BREAKING INTO THE TRADE GAME

A Small Business Guide to Exporting

U.S. Small Business Administration

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A Small Business Guide To Exporting

Third Edition

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About This Book

The U.S. Small Business Administration (SBA) Office of International Trade (OIT) originally developed this *Guide* in 1993 to help your business develop international markets. The second edition was intended to help take your company into the second half of the 1990s. This third edition, updated in 2005, contains information on how to maximize your international opportunities through the use of new technology.

Breaking Into The Trade Game answers questions and takes much of the mystery out of exporting. The U.S. government has worked hard to provide small businesses, like yours, with the tools to succeed in the international marketplace. We understand that small businesses are vital to the health of the U.S. economy. In fact, today, America's 22.4 million small businesses are the principal source of new jobs, employ 51 percent of the workforce and generate more than 52 percent of the nation's gross domestic product.

Breaking Into The Trade Game: A Small Business Guide to Exporting can assist your company's international efforts.

The third edition of *Breaking Into The Trade Game: A Small Business Guide to Exporting* was produced under the guidance of Luz A. Hopewell, Deputy Associate Administrator, Office of International Trade, U.S. Small Business Administration. Christopher Eskelinen, Export Development Specialist was managing editor and art director. Thanks to Manzella Trade Communications, Inc. for their assistance in revising this guide. Finally, a special thank you to our Regional Managers for SBA's International Trade Program, Inga Fisher Williams and Dennis Chrisbaum who provided new material and valuable editorial support.

For more information on SBA's programs, visit www.sba.gov or call 1-800-8-ASK-SBA. For the hearing impaired, the TDD # is (202) 205-7333. All SBA programs are extended to the public on a nondiscriminatory basis.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINTON, D.C. 20416

Dear Small Business Exporter;

Did you know this about small business and international trade?

- U.S. small businesses export one *billion* dollars per day of goods and services
- In 2004, the United States, already the world's largest exporting country, set an *all-time record* for exports.
- Exports have been growing two to three times *faster* than the economy as a whole.
- Two-thirds of the world's purchasing power is located *outside* of the United States, and with the declining value of the dollar, our exports become cheaper for the world's consumers.

If these facts come as a surprise to you, then perhaps you are not profiting from the opportunities presented by globalization and international trade. That is why we have updated this important publication, now in its third edition.

As head of SBA's international trade program, I frequently meet with small business owners. I see their commitment to succeed and realize this is crucial to America's prosperity. Just as it does domestically, small business plays a pivotal role in the world economy. SBA not only offers a range of export services to small businesses—from financing to technical assistance—but we also work closely to support the Government's international trade agenda, developing markets abroad for small business through international relationships and agreements.

We are pleased to publish the 3rd edition of *Breaking Into The Trade Game: A Small Business Guide to Exporting*. I encourage you to join the 230,000 small business exporters that have already succeeded in taking their business global.

Sincerely,

Manuel A. Rosales
Associate Administrator and Director
Office of International Trade

Introduction

In 2002, U.S. companies exported $682 billion in goods and $292 billion in services for a total of $974 billion. Although slightly less than what was sold abroad in 2000, these exports supported more than 12 million higher paying U.S. jobs, strengthened companies and farms, and improved our tax base, while also sending export revenue to local communities through restaurants, retail stores, etc.

In 1950, trade accounted for less than 5.5 percent of U.S. economic growth. Today, it has become an integral part of everyday life, accounting for more than 23 percent of economic growth in 2002 (25 percent in 2000). In fact, one in three acres of U.S. agricultural production is now exported.

According to the U.S. Small Business Administration (SBA), small firms represent 99.7 percent of all employers, generate 60 to 80 percent of net new jobs annually and account for 97 percent of all U.S. exporters. As a result, their success in international markets is extremely important to the welfare of the United States.

Exporters Benefit in Many Ways

According to Howard Lewis III and J. David Richardson's report *Why Global Commitment Really Matters!,* companies that export grow faster and fail less often than companies that don't. And their workers and communities are better off. According to the report, published by the Institute for International Economics, a Washington, D.C. think tank, U.S. exporting firms experience 2 to 4 percentage points faster annual growth in employment than their non-exporting counterparts.

But there's more to the story. Exporting firms also offer better opportunities for advancement, expand their annual total sales about 0.6 to 1.3 percent faster, and are nearly 8.5 percent less likely to go out of business. These gains are not dependent on any specific time period or export volume. Furthermore, sales abroad spread risk should the domestic market enter a period of slow growth or recession.

According to *Why Global Commitment Really Matters!,* workers employed in exporting firms have better paying jobs. For example, blue-collar worker earnings in exporting firms are 13 percent higher than those in nonexporting plants. Wages are 23 percent higher when comparing large plants, and 9 percent higher when comparing small plants. White-collar employees also earn more—18 percent more than their non-exporting counterparts. Furthermore, the benefits for all workers at exporting plants are 37 percent higher, and include improved medical insurance and paid leave. *Why Exports Matter: More!,* an earlier report by J. David Richardson and Karin Rindal published by the Institute for International Economics and The Manufacturers Institute, states that less skilled workers also earn more at exporting plants.

Service Exports Are Booming

Export opportunities for manufacturers of goods are just part of the story. Today, U.S. providers of service exports are benefiting tremendously. And this has significantly contributed to the well being

of the U.S. economyWhy? Since 1971, the U.S. service sector has generated trade surplus that has consistently reduced the U.S. trade deficit. For example, in 2002, U.S. exports of services reached $292 billion. This decreased the trade deficit by more than $65 billion, and even more so in previous years when the global economy was growing at a faster rate.

Since 1980, U.S. service exports have grown more than 150 percent faster than exports of goods. But more importantly, tremendous benefits are currently derived from the service sector in terms of economic growth, personal income, employment and exports. According to the Progressive Policy Institute (PPI), a Washington, D.C. think tank, if current service export rates of growth continue, America's services exports will exceed goods exports by 2037.

America is by far the largest global commercial service exporter. The United Kingdom, France, Germany and Japan follow in that order. In terms of commercial service imports, the United States is followed by Germany, Japan, the United Kingdom and France. India is the developing-world leader in services exports, through heavy sales of software, back-office services and Hollywood movies.

Service Exports Have Become More Sophisticated

When some people envision the service sector, they think of employees flipping hamburgers. In reality, the U.S. service sector has become extremely advanced and internationally competitive. In turn, the sector's wages have risen considerably. This fact is not widely acknowledged.

For example, in December 2002, January 2003 and February 2003, average hourly earnings for service production workers reached $15.49, $15.51 and $15.65, respectively, according to the Bureau of Labor Statistics. During these months, average hourly earnings for U.S. manufacturing production workers were $15.48, $15.53 and $15.56. This indicates that hourly wages in the service sector have finally caught up to the manufacturing sector.

The export of services has become a major generator of economic growth for many industries. For example, in 2002, American universities exported $13 billion worth of education services to 586,000 foreign students. American

software companies, meanwhile, earned $5 billion from overseas sales. Hollywood actors and film studios earned $10 billion in overseas film and videotape rentals, rock stars brought in half a billion from copyright royalties, while overseas concerts and sports exhibitions raised $175 million, according to PPI.

Service Exports in Demand

As global demand for U.S. service exports increases, service providers are encouraged to expand internationally. In addition to the most common service exports—such as travel, transportation, financial, entertainment, health care and telecommunications—a whole new group of service industries are demanded worldwide. These include business, professional, technical, accounting, advertising, engineering, franchising, consulting, public relations, testing and training services.

From 1990 through 2002, overseas sales of services doubled, with sales of database and other high-tech information services, along with legal and financial services, growing even more rapidly. In coming years, new technologies will help export growth in these industries accelerate—as the internet, new satellite and land-based telecom networks, and electronic commerce combine to make cross-border services flow easier.

Expanding Globally Is Essential

For many small companies, exporting is essential to achieve success in the 21st century. But it is vital to do your homework. Success is best achieved if you calculate all the costs of doing business and understand the ramifications of each decision. If not, your efforts may turn into losses.

International trade enables producers of goods and services to move beyond the U.S. market of 281 million people and sell to the world market of 6.2 billion. If you have already begun exporting your goods or services, we encourage you to expand into new markets. If you are new to the international arena, we hope you take advantage of this publication, seek the services of the SBA, and utilize the tremendous resources available to you from the United States Government.

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Making the Export Decision

Exporting is crucial to America's economic health. Increased exports mean business growth, and business growth means bigger profits for U.S. companies—all of which ultimately result in more jobs for American workers. Yet only a small percentage of potential exporters take advantage of these opportunities. It is critical for more U.S. businesses to think globally.

Your decision to read this publication shows you are interested in exporting. You may have already discovered that your company is competing internationally because foreign-owned companies are competing with you in your "domestic" markets. The division between domestic and international markets is becoming increasingly blurred. In a world of over 6 billion people, global communication networks, next-day airfreight deliveries worldwide and CNN, it no longer makes sense to limit your company's sales to the local or even the national market. Your business cannot ignore these international realities if you intend to maintain your market share and keep pace with your competitors.

Making the decision to export requires careful assessment of the advantages and disadvantages of expanding into new markets. Once the decision is made to export, developing an international marketing plan is essential. This chapter presents the advantages and disadvantages of exporting. The remaining chapters will guide you through the steps necessary to master the "trade game."

Advantages and Disadvantages of Exporting

Advantages

Consider some of the specific advantages of exporting.

Exporting can help your business:

- Enhance domestic competitiveness
- Increase sales and profits
- Gain global market share
- Reduce dependence on existing markets
- Exploit corporate technology and know-how
- Extend the sales potential of existing products
- Stabilize seasonal market fluctuations
- Enhance potential for corporate expansion
- Sell excess production capacity
- Gain information about foreign competition

Disadvantages

In comparison, there are certain disadvantages to exporting. Your business may be required to:

- Subordinate short-term profits to long-term gains
- Hire staff to launch the export expansion
- Modify your product or packaging
- Develop new promotional material
- Incur added administrative costs
- Dedicate personnel for traveling
- Wait longer for payments
- Apply for additional financing
- Obtain special export licenses

These disadvantages may justify a decision to forego direct exporting at the present time, although your company may be able to pursue exporting through an intermediary. If your company's financial situation is weak, attempting to sell into foreign markets may be ill-timed. The decision to export needs to be based on careful analysis and sound planning.

2 Making the E-Commerce Connection

E-commerce has dramatically changed the business landscape and will continue to do so in ways that cannot be predicted. E-commerce offers major advantages to the small business exporter. These include quick and easy access to tremendous amounts of information, and the ability to sell goods and services virtually anywhere in the world.

One can gather and review significant amounts of information in a fraction of the time it took before the Internet—the vehicle responsible for e-commerce—was widely available. In addition, it is no longer essential for the buyer, seller and distributor to be in the same geographic location. As Peter Drucker says in *Managing in the Next Society*, "E-commerce does not merely master distance, it eliminates it. There is no reason why… the vendor has to be in any particular place."

For many small business owners already conducting e-commerce, these points are well known. But for those new to the concept, this chapter will introduce a new way doing business and explain how you can use e-commerce to your advantage.

Greg Norton, Vice President of Sales for Algonquin Studios (a web and enterprise software solution company), shares his personal experience using e-commerce to facilitate an exporting venture: "The saying 'perception is reality' is particularly true in terms of the web. The more professional your site looks, usually accomplished by adding some decent stock photography and a clean layout, the more credence the overseas buyer will put in your operation." Additionally, the web allows you to provide information in the native language of your target market relatively inexpensively. Add in key words to your META tags (words that highlight what you do) and your site will be indexed by search engines. Surprisingly, the initial investment is often less than the cost to translate and print a brochure. To round out the whole package, tie in credit card processing through your site

and you can simplify one of the most complex issues for small exporters—getting paid. The effect of using the web for international business has been felt in all aspects of the trading process—marketing, sales, fulfillment and payment." A word of caution to start-up exporters who plan online sales and the use of credit cards for E-Commerce. The unauthorized use of credit cards for international payments is the fastest growing fraud in international commerce, reports NACM, the National Association of Credit Managers. Since banks will have recourse to the seller when a stolen credit card was used for payment, the potential for the loss is a factor to consider. Knowing your buyer is still the best practice but increasingly services to handle the due diligence and payment are available to avoid a loss.

Since this publication is designed for use on-line, it is likely that you are familiar with the World Wide Web. However, if you need information about computers, the Internet, e-mail or setting up your own website, your local Chamber of Commerce and continuing/higher education organizations can provide assistance.

The Essentials: Phone System, Fax, E-mail and Website

At a minimum, your business should have an adequate telephone system and the ability to send and receive faxes. Telephone features should also support worldwide communications and might include the ability to conference with several parties at once. Adding one or more parties to a telephone call can be useful in closing a business deal. Communications can be more effective when you, your overseas customer and your overseas agent can be linked by a conference call. Another feature might include the ability to store and automatically dial the numbers you call most frequently. Because overseas calls typically involve dialing at least 14 digits—a special prefix (usually 011) followed by a country code, a city code and then the local number—automatic dialing can save you time, plus the need to look up each number.

Voice Mail

Competition at the local level can be intense in countries where you plan to sell your product. Closing the time zone gap between your U.S. office and your customer's foreign location can give you a competitive advantage. Plus, foreign prospects and customers should have the option of contacting you outside of normal business hours. Voice mail or a personal answering service may accomplish this. To your benefit, voice mail systems can now respond in several languages and guide callers to price quotes or service information even when your business is closed for the day or weekend.

***Note**: you should be able to retrieve your messages from any place in the world.*

Facsimile (Fax) Machines

To quickly deliver important documents to overseas customers and financial institutions, there is no substitute for a fax machine. However, for simple communications purposes, the fax has become less important. E-mail is becoming increasingly common around the

world and often used instead of faxing. In addition, since software enables computers to send and receive faxes, the need for a fax "machine" is limited. Note: because inbound computer faxes are usually captured as photos, you can obtain optical character recognition (OCR) software to convert the text into a computer-readable format. This will allow you to manipulate the text. If your signature is required, software can be used to paste your signature onto a document to be faxed (since a signed fax may be just as valid as a hand-signed document sent through the mail).

E-mail

Today, e-mail is the primary method many large businesses use to communicate internally as well as externally. It is an inexpensive and expeditious way to stay in touch with employees, contractors, customers, agents, etc. E-mail is very important since it is a method in which many of your customers may choose to correspond. If you decide to sell your product or service exclusively on the web, it will be an essential means of communication for everyone with whom you do business.

Website

A website can be an inexpensive and highly effective way to market your product or service globally. Before developing a site, however, you need to be aware of regulations and technical details that may affect the ability of potential customers to view your site. In addition, certain technical methods used to build websites may help or hinder others in their attempt to locate your site using search engines.

When designing a website, it is generally true that "less is more." Numerous images, for example, can make a site attractive but time consuming to download. When designing your site, make sure that people with a variety of computer capabilities can easily access your site. A site that takes a long time to download will turn people away. Images are not the only thing that should be limited. The text should be concise, well organized and designed to make it easy for visitors to find what they are looking for. Contact information and links should allow the visitor to quickly find more information. Language accessibility is another point to consider. It is important to offer information in the language of each country where you plan to export. This also is true for the website.

Personal Computers, the Internet and Software Power

In a small firm, a basic personal computer (PC) with high-speed Internet access will meet most of your business needs. By having the following PC system basics, the small business exporter should feel confident that he or she has the essential tools needed to operate effectively:

- Word-processor
- Spreadsheet software

- Database management
- E-mail software
- Contact management software that maintains contacts (e.g., electronic rolodex) and keeps a history of communications (a very effective system will allow you to view customer information on-screen while speaking on the phone)
- Antivirus software that scans e-mail and files to prevent computer corruption
- Firewalls to prevent unauthorized communication to and from your PC
- Accounting/billing software (pre-packaged, off-the-shelf or customized to your needs)

Marketing

Marketing products and services through the Internet can be relatively easy, especially for small businesses with limited resources. There is a low cost of entry and your marketing plan can range from a simple brochure to a full-blown e-commerce website.

Export-Focused On-Line Services

Trade leads from international companies seeking to buy or represent U.S. products are gathered by the United States and Foreign Commercial Service officers worldwide and are available from the U.S. Department of Commerce (DOC) (www.export.gov). The SBA offers information on managing and expanding your business, software for small businesses and gateways to other online services.

The International Trade Data Network® (ITDN) (www.itdn.net) provides access to export, import and other trade-related information. From current events to comprehensive country, industry and market reports, ITDN has been a nationally recognized aggregation and distribution leader for years. The ITDN is a non-profit, data multiplier that provides the business community with the timely, detailed market intelligence needed to become competitive in the global arena.

Electronic Banking

Your computer can expedite the financial tasks of your export business. Banks often provide electronic access to your account balances and statements, and can e-mail letters of credit, collection on consignment agreements and wire transfer acknowledgments directly to you. In addition, many accounting packages interact with on-line banking services.

Electronic Data Interchange

Electronic Data Interchange (EDI) is the electronic transfer of transaction information from computer to computer in an agreed-upon standard format. It is designed for very specific use and may benefit your business. EDI is most useful when information exchanged is fully integrated into your order-entry, delivery and inventory systems. Because EDI allows you to forego entering information manually, a number of common

mistakes can be avoided and valuable time can be saved. If your communications resources are limited, service bureaus can handle EDI for you.

Tracking Shipments Electronically

Most air express companies now offer the ability to track your shipments on line. With the click of a mouse, you can see where your shipment is located, when it was delivered, whether it was delayed in customs and who received the shipment. Freight forwarders and trucking companies also benefit from electronic tracking as they move goods and services across international borders.

