A BASIC GUIDE TO EXPORTING

U.S. COMMERCIAL SERVICE
United States of America
Department of Commerce

11th edition

The Official U.S. Government Resource for Small and Medium-Sized Businesses

U.S. Department of Commerce | International Trade Administration | U.S. Commercial Service

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A Basic Guide to Exporting

11th Edition

Doug Barry, Editor
U.S. Commercial Service

U.S. Commercial Service—Connecting you to global markets.

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This book is intended to provide general guidance for businesses and practitioners in better understanding the basic concepts of international trade. It is distributed with the understanding that the authors, editors, and publisher are not engaged in rendering legal, accounting, or other professional services. Where legal or other expert assistance is required, the services of a competent professional should be sought. This book contains information on exporting that was current as of the date of publication. While every effort has been made to make it as complete and accurate as possible, readers should be aware that all information that is contained herein is subject to change without notice.

Exporting for the first time?

Exported before, but things have changed?

Need answers, but not sure how or where to get them?

This is the book you need.

For more than 70 years, *A Basic Guide to Exporting* has given companies the information they need to establish and grow their business in international markets.

Whether you're new to exporting or just want to learn the latest ideas and techniques, and whether your product is a good or a service, this new 11th Edition—completely rewritten, revised, and updated—will give you the nuts-and-bolts information you need.

Here are just some of the topics we'll cover:

- **How to identify markets for your company's products** *(Chapters 3 and 6)*
- **How to create an export plan** *(Chapter 2)*
- **How to finance your export transactions** *(Chapter 15)*
- **The best methods of handling orders and shipments** *(Chapters 12 and 13)*
- **Sources of free or low-cost export counseling** *(Chapter 4)*

In addition, this book also includes:

- Real-life success stories from companies we've counseled on exporting
- Sample forms and letters
- Details on how to get free or low-cost U.S. government export support

Turn the page, and let's begin . . .

Acknowledgments

None of the people responsible for this newest 11th Edition of *A Basic Guide to Exporting* was alive when the first one came off the printing press in 1936. At that time and for years after, exporting was dominated by very large companies. That may be why over the next 73 years there were only nine editions—the audience was limited.

Not anymore. More than 40,000 copies of the 10th Edition and 10th Revised Edition have been printed since 2011. But since then, much has changed on the world economic scene, including a record 300,000 U.S. exporting companies in 2013.

This completely updated and rewritten 11th Edition is dedicated to and a practical reference for the thousands of additional companies, mostly small and medium-size, that, in the coming years, will export for the first time or expand into additional export markets.

A new generation of export enablers is responsible for the book you are holding, or are viewing on your mobile device—a technology that wasn't even science fiction in 1936! Among the many contributors to this book are Anand Basu and Antwaun Griffin of the senior leadership team of the U.S. Commercial Service, who early on supported the need for a new edition. Budget analyst Carolyn McNeill made sure commitments were kept.

Making important editorial contributions were Curt Cultice and Roza Pace, a whiz at explaining free trade agreements. Student interns Brian Gerrard and Sara Abu-Odeh kept track of hundreds of text changes and crunched innumerable bits of data for the charts.

Credit for the look and feel of the book goes to our designer Jason Scheiner. It was no small feat to integrate all the photos, charts, samples, stories, text pullouts, and changes. He also made sure that the print shop was faithful to the design.

This book contains many new facts, figures, and analyses. Dozens of experts from different government trade promotion agencies reviewed sections of the book and suggested changes. Special thanks to Jamie Rose of the U.S. Department of the Treasury for coordinating input on the export controls section and to Yuki Fujiyama from the U.S. Department of Commerce's Office of Financial and Insurance Industries for expanding the Trade Finance section.

Our colleague April Miller served as business manager for the project, and her knowledge of how our system works ensured that the book appeared while topics and trends are fresh.

Lastly, thanks to Progressive Publishing Services who provided text editing services and the index. Our friends at the Government Printing Office helped us find them, then later selected the print shop and arranged for book distribution through their commercial sales program.

To you, the reader, we hope this book challenges your assumptions about engaging in the world of international business and gives you the confidence to become an even greater success. Like the businesspeople featured in the pages that follow, we hope you will not only sell to the world—we hope you'll help make it a better place.

Doug Barry, Editor
Washington, D.C. • 2015

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Chapter 1: Introduction

The World Is Open for Your Business

In this chapter . . .

- **Selling globally is easier than ever.**
- **More help than ever is available.**
- **Your assumptions may not be accurate.**
- **Transform your business—and yourself.**

The World Is Open for Business—Your Business

Today, it's easier than ever for a company like yours, regardless of size, to sell goods and services across the globe. Small and medium-sized companies in the United States are exporting more than ever before. In 2013, more than 300,000 small and medium-sized U.S. companies exported to at least one international market—nearly 28 percent more than in 2005, the year in which the 10th Edition of this book was first published. In 2013, the value of goods and services exports was an impressive $2.28 trillion, nearly a 25 percent increase since 2010. And 2014 topped the previous year, with exports valued at $2.34 trillion.

Additional Reasons to Explore or Expand Exporting

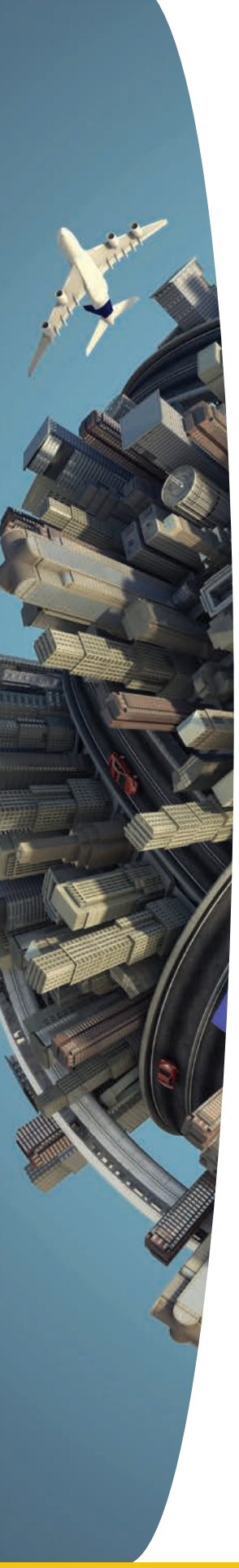
Global trade in goods and services is likely to grow in the future. The new World Trade Agreement on trade facilitation that was introduced at the end of 2013 and renegotiated in 2014 will reportedly add $1 trillion to the global gross domestic product (GDP) once it is fully implemented. This agreement compels the World Trade Organization (WTO) members to improve customs procedures and cut regulatory red tape, speeding the flow of goods and services across borders and reducing the costs involved. The U.S. government will create a "single window" system that has some of the same benefits and efficiencies as the WTO effort.

U.S. Total Annual Exports (USD Trillions, 2010–14)

Year	Value	Increase (%)
2009	1.570	
2010	1.831	16.62
2011	2.103	14.86
2012	2.216	5.37
2013	2.280	2.89
2014	2.345	2.85

Source: U.S. Census Bureau.

When this edition of *A Basic Guide to Exporting* went to press, the United States was in an advanced stage of negotiating trade agreements with the European Union and countries in the Asia-Pacific region, including the large market of Japan. Together, these markets represent 50



percent of total global GDP and 30 percent of global trade. These agreements, if ratified, will join agreements already in place, including the North American Free Trade Agreement (NAFTA) and the Central America and Dominican Republic Free Trade Agreement (CAFTA-DR). More than reducing the duties on imported goods by member countries and thus making these products cheaper for consumers, the agreements also generate additional business opportunities by strengthening intellectual property protections, simplifying regulations, opening up the service sectors and government contracting procedures, and generally treating foreign companies the same as domestic companies. For more information on free trade agreements see our publication *Free Trade Agreements: 20 Ways to Grow Your Business* (International Trade Administration, 2013).

If you have a web presence, you have a global marketing and order-taking platform. For a few more dollars, you can process credit card payments for buyers in Australia or translate key pages into Spanish and other languages to further your reach. During the next few years, worldwide B2C e-commerce is projected to nearly double to $2.2 trillion with the fastest growth in the Asia-Pacific. You'll want to be in the game as sales soar.

Do You Want More Sales Channels?

Online B2B and B2C marketplaces offer virtual storefronts and a ready-made global army of shoppers. They also offer payment solutions, and you can choose a shipper that will take care of the required documentation for you. The shippers want to help make things easier too, and many offer international business advice, freight forwarding and customs brokerage services, cost calculators, and in some cases, financing. Plus, they'll pick up goods and documents from your back door and deliver them to almost any address in the world. And you can track everything on their website. Some e-commerce platforms will arrange to ship your goods to one or more of their fulfillment warehouses located in major commercial centers around the world. As items are sold and shipped quickly to buyers, you can restock the goods by sending larger quantities to the fulfillment centers, generally at less cost than shipping one item at a time from your place of business in the United States.

Want even more sales channels? If web-based marketing and sales are insufficient to meet your sales growth appetite, you can attend trade shows in the United States where buyers from around the world come to purchase U.S. goods and services. Show organizers will facilitate introductions to the buyers, working with agencies of the U.S. government to provide matchmaking services on the show floor. These same government agencies can arrange for you to attend shows in other countries, where the connections and influence of your embassy network can save you time and money generating new business. Government agencies can find buyers for you and arrange introductions in more than 100 countries. Call this service "customized business matchmaking."

Channels can include:

- Direct to end-user
- Distributors in country
- Supplier to the U.S. government in a foreign country
- Your e-commerce website
- A third-party e-commerce platform where you handle fulfillment
- A third-party e-commerce where they handle fulfillment
- Supplier to a large U.S. company with international sales
- Franchise your business

You are not limited to one of these channels. Today's global trading system is ideal for the smaller company employing more than one marketing and sales channel to sell into multiple overseas markets. But most U.S. exporters currently sell to one country market—Canada, for example. And the smaller the company, the less likely it is to export to more than one country. For example, 60 percent of all exporters with fewer than 19 employees sold to one country market in 2005. Imagine the boost in the bottom line if they could double the number of countries they sell to.

Why Don't More Small Companies Export to More than a Single Market?

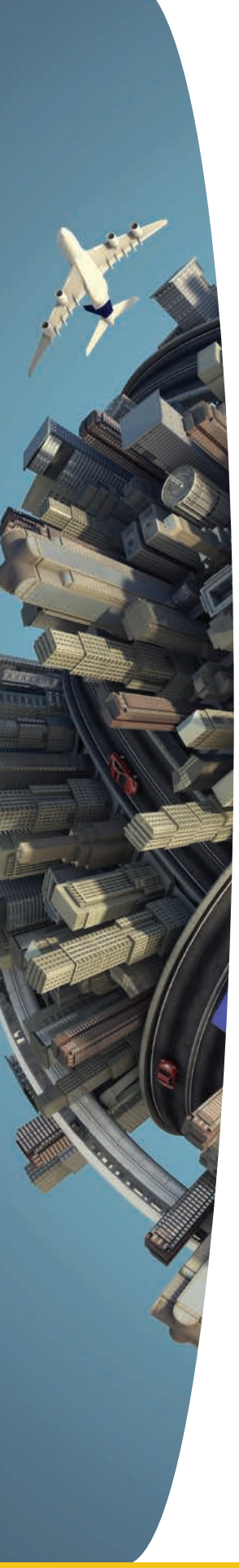
One reason is fear. It's not very fear inducing to sell to a buyer in Canada who seems not so far away, speaks the same language, and operates under a similar legal system. Croatia or Myanmar are perceived to be more risky. But are they? Many U.S. companies are doing good business there now. In general, their "secret sauce" boils down to careful planning, relying on assistance provided by government export promotion agencies, good basic business fundamentals including excellent customer service, and a willingness if needed to get on a plane to visit a prospective customer.

The opportunity for selling into a single region, such as Central America, and taking advantage of free trade agreements is substantial. The help available and discussed in this book can quickly expand your thinking—and your sales—from one market to many.

In choosing from among these channels, markets, and countries, what's the best strategy for your business? There's help for that too—from private consultants, from your home state and local U.S. government sources, from the web, and from this book. And much of the help is free or costs very little. It is easy to access, easy to use. Think of this help as your Global Entrepreneurship Ecosystem (GEE). According to *The World Is Your Market: Exporting Made Easier for Small Businesses* (Braddock Communications, 2013), your GEE is a social network of key contacts that can help you grow your international sales.

Your GEE Checklist

- Local U.S. Commercial Service office
- Regional Ex-Im Bank office
- Freight forwarder/customs broker
- World Trade Center
- Port Authority
- Chamber of Commerce
- State office of international trade
- A university business school
- Mayor's office/Sister City program
- Small Business Development Center
- International logistics company
- Other relevant companies or organizations



Global Business Assumptions

Old Assumption	New Assumption
Exporting is too risky.	Exporting to some markets, such as Canada, is no more risky than selling in the United States. Different international markets have different levels of risks. Almost any perceived risk can be identified and reduced by using the affordable export assistance now available.
Getting paid is cumbersome, and I'll lose my shirt.	Trade finance and global banking have evolved to the point where buying and selling things internationally is routine, safe, and efficient. Reliable payment collection methods are numerous and include letters of credit through banks, credit cards, and online payments. Some delivery companies will even collect payment at the buyer's back door.
Exporting is too complicated.	Most exporting requires minimal paperwork. Researching markets and finding buyers can in many instances be done from your computer using free or low-cost information. Third-party export facilitators, such as e-commerce platforms, can remove much of the complexity and risk, real or assumed.
My domestic market is secure. I don't need to export.	Globalization has made it easier to buy and sell goods in multiple markets. Few markets remain static, and new markets are constantly opening to competition. Most U.S. businesses are involved in or affected by international business, whether they realize it or not. More small and medium-size U.S. companies need an international strategy that includes diversifying markets. It turns out that exporting is often a tremendous learning experience for those who are open to the lessons, resulting in better products and services and valuable experiences for the practitioners.
I'm too small to go global.	No company is too small to go global. In fact, nearly 30 percent of all U.S. exporters in 2005 had fewer than 19 employees, and many had fewer than five.
My product or service probably won't sell outside the United States.	If your product or service sells well in the United States, there's a good chance an overseas market can be found for it. What's more, help is available to test acceptance of your service or product in more than 100 countries around the globe. In some markets, you may have to make some modifications because of cultural or regulatory differences, but by learning how to sell into another market, you will become a better marketer, and your company will be more successful in all markets in which it competes.
I won't be successful because I don't speak another language and have never been abroad.	Cultural knowledge and business etiquette are always helpful, but you can pick these things up as you go. The English language will take you a very long way, and help is readily available for situations in which interpreters and translators are necessary. We Americans regularly lampoon ourselves for being "ugly." A level of introspection and culturally specific knowledge can help prevent potentially deal-breaking faux pas, but a friendly disposition and willingness to learn can make up for a multitude of unintended mistakes.
I have no idea where to turn for help.	There is plenty of help available, much of it free.

