



# INTRODUCTION TO EXPORTING

## HOW TO SELL TO INTERNATIONAL MARKETS

# ABOUT EXPORT DEVELOPMENT CANADA

## WHO ARE WE?

We are Canada's export credit agency. Our job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. We are a self-financing Crown corporation that operates at arm's length from the government.

## WHAT DO WE DO?

We provide insurance and financial services, bonding products and small business solutions to Canadian exporters and investors and their international buyers. We also support Canadian direct investment abroad and investment into Canada. Much of our business is done in partnership with other financial institutions and through collaboration with the government of Canada.

## HOW WE OPERATE

We are financially self-sufficient and operate much like a commercial institution. We collect interest on our loans and premiums on our insurance products. We also have a treasury department that sells bonds and raises money in global capital markets.

We are committed to the principles of corporate social responsibility. Our rigorous due diligence requirements ensure that all projects and transactions we support are financially, environmentally and socially responsible. We believe that good business – adopting and embracing these principles while we facilitate trade for Canadian investors and exporters – is good for business.

## PARTNERSHIP PREFERRED PHILOSOPHY

When we work on a transaction, we prefer to do it in explicit partnership with the private sector. We let the private sector player set the terms and we add capacity and share the risk.

## TO CONTACT EDC...

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# INTRODUCTION

This guide is designed to help Canadian companies learn about international markets and how they can do business there. If you believe you have a product or service that might do well abroad, the guide can help you decide how – or whether – you should proceed. It concentrates on providing basic, practical information and supplements it with links to many other resources that will help you plan and carry out your export strategy.

The international market is enormously varied and extremely competitive, but the basic principles of exporting are quite straightforward. Many Canadian companies have used them to succeed abroad, and your company may be ready to do the same.



# CHAPTER 1: DIVERSIFYING INTO FOREIGN MARKETS

If your company has a top-class product or service and an ambition to diversify, venturing into foreign trade may be the smartest decision you'll ever make. This can be true even if you're not a large company, since size isn't closely related to success abroad – in fact, most Canadian companies operating internationally have annual foreign sales of less than a million dollars.

Of course, succeeding in foreign markets means dealing with many new challenges of financing, marketing and logistics. This will take thorough preparation and planning, together with a long-term commitment to establishing an international presence. But the payoff for a successful venture into foreign markets can be substantial and, in an era when the world's trade is becoming ever more integrated, it can be essential to survival.

## BENEFITS OF DOING BUSINESS ABROAD

A company operating successfully abroad can expect to see any or all of these benefits:

### ▶ **Increased sales**

Canada's domestic market is relatively small and, depending on your industry, relatively easy to saturate. This means that exporting or investing abroad may be the only way to increase your sales.

Even if you aren't selling everywhere in Canada, it may still be more cost-effective to expand your business by acquiring foreign customers. If a company does most of its business in Ontario, Quebec or the Maritimes, for example, it may do better by expanding into the U.S. Northeast than by looking for sales in the Prairies or British Columbia. Similarly, a company in Atlantic Canada may prefer to look for new customers in Europe and New England, while a British Columbia business may find its most accessible markets on the U.S. west coast, in Japan or in Southeast Asia.

### ▶ **Lower market vulnerability**

The more diverse your markets, the less vulnerable you will be to downturns resulting from local or regional business cycles or from seasonal sales fluctuations. Diminishing sales growth in Canada or the United States, for example, can be countered by new sales elsewhere in the world.

### ▶ **Extending the life of your products**

Many products have a natural life cycle, beginning with high sales growth followed by a levelling-off period and then a decline. But you may be able to take a product that is falling off in sales domestically and introduce it (with appropriate updating or other changes) in a market where it has never been available. This strategy could substantially increase the longevity of your product.



▶ **Improving your competitiveness**

Because the global market is so competitive, you'll need to be very efficient and very focused on quality and innovation in order to succeed. This can only strengthen your ability to compete at home. In fact, businesses that are successful internationally often do very well domestically because they have learned so much abroad.

## CHALLENGES OF DOING BUSINESS ABROAD

Getting started in international business means dealing with many new and unfamiliar challenges. You are, after all, marketing your products or services in places where English may not be the language of commerce, where the business culture can be subtly or even dramatically different, where logistics can be problematic and where regulations and laws can be opaque. For example:

- ▶ Foreign customers will be quite different from your Canadian buyers, and this extends beyond the difference in language. Living standards, social norms, business etiquette and cultural tastes will often diverge in important ways from those in Canada. The old saying that “people are the same everywhere” does *not* apply to many aspects of international business.
- ▶ Foreign economic, legal and political systems can also be very different from Canadian ones, especially in markets whose institutions did not evolve out of European traditions.
- ▶ Operating abroad exposes you to far wider and more intense competition than at home.
- ▶ Contracts are more complex and must be carefully structured to prevent misunderstandings and the costly litigation or arbitration that can result.

- ▶ Payment tends to be slower – sometimes much slower – than at home. This can affect your cash flow for the worse, so you need to plan your financing accordingly. Exchange rates are also a factor, so you may need to use foreign exchange hedging to protect your profit margins.
- ▶ Logistics are more complicated and more prone to delays.
- ▶ Your goods may be subject to customs controls and tariffs.
- ▶ Local regulations and technical standards that apply to your goods may require you to modify them before they can be sold in the foreign market.
- ▶ In general, the complexity of foreign trade will add significantly to your management tasks.

## SOURCES OF ASSISTANCE

The complications of foreign trade may seem quite intimidating at first. Remember, though, that thousands of Canadian companies have dealt with them successfully and are doing well abroad.

But you don't need to deal with them by yourself. There are many sources of assistance for companies getting started in international trade or already exporting, but wish to enter new foreign markets. The following list will give you a good start.

- ▶ [Foreign Affairs and International Trade Canada](#) (DFAIT) provides information about foreign affairs, foreign policy, the Canadian economy, international trade, travel assistance and passport services.
- ▶ The [Canadian Trade Commissioner Service](#) (TCS) is part of DFAIT and has Trade Commissioners in more than 150 cities worldwide and in regional offices across Canada.



- ▶ The TCS provides a broad range of services to Canadian businesses in Canada and abroad. Trade Commissioners can help you prepare for international markets, assess market potential, find qualified contacts and advise on market access problems. The TCS also offers market research and country-specific trade and economic reports, and its [Step-by-Step Guide to Exporting 2011](#) is a good primer on international trade.
- ▶ The [Virtual Trade Commissioner](#), also available through the TCS, is a personalized, web-based resource that will give you market information and leads specific to your business interests. You can register for the Virtual Trade Commissioner when you visit the TCS web site.
- ▶ [Export Development Canada](#) (EDC) is Canada's export credit agency. Its job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. The web site's [About Exporting](#) page leads to a wealth of export-oriented resources and information.
- ▶ [Canada Business](#) is a collaborative network of federal and provincial government services that helps Canadian entrepreneurs and exporters build their companies.
- ▶ [CanadExport](#) is a free, online publication maintained by DFAIT. It provides news about trade opportunities, export programs, trade fairs, business missions and more.
- ▶ [Industry Canada](#) offers market reports as well as the extremely useful [Trade Data Online](#) research tool.



### KEEP INFORMED WITH EDC

- ▶ EDC's [Knowledge Centre](#) can help you stay up-to-date with international trade. Here's some of what's available:
- ▶ Publications such as market and industry export guides
- ▶ Subscriptions to EDC's weekly, monthly and quarterly publications, including articles and newsletters
- ▶ A weekly commentary on world economic trends
- ▶ *ExportWise*, a quarterly magazine featuring exporters' stories, industry and market trends, economic analyses and exporter resources
- ▶ Economic and market analysis, including economic perspectives, political research and market assessments





## CHAPTER 2: GETTING READY FOR INTERNATIONAL TRADE

Before you commit any major resources to becoming an exporter, you should carefully evaluate your business to make sure it can measure up to the demands of international trade. Even if you have a product or service that is very likely to sell well abroad, your company may not actually be ready to export it.

Most non-exporting firms don't yet have everything they need to be viable abroad. Your business may not have enough financial resources to sustain its cash flow until its exports begin to turn a profit, or it may need capital investments to ensure that it can produce enough to meet demand from abroad. It's very likely, therefore, that you'll need to fill in some gaps before you can ship that first container to another country.

The following sections can help you decide where those gaps are and whether it's realistically possible for you to close them.

### IDENTIFYING AND CLOSING THE GAPS

#### COMPANY PERFORMANCE

Your company's overall performance should have the following characteristics:

- ▶ Your products or services are successful in Canada and are widely sold here at home.
- ▶ You have a solid domestic business plan that has proven its effectiveness.
- ▶ Your firm has specific advantages over the competition.
- ▶ Your products are unique in one or more ways and are competitively priced.

#### HUMAN RESOURCES

Your human and managerial resources may be adequate for your domestic needs, but do they have the capacity to support business operations that may be on the other side of the world? The following abilities are important here:

- ▶ You have a strong management team that is capable of developing a comprehensive export plan.
- ▶ Your management team is committed to pursuing export markets and is willing to dedicate time, personnel and funds to its export program.
- ▶ Overall, the company has enough personnel to meet increased demand or is in a position to hire people to fill the gaps.
- ▶ You have, or can hire, trained marketing staff with experience in selling products or services abroad. An alternative is to use intermediaries with the required expertise, such as agents, distributors or trading companies.



### TRAINING IN INTERNATIONAL TRADE

The [Forum for International Trade Training](#) (FITT) designs and offers training programs through which you can acquire the professional designation of Certified International Trade Professional (CITP). Delivered by a broad network of educational partners, FITT's training programs can provide you with knowledge and practical skills essential to engaging in international trade.

### FINANCIAL RESOURCES

If the following describes your business, you probably have the financial capacity needed to operate abroad:

- ▶ You have the financial resources to support the marketing of your products in overseas markets.
- ▶ You have a strong, dependable cash flow.
- ▶ You have the financial strength to compete with foreign products and services in terms of quality and price.
- ▶ You have enough cash, savings, and access to financing (such as increased operating lines of credit or term loans for capital expenditures) to support your production and marketing for at least two years without making much profit.
- ▶ You have, or can acquire, adequate knowledge of export payment mechanisms such as letters of credit and open account.

### PRODUCTION RESOURCES

One sure way to fail internationally is to secure a large contract and then be unable to fill it. There are several ways to avoid this:

- ▶ Make sure your suppliers will provide you with the raw materials and components you need to meet your production commitments.
- ▶ Make sure you have enough spare production capacity – or can create it quickly – to meet unexpectedly large foreign demand.
- ▶ Be prepared to modify and manufacture versions of your products to meet the cultural, regulatory and certification standards of your foreign market.

### LOGISTICS RESOURCES

Producing enough to fill an order is only half the job – you still have to make sure your buyer gets your goods on time and in the expected condition. Here are the essentials:

- ▶ You have, or can acquire, an adequate knowledge of how your product should be shipped abroad.
- ▶ Your staff is (or can be) trained in export logistics.
- ▶ You have staff you can train to troubleshoot delivery problems quickly and efficiently.



### WHEN SHOULDN'T YOU BECOME AN EXPORTER?

The odds will be stacked against your success as an exporter if you:

- ▶ don't have a solid business plan for your Canadian market;
- ▶ are struggling to survive in Canada;
- ▶ are producing and selling a very ordinary product that is readily available internationally; or
- ▶ have limited financial, human and production resources.

### YOUR EXPORT PLAN

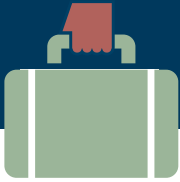
If your readiness assessment convinces you that your company is capable of operating abroad, and you decide that this makes sense for your business, the next step is to develop your export plan. This is the master plan that will define your international goals and how you'll achieve them. Much of the information you'll use to do this will flow from the market research described in the next chapter.

Export plans are complex and are always works in progress. The details of creating them are beyond the scope of this guide, but there are numerous resources that can help you create one. Among them are the TCS's [Step-by-Step Guide to Exporting 2011](#) and the [Starting to Export](#) section of the Canada Business Network web site.

In brief, though, your export plan should cover at least the following:

- ▶ your export objectives;
- ▶ your management and staffing plans;
- ▶ your financial strategy for obtaining the cash flow you'll need;
- ▶ the key selling features of your product;
- ▶ your competitive advantages and disadvantages relative to exporting;
- ▶ your key competitors and major market risks;
- ▶ how you'll adapt your product to meet the needs of the foreign customer;
- ▶ the price at which you'll sell your product;
- ▶ your strategy for promoting your product to your customers;
- ▶ your logistics for delivering your product;
- ▶ how you'll enter the market (by direct selling, for example, or through a distributor);
- ▶ your export budget, which covers travel, marketing expenses, trade show participation, logistics, ongoing market research and the expenses of adapting your product to the target market; and
- ▶ an implementation schedule setting the deadlines you'll need to meet.

You won't likely make much of a profit during your first two years of exporting, so your export plan (and your finances) should allow for this. In year three, you should start to see some positive cash flow from your foreign operations. If you don't, you should review your approach to see if you're doing something wrong. That said, some markets are extremely difficult to penetrate, with lead times before the first sale (let alone an overall profit) of five years or more.



## CHAPTER 3: APPROACHING A NEW MARKET

Is there actually a foreign market for your product or service? If you're considering whether to go international, that's the most fundamental question to ask, and answering it is the first stage in your market research. At the end of this stage, you should have identified at least one potential foreign market and be able to respond to questions such as these:

- ▶ Will your products or services be acceptable in the market?
- ▶ What sales volume can you reasonably expect?
- ▶ What is the long-term potential of your product in the market?
- ▶ Who are your customers likely to be?
- ▶ How should you modify your products to strengthen their appeal to these customers?
- ▶ What is the best way of marketing your products in the market, and who can help you sell your goods there?

You'll likely begin with a fairly long list of places where you think you might be able to sell your products. This has to be narrowed to the one or two markets that present the most potential for success.

### NARROWING YOUR LIST

To do this, analyze the following characteristics of each market and try to determine whether they increase or decrease the market's potential:

#### MARKET SIZE AND GROWTH

- ▶ How many potential buyers are there likely to be?
- ▶ How much is spent annually on products like yours?
- ▶ Are there a lot of products already in the market that will compete with yours?

- ▶ Can you match or beat the prices your competitors are charging?
- ▶ Is the demand for your type of product likely to grow or shrink?
- ▶ Are there cultural factors that may affect the marketability of your product?
- ▶ Is the market industrializing rapidly? If so, can you develop new products to take advantage of this?



### FOLLOWING YOUR DOMESTIC CUSTOMERS

One of the most successful ways for a company to enter a foreign market is to follow its existing customers abroad. If you have Canadian buyers who are operating in India, for example, following them there can provide excellent opportunities and contacts while significantly reducing your market-entry risks. For more detail, see the section entitled [The follow-your-customer strategy](#).

### MARKET ACCESSIBILITY

- ▶ Are high tariff and/or non-tariff barriers applied to products such as yours?
- ▶ Are there already many suppliers of your type of product (this will make it harder to access the market share you need)?
- ▶ Will shipping your products to the market be expensive and/or logistically complicated?

### BUSINESS AND POLITICAL ENVIRONMENT

- ▶ Is the economy stable and growing?
- ▶ Are governments at the national and sub-national levels friendly to foreign companies and investors?
- ▶ Are there any issues with currency exchange, transfer or convertibility?
- ▶ Is the political system stable?

- ▶ If you place assets in the country or invest there, are there risks of political upheavals that could threaten these assets and investments?
- ▶ How strong are the local legal and governmental institutions?
- ▶ Is there widespread corruption?

Once you've gone into some depth on these questions, you'll be in a better position to identify which market offers you the best opportunities for success. A single market is often the optimum number, although you could choose two if they both seem highly promising. But more than two is overstretch – because of the costs involved in entering foreign markets, it makes no sense at this stage to try for more than that.



### ONE MARKET OR MANY?

It can be useful to view large countries with big populations not as one market, but as a mosaic of regional markets. China, for example, has more than 50 distinguishable markets, five of which are major entities in themselves, and the United States has at least a dozen identifiable markets. Focusing on a regional market in countries such as these can be much more effective than trying to cover the whole country – which, in the case of nations such as China, is almost impossible anyway. Conversely, some countries within a region are so similar that you can apply a common approach to all of them. The EU and the Andean markets, for example, would fall into this category.



## RESOURCES FOR MARKET RESEARCH

The following resources can be useful for researching potential target markets.

