WHITE PAPER

Entering the U.S. Market: Logistics and Best Practices

When it comes to exporting to the United States, many Canadian companies take an opportunistic approach. If "opportunity knocks" through a U.S. buyer approaching the Canadian company, they will gladly fulfill the order. However, the Canadian company has no formal U.S. export strategy and doesn't actively pursue U.S. sales—meaning that it's likely missing out on many other sales opportunities and the benefits of exporting.

This white paper provides practical, how-to information on how your company can become proactive—that is, to develop effective, long-term strategies for exporting to the United States and, when appropriate, to establish a business presence there.

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1 UNDERSTANDING THE RULES

One of the barriers to developing a U.S. export strategy is the perceived difficulty of complying with U.S. import regulations and Canadian export rules. The following provides a framework for understanding trade compliance and then examines specific areas where you might encounter problems.

1.1 Understanding trade compliance

In international business, "trade compliance" refers to how well a company observes the laws and regulations that govern its operations abroad. To do regular business in the U.S., you'll need a clear understanding of the Canadian and U.S. compliance rules that apply to your products. This is important for managing risk, since failing to abide by the rules, even accidentally, can lead to serious consequences that may include fines, seizure of goods or even loss of access to the U.S. market. Plan to consult routinely with customs brokers and/or Canadian and U.S. customs authorities to avoid such problems.

1.2 Trade agreements

Trade agreements reduce barriers to trade between countries, to make it easier to do business internationally and to provide frameworks for the rules that govern global trade. Some agreements, such as those negotiated under the umbrella of the **World Trade Organization** (WTO), have a global reach. Others are regional, like the **North American Free Trade Agreement** (NAFTA), which applies to trade among Canada, the United States and Mexico. Still others are designed for specific purposes, such as the international conventions that govern the use of intellectual property.

For selling to U.S. customers, NAFTA is by far the most important of Canada's trade agreements. It provides a comprehensive set of rules for trade in goods and services, investment, intellectual property and dispute settlement among its three members.

One of NAFTA's major achievements has been the elimination of tariffs on most goods originating in the three nations. A second has been the liberalization of regulations affecting matters such as investment and the cross-border trade in services. A third has been to provide Canadian businesses with better access to materials, technologies, investment capital and talent. Additional information about NAFTA is available **here**.

1.3 Trade rules

Trade rules have a much narrower scope than trade agreements and, for the most part, affect exporters at the regulatory level. Many of these rules apply to products sold within a country and also to goods imported into it: one example would be the regulations that the U.S. Food and Drug Administration applies to agri-food products. If your product is subject to these kinds of rules, you must comply before your goods can be sold to U.S. customers.

1.4 Complying with Canadian export regulations

When you sell goods to the U.S., you must also comply with Canadian export regulations. Following them carefully will help avoid delays or other problems at the border and will ensure your shipments reach their destinations on time. Detailed information about Canadian export regulations is available in ***Exporting Goods From Canada: A Handy Guide for Exporters***, published by the **Canadian Border Services Agency** (CBSA).

You will normally have to file an export declaration with the CBSA for each shipment of goods sent abroad. This reporting requirement does *not* apply, however, to goods shipped to the U.S., Puerto Rico or the U.S. Virgin Islands.

1.5 Restricted goods

Some products are classed by the Canadian government as restricted goods. Their export is controlled by various federal departments and they cannot leave Canada without a permit, certificate or licence, depending on the type of product.

To export such goods to the U.S., you must obtain the appropriate authorization and submit it to the CBSA before shipping. If you don't, the goods will be held at the border until the situation is resolved. As with non-restricted goods, however, no export declaration is needed if your customer is in the U.S., Puerto Rico or the U.S. Virgin Islands.

The government agency responsible for administering and enforcing the restricted-goods rules is **Global Affairs Canada**. Its **Export Controls** section provides a variety of resources, including the **Export Controls Handbook** and lists of controlled and restricted goods. You can use these to determine whether your products fall into the restricted category. You should also consult with the CBSA to ensure their determination is correct.

1.6 Complying with U.S. customs and border regulations

Under U.S. law, your U.S. buyer must use reasonable care to ensure the goods they are importing do not violate any U.S. rules or 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 your goods comply with U.S. customs requirements as administered and enforced by the **U.S. Bureau of Customs and Border Protection** (CBP).