A GEE might consist, for example, of your local Chamber of Commerce, your local World Trade Center, a university with an international business department, some Small Business Development Centers, the U.S. Commercial Service, a bank with international experience, and your state's office of international trade. Just to name a few. Social networking websites, such as LinkedIn, also have international trade groups and are worth considering.

If what you read so far comes as a surprise—particularly that exporting is relatively easy, as is expanding the markets you sell to from one to many, even for very small businesses, and that there are scores of local yet worldly folks ready to help you succeed—then you are not alone. The people whom we interviewed for the case studies in this book—like many potential exporters—say that their number one need starting out was for more basic information on how to export. The greatest information needs are how to choose the best markets for their products and services and to meet people to purchase them.

Surprised?

Then you also might be surprised by the old global business assumptions and the new ones replacing them.

This book is mainly written for you, the millions of business owners, or their business development gurus, who could export or export more. You've asked to have spelled out in plain language how people busy running their businesses can learn what they need to know to grow their sales globally. And here it is: *A Basic Guide to Exporting*.

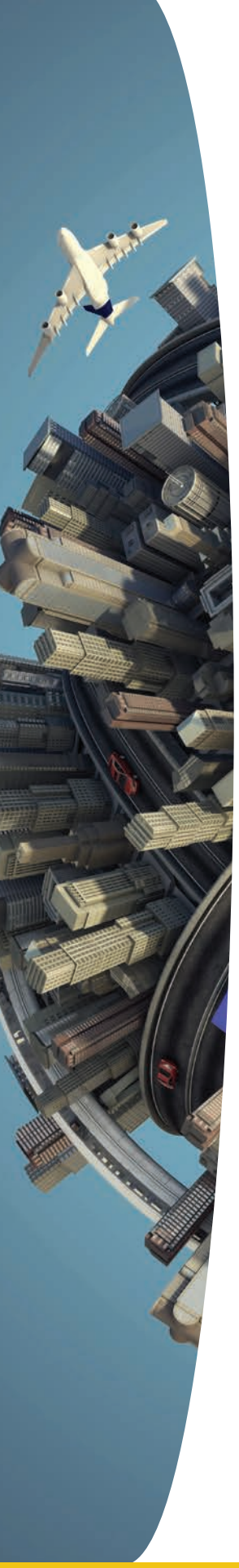
The U.S. government and private companies have offices all over the world, all designed for one purpose: to help get U.S. products and services out of the United States and into the waiting hands of international customers.

Reasons to Export

If you purchased this book or received it from one of our corporate partners, chances are you have already answered for yourself this fundamental question: Why bother?

Exporting can be one of the best ways to grow your business:

- Grow your bottom line (companies that export are 17 percent more profitable than those that don't).
- Smooth your business cycles, including seasonal differences.
- Add management and intercultural expertise.
- Use production capabilities fully.
- Defend your domestic market.
- Increase your competitiveness in all markets.
- Increase the value of your intellectual property should you choose to license it.
- Increase the value of your business should you choose to sell it (and start another).



Exporting Is Strategic in Another Way

With the volume of trade growing exponentially and barriers to trade falling, competition in a company's domestic market is intensifying, particularly from foreign competitors. We need to compete in our own backyard while we simultaneously open markets for our products and services in other markets:

- Ninety-five percent of the world's consumers live outside the United States. That's a lot of potential customers to ignore.
- Foreign competition is increasing domestically. To be truly competitive, companies must consider opening markets abroad.
- Exporting is profitable.
- Exporting helps businesses learn how to compete more successfully.

According to a World Bank report, Global Economic Prospects, trade in goods and services is likely to more than triple by 2030. Over the same period, the global economy will probably expand from $35 trillion in 2005 to $72 trillion. The number of people considered "middle-class" will triple to 1.2 billion, enabling them to afford international travel, better education, and imported goods from the United States. Exports from the United States, according to the same report, are expected to grow by nearly 10 percent per year for the next several years. Your product or service could be among them.

With this significant projected growth in global trade, fueled in large part by newly affluent consumers in China, India, and other developing economies, the challenge for businesses of all sizes in the United States is how to dip into this incredible revenue torrent. *A Basic Guide to Exporting* aims to help prime your pump.

As global trade grows, companies that engage in it report a shift in income derived from their export sales compared with sales in their domestic markets. A study of U.S. exporters found that 60 percent of small companies in the survey derived 20 percent of annual earnings from exports, while 44 percent of medium-sized companies did. When asked whether export sales would grow at least 5 percent per year for the next 3 years, 77 percent of the small companies and 83 percent of the medium-sized companies said they would.

You might reasonably respond by saying, "That's all well and good, but do I have what a person in another country will buy?" As you delve further into this book, you'll read about companies of all sorts that produce an amazing array of products and services and have grown their businesses through exports. They include:

- Conversational English modules that can be downloaded from cell phones
- Bicycle racing socks
- An exercise machine
- Bolts
- A fish food
- Garage doors
- Skylights
- Lightning deflectors
- Previously owned mining machinery
- And a host of other interesting and useful products and services

Some of what's sold is unique, but most is not, relying on other factors such as superior customer service or marketing to close the deal. The businesses and businesspeople behind them are excellent at business fundamentals and passionate about expanding globally. One business featured in this book calls itself a "micro-multinational"; it has 40 employees but sells to 60 different countries.

Even Companies That Don't Make Anything Are Flourishing Abroad

These companies make money by providing wholesale and distribution services. And there are thousands of them—many of them small.

Another answer to "Why bother to export?" is that exporting adds to the knowledge and skills of everyone in a company who does it. Doing business in a market that's beyond one's borders can have a transformational effect on its practitioners. The experience of forming new relationships, getting up close and personal with another culture, figuring out how to meet the needs of others, and learning how to be inventive in addressing new business challenges not only is personally rewarding; it also leads to improvements in products and makes companies stronger in whatever market they compete.

As one small exporter interviewed for this book put it, "Exporting is easier than we imagined. Exporting opens your horizons to what's going on in the world economy. We need to take that step outside ourselves and develop relationships and open doors. It may start out small. It did for us. But it's growing. We are a better company and better managers. Maybe even better persons. And to me that's what success is all about."

Success Story

Pedaling Through Trials to Reach Global Markets

DeFeet International

At the end of each chapter you'll find a small business case study that describes how a business began exporting and developed that aspect of the business over time. As you read the stories keep in mind some of the themes from Chapter 1: importance of exporting to growth; exporting to multiple international markets; solid business fundamentals; dealing with challenges; and seeking expertise and assistance from government and other sources.

The Company

Shane Cooper is president of DeFeet International, a maker of socks for cyclists. Over the years and despite substantial adversity, he has built the business that now includes distributors in 35 countries. He and his wife were bike racers back in the early 1990s. During summers, she was supplementing her income by racing bikes as an amateur and, as Cooper puts it, he was spending her supplemental income as an amateur on his bike racing. His father was a sock knitting machine technician and sold the machine's parts. One day, Cooper the younger decided to make socks to pay for his bike racing hobby. "It just kind of happened from there," he recalls. "We made the world's best sock for cycling and that was 20 years ago."

The Challenge

Cooper's factory burned to the ground in 2006. There was no production for 9 months. Luckily, there was insurance, but it took a lawsuit and 3 years to receive everything owed. And so when he finally got the check, he had to pay taxes out of that money because it's considered business income. "We had 7 years where we made no money after the fire," said Cooper. "We became profitable again and started winning the business back." That was just in time for the great recession of 2008. Just when things were at their bleakest people started pulling bikes down from garage rafters and riding them to save money. Bicycle shops became flush with cash, and the Euro soared against the dollar. "So all of a sudden, after 7 years of struggling, we made it through. And now, we're 4 years in with profits again. If we didn't have our international business, gosh, I don't think we would have made it."

The Solution

Of course, the international business made the difference. But it didn't happen spontaneously. Cooper hired an international marketing manager who developed a go-to market strategy for Europe, which included a web presence and a network of distributors. This allowed Cooper to focus on the research and development side of the business, which included socks made of fibers extruded from recycled plastic bottles.

Cooper elected to keep production in the United States, mainly because of worries that making the socks in Asia would involve quality issues, environmental problems, and loss of control over intellectual property. He said: "American-made to me is control. It's American jobs. It's quality, and mostly it's value."

Lessons Learned

By listening to his European customers, including some of the top riders in Italy and France, Cooper was able to create—and continues to create—socks that the fans of the champions want to buy. What he learns is his "secret sauce." He also relies on his local U.S. Commercial Service office to advise DeFeet on tariffs and duties—and about the 20 or so free trade agreements the United States has with other countries. The U.S. Commercial Service also has extensive knowledge about international textile agreements and how his products are affected.

"I'm always looking for low-cost but accurate expert advice, especially from government sources," he said. "You've got to remember, I was a dumb bike racer, a bad one at that. I wasn't a businessman."

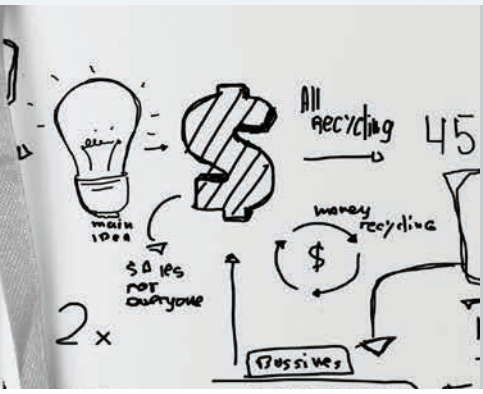
Cooper also learned that success hinges on figuring out early on what your strengths are. "If you don't have the skills or time to devote to the international side of the business, hire someone who can do it."

Action

If you have an export ready service or product, contact your local U.S. Commercial Service office.

If you are just starting a business, or thinking about starting one, contact your local Small Business Development Center, of which there are more than 900 in the United States. Many of the centers have a counselor certified in export business counseling. For more information, please visit ***1.usa.gov/1vCFFxx***.

Chapter 2
Developing an Export Strategy



In this chapter . . .

- **Do you need a license?**
- **Is your company ready to export?**
- **How will exporting affect your company?**
- **How do you create an export plan?**

Do I Need a License?

This is one of the most frequently asked questions we receive at the U.S. network of U.S. Commercial Service offices. The answer is usually "no" because 95 percent of all items exported from the United States to a foreign buyer don't require an export license, even though the items are subject to U.S. government export control laws and regulations. These laws and regulations determine whether you can sell your product to an international buyer, which countries you can export it to, and to which buyers you can sell. However, just because your product is among the 95 percent that don't require a license doesn't mean that you can sell it anywhere and to anyone.

Export Administration Regulations and the Bureau of Industry and Security

Most U.S.-sourced items and some internationally-sourced items that are considered dual-use (possessing both commercial and military proliferation applications), as well as certain purely commercial and munitions items, are subject to the Export Administration Regulations (EAR), administered by the Bureau of Industry and Security (BIS). The EAR is available at ***bis.doc.gov***.

To determine whether your item is subject to the EAR, you will need to refer to the EAR's Commerce Control List (CCL) to see if your item has an Export Control Classification Number (ECCN). Every item specifically listed in the EAR has an assigned ECCN. If your item falls under the jurisdiction of the U.S. Department of Commerce and is not listed on the CCL, it is designated as EAR99. Most EAR99 commercial products will not require a license to be exported. Depending on the destination, end user, or end use of the item, even an EAR99 item may require a BIS export license.

Although relatively few items subject to the EAR require export licenses, licenses are required in certain situations involving national security, foreign policy, short supply, nuclear

nonproliferation, missile technology, chemical and biological weapons, regional stability, crime control, or anti-terrorism.

Management and Compliance

To ensure compliance with the EAR and manage export-related decisions and transactions, you can establish an Export Management and Compliance Program (EMCP). An EMCP lets you analyze pieces of information and individual decisions, and then build them into an organized, integrated system.

The BIS website has information on the nine core elements of an effective EMCP. In particular, note the EAR's mandate for sufficient record keeping.

Suppliers, consultants, and other third-parties can help you with many routine details. However, always remember that you are ultimately responsible for your own compliance.

If you have a catalog of dozens or hundreds of items that you want to sell globally, you should consider creating a written compliance plan. In addition to studying the online BIS videos and publications, the person responsible for managing your company's plan should consider attending specific EAR and export-control seminars. Visit the BIS website, or ask your local U.S. Commercial Service office for information about where to find training. You can also contact BIS for guidance on developing the plan and to review the final document.

Strategy

An item subject to the EAR will either have a specific ECCN or be designated EAR99. When adding a product to your inventory or reviewing your current product line, ask your suppliers whether they can provide the necessary classification information; create a field in your inventory-management system for classification information; and add a related field that lists the countries to which export of that product is prohibited by the EAR or subject to licensing requirements. If you are obtaining classification information from your suppliers, work closely with them to understand how they determine the ECCN. Remember that as the exporter, you are ultimately responsible for obtaining any necessary licenses.

Export classification and any license numbers you receive must appear on export documentation, such as the Commercial Invoice and the Automated Export System (AES) filing; the numbers should be easily accessible in your inventory management system. For certain types of exports listed in Section 758.1 of the EAR, BIS requires the filing of electronic export information in AES, regardless of value or destination. When completing forms (on paper or online), the U.S. Postal Service and major freight carriers may require you to enter "NLR"—which means "No License Required"— for certain EAR shipments. Details on EAR99 can be found in the "ECCN Questions and Answers" section of ***bis.doc.gov***.

It's a good idea to establish a company-wide rule that emphasizes the importance of classification under the EAR and the associated HTS Numbers (see Chapter 12). If the inventory-management system doesn't list an ECCN or EAR99 designation, then that item is ineligible for international shipping. If possible, adapt your inventory management software so it flags problematic orders. You need to be especially careful with items that are subject to the EAR, whether the items have ECCNs or are EAR99—you don't want to inadvertently violate the EAR.

International Traffic in Arms Regulations

The International Traffic in Arms Regulations (ITAR) control the sale of defense items and defense services. These items and services provide the U.S. with a critical military or intelligence capability. If you produce or sell these items, you need to learn about the ITAR, including potential requirements to register with the U.S. Department of State's Directorate of Defense Trade Controls (DDTC). Details can be found at ***pmddtc.state.gov***.

Start by finding out whether your item for export (hardware, technical data, and/or defense service) is on the U.S. Munitions List (USML), found in Part 121 of the ITAR. If it is, then explore the ITAR website for complete information on ITAR licensing.

Exporting controlled items that are listed on the USML without obtaining proper licensing has very serious legal consequences.