- ▶ EDC's [About Exporting](#) pages have a wealth of export-related resources, from creating business plans to managing foreign exchange risk. The [Find Export Opportunities](#) section provides Canadian, American and international procurement resources as well as information about trade shows and travelling abroad.
- ▶ Industry Canada's searchable [Trade Data Online](#) database can help you determine how much export business your sector carried on in the world's markets over various time periods.
- ▶ Also valuable are the [market reports](#) compiled by the TCS, which you can obtain after registering (for free) with the [Virtual Trade Commissioner](#).
- ▶ Canadian embassies, consulates, high commissions and trade offices around the world can often help with trade-related queries. A [complete list](#) of these offices is available online.
- ▶ The United Nations Commodity Trade Statistics Database ([COMTRADE](#)) is the world's largest depository of international trade data. It is not very user-friendly, but it is free and you can search it in many different ways.
- ▶ The [UN Service Trade database](#) is searchable and provides information on worldwide imports and exports of services. Registration is required but use of the database is free.
- ▶ You can also check trade magazines and industry publications for information, and perhaps see if the target country's diplomatic mission in Canada has trade attachés you can consult. Industry/sector associations and chambers of commerce both [in Canada](#) and in the target market may be useful sources of information as well.



## SELLING TO FOREIGN GOVERNMENTS

Foreign governments can present a rich source of contracts for exporters of both goods and services. Canada Business's [Selling to Foreign Governments](#) page provides information on how to navigate foreign government procurement, including services to help you be successful.

As you assess the information you've collected, you should also be working on your export plan, as discussed in Chapter 2. You won't finalize your plan until you've completed the bulk of your research and spent some time in the market itself, but you should expect to have a solid export plan in place by the time you actually enter your chosen market.

## THE FOLLOW-YOUR-CUSTOMER STRATEGY

If some of your Canadian customers are operating in other countries, this can open a door for you. If you sell electronic components to a company in Halifax, for example, and that company has an affiliate in Mexico, you may be able to sell directly to the Mexican affiliate.

Finding such a ready-made foreign customer, whose parent company is familiar to you and with whom you have an established relationship, can eliminate much of the risk associated with entering a new market abroad. A second advantage is that your business with the affiliate will help you learn about the local market and give you a presence there, which will make it easier to find other customers.



Following your customer abroad may also be necessary to protect your sales levels if the customer shifts some or all production to a foreign location. It can also be an opportunity to enhance your sales if your customer's foreign operation leads to an overall increase its production levels.

If you're a services rather than a manufacturing business, following a client can provide excellent opportunities for overseas expansion – you get to operate in a new foreign market, at relatively low risk, by servicing a familiar customer. This enhances your visibility in the market and can make it easier to attract new local clients as you gain experience with the foreign business culture.

## VISITING YOUR TARGET MARKET

Once you've identified your most promising target market (or two at the most), it will be time for an on-the-ground visit. During this visit, you'll try to verify that this is in fact the market you want to enter and, if at all possible, to meet potential buyers.

At this stage, you should contact the [TCS office](#) in the Canadian diplomatic mission located in the target country. Trade Commissioners there can assist you with information about market prospects and local companies and can help with visits to the country, contact searches and face-to-face briefings.

For example, a Trade Commissioner might introduce you to members of the local chamber of commerce or local trade associations; you could then open discussions with these contacts and follow up with an on-the-ground visit to establish personal relationships and perhaps make your first sale. If you've already identified a company as a potential customer, a Trade Commissioner can help by telling you more about the company and how it fits into the local scene.



### EDC ABROAD

EDC has [overseas offices](#) in Brazil, Chile, China, Germany, India, Mexico, Panama, Peru, Russia, Singapore, Turkey and the United Arab Emirates.

Here are some tips that can help make your visit a success:

- ▶ Plan your trip well in advance so you can arrange to meet Trade Commissioners or EDC representatives (if applicable) in the target market.
- ▶ Make sure your visit won't coincide with local holidays or holiday seasons.
- ▶ Arrange interpreters, if necessary, before you go.
- ▶ At least two people from your company should travel to the market. Your party should include senior executives with decision-making powers.
- ▶ If your product is complex, you may want to include technical staff to answer questions from potential buyers.
- ▶ Before going, learn about the local business culture and its attitudes to things such as punctuality, formality and styles of negotiation.
- ▶ Allow time to build relationships with potential buyers.
- ▶ Make sure you can answer detailed questions about matters such as price, production capacity and delivery times.



- ▶ Make sure your passports are up-to-date and obtain any necessary visas.
- ▶ Always follow up with the business contacts you make, ideally within 24 to 48 hours. Thank them for meeting you, provide follow-up information and promise to get back to them by a specific time if they have requested more information.

## TRADE SHOWS

Participating in international trade shows can be an effective means of exploring a new market, identifying sales prospects and gaining useful contacts and feedback. By exhibiting at the right trade show, you can:

- ▶ get attention in your new market;
- ▶ introduce your company and its products to many potential buyers in just a few days;
- ▶ show your sales prospects how they can benefit from your product or service;
- ▶ find distributors, representatives or partners;
- ▶ help you see what's happening in your industry as a whole;
- ▶ demonstrate your long-term commitment to the market; and
- ▶ see how other companies are competing in the market.

There are several major types of trade shows:

- ▶ **Major trade shows for a specialized audience**  
These are devoted to a specific industrial sector (such as automobiles) or a market (such as health care). Many are international and draw large numbers of senior executives who can make important sales decisions.

- ▶ **Major trade shows for a general audience**

These large shows may be international, national or regional. They showcase all kinds of goods and services for the public and for businesses. Because they attract a general audience, they may be less suitable for your company than more specialized shows.

- ▶ **Secondary trade shows**

Less prominent than the major shows, these can still be important to their particular sectors or markets at both the international or national levels. They are often highly specialized and are usually open to business participants only. For companies that aren't quite ready for one of the major shows, these events can be a good investment.

- ▶ **Consumer trade shows**

As the name suggests, these shows are for the public at large. Some are general, while others are devoted to particular audience interests, such as home shows or sports shows. Companies that concentrate on selling directly to end users may find these shows useful; otherwise, one of the other three types is likely a better bet.

Finding the most suitable trade show(s) in your target market will be easier if you check with a Trade Commissioner or the EDC representative there. You should also contact your industry's trade associations, since many of these keep track of the year's shows and can provide information about them. Trade publications for your sector can also be useful, as can Chambers of Commerce, convention centres and visitors' bureaus. The TCS's online [CanadExport](#) magazine lists upcoming trade events.





## COPING WITH CULTURAL DIFFERENCES ABROAD

In many cultures, especially in Asia and Latin America, people place great importance on personal relationships and this extends to business dealings in a way that isn't common in Canada. In practice, this means that your counterparts in such cultures will want to get to know you, to some degree at least, before they will be inclined to do business with you. For them, establishing a personal side to your business relationship is part of building mutual trust and understanding.

When operating in such cultures, you must be ready to commit time and resources to visiting the market, meeting face-to-face with your customers and representatives, and maintaining regular email and telephone contacts – anything that will keep the lines of communication open and nurture the long-term relationships that will be the lifeblood of your business abroad.

In a narrower context, the etiquette and courtesies that are normal in a foreign business culture (and in the culture in general) can also present pitfalls for the unwary. In business meetings in Japan, for example, a very strict hierarchy governs where everyone sits. Being unaware of it and sitting in the wrong place can make one appear rude to the Japanese, although allowances are usually made for a foreigner.

The federal government's [Centre for Intercultural Learning](#) can help you in this area; its [Country Insights](#) page, for example, lets you read up on the etiquette and sensitivities of specific countries and regions. There are also numerous online guides to proper behaviour abroad, such as [World Business Culture](#) and [Executive Planet](#). And you can, of course, simply ask your local business counterparts for help if you're not sure what to do.



## CHAPTER 4: ESTABLISHING YOUR PRESENCE ABROAD

As you pursue your research, you'll need to think about how you'll actually enter your market and set up a business presence within it. There are numerous ways to do this, from direct selling to establishing a foreign affiliate of your Canadian firm.

### DISTRIBUTORS, AGENTS AND TRADING COMPANIES

The most basic way to operate in a foreign market would be to sell your goods directly to local end users, who could be either consumers or other businesses. This can work well if your buyers are in countries such as the United States or the United Kingdom, where the business and consumer cultures resemble ours, and if you are willing to send company representatives to the market to generate sales.

In other markets, where there are language barriers, cultural differences and unfamiliar ways of doing business, most experts recommend that you work with intermediaries. Good ones will be familiar with local conditions and can help you find customers, arrange distribution channels, handle documentation, clear your goods through customs and provide after-sales service.

There are three basic types of intermediaries:

#### ▶ **Distributors**

Distributors buy your product from you and then sell it on to the end users. They can represent you in all aspects of sales and service, but may handle competing products. Usually they will want exclusive rights for a specific territory.

#### ▶ **Agents**

An agent is an individual or firm you employ, usually on commission, to sell your product to wholesalers, retailers and sometimes end users in the target market. Unlike distributors, they do not at any time own the products they represent. They often have particular territories and sell to a particular set of customers. They may also handle products that compete with yours.

#### ▶ **Trading houses**

Full-service trading houses handle multiple aspects of exporting, such as market research, transportation and advertising. Some firms buy your product outright, while others may act as agents on commission.

Finding the right intermediary will take some work. Contacts at trade fairs are one avenue, and you should also check with sources such as the Trade Commissioner Service and your sector's trade associations. Other companies in your sector may be willing to share information about their experience with particular intermediaries. Investigative trips to potential markets can also be useful.



But no matter how you look for intermediaries, always exercise due diligence:

- ▶ Be sure they have the marketing knowledge, industry expertise, financial capacity and facilities (such as showrooms, staff and warehousing) required to represent you properly.
- ▶ Be sure they're motivated to develop new markets and new customers for you, and that you can be comfortable working with them.
- ▶ Find out if they pay promptly.
- ▶ If they represent products that compete head-to-head with yours, find out how they'll resolve this potential conflict.
- ▶ Don't hire them merely on the basis of their enthusiasm for your product or their persistence in trying to get your business.
- ▶ Always, *always* check their reputations and references.

## FOREIGN DIRECT INVESTMENT

Using an intermediary isn't the only way of establishing your firm in a foreign market. Many Canadian companies got started that way, but then discovered that their expanding overseas business required an equally expanded foreign presence.

These more advanced types of business presence are usually referred to as foreign direct investment (FDI) and range in sophistication and complexity from small representative offices to wholly owned affiliates producing for the local market.



### TAKING ADVANTAGE OF INVESTMENT INCENTIVES

Many countries offer incentives to encourage foreign companies to invest in the local market. These are often associated with free trade zones and include benefits such as tax and duty relief, simplified customs clearance, development financing, real-estate price reductions, long-term land leases and warehousing and logistics facilities.

FDI can be a successful strategy for Canadian exporters because it can help them:

- ▶ increase sales;
- ▶ expand market share;
- ▶ access foreign markets more effectively;
- ▶ serve customers better;
- ▶ join a global or regional supply chain;
- ▶ enhance competitiveness within a supply chain;
- ▶ secure sources of supply;
- ▶ gain access to new technology; and
- ▶ follow buyers who have invested abroad.

That said, engaging in FDI is more likely to be a realistic option after you've established yourself as an exporter and have become thoroughly familiar with your foreign market or markets. Even as a new or less-experienced exporting company, though, you may find it useful to know about the more common FDI strategies. Given time, after all, a foreign investment may be in your future.



## TYPES OF FOREIGN DIRECT INVESTMENT

The most common FDI approaches used by Canadian companies are the following:

### REPRESENTATIVE OR BRANCH OFFICES

If all you need is a sales presence in the market, opening your own representative or branch office may be the answer. Local laws, however, will often limit these offices to performing basic functions such as market research and identifying customers, although some jurisdictions allow branch offices to carry out a very limited range of commercial activity.

If they do more than the local limits allow (even by accident), either of these offices may be reclassified by the authorities as a local affiliate of your company and will be subject to taxes and corporate regulations. Obtain local legal advice before you set up one of these offices to make sure it's what you really need.

### LICENSING AND FRANCHISING

A licence is the grant of certain rights to another company. It allows the other business to use your proprietary technology and/or intellectual property for specific purposes in a specific country or region.

Franchising is a specialized form of licensing. The franchisee is given the right to use specific manufacturing or service delivery processes, along with established business systems or trademarks, in accordance with the franchising agreement.



### SUBCONTRACTING

If you are thinking about setting up an affiliate in your target market – to produce your goods for local consumption, for example – you might instead consider subcontracting the work to a local manufacturer. This will require much less capital investment than acquiring or building a manufacturing affiliate.

Alternatively, you can engage an intermediary to find a subcontractor for you, help you negotiate the contract, ensure quality control and arrange payments. But no matter which alternative you select, be sure to carry out your due diligence. Working with a subcontractor who turns out to have a bad human-rights record, or uses substandard or fraudulent manufacturing inputs, can do your company considerable damage.

### WHOLLY OWNED AFFILIATES

Most countries allow foreign businesses to establish wholly owned affiliates within the local market. Also called subsidiaries, these companies are owned by a business abroad but operate as local firms with respect to regulations, laws and taxes.

Governments vary widely in their attitudes to foreign companies setting up businesses on their soil. Some, like Mexico, welcome the investment and offer incentives to attract and keep it, while others may treat locally owned enterprises more favourably than foreign-owned ones.



## ACQUISITION OF A FOREIGN COMPANY

In an acquisition, the Canadian firm purchases the shares and/or assets of a local firm. Payment might be made in cash or through an exchange of the Canadian firm's shares or securities. Alternatively, the Canadian company may set up a business entity in the foreign market, such as an affiliate, to carry out the acquisition. In either case, the acquisition is carried out by purchasing enough of the target company's stock to achieve control of the business. Acquisitions are complex and require careful due diligence as well as expert legal, accounting and tax advice.

## MERGING WITH A FOREIGN COMPANY

In a merger, two businesses (such as a Canadian-owned company in a foreign market and a locally owned company in the same market) are combined into one firm. One business disappears and all its assets and liabilities become the property of the surviving company, which continues as the successor to both businesses. Like acquisitions, mergers are complex and must be handled carefully.

## STRATEGIC ALLIANCES

A strategic alliance is a cooperative arrangement between two or more businesses and is designed to achieve a shared goal. A Canadian and a U.S. company, for example, could form an alliance to operate in a U.S. regional market. Ideally, the strengths of the two firms would complement each other and enhance their joint competitiveness in that market.



## DUE DILIGENCE IN FDI

A foreign investment of any significant size will require careful due diligence. When acquiring a company or merging with it, for example, you'll need to cover factors such as – but not restricted to – the target company's legal structure, its financial condition, its principal contracts, its environmental situation, the reputation of its management and its compliance with employee benefits requirements.

Strategic alliances are designed to share risk and thus require a considerable level of cooperation and trust between the two companies. Establishing such a relationship with a foreign partner may allow you to expand your business in that market and gain access to resources that would be very difficult to acquire by yourself.

## JOINT VENTURES

In a joint venture, your company and a foreign firm agree to cooperate in order to achieve a specific business objective. This cooperation could be a simple partnership that is limited in scope or duration. In a more elaborate approach, your two companies might establish a separate corporation in the local market to achieve your joint objectives.



## EXPORTING SERVICES

Service exports, by their very nature, tend to be intangibles. Nevertheless, the major methods of delivering services in a foreign market resemble those for exporting goods:

- ▶ If the business environment of the target market resembles that of Canada, and language barriers are minimal, you may be able to provide your services directly to foreign clients. In the case of the United States, for example, you'd market your service directly to potential U.S. customers and, once you secured a contract, send your personnel across the border to do the work.
- ▶ If the market is unlike Canada's or is very distant (or both), you could instead use an intermediary to negotiate a service contract for you with the client. Your staff would then go to the market to deliver the service.
- ▶ If the demand justifies it, you could set up a representative or branch office to promote your services locally. You'd then send your staff there to deliver the services as needed.
- ▶ Increasing demand for your services might justify establishing an affiliate company in the target market to deliver them. This can be a very flexible mode of delivery, since you can hire and train local professionals to deliver the service for you, or transfer Canadian personnel overseas to work directly for the affiliate.
- ▶ You could establish a partnership or joint venture with a firm whose services dovetail with yours, to the advantage of both companies.

The method you choose will depend on the nature of your service, the resources available to you and the particular market you're entering. No matter which approach you select, however, you'll need to establish an awareness of your firm's services in the target market and demonstrate your company's credibility, competence and professionalism. In this regard at least, selling your services abroad is not all that different from selling them in Canada.

## IMMIGRATION ISSUES FOR SERVICES COMPANIES

Almost all countries have immigration laws that restrict the freedom of non-resident foreigners to work locally, even for short periods of time. Consequently, if you intend to have your Canadian staff deliver your service in a foreign market, you'll need to make sure beforehand that they'll be allowed to do this. If they're going to work in the United States, for example, they'll need a visa before they can even cross the border. Visa requirements of this nature are common around the world.

You should also be aware that immigration authorities take a very dim view of foreigners who work locally without permission. The penalties for doing so can be severe, so it's wise to consult local immigration lawyers before you commit to sending your staff abroad. These legal professionals can help with the paperwork, speed up the visa process and ensure that you don't inadvertently break the law.

Of course, if your personnel can provide your services without leaving Canada – delivering them via the Internet, for example – the immigration problem disappears.



