try to entertain, engage and / or educate your followers. The sales will follow in due course.

APPENDIX A

Your exporting checklist





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APPENDIX A

Your exporting checklist

Here's a checklist you can use to track the general progress of your exporting venture, or simply to get an overview of the entire process.

1. PLANNING AND PREPARING

Whether you export goods or services, many of the following preparatory steps will be similar:

- Research the market using techniques and resources described in this guide.
- Did you take the Export quiz? If you answered 11-15 questions with "A" or "Yes", you are likely well prepared to request service from the Canadian Trade Commissioner Service (TCS). Speak with a trade commissioner right here in Canada for information on trade opportunities and market intelligence from around the world.
- Ask the TCS in your target market for help in assessing your market prospects and to provide you with a list of qualified contacts.
- Visit cities in the region and talk to potential buyers and intermediaries.
- Request a face-to-face briefing from an officer of the TCS in the region to discuss the latest developments in your target market.
- Develop a network of contacts and potential partners.
- Find out who are your competitors and potential allies, and who are the key importers, distributors and agents for your product or service.
- Develop a profile of the ideal agents and distributors; then, make a short list of the ones whose skills and experience best complement your export objectives.
- If exporting a service, consider the possibility of finding a local partner to represent your interests.
- Put together a promotional package describing your company and its products or services.
- Attend a regional trade fair to continue your market research, do preliminary promotion and establish contacts with potential buyers and associates.
- Make arrangements with key export service providers such as freight forwarders, trading houses and customs brokers.

2. MAKING THE DEAL

The following summarizes the way you arrange a deal and ship goods to your buyers. If you're a service exporter, you won't have to deal with documentation, freight forwarding, shipping or customs clearance.

Check references of prospective customers

Whether you're dealing with end users, retailers or intermediaries, check their references. Use your network of Canadian exporters, commercial banks, people in the industry or your Canadian trade commissioner to do the following:

- Verify the prospect's credit rating.
- Contact other exporters who have had dealings with the prospect.
- Ask the TCS in your target market to provide you with information on the prospect.
- Verify the prospect's business profile.

Visit prospects

Visits to important prospects in your market(s) are strongly recommended because they let you gather insight into each prospect's needs. Before leaving Canada, ask the TCS in the market you're visiting to provide you with advice on timing and organizing your trip.

Finalize the sale

Finalization normally begins when your sales department receives a purchase order from the buyer. You should respond with an acknowledgment of the order or a sales confirmation. Be sure to confirm the following details:

- quantity
- payment terms
- shipping / trade terms
- transportation method
- price

Prepare a letter of credit

The process for a letter of credit (L / C) is:

- The buyer issues an instruction to his or her own bank.
- The buyer's bank sends the L / C to your bank.
- Your bank sends the L / C to you.

Review the L / C carefully with your freight forwarder, banker and legal counsel. It must be consistent with your sales agreement, and you must comply with all of its provisions.

Remember that an L / C pays upon receipt of correct documents, not upon successful completion of the transaction. If a name or address is misspelled, if the shipping date is wrong or if all charges are not included, you may be unable to collect.

Prepare other documentation

Your shipment must be accompanied by all relevant documentation, including:

- commercial invoice
- packing slip
- shipping instructions
- certificate of origin
- standards documentation (if necessary)
- health / sanitary certificate (if necessary)

Freight forwarder involvement

Your freight forwarder prepares the following documents and delivers copies to you, your buyer and your commercial bank:

- customs invoice
- consular invoices (if required)
- special packing or marking list
- insurance and certificate of insurance
- bill of lading

Shipment

The shipment process works like this:

- Your freight forwarder sends the goods to the carrier.
- Your customer receives all relevant documentation, allowing the shipment to clear customs.
- The goods clear customs at the destination entry point.

Collection

After the shipment has been sent:

- The freight forwarder presents your bank with the L / C and all accompanying documentation.
- You present your bank with a sight draft (demand for payment).
- Your bank passes the documentation to the buyer's bank with a demand for payment.
- The buyer's bank accepts the documentation and lets you know when the funds will be transferred.
- Your bank transfers funds to your account.

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APPENDIX B

Resources for exporters

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APPENDIX B

Resources for exporters

Global Affairs Canada provides information related to foreign affairs, international trade and development.

The TCS provides services to Canadian businesses that have researched and selected their target market(s) abroad. These services can help a company prepare for the international market, assess market potential, identify qualified contacts and solve problems. With more than 160 offices in Canada and abroad, the TCS provides a full range of international business development services to Canadian SMEs active or interested in exporting.