The E-Commerce World

While e-commerce has vastly expanded the opportunities for small business exporters, it is important to keep in mind that there are varying levels of technical ability throughout the world. For example, a web-based marketing plan that works well in the UK may not be viable in certain developing countries due to lack of technical infrastructure. With this in mind, you will need to identify the best export markets to pursue. Chapter 3, "Identifying International Markets," will help you achieve this.

3 Identifying International Markets

To succeed in exporting, you must first identify the most profitable international markets for your products or services. Without proper guidance and assistance, however, this process can be time consuming and costly—particularly for a small business.

The U.S. federal government, state governments, trade associations, exporters' associations and foreign governments offer low-cost and easily accessible resources to simplify and speed your foreign market research. This chapter describes those resources and how to use them.

Federal Government Resources

Many government programs and staff are dedicated to helping you, the small business owner, assess whether your product or service is ready to compete in a foreign market. The U.S. government created the Trade Promotion Coordinating Committee (TPCC) in 1990. It is the federal government's export team. The TPCC, an interagency task force chaired by the Secretary of Commerce, is dedicated to thinking strategically about our global competitive position and has been charged with leveraging and streamlining our export promotion and trade finance services.

U.S. Export Assistance Centers (USEACs)

USEACs were authorized by Sec. 202 of the Export Enhancement Act of 1992 and implemented by recommendation of the TPCC's report, *Toward a National Export Strategy*. They are designed to provide the U.S. exporting community a single point of contact for all federal export promotion and finance programs. USEACs can deliver services directly or refer clients to appropriate public and

private sector partners. The Centers integrate representatives of the Small Business Administration (SBA), the Department of Commerce (DOC) and, at some locations the Export-Import Bank of the United States (Ex-Im Bank), and additional federal agencies.

Whenever feasible, the centers are conveniently co-located with private and other public sector partners who concentrate on assisting export ready firms in all areas of export development and trade financing. The USEAC staff can assess your company's export readiness and can refer you, if you are a start-up business, to basic "How-to Export" programs. For new-to-market companies, the specialists at the USEAC have a full menu of market entry programs, including industry and country profiles, help with finding distributors overseas, identifying tariff and regulatory requirements and assisting with financing or questions related to how to get paid.

The U.S. Small Business Administration

Many new small firms have found the counseling services provided by the SBA's SCORE® volunteers helpful. Through your local SBA District office you can gain access to more than 10,500 SCORE® volunteers (389 chapters nationwide), for basic business start-up help. The other SBA-sponsored program for management and export advice is the network of Small Business Development Centers (SBDCs), affiliated with colleges and universities throughout the United States. SBDCs offer counseling, training and research assistance on all aspects of small business management and many have programs for international business development.

The U.S. Department of Commerce

The U.S. Department of Commerce's (DOC) International Trade Administration (ITA) is a valuable source of advice and information. Its export portal, www.export.gov, is a useful starting point for your on-line search for information about export development, federal export support programs, services, and staff.

One of its divisions, the United States and Foreign Commercial Service (US&FCS), helps U.S. firms compete more effectively in the global marketplace. Known in the U.S. as the Commercial Service, its trade specialists are available by email for your inquiries and for personal consultation in 69 U.S. cities, including Export Assistance Centers, and in 70 countries worldwide. The trade specialists are organized by industry specialty and provide information on foreign markets, agent/distributor services, trade leads, and counseling on business opportunities, trade barriers and prospects abroad. The best access point for help from the Commercial Service is through the Export Assistance Centers. To find a trade specialist near you, visit www.export.gov/comm_svc/eac.html.

General country-specific information is also available on-line:

- World Fact Book, Central Intelligence Agency (www.cia.gov/publications/factbook)

- Country Reports, Department of State (www.state.gov/countries)
- Country Risk Assessment, EXIM Bank (www.exim.gov/tools/country/country_limits.html)

District Export Councils (DECs) are another useful ITA-sponsored resource. The 51 District Export Councils located around the United States are composed of 1,800 executives with experience in international trade who volunteer to help small businesses export. Council members come from banks, manufacturing companies, law offices, trade associations, state and local agencies, consulting companies and educational institutions. They draw upon their own experience to encourage, educate, counsel and guide potential, new and seasoned exporters in their individual marketing needs. DECs can be contacted through local Commercial Service or U.S. Export Assistance Center offices.

The United States Export-Import Bank

The United States Export-Import Bank (Ex-Im Bank) can provide you with information about a country's political and economic risk. Through its export credit insurance program, Ex-Im Bank offers protection against failure of foreign buyers to pay their credit obligations for commercial or political reasons; greater financial flexibility for you and your bank in handling overseas accounts receivable; greater ability to offer foreign buyers competitive terms of payment; and support for prudent penetration of higher-risk foreign markets.

The United States Department of Agriculture

If you have an agricultural product, your best choice for help is the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS). With posts in embassies and consulates worldwide, the FAS can obtain specific overseas market information for your product. The FAS also maintains sector specialists in the United States to monitor foreign markets for specific U.S. agricultural products. The FAS Trade Assistance and Planning Office (TAPO) can assist you in finding out more about the export programs of the USDA, or go to the FAS website: www.fas.usda.gov.

Non-Federal Resources

State Economic Development Offices

Most state commerce and economic development offices have international trade specialists to assist you. Many states have trade offices in overseas markets, and some port authorities may offer small business export assistance. Although traditionally associated with transportation services, many port authorities around the country have expanded their services to provide export training programs and foreign-marketing research assistance.

Foreign Embassy Commercial Sections

Talk to the Commercial Attaché assigned to the embassy of the country to which you wish to export. For a web listing of embassies, visit www.embassy.org/embassies/.

Exporters' Associations

World Trade Centers, import-export clubs and organizations such as the American Association of Exporters and Importers and the Small Business Exporter's Association can aid in your foreign market research.

Trade Associations

The Federation of International Trade Associations (www.fita.org), founded in 1984, fosters international trade by strengthening the role of local, regional and national associations throughout the United States, Mexico and Canada that have an international mission. FITA affiliates are 450+ independent international associations which fall into six categories: world trade clubs, associations/chambers of commerce with regional/bilateral interests, associations focused on international logistics, associations supporting international trade, associations supporting exporters and professional associations. More than 5,000 trade and professional associations currently operate in the United States; many actively promote international trade activities for their members. Chambers of Commerce, particularly state chambers, or chambers located in major industrial areas, often employ international trade specialists who gather information on markets abroad.

How to Gather Foreign Market Research

Now that you know where to begin your research, the next step is to identify the most profitable foreign markets for your products or services. You will need to:

1. Classify your product by the HS-Code/Schedule B number
2. Find countries with the best-suited markets for your product
3. Determine which foreign markets will be the easiest to penetrate
4. Define and narrow down those export markets you intend to pursue
5. Talk to your U.S. customers or other companies who are doing business internationally
6. Research export efforts of U.S. competitors

Data originating outside the United States or information available from international organizations usually are organized under the Standard International Trade Classification (SITC) system, which may assign a different code to your product or service.

The most critical method of classifying products for export is the Harmonized System (HS). It is an internationally agreed upon classification system that is the basis for obtaining domestic and international trade and tariff information. The codes are available on the National Trade Data Bank (NTDB) or visit the U.S. Bureau of the Census (USBC) website www.census.gov/foreign-trade/schedules/b/.

The North American Industry Classification System (NAICS) (www.census.gov/epcd/www/naics.html) is the system by which the U.S. government formerly classified its goods and services. Knowing the proper code for your product or service can be useful in collecting and analyzing data available in the United States.

Data originating outside the United States or information available from international organizations usually are organized under the Standard International Trade Classification (SITC) system, which may assign a different code to your product or service. Another method of classifying products for export is the Harmonized System (HS). Knowing the HS classification number for your product is essential to obtaining international tariff information. DOC and USDA trade specialists can assist in identifying the codes for your products. The codes are available on the National Trade Data Bank (NTDB). The U.S. Bureau of the Census (USBC) can help identify the HS number for your product.

Finding Countries With the Largest and Fastest Growing Markets for Your Product

At this stage of your research, look up where your domestic competitors are exporting. In 2002, the three largest markets for U.S. products were Canada, Mexico and Japan. Due to their proximity, Canada and Mexico often are good first choices for new-to-export companies.

Trade associations can often provide data on where companies in a particular industry sector are exporting their products. U.S. government databases can identify those countries which represent significant export potential for your product.

The National Trade Data Bank (NTDB)

The National Trade Data Bank (NTDB), a web-based subscription service of DOC's STAT-USA, is a trade library of more than 190,000 documents on export promotion and international economic information from more than 20 Federal sources. With the NTDB, you can conduct databank searches on markets, tariffs and non-tariff barriers, importers, logistics and product information. NTDB can be purchased by subscription or accessed at nearly 1,000 Federal depository libraries throughout the United States. Once you learn the largest markets for your products, determine which are the fastest growing. Find out what demographic patterns and cultural considerations will affect market penetration. Several publications, most available on the NTDB, provide

geographic and demographic statistical information. The World Factbook, produced by the Central Intelligence Agency (http://cia.gov/cia/publications/factbook/index.html); World Population, published by DOC's U.S. Bureau of Census; The World Bank Atlas, available from the World Bank (www.worldbank.org); and the United Nations International Trade Statistics Yearbook. Another excellent resources for country information include three sites: US trade statistics assembled by the Canadian government on an easy to use site, http://strategis.ic.gc.ca/sc_mrkti/ibin/compare.html and two private sector providers www.countrywatch.com and http://aigonline.com.

Determining the Most Penetrable Markets

Once you have defined and narrowed your search to a few prospective foreign markets for your product, you will need to examine them in detail. At this stage you should ask the following questions: How does the quality of your product or service compare with that of goods already available in your target foreign markets? Is your price competitive in the markets you are considering? Who are your major customers?

Answering these questions may seem overwhelming at first, but many resources are available to help you select which foreign markets are most conducive to selling your product.

Much information is available on-line, visit www.export.gov/marketresearch.html and you are able to search on-line for Country and Industry reports, access the Video Market Report Library, find Country Facts, Data, Demographics, etc. and get the details on Customized Market Research Services. At some point you may want to discuss your preliminary findings and get feedback on your selection. The ITA trade specialists can assist you in the feasibility check on your market selections and then link you with specific foreign markets. The trade specialists in USEACs communicate directly with colleagues working in U.S. embassies worldwide and can produce locally prepared in-depth reports on selected products and industries which can answer many of your questions regarding foreign market penetration. These reports are a low-cost way to conduct research without having to leave the United States.

Finding partners and trade leads is easy. Visit www.export.gov/partners.html and see whether any of the listings fit your interest, business focus and export strategy. One other basic screen in the targeting foreign markets includes political risk considerations. For a general check using the Country Credit Assessment by the EXIM Bank, visit http://exim.gov/tools/country/country_limits.html and use the 'Quick Select,' alphabetical country selection for a review of the credit standards prepared by economic specialists of the Export-Import Bank. The government also maintains a list of prohibited companies and individuals which you can cross check

for the legality of trading with companies or individuals, by checking the listing of Specially Designated Nationals (SDN) or Blocked Companies at www.ustreas.gov/offices/enforcement/ofac/sdn/. The same site also has a comprehensive list of sanctions which prohibit trade with designated countries.

Finally making cultural adjustments and product modifications, such as packaging or labeling can make your product more "exportable." Conforming to entry requirements that are of a technical nature, such as the EC Mark for entry into the European Union markets may even require redesigning or retrofitting your products in order to be allowed entry. Commercial Service trade specialist can offer advice and information on these requirements as well.

Another fundamental question to ask trade specialists is about tariffs or import restrictions, which may exist for your product. Food items, supplements and cosmetics may require pre-clearance prior to import into a foreign market, similar to the FDA approval in the USA. Often experienced trade specialists can assist you in achieving clearance simply by helping you understand the process or by providing details on the requirements.

Tariffs are the taxes imposed on imported goods in the target markets and unless you are trading within the NAFTA area or in markets linked to the US by trade agreements, they can become a major factor in determining your pricing. If tariffs raise the price of imported goods beyond the level of domestic goods, you will not be competitive.

To determine the rate of duty, you will need to identify the Harmonized Code number, for the product you wish to export. While each country has its own schedule of duty rates, most classification systems are based on the Harmonized System of Tariff Nomenclature.

Defining Which Markets to Pursue

Once you know the largest, fastest growing and easiest markets to penetrate for your product or service, the next step is to define your export strategy.

New-to-export businesses tend to choose too many markets. For most small businesses, one to three foreign markets will be quite ambitious initially. It is best to test one market and then move on to secondary markets as your expertise develops. Focusing on regional, geographic clusters of countries is more cost effective than choosing markets scattered around the globe, especially when you plan trips or marketing events.

After you have identified the best export markets, the next stage will be to determine the best way to distribute your product abroad. Chapter 4, "Foreign Market Entry," discusses distribution methods.

4 Foreign Market Entry

When you have made the initial choice of target markets, you can move onto assessing how to get your products to potential customers.

You have many options for market entry strategies. The list includes direct and indirect exporting, joint ventures, strategic alliances, acquisitions of foreign companies through direct investment or licensing technology abroad. The benefits and risks associated with each method are contingent on many factors, including the type of product or service you produce, the need for product or service support, and the foreign economic, political, business and cultural environment you are seeking to penetrate. The best strategy will depend on your firm's level of resources and commitment, and the degree of risk you are willing to incur.

Small businesses most commonly select exporting as their strategy. Start-up costs and risks are limited, and it is less complex than some of the other methods. Exporting can be done directly or indirectly. In the direct method, the business expands its business plan to add exporting as a new activity and assembles knowledge and staff to implement the plan, i.e., locating foreign buyers, getting the product and labeling ready, making shipping arrangements, and invoicing. If this method seems beyond the scope of your in-house capabilities at this time, do not abandon the idea of exporting. Consider indirect exporting through an export intermediary.

Indirect Exporting

Many small businesses export indirectly by using an export intermediary. There are several kinds of export intermediaries to consider.

Commissioned Agents

Commissioned agents act as "brokers," linking your product or service with a specific foreign buyer. Generally, the agent or broker will not fulfill the orders, but rather pass them to you for your acceptance. However, in some cases they may assist with export logistics, such as packing, shipping and export documentation.

Export Management Companies (EMCs)

EMCs act as your "off-site" export department, representing your product—along with the products of other companies—to prospective overseas purchasers. The management company looks for business on behalf of your company and takes care of all aspects of the export transaction. Hiring an EMC is often a viable option for smaller companies that lack the time and expertise to break into international markets on their own. EMCs often will use the letterhead of your company, negotiate export contracts and then provide after-sales support. EMCs may assist in arranging export financing, but they do not generally guarantee payment. Some of the specific functions EMCs perform include:

- Conducting market research to determine the best foreign markets for your products
- Attending trade shows and promoting your products overseas
- Assessing proper distribution channels
- Locating foreign representatives and/or distributors
- Arranging export financing
- Handling export logistics, such as preparing invoices, arranging insurance, customs documentation, etc.
- Advising on the legal aspects of exporting and other compliance matters dealing with domestic and foreign trade regulations

EMCs usually operate on a commission basis, although some work on a retainer plus commission basis, while others take title to the goods they sell, making a profit on the markup. It is becoming increasingly common for EMCs to take title to goods.

Export Trading Companies (ETCs)

ETCs perform many of the functions of EMCs. However, they tend to be demand-driven and transaction-oriented, acting as an agent between the buyer and seller. Most trading companies source U.S. products for their overseas buyers. If you offer a product that is competitive and popular with ETC buyers, you are likely to get repeat business. Most ETCs will take title to your goods for export and will pay your company directly. This arrangement practically eliminates the risks manufacturers incur with exporting.

ETC Cooperatives

ETC cooperatives are U.S. government-sanctioned co-ops of companies with similar products who seek to export and gain greater foreign market share. Many agricultural concerns have benefited from ETC cooperative exporting, and many associations have sponsored ETC cooperatives for their member companies. Check with your particular trade association for further information.

Foreign Trading Companies

Some of the world's largest trading companies are located outside the United States. They can often be a source of export opportunity. The trade specialists of the Commercial Service in the USEACs can help in your search by contacting their colleagues in embassies around the world who know more about trading companies in the local market.

Exporting through an Intermediary—Factors to Consider

Working with an EMC/ETC makes sense for many small businesses. The right relationship, structured properly, can bring enormous benefits to the manufacturer. But no business relationship is without its drawbacks. The manufacturer should carefully weigh the pros and cons before entering into a contract with an EMC/ETC. Some advantages include:

- Product exposure in international markets with little or no commitment of staff and resources from your company.
- The EMC/ETC's years of experience and well-established network of contacts
- Lower or virtually no export start-up costs and associated risks. You can negotiate your contract with an EMC so that you pay nothing until the first order is received.

Some disadvantages of exporting through an intermediary include:

- Loss of of control over the way in which your product is marketed and serviced. Your company's image and name are at stake. You will want to incorporate any concerns you may have into your contract, and you will want to monitor closely the activities and progress of your intermediary.
- Loss of part of your export-sales profit margin by discounting your price to an intermediary. However, you may find that the economies of scale realized through increased production offset this loss.
- A higher price passed on to the overseas buyer or end-user. This may or may not affect your competitive position in the market. The issue of pricing should be addressed at the outset.

- Lack of information on markets and customers—which all remain with the EMC. Any shifts in the market cannot be anticipated and the sudden loss of a customer or market may create business instability.