The following outlines some of the most important compliance areas. The rules are complex, however, so you should seek professional guidance when interpreting how they apply to your company's goods.

1.6.1 Marking the country of origin

All goods imported into the U.S., and their containers, must be marked in English with the country of origin of the article. If this mark is missing, faulty or suspect, U.S. customs agents will delay the release of the shipment until the problem is resolved. For detailed information, refer to the **Country of Origin Marking** section of the CBP website.

1.6.2 NAFTA Rules of Origin

The country of origin rules described above are distinct from the **NAFTA Rules of Origin**. The latter are used to determine whether an exported product receives preferential tariff treatment when moving between Canada, the U.S. and Mexico. These NAFTA rules are based on the Harmonized System (HS) tariff classification codes, which are examined in more detail below. They vary, depending on the product's composition.

To claim preferential tariff treatment for your exports, you must fill out Certificates of Origin to claim NAFTA-origin status. You can download **Form B232**, "North American Free Trade Agreement – Certificate of Origin" from the CBSA website.

It can be difficult to determine conclusively that a product qualifies for NAFTA-origin status, and thus for preferential tariffs. In these cases, obtain expert assistance, as claiming preferential tariff treatment under an incorrect determination can lead to costly penalties.

Keep detailed records of how you make your origin determinations. Failure to do so can lead to the NAFTA origin status being revoked and possible penalties. Record-keeping obligations are set out in **NAFTA Article 505**.

1.6.3 Harmonized Tariff Schedule (HTS) codes

U.S. customs uses Harmonized Tariff Schedule (HTS) codes to determine which duties, tariffs and taxes apply to imported goods. These standardized numeric codes provide a precise way of classifying products for customs purposes and are used by customs authorities throughout the world. (Note that HTS is the U.S. name for these codes; in Canada and elsewhere, they are called Harmonized System or HS codes.)

Foreign goods cannot be imported into the U.S. unless they have an HTS code. Determining HTS classifications can be very complex, so verify the codes with a customs broker to avoid the product being stopped at the border, causing delivery delays. If there's any uncertainty, obtain an advance ruling as described in the **Advance Ruling Procedures**.

The **Tariff Affairs** section of the U.S. International Trade Commission's website has extensive information on the U.S. version of the Harmonized System. For a Canadian reference, consult Statistics Canada's **Canadian Export Classification** website.

1.6.4 Standards and conformity

Imports may have to conform to one or more U.S. standards and/or regulations before they can enter the United States. If your product is subject to a U.S. compliance requirement, have it tested for conformity by a testing agency accredited by the U.S. The major agencies in Canada, **CSA International** and **Underwriters Laboratories**, can provide compliance certifications that will be recognized by U.S. customs.

The **Standards Council of Canada** (SCC) provides Canadian businesses with a **Standards Alert** service that can keep registrants up-to-date on changes to specific U.S. and international standards.

1.6.5 Customs documentation

Clearing U.S. customs can be quite straightforward if your goods comply with all applicable import regulations and your associated paperwork is correct. Inaccurate or incomplete documentation is the most common reason for delays at the border, so spending adequate time can be a very good investment.

U.S. customs will require the following basic documents for each shipment:

- **Commercial invoice**

  The commercial invoice is used by U.S. customs for import control, valuation, and duty determination. It must provide basic information about the transaction, including description of goods, the addresses of the shipper and seller, and delivery and payment terms. The information on other documents related to the shipment, including the air waybill or shipping label, *must* correspond with the commercial invoice. Freight forwarders (to be discussed later) will often help you ensure these documents are properly filled out.

- **NAFTA Certificate of Origin**

  If you're claiming reduced or eliminated duties under NAFTA, you need to provide a NAFTA Certificate of Origin. Origin determinations are complex and may be affected by country of manufacture, regional value content, and/or tariff. Because of this, it is often advisable to obtain professional help when making determinations. Many customs brokers can offer this assistance.

- **Bill of lading or airway bill**

  Freight forwarders, carriers or customs brokers can provide this document.

- **Entry manifest**

  Your carrier can provide this document.

- **Other documents**

  Depending on your product, you may need to provide additional documents such as packing lists, permits or licences.