## DEALING WITH POLITICAL RISK

Canada presents next to no political risks for companies operating within its borders. The same can't be said for many other places, however, especially in emerging markets where governments are often short of cash, legal institutions are weak and the political environment is unstable.

For an exporter, political risk can be an issue if it leads to non-payment by a buyer. For an investor with assets or equity in a foreign market, it can present acute problems if the local investment environment deteriorates because of political unrest.

If you do want to operate in a country where political risks are significant, one of EDC's [Political Risk Insurance](#) (PRI) policies may help protect you. These policies can provide coverage against the following hazards:

▶ **Breach of contract**

This occurs if a state-owned entity or foreign government doesn't live up to its end of a contract or refuses to honour an arbitral award in your favour.

▶ **Non-payment by a foreign government**

This is the refusal or inability of a foreign government to make scheduled loan payments or honour a guarantee, thus exposing you or your bank to non-payment risk.

▶ **Creeping or outright expropriation**

In this case, a foreign government seizes, confiscates or expropriates your investment, sometimes without justification or an apparent reason.



### OBTAINING RISK INFORMATION FROM EDC

Even if you're not intending to use one of EDC's PRI solutions, you can still contact EDC for risk information about any of the markets where EDC is active.

▶ **Political violence**

Political terrorism, war, civil strife or other forms of political violence can damage or destroy your assets, or force you to shut down business operations for an extended period of time.

▶ **Conversion risk**

During an economic crisis, foreign governments or their central banks may impose restrictions or prohibitions on the conversion of the local currency to hard currency, or prevent hard currency from leaving the country.

▶ **Transfer risk**

In times of crisis, foreign governments or their central banks may prevent hard currency from leaving the country at all.

▶ **Repossession risk**

Repossession risk is the danger that a foreign government might prevent you from repossessing or re-exporting physical assets you brought into the country, such as machinery or equipment.



## CHAPTER 5: DEALING WITH INTERNATIONAL CONTRACTS

International commercial contracts are inherently more complicated than domestic ones. The reasons for this include:

- ▶ International commercial contracts have to comply with both the laws of Canada and those of the buyer's country, and possibly with the provisions of international law.
- ▶ They must allow for differences in Canadian and foreign business cultures.
- ▶ They must often bridge language barriers.
- ▶ They must allow for the mechanics of international trade, such as longer payment terms, complicated logistics, customs clearance and a host of other details.

Because of the wide scope for misunderstanding, the terms and conditions of international contracts should be as clear and unambiguous as possible. A poorly drafted contract increases the risk of disputes, which may lead to a refusal to pay or other difficulties. Needless to say, you should always consult with qualified legal professionals before signing an international commercial contract.

### DUE DILIGENCE

Always carry out due diligence on a potential buyer before committing yourself to a contract. This requires investigating the company's creditworthiness, its financial situation, the quality of its management, its business history and its reputation in the local and international marketplace.

Legal, consulting and credit-reporting firms may help you verify a prospective customer's soundness, but in many foreign markets it can be difficult to find out everything you'd like

to know. The Canadian [Trade Commissioner Service](#) in the target market may be able to help you here, since its trade teams are familiar with local business conditions.

For its part, EDC can help you with its [EXPORT Check](#) service. For a modest fee, this service will allow you to review the credit profiles of more than 20 million U.S. and 80 million international customers before you close your deal.





## BASIC PRINCIPLES OF INTERNATIONAL CONTRACTS

An international commercial contract is a legally enforceable agreement between two or more parties who are transacting business across international borders.<sup>1</sup> To protect the interests of all the parties, it must do the following:

- ▶ It must specify exactly who the parties to the contract are, since only they can enforce it. If there are affiliated companies, agents or representatives involved in the transaction, the contract should include them as parties.
- ▶ It must specify the law that governs the contract. The business laws of Canada and your target market will inevitably be different, so a contract's clauses may have varying interpretations depending on which country's laws are applied to it. If the contract dictates the governing law, there will be less room for dispute over the meaning of the contract's language.
- ▶ The contract must be comprehensive. It must include *all* the essential terms that the parties have agreed on, since leaving one out may lead to disputes. There should be no external verbal agreements, for example, and all schedules, appendices and annexes referred to in the contract should be attached to it.
- ▶ All the essential terms set out in the contract must be clearly written and readily understood by all parties. Using ambiguous language invites disagreement and litigation.

## CONTRACTS AND INCOTERMS

It is likely that many of the clauses in an international contract will use *Incoterms*. These are formal terms that specify certain exporter and importer responsibilities in international trade transactions, especially in the area of logistics. Incoterms are widely used because they are globally accepted and can remove many of the uncertainties associated with international business. They define the meaning of terms in the following areas:

- ▶ **Costs:** Who is responsible for the expenses associated with a shipment at any specific time during transit? Examples could be export packing costs, international transport costs or customs duties.
- ▶ **Control:** Who owns the shipment at any specific time during its transit?
- ▶ **Liability:** Who is responsible for the shipment at any specific time during its transit?

A new set of Incoterms, Incoterms 2010, went into effect on January 1, 2011. More information about them is available on the [Incoterms](#) website.

<sup>1</sup> This section is adapted from the EDC publication *Commercial Contract Terms*, available from the [Publications/Guides](#) page of the EDC web site.



## ESSENTIAL CONTRACT TERMS AND CLAUSES

The essential terms of an international commercial contract are outlined below. Incoterms are preferred wherever applicable.

### ▶ **Parties to the contract and the contract purposes**

Be sure of the following:

- The contract must clearly identify the parties to the contract and their full legal names. These legal names – not the trade names – should be used in the signature line and elsewhere in the contract.
- There must be a clear statement of obligation for your buyer to purchase and pay for the goods or services, and for the seller (you) to sell and deliver them.
- There must be a detailed description of the goods or services involved.
- The contract must clearly describe the extent and limits of each party's obligations.

### ▶ **Price and currency**

This should clearly identify:

- the currency of the transaction;
- whether the price is fixed or adjustable and, if the latter, how adjustments will be made; and
- the total amount to be paid (fixed or adjusted).

### ▶ **Payment terms**

These should cover the following:

- the due date by which full payment must be made;
- the dates or milestone events that trigger progress payments, if any;
- the amount of each progress payment, if any;
- any discounts to the buyer for early payment;
- any bonuses to the seller for early completion of the contract;
- the interest charges for late payment;
- the documentation that will trigger payment, such as transportation documents or commercial invoices;
- the payment term, such as net 30 days;
- whether there are holdback payments; and
- the method of payment, such as open account or letter of credit.

### ▶ **Delivery terms**

These should cover the following:

- the responsibilities of each party regarding the costs of carriage, insurance, import and export clearance, packing and documentation;
- the responsibilities of each party regarding the transfer of risk or damages to goods during the shipment's transit from seller to buyer;



- the mode of delivery and the responsibility for the costs of delivery, stated in Incoterms such as EXW (ex works), FOB (free on board) or CIP (carriage and insurance paid);
  - the delivery point, such as the U.S. port of entry;
  - the delivery schedule, which is important because it can affect penalties or compensation for late delivery; and
  - the number of shipments.
- ▶ **Warranties, penalties and compensation**  
These clauses should cover the following:
- compensation to the other party if the seller or buyer does not perform according to its contractual obligations;
  - any other applicable penalties;
  - warranty obligations; and
  - late-interest provisions to cover late payment by the buyer.
- ▶ **Force majeure**  
Force majeure applies to events that lie outside the control of the contracting parties and that may affect their ability to meet their contractual obligations. Clauses in this area should specify:
- descriptions of events constituting force majeure;
  - the time frame within which the other party must be notified of such an event;
  - the steps to be taken to resolve a delay that is excusable owing to force majeure; and
  - the options available to the parties if there is a long delay in fulfilling the contract owing to force majeure, such as contract termination or a change in the scope and price of the contract.
- ▶ **Settlement of disputes**  
These clauses should cover the following:
- the process for settling disputes, such as negotiation, arbitration or litigation;
  - if arbitration is used, the country and place where it will occur, the rules of arbitration that will apply and how the costs of arbitration will be divided;
  - if litigation is used, the country and place where the litigation will occur, and the court in which it will be heard; and
  - a time frame for resolving disputes.
- ▶ **Contract effectiveness**  
These clauses should establish:
- the conditions and/or events under which the contract becomes effective, such as on contract signing or on the receipt of an advance payment; and
  - how the above conditions and/or events may affect the contract schedule.
- ▶ **Termination or cancellation of the contract**  
These clauses should establish:
- which party has the right to terminate the contract and under what conditions it may do so;
  - any payment and performance obligations for either party upon termination of the contract;
  - a definition of loss due to contract termination and the consequences of loss; and
  - a mechanism to avoid disputes in this area.



### READ THE CONTRACT VERY, VERY CAREFULLY!

You and your legal team should carefully scrutinize the contract's wording for potential risks such as harsh late delivery penalties, onerous indemnity clauses, or clauses related to transfer of intellectual property to the buyer. If possible, strike out such conditions or renegotiate them. Also, look for unexpected additional costs such as insurance requirements, performance guarantees, warranties and delivery conditions.

#### ▶ **Title transfer**

These clauses should establish:

- when the title to the goods will transfer from the seller to the buyer, such as transfer on full payment or transfer when the goods are received by the buyer; and
- any legal requirements that will apply in this area.

#### ▶ **Governing law and governing language**

This clause should:

- establish the legal system under which the provisions of the contract will be interpreted; and
- ensure that a suitable translation will be provided if the contract is not in English (or French, if applicable), and also specify whether the translation or the original of the contract will prevail if a dispute arises.

#### ▶ **Required documentation and events**

This should specify the documents and procedures for each event in the contract, such as:

- documents required for delivery; and
- required technical documentation, if any.

## BONDING

Providing bonds, in the form of letters of guarantee, letters of credit or surety bonds, is necessary for doing business in many foreign markets.

A bond is a guarantee of performance issued by a bank on behalf of you, the seller. It guarantees that if you don't perform according to your contractual or warranty commitments, your bank will pay the value of the bond to your buyer. In effect, the bond insures your buyer against any losses that may occur if you fail to meet your contract terms.

If your contract requires bonding, it should:

- ▶ indicate the reason for issuing the bond;
- ▶ state the date of issue;
- ▶ state the validity period, the expiry date and the triggers for expiry;
- ▶ establish the means, if any, for increasing or decreasing the value of the bond;
- ▶ ensure that the bond, if it is a letter of guarantee of a letter of credit, conforms to the International Chamber of Commerce's Uniform Customs and Practices rules for Documentary Credits;



- ▶ ensure that the bond, if it is a surety bond, conforms to a recognized form of standard security bond; and
- ▶ ensure that the bond corresponds to the actual requirements of the contract.

## BONDING COLLATERAL AND WRONGFUL CALLS

Obtaining a performance bond can have a major impact on your working capital and cash position, since the bond issuer – normally your financial institution – will want 100 per cent collateral for each dollar of bonding it issues. You can provide this either as cash, on a dollar-for-dollar basis, or from security pledged from your line of credit. In both cases, issuing the bond reduces the assets you can use for funding your business operations.

Performance bonds, moreover, are payable on the demand of your buyer. If a buyer decides that you have not met the contract conditions, they can “call the bond” – that is, the buyer can demand that your financial institution immediately pay out the value of the bond to the buyer.

When this happens, your bank does not judge the validity of the buyer’s claim or determine whether you are actually at fault. It simply pays out the bond and takes your collateral in restitution. If you have not, in fact, violated the contract terms, this is known as a “wrongful call.” Unfortunately, it may be very difficult for you to get your cash back even when you prove that the buyer’s call was invalid.

EDC can provide you with a variety of bonding solutions for these problems, not only to help you obtain bonding, but also to protect you against wrongful calls. These solutions include the following:

- ▶ An [Account Performance Security Guarantee](#) protects your financial institution if your buyer demands payment against the guarantee the institution provided on your behalf. Because the guarantee covers 100 per cent of your financial institution’s risk, your lender may forego the collateral usually required to post such guarantees. This means there’s no drain on your cash flow.
- ▶ [Surety Bond Insurance](#) can protect your surety company in the event of a call, encouraging it to provide you with the bonding capacity you need to sell internationally.
- ▶ [Performance Security Insurance](#) covers up to 95 per cent of your losses if your foreign buyer demands payment on a bank-issued guarantee without a valid reason (a “wrongful call”).



## CONTRACT CANCELLATION

Your contract should establish penalties for the buyer if the buyer cancels the contract without just cause. However, it can sometimes be problematic (or very slow) to collect these penalties when the buyer is in a foreign country.

To cover yourself against this risk, you can use EDC's [Contract Frustration Insurance](#), which will insure you for up to 90 per cent of your eligible losses resulting from political and commercial risks. It protects you from:

- ▶ contract cancellation;
- ▶ your customer's bankruptcy or default;
- ▶ payment delays caused by blocked funds or transfer difficulties;
- ▶ hostilities in a customer's country;
- ▶ cancellation of export or import permits; and
- ▶ a host government's moratorium on debt.



## CHAPTER 6: GETTING PAID

At some point in the negotiation of an export contract, your buyer will want to know what credit terms you are willing to offer – essentially, how long the buyer can wait before paying you for your goods. This question has implications beyond the obvious, because your answer may help determine whether you succeed in making the sale.

If your terms are too stringent – if you demand cash in advance, for example – your buyer may decide to look for another supplier. At the other extreme, your terms should not be too lenient. If they are, you may have to wait months to get paid, which won't help your cash flow.

How you negotiate will depend to some degree on knowing the normal practices of the local business culture. U.S. companies, for example, usually expect open account terms of 30 to 60 days, while buyers in other markets will prefer letters of credit (LCs) and may demand credit terms of up to 180 days. Such lengthy terms are common in export markets, with capital goods subject to longer terms than consumer goods. When negotiating credit terms, keep in mind that the longer you have to wait for payment, the greater the risk that the buyer may default.

Note also that the credit term normally begins when your buyer receives your goods. International delivery takes considerably more time than domestic delivery, so allow for this when deciding on how long a credit term you can accept.

### FORMS OF PAYMENT

When negotiating payment terms, you should keep these basic principles in mind:

- ▶ Your buyers' ideal situation is to reduce their risk by receiving your goods before paying for them, and by paying as long after delivery as possible. In this case, you are actually providing your buyers with unsecured credit – they have the goods and you do not (yet) have the money. From your point of view, this is not the best payment solution.

- ▶ *Your* ideal, conversely, is to reduce your risk by receiving payment as early as possible, preferably before you ship the goods. In this case, your buyers are providing *you* with unsecured credit – you have the money, but your buyers don't (yet) have the goods. From the buyer's point of view, this is not the best payment solution.

These two ideals are obviously incompatible, and much ingenuity has been put into developing payment terms that will achieve a compromise acceptable to both seller and buyer. The most common methods are the following.



## CASH IN ADVANCE

For you, this is the fastest and most secure form of payment. Your buyers, however, must finance the purchase from company resources and, if they have to borrow the cash to do this, they may be penalized by high local interest rates. Your buyers also have no guarantee that you will deliver the goods as promised. For your buyers, consequently, cash in advance is the least desirable method of paying you.

## LETTERS OF CREDIT

LCs provide security to both you and your buyers because they use banks to receive and check shipping documents and to guarantee payment. An LC can allow the costs of financing a transaction to be borne by either you or your buyers. Note that an LC is a payment against documents – that is, payment is completely independent of the actual delivery of any physical goods.

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

LCs can also be irrevocable. This means they can't be cancelled or amended without your approval. The most secure form of LC is one that is both confirmed and irrevocable.

## OPEN ACCOUNT

You, the seller, agree to ship the goods to a buyer, who will pay for them within 30 to 180 days of either shipment or receipt. This is ideal for your buyer, who receives the goods before paying for them. For the same reason, it is also the riskiest form

of payment for you because it is unsecured. A willingness to be paid on this basis can help secure a sale for you, but be very sure that the buyer's credit is good before you agree to these terms.

## OPEN ACCOUNT WITH RECEIVABLES INSURANCE

This could also be called "secured open account." In this form of payment, a financial institution provides you with accounts receivable insurance so you'll get your money even if your buyer fails to pay. At the same time, because the financial institution secures your payment, you can offer your buyer all the benefits of open-account payment with minimal risk to your bottom line. This form of payment is an excellent option for both buyer and seller.

## DOCUMENTARY COLLECTIONS

With documentary collections, your Canadian bank sends shipping documents to a correspondent bank in your buyer's market. When the goods arrive at customs, the correspondent bank presents the documents to your buyer, who then pays the bank before actually receiving the goods. This is known as documents against payment (D/P). It is very secure for you and your customer doesn't have to pay until the goods arrive at customs, so there is no worry about non-delivery. This form of payment is also inexpensive compared to an LC.

An alternative is documents against acceptance (D/A). In this arrangement, the buyer can pay within a specified number of days of the documents being presented by the bank. This is good for the buyer, who is being provided with credit for up to 180 days at your expense. It is risky for you, however, because your buyer receives the goods before paying for them.