Export Merchants/Export Agents

Export merchants and agents will purchase and then repackage products for export, assuming all risks selling to their customers. This export intermediary option should be considered carefully, as your company could run the risk of losing control over your product's pricing and marketing overseas.

Piggyback Exporting

Allowing another company, which already has an export distribution system in place, to sell your company's product in addition to its own is called "piggyback" exporting. Piggyback exporting has several advantages. This arrangement can help you gain immediate foreign market access. Also, all the requisite logistics associated with selling abroad are borne by the exporting company. If you have no intention of ever exporting directly, this method is for you.

How to Find Export Intermediaries

Small businesses often report that intermediaries find them—at trade fairs and through trade journals where their products have been advertised—so it can often pay to get the word out that you are interested in exporting. One way to begin your search for a U.S.-based export intermediary is in the Yellow Pages of your local phone directory. In just a few initial phone calls, you should be able to determine whether indirect exporting is an option you want to pursue further.

The National Association of Export Companies (NEXCO) (www.nexco.org) and the Federation of International Trade Associations (FEA) (www.fita.org) are two associations that can assist in your efforts to find export intermediaries. The U.S. DOC's Office of Export Trading Company Affairs (OETCA) (www.ita.doc.gov/td/oetca/index.html) can also assist in providing information on how to locate ETCs and EMCs, as well as ETC cooperatives in the U.S. The office, under a joint public/private partnership, provides the contact information for EMCs/ETCs, as well as other export service companies, such as banks and freight forwarders. Locating the best export intermediary to represent you overseas is important. Do your homework before signing an agreement.

Direct Exporting

While indirect exporting offers advantages, direct exporting also has its rewards. Although initial outlays and the associated risks are greater, the profits are likely to be greater, too. Direct exporting signals a commitment of the company and its

management to fully engage in international trade. It requires that you dedicate sufficient and appropriate staff to support your export efforts, and are prepared for management to travel abroad frequently. Selling directly to an international buyer means you will have to handle the logistics of moving the goods overseas. A relationship with a freight forwarder is essential, if you do not have the technical expertise for document preparation in-house. Direct exporting can be achieved with the help of many organizations.

Sales Representatives/Agents

Like manufacturers' representatives in the United States, foreign-based representatives or "agents" work on a commission basis to locate buyers for your product. Your representative most likely will handle several complementary, but non-competing, product lines. Designating someone as an agent has considerable legal implications since it means that as a representative of your company this person has the authority to make commitments on behalf of your firm. The two terms are often used interchangeable, however, the differences are substantive. Your agreement should specify whether the agent/representative has legal authority to obligate the firm.

Distributors

Foreign distributors, in comparison, typically purchase merchandise from U.S. companies and resell it abroad at a profit. They usually inventory product, which allows the buyer to receive the goods quickly, and often provide after-sales service to the buyer. Your agreement with any overseas business partner—whether a representative, agent or distributor—should address whether the arrangement is exclusive or non-exclusive, the territory to be covered, the length of the association, performance requirements, and other issues. Legal advice from international attorneys is advised for distributor agreements. Through the Export Legal Assistance Network (ELAN), a cooperative program among the National Bar Association, SBA and DOC, new exporters can get a free, initial consultation. The attorneys can address questions pertaining to distributor agreements, contract negotiations, licensing, and other legal issues relevant to your target market. There is no charge for this one-time service, available through USEAC offices and some international SBDCs. (See Chapter 5, "The Export Transaction," for additional information on negotiating agent/distributor agreements.)

Finding overseas distributors for your products need not be more difficult than locating a representative here in the United States. Nevertheless, it is likely that it will require an investment of time and resources to travel to your target market to meet face-to-face. A good way to identify potential distributors is to tap DOC's International Partner Search program; contact a local trade specialist or, to get more information, visit (www.export.gov/comm_svc/intl_partner_search.html). This program provides a customized search to identify agents, distributors and

representatives for U.S. products based on a foreign company's examination of U.S. company's product literature.

Other sources of leads to find foreign agents and distributors include trade associations, foreign chambers of commerce in the United States and U.S. chambers of commerce located in foreign countries, the co-called AM-CHAMs. Many publications can be useful. The Manufacturers' Agents National Association (www.manaonline.org) has a roster of agents in Europe, for example.

Foreign Government Buying Agents

Foreign government agencies or quasi-governmental agencies are often responsible for procurement. In some instances, countries require an in-country agent to access these procurement opportunities. This often can represent significant export potential for U.S. companies, particularly in markets where U.S. technology and know-how are valued. Foreign country commercial attachés in the United States can provide you with the appropriate in-country procurement office.

Retail Sales

If you produce consumer goods, you may be able to sell directly to a foreign retailer. You can either hire a sales representative to call on retailers in target markets or you can introduce your products to retailers through direct-mail campaigns. The direct-marketing approach will save commission fees and travel expenses, but may not be as effective. You may want to combine trips to your target markets with exploratory visits to retailers. Such face-to-face meetings will reinforce your direct marketing.

Direct Sales to End-Users

Your product line will determine whether direct sales to the end-user are a viable option. A manufacturer of medical equipment, for example, may be able to sell directly to hospitals. Other major end-users include foreign governments, schools, businesses and individual consumers.

Finding Buyers

Advertise in Periodicals

Many small businesses report that foreign buyers often find them. An ad placed in a trade journal or in DOC's Commercial News USA (CNUSA) can be a low-cost method for testing market interest and often yields inquiries from abroad. The printed version of CNUSA is a monthly export catalog-magazine promoting U.S. products and services to more than 150 countries at a fraction of the cost of any other advertising. CNUSA is the ideal way for all U.S. companies to showcase their products and services around the world and increase export sales with a minimal investment. Through CNUSA and its placement in embassies and consulates

worldwide, you have access to 150,000 buyers, agents, and distributors. CNUSA has proven to be a most effective vehicle for selling products overseas and now it is available both in print and on-line.

Participate in Catalog and Video/Catalog Exhibitions

Catalog and Video/Catalog exhibitions are another low-cost means of advertising your product abroad. Your products are introduced to potential partners at major international trade shows—and you never have to leave the United States. For a small fee, US&FCS officers in embassies show your catalogs or videos to interested agents, distributors and other potential buyers. Visit www.export.govcomm_svc/catalog_program.html for more information or discuss this option with a local trade specialist at the USEACs.

Pursue Trade Leads

Rather than wait for potential foreign customers to contact you, another option is to search out foreign companies looking for the particular product you produce. Trade leads from international companies seeking to buy or represent U.S. products are gathered by US&FCS officers worldwide and are distributed on-line. Another source of trade leads is the World Trade Centers (www.wtca.org/). If your product is agricultural, the U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) (www.fas.usda.gov/agexport/tleadsinfo.html) disseminates trade leads collected by their 80 overseas offices. Also, the U.S. Agency for International Development's Global Trade & Technology Network which promotes economic development in developing countries through trade has an extensive trade lead service; please visit (www.usgtn.net).

Exhibit at Trade Shows

Trade shows are another means of locating foreign buyers. The U.S. Commercial Service's International Buyer Program brings thousands of international buyers annually to meet with U.S. companies at major trade shows in the United States. Each year the U.S. Commercial Service selects and promotes 28 trade shows representing leading industrial sectors. International trade shows are an excellent way to market your product abroad. Many U.S. small businesses find that attending one foreign trade show just is not enough. For more information about U.S. and international trade shows go to www.export.gov/comm_svc/.

Participate in Trade Missions

Participating in overseas trade missions is yet another way to meet foreign buyers. Public/private trade missions are often organized cooperatively by federal and state international trade agencies and trade associations. Arrangements are handled for you in order to simplify the process of meeting prospective partners or buyers. Matchmaker Trade Delegations are DOC-sponsored trade missions to select foreign

markets. Your company is matched carefully with potential agents and distributors interested in your product. Being properly prepared for the kinds of inquiries you might encounter on overseas trade missions is important. The Small Business Administration offers pre-mission training sessions through some of its district offices, Export Assistance Centers and the SCORE program.

Customized Country Visits

The Gold Key and Platinum Key services offered for a fee by DOC allow you to schedule visits in your target markets and have your appointments pre-planned by the in-country trade specialists and the in-country foreign service staff. This fee-based service lets you specify the timing and purpose of your trip. Your product literature is sent to the overseas location prior to your visit to assist the Commercial Service staff in selecting potential business partners for your. Many satisfied client firms have used this service repeatedly for expanding into new foreign markets.

Contact the Multilateral Development Banks (MDB)

In developing countries, large infrastructure projects are often funded by multilateral development banks such as the World Bank (www.worldbank.org), the African, Asian, and Inter-American Development Banks and the European Bank for Reconstruction and Development. Multilateral Development Bank projects often represent extensive opportunities for U.S. small businesses to compete for project work. While small businesses can benefit from sub-contracting opportunities when larger U.S. firms win major project funding, cultivating the relationship with the prime contractor is key to success. If this specialized field is of interest to you, a visit with the DOC rep to one of the MDB can help you assess the steps for best results. Project financing by the MDBs helps U.S. businesses gain access to many export opportunities. Additionally, DOC's Office of Energy, Infrastructure and Machinery, Infrastructure Division (www.ita.doc.gov/td/oeim/) can assist in identifying contracting and subcontracting opportunities.

Qualify Potential Buyers or Representatives

Once you locate a potential foreign buyer or representative, the next step is to qualify them by reputation and financial position. First, obtain as much information as possible from the company itself. Here are a few sample questions you will want to ask:

- What is the company's history and what are the qualifications and backgrounds of the principal officers?
- Does the company have well trained personnel, facilities and resources to devote to your business?
- What is their current sales volume?

- How long have they been in this line of business?
- What is their banking relationship?
- How will they market your product (retail, wholesale or direct)?
- Which territories or areas of the target country do they cover?
- Do they have other U.S. or foreign clients? Are any of these clients your competitors? It is important to obtain references from several current clients.
- What types of customers do they serve?
- Do they publish a catalogue?
- How effective is their sales force?

When you have this background information and are comfortable about proceeding, then obtain a credit report on their financial position. DOC's International Company Profiles (ICPs), available from the nearest U.S. Export Assistance Center or your local District ITA Office, are compiled by US&FCS officers. An ICP can usually provide an in-depth profile of the prospective company you are investigating. There are also on-line services for due diligence on foreign companies and a growing list of reputable credit report providers, even in emerging markets.

Cultural Considerations

Cultural sensitivities will affect your market entry and product acceptance in any country outside the United States, including Canada. Do not assume that because the language of business is English, the way of doing business is the same as in the USA.It pays off to research cultural considerations along with market trends. A good overview of doing business with most nations is presented in International Business Practices or CultureGrams (www.culturegrams.com).

Other Market Entry Methods

Other methods of market entry tend be more complex and often follow after a company has been trading internationally for some time. This is especially true if you are considering establishing a joint venture with a foreign partner. Foreign joint ventures are often accomplished through a licensing or off-shore production agreement. Licensing involves a contractual agreement whereby you assign the rights to manufacture or distribute your product or service to a foreign company or individual. Off-shore production usually involves establishing your own facility in the target market or subcontracting the manufacturing of your product to an existing organization. Licensing and off-shore production are discussed in Chapter 8, "Strategic Alliances and Foreign Investment Opportunities.

In this chapter we have discussed methods of market entry, how to find potential foreign buyers and representatives and how to qualify your prospects so that you can proceed to do business with them. Solid market research and preparation are the best way for a small business to define a potential export market. The next question to be explored covers how to accomplish the business of exporting—that is, how the deal should be structured—the topic of Chapter 5, "The Export Transaction."

5 The Export Transaction

If you have decided to proceed into direct exporting, it is now time to assemble a resource library and a team to assist you in export development leading to sales. *The Basic Guide to Exporting* is a must have item. It can be downloaded from http://www.export.gov or http://unzo.com/basic guide/index.html. It is a concise publication with descriptions of export steps, terminology, and most of the forms you will need to negotiate and close the sale, as well as to complete the shipping documents. The guide also has a listing of INCO terms (see Chapter 6, Financing). Your export team—aside from in-house staff—should include an international attorney, a freight forwarder, a banker and an advisor from the USEAC, SCORE, SBDC or a mentoring export company, perhaps even an engineer from the Manufacturing Extension Partnership. You will need all of them to get your product ready, develop pricing, respond to inquiries, prepare quotations, negotiate sales, prepare shipping documents, and select the best form of payment.

Getting Your Product Export Ready

To successfully market a product in a foreign country, the manufacturer must incorporate industry standards, correct labeling, consumer preferences, and other consumer-driven considerations into a marketing strategy. In many cases, only a minor product alteration may be required to successfully gain appeal; in others, technical modifications must be made to incorporate standards of the importing country.

Consideration also should be given to the product name (i.e., it may inadvertently have a negative connotation in the local language), cultural and/or religious connotations, packaging and, most importantly, compliance with standards (i.e., different electrical power systems, metric dimensions and local product regulations). The EC mark,

for instance, is required for products entering European Union countries; stringent labeling standards apply to food, supplements and cosmetics in most countries.

Another consideration when planning a market strategy is understanding the ramifications of ISO 9000 (www.iso.ch/iso/en/ISOOnline.frontpage), essentially a quality control/management system. When competing for business in foreign countries, particularly with regard to procurement bidding, it may be a requirement to be ISO certified. In many instances, subcontractors supplying parts or services for major overseas contractors are required by the terms of government contracts to be ISO 9000 qualified.

The purpose of the ISO 9000 series is to document, implement and demonstrate the quality assurance systems used by companies that supply goods and services internationally. ISO standards are required to be reviewed every five years. Additional information on these revisions can be obtained from the American Society for Quality (ASQ) at www.asq.org. For local help in quality control and manufacturing efficiency issues, contact the Manufacturing Extension Partnership, a joint effort of the National Institute for Standards and Technology (NIST) and State governments.

ISO Certification

There are three ways for a manufacturer to prove compliance with the requirements of one of the ISO 9000 standards. Manufacturers may evaluate their quality system and self-declare the conformance of the system to one of the ISO 9000 quality systems. Second-party evaluations occur when the buyer requires and conducts quality system evaluations of suppliers. These evaluations are mandatory only for companies wishing to become suppliers to that buyer. Third-party quality systems and evaluations and registrations may be voluntary or mandatory and are conducted by persons or organizations independent of both the supplier and the buyer. Interpretations of an ISO 9000 standard may not be consistent from one registrar to another.

Since the supplier's quality system is registered, not an individual product, the quality system registration does not imply product conformity to any given set of requirements. The demand for ISO 9000 registration in Europe and elsewhere appears to be coming primarily from the marketplace as "a contractual rather than a regulatory requirement." Additional information on U.S., foreign and international voluntary standards and government regulations and rules of certification for nonagricultural products is available from the National Center for Standards and Certification Information (NCSCI), which is part of the National Institute of Standards and Technology (NIST).

National Institute of Standards and Technology (NIST)
E-mail: inquiries@nist.gov
www.nist.gov

Global Standards and Information Group
National Institute of Standards and Technology (NCSCI)
E-mail: ncsci@nist.gov

Pricing

Pricing products for maximum competitiveness in foreign markets can be a challenge. Pricing that works in one market may be totally noncompetitive in another. Although there is no one formula, there are a number of strategic and technical considerations you can make to determine an appropriate pricing structure. At this point a number of questions need to be answered. For example: Are you entering the market with a new or unique product? Are you selling excess or obsolete products? Can your product demand a higher price because of brand recognition or superior quality? Are you willing to reduce profits to gain market share for long-term growth? Your pricing strategy will be affected by your company's business goals.

As part of your market research, obtain as much information as possible on local market prices. Pricing information can be obtained in several ways: a) from overseas distributors and agents of similar products of equivalent quality; b) whenever feasible, traveling to the country where your products will be sold to gather pricing information; and, c) through the U.S. Commercial Service which can assist in determining appropriate prices through its *Customized Sales Survey*. For more information, go to www.export.gov/tic. Check also with international business advisors (at the SBDC or State economic development) on assistance in developing your products' "landed cost" as a basis for developing price quotations.

Methods of International Pricing

The cost-plus method of international pricing is based on your domestic costs, plus additional exporting costs associated with international sales and promotion, product modification, etc. (Remember, costs associated with insuring or delivery are usually "pass-through costs" that do not have a mark-up component in arriving at a selling price.) Any costs not applicable, such as domestic marketing costs, are subtracted from the overall cost prior to mark-up to arrive at your selling price. The cost-plus method allows you to maintain your domestic profit margin percentage, and thus to set a suitable price. This method does not, however, take into account local market conditions.

Different marketing costs and/or modifications to the product could change the cost basis dramatically, making the product either more or less costly for export. As a result, using the "marginal-cost" method provides a more realistic means of determining true cost of producing your product for export. To use the marginal-cost method, first determine the *fixed costs*, if any, of producing an additional unit for export. Fixed costs are defined as costs that occur whether or not the company is selling anything, i.e., mortgage payments

on land or buildings. If a company is operating at a profit, and additional assets are not being employed, fixed costs have been covered. At this point, any additional costs of producing products are termed *variable costs*.

There may be instances where additional assets are not needed to meet international sales requirements. In this case, the company would generally only be concerned with variable costs, operating expenses, taxes and net profit in determining the product sales price.

A company may have to purchase new machinery to meet international sales demands. Obviously, there would be a fixed cost component to international production costs (fixed costs would consist of amortized payment of the equipment). In this case, a fixed cost component must be included in the above example to reach the product sales price. International expenses may include the following:

Packaging

Local regulations and customs may require special labeling, translated instructions or different packaging to appeal to local tastes. The selected mode of distribution may also require a particular kind of packaging.