MY TCS is an online platform offered by the TCS that provides you with access to market information and insight on business opportunities that match your specific business interests. Opt-in to receive email notifications about new export publications, upcoming trade events, webinars, videos and podcasts, as well as editorial content from the TCS flagship magazine, *CanadExport*.

CanExport provides financial support for a wide range of export marketing activities that increase the competitiveness of Canadian companies. CanExport will provide up to $50 million over five years in direct financial support to Canadian SMEs seeking to develop new export opportunities, particularly in high-growth priority markets and sectors.

Global Opportunities for Associations (GOA) provides contribution funding to support national associations undertaking new or expanded international business development activities, in strategic markets and sectors, for the benefit of an entire industry (both member and non-member firms).

The Canadian Business Women in International Trade (BWIT) Program provides targeted products and services to help women entrepreneurs expand their global footprint. Visit the TCS website to learn about BWIT's trade missions, sign up to receive news for women entrepreneurs, join BWIT's LinkedIn group and sign up to be part of the women-owned searchable directory that is part of Innovation, Science and Economic Development Canada's Canadian Company Capabilities database.

Canadian Technology Accelerators (CTAs) provide Canadian high-growth, market-ready companies support to access global markets and entrepreneurship services within the information and communication technologies, life sciences and clean technologies sectors. The CTA initiative is managed and led by the TCS, with support and contributions from stakeholders in Canada as well as partners from in-market business accelerators, provincial governments, international venture capital firms and industry experts.

Using Export Controls Online, exporters are able to submit applications for export permits and certificates, as well as request amendments. Whether you are looking to import goods to Canada or to export to another country, Export and Import Controls provides up-to-date information on controlled products and how to obtain the necessary permits and certificates.

LEARN MORE

In need of financial assistance to travel to target markets, attend a trade fair or conference, or conduct market research? Listen to this podcast to learn about a new funding program designed to kickstart your international expansion.

LISTEN TO THE PODCAST

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TCS Regional Business Network in Canada

The Canadian Trade Commissioner Service's Regional Business Network provides on-the-ground client service across Canada. In order to be more accessible to Canadian clients, Trade commissioners are located in five regional office hubs and are co-located with partners in every province. Before you go to market, trade commissioners can best support your international business goals with export advice, guidance and the right connections to the TCS global network.

To find a trade commissioner near you in Canada, search by location and business sector through Find a Trade Commissioner or make your selection from the following list:

Pacific Region
Vancouver Regional Office
British Columbia
Yukon

Prairies and Northwest Territories Region
Calgary Regional Office
Alberta
Saskatchewan
Manitoba
Northwest Territories

Quebec Region (including Nunavut)
Montreal Regional Office
Quebec
Nunavut

Ontario Region
Toronto Regional Office
Ontario

Atlantic Region
Halifax Regional Office
New Brunswick
Nova Scotia
Prince Edward Island
Newfoundland and Labrador

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Other government organizations

Export Development Canada (EDC) is Canada's trade finance agency, providing financing and insurance solutions locally and around the world to help Canadian companies of any size respond to international business opportunities.

The Business Development Bank of Canada (BDC) can help you meet your working capital needs through long-term financing and flexible repayment options. BDC can provide you with expert guidance and support to help you seize opportunities to expand and export to the U.S. and other international markets.

The Canadian Commercial Corporation (CCC) provides international contracting services to Canadian exporters selling to foreign governments, as well as special market access to those targeting U.S. government procurement markets.

The National Research Council's Industrial Research Assistance Program (IRAP) provides innovation and funding services customized to your specific needs, helping you accelerate the growth of your business through innovation and technology.

The Agri-Food Trade Service (ATS) of Agriculture and Agri-Food Canada provides a full range of market access, market development and investment services to Canadian agri-food companies.

Indigenous and Northern Affairs Canada (INAC) is helping Aboriginal communities get the most from their economic development potential by investing in community readiness, entrepreneurs and businesses, land management, and strategic partnerships. The Department is also removing legislative barriers to ensure large-scale projects on reserve promoted by First Nations can proceed.

The Canada Business Network is a government information service for businesses and start-up entrepreneurs in Canada. It's intended to simplify access to various levels of government.

Innovation, Science and Economic Development Canada provides general and specific information of use to exporters, including market reports and the Trade Data Online research tool.

Statistics Canada is Canada's central statistical agency. It produces statistics and statistical reports on Canada's population, resources, economy, society and culture.

The U.S. Commercial Service has a range of useful research tools, including market reports and commercial guides related to world markets.