## PROTECTING AGAINST PAYMENT RISK

Payment risk can be a threat in the international market and often stems from lack of knowledge about a foreign buyer's creditworthiness. To reduce this risk, your company must know what its trading partners are doing, whether they are meeting their obligations and when you will receive payment. There are also various types of insurance that will protect your receivables if a buyer, for whatever reason, fails to pay you.

### CHECKING BUYER CREDIT

First and foremost, you should check a foreign buyer's credit status very carefully before committing to a sales agreement or any other business relationship. This includes investigating the firm's creditworthiness, its financial record, the quality of its management, its business history and its reputation in the local and international marketplace. Local legal or consulting firms may be able to help you, and you may be able to obtain assistance from the local Canadian Trade Commissioner Service offices and from EDC.

### INSURING AGAINST PAYMENT RISK

Your accounts receivable are among the most important assets you have on your books, and a customer's failure to pay can jeopardize the very survival of your business. The possibility of non-payment is distinctly higher when you're selling into a foreign market, with the most likely reasons being these:

- ▶ your buyer goes bankrupt or becomes insolvent;
- ▶ your buyer refuses to pay either before or after accepting the goods; or
- ▶ your buyer cancels the contract.



### CHECKING YOUR BUYER THROUGH EDC

With EDC's [EXPORT Check](#), you can quickly obtain vital information on many foreign companies. For a modest fee, an EDC Opinion Report will provide key credit and financial information about the firm and an opinion as to whether it is insurable. A D&B Business Information Report, also available for a fee, will furnish detailed corporate information including company history, credit and financial information, and any legal issues involving the firm. In a related area, EDC's [Credit Management Processes That Pay Off](#) will give you practical advice about setting up your own credit management system.

There are several forms of receivables insurance that will protect you against these risks. EDC offers a full suite of these products, which include:

#### ▶ **Accounts Receivable Insurance**

[Accounts Receivable Insurance](#) (ARI) protects you for up to 90 per cent of your losses resulting from non-payment due to a wide range of risks, such as:

- a customer's bankruptcy or default on payment;
- a customer's refusal to accept the goods as contracted;
- contract cancellation;
- payment delays caused by blocked funds or transfer difficulties;
- hostilities in a customer's country; and
- cancellation or non-renewal of export or import permits.



## USING RECEIVABLES INSURANCE IN YOUR EXPORT FINANCING

If your bank is already margining your domestic receivables to provide you with working capital, you might think that it would do the same for a foreign receivable. Unfortunately, this is often not the case – many financial institutions won't margin a foreign receivable because of the higher risk of non-payment in international transactions. This may cause you cash flow problems if you need more working capital to fulfill the foreign contract.

In such cases, your solution may be to insure the foreign receivable so you'll still be paid if your buyer defaults. In this case, your financial institution knows that if it margins the receivable, you'll be able to cover the debt even if your buyer fails to pay you. As a result, it may be willing to margin your receivable and provide you with the credit you need. Chapter 7 examines this strategy in more detail.

### ▶ **Single Buyer Insurance**

[Single Buyer Insurance](#) insures unlimited export sales to the same foreign customer over 180 days and covers up to 90 per cent of your losses resulting from non-payment due to a wide range of risks, such as:

- a customer's bankruptcy or default on payment;
- payment delays caused by blocked funds or transfer difficulties;
- hostilities in a customer's country; and
- cancellation or non-renewal of export or import permits.

### ▶ **Contract Frustration Insurance**

[Contract Frustration Insurance](#) (CFI) insures you for up to 90 per cent of your eligible losses resulting from political and commercial risks. It protects you from:

- your customer's bankruptcy or default;
- contract cancellation;
- payment delays caused by blocked funds or transfer difficulties;
- hostilities in a customer's country;
- cancellation of export or import permits; and
- a host country's moratorium on debt.

# CHAPTER 7: FINANCING YOUR EXPORTS



You may have a highly marketable product or service, strong customer interest and the best market research available, but if you lack adequate financial resources, you won't travel far from square one.

Getting started in foreign trade can be very difficult if a company has to depend solely on its own financial resources. As a result, most small to medium-sized exporters need to raise money from outsiders, either occasionally or on a regular basis. They typically use this capital to provide cash flow for fulfilling export contracts, sustaining day-to-day operations until their overseas buyers pay, and making capital investments in the company itself.

As the management of any well-run company knows, maintaining an adequate and dependable cash flow is vital to the health of the business. Sustaining your cash flow will be even more important when your company ventures abroad.

## CASH FLOW IN INTERNATIONAL TRADE

*Cash flow* is the movement of cash into or out of your business, measured over a period of time, and cash flow management is the process you use to control this flow. A well-managed cash flow implies that:

- ▶ you can easily convert your profits into cash whenever cash is needed; and
- ▶ your company can always maintain its liquidity, which means you always have enough cash on hand to meet your obligations.

Cash flow in foreign trade resembles cash flow in domestic operations, but carries additional risks because of the international dimension. Because of these risks (such as

currency risk, longer payment terms and unfamiliar payment instruments), your export-related cash flow will need closer monitoring than your domestic cash flow.

Timing problems – when you must pay a supplier before your foreign buyer needs to pay you, for example – can be a particular difficulty for exporters. These timing mismatches can create long periods of low or nonexistent cash flow, so you'll need dependable access to working capital to cover your expenses and meet your bills until your cash flow rebounds.



### HOW TO BE PROFITABLE AND INSOLVENT AT THE SAME TIME

Being able to convert your profits easily into cash, and thus ensure your liquidity, is crucial to your company's health. Why? Because, if your balance sheet shows a profit, but you can't convert this into cash, you can't pay your debts when they fall due and you risk becoming formally insolvent.

## OBTAINING THE FINANCING YOU NEED

There are many sources of capital for exporters, ranging from private loans to bank financing. Each has advantages and drawbacks and may be suitable in one set of circumstances but not in another.

### LOANS FROM INDIVIDUALS

This is a common strategy for small companies, especially at the start-up stage. Business owners can approach friends, family members, employees and business contacts for loans. One advantage of this is that the lenders have a stake in the company and are consequently highly committed to its success. One downside is that the sums available may not be large enough for the company's needs. The employees or individual lenders may also want an equity stake in the company, which means loss of ownership.

If you go this route, be sure to have written shareholder or partnership agreements with your lenders and written buy-back provisions if the lenders are also employees of the company.

## VENTURE CAPITAL FINANCING

Venture capital financing for new and emerging businesses typically comes from high-net-worth individuals and venture capital firms. These venture capitalists (VCs) specialize in providing capital to small private companies with the potential for rapid growth. They will accept higher risks than traditional financial institutions and may be willing to provide financing for a business that is too new or too risky for a bank to support. Most VCs concentrate their investments in particular high-growth industries, such as energy or biotechnology, and are not interested in sectors outside their specialization.

In return for accepting higher risk, VCs expect high rates of return on their investments. They will normally demand an equity stake in the company, often in the range of 20 to 40 per cent, and will require a considerable degree of control over planning, policy, financing and budgeting.

## COMMERCIAL LENDERS

Companies with established track records in Canada will typically turn to a commercial lender (banks, credit unions and term lenders) to obtain capital for daily operations, overseas expansion, capital expenditures and other financial needs. This support usually comes in the form of term loans, operating lines and other forms of credit.

Commercial lenders are likely to be the least costly of all your financing options because you lower their risk by pledging various forms of collateral for your loans. If your company has a stable, successful business history, this type of financing is usually your best bet for both domestic and international operations. You will find, however, that commercial lenders will be stricter about issuing credit for your foreign operations than for your domestic activities. This is because the former are inherently more risky than the latter.



▶ **Banks**

Banks can provide term loans, leasing, mortgages, factoring, letters of credit and letters of guarantee, and more. Before they agree to lend you money, you will need to satisfy them that your company is stable, is performing well and is likely to go on doing so, and can generate enough revenue to repay the loan. They will want some type of security or collateral for your loan, usually in the form of accounts receivable, work in progress, inventory or tangible assets such as machinery.

▶ **Credit unions**

Credit unions are governed by provincial legislation. They can offer mortgages, term loans, working capital loans and revolving lines of credit. Like banks, they will want to know a great deal about your business and will require similar types of collateral before agreeing to a loan.

▶ **Term lenders**

These lenders specialize in term loans, which are repaid through regular, periodic payments, usually over longer terms of up to 25 years. Term loans are used to finance working capital, facilities construction, capital improvements, capital investments such as machinery, and the purchase of other businesses. Insurance companies, trust companies, mortgage companies, acceptance companies, finance companies and banks are common sources of term loans. Collateral is required, as usual.

### ASSET-BASED LENDING

Asset-Based Lending (ABL) is a form of secured lending that uses your company's assets as collateral. These assets could be tangible ones, such as equipment or inventory, or financial ones such as accounts receivable and signed purchase orders.

Businesses often use ABL to finance growth or to help them acquire other businesses. It is usually more expensive than commercial borrowing but can be easier to obtain than traditional commercial loans. Lenders base the loan amounts on the net realizable value of the assets pledged as collateral.

▶ **Lending against tangible assets**

With this type of ABL, you provide collateral for the loan in the form of inventory, work in progress, machinery, equipment or other tangible assets. Lenders usually require an independent appraisal to determine the net value of these assets.

▶ **Factoring**

Factoring means that a factoring house purchases your receivable(s) at a discount. The factor accepts the risk of non-payment, so you don't have to reimburse the factor if your buyer fails to pay. The advantage of factoring is that you get your cash, minus the discount, as soon as you invoice your buyer. This means you don't have to wait for your money, which can help maintain your cash flow if you've given your buyer long payment terms.

▶ **Purchase order financing**

Factoring works well if you can wait for your money until you invoice your buyer. But if you need to pay your suppliers up front, or if you need a long time to fill and deliver the buyer's order, you may find it difficult to maintain an adequate cash flow. The solution may be purchase order financing, in which the factoring institution provides a loan as soon as your buyer signs the purchase order. Not all factors provide purchase order financing, however.



## EXPORT DEVELOPMENT CANADA

EDC can often partner with your financial institution to increase your borrowing power. For example, if your bank is unwilling to lend against a foreign receivable owing to the higher risks of international transactions, an EDC receivables insurance policy may be the solution.

If one of these policies is in place, your financial institution knows that your foreign receivable will be paid even if your buyer defaults. This greatly reduces the bank's risk of lending against your receivable and it may, as a result, be willing to provide the loan you need.

There are several types of EDC receivables insurance you can use for this purpose:

- **Accounts Receivable Insurance:** Because EDC's [Accounts Receivable Insurance](#) protects you against non-payment by a foreign buyer, your financial institution may be willing to lend against your foreign accounts receivable. For a fictional example, [click here](#).
  - **Single Buyer Insurance:** Similarly, your financial institution may be willing to lend against foreign AR from a single foreign buyer if you take out EDC's [Single Buyer Insurance](#). For a fictional example, [click here](#).
  - **Contract Frustration Insurance:** Just as with ARI and Single Buyer Insurance, your financial institution may be willing to lend against AR from an export contract if you take out EDC's [Contract Frustration Insurance](#). For a fictional example, [click here](#).
- **Export Guarantee Program:** By providing a guarantee to your financial institution, EDC's [Export Guarantee Program](#) may help you obtain additional financing for your export activities and/or your foreign investments. For fictional examples, [click here](#).
  - **Political Risk Insurance:** We examined [Political Risk Insurance](#) in Chapter 4, in the context of protecting overseas investments or assets. In some situations, having this insurance may also help with your financing. For a fictional example, [click here](#).
  - **Account Performance Security Guarantee:** In Chapter 5, we looked at the [Account Performance Security Guarantee](#) in the context of bonding. While this guarantee doesn't function in the same way as receivables insurance, it can nevertheless improve your cash flow and working capital position. For a fictional example, [click here](#).

## MANAGING FOREIGN EXCHANGE

Fluctuations in the exchange rate of the Canadian dollar relative to other currencies can lead to substantial losses (or, possibly, gains) for your bottom line and cash flow. This is especially so when payment terms are long, as they often are in international transactions.

You can protect yourself from foreign exchange (FX) volatility by *hedging*. This simply means making an investment that will reduce your vulnerability to adverse shifts in the exchange rate.



There are numerous ways to hedge, but the following are the major ones:

▶ **Natural hedges**

You buy your inputs from your suppliers and sell to your buyers in the same currency. If you're exporting to the United States, for example, you pay your suppliers in U.S. dollars (even if they're not in the U.S.) and get paid by your American customers in U.S. dollars as well.

▶ **Options**

An option gives you the right, but not the obligation, to buy or sell a set amount of a specific currency at an agreed-upon exchange rate on or before the expiration date. You can exercise the option (or not) at your discretion. Options, however, require that you buy them when you enter into the option contract. This means you must tie up cash in purchasing the option, which can absorb tens of thousands of dollars if the option amount is in the millions.

▶ **Futures**

A futures contract specifies a standard volume of a particular currency to be exchanged for another currency at an agreed-on exchange rate on a specific settlement date. If, for example, you will receive €1,000,000 on December 1, and the per-euro exchange rate in your futures contract is \$1.55, you are guaranteed this rate regardless of exchange rate fluctuations.

▶ **Forward contracts**

A forward contract is a commitment to buy or sell a currency at a set exchange rate in the future. Your financial institution will require you to post collateral in order to secure the contract, which might reduce your working capital to an unacceptable level. If you don't do it, though, you remain at the mercy of the exchange rate.



**WHY HEDGE?**

Successful hedging can have a considerable effect on a firm's bottom line. Suppose, for example, you secure a European contract denominated in euros, and you and your buyer agree on a price of €1.5 million. At this point, the exchange rate is \$1.616 per euro, and on this basis you are projecting a gross profit of \$778,000.

You don't bother to hedge and, 90 days later, the exchange rate has climbed to \$1.7037 per euro. This is very positive for you since it translates into a potential gross profit of \$905,550 – much better than you were expecting. But you aren't accustomed to hedging, so you neglect to buy a forward contract to secure the \$1.7037-per-euro exchange rate.

Unfortunately, the exchange rate soon turns against you. By the time you actually get paid, it has fallen to \$1.4868 per euro, well below the rate when you and your buyer agreed on the price. Consequently, instead of your original estimated gross profit of \$778,000, you make only \$644,000 – a drop of more than 17 per cent, which has resulted solely from exchange rate volatility.

If you need a forward contract and find yourself in this position, EDC's [Foreign Exchange Facility Guarantee \(FXG\)](#) may offer a solution. For a fictional example, [click here](#).



## FOREIGN BUYER FINANCING

Proposing an attractive financial package to a potential foreign buyer can be a crucial part of making a sale. You can take advantage of this through EDC's [foreign buyer financing](#) programs, which can provide financing directly to your foreign customer for an export sale of capital goods and/or services. In effect, you get an immediate cash sale because EDC assumes the risk of non-payment and disburses the funds directly to you.

## FOREIGN SUPPLIERS

Using foreign suppliers can lower your input costs and give you access to specialized goods and materials that may not be available in Canada. How to work with foreign suppliers is beyond the scope of this guide, but it's worth mentioning some of the financial aspects of doing so.

### SUPPLIER ADVANCE PAYMENTS

A supplier's advance payment requirements may put pressure on your company's working capital or cash reserves. In addition, payments in international trade are often carried out via LCs. If your supplier demands an LC as the advance payment, you will have to pledge collateral to your financial institution to cover the LC's value. In such cases, EDC's [Export Guarantee Program](#) (EGP), as discussed in the section [Obtaining the Financing You Need](#), may allow you to obtain the LC without putting up collateral.

## CONTROLLING FOREIGN INPUT COSTS

The costs of foreign inputs have a way of fluctuating after you've committed yourself to a contract price. If these fluctuations aren't in your favour, both your profit margins and cash flow may suffer.

There are several things you can do to cope with this problem. You can:

- ▶ **Buy inventory in advance**  
This can help you lock in costs or negotiate annual supply agreements at fixed prices.
- ▶ **Negotiate escalation clauses for key inputs**  
Your buyer may go along with this if you offer a discount whenever the price of the input declines.
- ▶ **Use hedging**  
You can use input cost hedging, which means you match the currency of your inputs to the currency in which you will be paid.
- ▶ **Negotiate extended supplier payment terms**  
You can try to negotiate supplier payment terms of more than the usual 30 days. Your supplier's willingness to do this will depend on factors such as your past and present business relationship, your perceived creditworthiness and whether providing a longer term will help the supplier secure your continued business.
- ▶ **Use supplier financing and purchasing programs**  
Usually arranged with your supplier, possibly with the participation of your financial institution, these programs can help you obtain your inputs with less strain on your cash flow.