Foreign Market Research

Fees may be associated with specialized research and other educational services used to obtain market information.

Advertising and Marketing

Firms selling directly into new markets will most likely be responsible for the entire promotional effort, and may incur high initial outlays to establish product recognition in the new market. If an agent, distributor or trading company is employed, they typically can handle advertising and marketing as part of their contract.

Translation, Consulting and Legal Fees

Product instructions, sales agreements and other documentation generally will need to be translated into the local language. Be aware that idioms and words can differ greatly in regions using the same language. Expert translation of product labeling and instructions is essential. Although many sales agreements are standard, it is advisable to have legal counsel to review all binding documents.

Foreign Agent/Distributor Product Information and Training

Agents and distributors may require special training to effectively market and service your products. This is true even if the agent sells similar products. Training will not only enable the agent to better represent your company's interests, but gain a better understanding of your product.

After-Sales Service Costs

Product warranties and service contracts will enhance your product's image. An appropriate after-sales service guarantee can support your sales effort in the new market. Do not, however, promise service or warranties based on U.S. standards that you cannot deliver. After taking these expenses into account, insurance, freight, duties and a profit margin can be added to arrive at a customer price. Depending on the country, currency fluctuations can significantly affect profit margin and the final price. New-to-export companies should price products in U.S. dollars and request payment in dollars.

High-Price Option

This approach may be appropriate if your company is selling a new product, or if you are attempting to position your product or service at the upper-end of the market. Selecting this option may attract competition and limit the market for your product while producing large profit margins.

Moderate-Price Option

This is a lower risk approach as compared with the high- or low-price option. Here you should be able to match competitors' prices, build a market position and produce reasonable profit margins.

Low-Price Option

This approach may be relevant if you are trying to reduce inventory, want to quickly establish a market presence, or do not have a long-term commitment to the market. You will, no doubt, impede competition but also produce low profit margins. Overall, no single strategy is ideal for every company. As a result, companies often draw upon a mix of options for each market or product.

Setting Terms of Sale

Price Quotations

The pro forma invoice is the most commonly used document to give price quotations to potential customers. If both buyer and seller are in agreement, it is usually considered a sales binding sales contract, although prices may change prior to final sale. To prepare the invoice, you should give a detailed description of the product and an itemized list of fees and terms of sale. Prices should be quoted in U.S. dollars to reduce foreign exchange risks. The invoice also should indicate the period during which the price quotation is valid, the terms and method of payment, and delivery terms.

You should be familiar with the common terms of sale used in international trade before preparing your pro-forma invoice. International Commercial Terms (INCOTERMS) are universally recognized in export and import contracts. These terms refer to the rights and

obligations of each party (i.e., who pays what costs, when title to goods is transferred and where the goods should be delivered). A complete list of INCOTERMS published in the book *Incoterms for America* by Frank Reynolds can be obtained from the International Chamber of Commerce's (ICC) Bookstore, (www.iccbookusa.com/paag.cfm) and should be a permanent part of your business library.

Negotiating Sales and Distributor Agreements

Sales Contracts

Knowing how to include INCOTERMS in a contract is important, but it represents only one aspect of the sales agreement. Legal rights and obligations of the parties should be spelled out in a single document, which can be incorporated into the final invoice. Frequently, the terms and conditions are contained on the back of the invoice.

Some of the terms and conditions necessary in a written sales agreement include the following:

Delivery Terms—Risk of Loss
A *force majeure* clause is standard in most agreements. This clause excuses the exporter from responsibility where a default in performance is caused by events beyond the exporter's control, such as war, acts of God or labor problems.

Payment and Finance Terms
In addition to defining the terms of payment, provisions should be included for late payments, partial payments and remedies for non-payment. When discussing how to get paid, include the cost to your buyer of your preferred method of payment as one of your considerations. If you insist on wire transfer and the cost of this service is high in the export country, you are adding to the cost of your product. Optimize the negotiation process by offering to share fees, if the speed of receiving payment is important for your cash flow. Consider risk insurance protection for the for foreign receivable, if your competition is offering open account terms. See also Chapter 6, Export Financing.

Warranties
Sales contracts generally describe the goods and their qualities, workmanship and durability. In some cases, the exporter is obligated by the law in the country of import to provide quality and warranty information. Thus, the importer will require the exporter to warrant that the goods meet certain standards of construction and performance.

Acceptance of Goods
Frequently, the importer will insist upon the right to inspect the goods upon delivery. If found defective, the importer can reject them and refuse to pay. However, the importer is still liable for country-of-importation duties and other taxes. The export documents should reflect any such requirements. It is advisable to stipulate in the contract that the terms for buyer acceptance and preferences

for any inspections will be completed by a qualified third party, preferably before shipment.

Intellectual Property Rights
Protection of the exporter's patents, trademarks or copyrights should be assured in the agreement. However, protection under the laws of the foreign country is not automatic. You should not assume that your product is protected. Please consult with an attorney on the advisability and procedures required to properly register your intellectual property in specific countries.

Taxes
The obligations of the parties for payment of taxes other than customs duties should be defined in writing.

Dispute Settlement
It is advisable to specify how and where any disputes will be resolved, as well as which nation's law would be applied. Bear in mind that different countries have varying arbitration laws and systems, which may apply.

Agent and Distributor Agreements

If you choose to use an agent or distributor, it will be necessary to develop a formal contractual agreement. Agent and distributor agreements spell out in greater detail the issues noted above and define other aspects of the relationship between the parties to the agreement. In the contract it is important to:

1. Specify the goods and/or services covered.
2. Describe the agent or distributor's sales territory, and whether they will have exclusive or non-exclusive sales rights.
3. Set the length of the term for which the agreement is applicable and agree upon specified minimum sales volumes and objectives.
4. Outline protection of intellectual property.
5. Describe other types of obligations imposed on the parties, violations of which would justify termination of the contract.
6. List specific intellectual property rights granted to the agent or distributor.

When negotiating and drafting contractual agreements, it is recommended that you consult an attorney with experience in international trade and laws of the specified country. Your local bar association may provide a referral service. Under agreement with the Federal Bar Association and the U.S. Department of Commerce, the Small Business Administration sponsors the Export Legal Assistance Network (ELAN). ELAN is a group of attorneys throughout the United States who specialize in international trade. Your local Commercial Service office, international SBDC or U.S. Export Assistance Center (USEAC) can assist in locating an ELAN attorney who will provide a free, initial legal consultation to discuss your export-related questions.

Terms for financing export sales should be discussed during contract negotiations. While the U.S. seller will want to be paid as soon as possible, the foreign buyer will want to delay payment as long as possible, preferably until after the goods are resold. These two conflicting objectives will factor into any negotiations on export financing. In addition to reaching a compromise on the method of payment, the U.S. exporter must also be able to offer the foreign buyer favorable financing terms—otherwise the sale could be lost to a foreign competitor with an equivalent product but better payment terms. The final step in completing the export transaction is arranging for payment, the subject of Chapter 6, "Export Financing."

6 Export Financing

Financing Your Export Sales and Getting Paid

Few would disagree that small businesses should look overseas for profit opportunities. However, to succeed in the international marketplace, small firms must offer their customers competitive payment terms and methods. This chapter discusses how to choose the most appropriate international payment method, how to obtain export financing and, most importantly, how to get paid.

International Payment Methods

A small business exporter's principal concern is to ensure that he or she gets paid in full and on time for each export sale. It does little good to make a sale if the buyer delays payment so long that the financing cost eats up the profit. Foreign buyers have concerns as well, such as ensuring that their orders arrive on time and as requested. Therefore, it is important that the terms of payment be negotiated carefully to meet the needs of both the buyer and seller. The payment method used can significantly affect the financial risk of the buyer and seller in an export sale. In general, the more generous the sales terms are to a foreign buyer, the greater the risk to the exporter. As shown below, the primary methods of payment for international transactions, ranked in order of most secure to least secure for the exporter, include:

1. Payment in advance
2. Letters of credit
3. Documentary collections (drafts)
4. Consignment
5. Open account

Payment in Advance

Requiring payment in advance as a term of sale is not uncommon, but in many cases is too expensive and too risky for foreign buyers. Requiring full payment in advance is an unattractive option for the buyer and can result in lost sales, especially since a competitor (foreign or domestic) may be willing to offer more attractive terms. Before negotiating payment terms, determine whether or not your buyer can obtain a comparable product or service elsewhere and the terms offered. In some cases, such as when the buyer's credit worthiness is unknown or if your manufacturing process is specialized, lengthy or capital-intensive, it may be reasonable to insist upon progress payments or full or partial payment in advance.

Letters of Credit (LC)

Letters of credit are one of the most common and safest payment methods available. An export letter of credit is an internationally recognized instrument issued by a bank on behalf of its client, the buyer. Of course, the buyer pays its bank a fee to render this service. As a result, some buyers will resist LC terms if the competition is offering more lenient or less expensive terms. Keep in mind that various payment methods can be used as marketing tools and therefore should be negotiated carefully by you and the buyer.

An LC is useful if you are unsure of a prospective buyer's credit worthiness, but are satisfied with the credit worthiness of your buyer's bank. Sometimes it is difficult to obtain reliable credit information about a foreign buyer, but it may be less difficult to do so for the buyer's bank. Moreover, this vehicle can be structured to protect the purchaser since no payment obligation arises until the goods have been satisfactorily shipped or delivered as promised.

The terms and conditions required for payment under a LC are spelled out in the LC. When the terms and conditions have been met, as verified through the presentation of all required documents (that is why export letters of credit also are referred to as a *documentary* letters of credit), the purchaser's bank makes the required payment directly to the seller's bank in accordance with the terms of payment. A greater degree of protection is afforded to the seller when the LC that has been issued by the buyer's bank is *confirmed* by a major U.S. bank. In that case, any risk associated with the foreign bank and foreign country is moved to a bank in the United States. LCs may be utilized for one-time transaction, or they can cover multiple shipments, depending on what is agreed to between the parties. Always make sure you can deliver your order according to the terms and conditions of the LC before accepting the LC. However, if all parties agree, it can be amended after it is opened, but at an additional cost. Make sure you review the details of the letter of credit and the required documentation with a bank that has LC experience. In addition, it is advised that you initiate a conversation with an international banker *before* your buyer opens a letter of credit to ensure that proper language and conditions are incorporated into the LC.

Letters of credit can take many forms, but a typical transaction might involve the following steps:

1. The exporter, upon receiving an order for a specified quantity of goods, sends the buyer (importer) a pro forma invoice defining all conditions of the transaction.
2. The importer takes the pro forma invoice to the bank and applies for an LC.
3. After verifying the terms and reaching the appropriate credit decisions, the importer's bank opens the LC and sends it to the exporter's bank.
4. The exporter's bank authenticates the LC, verifying it was issued by a viable bank, and either forwards it to the exporter or keeps the original and sends a copy.
5. The exporter compares the LC with the original pro forma invoice to ensure that agreed upon terms and conditions have been incorporated in the LC and that they can be met.
6. The exporter prepares, usually with the help of a freight forwarder, an invoice and a packing list. These documents must be completed exactly as specified in the LC. The exporter also prepares a shipper's letter of instruction or SLI and any other specialized documents required, e.g., export license and certificate of origin. (Check with a freight forwarder to determine what documents are required in your case.)
7. The freight forwarder receives the goods along with completed paperwork in accordance with the terms of the LC.
8. After the goods are shipped, the forwarder or exporter submits the LC and documents to the exporter's bank.
9. The exporter's bank verifies that all required documents are in compliance with the LC and forwards the documents package with a draft to the importer's bank with wiring (payment) instructions.
10. The importer's bank reviews all documentation and, if the documents meet all requirements, credits the exporter's bank.
11. The importer's bank simultaneously debits its customer's account.
12. The exporter's bank credits the exporter's account.
13. The importer's bank releases documents to its customer. With documents in hand, the importer picks up the shipment.

***Note**: Your banker and freight forwarder will become important resources during a letter of credit transaction. They will help to guide you through these steps.*

The Buyer	The Seller
• agrees to buy products	• agrees to be paid via documentary collection
	• ships goods and submits shipping documents to bank for collection or acceptance
• the documents are released to buyer against payment or acceptance	• seller receives payment at sight or at a time agreed under the acceptance

Documentary Collections

Documentary collections involve the use of a draft, drawn by the seller on the buyer, requiring the buyer to pay the face amount either on sight (sight draft) or on a specified date in the future (time draft). The draft is an unconditional order to make such payment in accordance with its terms. Instructions that accompany the draft specify the documents needed before title to the goods will be passed from seller to buyer.

Because title to the goods does not pass until the draft is paid or accepted, to some degree both the buyer and seller are protected. However, if the buyer defaults on payment of the draft, the seller may have to pursue payment through the courts (or possibly, through arbitration, if such had been agreed upon between the parties). The use of drafts involves a certain level of risk; but drafts are typically less expensive for the purchaser than letters of credit.

Consignment

When goods are sold subject to consignment, no money is received by the exporter until after the goods have been sold by the purchaser. Title to the goods remains with the exporter until such time as all the purchase conditions are satisfied. As a practical matter, consignment is very risky. There is generally no way to predict how long it may take to sell the goods. Moreover, if they are never sold, the exporter would have to pay the costs of recovering them from the foreign consignee.

Open account

An open account transaction means that the goods are manufactured and delivered before payment is required (e.g., payment could be due 30, 60 or 90 days following shipment or delivery). In the United States, sales are likely to be made on an open-account basis if the manufacturer has been dealing with the buyer over a long period of time and has established a trusting relationship. In international business transactions, this method of payment should not be used unless the buyer is credit worthy and the country of destination is politically and economically stable, or unless the receivables are covered by export credit insurance. In certain instances it is possible to discount accounts receivable with a factoring company or other financial institution, referred to below.

Relative Strength and Weakness of Each Payment Method

Method	Usual Time of Payment	Goods Available to Buyer	Exporter Risk	Importer Risk
Cash in Advance	Before shipment	After payment	None, if products are in inventory or production begins after payment is received	Relies upon the exporter to ship goods
Letter of Credit	After shipment when documents complying with the Letter of Credit are presented	After payment	Very little or none, depending on the terms of the Letter of Credit	Relies upon the exporter to ship goods described in documents
Documentary collection sight draft	After shipment, but before documents are released	After payment	If draft unpaid, must dispose of goods	Relies upon the exporter to ship goods described in documents
Documentary collection time draft	On maturity of draft	Before payment	Relies on the buyer to pay draft, no control of goods	Almost none
Consignment	After sale	Before payment	High	Low

Export Financing

In the United States, small businesses typically turn to their local banks for working capital financing. However, most smaller banks do not retain staff with expertise in international trade. This is not to say, however, that such help is unavailable—only that small businesses must be persistent and tenacious in their efforts to find it. For example, if your bank's loan officer will not work with his or her bank's international staff (or the bank is unwilling to work with a correspondent), you should consider establishing a second banking relationship or, if necessary, moving all your accounts to a more aggressive lender with international banking expertise. So do not be afraid to shop around.

Given the difficulty most small businesses encounter when looking for export financing, it is imperative that any financial arrangements be made well in advance. To find a lender willing to consider your request, you must ensure that the purpose of the loan makes sense for the business, that the request is for a reasonable amount, and that you can demonstrate clearly how the loan will be repaid. Prospective borrowers also should understand some key distinctions before beginning discussions with a lender.

Venture Capital

Before approaching a bank for financial assistance, you should understand the distinction between venture capitalists and lenders. Venture capitalists invest in a business with the expectation that as the business grows, their equity in the business will grow exponentially. On the other hand, lenders are not in the venture capital business—they make their money on the difference between the rate at which they borrow money and the rate at which they lend to their customers.

International Trade Services

Small exporters also should understand the distinction between international trade *services* and *lending* for export transactions. Although many banks offer international trade services, such as advising, negotiating and confirming letters of credit, many banks' international divisions are not authorized to lend. Other banks have the authority to make loans as well as provide related services. You should verify that the bank officer with whom you are dealing has the authority to lend for an export transaction or can work with the small business or commercial division of the bank to finance your export sales.

Working Capital Financing and Trade Financing

It also is important to be aware of the difference between permanent working capital and trade financing. Permanent working capital is the amount of money needed to pay short-term liabilities that remain steady over a period of several years, for example, the non-fluctuating level of accounts receivable that a business maintains. A firm's ability to qualify for permanent working capital financing depends on, among other things, its prospects for generating sufficient net profits over the life of a loan to repay it. Trade finance, on the other hand, generally refers to financing the fluctuating working capital needs of a business resulting from specific export transactions. Trade finance loans can be self-liquidating. If so, the lending bank will place a lien on the export inventory and accounts receivable of the exporter and require that all sales proceeds financed by the loan be applied to pay down the loan first before the remainder is credited to the account of the borrower.

The self-liquidating feature of trade finance is critical to many small, undercapitalized businesses. Lenders who otherwise may have reached their lending limits for such businesses may nevertheless finance individual export sales, if the lenders are assured that the loan proceeds will be used solely for pre-export production. Any export sale proceeds will first be collected by them before the balance is passed on to the exporter. Given the extent of control lenders can exercise over such transactions and the existence of guaranteed payment mechanisms unique to—or established for—international trade, trade finance can be less risky for lenders than general working capital loans.