Persons Subject to Trade Restrictions

Both the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and BIS administer and enforce economic and trade sanctions against certain foreign countries, companies, and individuals, based on U.S. foreign policy and national security goals. OFAC and BIS maintain lists of persons (natural persons and entities, including corporations) that

Export Control Regulations

Program	Overseeing Agency	Scope	Exporter Responsibility	Resources
Export Administration Regulations (EAR)	U.S. Department of Commerce's Bureau of Industry and Security	Strictly commercial, dual-use, and less sensitive military commodities, software, and technology	Check lists of parties of concern on the BIS website. Determine whether the item is subject to the EAR (ECCN or EAR99). Apply for license (if needed).	*bis.doc.gov* *export.gov*
International Traffic in Arms Regulations (ITAR)	U.S. Department of State's Directorate of Defense Trade Controls	Defense articles and defense services (providing critical military or intelligence capability)	Check if products are on U.S. Munitions List (USML). Determine if a license or other approval is needed	*pmddtc.state.gov* *export.gov*
Economic and Trade Sanctions	Office of Foreign Assets Control (OFAC)	Sanctions are based on U.S. foreign policy and national security goals; they can apply to foreign countries, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the U.S. national security, foreign policy, or economy	All U.S. persons, wherever they are located, must comply with OFAC regulations. OFAC encourages all exporters to maintain a rigorous risk-based compliance program.	*treasury.gov/ofac* *export.gov*

are subject to trade restrictions, including the export of items that fall within their jurisdictions. Both agencies also maintain trade restrictions on certain countries, including countries that are subject to trade embargoes.

Every exporter must be aware of the individuals and organizations on the lists of parties of concern. You can find the consolidated screening lists from BIS, OFAC, and the U.S. Department of State at ***1.usa.gov/1J7UYY2.***

If you need help performing these obligations, you can hire a third-party company to conduct these checks for you in real time. You also can purchase software to help you remain in compliance. Freight forwarders may also flag problematic transactions. Please be aware that as the exporter, you bear primary responsibility for compliance with export controls, and you are responsible for obtaining any required licenses.

In addition to your other due diligence, always remember to check the consolidated screening list.

Determining Your Products' Export Potential

Once you've determined whether or not you need an export license to sell your product and for example, you've learned that North Korea is not among the markets to consider, analyze your product's or service's export potential. There are several ways to evaluate the export potential of your products and services in international markets. The most common approach is to examine the domestic sales of your products. If your company is successful in the U.S. market, there is a good chance that it will also sell in markets abroad, at least in those markets where similar needs and conditions exist. If you are a wholesaler in the United States or if you want to be a manufacturer's representative, you'll have the means of assessing domestic sales. If you have a startup but haven't sold anything yet, you'll at least have a good sense of future prospects.

Another way to assess your company's potential in exporting is by examining the unique or important features of your product. If those features are hard to duplicate abroad, then it's likely that your product will be successful overseas. A unique product may have little competition so demand for it may be quite high.

However, even if your product is not unique, don't be discouraged. Many products and services, including ones featured in this book, have competitors in their targeted overseas markets.

Advantages of "Made in the USA"

- Innovative, creative, cutting edge
- Flexible and prepared to modify products and services
- High quality, durable, safe
- Positive brand values and awareness
- Reputation for excellent after-sales service and warranty coverage
- Creative marketing materials
- Easy to reach and communicate with
- Honest, ethical business dealings

All U.S. businesses have many ways to compete in international markets, including:

- How the product is positioned in a specific market
- The advantage of the "Made in the USA" brand
- Help from the GEE, including government export promotion services
- Excellent customer service or some other competitive advantage that has little to do with what is being sold but *how* it's sold
- Free trade agreements or foreign currency exchange fluctuations that cause competitors' products to be more expensive

Finally, your product may have export potential even if sales are declining in the U.S. market. Sizable export markets may still exist, especially if the product once did well here but is now losing market share to more technically advanced products. Other countries may not need state-of-the-art technology and may be unable to afford more sophisticated and expensive products.

Assessing Your Company's Export Readiness

Export-ready companies possess certain qualities that increase the likelihood that their exporting efforts will be successful. Answering these important questions about how exporting will enhance your company's goals can help you determine your company's export readiness:

- What does your company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will exporting place on your company's key resources, management and personnel, production capacity, and financing, and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

For a more in-depth assessment of whether your company is ready to export, it's a good idea to take the export readiness assessment, available at ***export.gov/begin/assessment.asp***. You'll be asked to consider issues such as your company's current operations, attitudes, and products.

Qualities of an Export-Ready Company

- Have commitment from ownership and are prepared to fund exporting activities
- Understand the added demands international business can place on key resources
- Have realistic expectations regarding return on investment from international activities
- Are prepared to modify products and services by market as well as provide training and after-sales service
- Be willing to work with government export promotion agencies

For a more theoretical assessment, it is helpful to examine some of the motivational and organizational factors behind your company's decision to export. Thinking about these factors will help you decide if your company and your product are ready to export.

Motivational factors include:

- **Long-term expansion.** Building an exporting plan takes time, so it is important to focus on expanding your business over the long term and not to look for immediate returns.
- **Increased competitiveness.** By selling internationally, your company can gain insights into different ways of doing business.
- **Exploitation of unique technology and expertise.** If your product quality or expertise is superior, you'll have a competitive edge in the international marketplace.
- **Improved return on investment.** Your company should seek multiple benefits from exporting, such as expanded customer networks and exposure to new ideas and technology.
- **Increased capabilities.** You'll develop better products and services, acquire better leadership abilities, and collaborate better with customers and suppliers.

Organizational factors include:

- **Management commitment.** Total backing from management is the number one determining factor of export success.
- **Funding support.** Management must be willing to allocate sufficient time, enough resources, and an adequate budget for export activities.
- **Personal expertise and commitment.** Having staff members with international experience or having employees learn about your target market's language and culture will help you enter the international marketplace.
- **Product capabilities.** Your company must possess the space and equipment needed to manufacture for the specific countries to which you are selling (each of which will have its own product standards and regulations).
- **Company's exporting goals.** Whatever your goal, consider whether the expected benefits outweigh the costs.

Is your product ready to export? To determine export readiness, consider these additional factors:

- **Selling points.** If your product is a success domestically, the next step is to identify why it sells or has sold so well here, keeping in mind that conditions abroad may be somewhere between slightly and significantly different (socially, culturally, economically, politically, and environmentally).

If features are hard to duplicate abroad, then it's likely that your product will be successful overseas.

- **Modifications.** You may sell your product without modifications to international markets, as long as it meets the standards and regulations set by the respective countries. Some countries have strict governmental regulations that require special testing, safety, quality, and technical conformity measures. Depending on the product and market, suppliers may need to alter colors, sizes, and packaging to accommodate local conditions and consumer preferences.

- **Product licensing.** Some classifications of products require special approval from the U.S. Department of Commerce before you export and some of those products require export licenses. (See the discussion on export regulations in this chapter).
- **Required training.** Products that require training to operate place a greater responsibility on your company and distributor or agent, and you must decide how to support that training.
- **After-sales service.** Products that require considerable after-sales support must be handled by a distributor or agent who is well positioned to provide such a service. Providing the means to send the product back to you for repair and replacement is another option.
- **Product distinctiveness.** Products that have unique features enjoy a competitive advantage and better reception in foreign markets. Such unique features include patents, superior quality, cutting-edge technology, and adaptability.

For a more complete list of factors and questions your company should consider, contact your local U.S. Commercial Service international trade specialist.

This book helps you to export in a strategic manner, rather than filling the occasional order from an international buyer. You could do a very nice business selling internationally via your own website or a third party e-commerce site. So-called passive or reactive exporting may be the dominant model among U.S. small and medium-sized enterprises. There is nothing wrong with this method of exporting, and it usually does not require elaborate planning or deep reflection on motives or capabilities. However, to take your business to the next level of performance, expertise, and growth, a strategic approach is needed. The first step is to create a written export plan.

Many small companies export to more countries than they have employees.

Developing an Export Plan

A crucial first step in planning is to develop broad consensus among key management personnel on the company's goals, objectives, capabilities, and constraints. In addition, because they will ultimately be responsible for its successful implementation and execution, the personnel involved in the exporting process should agree on all aspects of an export plan. Of course at this stage of your business development, it may be just you, possibly a partner, and a few employees.

The purposes of the export plan are:

- To assemble facts, constraints, and goals
- To create an action statement that takes all of those elements into account

The plan includes specific objectives, sets forth time schedules for implementation, and marks milestones so that the degree of success can be measured and can motivate personnel.

Once you've decided to sell your products abroad, you'll need to develop an export plan.

Answer these 11 questions:

1. Which products are selected for export development, and what modifications, if any, must be made to adapt them for overseas markets?
2. Is an export license needed?
3. Which countries are targeted for sales development?
4. In each country, what are the basic customer profiles, and what marketing and distribution channels should be used to reach customers?
5. What special challenges pertain to each market (for example, competition, cultural differences, and import and export controls), and what strategy will be used to address them?
6. How will your product's export sales price be determined?
7. What specific operational steps must be taken and when?
8. What will be the time frame for implementing each element of the plan?
9. What personnel and company resources will be dedicated to exporting?
10. What will be the cost in time and money for each element?
11. How will results be evaluated and used to modify the plan?

The first time an export plan is developed, it should be kept simple. It need be only a few pages long because important market data and planning elements may not yet be available. The initial planning effort itself gradually generates more information and insight. As you learn more about exporting and your company's competitive position, the export plan will become more detailed and complete.

From the start, your plan should be written and viewed as a flexible management tool, not as a static document. Objectives in the plan should be compared with actual results to measure the success of different strategies. Your company should not hesitate to modify the plan and make it more specific as new information and experience are gained.

A detailed plan is recommended for companies that intend to export directly, meaning selling to an end-user in another country. If your company chooses indirect export methods or sells via your or a third party's website, you may use much simpler plans. For more information on different approaches to exporting and their advantages and disadvantages, see Chapter 5.

The Value of a Plan

Only about a third of SME U.S. manufacturers have a written plan of any size or kind. These companies began exporting by responding to an order and tend to react only when additional orders come in the same way, often via the Internet. No revenue targets for exports exist, and no one staff member is dedicated to growing the export business.

Absent a plan, your business may overlook much better opportunities. In addition, reactive exporters may quickly give up on selling to international customers,

concluding prematurely that it's not worth the effort or that it's easier to serve customers closer to home even if that business may not grow, and could very well shrink, in the future. Doing the hard initial work of deciding how you want to develop and grow your international sales increases your chances that the best options will be chosen, resources will be used wisely, and execution will lead to a successful result. Remember that while 58 percent of all U.S. exporters export to only a single market (predominantly Canada), many small exporters sell to more countries than they have employees, and these sales account for a growing percentage of total sales, without which they'd be toast. These mini-multinationals are becoming more common, and your company can be one of them.

Some Additional Benefits of Plans

- Written plans display your strengths and weaknesses more clearly.
- Written plans are not overlooked or forgotten.
- Written plans may be required in seeking financing to build the export side of the business.
- Written plans are easier to communicate to others including new hires who come on board as your business grows.
- Written plans assign responsibilities, keep you on track, and provide ways to measure results.
- Written plans allow for the articulation of unexamined assumptions about you and your business that can lead to new insights and better plans and results.
- Written plans give you a clear understanding of specific steps that need to be taken and help assure a commitment to exporting over the longer term. The plan represents a commitment to exporting.
- With a written plan you'll be less likely to ignore inquiries or actual orders from foreign buyers or not know what to do with them when they arrive.

A plan can help challenge assumptions, answer questions, and dispel fears, such as:

- "No one outside the United States will buy my product."
- "I can't think of a country market to target."
- "Acquiring export expertise is too expensive or time consuming."
- "If I can't think of another country to enter, why bother with a written export plan?"

Length of the Plan

Your plan need only be a few pages to start, and you can use sections of this chapter to create one. The process of creating a simple plan will generate additional questions or areas of information needed. So your plan will evolve and become more detailed as you gain experience.

The Planning Process

Reading this book and acting on the information provided contribute to your export plan. Congratulations! You've taken a significant step toward planning for export success by thinking and acting strategically. Here are some important preliminary questions to ask and the answers will become an important part of the plan.

Product or Service

- What need does my product or service fill in the global marketplace?
- What modifications, if any, must be made to adapt my product for the overseas market?
- Do I need special licenses or certificates from my or the buyer's government?
- Do I need to modify my packaging or labeling?

Pricing Considerations

- How much will it cost to get my product to market (freight, duties, taxes and other costs)?
- Given an estimate of the costs of getting my product to the buyer, what is my pricing strategy?
- What, if anything, do I need to protect my intellectual property?

Promotion

- What modifications, if any, should I make to my website to make it easy for potential buyers to understand the value of my product or service, to contact me, and to make a purchase?
- Should I sell my products on third party e-commerce platforms?
- What kinds of social media should I use to build awareness?
- Should I attend a trade show where international buyers are present?

Management Issues Involved in the Export Decision

Management Objectives

- What are the reasons for pursuing export markets? Are they solid objectives (such as increasing sales volume or developing a broader, more stable customer base), or are they frivolous (for example, the owner wants an excuse to travel)?
- How committed is top management to an export effort? Is exporting viewed as a quick fix for slumping domestic sales? Will export customers be neglected if domestic sales pick up?
- What are management's expectations? How quickly does management expect export operations to become self-sustaining? What level of return on investment is expected?

Experience

- With what countries has business already been conducted, or from what countries have inquiries already been received?
- Which product lines are talked about the most?
- Are any domestic customers buying the product for sale or shipment overseas? If so, to which countries?
- Is the trend of sales and inquiries up or down?
- Who are the main domestic and foreign competitors?
- What general and specific lessons have been learned from past export attempts or experiences?

Management and Personnel

- What in-house international expertise does the company have (for example, international sales experience and language capabilities)?
- Who will be responsible for the export department's organization and staff?
- How much senior management time should be allocated and could be allocated?
- What organizational structure is required to ensure that export sales are adequately serviced?
- Who will follow through after the planning has been done?

Production Capacity

- How is the present capacity being used?
- Will filling export orders hurt domestic sales?
- What will be the cost of additional production?
- Are there fluctuations in the annual workload? When? Why?
- What minimum-order quantity is required?
- What would be required to design and package products specifically for export?

Financial Capacity

- What amount of capital can be committed to export production and marketing?
- What level of operating costs can be supported by the export department?
- How are the initial expenses of export efforts to be allocated?
- What other new development plans in the works might compete with export plans?
- By what date must an export effort pay for itself?
- Do you qualify for export financing from government or commercial sources?

Sample Outline of an Export Plan

Table of Contents and Executive Summary (1–2 pages)

Introduction: Why This Company Should Export

Part I: Export Policy Commitment Statement

Part II: Situation or Background Analysis

- Product/Service for Export
- Operations
- Personnel and Export Organization
- Resources Inside the Company
- Resources Outside the Company
- Industry Structure, Competition, and Demand
- Export License (if needed)
- Export Control Compliance
- Products/Services to Be Exported
- Product Classification(s)
- Products That Qualify Under FTAs

Part III: Marketing Component

- Identifying, Evaluating, and Selecting Markets
- Product Selection and Pricing
- Distribution Methods
- Terms and Conditions
- Internal Organization and Procedures
- Sales Goals (Profit and Loss Forecasts)
- Pricing Including Consideration of Duties, Taxes, Freight Costs, and Logistics

Part IV: Tactics—Action Steps

- Primary Target Countries
- Secondary Target Countries
- Indirect Marketing Efforts
- Quarterly Accomplishments

Part V: Export Budget

- Pro-forma Financial Statements
- Website Enhancements
- Trade Show Visits
- Marketing Materials
- Travel
- Other Costs

Part VI: Implementation Schedule

- Follow-up
- Periodic Operational and Management Review (Measuring Results against the Plan)

Addenda: Background Data on Target

- Basic Market Statistics (Historical and Projected)
- Background Facts
- Competitive Environment

Sample Elements of an Export Plan

1. Introduction

Lips L'amour is a spectacular lip balm providing maximum lip protection and flavor that includes a hint of wheat grass and kale. It is a healthier, more pleasant alternative to its mass-market competitors. After several years of successful Internet sales to domestic buyers, followed by the creation of a network of domestic distributors in 10 states and two Canadian provinces, we are ready to pursue international sales via an expanded web presence, including direct sales to distributors via popular e-commerce platforms, including one based in China and serving that market.