## REDUCING CUSTOMS DUTIES

If you obtain some of your inputs from abroad, there may be ways to reduce or eliminate the Canadian customs duties applied to them, and possibly the GST/HST as well. For example:

- ▶ The [Duty Deferral Program](#) is administered by the Canada Border Services Agency (CBSA). If you qualify for the program, the CBSA can waive, postpone or refund duties and taxes you would otherwise have to pay on goods you import.
- ▶ The [Export Distribution Centre Program](#) is administered by the Canada Revenue Agency (CRA) and is intended to benefit businesses that import goods and/or acquire goods in Canada, process them to add limited value and then export them.
- ▶ The [Exporters of Processing Services Program](#) is also administered by the CRA. It relieves participants of the obligation to pay GST/HST on imports of goods belonging to non-resident customers, provided that these goods are imported for processing, distribution or storage, and are subsequently exported.

You may also be able to eliminate foreign duties and tariffs by taking advantage of foreign free trade zones (FTZs) and the various free trade agreements (FTAs) that have been negotiated between Canada and other countries. By building partnerships with suppliers in countries where Canada has FTAs, or by manufacturing in overseas FTZs, you can produce your goods and ship them directly to your buyers while minimizing taxes, duties and transportation costs.

## DEALING WITH TAXES

If you're simply exporting your products to a foreign market and don't have a business presence there, the tax implications for your business will be small to nonexistent. Most likely, you'll



## AVOIDING DOUBLE TAXATION

Canada has signed income tax conventions (tax treaties) with 89 nations so that Canadian companies doing business in these markets won't have to pay taxes in both countries. This removes any threat of double taxation. The Department of Finance Canada has a [list of these countries](#), with links to the treaty documents themselves.

simply pay Canadian corporate taxes on the income earned in that market, just as you would on income earned domestically. That said, you should still consult tax and accounting professionals to make sure you understand the Canadian tax implications of selling abroad.

If you establish a business affiliate in another country, however, the affiliate will be subject to the tax regime of that country. Tax regimes vary considerably from place to place, but you will definitely need to pay local corporate taxes and, depending on your type of business presence, a number of other taxes as well. These additional taxes can be levies such as VAT (like our HST), property taxes, education taxes, social security contributions, road taxes, real estate taxes and land use taxes.

Tax regimes are complex and constantly evolving, so you'll need specialist advice to determine how your foreign business presence will be taxed. This determination should be part of your market research, since the effects of local taxes may dictate whether you should set up a business in that market at all.



## CHAPTER 8: TRADE COMPLIANCE AND TRADE BARRIERS

Trade compliance is the process by which goods enter a country in conformity with its import laws and regulations. The local customs service will normally be responsible for checking incoming goods to make sure they conform as required.

To avoid problems at customs, the local importer must use reasonable care to ensure that the imported goods do not violate local standards and regulations and that they have been classified and valued correctly. It is thus very much in your interest, both for smooth delivery and for good customer relations, to ensure that your goods comply with the customs requirements of the country of destination.

Suppose, for example, that your shipment gets tied up in customs because it doesn't meet a standard. You will then face problems such as scheduling delays, late delivery penalties, warehousing costs and an annoyed buyer. In the worst case, if your product includes materials that can't be imported into the local market, it will not be allowed to enter the country at all.

Being fully compliant can substantially reduce such risks, so be sure you clearly understand and follow all the local compliance rules for your products. If you bring in outside help to deal with compliance questions, they should be familiar with your industry and with the local rules and regulations that apply to it. Customs brokers are often among the best third-party sources of assistance in this area, so use them accordingly.

The following sections outline some of the most important compliance areas. These are far from exhaustive, so you should seek expert guidance when determining whether your goods comply with all the rules that affect them.



## CRITICAL AREAS OF COMPLIANCE

### COMPLYING WITH STANDARDS

Your products may have to conform to one or more local standards – for the safety of electrical devices, for example – before they can be imported into your target market. Merchandise that doesn't comply will not be allowed to enter.

If your product is subject to a local compliance standard, you'll need to have it tested for conformity by a testing agency accredited by the standards regulator in the destination country. The major testing agencies in Canada are [CSA International](#) and [Underwriters Laboratories](#), which provide compliance certifications that are recognized by many foreign standards bodies.

To help exporters understand and keep up with the standards that apply to their particular market and product, the WTO requires all member governments to set up an Enquiry Point to distribute trade-related regulatory and standards information. In Canada, this [Enquiry Point](#) is the responsibility of the [Standards Council of Canada](#) (SCC).

The SCC also provides Canadian businesses with its [Export Alert! Notification Service](#), which identifies product requirements in global markets. Once you've registered, the service will automatically email you information about regulatory changes in your target market as they apply to your sector. Similarly, the SCC's [Standards Alert!](#) will keep you up-to-date on changes in specific types of standards.



### ARE YOU IN THE AGRI-FOOD BUSINESS?

There is a special class of international standards governing agricultural and other natural-resource products. These standards are defined by the WTO's Agreement on Sanitary and Phytosanitary (SPS) Measures, which set out the basic international rules for food safety and animal and plant health standards. The WTO web site has an [SPS Measures](#) section that provides details and links to other SPS resources.

### COMPLYING WITH REGULATIONS

Many countries have strict regulations for imported goods and raw materials. These regulations are usually established by government ministries or agencies and are enforced by the local customs service. In the United States, for example, the Food and Drug Administration regulates the labelling of food, drugs, medical devices, vaccines, cosmetics, radiation-emitting products and tobacco products. In Japan, the Ministry of Health, Welfare and Labour regulates food imports.

Your customs broker and/or your buyer should be able to tell you what regulations will apply to your goods and what you must do to comply with them.



## COMPLYING WITH COUNTRY RULES OF ORIGIN

Country rules of origin are used to determine where a product and/or its ingredients or components come from. They are important because they help determine whether the local customs regulator will (or will not) apply duties or restrictions to a shipment of goods.

The ways in which rules of origin are defined and applied vary widely from country to country. In general, though, they serve the following purposes:

- ▶ to implement measures and instruments of commercial policy such as anti-dumping duties and safeguard measures;
- ▶ to determine whether imported products receive most-favoured-nation treatment or other preferential treatment;
- ▶ to compile trade statistics;
- ▶ to govern labelling and marking requirements; and
- ▶ to regulate government procurement.

In cases where rules of origin apply to your product, you will need to provide a certificate of origin as part of your customs documentation. Your buyer should be able to clarify whether a certificate is required and what information must be included in it.

## USING HARMONIZED SYSTEM CODES

Most countries use Harmonized System (HS) codes to determine the duties, tariffs and taxes on imported goods. These standardized numeric codes provide a precise way of classifying products for customs purposes. Your goods will need to have HS codes before they can enter your target market.



## NAFTA RULES OF ORIGIN

Country rules of origin are not the same as NAFTA Rules of Origin. The latter are used to determine whether an exported product receives preferential tariff treatment when moving between Canada, the United States and Mexico. If you are exporting to either of our NAFTA trading partners, you'll need to fill out NAFTA Certificates of Origin for products that can claim preferential status.

There is a [full list of HS codes](#) on the Foreign Trade Online web site. Note, however, that there are slight variations from country to country in the details of HS code use. Canada, for example, uses an eight-digit version of the codes, while the United States uses 10 digits. Also, the United States refers to HS codes as [Harmonized Tariff Schedule](#) (HTS) codes. Check with your buyer to make sure you're using the correct code.

## RESTRICTED AND CONTROLLED GOODS

All countries restrict or otherwise control the import of certain goods. Weapons, pharmaceuticals, explosives, endangered species and tobacco are a few examples. The customs service in your target market will usually have lists of the goods that fall into this category. Even if yours don't seem to belong to a controlled class, it's still a good idea to verify this with your buyer and/or local authorities.



## CANADIAN EXPORT CONTROLS

Some products – including military and nuclear technology, firearms, certain softwood lumber products and goods of U.S. origin – are deemed to be controlled or restricted goods and require export permits before they can be sent out of Canada. Be sure to check into this before you ship your products. Some Canadian goods cannot be sent to certain countries at all.

The Canadian government agency responsible for regulations of this type is the [Trade Controls and Technical Barriers Bureau](#), formerly the Export and Import Controls Bureau. The bureau's web site provides a variety of resources, including lists of controlled and restricted goods.

The CBSA web site also has a guidebook where you'll find more detail about issues such as controlled exports and reporting requirements. Refer to [Exporting Goods From Canada: A Handy Guide for Exporters](#).

## CANADIAN EXPORT REPORTING REQUIREMENTS

When shipping goods abroad, you normally have to file an export declaration with the CBSA for each shipment. This data is used by Statistics Canada and other Canadian government bodies to maintain trade and economic statistics for the country. The CBSA publication *Exporting Goods From Canada: A Handy Guide for Exporters*, mentioned in the previous section, includes information on how to do this.

This requirement does not apply to goods you export to the United States, Puerto Rico or the U.S. Virgin Islands, so no export declaration is required for goods shipped to these destinations. This is because there is an agreement between the United States and Canada whereby Canada gets its export data directly from American import data.

## TARIFF BARRIERS

Governments apply tariffs (also called duties) in pursuit of various goals, only one of which is to provide revenue. They may also be trying to restrict the volume of imports to protect their trade balances and avoid running trade deficits.

Another purpose is to protect local industries from foreign competition. The government applies a tariff to foreign goods that might compete with the local product, thus raising the price of the imports and making them less attractive to local buyers.

There are two major ways of calculating the amount of a tariff:

- ▶ **Specific duties:** These are usually levied on the quantity (weight or volume) of the imported product.
- ▶ **Ad valorem duties:** These are calculated as a percentage of the value of the imported goods. This value is normally the landed cost of the shipment, defined as the total of cost, insurance and freight (CIF).

Tariff rates vary widely from country to country. There is a U.S. government database of country-specific tariffs [here](#).



## NON-TARIFF BARRIERS

Non-tariff barriers are common. Many, such as technical standards for products or licensing requirements, are intended to provide necessary safeguards against dangerous or substandard imports. However, they can also serve as barriers to international trade by being so stringent that foreign goods find it difficult to comply with them, and are thus put at a disadvantage in the local market.

The following are some of the most frequently encountered non-tariff barriers:

- ▶ **Quotas**  
A quota limits the amount of a product that can be imported. This can either keep the product out of the market entirely or increase its price until it can't compete at the local level.
- ▶ **Licensing**  
Some goods may be imported only if the importer acquires a licence to do so. By limiting the number of licences, a government can restrict the import of the product. Licensing procedures can also be made so difficult that it is not worth the importer's time to acquire one.
- ▶ **Sanctions, embargoes and boycotts**  
These refer to the complete prohibition of the purchase and import of goods from the target country. The United States applies an embargo on the import of Cuban goods in the form of the Helms-Burton Act.
- ▶ **Customs procedures**  
These can be so slow and complicated in some markets that they amount to a trade restriction.
- ▶ **Standards**  
By applying unnecessarily stringent health, safety, and quality standards to foreign products, a government can make compliance so difficult for overseas manufacturers that the goods are effectively denied entry to that market.
- ▶ **Discriminatory government procurement**  
Governments can use discriminatory procurement practices – by favouring local suppliers, for example – to keep foreign competitors out of the market.
- ▶ **Charges on imports**  
Entry taxes, which are usually intended to help cover the infrastructure costs of a port of entry, can be manipulated to make imports more expensive.
- ▶ **Exchange controls**  
Some governments use exchange controls to secure a monopoly on all dealings in foreign exchange. This forces local companies to go through the government bureaucracy to acquire the foreign exchange they need to buy goods from abroad.
- ▶ **Changing product classifications**  
A product's classification is used to determine the amount of duty to be paid on it. By changing the classification from a low-duty one to a high-duty one, the customs authorities may make a foreign product locally uncompetitive.



## CHAPTER 9: LOGISTICS AND DELIVERY

International logistics are more complicated and time-consuming than domestic logistics, for several obvious reasons – greater distances, increased risk during shipment and much more complex paperwork, to name just three.<sup>1</sup>

Even if you use a freight forwarder (see the next section) to handle your logistics, it's a good idea to have someone in your company who understands how international shipping works and who has researched the best way to deliver your products. Air freight, for example, may be preferable for goods of high unit value and low weight and bulk. Heavy or bulky goods might better be moved by rail or by sea, depending on the destination. Road transport may be appropriate if the goods are heading for a U.S. or Mexican buyer.

### FREIGHT FORWARDERS

Most Canadian exporters use freight forwarders to move their goods abroad, since this is usually more cost-effective than doing it for themselves. You can pick and choose among a forwarder's services or have the company manage the whole process, starting at your loading dock and ending on the customer's doorstep.

Full-service forwarders can:

- ▶ recommend the most secure and efficient routing and book space with a carrier;
- ▶ advise you on appropriate packaging, marking and labelling, as well as containerization;
- ▶ advise you on how local and foreign customs clearance works, and what papers are required for it;
- ▶ arrange insurance;
- ▶ provide warehousing, either after customs clearance or while goods are still in bond, and give advice on facilities, rates and procedures;
- ▶ arrange for the distribution of large lots, including re-labelling and re-shipping;
- ▶ negotiate the best shipping rates with the carrier;
- ▶ find alternative ways of moving your goods in the case of emergencies such as natural disasters or political unrest;
- ▶ consolidate smaller shipments into a full load, which will save you money;
- ▶ provide a global network with branches or correspondents in all major ports and cities;
- ▶ ensure that your shipment, once delivered to the carrier, actually moves and ultimately reaches its destination; and
- ▶ provide advice and consultation.

<sup>1</sup> Some of the information in this chapter was adapted from Agriculture and Agri-food Canada's [Shipping and Customs Services](#) web site.



There are numerous freight-forwarding companies in Canada, many of which have international expertise. For listings, consult the Canadian International Freight Forwarders Association ([🔗 CIFFA](#)) web site.

Choosing a freight forwarder requires care, so you should ask the following questions:

- ▶ Is the forwarder a member of CIFFA?
- ▶ Does the forwarder have a good credit rating and a good payment record?
- ▶ Can the forwarder provide a list of satisfied customers? Assuming they can, you should ask these customers about the forwarder's performance.
- ▶ Does the forwarder have knowledge of and experience with your product, desired shipment method, carriers and the destination country?



### SHOULD YOU DELIVER TO THE DOOR?

When exporting to many emerging markets, it's very unwise to agree to deliver your goods to your buyer's door. If you do, you will have to cope with the local transportation network, which can be extremely risky. Make sure your logistics responsibilities end at the port of entry for your market and that this is clearly written into your contract.



### DELIVERY TERMS

The terms of the actual delivery – such as ex works (EXW), freight on board (FOB) and carriage and insurance paid (CIP) – should be specified in your contract. For maximum clarity, it's a good idea to use the internationally recognized Incoterms wording for this purpose. For more information, see [🔗 Delivery clauses and Incoterms](#).

- ▶ Does the forwarder have a network of overseas agents and an office near the shipping port in the destination country?
- ▶ Is the forwarder large enough to handle your business and can they provide warehousing if needed?
- ▶ Does the forwarder carry errors and omissions insurance?
- ▶ Does the forwarder have favourable shipping rates and suitable schedules?
- ▶ Does the forwarder offer a complete package of supplemental services, such as brokerage and packaging?





## INSURANCE

You will need to insure your shipments while they are in transit. This form of logistics insurance is commonly called *marine insurance*, although it covers the risks of all forms of transit, including sea, air, road and rail. There are companies that specialize in this kind of risk coverage; you can likely get a list of suitable ones from your freight forwarder.

Marine insurance covers four major types of risk:

- ▶ **Catastrophic risks**  
These affect the ship, aircraft or other type of transport carrying the shipment, or the location where the shipment is stored. This would include shipwreck, fire, flood, collision and other unforeseeable events.
- ▶ **Accidental or fortuitous risks**  
These affect the goods themselves, rather than their transport, and include mishaps such as dropping, crushing, breaking, corrosion or contamination.
- ▶ **Other risks**  
These are not accidental or fortuitous risks but are nevertheless outside your control. They include theft and pilferage, non-delivery, piracy and malicious damage.
- ▶ **War and other political risks**  
These include events such as wars, strikes, civil unrest and terrorism.

The insurance policy normally covers your goods from the time they leave your warehouse until:

- ▶ they reach the destination that is specified in the insurance policy; or
- ▶ 60 days after they are unloaded from a vessel; or
- ▶ 30 days after they are unloaded from an aircraft.

The 30/60 day window is intended to cover a situation such as the goods remaining in temporary storage because they have not yet passed customs inspection, and have consequently not reached their specified destination.

## PACKING AND LABELLING

No matter where it's going, your shipment will have to withstand three basic hazards while in transit: breakage, moisture and pilferage. It should be proof against repeated loading and unloading, being left in the rain, bumping along a conveyer belt, sliding down a chute or being dropped by a careless handler. To be sure your packing is adequate, get advice from your freight forwarder.

Product labelling requirements vary from country to country. In general, and depending on the type of product, they may require some or all of the following information:

- ▶ the name of the manufacturer;
- ▶ the country of origin;
- ▶ the product's weight or volume;
- ▶ a description of the contents; and
- ▶ the product's ingredients.



### HOW TO LABEL?

Always ask your buyers exactly how to label your goods. Request a sample label and consider having one attached to the contract. Your freight forwarder may also be able to advise you on this, especially with respect to shipping labels.