1.7 Tips for smooth customs clearance

The CBP suggests following these guidelines to ensure your goods enter the U.S. problem-free:

- Mark and number each package so it can be identified with the corresponding marks and numbers appearing on the invoice.
- The invoice should give a detailed description of each item contained in each package.

- Make sure the invoice corresponds to the packing list.
- Mark the goods legibly and conspicuously with Canada as the country of origin.
- Comply fully with any special U.S. laws that may apply to the goods, such as laws relating to food, drugs, cosmetics, alcoholic beverages and radioactive materials.
- Work with your U.S. customer to ensure the goods meet all U.S. requirements for invoicing, packaging, marking and labelling.
- Consult with U.S. customs, as necessary, to develop packing standards for your goods.

2 USING CUSTOMS BROKERS

Most Canadian businesses that ship to the U.S. use customs brokers to handle export documentation and to expedite the clearance of their goods through U.S. customs. Canadian brokers must be licensed and bonded, and are regulated in Canada by the CBSA. To find one, consult the CBSA's **licensed customs broker list**.

2.1 Benefits of using customs brokers

Customs brokers are specialists in clearing goods across international borders. Using them can be a very good investment for novice exporters, as they can save time, money and possible difficulties with U.S. or Canadian border authorities.

Some advantages of working with a good broker include:

- They can help manage your compliance risks by ensuring your exports meet current requirements on both sides of the border. For example:
    - They can help determine the correct HTS classification of the goods, as well as any fees and duties to be paid when clearing U.S. customs.
    - They can tell you whether licenses or permits are needed to satisfy the requirements of government agencies, either U.S. or Canadian.
    - They can help you determine whether the goods are eligible for preferential NAFTA tariff treatment.
- They can prepare all the documentation required by the CBSA. Many brokers can also handle the paperwork for U.S. customs clearance and release of goods. If you use one of these full-services brokers, clearance of your products into the U.S. can be essentially seamless.

- Your shipments will arrive at the border pre-cleared for entry by the broker, with paperwork complete and fees and duties paid. The broker can then move the goods through customs quickly, saving you storage costs and ensuring on-time delivery to your customer.

If you choose a licensed broker to match your needs, there are essentially no drawbacks to using a broker.

2.2 How to choose a broker

When seeking a broker, look for these qualities:

- They're available around the clock, 365 days a year.
- They're familiar with the export issues experienced by your company's particular sector.
- They're thoroughly familiar with NAFTA and its provisions, and can help you understand how NAFTA affects your U.S. business.
- They can advise on customs compliance and record keeping.
- They keep up with changes in U.S. and Canadian customs regulations and can advise on how and whether these will affect your U.S. operations.
- They can help with your logistics needs through their associations with international carriers and freight forwarders.
- They can help file corrections in areas such as country-of-origin declarations, tariff classifications and value-for-duty determinations and, if necessary, assist you in a customs audit.
- They offer electronic data interchange services and online documentation tools.
- They can supply satisfactory customer references and have a solid track record as brokers.

A reputable broker will also carry liability insurance to compensate you if errors or omissions on their part lead to financial losses. It is advisable, however, to check the specifics of what's covered. Some examples of the risks that may be insured are improper release of merchandise, failure to file a customs protest, or failure to identify an import quota.

3 USING FREIGHT FORWARDERS

Canadian exporters often use freight forwarders to move goods to the United States, since this is usually easier and more cost-effective than managing it themselves. You can pick and choose among your forwarders' services, or have the forwarder manage the entire process from the loading dock to your customer's doorstep.

There are numerous freight forwarders in Canada, many of which have international expertise. For listings, consult the Canadian International Freight Forwarders Association (**CIFFA**) website.

3.1 Benefits of using forwarders

The advantages of using a good forwarder include the following:

- Many forwarders specialize in working with specific sectors, markets and transportation modes. Their expertise can ensure your shipments reach customers on time, in undamaged condition and at a competitive cost.
- They can handle Canadian and U.S. customs paperwork, provide facilities for paying fees and duties at the border, and arrange warehousing if needed.
- They can provide a full range of shipping documentation, such as bills of lading and certificates of origin.
- They can provide insurance coverage against loss or damage to goods while in transit.