Our location in Venice, California, creates brand value by associating the product with images of youth, body-building, a clean environment, and social consciousness (we give five percent of profits to an international charity).

Add additional information as necessary, but limit to a few paragraphs.

2. Goals

- *Use third party e-commerce sites to increase company sales by 15 percent in 2 years.*
- *Participate in markets outside the United States where 97 percent of buyers live.*
- *Improve product lines, marketing, and management by learning from discerning customers in the new markets where we will sell.*
- *Locate one distributor in two new country markets within 2 years of selling on the e-commerce sites.*

Add additional goals as appropriate.

3. Financial Resources

- *Annual capital budget of $35,000, which will cover assistance finding distributors and participation in a government-sponsored trade show or overseas trade mission*
- *Three to five-year minimum commitment to these export channels*
- *A decent website which we will further internationalize it with the help of a consultant*
- *Translation of marketing materials*
- *A half-time staff position*

Add other resources as appropriate.

4. Non-financial Resources

- *Several staff members have traveled abroad.*
- *One staff member will take courses on how to export.*
- *One staff member will research free and low-cost government export assistance.*

Add other resources as appropriate.

5. Current Trends and Practices

- *Revenues have grown four percent over the past 4 years.*
- *Our product is sold via the Internet and through a network of domestic distributors.*
- *We have occasional unsolicited sales to individual buyers; a few inquiries from potential distributors.*

Add additional trends and practices as appropriate.

6. Production Capacity

- *We have the capacity to increase production 30 percent without additional capital investment.*
- *Investigate contract production at a nearby plant.*

Customize for your business and products.

7. Target Markets

- *Will pursue all leads generated from our website and e-commerce platforms, and will also investigate Singapore as a regional market for Southeast Asia*
- *Will investigate Singapore and other country markets for lip balm by using available market research, including research from the U.S. government sources*
- *Will look at the past 4 years for the effects of the recession and at the current year for signs of trends*
- *Will look at U.S. Free Trade Agreement countries for advantages created by zero tariffs on importation of qualifying goods*
- *Will look at shipments of lip balm from the United States to other countries and the average selling price to help determine where the most demand is and whether our company is price competitive*
- *Will look at market size, GDP, national debt, and currency reserves and projected growth and ease of doing business data from the World Bank, International Monetary Fund, and United Nations*

Customize for your company and products.

8. Risk

Risk is mostly centered on non-payment, goods held up by foreign customs, or goods lost or stolen en route. U.S. government assistance vetting prospective buyers and our initial cash in advance policy help mitigate non-payment risks, and insurance covers other kinds of losses. As we get closer to finding one or more distributors, we plan to use the services of government export promotion organizations to avoid customs issues. By better understanding shipping and documentation processes, we will further minimize potential risk from customs issues.

Customize risk profile for your business.

9. Credit Policies

- *Will require cash in advance via debit or credit card*
- *Will check with card issuer to make sure account is in good order before shipping goods*
- *Will consider and investigate providing terms for sales to distributors*
- *Will become familiar with letters of credit for use with larger orders from distributors*
- *Will inform buyer about policies related to paying duties and taxes*

Customize for your business and products.

10. Return Policies

- *Will provide full refund or replacement for lost goods or goods damaged in transit; website will reflect policy*

Customize for your products. For example, you might want to offer free shipping for product repair, or you might need to find someone in the market to repair the product closer to the customer.

11. Shipping

- *Staff will handle shipping tasks and will ship within 24 hours of receiving order and verifying payment.*
- *We will primarily ship by air and will select one or more express carriers; will also offer the U.S. Postal Service as a lower cost option for shipments weighing less than 70 pounds.*

Based on your choices of shipping companies, you might wish to customize this section.

12. Freight Forwarder

None needed at this stage of international sales development. But if you do need one, make a section and discuss in this section, addressing what you and your staff will do and what the forwarder will do and what it will cost.

If a freight forwarder is needed, especially if initial sales volume is large, contact the National Association of Freight Forwarders and Customs Brokers of America for referrals to forwarders in your area. A forwarder can also help you clear the goods at the port of arrival. Keep in mind that some of the largest freight carriers are also forwarders and customs brokers, offering these services worldwide.

13. Export Licenses

If your product needs a license, refer to the discussion earlier in Chapter 2. You can also contact the Bureau of Industry and Security or visit ***bis.doc.gov***.

14. Health Certificates

Depending on the country of destination, the product may require a health certificate issued by a state or federal government authority and based on the manufacturers' representation of product ingredients and/or a physical inspection of the facilities where the product is manufactured. Lip balm is considered a cosmetic and as such the U.S. Food and Drug Administration issues a certificate upon request.

Customize this section as needed.

15. Language Laws

Check to see which languages in addition to English the product packaging must include. Consumer goods such as lip balm may require that a list of ingredients and "Made in the USA" be printed in both English and the country's official language. For many non-consumer products, the shipper need only note on the commercial invoice where the product is made.

16. My Product's Harmonized Code or Export Number (U.S. Schedule B)

The Schedule B number for lip balm is 3304.10.000. The Harmonized Code number is the first six digits of the Schedule B number, 3304.10.

Refer to Chapter 12 for the discussion on product codes. Add your code(s) in this section.

17. Intellectual Property

I will investigate international protection for my trademark (see **uspto.gov***).*

I will investigate filing for patent protection in countries where I have distributors or retailers.

Expand this section as it fits your needs.

18. Export Documents

What are the documents I need to be familiar with including commercial invoice, bill of lading, and certificates of origin?

Refer to Chapter 12 for the discussion on export documents.

19. Pricing

- *Our pricing strategy is premium product and premium pricing.*
- *We will offer to calculate the full landed cost to the customer purchasing one or more of our products. We will make it clear in our communications and on the website that the customer is responsible for paying all applicable duties, taxes, and shipping costs.*
- *For larger orders to, for example, Mexico, we calculate the cost of shipping one package at 25 cents per package including trucking, freight forwarder fee, documentation fee, banking fee, and insurance. With a market price of $10 per package, minus transportation costs and distributor fee, we will be left with about $8.75 to cover production, marketing, and profit.*

Add your customized pricing strategy and calculations here.

20. Website Tactics

- *Internationalize the site by adding text on your homepage welcoming international buyers.*
- *Add a currency converter on the homepage.*
- *Add text regarding duties and taxes and explaining that it is the buyer's responsibility to pay them. Include sample duties and taxes for select countries.*
- *Say that all prices are stated in U.S. dollars (or in Canadian dollars or euros) but make it possible for shoppers to use a currency converter link that is located next to each order placement button.*
- *Add international buyer testimonials (and photos) as they become available.*
- *Add shipping choices and consider including the U.S. Postal Service as a lower cost option.*
- *Include a clearly written returns policy.*
- *Invite inquiries from potential distributors.*
- *Consider click-through ads targeted at specific countries using specific key words.*
- *If product qualifies under an existing free trade agreement, include details on the website.*

21. Action Plan

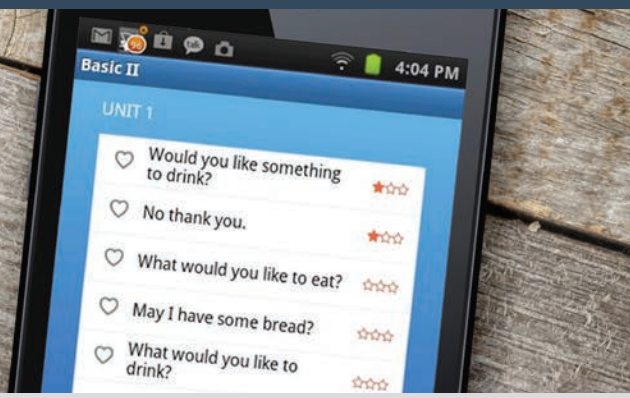
Priority	Objective	Task	Resources	Schedule	Evaluation
1	Create or revise export plan	Review export plan template provided by SBA	Your time or staff time to write the plan	Over the next 3 weeks	Completion of plan
2	Internationalize website	Use template to identify enhancements; contact local U.S. Commercial Service office for advice	Task in-house or contract web folks	Complete within 30 days	Evaluate early WPG and other international transactions
3	Learn more about international transactions	Review WPG learning resources	Identify what you need to know and who in the company needs to know it	Complete within 60 days	Number of error-free transactions
4	Monitor transaction activities	Proactively spot sales opportunities	Identify staffing and scheduling	Start within 14 days	Number of sales leads via website or other channels
5	Develop database of international prospects and customers and e-mail new product offers	Create database and e-mail template for sending promotions; use social media	Identify staffing and frequency of messaging; include opt out	Start within 30 days	Number of messages; open rate; sales
6	Secure certificate from FDA if needed	Understand the process, turnaround time, etc.	Staff time	Complete within 14 days	Certificate in hand if needed by importing country
7	Determine whether product needs an export license	Review government lists	Staff time	Complete within 14 days	
8	Learn how to calculate duties and taxes	Review recommended links	Staff time; no charge for information	Complete within 14 days	Accurate calculation and communication to buyer
9	Use tariff code lookup	Identify tariff code for your products (HTS number)	Staff time; no charge for information	Complete within 14 days	Accurate completion of shipping documents
10	Establish pricing and returns policy	Calculate landed costs and make revenue projections	Staff time	Complete within 14 days	Establish revenue benchmarks
11	Meet your local government export resource	Understand the services available to your company	Staff time	Complete within 30 days	Value of assistance provided
12	Research a new market	Review recommended links in *A Basic Guide to Exporting*	Staff time	Complete within 120 days	Go or no go decision
13	Travel to the market with help from your government export resource	Meet potential distributors	$4,000	Complete within first year	New revenue

Success Story

Downloading New International Markets

Urban Planet Mobile

With the largest library of English language lessons available for mobile, we reach up to 85% of the world's English learning population.



The Company

Urban Planet Mobile specializes in "mobile education" software that teaches English audio lessons to users after they download it to their wireless device. The company started in 2008 and now has customers in 38 countries served by 26 employees. As such, the company is an outlier, since the majority of U.S. exporters export to only one international market. The company's largest selling product is Urban English, and it also produces a writing product that helps people learn to write in English.

The Challenge

According to founder and CEO Brian Oliversmith, the company started in 2008. "That was a really tough time to start a company, because this little recession happened about 5 months later," he recalled. Money was very tight and great care had to be taken when deciding where to spend on marketing and other business development strategies. From the beginning, the largest market for the product was outside the United States. How would Oliversmith find reliable buyers without spending a fortune on travel and advertising?

The Solution

Oliversmith made the first investment in a flight to a conference at the University of Southern California in Los Angeles, co-sponsored by the U.S. Commercial Service. At the conference, which takes place annually in the spring, he met senior U.S. Commercial Service officers from all over Asia, a region where he'd never been. He said: "With their help, I started to narrow down where we were going to first jump into the market, where we would start to spend our real resources. It was an amazing 3 days. I learned more in that conference than I could have learned in 2 years flying around on airplanes. Since then we now invest in those countries and are up and operational in many of them."

Officers he met at the conference helped him find partners in Asian countries with high growth potential. "Before we knew it, we were in a wonderful university they found for us in Myanmar

(formerly Burma), and less than 9 months later we launched our product there."

Total company profits generated from international sales are about 98 percent. Oliversmith said that Urban Planet Mobile is growing every year and creating new jobs.

Lessons Learned

Oliversmith contends that his company is better and stronger because of international exposure.

Importantly, he has diversified his staffing to reflect the need for cultural expertise. He said, "In our little team, we have people from Santiago, Chile, to Lithuania, to people who are from Russia and Korea, to people who have come from Japan. It gives us a global perspective. It's very hard to do business worldwide from a very American-centric perspective."

A second lesson is the importance of not waiting to export until your company achieves a certain size. "I would encourage people to start at an earlier stage to see what they can learn from the U.S. Commercial Service. Owners can learn a lot about where they should start without having to go to all these countries. Talk to them early on. Don't wait."

Third, he actively seeks out other companies in his area with complementary products and services that are not exporting. One such company has 400 employees. Oliversmith said, "They've started an alliance with us and are seeing what demand is for some of their products in an external market, and I think it's started to really open up their eyes to the opportunity they have internationally. What I tell people is there is a great big world out there that is very, very hungry for education products, especially American education products."

Action

The U.S. Commercial Service sponsors or participates in a variety of national and international conferences that often feature business matchmaking. One of the annual events, TRADE WINDS (***1.usa.gov/1Ai8GVb***), takes place in different parts of the world deemed to have significant opportunities for U.S. small and medium-size businesses.

The conference referred to in the story on Urban Planet Mobile is the annual Asia Pacific Business Outlook Conference at the University of Southern California in Los Angeles. The highlight is one-on-one counseling by Senior Commercial Officers—the heads of U.S. Commercial Service offices located within U.S. embassies and consulates—throughout Asia.

Lastly, you can attend regional Discover Global Markets export conferences that are also held on an annual basis and include matchmaking with international buyers. For more information, contact your local U.S. Commercial Service office.

Urban English® is an award-winning English language learning program deliverable to any phone for anytime, anywhere learning.

Chapter 3

Developing a Marketing Plan

In this chapter . . .

- **Writing a marketing strategy**
- **Researching foreign markets**
- **Methods and sources of information**

One of the companies profiled in this book sells English-language software that can be downloaded from a smartphone. This company's planning process involved looking for markets where English-language learning was in high demand and where there was sufficient cell phone penetration to deliver the instruction. Popularity of payment by credit card via phone was another researchable issue. Then came research on how to reach the demographic most likely to purchase this type of instruction and the different costs of doing so.

Other companies may prefer to delay this kind of research until they have met some prospective buyers. This buyer-finding strategy is a legitimate option and doesn't foreclose the need to conduct research on the market independent of a focus on meeting buyers. Later in the book we explore venues and cost-effective approaches for meeting qualified buyers. But first, let's lay out a comprehensive approach to researching markets, including the kinds of data available, where to find it, and what it can tell you about where to focus your resources.

Many foreign markets differ greatly from markets in the United States. Some differences include:

- Climatic and environmental factors
- Social and cultural factors
- Local availability of raw materials or product alternatives
- Lower wage costs
- Varying amounts of purchasing power
- Availability of foreign exchange
- Government import controls

Once you've decided that your company is able to export and is committed to it, the next step is to populate your export plan with data and insights gleaned from available sources. Chapter 2 discusses the value of a written plan and sections of the plan that can be customized to make them a valuable strategic and operational tool for growing the export side of your business.