Some countries, such as Belgium, Canada and Switzerland, require that labels be printed in all official languages. Other countries forbid the use of foreign languages on the label. Countries using the metric system (which is everyone except the United States) require that weights and volumes be given in metric measurements.

Shipping labels should be large, clear, and waterproof. The shipping information should include:

- ▶ port of destination and name, address and phone number of the consignee on at least three faces of the package (top, one side, one end);
- ▶ any necessary cautionary labels;
- ▶ transit instructions;
- ▶ package dimensions and weight;
- ▶ package number; and
- ▶ invoice and/or order number.

## CLEARING FOREIGN CUSTOMS

Clearing customs can be quite straightforward if your goods comply with all applicable import regulations and if all your paperwork is correct. Inaccurate or incomplete documentation is the most common reason for customs delays, so some extra time spent on paperwork can contribute significantly to problem-free clearance.

### USING CUSTOMS BROKERS

Customs brokers are normally licensed by the local customs regulator and are required to have a thorough knowledge of the country's customs laws, tariff classifications, export regulations, shipping procedures and trade documentation. In most countries, you are required to use a local broker to clear your goods through customs.

This requirement is actually a good thing, since brokers can help you and your buyers in many ways. They can:

- ▶ review all documents submitted by you, the exporter;
- ▶ prepare and submit customs documents, such as permits and authorizations;
- ▶ ensure that tariff classifications are correct and that your shipment complies with any applicable non-tariff regulations;
- ▶ prepare declarations for the determination of import duties;
- ▶ ensure that what is in your shipment agrees with the packing list and invoice;
- ▶ cover various fees related to the customs process;
- ▶ help with matters related to warehousing, insurance, taxes, duty drawbacks and so on;



### TIPS FOR SMOOTH CUSTOMS CLEARANCE

- ▶ Mark and number each package so it can be identified with the corresponding marks and numbers appearing on your invoice.
- ▶ Your invoice should give a detailed description of each item contained in each package.
- ▶ Make sure your invoices correspond precisely to your packing lists.
- ▶ Mark your goods legibly and conspicuously with Canada as the country of origin.
- ▶ Be sure you comply with any special laws that may apply to your goods, such as laws relating to food, drugs, cosmetics and alcoholic beverages.
- ▶ Work with your customer to ensure that you meet all requirements for invoicing, packaging, marking and labelling.

- ▶ provide information on transportation and logistics;
- ▶ clear the goods through customs and arrange shipping from the port of entry to the customer; and
- ▶ act as your legal representative to the local customs service if necessary.

If you use a freight forwarder, the forwarder will be familiar with the brokers at the port of entry and can obtain brokerage services as needed.

### CUSTOMS DOCUMENTATION

Exporting requires a good deal of paperwork. The requirements differ from country to country, but the following documents are the ones most commonly needed.

#### ▶ **Commercial invoice**

This lists the quantity, weight, unit price and total price of each export. Your buyer needs the invoice to prove ownership and arrange payment. Some customs services use the commercial invoice to assess customs duties.

#### ▶ **Export packing list**

This itemizes the material in each package, indicates the type of packaging and gives the individual gross weights and measurements of each package. Your forwarder will use it to determine the total shipment weight and volume and whether the correct goods are being shipped. Customs agents may also use it to check the shipment.

#### ▶ **Bill of lading**

The customer usually needs the bill of lading to prove ownership of the goods and to take possession of the goods when they clear customs.

#### ▶ **Air waybill**

This is a receipt for goods issued by a shipping company and is evidence of the contract of carriage. Note that it is not a document of title to the goods.

#### ▶ **Dock receipt and warehouse receipt**

These are used to transfer accountability when the goods are moved by the domestic carrier to the port of embarkation and left with the international carrier for export.



- ▶ **Insurance certificate**  
The insurance certificate states the type and amount of coverage.
- ▶ **Consular invoice**  
Some countries – in Latin America, for example – require a consular invoice for a shipment. This includes the information appearing in the commercial invoice and packing list but is written in the language of the destination country. These documents are complicated and should be prepared by your freight forwarder.
- ▶ **Certificate of origin**  
Some countries require a statement of the origin of the export item. This may be required even though the commercial invoice contains the information. A NAFTA Certificate of Origin is required for shipments to Mexico and the United States. For more information, see [Rules of origin](#).
- ▶ **Standards certificate (if required)**  
Many countries require certificates of conformity to local technical or other standards before certain types of goods, such as electrical appliances, can be imported. For more information, see [Complying with standards](#).
- ▶ **Import licences (if required)**  
These may be required for certain types of goods, such as pharmaceuticals. Your buyer is responsible for obtaining them, but customs clearance may go more smoothly if you include a copy of the licence with the rest of your documentation.



### PENALTIES AND SEIZURES

The customs authorities of many countries have the power to levy severe penalties for fraud or negligence in customs declarations. In some cases, they may seize the shipment in addition to applying penalties. Making sure the information you give about your goods is accurate and complete will help you avoid such problems. If you discover errors after your goods have entered the destination country, notify your customs broker immediately. You may be able to avoid penalties through prior disclosure of the mistake.



## CHAPTER 10: THE LEGAL DIMENSION

It's never wise to assume that your foreign market's legal system will function in ways that are familiar to you. They may, but there is a high probability that they won't – in the United States, for example, laws and their applications can be quite different from those in Canada, despite the many resemblances between our two cultures. The differences are even more marked when you operate in countries whose legal systems are based on non-European traditions.

In addition, certain Canadian laws will apply to your operations abroad, such as the export controls discussed in Chapter 8 and our laws against corruption of foreign officials.

International laws may also affect your international operations. These laws are usually defined by treaties and conventions and are intended to govern relationships between countries; one example is the international copyright law as set out in the Berne Convention. However, these laws usually apply only to countries that have signed the treaty or convention. They provide you with no protection if you are doing business in a country that hasn't.

The thickets of law, especially foreign and international law, can be impenetrable to non-specialists. Just as at home, always consult qualified professionals if there is any risk of exposing your business to legal difficulties.

### LITIGATION

It is almost always preferable to avoid litigation against a foreign buyer or partner, especially in a foreign court. Even if you appear to be unquestionably in the right, legal action may not be worth your while. For example:

- ▶ It is expensive and time-consuming, draining resources that might be better used to develop your business.
- ▶ There may be local bias against foreign companies that will work against you and in your opponent's favour.
- ▶ You may win, but the settlement against your opponent may not equal your investment of resources.
- ▶ You may win, but be unable to collect the settlement.
- ▶ You may lose and have to pay your opponent's legal costs, plus any other judgements the court might award to your opponent.
- ▶ You risk getting a local reputation (deserved or not) for being aggressive and confrontational. In many cultures, such as Japan's, this will be seen as a good reason not to do business with you.



## BRIBERY AND CORRUPTION

You may never encounter corrupt behaviour while doing business abroad, but you should be sensitive to its existence. Needless to say, your company should never become involved in it. Note that Canadians who become embroiled in corrupt activities, such as bribery of government officials, can be prosecuted in Canadian courts under Canada's *Corruption of Foreign Public Officials Act*.

For more information about corruption and how to avoid it, you can download several anti-corruption brochures and related documents from EDC's [Business Ethics](#) page. The non-profit organization [Transparency International](#) publishes an annual index of the perceived corruption levels of the world's countries.

## COMMERCIAL ARBITRATION

If an apparently irresolvable disagreement arises between you and a foreign buyer or business partner, you and your adversary may still avoid litigation by using international commercial arbitration.

Also called alternative dispute resolution, this process is intended to deal with business disputes by using independent arbiters to find a solution. Arbitration requires that both parties agree to it, and this agreement is usually established by an arbitration clause in the contract.

## ADVANTAGES OF ARBITRATION

International commercial arbitration has several advantages over litigation:

- ▶ The arbiter's decision is normally binding, which prevents both parties from appealing it.
- ▶ The decision is usually recognized under international law, so it can be enforced if necessary.
- ▶ Because arbitration operates outside the local legal system and uses independent, neutral rules, there is less chance of bias in favour of either the plaintiff or the defendant.
- ▶ It is much faster and much less expensive than litigation.

There are several organizations that specialize in international commercial arbitration, including these:

- ▶ [Canadian Arbitration Association](#)
- ▶ [American Arbitration Association](#)
- ▶ [International Centre for Dispute Resolution](#)
- ▶ [International Chamber of Commerce](#)
- ▶ [London Court of International Arbitration](#)

## ARBITRATION UNDER NAFTA CHAPTER XI

Because Canada, the United States and Mexico are NAFTA members, there is an additional mechanism for resolving business disputes among cross-border investors within these countries. These disputes can be settled under the provisions set out in NAFTA Chapter XI.

Under these provisions, either party to a dispute may demand arbitration under the Arbitration Rules of the United Nations Commission on International Trade Law, or the Arbitration (Additional Facility) Rules of the International Center for



Settlement of Investment Disputes. The governments and courts of all three countries recognize and enforce awards obtained through these mechanisms.

## INTELLECTUAL PROPERTY PROTECTION

Services and tangible goods aren't the only valuable assets your company may own. Many businesses have proprietary technologies that range from industrial processes or machine designs to intellectual property such as computer software code.

If these assets account for most of a company's value, losing control of them would have severe repercussions. These kinds of property (collectively referred to as intellectual property or IP) should, therefore, have a level of protection that matches their value.

There are several methods of establishing such protection, primarily by registering patents, trademarks and copyrights with the appropriate institutions and authorities. You can find out more about these protections, and how to register them in Canada, at the [Canadian Intellectual Property Office \(CIPO\)](#). In brief, they are as follows:

### PATENTS

Patents are granted for new inventions, such as processes, machines or manufacturing techniques, or any new and useful improvement of an existing invention. They are intended to prevent people or businesses from making, using or selling these inventions or improvements without the patent owner's permission.

Note that having a Canadian patent does *not* protect this class of IP outside Canada. To protect it in your target market, you will have to register it with the patent authorities in that country. In the United States, for example, this is the Patent and Trademark Office.

### INDUSTRIAL DESIGNS

"Industrial design" refers to the features that gives a product a unique appearance. Registration is intended to protect designs that have an industrial or commercial use. A registered design is legally enforceable and gives you the exclusive rights to commercially use it, license or sell it. As with patents, an industrial design must be registered in your target market in order to be protected.

### TRADEMARKS

Trademarks are words, names, symbols, sounds, or colours that distinguish your goods and services from those of other businesses. A registered trademark is legally enforceable and gives you exclusive rights to commercially use, license or sell it for the goods and services under which it is registered. You must register your trademark(s) in your target market in order to be protected.

### COPYRIGHTS

Copyrights cover both published and unpublished works. If you own the copyright to a work, you alone are allowed to produce, reproduce, perform or publish the work, or to permit anyone else to do so. Copyrights apply to original works of authorship, including books, films, music, sound and video recordings, dramatic works, magazines, artwork and computer software.



A Canadian copyright, unlike patents and trademarks, *does* protect your work in other countries, provided they have signed the Berne Copyright Convention or the Universal Copyright Convention. Note also that a Canadian copyright protects your work even if you don't register the copyright for it. Even so, registration is a good idea for any significant IP of this nature. You can register your copyright in Canada at the [CIPO](#).

### TRADE SECRETS

Trade secrets, such as technologies or processes that can't be protected under patent, trademark or copyright laws, may still be secured by other means. These can include confidentiality agreements, confidentiality provisions in employment contracts and closely supervised distribution of the IP. This can prevent your competitors from using your proprietary technology, designs and methods of operation.

### LICENSING YOUR IP

If a contract calls for licensing your IP to a foreign company or partner, be sure that the wording is precise about what the licensee can and can't do with the IP. Being vague about this can lead to serious problems and possibly major loss. If the licensee uses your IP to create new products, for example, the inherent value of your asset can be greatly reduced.

### PRODUCT LIABILITY

In many countries, including Canada, consumers can sue for compensation for injuries or damages that have resulted from using a product. Such litigation can be on the basis of manufacturer negligence, breach of warranty, or failure to warn of hazards or defects in manufacturing and/or design.

Depending on the jurisdiction, product liability awards against manufacturers can be very high. In the United States, product liability laws are much more favourable to plaintiffs than Canadian laws, and this has sharply increased the cost of product liability insurance (PLI) in the U.S. market.

To protect your company as far as possible against product liability lawsuits, you should:

- ▶ obtain advice from legal professionals to determine how much risk you face, and how you should word your product warranties to protect yourself from this risk;
- ▶ exercise rigorous quality control during manufacturing, distribution and sales, and document everything you do in these areas;
- ▶ know and comply with all appropriate governmental and industry standards for your product;
- ▶ provide clear, concise warnings and labels for your products as applicable;
- ▶ maintain careful documentation of all product specifications and manufacturing procedures; and
- ▶ always obtain PLI in case you are sued despite the above precautions.





## CHAPTER 11: MAINTAINING THE RELATIONSHIP

Ideally, fulfilling your first contract with a foreign buyer is only the beginning of your business connection. No relationship flourishes unless attention is paid to it, however, so you should be careful to communicate with your buyers fairly regularly. Keeping them informed is especially important if a problem has arisen with the product or the shipment, or if there has been a warranty claim.

### FOLLOWING UP

Because Canadian and U.S. business cultures are (loosely speaking) based more on transactions and contracts than on personal relationships, it's uncommon for company representatives in these two countries to call on customers unless they have a specific reason for doing so.

In many cultures, though, business relationships are tied closely to personal relationships, so suppliers make regular calls on their customers and partners even when there is nothing in particular to discuss. This is very characteristic of the relationship-based approach to business: even when things are going smoothly, it is felt that an ongoing exchange of information helps each party understand the other so they can build on their mutual interests. Business people in these cultures believe, with some justification, that relationships maintained in this way tend to have fewer problems and raise fewer complaints.

If your foreign market is one that places a high importance on personal, face-to-face communications, you should be prepared to travel regularly to that country and spend some time with your buyers even when you're not actively pursuing sales. How often you do this will depend on circumstances, but it should be often enough to show your commitment to your buyer. You should also try to bring the same executives with you on each visit so your buyers will be dealing with people they've already gotten to know.

You can also consider arranging reciprocal visits. You can invite your foreign partners or customers to Canada to see your company in operation, or arrange to meet them at trade fairs in Canada or elsewhere.

### SERVICE AND SUPPORT

Providing after-market service for your products is part of maintaining good relations with your foreign buyers. It's also about maintaining your firm's local reputation. If you provide poor or tardy service, the word will inevitably get around.

You have two basic options for providing after-market service:

- ▶ You can hire reliable distributors who already have an organized service network and can use it to service your products on your behalf. You'll usually need to train your distributor's support personnel to deal with your products, either in Canada or locally.
- ▶ You can use a direct-servicing approach and send your service personnel to the foreign market as needed. This option is often the best for capital equipment of considerable value and size.



## RESPONDING TO PROBLEMS

Never ignore problems. No matter how promising at the outset, your relationship will not survive for long if your company doesn't respond quickly and effectively when something goes awry. Get back to your customer immediately, indicate that you are working on the issue and promise an answer within a specific time. Follow up within that period, even if it's to say that you need more time to correct the problem.

Once the problem is resolved, check back to make sure the customer is satisfied with your response. In addition, describe how you'll prevent it from happening again. If the situation was serious, you might want to visit the market for a face-to-face meeting with the customer. This will help demonstrate your commitment to maintaining the business relationship.

## WORKING TOGETHER

Depending on the type of business relationship – if you are selling to an importer who resells your products in the local retail market, for example – you may find it useful to arrange joint promotions. Your company could mount co-operative exhibits at trade shows or participate in promotional events that your customer is hosting in the local market. It can be very fruitful to work with your buyers in this way, not just to increase sales but also to strengthen the relationship by supporting their marketing activities.

You can also keep your customer aware of your company by telling them regularly what you're doing in Canada and elsewhere. Send them news about your business, new products you're developing, new equipment you're using, fresh packaging ideas and so on. Press and magazine clippings, photographs, greeting cards and calendars will also help remind them that you may be far away in Canada but that you haven't forgotten about them.



# CHAPTER 12: MAJOR OPPORTUNITY MARKETS

There are numerous foreign markets, some of which include several countries, that offer promising opportunities for Canadian companies. In the following sections, we'll look briefly at these markets and their needs. This is far from a complete survey, but it will help illuminate the enormous variety and scope of the potential that lies outside our borders.<sup>1</sup>

## THE ANDEAN REGION

The five nations of the Andean region – Bolivia, Colombia, Ecuador, Peru and Venezuela – have historically drawn little attention from Canadian exporters and investors. This is beginning to change as Canadian businesses find new regional opportunities in sectors such as oil and gas, mining, environmental equipment and services, electrical power, agri-food, health care, and information and communications technologies.

To find out more about the Andean market, you can download the EDC guide [🔗 \*Doing Business in the Andean Market\*](#).