3.2 Drawbacks of using forwarders

There can be a downside to using forwarders, especially if you fail to carry out proper due diligence before selecting one. The major potential issues are as follows:

- Identifying the forwarder that will best match your needs can be difficult. Check carefully into the background and reputation of potential hires.
- A badly managed forwarder—one that is poor at handling documents, for example—may be late in delivering your goods to customers.
- Managing your own logistics means you retain full control of your costs. Unethical forwarders may charge far more for a service than is justified.

3.3 How to choose a forwarder

If you intend to use a forwarder, here are some questions to consider:

- Does the forwarder offer the specific logistics services you need?
- Do they have a well-developed network of U.S. agents and business partners?
- Is their network extensive enough to ensure efficient handling of shipments within the U.S., right down to the local delivery level?
- Do they offer competitive pricing?
- How fast is their documentation turnaround and will this meet your needs?
- Are they experienced in handling the kinds of products you'll be shipping?
- Can they can handle the volume of shipping required?
- Can they provide a list of customers for references?

As with customs brokers, reputable freight forwarders will carry insurance to compensate you if a shipment is lost, damaged or misdirected. Always verify exactly what is covered and for how much.

4 ESTABLISHING A U.S. PRESENCE

Many Canadian businesses begin a serious commitment to the U.S. market with an export plan that uses a direct-sales approach, in which the goods are marketed, sold and shipped directly from Canada to U.S. customers. However, this strategy can limit opportunities for U.S. growth, and an on-the-ground U.S. presence may be the best path to expansion.

4.1 Types of U.S. business presence

The major types of U.S. business presence are as follows:

4.1.1 Corporations

Most non-U.S. companies prefer to set up a corporation as their U.S. business presence. A corporation is a legal entity and is the preferred way to operate because of the structure of U.S. tax and liability laws.

There are no restrictions on non-U.S. ownership, so the U.S. corporation can be wholly owned by the Canadian parent company. There is no foreign investment approval process, nor are there any citizenship or residency limitations on the corporation's directors or management. There are minimum capital requirements for a small number of industries, but there are no such restrictions on the rest.

4.1.2 Limited liability companies

Limited liability companies (LLCs) arrived on the U.S. business scene fairly recently. Like corporations, they limit the liability of owners (called "members") but offer greater structural flexibility because you can elect to be taxed as sole proprietors, partnerships or corporations. LLCs also require less paperwork and record-keeping than corporations.

4.1.3 Joint ventures

In a joint venture, the Canadian company and a U.S. firm agree to cooperate to achieve a specific business objective. If this cooperation is a *non-corporate joint venture*, the venture is considered a partnership that is limited in scope or duration. If it is a *corporate joint venture*, the two companies set up a separate corporation to achieve the joint objective. This third corporation is subject to the usual tax regimes. For tax, liability and other reasons, the corporate joint venture is usually the preferred approach.

4.1.4 Representative offices

If you merely need a sales presence in the U.S., a representative office may be the answer. The office does not need to be incorporated and is not considered a legal entity. It is not subject to corporate tax *if* it restricts its activities to basic functions such as market research and identifying customers.

If the office goes beyond that—by accepting or processing orders for sales, for example—U.S. authorities may consider it to be a business operation that should be paying corporate taxes. Given this, establishing a representative office has few advantages over setting up a corporation or an LLC, so the latter approach may be the better one.

4.1.5 Branch offices

Branch offices don't need to be incorporated, aren't considered legal entities and can engage in most forms of business activity. They may not be the best option, however, because the corporate owner (that is, the Canadian parent company) is responsible for any liabilities the branch may attract. In most states, branches must be registered as a foreign corporation and are subject to corporate income taxes at both the state and federal level. As with representative offices, such drawbacks may outweigh a branch's benefits when compared to setting up a U.S. corporation or LLC.

4.2 Benefits and drawbacks of a U.S. presence

The major advantages of setting up a U.S. business entity—particularly a corporation or LLC—include the following:

- You can access the U.S. market more directly, allowing you to be closer your U.S. customers and serve them better.
- You may be able to increase sales and expand market share more quickly through your U.S. entity than by operating from Canada.
- A U.S. corporation or LLC will have immediate access to U.S. resources such as supply chains, raw materials and advanced technologies.
- The U.S. entity may be eligible for incentives provided by municipal, local or state governments.
- By operating a U.S. entity, you can reduce exposure to "buy American" policies that may discriminate against foreign businesses.