Pre-export, Accounts Receivable and Market Development Financing

Exporters should understand the distinctions between the various types of trade finance. Most small businesses need pre-export financing to help with the expense of gearing up for a particular export sale. Loan proceeds are commonly used to pay for labor and materials or to acquire inventory for export sales. Other exporters may be interested in foreign accounts receivable financing. In that case, exporters can borrow from their banks an amount based on the volume and quality of such accounts receivable. Although banks rarely lend 100 percent of the value of the accounts receivable, many will advance up to 80 percent of the value of qualified accounts. Foreign credit insurance (available from the Export-Import Bank and private insurance companies) is often required to enhance the quality of such accounts.

Financing for foreign market development activities, such as participation in overseas trade missions or trade shows, is often difficult for small businesses to arrange. Most banks are reluctant to finance such activities because, for many small firms, their ability to repay such loans depends on their success in consummating sales while on a mission—prospects that in many cases are speculative. Although difficult for many small firms to do, the most common source for financing such activities is through the working capital of the firm or, in certain cases, through the use of personal credit cards.

Finally, take time to make sure your banker understands your business and products. Have a detailed export plan ready and, most importantly, be able to clearly show how and when a loan will be repaid.

Private Sector Export Financing Resources

Commercial Banks

International trade transactions traditionally have been financed by commercial banks. Commercial banks can make loans for pre-export activities. They also can also help process letters of credit, drafts and other methods of payment discussed in this chapter. Banks also have become increasingly involved in making export loans backed by United States government loan guarantees.

Many larger banks have international departments, which can help with your company's particular export finance needs. If your bank does not have an international department, it probably has a correspondent relationship with a larger bank that can assist you.

Private Export Finance Companies

Private trade finance companies are becoming increasingly more commonplace. They utilize a variety of financing techniques in return for fees, commissions, participation in the transactions or combinations thereof. International trade associations, or any U.S. Export Assistance Center, can assist you in locating a private trade finance company in your area.

Export Trading and Export Management Companies (ETCs and EMCs)

Both EMCs and ETCs provide varying ranges of export services, including international market research and overseas marketing, insurance, legal assistance, product design, transportation, foreign order processing, warehousing, overseas distribution, foreign exchange and even taking title to a supplier's goods. All of these services can leverage the limited resources of small business exporters.

Factoring Houses

Factoring houses, also called "factors," purchase export receivables on a discounted basis. Using factors can enable the exporter to receive immediate payment for goods while at the same time alleviating the delay associated with overseas collections. Factors purchase export receivables for a percentage fee below invoice value, depending on the market and type of buyer. The percentage rate will depend on whether the factor purchases the receivables on a recourse or non-recourse basis. In the case of a non-recourse purchase, the exporter is not bound to repay the factoring house if the foreign buyer defaults or other collection problems arise. Therefore, the percentage charge will be greater with non-recourse purchases.

Forfaiting Houses

While similar to factoring, forfaiting generally involves transactions or projects requiring payment over periods from six months to several years. A promissory note is issued by the buyer to a third party and the account is purchased without recourse to the exporter; the debt typically is guaranteed by a bank or a sovereign entity. This is one way that a small business can arrange financing for its overseas buyer, while at the same time receiving full payment at, or close to, the time of shipment.

Government Export Financing Resources

Because private sector financing providers will only assume limited risk regarding foreign transactions, the U.S. government provides export financing assistance. U.S. government export financing assistance comes in the form of guarantees made to U.S. commercial banks, which in turn make loans available to exporters. Federal agencies, as well as certain state governments, have their own particular programs as noted below.

U.S. Small Business Administration (SBA)

The SBA provides financial and business development assistance to help small businesses sell overseas. SBA's export loans are available under SBA's guarantee program. As a prospective applicant, you can request that your lender seek SBA participation if the lender is unable or unwilling to make a direct loan. The financing staff of each

SBA district and branch office administers the agency's term loan programs locally, while SBA personnel based in U.S. Export Assistance Centers (USEACs) around the country administer the specialized trade finance/export working capital loan program. You can contact the finance division of your nearest SBA or USEAC office for a list of participating lenders. The USEAC staff also can provide counseling on how to structure requests for export financing from a lender.

SBA Export*Express*

The SBA Export*Express* loan program combines the SBA's small business lending assistance and technical assistance programs to help small businesses that have traditionally had difficulty in obtaining adequate export financing. Applicants must have been in business for at least one year, although not necessarily involved in exporting, and demonstrate that they will be entering a new foreign market, or expanding in an existing foreign market, to qualify for this loan program. Loan proceeds may be used to finance export development activities business expansion costs due to increasing exports, or specific export transactions. These include such things as:

1. Participation in foreign trade shows or trade missions,
2. Translation of product brochures or catalogues for use in overseas markets,
3. General lines of credit for export purposes,
4. Completing service contracts from buyers located outside the United States,
5. Transaction-specific financing associated with completing actual export orders,
6. Expenses related to the development of foreign markets by the borrower, including by export trading companies and export management companies,
7. Acquiring, constructing, renovating, modernizing, improving or expanding productive facilities or equipment to be used in the United States in the production of goods or services for export.

The website for more details on SBA Export*Express* is: www.sba.gov/oit/exportexpress.html.

Regular Business Loan Program

Small businesses that need money for fixed assets and working capital may be eligible for the SBA's regular 7(a) business loan guarantee program. Loan guarantees for fixed-asset acquisition have a maximum maturity of 25 years. Guarantees for general-purpose working capital loans have a maximum maturity of seven years. Export trading companies (ETCs) and export management companies (EMCs) also may qualify for the SBA's business loan guarantee program.

To be eligible, the applicant's business generally must be operated for profit and fall within size standards set by SBA. The standards vary by industry and are determined by either the

number of employees or the volume of annual receipts. Check with your local SBA district office to determine if your company falls within the small business size standards. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

The SBA can guarantee up to 85 percent of a bank loan up to $150,000 and 75 percent of a loan over $150,000, with the maximum SBA exposure not to exceed $1.5 million and a loan maximum of $2 million. The lender may charge a maximum interest rate of 2.75 percentage points above the lowest reported Wall Street Journal prime, or 2.25 percentage points above the lowest reported Wall Street Journal prime if the maturity is less than seven years.

Export Working Capital Program

The Export Working Capital Program (EWCP) (www.sba.gov/oit/finance/ewcp.html) was designed to provide short-term working capital to exporters. The program supports export financing to small businesses when that financing is not otherwise available at reasonable terms. The program encourages lenders to offer export working capital loans by guaranteeing repayment of up to $1.5 million or 90 percent of a loan amount, whichever is less. A loan can support a single transaction or multiple sales on a revolving basis.

The EWCP is a combined effort of the SBA and the Export-Import Bank (Ex-Im Bank). The two agencies have joined their working capital programs to offer a unified approach to the government's support of export financing. The EWCP uses a six-page application form and streamlined documentation with a turnaround time usually 10 days or less. A letter of pre-qualification is also available from the SBA. SBA, on its own, can guarantee EWCP loan requests up to $1.1 million, or up to $2.0 million under a co-guaranty agreement with the Export-Import Bank. Loan requests greater than $2.0 million should be submitted directly to the Export-Import Bank. When an EWCP loan is combined with an international trade loan, the SBA's exposure can go up to $1.75 million. In addition to the eligibility standards listed on the website, an applicant must have been in business for a full year (not necessarily in exporting) at the time of application. SBA may waive this requirement if the applicant has sufficient export trade experience. Export management companies or export trading companies may use this program; however, title must be taken in the goods being exported to be eligible.

While most small businesses are eligible for SBA loans, some types of businesses are ineligible and a case-by-case determination must be made by the agency. Eligibility is generally determined by business type, use of proceeds, size of business and availability of funds from other sources.

The proceeds of an EWCP loan must be used to finance the working capital needs associated with single or multiple export transactions. Proceeds may not be used to finance professional export marketing advice or services, foreign business travel, participating in trade shows, or to support staff overseas, except to the extent it relates

directly to the transaction being financed. In addition, proceeds may not be used to make payments to owners, to pay delinquent withholding taxes, or to pay existing debt.

If the loan is for a single transaction, the maturity should correspond to the length of the transaction cycle with a maximum maturity of 18 months. If the loan is for a revolving line of credit, the maturity is typically 12 months, with annual re-issuances allowed.

Five unique requirements of the EWCP loan include the following:

1. Because of the transactional nature of the financing, more information that normal is needed on the buyer, the production cycle, the ability of the exporter to perform, and the method of payment used for the transaction.
2. SBA does not prescribe the lender's fees or the interest rate that may be charged under this program; both are negotiable between the lender and borrower.
3. SBA guarantees up to 90% (rather than the more normal 75-85%) of an EWCP loan on amounts up to $1.67 million ($2.0 million under the joint SBA/Eximbank guaranty program).
4. Collateral is normally limited to the transactional collateral; export inventory, work-in-process, resulting foreign receivables, and assignments of proceeds for contracts, letters of credit and credit insurance policies. Personal guarantees are required of all owners holding 20% or more of a company for any SBA loan.
5. Because most loans have a term of 12 months or less, the SBA guarantee fee is only ¼ of 1% of the guaranteed amount on such short-term loans.

SBA considers several factors in reviewing an EWCP application. These questions include the following:

1. Is there a transaction and is it viable?
2. How reliable is the repayment source?
3. Can the exporter perform under the terms of the deal?

The EWCP offers several advantages for both the exporter and the lender, including a simplified application form and a quicker turnaround time on SBA's review and commitment. Under the program, small businesses also can apply directly to the SBA for a preliminary commitment for a guaranty. With SBA's preliminary commitment in hand, an exporter can look for a lender willing to extend the credit. The lender must apply to SBA for the final commitment.

The International Trade Loan Program

The most fundamental reason to export is to improve your company's bottom line, but to compete and expand abroad can require additional resources domestically. The SBA's

International Trade Loan Program (ITL) can assist your small business in financing machinery and equipment, financing real estate and improving a competitive position that has been adversely affected by import competition.

The applicant must demonstrate either that a) the loan will help the firm to expand or develop an export market; or b) because the firm has been adversely impacted by imports, the loan will help the firm upgrade equipment or retool to improve its competitive position. A business plan should be included in either case.

The SBA can provide guarantees to commercial lenders up to $1.75 million in combined working capital and fixed asset loan under this program, including any other current, outstanding SBA loan guarantees (as long as the combined, gross loan amount does not exceed $2 million). While the fixed asset part of the loan would carry a 75% SBA guaranty, a companion working capital loan with a 90% guaranty also could be made under the SBA's Export Working Capital loan program guidelines.

The SBA offers the competitive rates and terms small businesses need to compete globally. Note:

1. Rates for loans with maturities under 7 years may not exceed 2.25 percent over the prime rate.
2. Rates for loans with maturities of 7 years or more may not exceed 2.75 percent over the prime rate.
3. Maturities can be up to 25 years for real estate, up to 15 years for equipment, and/or up to 10 years for working capital.

The SBA requires the lender to take a first lien position on fixed assets financed under the ITL, or other acceptable assests of the borrower. Personal guarantees usually are required to support the credit. Only collateral located in the United States, its territories and possessions is acceptable for a loan made under this program.

Small Business Investment Company (SBIC) Financing

The Small Business Investment Company (SBIC) program is part of the U.S. SBA. It was created in 1958 to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations. SBIC website: www.sba.gov/INV/

Export-Import Bank of the United States (Ex-Im Bank)

Ex-Im Bank (www.exim.gov/) is an independent U.S. government agency that supports the financing of U.S. goods and services, turning export opportunities into real transactions and maintaining and creating more U.S. jobs. It assumes the credit and country risks that the private sector is unable or unwilling to accept. It does not

compete with private sector lenders but provides export-financing products that fill gaps in trade financing. It also helps to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. Ex-Im Bank provides working capital guarantees (pre-export financing); export credit insurance (post-export financing); and loan guarantees and direct loans (buyer financing). On average, 85 percent of its transactions directly benefit U.S. small businesses. With more than 70 years of experience, Ex-Im Bank has supported more than $400 billion of U.S. exports, primarily to developing markets worldwide.

Export Credit Insurance Programs

Ex-Im Bank's export credit insurance allows you to increase your export sales, while limiting your international risk, by offering credit terms to your international buyers. The insurance:

1. Reduces nonpayment risk,
2. Enables you to extend competitive credit terms to buyers,
3. Helps you export to new markets with more confidence, and
4. Increases cash flow.

Ex-Im Bank's insurance covers buyer nonpayment for commercial risks (e.g., bankruptcy and protracted default) and certain political risks (e.g., war or the inconvertibility of currency). This product can replace cash-in-advance, letters of credit and other documentary sales. These policies also allow you to provide qualifying international buyers with advantageous terms of credit. In today's competitive global marketplace, you may be able to increase sales by providing this "open account" financing feature.

This insurance also enhances the quality of your balance sheet by transforming export-related accounts receivable into receivables insured by the U.S. government. With this insurance in place, lenders are more likely to advance against these receivables to increase your working capital cash flow. Ex-Im Bank can do business in most markets. However, it may be limited or unable to offer financing in certain countries under certain circumstances.

***Note**: All applications for short-term and medium-term insurance are subject to an objective credit criteria. To ensure consistent and transparent credit analysis, Ex-Im Bank has developed credit standards to facilitate timely application processing.*

Small Business Initiative

The Small Business Initiative is committed to supporting small business exporters. Small businesses can access all Ex-Im Bank financing products, including specialized small business financing tools such as our working capital guarantee and export credit insurance.

With the working capital guarantee and insurance products, small businesses can increase sales by entering new markets, expanding their borrowing base and offering buyers financing while carrying less risk. Often, small sized exporters do not have adequate cash flow or cannot get a loan to fulfill an export sales order. The Ex-Im Bank working capital guarantee assumes 90 percent of the lender's risk so exporters can access the necessary funds to purchase raw materials or supplies. The Ex-Im Bank participates with the SBA in making working capital loans to small businesses for amounts between $1.67 million and $2 million

Ex-Im Bank's insurance policies protect exporters from foreign buyer default and allow exporters to extend credit to their foreign buyers. For qualifying small businesses, enhanced coverage is offered. To qualify as a small business, the U.S. exporter (together with affiliates) must simply meet the U.S. Small Business Administration's definition of a small business and have export credit sales of less than $5 million. Features of this small business policy include no first-loss deductible, simplified premium-rate schedule, and enhanced assignment (for qualified exporters) — an attractive financing feature that allows your lender to advance on the insured receivables with limited risk.

Ex-Im Bank works with small businesses at the local level through its five regional offices and a nationwide network of nearly 40 City/State Partners. Distribution channels also include 120 delegated authority lenders in 28 states that can directly commit Ex-Im Bank's guarantee on working capital loans. And insurance brokers in every state can assist with Ex-Im Bank's export credit insurance applications. In addition, Ex-Im Bank participates in approximately 20 trade shows and sponsors more than 20 exporter seminars every year, including events involving small exporters as well as exporters of environmentally beneficial goods and services.

Pre-Export Finance Program

The Ex-Im Bank's Working Capital Program (www.exim.gov/products/work_cap.html) enables U.S. exporters to obtain loans to produce or buy goods or services for export. These working capital loans, made by commercial lenders and backed by an Ex-Im Bank guarantee, provide you with the liquidity to accept new business, grow international sales and compete more effectively in the international marketplace. This program helps fulfill export sales orders, turn export-related inventory and accounts receivable into cash and expand access to financing. Eligible exporters must be located in the United States, have at least a one-year operating history, and have a positive net worth.

Exporters may use the guaranteed financing to:

1. Purchase finished products for export,
2. Pay for raw materials, equipment, supplies, labor and overhead to produce goods and/or provide services for export,
3. Cover standby letters of credit serving as bid bonds, performance bonds or payment guarantees, and

4. Finance foreign receivables.

There is no minimum or maximum transaction amount. Ex-Im Bank assumes 90 percent of the bank loan, including principal and interest. For qualified loans to minority, woman-owned or rural businesses, Ex-Im Bank can increase its guarantee coverage to 100 percent. Our pre-qualified commercial lender partners, working under Ex-Im Bank's delegated authority, can expedite the loan process by committing our guarantee without prior Ex-Im Bank approval. Most of Ex-Im Bank's working capital guarantees are provided through these lenders.

Typically, loan terms are for one year but can be up to three years. The loan can be either transaction-specific or revolving. These guaranteed working capital loans are secured by export-related accounts receivable and inventory (including work-on-process) tied to an export order. For standby letters of credit issued under the guaranteed loan, Ex-Im Bank requires collateral for 25 percent of the value of the letter of credit.

Direct Loan

Ex-Im Bank assists exporters by providing fixed-rate loans to creditworthy international buyers, in both the private and public sector, for purchases of U.S. goods and services. Ex-Im Bank loans to international buyers generally are used to finance the purchase of U.S. capital equipment or services for large-scale projects. These funds also can be used for refurbished equipment, software, and certain banking and legal fees, as well as some local costs and expenses. Military or defense items generally are not eligible nor are sales to military buyers (certain exceptions exist).

Guarantee Program

Ex-Im Bank also assists exporters by guaranteeing term financing to creditworthy international buyers, in both the private and public sector, for purchases of U.S. goods and services. This is generally used for financing purchases of U.S. capital equipment and services, which must be shipped from the United States to an international buyer. Ex-Im Bank can do business in most markets. However, it may be limited or unable to offer financing in certain countries and under certain terms.

Commodity Credit Corporation (CCC)

The Commodity Credit Corporation, U.S. Department of Agriculture, administers export credit guarantee programs (www.fas.usda.gov/excredits/exp-cred-guar.html) for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.