The major regional opportunities lie in these sectors:

▶ **Agri-food and forestry (Venezuela, Bolivia)**

In Venezuela, there is a demand for commodity foods and processed food products, ranging from cereals, canned vegetables and bottled beverages to snack foods and confectioneries. Bolivia's forestry and wood industry is seeking new technologies to update its production processes and is interested in equipment, machinery and technologies that will help it achieve this goal.

▶ **Environmental technologies (all countries)**

All the Andean countries need environmental equipment and services to a greater or lesser degree. Most in demand are technologies and services related to water treatment, emission control and waste management. The mining and oil and gas industries in particular need environmental impact assessments and environmental remediation technologies.

▶ **Health care (Venezuela)**

Venezuela imports more than 90 per cent of its medical equipment and supplies. Among its needs are equipment and services for diagnostic and high-technology centres, rehabilitation centres, clinics and pharmacies. Most public hospitals also require major upgrading and modernization.

▶ **Information and communications technologies (Ecuador)**

Ecuador's entire telecom infrastructure needs major updating, so there is good growth potential in this area. There is also a strong interest in VoIP and wireless technologies, and Internet usage and broadband services are projected to increase substantially during the next few years.

<sup>1</sup> The information in these sections was adapted from EDC sources and from material provided in the [Seizing Global Advantage](#) section of Foreign Affairs and International Trade Canada's web site. [🔗](#)  
The markets were selected because they present clear opportunities for Canadian companies.



- ▶ **Mining (Bolivia, Columbia, Ecuador, Peru)**  
Several of the Andean countries are richly endowed with mineral resources. The best export and investment prospects include drills, crushers, conveyors, compressors, front-end loaders, bulldozers, heavy trucks, pumps, geophysical and engineering services, environmental assessment and remediation, and metallurgical services.
- ▶ **Oil and gas (Bolivia, Colombia, Peru, Venezuela)**  
Four of the five Andean nations have significant oil and gas resources. Their industries need a wide range of machinery, equipment and production technologies, including seismic activity services, drilling equipment, drilling fluids, valves, compressors, pumps, piping equipment, safety equipment, casing and cementing equipment and enhanced oil recovery technologies.
- ▶ **Power (Colombia, Ecuador)**  
Specialized equipment and services are needed, including control systems, electric motors, transformers, insulators, switch gear equipment, cabling, and engineering and construction services.

## ASSOCIATION OF SOUTHEAST ASIAN NATIONS

The Association of Southeast Asian Nations (ASEAN) includes 10 countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Burma (Myanmar), Cambodia, Laos and Vietnam. Together they make up one of the world's major economic regions, with a population of 600 million. ASEAN is an international production base for multinational companies exporting to East Asia, North America and Europe, and provides a critical access point to China.

The major opportunities in the region lie in these sectors:

- ▶ **Agriculture, food and beverages**  
A growing middle class with dual-income households and greater disposable income is fuelling demand for processed foods. This, coupled with a burgeoning tourism industry, is opening up opportunities to supply agricultural commodities, seafood, processed food and beverages.
- ▶ **Information and communications technologies (ICT)**  
In the ICT sector, new commercial opportunities are expected in multimedia and graphics software and hardware, telecommunications services and network management.
- ▶ **Environmental technologies**  
Technology and services for water and wastewater treatment, renewable energy technologies, green technologies, energy efficiency (particularly for urban areas) and bio-processing and bio-fuels are of interest to the region.
- ▶ **Mining, metals and minerals**  
ASEAN demand for metals and minerals is rising, as is its demand for associated equipment and infrastructure. Technologies and expertise in mining and extraction are in demand.
- ▶ **Oil and gas equipment and services**  
With gas reserves depleting, the region's need for oil recovery technologies and Canadian expertise and equipment in oil-related services is growing.
- ▶ **Service industries and capital projects**  
Rapid growth and industrialization throughout the region is creating opportunities for Canadian expertise in infrastructure development and in engineering, construction and environmental services.



## AUSTRALIA AND NEW ZEALAND

Australia and New Zealand have a Closer Economic Agreement (ANZCERTA) that emphasizes the region as a single market. The two countries are partners with Canada in multilateral organizations such as the Asia-Pacific Economic Cooperation forum and the Cairns Group of agricultural exporting countries.

Much of our trade with the region is geared toward traditional sectors such as mining and forestry, but there are opportunities for Canadian companies – particularly smaller enterprises – in high-growth, knowledge-based sectors.

The major opportunities in the region lie in these sectors:

- ▶ **Agriculture, food and beverages**  
Food preferences and trends in the region are similar to those in Canada, with growing interest in high-quality foods, private labels and healthy diets. In consequence, Australia and New Zealand offer many opportunities for Canadian agri-food suppliers of processed food and beverages, meats and meat by-products, breeding stock and genetics, and biotechnology.
- ▶ **Oil and gas equipment and services**  
Significant investment in conventional and unconventional oil and gas resources offers numerous opportunities for small and mid-sized Canadian companies that can provide products, services and expertise for exploration and development in this sector.
- ▶ **Service industries and capital projects**  
Infrastructure investment is now a cornerstone of Australian government policy. Key subsectors for Canadian businesses include engineering and construction services, environmental services, management and consulting services and education.

- ▶ **Information and communications technologies**  
The region's geographically dispersed population requires specialized telecommunications solutions such as online education and health services. There is a resulting demand for computer software, telecommunications equipment and services related to these areas.
- ▶ **Health industries**  
The region's aging population and inadequate health care infrastructure represent promising opportunities for Canadian suppliers and expertise in natural health care, pharmaceuticals, institutional supplies and medical devices.
- ▶ **Environmental industries**  
Technology and services for water and wastewater treatment, renewable energy technologies, green technologies, and bio-processing and bio-fuels are of particular interest to the region.

## BRAZIL

Brazil has a rapidly developing, highly diversified and stable economy that was ranked by the IMF in 2010 as the seventh-largest in the world and the largest in Latin America. It has extensive natural resources and a strong agro-industry.

Brazil provides many opportunities for Canadian business because of its size, its rapidly expanding and sophisticated markets, its role in global value chains and its growing cadre of multinational companies. In recognition of this, EDC has stationed two of its representative offices in Brazil.



The major opportunities in the country lie in these sectors:

- ▶ **Environmental industries**  
Brazil's environmental technologies market includes water and wastewater management, solid waste management and air pollution control. There are additional opportunities in soil remediation, clean process technologies, environmental information systems and renewable energy.
- ▶ **Information and communications technologies**  
Brazil is the largest ICT market in Latin America. There is a wide variety of opportunities for IT hardware and applications in sectors such as health care, advanced manufacturing, transportation, and security and surveillance. On the telecommunications side, satellite communications services and digital television represent the top opportunity sectors.
- ▶ **Infrastructure**  
Brazil is investing billions in new roads, power generation, power lines, ports, railways, telecommunications and transportation. The Brazilian Industry Federation expects that more than US\$75 billion will be invested in facilities for the 2014 FIFA World Cup and the 2016 Olympics, both of which will be hosted by Brazil.
- ▶ **Oil and gas**  
The industry needs a huge variety of equipment, ranging from compressors to pipelines and well-control systems.
- ▶ **Power**  
Brazil's power generation sector needs annual investments of roughly US\$5 billion to avoid shortages. Private investment in renewable energy projects – mainly small hydro plants, wind power and biomass – is growing.

▶ **Mining**

Brazil is diversifying its mining activity into the recovery of non-ferrous metals such as copper, nickel, gold, aluminum and bauxite. The industry needs parts and components for earth-moving equipment, conveyors, crushers, grinding and drilling equipment and laboratory instruments.

▶ **Pulp, paper and forestry products**

Brazil is investing heavily in its forest industry in order to reduce its dependence on imports. Canadian companies can explore opportunities in engineering services, machinery and equipment and research and development.

## CHILE

The Canada-Chile Free Trade Agreement provides Canadian exporters of almost all industrial and agricultural products with virtually duty-free access to the Chilean market. The country is considered one of the best places to do business in Latin America, with business opportunities in the power, environmental, mining and forestry sectors.

The major opportunities in the country lie in these sectors:

▶ **Environment**

There are good prospects for Canadian firms in goods and services for water treatment, solid waste minimization and recycling, air pollution and emissions control and renewable energy.



▶ **Forestry**

During the past 30 years, Chile has developed a major forest industry based on its well-managed tree plantations. Over the long term, it will require new capital investments in harvesting and processing equipment, as well as in maintenance services and infrastructure improvements such as transportation and road construction.

▶ **Mining**

The Chilean mining industry needs imported services and technologies for both its mines and its mining infrastructure. This includes power generation, environmental engineering, water treatment, pollution control, sulphur reduction, engineering and maintenance services, and mine waste management.

▶ **Power**

Chile will require investment, equipment and services in all subsectors of the power industry. Renewable energy will be important in Chile's total energy supply for the foreseeable future, and projects in hydroelectricity, biomass, biogas, wind and solar energy are receiving increased government and private-sector support. Environmental impact assessments are also required before a power project can begin, which presents opportunities in the environmental sector.

## CHINA

China possesses growing wealth, a vast population and an apparently insatiable appetite for consumer products and natural resources such as oil and metals. Rapid growth has made it a leading world economy and, as one of Canada's top export destinations, the country offers excellent opportunities for Canadian exporters.

Canadian direct investment in the country can also be rewarding, although the regulations governing such investment are quite complex. Trade Commissioners at the Canadian Embassy in Beijing can offer help in this area, and the TCS publishes a booklet entitled [Navigating China](#), with valuable tips about investing in the country. Another basic source of information is the Chinese government's [Investment in China FAQ](#).

To find out more about the Chinese market, you can refer to the downloadable EDC guide [Doing Business with China](#).

The major opportunities in the country lie in these sectors:

▶ **Agri-food**

China is expected to become the world's largest importer of agri-food by 2020. There are export opportunities not only in bulk commodities such as cereals, but in livestock feed, food ingredients, value-added foods and retail products. There are also opportunities to sell agricultural machinery.

▶ **Automotive**

Canadian parts and aftermarket suppliers may find customers here for gearboxes, vehicle body parts, automotive electronics and other sophisticated components. Maintenance products are also in demand, such as filters, lubricants and batteries; so are pollution control equipment and equipment for emissions testing.

▶ **Aerospace**

China may be the world's second-largest market for commercial civilian aircraft by 2020. There will be opportunities in airport design, management and equipment; in aircraft maintenance, repair and overhaul; and in training and simulation equipment.



▶ **Environment**

China's growth has been environmentally costly. Most of the country's rivers and some of its land are severely polluted, while urban air quality can be hazardous to human health. The market for environmental goods and services includes air pollution and emissions control, water and wastewater management, solid waste management and alternative and renewable energy sources.

▶ **High-end equipment manufacturing and advanced materials**

As the country evolves from an OEM manufacturing hub to a higher-end industry leader, China will increasingly welcome manufacturing investments that adopt advanced production methods, as well as those that develop new technologies. Canadian capabilities in this area lie in aeronautics, rail transit, intelligent manufacturing equipment and advanced materials.

▶ **Information and communications technologies**

China has made the development of its ICT industry a national priority, emphasizing consumer mobile phone services, wireless access networks and broadband Internet access. Canadian companies have much to offer, especially in cloud computing, leading-edge software and digital content including 3D games.

▶ **Life sciences**

China's need for resources in the life sciences sector is increasing rapidly because of its aging population. Demand is growing for products such as orthopedic and rehabilitation equipment, assistive devices, specialized beds and laboratory instruments. Inexpensive diagnostic technologies are also needed for use in poorer and rural areas.

▶ **Mining**

China is now the world's largest consumer and producer of metals and minerals. This is generating a large demand for mining technologies, design and engineering services, environmental assessment services and project management.

## THE GULF COOPERATION COUNCIL (GCC)

The GCC was formed in 1981 and consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). A combination of oil wealth and sensible planning has transformed it into a large and affluent market that has limited restrictions on foreign ownership and welcomes overseas trade and investment.

The major opportunities in the country lie in these sectors:

▶ **Agri-food**

Agri-food companies should take a close look at this market. Specialty foods such as honey, maple syrup, frozen desserts, and hotel- and restaurant-ready foods offer numerous possibilities. Convenience foods and ready-to-eat foods are popular because of the local taste for eating out. Bulk commodities such as canola are also imported in quantity, especially by Dubai in the UAE.

▶ **Environmental technologies**

Green building technologies are sought after in the UAE and Saudi Arabia, since all new buildings there must now be constructed to very high environmental standards. Kuwait, the UAE and Saudi Arabia need expertise in solid and hazardous waste treatment and management, site remediation, pollution control, oil spill prevention and water and wastewater treatment.





▶ **Power**

The demand for electricity in the GCC is rising rapidly. Abu Dhabi and Saudi Arabia have undertaken an ambitious nuclear power project to help meet the need. However, natural gas power plants will still be needed to bridge the gap across the GCC, and the UAE also intends to obtain 7 per cent of its power from renewable sources by 2020. Transmission and distribution systems require continuous expansion and the grids will need to be upgraded to cope with the increasing load.

▶ **Health care**

In Kuwait and the UAE, there is a growing demand for medical devices and supplies, hospital equipment, pharmaceuticals and health care facilities management. Saudi Arabia is expanding its health care system, which opens up opportunities in medical education and training, facilities construction and the procurement of medical equipment and pharmaceuticals.

▶ **Infrastructure**

Saudi Arabia, Qatar and the UAE are planning major investments in power projects, roads, railways and water facilities.

▶ **Oil, gas, mining and metals**

There are numerous opportunities for small and mid-sized Canadian companies that can provide products, services and expertise for oil and gas exploration and development. Aluminum smelting is an expanding subsector in the region.

## INDIA

Economic growth in India is being driven by the country's highly entrepreneurial and rapidly globalizing private sector. Indian firms are looking for partnerships, technologies, products, services and expertise in sectors ranging from automobiles to medical devices, and forecasters predict that the country will have one of the world's five biggest economies within 30 years.

To find out more about the Indian market, you can refer to the downloadable EDC guide [🔗 \*Doing Business with India\*](#).

The major opportunities in the country lie in these sectors:

▶ **Automotive**

India's automotive sector includes five major subsectors: cars and utility vehicles, two-wheelers, commercial vehicles, tractors and auto components. India's auto manufacturers export their products to several other markets, including Asia, Europe and the United States, so a partnership with an Indian auto company may open doors to sales beyond India.

▶ **Environmental technologies**

Energy security and sustainable development are high on India's agenda. Niche opportunities include solar energy equipment, such as solar modules and roof tiles, inverters and controllers. Wind energy and carbon reduction and emission control equipment offer further potential, as do technologies for water supply, wastewater management and solid waste management.

▶ **Medical devices and services**

India's medical devices market already ranks among the world's top 20. More than 77 per cent of the medical devices market is supplied by imports.



▶ **Oil and gas**

India's oil and natural gas sector, which includes the transportation, refining and marketing of these resources, accounts for more than 15 per cent of the country's GDP. Much of India has not yet been explored for oil, so there is a huge potential for Canadian participation in India's oil exploration and development programs.

▶ **Power**

India's demand for power is growing at a breakneck pace. The energy sector will require billions in investments during the next decade.

▶ **Telecommunications**

India has one of the world's fastest-growing telecom markets. Most new subscribers are likely to be in rural areas as connectivity is extended to more and more regions. Value-added services are currently the priority for Indian telecom providers and, as 3G networks are implemented, applications using this technology are expected to be increasingly in demand.

▶ **Transportation**

The National Highway Development Program is upgrading thousands of kilometres of highway across the country. The rail network is being improved as well, with emphasis on electrifying rail lines, harmonizing track gauges, modernizing railway stations, and expanding existing freight terminals and building new ones.

## JAPAN

As an export market, Japan is shifting toward an emphasis on investment and innovation. It consequently offers favourable prospects for new partnerships in technology, services and investment in key areas such as these:

▶ **Advanced materials**

There are particular opportunities in manufacturing, health and ICT, and in composite materials such as bioplastics, photonics and sensors.

▶ **Agriculture, food and beverages**

Opportunities exist for manufacturers of processed food and beverages, health ingredients, functional foods and nutraceuticals and value-added food products.

▶ **Information and communications technologies**

There are opportunities in the broadband, mobile, 3G and 4G markets, specifically in the subsectors of wireless communications and computer software.

▶ **Aerospace and defence**

Japan spends extensively on defence and is a strategic aerospace partner for Canada. There are opportunities for licensing domestic production and for aerospace investment and R&D.

▶ **Environmental industries**

Japan is so advanced in this field that it offers long-term partnership possibilities, especially in renewable and alternative energy.



## MEXICO

Successive Mexican governments have presided over a far-reaching liberalization of the country's economic environment, which has opened many formerly closed sectors to competition from abroad. As a result, Mexico has become one of the key emerging markets for Canadian companies in terms of both exports and Canadian foreign direct investment.

To find out more about the Mexican market, you can refer to the downloadable EDC guide [Doing Business with Mexico](#).