APPENDIX C

Glossary of international trade terms

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APPENDIX C

Glossary of international trade terms

Exporting is more complex than selling in a domestic market. It is important to understand key trade expressions, techniques and requirements, such as:

- the laws, regulations and practices governing your product or service in your target market
- export documentation, including invoices, bills of lading, certificates of origin and health and safety certificates
- tariffs, customs duties and processing fees, as well as taxes payable on your shipment
- export-related services offered by brokers, trading houses, agents, freight forwarders and insurance companies
- how to label, pack, transport and store your products
- payment options such as letters of credit, bills of exchange and open account transactions

General terms

International trade carries its own particular terminology. The following are general trade expressions that new exporters will encounter in published sources and trade discussions.

Anti-dumping duty:
A special duty imposed to offset the price effect of dumping that has been determined to be materially harmful to domestic producers. (See also, *Dumping*)

Counter-trade
A general expression meaning the sale or barter of goods on a reciprocal basis. There may also be multilateral transactions involved.

Countervailing duties
Additional duties imposed by an importing country to offset government subsidies in an exporting country, when the subsidized imports cause material injury to domestic industry in the importing country.

Dumping
The sale of an imported commodity at a price lower than that at which it is sold within the exporting country. Dumping is considered an actionable trade practice when it disrupts markets and injures producers of competitive products in the importing country. Article VI of the General Agreement on Tariffs and Trade permits the imposition of special anti-dumping duties against dumped goods equal to the difference between their export price and their normal value.

Export quotas
Specific restrictions or ceilings imposed by an exporting country on the value or volume of certain exports designed, for example, to protect domestic producers and consumers from temporary shortages of the goods affected or to bolster their prices in world markets.

Export subsidies
Government payments or other financially quantifiable benefits provided to domestic producers or exporters contingent on the export of their goods and services.

GDP / GNP (gross domestic / national product)
The total of goods and services produced by a country.

Subsidy
An economic benefit granted by a government to producers of goods, often to strengthen their competitive position. The subsidy may be direct (e.g. cash grant) or indirect (e.g. low-interest export credits guaranteed by a government agency).

Surcharge or surtax
A tariff or tax on imports in addition to the existing tariff, often used as a safeguard measure.

Tariff
A duty (or tax) levied on goods transported from one customs area to another. Tariffs raise the prices of imported goods, making them less competitive within the market of the importing country. Under the North American Free Trade Agreement, most tariffs on Canadian goods and services to the United States and Mexico have been eliminated.

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International commerce terms (Incoterms)

To provide a common terminology for international shipping, the following Incoterms have been developed under the auspices of the International Chamber of Commerce.

Cost and freight (C&F)
The exporter pays the costs and freight necessary to get the goods to the named destination. The risk of loss or damage is assumed by the buyer once the goods are loaded at the port of embarkation.

Cost, insurance and freight (CIF)
The exporter pays the cost of goods, cargo and insurance plus all transportation charges to the named port of destination.

Delivered at frontier
The exporter / seller's obligations are met when the goods arrive at the frontier, but before they reach the "customs border" of the importing country named in the sales contract. The expression is commonly used when goods are carried by road or rail.

Delivered duty paid
This expression puts maximum responsibility on the seller / exporter in terms of delivering the goods, assuming the risk of damage / loss and paying duty. It is at the other extreme from delivered ex works (see below), under which the seller assumes the least responsibility.

Delivered ex quay
The exporter / seller makes the goods available to the buyer on the quay or wharf at the destination named in the sales contract. There are two types of *ex quay* contracts in use: *ex quay duty paid*, whereby the seller incurs the liability to clear the goods for import, and *ex quay duties on buyer's account*, whereby the buyer assumes the responsibility.

Delivered ex ship
The exporter / seller must make the goods available to the buyer on board the ship at the location stipulated in the contract. All responsibility / cost for bringing the goods up to this point falls on the seller.

Delivered ex works
This minimal obligation requires the seller only to make the goods available to the buyer at the seller's premises or factory. The seller is not responsible for loading the goods on the vehicle provided by the buyer, unless otherwise agreed. The buyer bears all responsibility for transporting the goods from the seller's place of business to their destination.

Ex works (EXW)
The price quoted applies only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the period fixed. All other charges are for the account of the buyer.

Free alongside ship (FAS)
The seller quotes a price for the goods that includes charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharfage; loading, ocean transportation, and insurance are left to the buyer.