Two programs underwrite credit extended by the private banking sector in the United States (or, less commonly, by the U.S. exporter) to approved foreign banks using dollar-

denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The Export Credit Guarantee Program (GSM-102) covers credit terms up to three years. The Intermediate Export Credit Guarantee Program (GSM-103) covers longer credit terms up to 10 years.

State Export Financing Programs

A number of state-sponsored export financing and loan guarantee programs are available. Many cities and states have established cooperative programs with the Ex-Im Bank and can provide specialized export finance counseling. Details of these programs are available through each state department of commerce or trade office.

Once an exporter determines the kind of export financing assistance to be used and which payment method, the next step is to arrange for delivery of the goods to the buyer's destination. It is important to assess the various transportation options available—the subject of Chapter 7, "Transporting Goods Internationally."

7 Transporting Goods Internationally

Now that financing has been arranged, steps must be taken to ensure that the goods are packed, documented and shipped properly. When transporting goods internationally, proper documentation and correct packaging are critical to the export process. One of the main differences between selling domestically and exporting is the documentation required. Providing proper documentation with your shipments is essential. Although the paperwork involved in exporting may be more burdensome and costly than that required for domestic sales, it should not deter you.

The Role of the Freight Forwarder

The international freight forwarder acts as an agent for the exporter in moving cargo to the overseas destination. These agents are familiar with the import/export rules and regulations of foreign countries, methods of shipping, U.S. government regulations and the documents connected with foreign trade. Freight forwarders can assist with an order from the start by advising the exporter of the freight costs, port charges, consular fees, costs of special documentation and insurance costs, as well as their handling fees—all of which help in preparing the pro forma invoice and price quotations. Freight forwarders also may recommend the best type of packing for protecting the merchandise in transit; they can arrange to have the merchandise packed at the port or containerized. The cost for their services is a legitimate export cost that should be figured into the price charged to the customer.

When the order is ready to ship, freight forwarders should be able to review the letter of credit, commercial invoices and packing list to ensure that everything is in order. Freight forwarders also can reserve the necessary space onboard an ocean vessel, if the exporter desires. The exporter may ask the freight forwarder to make arrangements with

the customs broker to ensure that the goods comply with customs export documentation regulations. In addition, they may have the goods delivered to the carrier in time for loading. Freight forwarders also may prepare a bill of lading and any special required documentation. After shipment, they can forward all documents directly to the customer or to the paying bank.

In preparing your goods for international transport, you must first determine what mode of transport you will use. When shipping to Mexico and Canada, land transportation may be the preferred method of transport. Other methods of shipping internationally are by sea and air. Maritime shipping is almost always slower and less expensive than air. However, an exporter must factor in the additional costs of sea freight, such as surface transportation to the dock. Another factor is the time value of money: payment may not be made until the ship reaches its destination—and ocean freight can be significantly longer than air freight. Your international freight forwarder can assist in weighing the pros and cons of different modes of transportation. Once you have decided on the best mode of transporting your goods, you must begin to compile the necessary documents.

Documents Prepared Before the Shipment

Commercial Invoice/Consular Invoice

After the pro forma invoice is accepted, the exporter must prepare a commercial invoice. This is necessary for both the exporter and importer. The exporter needs the commercial invoice to prove ownership and secure payment. The description of the goods on the commercial invoice must correspond *exactly* to the description in the letter of credit or other method of payment. There can be no exceptions.

The importer needs the commercial invoice since it is often used by Customs authorities to assess duties. For this reason, it is common practice to prepare a commercial invoice in both English and in the language of the country of destination. The freight forwarder can advise you when a translated copy is necessary. Similar to a commercial invoice, a consular invoice is required by certain countries. The consular invoice must be prepared in the language of the country destination and can be obtained from the country's consulate, and often must be "consularized." In some countries, the commercial invoice must be prepared on a special form known as a "customs invoice." Your importer may request this of you.

Export License

Export controls are based on the type of goods being shipped and their ultimate destination. While most exports do not require a license, it is the legal obligation of the exporter to seek an official determination from the Bureau of Industry and Security (BIS). Technically, most exports are shipped under a "No License Required" (NLR) classification, which is a self-certification that a license is not required.

Should your particular export be subject to export controls, a "validated" license must be obtained. To determine whether your product needs an export license, you must have the Export Commodities Classification Number (ECCN) for your product. If your freight forwarder cannot provide you with the ECCN, you may be able to obtain it from the manufacturer, producer or developer of your product if it has been exported before, and you are not the producer. Or, you can look up the number in the *Code of Federal Regulations*, 15 CFR Parts 730-774, available in most major libraries. Further information is available on Export Administration Regulations (EARs) at www.bis.doc.gov. Once you have this number, check with the Bureau of Industry and Security to determine if your product might be subject to export controls.

In general, your export would require a "validated" license if export of the goods would threaten U.S. national security, affect certain foreign policies of the United States or create short supply in domestic markets.

Shipper's Export Declaration (SED)

A new Shippers' Export Declaration (SED) form 7525-V is required for all shipments over $2,500 (except to Canada) and any shipment that requires an export license. The form is available for download at www.census.gov/foreign-trade/regulations/forms. For help with completing the form, go to: www.census.gov/foreign-trade/regualtions/forms/correct-way-to-complete-the-sed.pdf. The SED enables the Bureau of the Census to monitor for statistical purposes the kinds of products being exported from the United States. It must be presented to the carrier before a shipment can be made. Exporters are encouraged to file the form electronically. Go to the following link for details: www.aesdirect.gov.

Export Packing List

An export packing list is considerably more detailed and informative than a standard domestic packing list. It itemizes the contents of each individual package and indicates the type of package, such as a box, crate, drum or carton. It also shows the individual net, legal, tare and gross weights and measurements for each package (in both U.S. and metric systems). Package markings should be shown along with the shipper's and buyer's references. The list is used by the shipper or forwarding agent to determine the total shipment weight and volume, and whether the correct cargo is being shipped. In addition, U.S. and foreign customs officials may use the list to check the cargo.

Certificate of Origin

Due to a number of free trade agreements (FTAs) that the United States has negotiated with other countries, Certificates of Origin frequently are required by importers to avoid paying import tariffs. For example, a NAFTA (North America Free Trade Agreement) certificate of origin should be used for products exported to Canada or Mexico only if they meet the NAFTA rules of origin for production (thereby exempting them from all,

or most, import duties). For a list of regional and bi-lateral FTAs go to http://ustr.gov/Trade_Agreements/Section_Index.html. Current FTAs—as of early 2005—include those with Israel, Jordan, Canada, Mexico, Chile, Singapore, and Australia with several more nearing completion. Please see the www.export.gov website, or call your local U.S. Export Assistance Center, for more details on how your customers can benefit from these agreements and your providing the proper certificate of origin to your buyers.

Insurance Certificate

An insurance certificate is used to assure the consignee that insurance will cover the loss of, or damage to, the cargo during transit. Typically, marine insurance coverage equal to 110% of the commercial invoice amount must be obtained for export shipments. Infrequent exporters may be able to buy insurance through their freight forwarder.

Inspection Certificate

Inspection certificates often are required by foreign customs or businesses for certain regulated products, typically related to agriculture, health or the environment. Inspection certificates also may be required to ensure that vessels or crates are free of contaminants before entering certain ports, or that products met the specifications outlined in a contract or purchase order. Depending on the product exported, certificates may be issued by various agencies, such as the U.S. Department of Agriculture, the Food and Drug Administration, and the Environmental Protection Agency, or by third party inspection companies.

Documentation must be precise because slight discrepancies or omissions may prevent merchandise from being exported, resulting in nonpayment or even resulting in the seizure of the exporter's goods by U.S. or foreign government customs. An important pont to remember is that collection documents always are subject to precise time limits and may not be honored by a bank if the time has expired. Most documentation is routine for freight forwarders and customs brokers, but the exporter is ultimately responsible for the accuracy of its documents. The number and kind of documents the exporter must deal with varies depending on the destination of the shipment. Because each country has different import regulations, the exporter must be careful to provide all proper documentation.

Documents Used During the Inland Movement of the Goods

Shipper's Instructions

As an exporter, you are responsible to provide your freight forwarder with the necessary information regarding your shipment. The more details you provide, the greater the chances your goods will move free of problems. Your freight forwarder can provide you with a commonly used form for noting instructions.

Inland Bill of Lading

Inland bills of lading document the transportation of goods between inland points and the port from where the export will emanate. Rail shipments use "waybills on rail." "Pro forma" bills of lading are used in trucking.

Delivery Instructions

This document is prepared by the freight forwarder giving instructions to the trucking or railroad company where the goods for export are to be delivered.

Dock Receipts

This document transfers shipping obligations from the domestic to the international carrier as the shipment reaches the terminal.

Bill of Lading/Air Waybill

Marine bills of lading, but not air waybills provide evidence to title of the goods. However, both set forth the international carrier's responsibility to transport the goods to their named destination. There are two types of ocean bills of lading used to transfer ownership: Straight (non-negotiable), which provides for delivery of goods to the person named in the bill of lading and must be marked "non-negotiable," and Shipper's Order (negotiable), which provides for delivery of goods to the person named in the bill of lading or anyone designated.

The shipper's order is used with draft or letter of credit shipments and enables the bank involved in the export transaction to take title to the goods if the buyer defaults. The bank will not release title of the goods to the buyer until payment is received and will not release funds to the exporter until conditions of sale have been satisfied. When using air freight, "air waybills" take the place of bills of lading. Air waybills are only issued in non-negotiable form, therefore the exporter and the bank lose title to the goods once the shipment commences. Most air waybills also contain a customs declaration form.

Packaging

Goods shipped for export require substantially greater handling than domestic shipments. The exporter must pack the goods to ensure the weight and measurements are kept to a minimum, breakage is avoided, the container is theft proof and that the goods do not suffer from the stresses of ocean shipment, such as excess moisture. In addition to proper packing, the exporter should be aware that certain markings are necessary on goods transported internationally. Some countries require that the country of origin be marked on the outside of the container and even have regulations as to how the mark of origin should appear.

The second type of marking the exporter should be familiar is labeling. Food and drugs must often carry special labeling as determined by the laws of the country of destination. Third, certain "shipping marks" must appear on the outside of the package. The weight and dimensions should be visible and any special instructions should be shown. You may want to repeat these instructions in the language of the importer's country. If your business is not equipped to package your goods for export, there are export packaging companies which can perform this service for you. For more information, ask your international freight forwarder for a list of export packaging companies in your area. In addition to the information provided above, www.export.gov is an excellent resource for answering your transporting and licensing questions.

Temporary Export Licenses and ATA Carnets

An ATA Carnet is a special customs document that provides temporary, duty-free admission into countries for commercial samples, scientific equipment, education materials, and goods for exhibit. The Bureau of Industry and Security (BIS) can advise you on the need for a temporary export license. ATA Carnets are made available through the International Chamber of Commerce and associated organizations. In the United States, the program is administered by the U.S. Council for International Business in New York City. Information on procedures for obtaining a carnet is available on their website at www.uscib.org.

Many businesses, after achieving success in exporting or as an alternative to exporting, contemplate joint ventures or licensing agreements with foreign companies to produce goods overseas. Some companies even set up their own off-shore operations. "Strategic Alliances and Foreign Investment Opportunities" are the topic of Chapter 8.

Strategic Alliances and Foreign Investment Opportunities

If your company is interested in delving further into the international trade arena, licensing, joint ventures and offshore operations might be explored. While direct exporting may be a profitable method of market entry for some businesses, licensing your company's manufacturing rights to a foreign company or setting up a foreign manufacturing joint venture may be viable alternatives.

In comparison to exporting, setting up offshore manufacturing operations may be a more economical way of doing business. Firms choosing to set up operations in different countries should check for local incentives. Government agencies usually will assist foreign businesses to set up operations and will provide a wide range of grants and taxation incentives, both for the corporation and its expatriate employees.

This chapter will discuss the relative advantages and disadvantages of alternatives to direct exporting, how to find licensing and joint venture manufacturing partners, and how to finance overseas investment.

Strategic Alliances

Licensing

Licensing involves a contractual arrangement whereby a company licenses the rights to certain technological know-how, design and intellectual property to a foreign company in return for royalties or other kinds of payment. Licensing offers a small business many advantages, such as rapid entry into foreign markets and virtually no capital requirements to establish manufacturing operations abroad. Returns are usually realized more quickly than for manufacturing ventures.

The disadvantages of licensing include a lack of control over manufacturing, quality, and marketing. More importantly, that the licensee may become a competitor if too much knowledge and know-how is transferred. Always make sure to carefully protect your trademarks and intellectual property when undertaking any licensing agreement.

One way to help ensure that your intellectual property is protected is to secure proper patent and trademark registration. In the interim before your patent is filed, you may ask a potential licensee to sign a confidentiality and non-disclosure agreement barring the licensee from manufacturing the product itself, or having it manufactured through third parties. Make sure such agreements are not in violation of laws in the host country.

Patents should be filed with the appropriate foreign government within one year of U.S. filing, in order to obtain patent protection under the Paris Convention, the international agreement on patents. Patent rules vary from country to country, so it is important to consult a competent international patent and trademark attorney.

Licensing the rights to your product to a foreign company will require a carefully crafted licensing agreement. Consulting an attorney is critical since rules on licensing also vary from country to country. Be careful that the agreement does not violate host country antitrust laws. Under the antitrust laws of many countries, the licenser cannot set the price at which a product will be resold by the licensee.

Check with the United States Trade Representative's Office (USTR – www.ustr.gov) for current information on intellectual property rights (IPR) protection in different foreign countries or refer to the Country Commercial Guides available from the U.S. Department of Commerce at www.export.gov.

Foreign Manufacturing Joint Ventures

In contrast to licensing arrangements, foreign manufacturing joint ventures allow for the U.S. company to have a stake and management role in the foreign operation. Joint ventures require more of a direct investment than licensing and typically include the need for training, management assistance, and technology transfer.

Joint ventures can be equity or non-equity partnerships. Equity joint ventures are contractual arrangements with equal partners. Equity joint ventures are contractual arrangements which may, or may not, involve the host country partner in an arrangement in which joint activities (marketing or R&D) are formalized, although ownership is not shared. Laws often require that a certain percentage of stock belong to a citizen of the host country.

Foreign manufacturing joint ventures are risky in that geographical and cultural factors may interfere with the smooth running of operations. You will have to deal with entirely new management, located in a different country, whose first language

may not be English. Despite the drawbacks, using a foreign partner can have several benefits, viz. the partner likely will have intimate knowledge of the target market and may have business and political contacts to make market entry faster and more successful.

Partner Selection Issues

Finding a suitable partner is critical to the success of any licensing or manufacturing joint venture arrangement. However, the selection process can be time-consuming and difficult without proper assistance. The United States government has developed a number of special programs to assist U.S. companies to select overseas partners.

Established in 1994 as a United States Agency for International Development program, the Global Trade and Technology Network (GTN) has worked to facilitate sustainable economic growth in developing countries and emerging markets through business linkages and technology transfer. In 2002, GTN launched an internet-based trade facilitation platform (www.usgtn.net) to further spur trade between companies located in the United States and developing nations. Since that time, the GTN trade platform has become a leading worldwide provider of international trade leads services. GTN's trade services include trade and investment business matching services, technology transfer, trade lead follow-up services, trade financing referrals, and market information. You can register online for this service.

The U.S. Department of Commerce's Commercial Service sponsors a number of trade missions throughout the year that could serve as an excellent venue for meeting potential joint venture or licensing partners. These missions provide one-on-one, pre-screened business appointments with foreign businesses for delegation members, arranged by the overseas staff of the Commercial Service. For company representatives that cannot join an organized trade mission, but that can visit a targeted country, the Commercial Service can provide a "Gold Key Service" to help you locate appropriate business partners. The Commercial Staff in that country will meet with you, provide an orientation briefing, advise you on market entry strategies, set up pre-qualified meetings for a day or more (changes are by the day), provide an interpreter for meetings if needed, and help with follow-up planning. Fees vary by country. If you cannot visit the country initially, you can arrange for an International Partner Search, by providing your company literature and partner requirements to the Commercial Service, which will identify partners for you. Both services can be arranged through your local Export Assistance Center.

The following steps should be followed in selecting an overseas partner:

1. Contact your local Export Assistance Center to discuss your target market, market strategy and the type of partner you are seeking. Determine whether a trade mission, a Gold Key Service, or an International Partner Search makes the most sense at this time.

2. Either as a result of your in-person appointments or from the information forwarded to you by the overseas Commercial Service staff, you will have a list of potential business partners to evaluate.
3. Conduct a financial and business background check on the most qualified candidates, weighing the respective strengths and weaknesses of the various potential business partners. You will probably want to use a credit reporting firm to assist you with this step.
4. If you haven't yet gone abroad, make sure you do so at this point to get first-hand information and to meet face-to-face with potential licensees or joint venture partners. There is no substitute for one-on-one meetings held on their turf, to get a proper read of their capabilities, and to clarify individual and mutual objectives and benefits for both parties.
5. As you finalize your selection and begin negotiating an agreement, make sure to involve the assistance of legal counsel. Commercial laws vary around the world, so make sure you understand and make adjustments for the foreign legal framework before consummating any deal.

Foreign Investment Opportunities

Establishing a manufacturing facility abroad requires a greater investment than licensing or joint venture manufacturing, but it also affords the greatest amount of control over your product and operations. Additional factors to consider include foreign government investment incentives, the need to eliminate high transportation and/or tariff costs, and the desire to lower production costs.