The major opportunities in the country lie in these sectors:

▶ **Aerospace**

The Mexican government has identified aerospace as a priority sector for development. Many North American and European aerospace firms have established their secondary-components supply chains in the country.

▶ **Agri-food**

Mexico is Canada's fourth-largest agricultural export market. The growing middle class and its increasing demand for high-quality, value-added products point to major Mexican opportunities for Canadian agri-food businesses.

▶ **Automotive**

Mexico's automotive industry is positioned for strong growth as it enjoys the advantages of low-cost, skilled labour and a strategic location. Opportunities exist throughout the supply chain, including plastics, stampings, machining centres and more. Local integrators and manufacturers are particularly searching for manufacturers of tools, dies and molds.

▶ **Infrastructure and environmental technologies**

There are many infrastructure opportunities in Mexico, primarily in power and road networks. Natural gas and electricity consumption is expected to increase, which offers opportunities to build infrastructure such as pipelines, power generation facilities and transmission grids. Demand for services and technologies related to providing clean water and dealing with wastewater and solid waste are also expected to increase substantially during the next few years.

▶ **Information and communications technologies**

At the time of writing, the telecommunications sector was dominated by a few companies such as América Móvil, whose head office is in Mexico, and international players such as Telefónica and Nextel. Total mobile subscribers reached 93 million in the first quarter of 2011.

Along with Telefonica, America Móvil is a dominant player throughout Latin America. For that reason, developing relationships with America Móvil or with one of its key suppliers is a good strategy for entering not only the Mexican but also the entire Latin American market.

On the IT side, Mexico has had an ambitious, long-term e-Mexico policy framework since 2001. It is Latin America's second-largest domestic market, with significant multinational and large local companies. Proximity to the United States is spurring the development of the outsourcing and IT services segment.

▶ **Medical devices**

Mexico's medical equipment market is the second largest in Latin America, with an estimated value of US\$3.5 billion. The industry is dominated by imported products that account for nearly 90 per cent of the market. Demand is especially strong for equipment related to the major diseases afflicting the population, including diabetes, cardiovascular disorders and cancer.



▶ **Mining**

Mexico's mining sector is rich and diverse. In addition to being the world's biggest silver producer and the twelfth-largest producer of both gold and copper, Mexico is also a major producer of zinc, bismuth, celestite and several other minerals. Vast opportunities exist in all subsectors of exploration, extraction and processing.

▶ **Oil and gas**

All of Mexico's hydrocarbon reserves are controlled by Petroleos Mexicanos (PEMEX), the state-owned petroleum company. With a very few exceptions, it covers all subsectors of the industry.

PEMEX has always relied heavily on international and local companies to carry out exploration and production (E&P) under multiple service contracts. In 2011, to enhance recoveries, PEMEX launched a new form of E&P contract based on selected production incentives.

On a yearly basis, more than 100 Canadian companies sell directly or indirectly to PEMEX, and this number has been increasing steadily year over year. These companies are located across Canada and operate not only in the oil and gas industry but also in sectors such as ICT, transportation, infrastructure, environment and light manufacturing. Given that PEMEX has a capital expenditure program of more than \$20 billion per year, there are many opportunities for more Canadian businesses to work with the company either directly or indirectly.

## THE UNITED STATES

The United States, with a population of 309 million people and a 20 per cent share of the global economy, is the richest market on earth. It is also one of the most vibrant, with enormous pools of investment capital, many of the world's most innovative companies and a research and educational infrastructure that is second to none.

Despite its current financial and economic difficulties, the United States remains the benchmark by which many other nations measure their industrial, technological and economic progress. It is also Canada's largest trading partner by far, with about three-quarters of our exports going there in any given year. The economies of our two nations are deeply integrated, a situation that is reflected in the enormous value of our bilateral trade.

There is, consequently, an almost unlimited variety of opportunities south of the border. To find out more about the United States market, you can download the EDC guide [\*Doing Business with the United States\*](#).



## CHAPTER 13: EDC FINANCING SOLUTIONS AT WORK

The EDC financing solutions described in this chapter are intended to illustrate how various EDC products can be used to help finance your international operations.

Please note that these are examples only. They use fictional companies and situations, and are not based on any actual events or intended to resemble such events. They are provided for illustration only, and certain terms and conditions apply to the solutions presented in them. For detailed information, please contact EDC.

### **ACCOUNTS RECEIVABLE INSURANCE HELPS APOGEE MATERIALS INCREASE ITS WORKING CAPITAL**

Neil is the CFO of Apogee Materials Handling, a Brampton manufacturer of forklifts, pallet jacks and cranes. The company recently entered the U.S. market and its sales south of the border are growing rapidly. As a result, it needs more working capital to support its export growth.

To supply this capital, Neil has asked the company's credit union for an operating line increase of \$200,000, to be secured by Apogee's U.S. accounts receivable of \$300,000. Unfortunately, the credit union's rules don't allow lending against foreign receivables, so Neil instead suggests using the company's inventory and Canadian receivables as security. For the credit union, however, this security is not enough to support the operating line increase that Neil wants.

In search of a solution, Neil contacts EDC. The EDC account manager suggests an Accounts Receivable Insurance (ARI) policy, which can cover 90 per cent of the value of Apogee's U.S. receivables if a buyer doesn't pay. With an ARI policy in place, the credit union may be willing to include Apogee's U.S. receivables in the company's borrowing base, which might then be large enough to support the larger operating line.

The credit union agrees. EDC issues the ARI policy, which allows the credit union to add 90 per cent of Apogee's foreign receivables (\$270,000) to the company's borrowing base. This is more than enough to support the \$200,000 increase in the operating line, and Apogee can now continue its export growth.

### **SINGLE BUYER INSURANCE HELPS G&D POTTERY MAINTAIN ITS CASH FLOW**

Heather is the CEO of G&D Pottery, a small giftware manufacturer in Fredericton. A large giftware chain in California has asked G&D to supply its stores with some of its top-selling products.

This represents a major opportunity for G&D, but Heather is concerned about suffering a severe financial loss if the California buyer doesn't pay. She is also concerned because the buyer has requested payment terms longer than those G&D normally extends. As a result, given the size of the contract, it will be difficult for G&D to find the working capital to sustain its cash flow while it awaits payment from the buyer.



Heather asks her bank for advice, and her account manager suggests that a Single Buyer Insurance policy from EDC could solve both problems. First, the policy would insure all receivables from the California buyer for a six-month period. If the buyer failed to pay after accepting G&D's goods, G&D would be able to recover up to 90 per cent of its loss.

Second, a Single Buyer Insurance policy could also alleviate G&D's cash flow problem. With the policy in place to cover the California buyer's receivable, the bank could purchase the receivable from G&D. This would provide the company with the working capital it needs to sustain its cash flow.

Relieved to find a solution, Heather contacts EDC and takes out a Single Buyer Insurance policy on the California sale. The bank buys the receivable, and Heather no longer needs to worry about buyer non-payment or a lack of cash to sustain her company's operations.

## **CONTRACT FRUSTRATION INSURANCE HELPS MANDREL APPLICATIONS FINANCE AN EXPORT CONTRACT**

Terry is CEO of Mandrel Applications, a small information technology company that has landed a large multi-year contract with an international hardware manufacturer. To fulfill its contractual obligations, Mandrel must now invest heavily in new systems and staff.

To finance these investments, Terry is asking the bank for a \$1.5-million term loan, secured in part by the contract's receivables. Unfortunately, the bank is uncomfortable with Mandrel's ability to honour its loan repayment obligations if the buyer fails to pay, or if the buyer cancels the contract for reasons beyond Mandrel's control.

Having dealt with EDC before, Terry knows about CFI, which is designed to deal with a complicated contract such as Mandrel's. He contacts EDC, which confirms that a CFI policy can insure the company against the buyer's termination or cancellation of the contract. The policy would cover either 90 per cent of the costs incurred and the unpaid receivables or, subject to the maximum liability amount under the policy, 90 per cent of the cancellation penalties provided for in the contract.

At Terry's request, EDC issues the CFI policy. With the policy in place, the bank approves the \$1.5-million loan and Mandrel begins investing in the resources it needs to fulfill the contract.

## **THE EXPORT GUARANTEE PROGRAM HELPS AGIS SATCOM INCREASE ITS OPERATING LINE**

Jan is CFO of Agis Satcom, an Ottawa aerospace company that manufactures parts for satellite systems. Agis sells about 75 per cent of its production to buyers in Europe and the United States. Sales in these markets are growing quickly and the firm has secured footholds in Asia as well.

Jan is meeting with her bank's loans officer to discuss increasing the firm's operating line from \$2 million to \$6 million. She explains that the company needs more working capital to finance sales growth in its new Asian markets and to satisfy increasing demand from its older buyers.

The loans officer knows that Agis is well managed, has excellent growth potential and has been a valuable customer for several years. Nevertheless, given the risks associated with Agis's rapid growth, he knows that the bank will be very reluctant to triple the company's operating line.



But, he tells Jan, there's a solution – EDC's EGP, which provides risk-sharing guarantees to help Canadian banks provide financing to their exporting customers. Jan has never dealt with EDC, but willingly agrees when the loans officer describes how the EGP can resolve the risk problem.

With Agis's agreement, the bank contacts EDC to arrange an EGP guarantee for \$3 million to support the increased operating line. With the guarantee in place, the bank provides Agis with an additional \$4 million in working capital, enabling the company to pursue its new overseas markets.

## THE EXPORT GUARANTEE PROGRAM HELPS CANAB PLASTICS SUPPORT MULTIPLE EXPORT CONTRACTS

Marie is CFO of Canab Plastics, a Halifax company manufacturing specialized containers for the pharmaceutical R&D sector. Canab is a new exporter that has just secured its first U.S. contract, together with commitments for two more U.S. contracts over the next 12 months.

The company needs additional working capital to meet its commitments for these contracts. Marie, accordingly, has asked the company's bank to increase its operating line by \$1.5 million in order to finance the upfront costs related to the contracts, plus the costs of any new export contracts the company may secure during the next 12 months.

Canab is well established in Canada but the bank is not comfortable with increasing its line. The stumbling block is the financing of the company's work in progress and inventory, since Canab's products are highly customized for particular buyers and thus have a low

security value. The bank, consequently, is unwilling to accept 100 per cent of the risk associated with the larger operating line the company needs.

Hoping to resolve the problem, the loans officer suggests to Marie that they turn to EDC's EGP. Since Canab has never exported before, EDC can't guarantee the company's operating line, but what EDC can do is provide a 75 per cent guarantee under the EGP to support a revolving line of credit. This will bring the bank's risk down to a comfortable level so it can provide the line, which Canab can then use to finance the upfront costs of its export contracts over the next 12 months.

Canab's CEO is very pleased with the solution and agrees to the plan. EDC issues the guarantee and the bank establishes the revolving credit line the company needs to fulfill its contracts.

## THE EXPORT GUARANTEE PROGRAM HELPS CIRC SYSTEMS MARGIN ITS FOREIGN RECEIVABLES

Jeanne is CEO of CIRC Systems, which manufactures advanced packaging machinery for Canadian and foreign buyers. The company sells about 75 per cent of its production abroad.

Because of its steady international growth, CIRC now needs an infusion of working capital. To obtain the financing, Jeanne is asking the bank for a new operating line of \$500,000 to be margined against its foreign accounts receivable. Unfortunately, although the loans officer sympathizes with the company's needs, the bank does not margin foreign receivables. Because of the risk, the bank can extend a percentage of what CIRC needs, but not all.



The loans officer suggests using EDC's ARI to manage the issue, but for various reasons, Jeanne prefers not to do this. In search of an alternative, she asks if the loans manager could check with EDC for another solution.

The loans manager quickly discovers that EDC's EGP can help by issuing a guarantee against the foreign accounts receivable. The guarantee can cover 65 per cent of the risk associated with margining these receivables, which puts the amount of the new operating line inside the bank's comfort zone.

Within a short time, the EGP guarantee is in place. Now able to margin the foreign receivables, the bank sets up the line and CIRC continues its expansion into its new markets.

## **POLITICAL RISK INSURANCE HELPS MCCLINTOCK MACHINERY BORROW AGAINST FOREIGN ASSETS**

Alex is CFO of McClintock Machinery, an Edmonton-based company that leases drilling equipment to Canadian mining firms. The equipment is used for oil and gas exploration in emerging markets such as Mongolia, Tanzania and Russia.

To expand the firm's international business, Alex is seeking a loan for the purchase of additional equipment, which McClintock will lease to Canadian exploration companies in its emerging markets. At present, the company has drilling equipment worth over \$7 million located in five such markets, and Alex is asking the bank for a \$1.5-million term loan to finance the acquisition of the new equipment.

The bank is not comfortable with this, however, because McClintock's ability to generate revenue is exposed to political risks in the markets where these assets are (and will be) located. The countries involved are unstable, and McClintock's financial position could be damaged if it could not repatriate its assets to Canada because of political upheavals. If this happened, McClintock's inability to regain possession of the assets might force the company to default on the loan.

Determined to maintain the company's growth, Alex turns to EDC. He discovers that a PRI of Assets policy would protect McClintock against expropriation or the inability to repossess the drilling equipment due to political violence. Alex suggests this solution to the bank. After due consideration, the bank agrees to issue a new \$1.5-million term loan, secured by the resale value of McClintock's overseas drilling equipment and subject to the company obtaining a PRI of Assets policy.

Relieved at the outcome, Alex obtains the policy from EDC. The bank can now provide the term loan and McClintock can proceed with its expansion plans.

## **AN ACCOUNT PERFORMANCE SECURITY GUARANTEE HELPS APEX PETROSYSTEMS MEET ITS BONDING NEEDS**

Roxana is CFO of Apex Petrosystems, a Calgary manufacturer of oil and gas equipment. Apex has several buyers in the Middle East and must regularly provide them with both bid and performance bonds in the form of standby letters of credit (SLCs).





Until recently, Apex used its inventory and accounts receivable as security for both its operating line and its bonding requirements, with its bank issuing SLCs as necessary. But whenever the bank issues an SLC, Apex has to dip into its operating line in order to provide the required collateral. This is putting pressure on Apex's cash flow.

Roxana, accordingly, is asking the bank's loans officer to increase the company's operating line by \$1 million, for a term of 12 months, to provide collateral for the SLCs the company will need during that time. This will accommodate Apex's bonding needs while ensuring that it has the working capital required for its business operations.

The loans officer feels, however, that Apex does not have enough inventory and accounts receivable to support a \$1-million increase in its operating line. But he is aware of EDC's Account Performance Security Guarantee (Account PSG) and believes it may offer a solution – it will replace, dollar for dollar, the collateral the bank requires to issue the SLCs on Apex's behalf.

Sure enough, it does – an Account PSG can provide the bank with a 100 per cent EDC guarantee for the value of all SLCs issued under the Account PSG. This guarantee will allow the bank to provide Apex with access to its full operating line, while establishing the \$1 million collateral support for issuing the SLCs.

Roxana and the company CEO agree to the solution and EDC issues the Account PSG to the bank. Apex will now retain full access to its operating line, while being able to satisfy the bonding conditions of its export contracts.

## A FOREIGN EXCHANGE FACILITY GUARANTEE HELPS BEDM SYSTEMS WITH ITS OPERATING LINE

Matthew is CEO of BEDM Systems, an Ottawa manufacturer of custom-engineered materials handling systems. He expects the company to generate US\$3 million in sales to its American buyers over the next six months.

Since the payments will be in U.S. funds, however, BEDM does not know exactly how much the US\$3 million will be worth when converted into Canadian currency. If the foreign exchange (FX) rate shifts unfavourably, BEDM might end up with substantially fewer Canadian dollars than expected, which will reduce the profit margin on its U.S. business.

To protect these revenues, Matthew wants a six-month forward contract for US\$3 million. Accordingly, he asks the company's bank for an FX facility for this amount, denominated in U.S. dollars. The facility will ensure that BEDM can convert U.S. dollars to Canadian dollars at a fixed rate, regardless of currency fluctuations, for a total of US\$3 million.

The bank's loans officer would like to provide the facility, but first she must allow for "settlement risk," which is the risk of BEDM being unable to settle the forward contract in six months. She asks Matthew if BEDM can cover this risk by providing security amounting to 15 per cent of the facility limit, which works out to US\$450,000. This security would be taken from BEDM's \$2-million operating line, reducing it by the Canadian equivalent of US\$450,000.



Matthew doesn't like this approach because the reduction in the company's operating line will undermine its cash flow. Unfortunately, the bank can't increase BEDM's line to cover the security for the settlement risk because BEDM's financial position won't support such an increase.

In search of a solution, Matthew and the loans manager turn to EDC. They discover that EDC's Foreign Exchange Guarantee can guarantee 100 per cent of the collateral security required by the bank to cover its settlement risk, up to the required collateral security amount of 15 per cent (US\$450,000).

Matthew gives the go-ahead and EDC issues the Foreign Exchange Guarantee to the bank, which quickly sets up the six-month forward contract. BEDM now has the foreign exchange protection it needs without suffering any reduction in its operating line and working capital.

Ce document est également disponible en français.