The major drawbacks of using a U.S. business presence can be:

- The expense of setting it up and maintaining it may not be justified by sales results.
- If you send Canadian-based personnel to work in the U.S., you must be extremely careful not to violate any U.S. immigration rules.
- Assuming your U.S. entity hires local workers, you must become familiar with U.S. labour laws or hire professionals to ensure the regulations are followed.
- Assuming the U.S. entity will be paying taxes, you will have to deal with the highly complex U.S. taxation regime and hire professional help to do so. Also, because of the sheer size of the U.S. and the diversity of local laws, taxes may differ significantly from one place to another.

4.3 Foreign Trade Zones

Foreign Trade Zones (FTZs) are areas inside the U.S. that aren't under the jurisdiction of U.S. customs (in other countries, they're usually called "free trade zones"). Formally speaking, they're duty-free areas where goods may be warehoused, processed, sold, serviced, distributed, packaged, labelled, assembled and/or manufactured as finished goods, prior to re-exporting them as duty-exempt finished products. No retail operations, however, can be conducted inside an FTZ.

A U.S. business operation in an FTZ can provide you with numerous benefits, including these:

- The operation doesn't have to pay U.S. customs duties or federal excise taxes when bringing goods into an FTZ. It pays these levies only when it transfers goods from the FTZ to U.S. customs territory for use or purchase.
- It can export goods from an FTZ to non-U.S. destinations without paying U.S. customs duties or taxes.
- FTZs may offer various other incentives such as inexpensive land and plants, easy access to raw materials and income tax holidays.

There are dozens of FTZs distributed throughout the United States. For more information, refer to the website of the **U.S. Foreign-Trade Zones Board**. It includes lists of FTZs, FTZ FAQs, application procedures and much more.

4.4 How to set up a U.S. company

The following are the basic steps for establishing a U.S. corporation or LLC. Needless to say, you should consult suitable legal and accounting professionals at each stage of the process.

- Decide on a name for the company and determine whether it will be set up as a corporation or an LLC.
- Do a trademark and trade name search to verify the proposed U.S. company name and the product names are not used by other parties. Assuming they aren't, file a trademark application to protect the company name, logo and product names. Also reserve and apply for an Internet domain name(s).
- Identify the state where the company will be incorporated, plus additional states where it will do business.
- Determine the capitalization of the company and who will be the shareholders, officers and directors. Note that if the company is incorporating in Delaware (see next section) there is no capitalization requirement, and a single person can satisfy the shareholders, officers and directors requirement.
- File the required documents to incorporate the company in the chosen state. Note that a U.S. firm can be incorporated in only one state. If physical locations for the company in additional states will be required, it must be registered (but not incorporated) as a foreign company in those states. This is done by filing an Application for Certificate of Authority with each state. Once granted, this certification is known as a "Foreign Qualification" and will qualify the U.S. company to do business in the selected states.

- Hold the U.S. company's organizational meeting, appoint its officers and directors and issue shares to the shareholders.
- Apply to the Internal Revenue Service to obtain an Employer Identification Number.
- Register with state tax authorities.
- Open the corporate bank account.
- Buy, lease or rent office space.
- Obtain visas for key Canadian persons who will be travelling to or working in the U.S.
- Hire the needed U.S. employees and do the paperwork for tax withholding and other employee-related needs.

4.5 Incorporating in Delaware

Many U.S. and non-U.S. businesses incorporate in the state of Delaware. This has many potential benefits, including the following:

- Delaware has no personal property tax, intangible property tax, or sales tax that is levied against Delaware corporations.
- Delaware corporations do not pay state income tax if they are not doing business in Delaware.
- Shares of Delaware corporations owned by non-residents are not subject to Delaware taxes.
- Incorporating in Delaware involves no minimum capital requirement, so Delaware corporations can be formed at a low cost.
- Incorporating in Delaware is very simple. One person may be the company's sole officer, director, and shareholder (in contrast, many states require two or more people at this level).
- A Delaware corporation can be formed from outside the state and there is no requirement that corporate meetings be held in Delaware. The corporation may also keep all of its books and records outside Delaware.

4.6 Business taxes in the United States

The United States has a complex and evolving taxation system. The following description is highly simplified, so you should obtain professional advice before deciding on a U.S. tax strategy.