This last advantage is especially important. Building an international business takes time. It often takes months, sometimes even several years, before an exporting company begins to see a return on its investment of time and money. By committing to the specifics of a written plan, you can make sure that your company will finish what it begins and that the hopes that prompted your export efforts will be fulfilled.

Market Research

To successfully export your product, you should research foreign markets. The purpose is to identify marketing opportunities and constraints abroad, as well as to identify prospective buyers and customers. Market research encompasses all methods that your company may use to determine which foreign markets have the best potential for your products. Results of this research tell you:

- The largest markets for your product and the fastest-growing markets
- Market trends and outlook
- Market conditions and practices
- Competing companies and products

Your company may begin to export without conducting any market research if it receives unsolicited orders from abroad. A good first step is to review your current customer list; if you are engaged in e-commerce, you probably already have customers in foreign countries or have received queries from foreign buyers. These current and prospective foreign customers can be a good barometer for developing an export marketing plan. Although this type of research is valuable, your company may discover even more promising markets by conducting a systematic search.

Primary Market Research

You may research a market by using either primary or secondary data resources. When conducting primary market research, you collect data directly from the foreign marketplace through interviews, surveys, and other direct contact with representatives and potential buyers. Primary market research has the advantage of being tailored to your company's needs and provides answers to specific questions, but the collection of such data on your own is time consuming and expensive and may not be comprehensive. The U.S. Commercial Service can collect primary data for you and help you analyze it. This service costs, on average, several hundred dollars for each market analyzed and does not require you to travel there. The U.S. Commercial Service can also help you find intermediaries with specific market expertise.

The U.S. Commercial Service can help you collect and analyze data. We can also help you find additional partners with specific market expertise.

Secondary Market Research

When conducting secondary market research, your company collects data from various sources, such as trade statistics for a country or a product. Working with secondary sources is less expensive and helps your company focus its marketing efforts. Although secondary data sources are critical to market research, they do have limitations. The most recent statistics for some countries may be more than a few years old, or the data may be too broad to be of much value to your company.

Methods of Market Research

Because of the expense of primary market research, most companies rely on secondary data sources. These three recommendations will help you obtain useful secondary information:

1. Keep abreast of world events that influence the international marketplace, watch for announcements of specific projects, or simply visit likely markets. For example, a thawing of political hostilities often leads to the opening of economic channels between countries. A steep depreciation in the value of the dollar can make your product considerably more competitive. The opposite can happen when the dollar appreciates, making some markets less attractive.
2. Analyze trade and economic statistics. Trade statistics are generally compiled by product category and by country. Such statistics provide your company with information concerning shipments of products over specified periods of time. Demographic and general economic statistics, such as population size and makeup, per capita income, and production levels by industry, can be important indicators of the market potential for your company's products.
3. Obtain advice from experts. There are several ways to obtain this advice:
   - Contact experts at the U.S. Department of Commerce and other government agencies.
   - Attend seminars, workshops, and international trade shows in your industry.
   - Hire an international trade and marketing consultant.
   - Talk with successful exporters of similar products, including members of District Export Councils in your local area.
   - Contact trade and industry associations.

Questions Answered by Market Research

- What countries/markets are currently buying products similar to yours?
- How large are your potential markets?
- Who are your competitors, and how large are they?
- What are the required standards, testing, and certifications?
- Do your products (or their labeling or packaging) need to be modified for one or more markets?
- Is your price point appealing within the market? If not, what can you do to make it more appealing?
- What distribution channels are available?
- What will be your duties, taxes, and other costs or restrictions?

Gathering and evaluating secondary market research may be complex and tedious. However, several publications are available that may simplify the process. The following approach to market research refers to the publications and resources that are described later in this chapter.

A Step-by-Step Approach to Market Research

Your company may find the following approach useful. It involves screening potential markets, assessing the targeted markets, and drawing conclusions.

Screening Potential Markets

Step 1: Obtain Export Statistics

Published statistics that indicate product exports to various countries provide a reliable indicator of where U.S. exports are currently being shipped. The U.S. Census Bureau provides these statistics at ***census.gov/foreign-trade***.

The correct statistics will reliably tell you where in the world products similar to yours are currently being shipped.

Step 2: Identify Potential Markets

First, you should identify 5 to 10 large and fast-growing markets for your company's product. Look at trends over the past 3 to 5 years. Has market growth been consistent year to year? Did import growth occur even during periods of economic recession? If not, did growth resume with economic recovery?

Then, take a look at some smaller, fast-emerging markets that may provide ground-floor opportunities. If the market is just beginning to open up, there may be fewer competitors than in established markets. To qualify as up-and-coming markets, these countries should have substantially higher growth rates. Burma (which recently opened its economy after years of economic sanctions) and Morocco (which entered into a free trade agreement with the United States in 2005) are good examples of such markets.

Look also at groupings of countries such as those with which the United States has free trade agreements within Latin America. Or look at regions within large countries such as western Canada or far eastern Russia. The U.S. Commercial Service has regional services that will help you find buyers in multiple countries in, for example, East Asia. If you're targeting Hong Kong and the Pearl River Delta area, why not stop in nearby Thailand or Singapore?

Smaller, emerging markets sometimes provide great opportunities. If a market is just beginning to open up, there may be fewer competitors than in established markets.

Step 3: Target the Most Promising Markets

Of the markets you have identified, select three to five of the most statistically promising for further assessment. Consult with a U.S. Commercial Service trade specialist, business associates, freight forwarders, and others to further evaluate targeted markets.

Assessing Targeted Markets

Step 1: Examine Product Trends

Look at your products as well as related products that could influence demand. Calculate overall consumption of the product and the amount imported. The U.S. Commercial Service offers market research reports that provide economic background and market trends by country and industry. Demographic information (such as population and age) can be obtained from the U.S. Census Bureau (***census.gov/population/international***) and from the United Nations Statistics Division (***unstats.un.org/unsd/databases.htm***).

Step 2: Research the Competition

Sources of competition include the domestic industry in each targeted market and competitors from other foreign countries. Look at each competitor's U.S. market share, as well as its share in the targeted market. U.S. Commercial Service market research reports and other competitive assessments are available at ***export.gov/mrktresearch***.

Step 3: Analyze Marketing Factors

Analyze factors affecting the marketing and use of your product in each market, such as end-user sectors, channels of distribution, cultural idiosyncrasies (for example, when translated into the local language, does your product's name mean something inappropriate?), and business practices. Again, the market research reports and customized market research offered by the U.S. Commercial Service are useful.

The U.S. Commercial Service's Market Research Library contains more than 100,000 industry- and country-specific market reports, websites, events, and trade directory listings. It covers more than 120 countries and 110 industry sectors.

Step 4: Identify Any Barriers

Foreign barriers to imports can be tariff or nontariff. U.S. barriers could include export controls. If you make a product that may have both civilian and military uses, you may need an export license. The U.S. Commercial Service can help you determine whether a license is necessary. Most applications are approved.

Step 5: Identify Any Incentives

The U.S. or foreign government may offer incentives that promote exporting of your particular product or service (see Chapter 10).

Drawing Conclusions

After analyzing the data, you may conclude that your marketing resources would be applied more effectively to a few select countries. In general, if your company is new to exporting, then efforts should be directed to fewer than 10 markets. Exporting to a manageable number of countries allows you to focus your resources without jeopardizing your domestic sales efforts. Your company's internal resources should determine what choices you make. The U.S. government, though, has programs that can assist you with exporting to multiple markets within the same region. The U.S. Commercial Service, for example, has regional export promotion programs in Asia, Europe, the Middle East, and the Americas, in addition to country- and industry-specific resources.

Sources of Market Research

Many domestic and international sources of information concerning international markets are available. This section describes the market research sources that have been mentioned, as well as some additional ones. Because so many research sources exist, your company may wish to seek advice from your local U.S. Commercial Service office to find the best and most current information.

Research sources range from simple trade statistics, to in-depth market surveys, to firsthand interviews with public- and private-sector experts. Trade statistics indicate total exports or imports by country and by product. They allow you to compare the size of the market for a product in various countries. Some statistics also reflect the U.S. share of the total market in a country in order to gauge the overall competitiveness of U.S. producers. By looking at statistics over several years, you can determine which markets are growing and which are shrinking for your product.

Market surveys provide a narrative description and assessment of particular markets, along with relevant statistics. The reports are often based on original research conducted in the countries studied and may include specific information on both buyers and competitors.

One of the best sources of information is personal interviews with private and government officials and experts. A surprisingly large number of people in both the public and private sectors are available to assist you in any aspect of international market research. Either in face-to-face interviews or by telephone, these individuals can provide a wealth of market research information.

Other sources of market research expertise include local chambers of commerce, world trade centers, or clubs and trade associations. Many state governments maintain active export promotion offices. In the federal government, industry and commodity experts are available through the U.S. Departments of Commerce, State, and Agriculture and through the U.S. Small Business Administration (SBA).

The following sources are divided into several categories: general information about exporting, statistical and demographic information, export opportunities at development agencies, industry information, and regional and country information.

General Information about Exporting

U.S. Commercial Service (***export.gov***)

The U.S. Commercial Service is the first stop for companies seeking export assistance from the federal government. Trade specialists can:

- Give you information about all government export programs
- Direct you to your local U.S. Commercial Service office for face-to-face export counseling
- Guide you through the export process
- Provide business counseling by country and region on standards and trade regulations, distribution channels, opportunities and best prospects for U.S. companies, tariffs and border taxes, customs procedures, and common commercial difficulties
- Direct you to market research and trade leads
- Provide information on overseas and domestic trade events and activities

Extensive market and regulatory information by region and country is available, including assistance with the North American Free Trade Agreement (NAFTA) certificate of origin and other free trade agreement processes.

The U.S. Commercial Service has regional services that will help you find buyers in multiple countries within the same geographic area. If you're targeting Hong Kong, for example, why not stop in nearby Thailand or Singapore?

SBA Exporting Tools and Resources (***sba.gov***)

Tools and resources to assist small businesses that are considering exporting or are looking to expand into new foreign markets—publications, training, podcasts, videos, and success stories.

Statistical and Demographic Information

Current statistical and demographic information is easy to find and available from many sources.

USA Trade® Online (***usatrade.census.gov***)

Specific, up-to-date export information on more than 18,000 commodities worldwide. For a small subscription fee, you can access the latest official statistics on U.S. foreign trade.

Trade Stats Express (***tse.export.gov***)

A comprehensive source for U.S. export and import data, both current and historical. Maintained by the U.S. Department of Commerce's Office of Trade and Industry Information, it contains U.S. trade statistics by country and commodity classifications, state and metropolitan area export data, and trade and industry statistics.

United Nations Statistical Yearbook (***unstats.un.org/unsd/syb***)

One of the most complete statistical reference books available. It provides international trade information on products, including information on importing countries, which can be useful in assessing import competition. The *Statistical Yearbook* contains data on more than 550 commodities for more than 200 countries and territories on economic and social subjects, including population, agriculture, manufacturing, commodity, export–import trade, and many other areas.

The World Bank Atlas of Global Development (***data.worldbank.org/products/atlas***)

Demographics, gross domestic products, and average growth rates of countries around the world.

World Development Indicators (***data.worldbank.org/products/wdi***)

An annual publication containing more than 800 economic, social, and other indicators for 159 economies, plus basic indicators for another 55 economies.

CIA World Fact Book (***1.usa.gov/1tUj7vg***)

Produced annually by the U.S. Central Intelligence Agency (CIA), the World Fact Book provides country-by-country data on demographics, the economy, communications, and defense. Also available in print at ***bookstore.gpo.gov***.

International Monetary Fund (IMF) Data and Statistics (***imf.org/external/data.htm***)

Exchange rates, money and banking, production, government finance, interest rates, and more.

Global Population Mapping and Spatial Analysis (***1.usa.gov/1s4QBJ5***)

The U.S. Census Bureau collects and analyzes worldwide demographic data that can help exporters identify potential markets for their products. Information on each country—total population, fertility, and mortality rates; urban population; growth rate; and life expectancy—is updated every 2 years. The information also contains detailed demographic profiles of individual countries, including analyses of labor force structure and infant mortality.

Export Opportunities at Development Agencies

International development agencies offer many opportunities for exporters. Here are a few sources to explore.

Multilateral Development Banks

Multilateral development banks (MDBs) are institutions that provide financial support and professional advice for economic and social development activities in developing countries. The term multilateral development bank typically refers to the World Bank Group or four regional development banks: the African Development Bank, the Asian

Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. Development projects funded by these banks often offer export opportunities. The U.S. Department of Commerce maintains liaison offices with each of the MDBs in an effort to provide information to U.S. companies on procurements for these projects. To learn more about a particular MDB, please contact the U.S. Commercial Service Advocacy Center or visit ***export.gov/advocacy***.

Congressional Budget Justification of the U.S. Agency for International Development (***1.usa.gov/1vwR01l***)

Published by the U.S. Agency for International Development (USAID) Office of Small and Disadvantaged Business, the annual Budget Justification to the Congress contains individual reports on the countries to which USAID will provide funds in the coming year, as well as detailed information on past funding activities in each country. Because the initiatives require U.S. goods and services, these reports give U.S. exporters an early look at upcoming projects. (See Chapter 6 for more details on USAID's programs.) Current and past years' budget justifications are available online.

Industry Information

Industry-specific information is important in any exporting venture. There are many sources for up-to-date information:

U.S. Department of Agriculture Foreign Agricultural Service (***www.fas.usda.gov***)

The Foreign Agricultural Service (FAS) serves as the first point of contact for those needing information on foreign markets for agricultural products. The Office of Outreach and Exporter Assistance of the FAS can provide basic export counseling and direct you to the appropriate Department of Agriculture office to answer specific questions on exporting. The staff can provide country- and commodity-specific foreign market information reports, which focus on the best market prospects and contain contact information on distributors and importers.

Building an international business often takes months, sometimes years. By sticking to a written plan, you can make sure your company finishes what it starts.

Textile and Apparel Database

Prepared by the U.S. Department of Commerce Office of Textiles and Apparel (***otexa.ita.doc.gov***), this database provides information on overseas markets and the rules and regulations affecting U.S. exports. The database provides specific country profiles, which include information on marketing and distribution, market-entry requirements, shipment and entry procedures, and trade policy. More general information, such as export procedures, potential buyers and suppliers, current trade issues, and background on textile and apparel trade policy agreements, is also available.

Private-Sector Product and Industry Resources

The U.S. and foreign private sectors publish numerous guides and directories that provide valuable information for your company. For specific references, consult your local U.S. Commercial Service office.

Regional and Country Information

Information on individual countries and regions is widely available. Here are some places you can explore individual markets:

U.S. Commercial Service China (***export.gov/china***)

A comprehensive source of information on China, gathered by federal and state government agencies, associations, and private-sector entities. Companies that are new to the market or are current market participants can:

- Identify sources of U.S. and state government assistance
- Learn how to protect their intellectual property rights
- Monitor China's compliance with its World Trade Organization (WTO) obligations
- Obtain industry-specific market research to evaluate export prospects
- Search for trade leads and tender offers
- Participate in trade events in the United States and China
- Identify sources of trade finance
- Monitor changes in Chinese import regulations
- Identify relevant U.S. export regulations
- Quickly find tips on doing business in China
- Learn about economic and political conditions in China

OECD Publications (***oecdbookshop.org***)

The chartered mission of the Organization for Economic Cooperation and Development (OECD) is to promote its member countries' policies. These policies have been designed to support economic growth, employment, and a high standard of living and to contribute to sound economic expansion in development and trade. OECD publications focus on a broad range of social and economic issues, concerns, and developments. Country-by-country reports on international market information contain import data useful in assessing import competition.