Free carrier (FCA)
Recognizing the requirements of modern transport, including multi-modal transport, this principle is similar to free on board (see below), except that the exporter's obligations are met when the goods are delivered into the custody of the carrier at the named port. The risk of loss / damage is transferred to the buyer at this time, not at the ship's rail. The carrier can be any person contracted to transport the goods by road, sea, air, rail or a combination thereof.

Free of particular average (FPA)
This type of transportation insurance provides the narrowest type of coverage: total losses, and partial losses at sea if the vessel sinks, burns or is stranded, are covered.

Free on board (FOB)
The goods are placed on board the vessel by the seller at the port of shipment specified in the sales contract. The risk of loss or damage is transferred to the buyer when the goods pass the ship's rail.

Free on board airport (FOB airport)
Based on the same principles as the ordinary FOB expression, the seller's obligation is fulfilled by delivering the goods to the air carrier at the specified airport of departure, at which point the risk of loss or damage is transferred to the buyer.

Free on rail (FOR) and free on truck (FOT)
Again, the same principles apply as in the case of ordinary FOB, except that the goods are transported by rail or road.

With average (WA)
This type of transportation insurance provides protection from partial losses at sea.

Transportation and delivery terms

The following are common terms used in packing, labelling, transporting and delivering goods to international markets. They are in addition to the above Incoterms.

Area control list

A list of countries to which any export (except humanitarian items) requires an export permit.

Bill of lading (ocean or airway)

A contract prepared by the carrier or the freight forwarder with the owner of the goods. The foreign buyer needs this document to take possession of the goods.

Certificate of origin

A document that certifies the country where the product was made (i.e. its origin). A common export document, a certificate of origin is needed when exporting to many foreign markets. It must be used for Canadian-made goods to qualify for preferential tariff treatment under the North American Free Trade Agreement.

Commercial invoice

A document prepared by the exporter or freight forwarder, and required by the foreign buyer, to prove ownership and arrange for payment to the exporter. It should provide basic information about the transaction, including description of goods, address of shipper and seller as well as delivery and payment terms. In some cases, the commercial invoice is used to assess customs duties.

Consular invoice

A statement issued by a foreign consul in the exporting nation describing the goods purchased. Some foreign governments require Canadian exporters to first obtain consular invoices from their consulate in Canada. A fee is usually charged.

Customs declaration

A document that traditionally accompanies exported goods bearing such information as the nature of the goods, their value, the consignee and their ultimate destination. Required for statistical purposes, it accompanies all controlled goods being exported under the appropriate permit.

Customs invoice

A document used to clear goods through customs in the importing country by providing documentary evidence of the value of goods. In some cases, the commercial invoice may be used for this purpose.

Dock receipt

A receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities. (See also, *Warehouse receipt*)

Ex factory

Used in price quotations, an expression referring to the price of goods at the exporter's loading dock.

Export control list

A list of goods and technologies that require export permits to be exported from Canada, pursuant to the *Export and Import Permits Act*.

Export permit

A legal document that is necessary for the export of goods controlled by the Government of Canada, specifically goods included on the Export Control List (see above) or goods destined for countries on the Area Control List).

Freight forwarder

A service company that handles all aspects of export shipping for a fee.

Insurance certificate

A document prepared by the exporter or freight forwarder to provide evidence that insurance against loss or damage has been obtained for the goods.

Landed cost

The cost of the exported product at the port or point of entry into the foreign market, but before the addition of foreign tariffs, taxes, local packaging / assembly costs and local distributors' margins. Product modifications made prior to shipment are included in the landed cost.

Packing list

A document prepared by the exporter showing the quantity and type of merchandise being shipped to the foreign customer.

Pro forma invoice

An invoice prepared by the exporter prior to shipping the goods, informing the buyer of the goods to be sent, their value and other key specifications.

Quotation

An offer by the exporter to sell the goods at a stated price and under certain conditions.

Warehouse receipt

A receipt identifying the commodities deposited in a recognized warehouse. A non-negotiable warehouse receipt specifies to whom the deposited goods will be delivered or released. A negotiable receipt states that the commodities will be released to the bearer of the receipt.

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Financial and insurance terms

The following are the most commonly used terms in international trade financing.

All risk
This is the most comprehensive type of transportation insurance, providing protection against all physical loss or damage from external causes.

Bid bond
When an exporter is bidding on a foreign contract, a bid bond guarantees that the exporter will take the contract if the bid succeeds. An exporter who refuses the contract must pay a penalty equal to the amount of the bond.

Cash in advance (advance payment)
A foreign customer pays a Canadian exporter prior to actually receiving the exporter's product(s). This form of payment carries the least risk from the exporter's perspective.