4.6.1 What is taxed

Foreign corporations, and their U.S. branches and partnerships, pay U.S. tax only on income that is generated by operations within the United States. Note that Canada and the U.S. have signed a tax treaty to avoid double taxation at the federal level.

4.6.2 Tax rates

In 2016, the U.S. federal corporate tax rate was 35 per cent on taxable income above USD 18,333,333. The effective rate, however, can be considerably lower because of tax credits and exemptions. At the state level, corporate income tax rates vary from nil to 12 per cent, but the tax is deductible for federal income tax purposes. Income taxes can also be levied by municipalities, so a U.S. business may end up paying tax at the federal, state and municipal levels.

4.6.3 Types of U.S. presence and taxation

The way your U.S. presence is set up will affect how it pays taxes. In brief:

- A **corporation** is a legal entity and is subject to corporate tax.
- An **LLC** is a legal entity and can use different types of taxation, depending on how its members elect to classify the LLC. If you choose to be a partnership, for example, profits and losses are reported on each member's individual tax return rather than at the LLC level.
- **Joint ventures** are taxed according to the way they are structured (whether the participants form a new corporation or operate as a partnership, for example).
- A **representative office** does not need to be incorporated and thus does not pay corporate tax, *provided* the office engages only in activities such as advertising, promotional activities and market research.
- A **branch office** does not need to be incorporated as a separate legal entity, but can undertake more activities than a representative office. It is, consequently, subject to corporate tax.

There are numerous U.S. sources you can use to learn about corporate taxation, including the following:

- Internal Revenue Service (**IRS**)
- **TAXSites.com** (federal, state and local taxes)
- **Multistate Tax Commission** (links to all state tax departments)

5 OBTAINING FINANCING

There are numerous potential sources of financial support to help you operate in the United States. These sources include a variety of private-sector institutions such as banks, factoring houses and venture capital firms, as well as public-sector entities such as Export Development Canada (EDC). Each has advantages and drawbacks and may be suitable in one set of circumstances but not in another.

5.1 Commercial lenders

If your company has an established track record in Canada, you 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 private-sector option because the you can lower the lender's risk by pledging various forms of collateral for your loans. If your company has a stable, successful business history, this type of financing may be your best option for doing business in the U.S. However, commercial lenders are usually stricter about issuing credit for your foreign operations than for domestic activities, as the former are inherently more risky than the latter.

5.1.1 Banks

Banks can provide term loans, leasing arrangements, mortgages, factoring, letters of credit and letters of guarantee, and more. To obtain financing, you will need to satisfy the bank that your company is stable, is performing well and is likely to continue doing so, and can generate enough revenue to repay the loan. The bank will require some type of security or collateral for the loan, usually in the form of accounts receivable, work in progress, inventory or tangible assets such as machinery.

5.1.2 Credit unions

Credit unions are governed by provincial legislation. They offer mortgages, term loans, working capital loans and revolving lines of credit to qualified businesses. Like banks, they require collateral before agreeing to a loan.

5.1.3 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.

5.2 Asset-based lending

Asset-Based Lending (ABL) is a form of secured lending that uses a 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 acquire other businesses. It's 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.

5.2.1 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.

5.2.2 Factoring

Factoring means that a factoring house purchases your company's 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 defaults. The advantage of factoring is that you get cash, minus the discount, as soon as you invoice your customer. Not having to wait for your money can help maintain your cash flow, especially if you have given your buyer long payment terms.

5.2.3 Purchase order financing

Factoring can be advantageous if you can wait for your money until you invoice your customer. But if you need to pay suppliers up front, or a long time to fill and deliver the order, cash flow may sink to undesirable levels. The solution may be purchase order financing, in which a factoring institution provides a loan as soon as your customer signs the purchase order. Not all factoring houses provide purchase order financing, however.

5.3 Venture capital financing

Venture capital financing 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 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.

5.4 EDC Financing

Doing business internationally is inherently riskier than doing business in Canada. This is true even in the United States, where it is relatively easy for a U.S. company to declare itself insolvent and obtain protection from its creditors.

Because of these increased hazards, your lender may decline to provide financing for your U.S. operations, making it difficult or impossible to carry out your U.S. export plans. If this happens, seek help from EDC, using solutions such as working capital financing, buyer financing and direct lending.