If you are considering setting up an offshore manufacturing plant, you will need to assess whether or not to acquire an existing facility or to construct a new one. Key factors in this decision include legal and tax ramifications, location and how to finance the foreign investment.

Legal and Tax Implications

Much of the decision-making process surrounding joint ventures or offshore manufacturing involve legal and tax issues. Since some countries actively pursue foreign investment, they have relaxed their laws on some types of investments and the amount of equity required. In addition, many offer tax incentives. Consequently, U.S. and host country attorneys and accountants need be an integral part of the team to assess whether and where joint venture or offshore manufacturing would be most profitable.

Overseas Private Investment Corporation (OPIC)

Investing overseas requires a substantial commitment of a company's time and money, and a certain amount of risk. To provide investment assistance and to address the risk insurance needs of U.S. companies, the U.S. government created OPIC, a separate

business-oriented agency to support American investors entering developing country markets. OPIC (www.opic.gov) is the lead agency assisting U.S. businesses interested in making direct investments overseas. OPIC programs are available if the project:

1. Is a new venture, or an expansion of an existing business,
2. Is located in a developing country where OPIC operates (OPIC operates in 150 countries),
3. Will assist in the socioeconomic development of the host country,
4. Is approved by the host government, and
5. Is consistent with the economic interests of the United States and will not have a significant adverse effect on the U.S. economy or U.S. employment.

If your potential overseas investment fits these criteria, OPIC can be an extremely useful resource. OPIC offers a variety of programs, including financing and political risk insurance to help protect your investment and several pre-investment services.

Pre-investment Assistance

OPIC sponsors investment missions to introduce U.S. business men and women to key foreign private sector leaders, government officials, and potential joint venture partners. Since 1971, OPIC has accomplished its developmental mission by supporting more than 3,100 projects throughout the developing world. Over the agency's 34-year history, OPIC has supported nearly $150 billion worth of investments that have helped developing countries to generate over $11 billion in host-government revenues and create over 690,000 host-country jobs. These projects also have helped generate $66 billion in U.S. exports, creating 257,000 at home. In addition to pre-investment assistance, OPIC provides financing to assist in the setup of overseas operations and risk insurance to mitigate some of the problems associated with investing in developing countries.

Financing

In July 2003, OPIC announced the establishment of a new department and business center focusing on small and medium-size businesses, to help ease their entry into new markets. The Small and Medium Enterprise Department and the Small Business Center are responsible for OPIC's direct loan program, which provides financing to businesses with revenues under $250 million and $35 million per year, respectively. Direct loans between $100,000 and $10 million are available for overseas investment projects that involve at least a 25% equity ownership by a U.S. small business. Finance activities for larger corporations are housed in the Structured Finance Department, which is responsible for the Investment Guarantee programs, as well as special initiatives. OPIC's Small Business Center can be reached at 1-800-225-5722.

Insurance

Private investors may be hesitant to undertake long-term investments abroad, given the political uncertainties of many developing nations. To alleviate these concerns, OPIC insures U.S. investments against three major types of political risks: inconvertibility of currency, expropriation and political violence, including civil strife.

Foreign Governments

Foreign governments, particularly in developing countries, often sponsor special agencies to aid and facilitate foreign direct investment. Some examples include the Mexican Investment Board (MIB), the Portuguese Trade Commission and the Bahrain Promotions and Marketing Board. These foreign investment promotion agencies can provide detailed market information, joint venture leads and contacts with key officials. They often maintain offices in the United States.

Some countries also may have special funds or financing arrangements to spur foreign investment in particular sectors or geographical areas. Foreign investment promotion agencies can lead you to these sources. Contact the appropriate foreign embassy in the United States for the name of the agency that can assist you.

A Final Word on Going Global

How you decide to enter overseas markets will depend on a variety of factors unique to your own small business. Going global can be a challenging experience for a small business, but the rewards can be substantial. Let optimism and enthusiasm be your guide as you go global. The U.S. Small Business Administration, as well as numerous other government agencies at the state and federal level, support and encourage your entry into the international arena.

Glossary of International Trade Acronyms and Terms

acceptance — An agreement to purchase goods at a stated price and under stated terms.

accession — The process of becoming a member of the General Agreement on Tariffs and Trade (see GATT).

actual total loss — A marine insurance term; a ship is usually considered an actual total loss for insurance purposes when it has been listed as missing.

Asian Development Bank (ADB) — The Asian Development Bank (ADB) was created to foster economic growth and cooperation in the region of Asia and the Far East and to help accelerate economic development for the countries of the region.

ad valorem rate — An import duty rate determined "according to the value" (*ad valorem*) of the commodity entering a country, as opposed to the weight or other basis for calculation. An ad valorem tariff is a tariff calculated as a percentage of the value of the goods when clearing customs.

advance against documents — A loan secured by turning over shipment documents of title to the creditor; an alternative to acceptance financing.

advice — A form or letter that acknowledges certain activities concerning shipments, credits, etc.

advising bank — A bank, operating in the exporter's country, which handles letters of credit for a foreign bank by notifying the export firm that the credit has been opened in its favor. The advising bank fully informs the exporter of the conditions of the letter of credit without necessarily bearing the responsibility of payment.

AFDB — The African Development Bank and Fund. Established to foster economic and social development of the independent African nations and to promote their mutual economic cooperation. AFDB membership is limited to African countries. The African Development Fund (AFDF), a loan facility, directs its loan resources towards social development projects.

affreightment, contract of — An agreement between a shipping company and an importer or exporter for cargo space on a vessel at a specified time for a specified price. The importer/exporter is liable for payment whether or not the shipment is made at the time agreed upon.

after date (A/D) — A payment on a draft or other negotiable instrument due a specified number of days after the date the draft is presented to the payee.

after sight (A/S) — A payment on a draft or other negotiable instrument due upon presentation or demand to the payee.

agio Premium paid for exchanging currency.

Agency for International Development (AID) The Agency for International Development (AID) was created in 1961 to administer foreign economic assistance programs of the U.S. government.

air waybill A bill of lading covering both the domestic and international portions of flights to transport goods to a specific destination. The air waybill serves as a non-negotiable receipt for the shipper.

all-risk clause An insurance clause providing that all loss or damage to goods is insured except that caused by shipper.

alongside This refers to the side of a ship, i.e., goods are to be located on the dock or barge within reach of the transport ship's tackle in order to be loaded aboard the ship.

AmChams American Chambers of Commerce in foreign countries. As affiliates of the U.S. Chamber of Commerce, 84 AmChams, located in 59 countries, collect and disseminate extensive information on foreign markets. While membership fees are usually required, the small investment can be worth it for the information received.

anti-dumping duty A tariff imposed to discourage the underpriced (below foreign country's domestic market/sale of foreign goods in the U.S. market, which might hurt U.S. manufacturers.

Asia-Pacific Economic Cooperation (APEC) Asia-Pacific Economic Cooperation. A forum to advance economic cooperation and trade and investment liberalization in the Asia-Pacific region, chaired by Indonesia. APEC goals in addition to trade liberalization include human resource development, growth of small and medium-sized businesses and infrastructure development.

arbitrage The practice of buying foreign currency, stocks and bonds and other commodities in one country or a number of countries and selling them in another market at a higher price to gain an advantage from the differences in exchange rates.

arbitration clause A clause in a sales contract detailing how any contract disputes will be settled.

arrival notice This document advises consignees (named in the bill of lading) that cargoes have arrived, the condition of the cargo if other than expected, and any charges due.

ASEAN The Association of Southeast Asian Nations, an economic cooperation which includes Thailand, Indonesia, Malaysia, Singapore, Philippines and Brunei. The ASEAN Alliance for Mutual Growth (AMG) is a multilateral initiative to encourage mutually beneficial trade relations between the United States and the ASEAN countries.

at sight A phrase indicating that payment on a draft or other negotiable instrument is due upon presentation or demand.

authority to pay (A/P) A letter, used mostly in the Far Eastern trade, addressed by a bank to a seller or merchandise, notifying him that it is authorized to purchase, with or without recourse, drafts to a stipulated amount drawn on a certain foreign buyer in cover of specific shipments of merchandise.

back-to-back credits A term commonly used to denote letters of credit issued for account of different buyers to cover the same shipment, the terms of which credits are similar that documents under one are subsequently applicable against one another.

bank guarantee An assurance, obtained from a bank by a foreign purchaser, that the bank will pay an exporter up to a given amount for goods shipped if the foreign purchaser defaults.

banker's acceptance Occurs when a draft is drawn on and accepted by the importer's bank. Depending on the bank's creditworthiness, the acceptance becomes a financial instrument which can be discounted.

barter Trade in which merchandise is exchanged directly for other merchandise without use of money. Barter is an important means of trade with countries using currency that is not readily convertible.

beneficiary The person in whose favor a draft is drawn or a letter of credit is opened.

bill of exchange Also a draft. A written unconditional order for payment from a drawer to a drawee, directing the drawee to pay a specified amount of money in a given currency to the drawer or a named payee at a fixed or determinable future date.

bill of lading A document establishing the terms of a contract between a shipper and a transportation company for freight to be moved between specified points for a specified charge. Usually prepared by the shipper on forms issued by the carrier, it serves as a document of title, a contract of carriage and a receipt for goods.

binder Temporary insurance coverage pending the insurance of an insurance policy or certificate.

bonded warehouse A warehouse authorized by customs authorities for storage of goods where payment of duties on the goods is deferred until they are removed from the warehouse.

booking An arrangement with a steamship company for the acceptance and carriage of freight.

bulk-freight container This container allows bulk commodities to be grasped by roll loading hatches and has a front wall discharge hatch.

buyer credit Term to provide the exporter with prompt payment by the overseas importer, who borrows the necessary funds from the bank. The payment is usually made directly by the importer's bank to the exporter.

carnets Customs documents permitting the holder to carry or send merchandise

temporarily into certain foreign countries for trade shows or sales meetings, without paying duties or posting bonds.

Caribbean Development Bank (CDB) CDB, founded in 1970, provides financing to foster economic development and integration in the Caribbean. The CDB's members are the governments of Antigua, Bahamas, Barbados, Belize, British Virgin Islands, Canada, Cayman Islands, Colombia, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent, Trinidad and Tobago, Turks and Caicos Islands, the United Kingdom, and Venezuela. Headquarters are located in Barbados.

CARICOM The Caribbean Community and Common Market, founded in 1973. Member countries are Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent, Trinidad and Tobago and Anguilla. Headquarters are in Guyana. Related organizations are the Caribbean Investment Corporation and the Caribbean Monetary Fund.

cash against documents (C.A.D.) A payment method by which title to the goods is given to the buyer when the buyer pays cash to an intermediary acting for the seller, usually a commission house.

cash in advance (C.I.A.) A payment method for goods in which the buyer pays cash to the seller before shipment of the goods. Usually required by the seller when the goods are customized, such as specialized machinery.

cash with order (C.W.O.) A payment method for goods by which cash is paid at the time of order and the transaction then becomes binding for both the buyer and seller.

certificate of inspection A document often required in connection with shipments of perishable goods, in which certification is made as to the good condition of their merchandise immediately prior to shipment.

certificate of manufacture Statement by a producer, who is usually also the seller, of merchandise that manufacture has been completed and that the goods are at the disposal of the buyer.

certificate of origin A certified document detailing the origin of goods used in foreign commerce. Usually required to qualify for reduced tariffs or duties, specified in the terms of a trade agreement, such as the North American Free Trade Agreement.

charter party Renting of an entire vessel or part of its freight space for a specified voyage or stipulated period of time.

C&F named port Cost and freight. The seller must pay all costs of goods and transportation to the named port; these costs are included in the price quoted. Buyer pays risk insurance once the goods are aboard the ship up to overseas inland destination.

C.I.F. named port Cost, insurance, freight. Same as C&F except seller also provides insurance up to the named destination.

C.I.F.&C. Price includes commission as well as C.I.F.

C.I.F. duty paid The seller includes in the final price to the buyer, in addition to C.I.F., the estimated U.S. duty.

C.I.F.&E. Price quoted includes currency exchange from U.S. dollars to foreign money as well as C.I.F.

clean bill of lading A document specifying that the goods were received in "apparent good order" by the carrier.

clean draft A draft to which no documents are attached.

COCOM Coordinating Committee on Multilateral Export Controls, a committee of all NATO countries (except Iceland) plus Japan to coordinate and control exports of member countries, especially in high-technology equipment.

collection An exporter draws a bill of exchange on a customer abroad and gives the bill to his/her bank to collect funds. The importer must be willing to pay. The bank charges a fee to collect payment, but is not liable should the importer refuse to release the funds.

collection papers All documents, including bills of lading, invoices and other papers, submitted to a buyer to receive payments for a shipment.

commercial attaché Commerce expert on the diplomatic staff of their country's embassy or large consulate.

commercial invoice Itemized list of goods shipped, usually included among an exporter's collection papers.

conditional free Goods free of duty under certain conditions, if the conditions can be satisfied.

confirmed letter of credit A letter of credit issued by a foreign bank with payment confirmed by a U. S. bank. An exporter who requires a confirmed letter of credit from the buyer is assured payment from the U.S. bank in case the foreign buyer or bank defaults (see letter of credit).

consignment The delivery of merchandise from an exporter to a distributor specifying that the distributor will sell the merchandise and then pay the exporter. The exporter retains title to the goods until the buyer sells them. The buyer (distributor) sells the goods, retains a specified commission and then pays the exporter.

consignor The seller or shipper of merchandise.

consul A government official residing in a foreign country charged with representing the interests of his country and its nationals.

consular declaration A formal statement describing goods to be shipped, made out to the consul of the country of destination. Approval from the consul must be obtained prior to shipment.

consular invoice A document required by some foreign countries showing exact information about the consignor, consignee, value and description of shipment.

container A uniform, sealed, reusable metal "box" in which merchandise is shipped by vessel, truck or rail. Standard lengths include 10, 20, 30 and 40 feet (40 foot lengths are generally able to hold about 40,000 pounds). Containers of 45 and 48 feet are also used, as well as containers for shipment by air.

container load Adequate merchandise to fill a container (either by bulk or weight).

conventional tariff A tariff established in the agreements resulting from tariff negotiations under the GATT (see GATT).

convertible currency Currency that can be bought or sold for other currencies at will.

correspondent bank A bank that, in its own country, handles the business of a foreign bank.

count certificate This particular document will certify the accuracy and quantity of a shipment with regard to the count of its parts or units.

countertrade The sale of goods or services that are paid for in whole or in part by the transfer of goods or services from a foreign country (see barter).

countervailing duty A duty imposed to counter unfairly subsidized products.

credit risk insurance Insurance which protects the seller against loss due to default on the part of the buyer.

customhouse brokers A person or firm, licensed by the U.S. Treasury Department, engaged in clearing goods through U.S. Customs. A broker's duties include preparing the entry form and filing it; advising the importer on duties to be paid; advancing duties and other costs; and arranging for delivery to the broker's client, the trucking firm or other carrier.

customs tariff Charges imposed by the U.S. government and most other governments on imported and/or exported goods.

date draft (D/D) A draft payable a specified number of days after the date it was issued, regardless of the date of acceptance.

deferred payment credit Type of letter of credit providing for payment some time after presentation of shipping documents by exporter.

delivered at frontier Term referring to the seller's obligation to supply goods which conform with the contract. At his or her own risk and expense, the seller must deliver the to the buyer at the specified time and the specified frontier. The buyer is responsible for complying with import formalities and payment of duties.

delivery duty paid Term referring to the seller's obligation to supply goods according to the terms of the contract. At his or her own risk and expense, the seller must deliver the goods, duty paid, at the specified time and the specified frontier, after complying with all necessary formalities at that frontier.

demurrage Excess time taken to load or unload a vessel. A sum agreed to be paid to the shipowner for the excess time taken for loading or unloading not caused by

the vessel operator, but due to the acts of a charterer or shipper. Also refers to imported cargo not picked up within prescribed time.

destination control statement — One of a number of statements required by the U.S. Government to be displayed on export shipments specifying the authorized destinations for the shipments.

direct exporting — Sale by an exporter directly to a buyer located in a foreign country.

distribution license — A license given to an export to replace numerous individual validated licenses when there is continuous shipping of authorized products.

distributor — A foreign agent who sells directly in the foreign market for a U.S. supplier and maintains an inventory of the supplier's products.

dock receipt — Receipt issued by an ocean carrier or its agent for merchandise delivered at its dock or warehouse awaiting shipment.

documents — The shipping and other papers customarily attached to foreign drafts, consisting of ocean bills of lading marine insurance certificates, and commercial invoices. Where required, certificates of origin and consular invoices are included.

documents against acceptance (D/A) — Instructions by a shipper to a bank indicating that documents transferring title to the goods should be given to the buyer only after the buyer's signing a time draft. Thus the exporter extends credit to the importer and agrees to accept payment at a named future date.

documents against payment (D/P) — Payment for goods without a guaranteed form of payment in which the documents transferring title to the goods are not given to the buyer until he/she has signed a sight draft.

document of title — Evidence of entitlement or ownership, such as a carrier's negotiable bill of lading, which allows a party to claim title to the goods in question.

duty — A tax levied by a government on an import, an export or the use and consumption of goods.

duty drawback — A partial refund of duties paid on importation of goods which are further processed and then re-exported, or exported in same condition as imported.

embargo — A restriction or prohibition upon exports or imports, for specific products or specific countries. Embargoes may be ordered by governments due to warfare, or are intended for political, economic or sanitary purposes.

entry papers — Documents which must be filed with U.S. Customs officials describing goods imported, such as the commercial invoice, Ocean Bill of Lading or Carrier Release.

euro — Eleven member states of the EU, Austria, Belgium, Finland, France,

Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain, adopted a single currency, the euro, on January 1, 1999.