The OECD also publishes economic development surveys that cover each of the 34 member countries of the OECD, plus some additional countries. Each survey presents a detailed analysis of recent developments in market demand, production, employment, prices, wages, and more. Short-term forecasts and analyses of medium-term problems relevant to economic policies are also provided.

Market Research Library (*export.gov/mrktresearch*)

The U.S. Commercial Service's Market Research Library contains more than 100,000 industry- and country-specific market reports, websites, events, and trade directory listings, and it covers more than 120 countries and 110 industry sectors. Reports include Country Commercial Guides, Industry Sector Analyses, Marketing Insights, Multilateral Development Bank Reports, Best Markets, other industry or regional reports, and more.

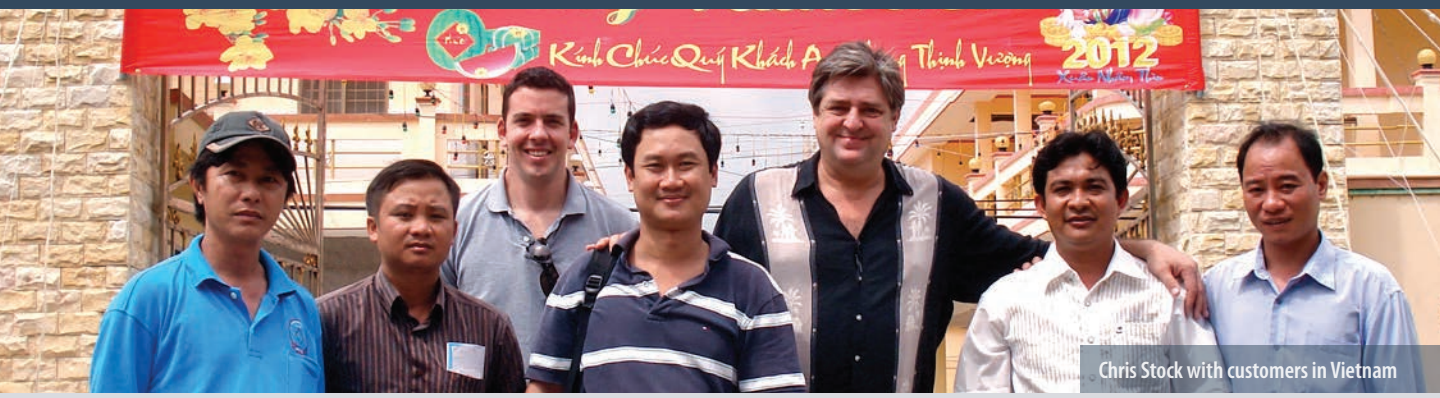
Customized Market Research

These reports use the worldwide network of the U.S. Commercial Service to help U.S. exporters evaluate their sales potential in a market, choose the best new markets for their products and services, establish effective marketing and distribution strategies in their target markets, identify the competition, determine which factors are most important to overseas buyers, pinpoint impediments to exporting, and understand many other pieces of critical market intelligence. The reports are customized to your specifications. For more information, please visit ***export.gov***.

Success Story

Helping Feed the World One Export at a Time

Zeigler Brothers



Chris Stock with customers in Vietnam

The Company

Zeigler Brothers began in 1935 by selling livestock feed to farmers near Gettysburg, Pennsylvania. Brothers Ty and Leroy ran the business until Leroy's son, Tom, took over and changed direction to focus on research and development of specialty animal foods and aquatic diets. Today, the company has two manufacturing facilities in Pennsylvania and two in Mexico, supplies 300 different products, and sells to 50 countries. Zeigler Brothers is a 2013 recipient of the President's "E" Award for Exports. Chris Stock is the international sales manager.

The Challenge

Most of the challenges faced by the company are in the form of helping customers deal with localized issues such as diseases that affect the fish species being farmed. Other concerns include how to find and perform due diligence of prospective customers and to make sure we understand the environmental regulations in the countries in which it does business.

Zeigler had a fire about 6 years ago that devastated one of its production facilities. According to Stock, "The fire actually helped us to become more efficient, to make the most of what we have, and to modernize some things as well. We made the most out of what was a terrible situation and really didn't skip a beat. Our customers are very loyal. And they helped see us through. And it's amazing how far the company has come since that fire not so long ago."

The Solution

Zeigler needed to grow, and to do that, it opted to expand its exports, which grew rapidly during the past 5 years and now represent a bit more than 50 percent of total sales. Zeigler now exports to 40–50 different countries every year. Zeigler focuses on markets that could be classified as having more risks than others, such as Nigeria and Ghana in West Africa, and Vietnam, the Philippines, Thailand, and Indonesia in Southeast Asia. India and China are also included. Said Stock, "Africa is on the cusp, I think. A lot of people see the opportunity, so it's a great time to get in early, because it's a huge emerging middle class that's developing there with spending power. They need things more than any other part of the world. They

have a lack of access to some of the higher-tech products and things that the United States can offer."

Another solution for Zeigler is the U.S. Commercial Service, which Stock calls "a reliable go-to kind of hub."

"In general, we come to them when we have export regulatory issues and we need somebody inside the government to guide us. A big thing about exporting is knowing that you don't know it all and you're always going to need support. The government has helped bring us into new markets. We went on a trade mission to Ghana when we were getting our Africa business warmed up and met people there that are clients now and important partners."

Lessons Learned

Stock believes the company is better as a result of its exporting efforts. "It challenges us. We are able to take opportunities and things we learn in one country and apply them elsewhere. So we're always learning and one of the great parts about our job is we're connecting people throughout the world and bringing ideas from one place to the other, whether or not they directly impact our product. We're a facilitator and our customers see that. And I think it's a very strong point when they get to know us is that we're connected throughout the world and bringing solutions from one corner to the next."

One concrete example is making our products easier to use. Stock said: "In Southeast Asia, we were struggling with language barriers. We've been very ingrained in Latin America, very comfortable working with bilingual Spanish products and clients. But as we enter the Southeast Asian market we encounter the diversity of languages. Also because we're in agriculture, one of the end-users of our products may have limited education or ability to read—so our products can be technical in nature, and how do we overcome these hurdles? And so we've begun developing and incorporating visual aids, videos, icons, logos, things that will help them understand how to use the product, what it's designated for. And we're able to take that and apply it elsewhere, because it is a universal need, but it's being driven by a specific market area force at the moment."

Perhaps the biggest lesson is that exporting is a "no-brainer." Stock said: "You should be exporting. If you're not, start learning about it, talk to other exporters and just go for it. I think the key things to exporting are persistence and patience. You have to realize that when you get in this, it may not be immediate sales, it may take years, but you have to have the long-term vision. If you're willing to go through a couple of ups and downs, it can pay off in dividends. If you don't enter the export market, you're limiting your sales in a big way, no doubt about it."

Chris Stock with customers in Armenia

Chapter 4

Export Advice

In this chapter . . .

- **U.S. Commercial Service assistance**
- **Other government agency assistance**
- **Assistance from chambers of commerce**

Making the Government Work for You

Now that you've had an opportunity to think about your export plan and how to do the market research that will be a part of building out the plan, let's examine some key sources of assistance that can provide additional information and help with implementation. A lot of help is available to your company at little or no cost and makes the exporting process much easier. One way to think about this help is the Global Entrepreneurship Ecosystem (GEE), which we discussed in Chapter 1. It contains a checklist that you can use to map the GEE in your community. Beyond the names on a checklist, this chapter gives a brief overview of the assistance available through federal, state, and local government agencies, as well as in the private sector. Other chapters in this book provide more information on the specialized services of these organizations and how to use them. Remember that in our research on successful exporters, their engagement with external assistance, especially in the form of government export assistance providers, is cited as a major contributing factor in making them micro-multinationals or "export superstars."

Local U.S. Commercial Service Offices

The U.S. Commercial Service maintains a network of international trade specialists to help American companies export their products and conduct business abroad. International trade specialists are employed in offices throughout the United States and Puerto Rico to assist U.S. exporters, particularly small and medium-sized companies. U.S. Commercial Service offices are known as "one-stop shops" because they combine the trade and marketing expertise and resources of the U.S. Commercial Service, along with the financial expertise and resources of the U.S. Small Business Administration and the Export-Import Bank of the United States.

The U.S. Commercial Service also maximizes resources by working closely with state and local governments as well as private partners to offer companies a full range of expertise in international trade, marketing, and finance. International trade specialists will counsel your company on the steps involved in exporting, help you assess the export potential of your products, identify markets, and locate potential overseas partners. They work with their international colleagues in more than 75 countries to provide U.S. companies with turnkey solutions in foreign markets.

Each U.S. Commercial Service office can offer information about:

- Services to locate and evaluate overseas buyers and representatives, distributors, resellers, and partners
- International trade opportunities
- Foreign markets for U.S. products and services
- Industry information
- Foreign economic statistics
- Export financing
- Export documentation requirements
- U.S. export licensing requirements and import requirements of foreign nations
- Export trade finance options
- International trade exhibition participation and certification
- Export seminars and conferences
- E-commerce strategies
- Additional local export assistance services and networking

In addition to individual counseling, there are many conferences, seminars, and workshops to help local business communities learn about international trade. Each year, U.S. Commercial Service offices participate in about 5,000 programs on topics such as export documentation and licensing, country-specific market opportunities, export trading companies, and U.S. trade promotion and trade policy initiatives. Seminars are usually held in conjunction with District Export Councils, local chambers of commerce, state agencies, and other trade organizations.

U.S. Commercial Service Overseas Posts

Much of the information about trends and actual trade leads in foreign countries is gathered on-site by the officers and U.S. Commercial Service country specialists. These folks have a personal understanding of local market conditions and business practices in the countries in which they work. U.S. Commercial Service officers work in more than 150 offices located in more than 75 countries. They provide a range of services to help companies sell in foreign markets, such as:

- Background information on foreign companies
- Agent-distributor locator services
- Market research
- Due diligence on distributors and direct buyers
- Business communication in a cultural context
- Business counseling on entry strategies, pricing, and promotion
- Appointments with key buyers and government officials
- Representation on behalf of companies adversely affected by trade barriers
- Support at international and domestic trade shows

Some of the more important services are described in Chapter 6. You can access these services by contacting your nearest U.S. Commercial Service office. The U.S. Commercial Service can also provide assistance with business travel before departure by arranging advance appointments with embassy personnel, market briefings, and other services in the cities you will be visiting.

U.S. Trade and Development Agency (*ustda.gov*)

Industry and international trade specialists in the U.S. Trade and Development Agency (TDA) work directly with individual companies and manufacturing and service associations to identify trade opportunities and obstacles by product or service, industry sector, and market. TDA analysts participate in trade policy development and negotiations, identify market barriers, and advocate on behalf of U.S. companies. TDA's statistical data and analyses are useful in export development. The TDA staff also develops export marketing programs and obtains industry advice on trade matters. To assist U.S. businesses in their export efforts, TDA's industry and international experts conduct executive trade missions, trade fairs, marketing seminars, and business counseling, and provide product literature centers.

Export-Import Bank of the United States (*exim.gov*)

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. government agency that facilitates the export of U.S. goods and services. As the federal government's export credit agency, Ex-Im Bank provides export credit insurance, loan guarantees to lenders, direct loans to exporters on market-related credit terms, and loans to foreign buyers.

Ex-Im Bank's insurance and loan guarantees are structured to encourage exporters and financial institutions to support U.S. exports by reducing the commercial risks (such as buyer insolvency and failure to pay) and political risks (such as war and currency inconvertibility) of international trade that could result in nonpayment to U.S. exporters by foreign buyers. The financing made available under Ex-Im Bank's guarantees and insurance is on market terms, and most of the commercial and political risks are born by Ex-Im Bank.

Ex-Im Bank provides export credit insurance, loan guarantees, direct loans, and foreign buyer loans—all designed to help you complete your international sale more easily.

Ex-Im Bank's loan program is designed to neutralize interest rate subsidies offered by foreign governments. By responding with loan assistance, Ex-Im Bank enables U.S. financing to be competitive with that offered by foreign exporters.

Preexport Financing

The working capital guarantee enables lenders to provide the financing that an exporter needs to purchase or produce a product for export, as well as to finance short-term accounts receivable. If the exporter defaults on a loan guaranteed under this program, Ex-Im Bank reimburses the lender for the guaranteed portion—generally, 90 percent of the loan—thereby reducing the lender's overall risk. For qualified loans to minority, woman-owned, or rural businesses, Ex-Im Bank can increase its guarantee coverage to 100 percent. The working capital guarantee can be used either to support ongoing export sales or to meet a temporary need for cash flow arising from a single export transaction.

The working capital guarantee offers generous advance rates, so exporters can increase their borrowing capacity. Rates apply in:

- Inventory—up to 75 percent advance rate (including work-in-process—that is, material that has been released to manufacturing, engineering, design, or other services)
- Foreign accounts receivable—up to 90 percent advance rate guaranteed working capital loans are secured by export-related accounts receivable and inventory (including work-in-process) tied to an export order. (For letters of credit issued under a guaranteed loan, Ex-Im Bank requires collateral for only 25 percent of the value of the letter of credit.)

Postexport Financing

Ex-Im Bank offers export credit insurance to offset the commercial and political risks that are sometimes associated with international trade. The insurance protects an exporter's short-term credit extended for the sale of consumer goods, raw materials, commodities, spare parts, and other items on payment terms up to 180 days. Capital goods are eligible for up to 360 days. If the buyer fails to pay, Ex-Im Bank reimburses the exporter in accordance with the terms of the policy. Ex-Im Bank insurance is the largest federal program supporting short-term export credit.

Ex-Im Bank insurance policies for exporters include Multi-Buyer Credit Insurance, the Small Business policy, and the Single-Buyer policy. With prior written approval, an exporter can assign the rights to any proceeds from an Ex-Im Bank insurance policy to a lender as collateral for financing. Ex-Im Bank's policies generally cover up to 95 percent of defaults caused by specified political risks and defaults arising from commercial risks. Ninety percent coverage is provided on short-term single-buyer policies. Exporters generally must meet U.S. content requirements and, under some policies, must insure all eligible foreign sales.

Several private companies also offer export credit insurance that covers political and commercial risks. Private insurance is available, often at competitive premium rates, to established exporters who have a proven history, although underwriting in particular markets may be limited.

Under separate programs, the bank buyer credit policy, Ex-Im Bank offers insurance or a guarantee to encourage banks and other lenders to make export loans to creditworthy foreign buyers of U.S. goods and services. Ex-Im Bank supports either medium-term financing (1 to 5 years for repayment after delivery or equipment installation) or long-term financing (up to 10 years for repayment) for heavy equipment and capital projects, such as power plants, telecommunications systems, and transport facilities and equipment.