5.4.1 EDC Working Capital Financing

Most exporters to the U.S. will, at some point, need their lenders to provide working capital to support their business south of the border. Even when you have been successful in your U.S. operations, you may need more financing than your bank can provide—unless, that is, it can find a third-party guarantee that will protect it if you default on repayment.

This kind of support can be provided to qualified exporters through EDC's **Working Capital Financing** program. Once a guarantee is in place, your lender may be willing to extend additional financing for your U.S. business. Moreover, the program's flexibility means that it can support a wide range of financing scenarios, such as:

- Increasing your operating line
- Margining foreign receivables
- Margining foreign inventory
- Margining R&D credits
- Financing single or multiple export contracts
- Financing term loans for capital expenditures
- Supporting the purchase of a U.S. firm

5.4.2 EDC Buyer Financing

Buyer Financing can help you gain a competitive advantage by offering your U.S. customers flexible payment terms. An additional benefit is that you can be certain you will be paid promptly, since the Buyer Financing guarantee ensures your customer will have the necessary funds available.

5.4.3 EDC Direct Lending

For many Canadian companies, the greatest barrier to international investment is an inability to obtain financing. A bank may want to support a firm's U.S. expansion program, for example, but may be unable to extend the necessary credit facilities.

If this happens to your company, EDC's **Direct Lending** program may be the optimum solution. It can offer support through a secured loan made either directly to your Canadian company, or directly to its U.S. affiliate and secured by its U.S. assets. Note that EDC's **Working Capital Financing** can also help you make international investments.

6 USING TRADE CREDIT INSURANCE

The single biggest risk in doing business internationally, whether in the U.S. or farther abroad, is the danger of non-payment. Prudent exporters will protect their U.S. receivables by using an effective credit management system and by doing systematic due diligence on customers. Even with these precautions, however, you may forego lucrative deals, feeling that the non-payment risk is too high.

Using trade credit insurance, however, can make it possible for you to accept a higher level of risk and thus pursue the U.S. market more aggressively. In a hyper-competitive business culture such as the U.S., this enhanced aggressiveness may make the difference between lacklustre performance and significant success.

Trade credit insurance offers numerous benefits, including the following:

- You will be paid even if a customer defaults.
- You can safely expand sales to new and existing customers within the U.S.
- You can free up working capital by reducing bad debt reserves.
- You can extend more flexible credit terms, including open account.
- You may be able to secure better borrowing terms because your receivables are insured.

EDC's insurance solutions, as outlined here, can help you start developing a full-fledged U.S. export strategy.

6.1 EDC Select Credit Insurance

Select Credit Insurance can be an ideal trade credit solution if you have a small number of U.S. customers to insure against non-payment. It will typically cover up to 90 per cent of losses if your customer doesn't pay after receiving the purchased goods or services. You can apply for a Select Credit Insurance policy quickly and easily online, with very little paperwork. If it becomes necessary to submit a claim, this can be done online as well.

6.2 EDC Portfolio Credit Insurance

If you want to protect all your U.S. sales against a wide range of risks, consider using **EDC Portfolio Credit Insurance**. It can cover up to 90 per cent of losses if a customer doesn't pay, with monthly premiums based on the type of coverage, the kind of goods or services being sold and your customer's credit risks. It can insure against perils such as customer bankruptcy or default, customer refusal to accept goods, cancellation of import/export permits and currency transfer or conversion risks.

6.3 EDC Contract Frustration Insurance

EDC's **Contract Frustration Insurance** covers up to 90 per cent of costs incurred or receivables lost in association with a specific export contract for services, capital goods or projects. It can protect against numerous risks, including customer bankruptcy or default, contract cancellation, payment delays and cancellation of permits.

LEARNING MORE ABOUT ENTERING THE U.S. MARKET

If your company would like to learn more about entering the U.S. market and setting up an export strategy and plan, visit **www.edc.ca** and check the resources under the Country Info and Knowledge Centre tabs. In addition to valuable information about exporting, you'll find resources specific to the U.S. market, such as **Exporting to the United States**. You can also call 1-800-229-0575 to speak to an EDC representative, or you can **submit a question** online.

For more information, please visit **edc.ca**

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