European Economic Community (EEC) An economic grouping of countries also known as the European Common Market, organized by the Treaty of Rome in 1957. Member countries are Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom. The EEC was the largest trading bloc in the world until the North American Free Trade Agreement created a larger market beginning in January 1994.

ex-mill (ex-warehouse, ex-mine, ex-factory) Obligates the seller to place a specified quantity of goods at a specified price at his warehouse or plant, loaded on trucks, railroad cars or any other specified means of transport. Obligates the buyer to accept the goods in this manner and make all arrangements for transportation.

export declaration A formal statement made to Customs at the exit port declaring full particulars about goods being exported.

export license A permit required to export certain commodities and certain quantities to certain destinations. The purpose is to control the transfer of technologies such as hardware, software, technical data and services. Lists of goods requiring an export license are listed in the official U.S. government publication The Export Administration Regulations of the Bureau of Export Administration (BXA) of the U.S. Department of Commerce.

export management company (EMC) A firm that acts as a complete export arm for a company's exporting needs. Usually an EMC will pay all expenses and receive compensation in the form of a discount off the U.S. price of the product. An organization which, for a commission, acts as a purchasing agent for either a buyer or seller.

export quotas Restrictions or set objectives on the export of specified goods imposed by the government of the exporting country. Such restraints may be intended to protect domestic producers and consumers from temporary shortages of certain materials or as a means to moderate world prices of specified commodities. Commodity agreements sometimes contain explicit provisions to indicate when export quotas should go into effect among producers.

export rate A freight rate specially established for application on export traffic and generally lower than the domestic rate.

export trading company (ETC) A business that acts as a complete export service house and, in addition, takes title to a company's exported goods.

ex-dock Term used by exporter to describe net costs of goods at placement of the dock at the import point.

ex-ship An international trade term meaning that the seller shall make the goods

available to the buyer on board the ship at the destination named in the sales contract. The seller must bear the full cost and risk involved in bringing the goods to the buyer.

ex-works An international trade term meaning that the seller's only responsibility is to make the goods available at seller's premises. The seller is not responsible for loading the goods on the vehicle provided by the buyer, unless otherwise agreed. The buyer bears the full cost and risk involved in bringing the goods from there to buyer's desired destination. This term thus represents the minimum obligation for the seller.

factoring houses Types of companies which purchase international accounts receivable at a discount price, usually about two to four percent less than their face value. The fee charged the exporter is offset by the immediate availability of payment, plus the reduction in risk for the exporter. (see Forfaiting.)

F.O.B. Freight Allowed The same as F.O.B. named inland carrier, except the buyer pays the freight charges of the inland carrier and the seller reduces the invoice by that amount.

F.O.B. Freight Prepaid The same as F.O.B. named inland carrier, except the seller pays the freight charges of the inland carrier.

F.O.B. Named Inland Carrier Seller must place the goods on the named carrier at the specified inland point and obtain a bill of lading. The buyer pays for the transportation.

F.O.B. Named Port of Exportation Seller is responsible for placing the goods at a named point of exportation at the seller's expense. Some European buyers use this form when they actually mean F.O.B. vessel.

F.O.B. Vessel Seller is responsible for goods and preparation of export documentation until actually placed aboard the vessel.

force majeure The title of a standard clause in marine contracts relieving the parties for responsibility upon nonfulfillment of their obligations resulting from conditions beyond their control (like earthquake, floods or war).

foreign-based agent/distributor An individual or firm serving as the foreign representative of U.S. suppliers, locating buyers for them in the foreign market.

foreign branch office A sales (or other) office maintained in a foreign country and staffed by direct employees of the exporter.

foreign freight forwarder A corporation carrying on the business of forwarding who is not a shipper or consignee. The foreign freight forwarder receives compensation from the shipper for preparing documents and arranging various transactions related to the international distribution of goods. Also, a brokerage fee may be paid to the "forwarder" from steamship lines if the forwarder performs at least two of the following services: (1) coordination of the movement of the cargo to shipside; (2) preparation and processing of the Ocean Bill

of Lading; (3) preparation and processing of dock receipts or delivery orders; (4) preparation and processing of consular documents or export declarations; and (5) payment of the ocean freight charges on shipments.

foreign sales agent An agent residing in a foreign country who acts as a sales representative for your company's products.

foreign trade zone entry A form declaring goods which are brought duty-free into a Foreign Trade Zone for further processing or storage and subsequent exportation and/or consumption.

forfaiting Forfaiting, similar to factoring, is an arrangement under which exporters actually forfeit their rights to future payment in return for immediate cash. The arrangement is commonly used for sales of capital equipment with terms of one to five years.

Free Alongside (F.A.S.) (or free alongside steamer) The seller must deliver the goods to a pier and place them within reach of the ship's loading equipment. The buyer arranges ship space and informs the seller when and where the goods are to be placed.

Free of Capture and Seizure (F.C. & S.) An insurance clause providing that loss is not insured if due to capture, seizure, confiscation and like actions, whether legal or not, or from such acts as piracy, civil war, rebellion and civil strife.

free trade zone An area designated by the government of a country to which goods may be imported for processing and subsequent export on duty-free basis.

freight to (named destination) The seller must pay to forward the goods to the agreed destination by road, rail or inland waterway and is responsible for all risks of the goods until they are delivered to the first carrier.

GATT General Agreement on Tariffs and Trade, now renamed the World Trade Organization. A multilateral treaty adhered to by over 124 nations which provides a set of rules for trade policies and a means for settling disputes among member nations. After eight years of negotiations, the Uruguay Round Agreement of the GATT nations, creating a global trade accord, was voted on by the U.S. Congress in December, 1994 and approved for American participation. The pact is expected to lower world tariffs by 40 percent, cut subsidies globally, expand protection for intellectual property and set rules for investment and trade in services.

general average A deliberate loss or damage to goods in the face of a peril, which sacrifice is made for the preservation of the vessel and other goods. The cost of the loss is shared by the owners of all goods on board up to time of peril.

general license (export) Authorization to export goods/services without specific documentary approval.

general license, limited value (GLV) Authorization to export a limited value amount of a good without specific documentary authorization.

general order A Customs term by which if proper entry has not been made for merchandise within five working days after arrival in a port of entry, the goods are sent to a general order warehouse. All costs are charged to the importer.

gross weight Entire weight of goods, packing and container, ready for shipment.

hard currency A currency expected to remain at stable value or to increase in relation to other currencies; also, a freely convertible currency may be called "hard."

harmonized system The harmonized system (HS) is a classification system for goods in international trade that provides a uniform system of product classification for all major trading countries.

import To bring foreign goods or services into a country.

import license A license required and issued by some governments authorizing the entry of foreign goods into their countries.

import quota A restricted amount of certain types of goods entering a country, usually maintained through licensing importers, assigning to each a quota, after determining the amount of goods or commodities allowed for that period. The license may also state the country from which the importer is allowed to buy, thus restricting free trade, but many times adopted by governments because of internal pressures from certain industries worried about competition.

in bond A term applied to the status of merchandise admitted provisionally to a country without payment of duties—either for storage in a bonded warehouse or for transshipment to another point, where duties will eventually be imposed.

indent A requisition for goods, stating conditions of the sale. Acceptance of an indent by a seller means his agreement to the conditions of the sale.

indirect exporting Sale by the exporter to the buyer through an intermediary in the domestic market.

inland bill of lading A bill of lading used in transporting goods overland to the exporter's international carrier, where the ocean bill of lading becomes applicable. Although a through bill of lading can sometimes be used, it is usually necessary to prepare both an inland bill of lading and an ocean bill of lading for export shipment.

inland carrier A transportation line which hauls export or import freight between ports of entry and inland destinations.

integrated carriers Carriers that have both air and ground fleets. Since they usually handle thousands of small parcels an hour, they have more competitive prices and offer more diverse services than regular carriers.

intellectual property The patents, trademarks, service marks, copyrights and trade secrets of a business are considered intellectual property.

Inter-American Development Bank (IDB) The Inter-American Development Bank provides resources to finance Latin American development. The IDB also serves as administrator for special funds provided by several member and nonmember countries. The largest of these funds is the U.S. Social Progress Trust Fund.

International Chamber of Commerce (ICC) Established in Paris in 1919, this is a non-governmental organization serving world business. The ICC has members in 110 countries that include companies, industrial associations, banking bodies and chambers of commerce. The ICC International Court of Arbitration was founded in 1923 to settle international business disputes; it is the leading international arbitration institution.

International Finance Corporation (IFC) A separately organized member of the World Bank group, receiving its funds through stock subscriptions from member countries, revolving loans, and earnings. The IFC encourages the flow of capital into private investment in developing countries. It makes loans at commercial interest rates, usually as a lender of last resort when sufficient capital cannot be obtained from other sources on reasonable terms.

irrevocable letter of credit A letter of credit which obligates the issuing bank to pay the exporter provided all the terms and conditions of the letter of credit have been met. None of the terms and conditions may be changed without the consent of all parties to the letter of credit (see letter of credit).

lay time The time allowed a ship to load or unload. If this number of days is exceeded, demurrage is incurred.

legal weight The weight of the goods plus any immediate wrappings which are sold along with the goods; e.g., the weight of a tin can as well as its contents (see net weight).

letter of credit (L/C) A method of payment for goods by which the buyer establishes his/her credit with a local bank, clearly describing the goods to be purchased, the price, the documentation required and a limit for completion of the transaction. Upon receipt of documentation, the bank is either paid by the buyer or takes title to the goods themselves and then transfers funds to the seller. The bank will insist upon exact compliance with the terms of the sale, and will not pay if there are any discrepancies.

lighterage The cost of loading or unloading a vessel by means of barges alongside.

liquidation The final determination of the duties due.

maquiladora The maquiladora (or "in-bond" industry) program allows foreign manufactures to ship components into Mexico duty-free for assembly and subsequent re-export.

marine insurance Insurance which will compensate the owner of goods transported overseas in the event of loss which cannot be legally recovered from the carrier.

multiple exchange rates A number of countries operate systems by which different exchange rates are used for different transactions.

NAFTA The North American Free Trade Agreement, the largest free trade area in the world, 340 million people and $6 trillion in GDP, encompassing Canada, the United States and Mexico. This free trade pact was passed by the U.S. Congress in November 1993 and began implementation in January 1994. NAFTA follows the model of the U.S.-Canada Free Trade Agreement and will lower trade barriers among the three countries over the next 15 years to zero in most categories of goods and services.

net weight (actual) The weight of the goods without any immediate wrappings; e.g., the weight of the contents of a tin can without the weight of the can (see legal weight).

non-tariff barriers These are factors, other than tariffs, inhibiting international trade, meant to discourage imports. They may include requiring advance deposits in import payments, requiring excessive customs adherence and excessive administrative procedures.

Non-Vessel Operating Common Carrier (NVOCC) A cargo consolidator of small shipments in ocean trade, generally soliciting business and arranging for or performing containerization functions at the port.

ocean bill of lading A contract between an exporter and an international carrier for transportation of goods to a specified foreign port. Unlike an inland bill of lading, the ocean bill of lading is a collection document, an instrument of ownership which can be bought, sold or traded while the goods are being shipped. There are two types of ocean bills of lading used to transfer ownership.

straight (non-negotiable): provides for delivery of goods to the person named in the bill of lading. The bill must be marked "non-negotiable."

shipper's order (negotiable): provides for delivery of goods to the person named in the bill of lading or anyone designated.

The shipper's order is used with draft or letter-of-credit shipments and enables the bank involved in the export transaction to take title to the goods if the buyer defaults. The bank does not release title to the goods to the buyer until payment is received. The bank does not release funds to the exporter until conditions of sale have been satisfied.

open account (O/A) A trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment, with 30-45 days accounts payable, for example. The buyer's integrity must be unquestionable, or the buyer must have a history of payment practices with the seller.

Organization for Economic Cooperation & Development (OECD) The Organization for Economic Cooperation and Development was established in 1961 by the industrialized "free market" nations of the world

to promote the economic and social welfare of member nations and to stimulate efforts on behalf of developing nations.

Overseas Private Investment Corporation (OPIC) A wholly owned government corporation designed to promote private U.S. investment in developing countries by providing political risk insurance and some financing, including project financing.

packing list This document includes information that is needed for transport, as well as the number and kinds of items that are being shipped.

performance bond guarantee If a company is undertaking a contract, it may be asked to give a performance bond for part of the value of the contract. If the customer considers the company's performance under the terms of the contract has been unsatisfactory, payment of the bond can be demanded from the banker guaranteeing the bond. The bond is issued by the bank on behalf of the company, and therefore increases the bank's potential exposure to the company.

piggyback arrangement An arrangement whereby one company—sometimes a smaller one—uses the already established distribution channels of another company, which is effective when the two companies wish to sell complementary products.

political risk Used in export financing, this term represents the risk of losses incurred by war, government prevention of merchandise entry, confiscation, currency inconvertibility, etc.

port of entry A port where foreign goods are admitted into the receiving country.

President's Export Council (PEC) The President's Export Council (PEC) advises the President on government policies and programs that affect U.S. trade performance; promote export exapansion; and provide a forum for discussing and resolving trade-related problems among the business, industrial, agricultural, labor and government sectors.

Private Export Funding Corporation (PEFCO) A U.S. company owned by the Export-Import Bank and a number of U.S. commercial banks and industrial corporations. It works with Ex-Im Bank by purchasing foreign buyers' medium. PEFCO funds itself by public issues of long-term secured notes, unsecured medium-term obligations, short-term notes sales, and by credit lines from the banks and from Ex-Im Bank.

pro forma invoice An invoice prepared by an exporter before the shipment of merchandise informing the buyer of the kinds of goods to be sent, their value and important specifications such as size, quantity and weight.

quota The quantity of goods which may be imported without restriction or additional duties or taxes.

quotation An offer to sell goods at a stated price and under stated terms.

Schedule B Refers to "Schedule B, Statistical Classification of Domestic and Foreign Commodities Exported from the United States."

Shipper's Export Declaration (SED) A form required by the U.S. Treasury Department and completed by a shipper showing the value, weight, consignee, destination, etc., of export shipments, as well as Harmonized Schedule B identification number.

sight draft A draft payable upon presentation to the drawee. A sight draft is used when the seller wishes to retain control of the shipment, either for credit reasons or for the purpose of title retention. Money will be payable at sight of the completed documents.

Standard Industrial Classification (SIC) A standard numerical code system used by the U.S. government to classify goods and services.

Standard International Trade Classification A standard numerical code system developed by the United Nations and used in international trade to classify commodities, primarily designed for statistical and economic purposes.

standy letter of credit A letter of credit issued to cover a particular contingency, such as foreign investors guaranteed payment for commercial paper (see letter of credit).

Strikes, Riots & Civil Commotions (S.R.& C.C.) A term referring to an insurance clause excluding insurance of loss caused by labor disturbances, riots and civil commotions or any person engaged in such actions.

sue and labor clause A provision in marine insurance obligating the insured to take necessary steps after a loss to prevent further loss and to act in the best interests of the insurer.

tare weight The weight of packing and containers—without the goods to be shipped.

tariff A tax on goods which a country imports. The rate at which imported goods are taxed. A tariff schedule usually refers to a list or schedule of articles of merchandise with the rate of duty to be paid to the government of importation.

tariff quotas Setting a higher tariff rate on imported goods after a specified, controlled quantity of the item has entered the country at the usual tariff rate during a specified period.

technology transfer This term is used to characterize "the transfer of knowledge generated and developed in one place to another, where it used to achieve some practical end.

through bill of lading A single bill of lading covering both domestic and international passage of an export shipment.

trade mission Generically, a trade mission is composed of individuals who are taken as a group to meet with prospective customers overseas.

Trade Promotion Coordinating Committee (TPCC) The President established the TPCC in May 1990 to unify and streamline the government's decentralized approach to export promotion.

trade show A trade show is a stage-setting event in which firms present their products or services to prospective customers in a pre-formatted setting.

transit shipment A term used of a shipment destined for an interior point or for a place best reached by reshipment from another port.

transportation and exportation entry A form declaring goods entering the United States for the purpose of exportation through a U.S. port. Carriers and any warehouse must be bonded.

uniform customs and practice Standardized code of practice issued by the International Chamber of Commerce in Paris covering Documentary Credits (see International Chamber of Commerce).

uniform rules Standardized rules issued by the International Chamber of Commerce in Paris covering collections, Combined Transport Documents, and Contract Guarantees (see International Chamber of Commerce).

Uruguay Round The most recent (1989-1994) round of trade talks of the member countries of the General Agreement on Tariffs and Trade (see GATT).

validated export license A document issued by the U.S. Government authorizing the export of commodities for which written export authorization is required by law.

value added tax (VAT) An indirect tax assessed on the increase in value of a good from raw material stage to final product for consumption. The tax is paid by those who increase the value of the items before they resell them. A system used by the European Community.

World Trade Organization (WTO) This organization was the former General Agreement on Tariffs and Trade (GATT) and was created and named by the Uruguay Round in 1994.

warehouse entry A form declaring goods imported and placed in a bonded warehouse. Duty payment may not be required until the goods are withdrawn by the importer.

wharfage Charges assessed by docks for the handling of incoming or outgoing ocean merchandise

without reserve A shipping term indicating that a shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the group or individual represented.

World Bank The World Bank assists the development of member nations by making loans when private capital is not available at reasonable terms to finance productive investments.