As an alternative to guarantees, Ex-Im Bank also offers medium- and long-term loans. Ex-Im Bank loans are made on the same terms and conditions as guarantees, with

the important difference that the bank sets the interest rate in accordance with international agreements. In many cases, an Ex-Im Bank guarantee results in a cost that is lower than an Ex-Im Bank loan.

The U.S. Commercial Service Advocacy Center (*export.gov/advocacy)*

For an exporter of U.S. goods and services, securing a foreign government procurement contract can mean more than just selling a quality product or service at a competitive price. It can also mean dealing with foreign governments and complex rules. If you feel that the bidding process is not open and transparent or that it may be tilted in favor of your foreign competition, then you should consider contacting the Advocacy Center. The Advocacy Center coordinates the actions of 20 U.S. government agencies involved in international trade. Advocacy assistance may involve a visit to a key foreign official by a high-ranking U.S. government official, direct support from U.S. officials stationed overseas, letters to foreign decision makers, and coordinated action by U.S. government agencies and businesses of all types and sizes.

Trade Agreements Negotiations and Compliance (*tcc.export.gov*)

The U.S. Department of Commerce's Office of Trade Agreements Negotiations and Compliance (TANC) ensure foreign compliance with international trade agreements. Part of DOC's International Trade Administration, TANC (through the Trade Agreements Compliance Program) systematically monitors, investigates, and evaluates foreign government compliance with our international trade agreements. This free program is available to assist all U.S. exporters or investors facing trade barriers, but it is particularly valuable to small and medium-sized companies, which often lack the resources or expertise to deal with these problems alone. It is the U.S. government's one-stop shop for getting help to reduce or eliminate those barriers.

The TANC website includes a fully searchable database containing the texts of approximately 250 international trade agreements. To assist, TANC provides examples of the most common foreign government-imposed trade barriers at *1.usa.gov/1yRJbr5*. This service enables U.S. exporters to file complaints about foreign government-imposed trade barriers or unfair trade situations in foreign markets.

For a U.S. company bidding on a foreign government procurement contract, exporting can mean more than just selling a good product at a competitive price. It can also mean dealing with complex rules.

Bureau of Industry and Security (*bis.doc.gov)*

The Bureau of Industry and Security (BIS) is responsible for control of exports for reasons of national security, foreign policy, and short supply such as "dual-use" items with both commercial and/or military proliferation applications. Assistance with compliance with export controls and, if needed, export licenses can be obtained directly from the Outreach and Educational Services Division within the BIS's Office of Exporter Services in Washington, DC. BIS also has two field offices that specialize in counseling on export controls and regulations.

Minority Business Development Agency (*www.mbda.gov)*

The U.S. Department of Commerce's Minority Business Development Agency (MBDA) is the only federal agency dedicated to the growth and global competitiveness of the U.S. minority-owned business sector. Their programs and services equip minority-owned companies to create jobs, build scale and capacity, increase revenues, and expand regionally, nationally, and internationally. Services are provided through a network of more than 40 MBDA Business Centers across the United States, the District of Columbia, and Puerto Rico.

MBDA identifies opportunities for U.S. minority business enterprises by promoting their ability to grow and compete in the global economy in selected industries. Through an agreement with the U.S. Department of Commerce's International Trade Administration, MBDA provides information on market and product needs worldwide and identifies ways to access education, finance, and technology to help minority businesses succeed. Many MBDA counselors are certified in counseling exporters. For example, MBDA and ITA coordinate minority business participation in trade events. The MBDA Business Center network also helps minority businesses prepare international marketing plans and promotional materials and to identify financial resources.

MBDA and ITA field offices provide information kits and details about local seminars.

U.S. Small Business Administration (*sba.gov*)

The U.S. Small Business Administration (SBA) and its nationwide network of resource partners can assist you with export counseling, training, and financing. SBA also has trade finance managers co-located with several U.S. Commercial Service offices. In addition, you can find out more about exporting through:

SBA District Offices (*1.usa.gov/1vClcb0*)

The SBA has district offices that are staffed by specialists in small business development in every state and territory. District International Trade Officers (DITOs) located in all 68 district offices can help small businesses succeed in exporting by connecting them with appropriate local resources.

U.S. Commercial Service Offices (*1.usa.gov/1tACR7m*)

SBA has trade finance managers co-located with U.S. Commercial Service staff in several U.S. Commercial Service offices throughout the country. These individuals can advise businesses on trade financing options to support their export sales, including how to structure international payments, mitigate foreign commercial risk, and obtain the working capital necessary to complete export orders.

Small Business Development Centers (*1.usa.gov/1obQitC*)

The nearly 1,000 Small Business Development Centers (SBDCs) nationwide provide a full range of export assistance services to small businesses, particularly those new to

exporting. They offer counseling, training, managerial support, and export planning. Counseling services are provided at no cost to the small business exporter, but nominal fees are generally charged for export training seminars and other SBDC-sponsored export events. As specialists in business planning, your local SBDC can help you create your own export strategy, which includes tapping into other local resources such as the U.S. Commercial Service.

SCORE—Counselors to America's Small Businesses (*score.org*)

Working and retired executives and business owners donate their time and expertise as volunteer business counselors and provide confidential counseling and mentoring free of charge. Many members of SCORE have practical experience in international trade. They can evaluate your company's export potential and strengthen your domestic operations by identifying financial, managerial, or technical challenges and opportunities. SCORE advisers can also help you develop and implement basic export marketing plans that show where and how to sell your goods abroad.

For information on any SBA-funded programs, contact your nearest SBA field office.

U.S. Department of Agriculture

The U.S. Department of Agriculture offers exporting assistance through the Office of Outreach and Exporter Assistance (OOEA). Part of the Foreign Agricultural Service (FAS, ***www.fas.usda.gov***), OOEA serves as the first point of contact for exporters of U.S. food, farm, and forest products. It provides guidance, referrals, and access to foreign market information and assistance in getting information about export-related programs managed by the U.S. Department of Agriculture and other federal agencies. The FAS has officers and market experts at many U.S. embassies around the world. It also serves as a contact point for minority-owned and small businesses seeking assistance in these areas. OOEA will provide basic export counseling and connect you to the appropriate export program, such as the Market Access Program.

National Center for Standards and Certification Information

The National Center for Standards and Certification Information (NCSCI) provides information about foreign standards and certification systems and requirements. In addition to providing comprehensive information on existing standards and certification requirements, NCSCI offers "Notify U.S." (***tsapps.nist.gov/notifyus/data/index***). This free, web-based e-mail subscription service offers U.S. citizens, industries, and organizations an opportunity to review and comment on proposed foreign technical regulations that can affect their businesses and their access to international markets. By subscribing to the Notify U.S. service, you can receive by e-mail notifications about drafts or changes to domestic and foreign technical regulations for manufactured products.

District Export Councils

Besides its in-house services, the U.S. Commercial Service has direct contact with seasoned exporters in all aspects of export trade. The U.S. Commercial Service works closely with 58 District Export Councils (DECs), including in Puerto Rico and the U.S. Virgin Islands, made up of nearly 1,500 business and trade experts who volunteer to help U.S. companies develop solid export strategies.

District Export Councils assist in many of the workshops and seminars on exporting that are arranged by the U.S. Commercial Service offices, and they also sponsor their own, including Export University. District Export Council members may also provide direct, personal counseling to less experienced exporters by suggesting marketing strategies, trade contacts, and ways to maximize success in overseas markets. You can obtain assistance from District Export Councils through the U.S. Commercial Service offices that they are affiliated with.

State and Local Governments

State, county, and city economic development agencies; departments of commerce or development; and other government entities often provide valuable assistance to exporters. The assistance offered by these groups, many of them operating under a department of commerce or economic development or similar, typically includes:

- **Export education.** Helping exporters analyze export potential and introducing them to export techniques and strategies, perhaps in the form of group seminars or individual counseling sessions
- **Trade missions.** Organizing trips abroad to enable exporters to call on potential foreign customers (see also Chapter 6)
- **Trade shows.** Organizing and sponsoring exhibitions of state-produced goods and services in overseas markets

Financial Institutions

Many U.S. banks have international departments with specialists who are familiar with specific foreign countries and various types of commodities and transactions. Large banks located in major U.S. cities maintain correspondent relationships with smaller banks throughout the country. And with banks in many foreign countries, they may operate their own overseas branches, providing a direct channel to foreign customers.

The U.S. Commercial Service works closely with state and local governments as well as private partners. We offer a full range of expertise in international trade, marketing, and finance.

International banking specialists are generally well informed about export matters, even in areas that fall outside the usual limits of international banking. Banks frequently provide consultation and guidance free of charge to their clients because they derive income from loans to the exporter and from fees for special services, such as letters of credit and other kinds of funds transfer. Many banks also have publications available to help exporters. These materials are often devoted to particular countries and their business practices, and they may be a valuable tool for familiarization with a foreign industry. Also, large banks frequently conduct seminars and workshops on letters of credit, documentary collections, and other banking subjects of concern to exporters.

A commercial bank can perform many services for its clients, such as:

- Exchange of currencies
- Assistance in financing exports
- Collection of foreign invoices, drafts, letters of credit, and other foreign receivables
- Transfer of funds to other countries
- Letters of introduction and letters of credit for travelers
- Credit information on potential representatives or buyers overseas
- Credit assistance to the exporter's foreign buyers

Export Intermediaries

Export intermediaries range from giant international companies to highly specialized small operations. For a fee, they provide a multitude of services, including performing market research, appointing and managing overseas distributors or commission representatives, exhibiting a client's products at international trade shows, advertising, and shipping and preparing documentation. In short, the intermediary can often take full responsibility for the export end of business, relieving the exporter of all details except filling orders.

Intermediaries may work simultaneously for a number of exporters for a commission, salary, or retainer plus commission. Some intermediaries take title to the goods they handle, buying and selling in their own name. The products of a trading company's various clients are often related, although the items usually are not competitive. One advantage to using an intermediary is that it can immediately make available marketing resources that exporters might take years to develop on their own. Many export intermediaries also finance sales and extend credit, facilitating prompt payment to the exporter. For more information on using export intermediaries, see Chapter 5.

World Trade Centers, International Trade Clubs, and Local Chambers of Commerce

Local or regional World Trade Centers (***wtca.org***) and international trade clubs are composed of area businesspeople who represent companies engaged in international trade and shipping, banks, forwarders, customs brokers, government agencies, and other service organizations involved in world trade. Such organizations conduct educational programs on international business and organize promotional events to stimulate interest in world trade. There are nearly 300 World Trade Centers or affiliated associations in major trading cities in almost 100 countries. Be mindful that some World Trade Centers are mainly real estate endeavors that offer no or very few membership services, such as export education or networking. By participating in a local association, a company can receive valuable and timely advice on world markets and opportunities from businesspeople who are already knowledgeable in virtually every facet of international business. Among the advantages of membership are the services, discounts, and contacts from affiliated clubs in foreign countries.

Many local chambers of commerce in the United States provide sophisticated and extensive services for members interested in exporting:

- Export seminars, workshops, and roundtable discussions
- Certificates of origin
- Trade promotion programs, including overseas missions, mailings, and event planning
- U.S. pavilions at foreign trade shows
- Contacts with foreign companies and distributors
- Export sales leads and other opportunities to members
- Transportation routings and shipment consolidations
- Visiting trade missions from other countries
- International activities at domestic trade shows

Industry and Trade Associations

Some industry and trade associations can supply detailed information on market demand for products in selected countries, or they can refer members to export management companies. Industry trade associations typically collect and maintain files on international trade news and trends affecting their industry or line of business. They often publish articles and newsletters that include government research. National and international trade associations often organize large regional, national, and international trade shows themselves. To find a chamber in your area, visit ***uschamber.com***.

American Chambers of Commerce Abroad

The local chapter of the American Chamber of Commerce (AMCHAM) is a valuable and reliable source of market information in any foreign country. Local chapters are knowledgeable about local trade opportunities, actual and potential competition, periods of maximum trade activity, and similar considerations.

AMCHAMs usually handle inquiries from any U.S. business. Detailed services are ordinarily provided free of charge for members of affiliated organizations. Some AMCHAMs have a set schedule of charges for services rendered to nonmembers.

International Trade Consultants and Other Advisers

International trade consultants can advise and assist a manufacturer on all aspects of foreign marketing. Trade consultants do not normally deal specifically with one product, although they may advise on product adaptation to a foreign market. They research domestic and foreign regulations and also assess commercial and political risk. They conduct foreign market research and establish contacts with foreign government agencies and other necessary resources, such as advertising companies, product service facilities, and local attorneys.

Consultants in international trade can locate and qualify foreign joint venture partners and can conduct feasibility studies for the sale of manufacturing rights, the

location and construction of manufacturing facilities, and the establishment of foreign branches. After sales agreements are completed, trade consultants can also ensure that implementation is smooth and that any problems that arise are dealt with effectively.

Trade consultants usually specialize by subject matter and by global area or country. These consultants can advise on which agents or distributors are likely to be successful, what kinds of promotion are needed, who the competitors are, and how to conduct business with the agents and distributors. They are also knowledgeable about foreign government regulations, contract laws, and taxation. Some companies may be more specialized than others. For example, some may be thoroughly knowledgeable about legal issues and taxation and less knowledgeable about marketing strategies.

Many large accounting firms, law firms, and specialized marketing companies provide international trade consulting services. When selecting a consulting company, you should pay particular attention to the experience and knowledge of the consultant who is in charge of the project. To find an appropriate company, seek advice from other exporters and from the other resources listed in this chapter, such as U.S. Commercial Service offices and local chambers of commerce.

Consultants are of greatest value to a company that has specific requirements. For that reason, and because private consultants are expensive, it pays to take full advantage of publicly funded sources of assistance before hiring a consultant.

Freight Forwarders and Shipping Companies

Freight forwarders help prepare export documentation, book transport for your products, and, if needed, arrange for customs clearance at the port of arrival. You are not required to have a freight forwarder, but they can be useful, especially if you are exporting for the first time, exporting to a new country, or prefer someone else to handle these formalities. Some of the big shipping companies, such as UPS, FedEx, and DHL, are themselves forwarders and customs brokers, offering account holders a more complete solution. They also have websites with extensive information for exporters, including the documents required by each country they do business in. All three are strategic partners of the U.S. Commercial Service, whose partners now number over 100 and include a hotel chain, a major IT services provider, the professional association of freight forwarders and customs brokers, and many other types of companies that want to encourage customers to sell globally.

E-Commerce Providers

E-commerce providers are another good source of information on the export process, especially documentation, duties and taxes, and regulations. The sources range from giants like eBay and Amazon to niche platforms such as Webport Global and Export Now.

Success Story

Attila's Guide to Conquering Export Markets

Advanced Superabrasives

Attila Szucs (second from left) accepting the President's "E" Award for Exports, 2013.