Confirming house
A company, based in a foreign country, that acts as a foreign buyer's agent and places confirmed orders with Canadian exporters. A confirming house guarantees payment to the exporters.

Consignment
Delivery of merchandise to the buyer or distributor, whereby the latter agrees to sell it and only then pay the Canadian exporter. The seller retains ownership of the goods until they are sold, but also carries all of the financial burden and risk.

Document of title
A document that provides evidence of entitlement to ownership of goods, e.g. carrier's bill of lading.

Documentary collection
The exporter ships the goods to the foreign buyer without a confirmed letter of credit or any other form of payment guarantee.

Documentary credit (sight and term)
A documentary credit calling for a sight draft means the exporter is entitled to receive payment on sight, i.e. upon presenting the draft to the bank. A term documentary credit may allow for payments to be made over a term of 30, 60 or 90 days, or at some other specified future date.

Draft (bill of exchange)
A written, unconditional order for payment from one party (the drawer) to another (the drawee). It directs the drawee to pay an indicated amount to the drawer. A sight draft calls for immediate payment. A term draft requires payment over a specified period.

Export financing house
A company that purchases a Canadian exporter's foreign receivables on a non-recourse basis upon presentation of proper documentation. It then organizes export arrangements and provides front-end financing to the foreign buyer.

Factoring house
A company that buys export receivables at a discount.

Letter of credit (L / C)
An instrument issued by a bank on behalf of an importer that guarantees payment to the exporter for goods or services, provided the terms of the credit are met.

Letter of credit (confirmed)
A Canadian bank confirms the validity of a letter of credit issued by a foreign bank on behalf of the foreign importer, guaranteeing payment to the Canadian exporter provided that all terms in the document have been met. An unconfirmed letter of credit does not guarantee payment so, if the foreign bank defaults, the Canadian exporter will not be paid. Canadian exporters should accept only confirmed letters of credit as a form of payment.

Letter of credit (Irrevocable)
A financial institution agrees to pay an exporter once all terms and conditions of the transaction are met. No terms or conditions can be modified without consent of all parties.

Open account
An arrangement in which goods are shipped to the foreign buyer before the Canadian exporter receives payment.

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Partnership, alliance and market-entry terms

The following expressions define the various types of partnership or alliance arrangements as well as methods of market entry common in international trade.

Agent
A foreign representative who tries to sell your product in the target market. The agent does not take possession of – and assumes no responsibility for – the goods. Agents are paid on a commission basis.

Co-marketing
Carried out on the basis of a fee or percentage of sales, co-marketing is an effective way to take advantage of existing distribution networks and a partner's knowledge of local markets.

Co-production
This arrangement involves the joint production of goods, enabling firms to optimize their own skills and resources as well as take advantage of economies of scale.

Cross-licensing
In this form of partnership, each firm licenses products or services to the other. It is a relatively straightforward way for companies to share products or expertise.

Cross-manufacturing
This is a form of cross-licensing in which companies agree to manufacture each other's products. It can also be combined with co-marketing or co-promotion agreements.

Distributor (importer)
A foreign company that agrees to purchase a Canadian exporter's product(s) and then takes responsibility for storing, marketing and selling them.

Franchise
This is a more specific form of licensing. The franchise is given the right to use a set of manufacturing or service delivery processes, along with established business systems or trademarks and to control their use by contractual agreement.

Joint venture
An independent business formed cooperatively by two or more parent firms. This type of partnership is often used to avoid restrictions on foreign ownership and for longer-term arrangements that require joint product development, manufacturing and marketing.

Licensing
Although not usually considered to be a form of partnership, licensing can lead to partnerships. In licensing arrangements, a firm sells the rights to use its products or services but retains some control.

Trading house
A company specializing in the exporting and importing of goods produced or provided by other companies.

Legal terms

The following are some of the more common legal terms encountered in international transactions.

Arbitration
The process of resolving a dispute or a grievance outside of the court system by presenting it to an impartial third party or panel for a decision that may or may not be binding.

Contract
A written or oral agreement that the law will enforce.

Copyright
Protection granted to the authors and creators of literary, artistic, dramatic and musical works and sound recordings.

Intellectual property (IP)
A collective term used to refer to new ideas, inventions, designs, writings, films and so on, protected by copyright, patents and / or trademarks.

Patent
A right that entitles the patent holder, within the country that granted or recognizes the patent, to prevent all others from using, making or selling the subject matter of the patent for a set period of time.

Trademark
A word, logo, shape or design, or type of lettering that reflects the goodwill or customer recognition of a particular company's product.

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