The Company

Attila Szucs started Advanced Superabrasives in Asheville, North Carolina, with one employee in the early 1990s. The company manufactures superabrasive grinding wheels for other manufacturers. Superabrasive grinding wheels can grind hard materials such as ceramic, glass, quartz, and steel—all materials that need to be manufactured to very high tolerances. The best way to do that is through grinding. In the years that followed, Szucs grew the domestic market for his products, then expanded internationally when the going got rough in the United States during the recession. His company is now a formidable exporter, selling to buyers in 16 countries; in testament to this success, in 2013 the company received the President's "E" Award for Exports.

The Challenge

The company started with no sales whatsoever in 1993. It spent that time doing research and development and testing to improve the product. And slowly but surely it started penetrating the domestic U.S. market and then started exporting in 1995 to Canada. In 2002, when the economy took a hit in the United States, Advanced Superabrasives started to look at how it could diversify to protect the company from further economic swings. That was why it looked seriously at export markets, specifically China and Brazil.

The second challenge was its choices: China and Brazil. Brazil's duties and taxes are very high. In comparison, China's duties and taxes are lower but are still more than what the United States charges. The issue in China is intellectual property protection. In addition, the Chinese make grinding machines for 10 percent of the Advanced Superabrasives price.

The Solution

For entry into Brazil, Szucs contacted the U.S. Commercial Service in Charlotte, North Carolina. Specifically, he used the business matchmaking program to find buyers. He said, "That program is so helpful that they set everything up for you, and basically all we had to do is show up." He also used the North Carolina Department of Commerce to navigate the documentation requirements.

To prevent reverse engineering in China, he mixes up some of the chemical components of the product, which makes it hard to copy. The company also does the final assembly in Hong Kong. By law, Hong Kong requires that 30 percent of the value of products be added there to be considered "Made in Hong Kong." To expand to more markets, Szucs and his colleagues (including his son, an engineer) started a trade show in Asheville. It's an international show called Grind Tech USA. Companies from all over the world come to display their products before an international audience of buyers. Szucs's solution? If there's not a trade show in your industry—start one. He also attends trade events, such as the Trade Winds series, sponsored by the U.S. Department of Commerce. "We attend events like Trade Winds Asia because we get to meet companies from the region—potential customers, potential distributors. Plus, we learn about the culture of each country in the region and what they're looking for so we can better prepare ourselves when we start dealing with these companies. It was invaluable for us."

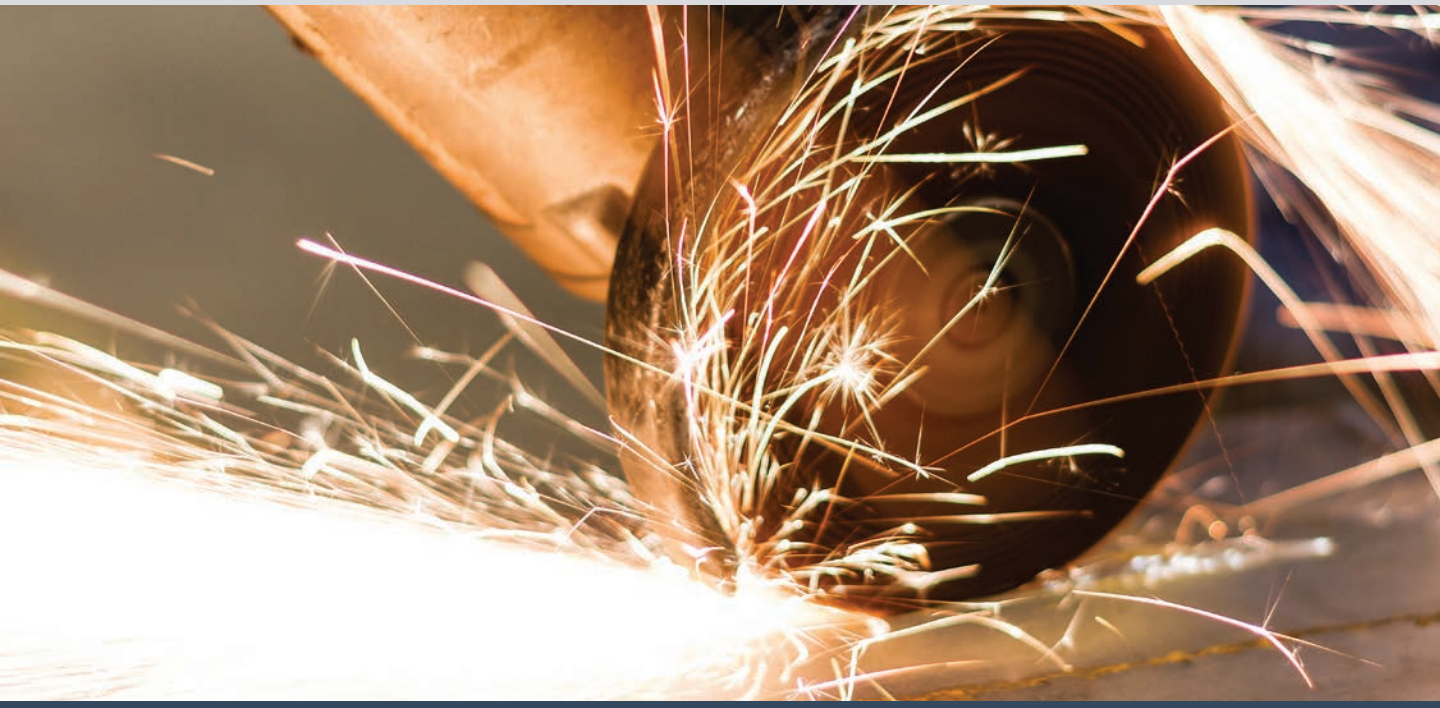
Lessons Learned

Szucs said he learned that because different cultures have different needs, he has to cater to those needs. "We can't use the same approach in Europe that we're using in Asia." He has also learned the value of the "Made in the USA" brand.

"The United States does have a good following. People around the world, especially in Asia, look up to the United States and to U.S. products. So if you're sincere and you have a good product, you have a very good chance of selling overseas, especially in Asia."

He also learned the value of creating a customized niche product. "We try to tailor-make each product to each manufacturer. And then on top of that, if there is a need, what we do is we send some of our sales engineers to actually coach the people and help the people grind and make the product work for them."

Lastly, he learned to ask for help from those most capable of providing it, especially from the federal and state government. "You don't have to be a large company to export. That's number one. And we're a prime example. Second, take one country at a time, and, most important, get help."



Chapter 5

Methods and Channels

In this chapter . . .

- **Finding the best approach to exporting for your company**
- **Separating international from domestic business**
- **Finding overseas partners/agents/distributors**

The most common methods of exporting are indirect selling and direct selling. In indirect selling, an export intermediary, such as an export management company (EMC) or an export trading company (ETC), assumes responsibility for finding overseas buyers, shipping products, and getting paid. A variation on this method is an agent that you engage on a commission basis who finds the buyer for you. U.S. wholesalers can play the role of intermediary, buying goods from the producer and selling them to an end-user outside the United States. The wholesaler takes legal possession of the goods. The benefit for the producers is that their responsibility ends at their delivery dock. The negative is that the wholesaler may receive a better profit margin and the benefits of acquiring valuable expertise from selling to an array of international markets. If the wholesaler only sells to distributors in Canada but there's a bigger demand for your product in Mexico, you'll never know that, and sales that could be won't happen.

Using large online marketplaces such as eBay, Amazon, and Alibaba is another variation of indirect selling that's gaining popularity. Increasingly, these and other big players are offering distribution centers in other countries where your products can be closer to customers. In such cases, these big sellers offer to handle all the paperwork, customs, and logistics—for a fee.

In direct selling, the U.S. producer deals directly with a foreign buyer. The paramount consideration in determining whether to market indirectly or directly is the level of resources your company is willing to devote to your international marketing effort. Other factors to consider when deciding whether to market indirectly or directly include:

- The size of your company
- Your tolerance for risk
- Resources available to develop the market
- Opportunity costs
- The nature of your products or services
- Previous export experience and expertise
- Business conditions in the selected overseas markets

We are agnostic on the question of which method is the best for you. Indeed, you may use more than one—selling directly to end-users via your website, selling on a major B2B or B2C e-commerce platform, engaging an agent to find buyers in a particular geographic area of the world, and selling to an EMC. There is no one "best" way.

Approaches to Exporting

The way or ways you choose to export your products can have a significant effect on your export plan and specific marketing strategies. The various approaches to exporting relate to your company's level of involvement in the export process. Four general approaches may be used alone or in combination:

1. **Passively filling orders from domestic buyers, who then export the product.** These sales are indistinguishable from other domestic sales as far as the original seller is concerned. Another party has decided that the product in question meets foreign demand. That party assumes all the risks and handles all the exporting details, in some cases even without the original seller being aware of it. (Many companies take a stronger interest in exporting when they discover that their product is already being sold overseas.) A little-known fact is that companies that don't make the products exported comprise the majority of exporting companies. Unlike the exporting companies profiled in this book, many companies make products for export but do not actually export the products themselves.
2. **Seeking out domestic buyers who represent foreign end-users or customers.** Many U.S. and foreign corporations, general contractors, foreign trading companies, foreign government agencies, foreign distributors, retailers, and others in the United States purchase for export. These buyers constitute a large market for a wide variety of goods and services. In this approach, your company may know that its product is being exported, but the domestic buyer still assumes the risks and handles the details of exporting.
3. **Exporting indirectly through intermediaries.** With this approach, your company engages the services of an intermediary company that is capable of finding foreign markets and buyers for your products. EMCs, ETCs, international trade consultants, and other intermediaries can give you access to well-established expertise and trade contacts, but you retain considerable control over the process and can realize some of the other benefits of exporting, such as learning more about foreign competitors, new technologies, and other market opportunities. A variation on this channel is the use of e-commerce platforms such as those described above. They offer to handle the logistics in return for fees. As your product sells via their e-commerce site, you get notification to restock and they send you payment. Another option is that they sell via the site and you do the shipping. Another form of indirect exporting is when you hire an agent on a commission and the agent uses his or her contacts to sell your products in other countries.

4. **Exporting directly.** This approach is the most ambitious and challenging because your company handles every aspect of the exporting process from market research and planning to foreign distribution and payment collections. A significant commitment of management time and attention is required to achieve good results. However, this approach may also be the best way to achieve maximum profits and long-term growth. With appropriate help and guidance from the U.S. Department of Commerce, state trade offices, freight forwarders, shipping companies, international banks, and others, even small or medium-sized companies can export directly. If you have a website that processes credit cards, you can engage in exporting directly. If you choose to franchise a business model, the act of finding and supporting a master franchiser in a different country is direct exporting. If you get a contract from a U.S. or other national government agency, you are exporting directly to another country and potentially developing contacts that can lead to more sales independent of the government contract that got you to the new market in the first place. The exporting process today is easier and has fewer steps than ever before. For those who cannot make that commitment, the services of an EMC, ETC, trade consultant, or other qualified intermediary can be of great value.

Choose an approach that fits your company's desired level of involvement in the export process—but be aware of the benefits and pitfalls of each.

Most U.S. exports rely on the first two approaches. Neither of the first two approaches, however, require active involvement by the company who creates a product or service. As a result, they will not directly contribute to a surge in future exports, even if international business does increase.

Consequently, this book concentrates on the latter two approaches. If your company's goals and resources make indirect exporting your best choice, little further planning may be needed. In such a case, your main task is to find a suitable intermediary company that can handle most export details, or wait until they find you. Companies that are new to exporting or are unable to commit staff and funds to more complex export activities may find indirect methods of exporting more appropriate.

However, using an EMC or other intermediary does not exclude the possibility of direct exporting for your company. For example, your company may try exporting directly to nearby markets such as the Bahamas, Canada, or Mexico, while letting an EMC handle more challenging sales to Egypt or Japan. You may also choose to gradually increase the level of direct exporting once you have gained enough experience and sales volume to justify added investment. This approach is common and can lead to impressive sales growth such that international sales surpass domestic sales, as reported by the exporter profiles in this book.

The method(s) you choose to export can significantly impact your export plan and marketing needs.

Before deciding, you may want to consult trade specialists such as those at the U.S. Commercial Service. They can be helpful in determining the best approach or mix of approaches for you and your company.

Distribution Considerations

Here are some questions to consider when distributing your product:

- Which channels of distribution should your company use to market its products abroad?
- Where should your company produce its products, and how should it distribute them in the foreign market?
- Are there warehouse facilities available in the foreign market to shorten supply lines, save money on freight, and get the products to buyers faster?
- What types of representatives, brokers, wholesalers, dealers, distributors, or end-use customers should you use?
- What are the characteristics and capabilities of the available intermediaries?
- Should you obtain the assistance of an EMC or an ETC?

Your answers from questions asked in Chapter 2 can help you determine whether indirect or direct exporting methods are best for your company.

Indirect Exporting

The principal advantage of indirect exporting for a smaller U.S. company is that an indirect approach provides a way to enter foreign markets without the potential complexities and risks of direct exporting. Several kinds of intermediary companies provide a range of export services, and each type of company can offer distinct advantages to your company.

Indirect exporting allows a company to enter foreign markets without the potential complexities and risks of direct exporting.

Confirming Houses

Confirming houses or buying agents represent foreign companies that want to purchase your products. They seek to obtain the desired items at the lowest possible price and are paid a commission by their foreign clients. In some cases, they may be foreign government agencies or quasi-governmental companies empowered to locate and purchase desired goods. An example is a foreign government purchasing mission.

A good place to find these agents is through foreign government embassies and embassy websites or through the U.S. Commercial Service.

Export Management Companies

An export management company can act as the export department for producers of goods and services. It solicits and transacts business in the names of the producers it represents or in its own name for a commission, salary, or retainer plus commission. Some EMCs provide immediate payment for the producer's products by either

arranging financing or directly purchasing products for resale. Typically, only larger EMCs can afford to purchase or finance exports.

EMCs usually specialize by product or by foreign market, or sometimes by both. Because of their specialization, the best EMCs know their products and the markets they serve very well and usually have well-established networks of foreign distributors already in place. This immediate access to foreign markets is one of the principal reasons for using an EMC because establishing a productive relationship with a foreign representative may be a costly and lengthy process.

One disadvantage of using an EMC is that you may lose control over foreign sales. Most exporters are understandably concerned that their product and company image be well maintained in foreign markets. A way for your company to retain sufficient control in such an arrangement is to carefully select an EMC that can meet your company's needs and maintain close communication with you. For example, your company may ask for regular reports on efforts to market your products and may require approval of certain types of efforts, such as advertising programs or service arrangements. If your company wants to maintain this kind of relationship with an EMC, you should negotiate points of concern before entering an agreement.

Export Trading Companies

An export trading company can facilitate the export of U.S. goods and services. Like an EMC, an ETC can either act as the export department for producers or take title to the product. A special kind of ETC is a group organized and operated by producers. These ETCs can be organized along multiple- or single-industry lines and can also represent producers of competing products.

Exporters may consider applying for an Export Trade Certificate of Review under the Export Trading Company Act of 1982. A certificate of review provides limited antitrust immunity for specified export activities. For more information, contact your local U.S. Commercial Service office.

Export Agents, Merchants, or Remarketers

Export agents, merchants, or remarketers purchase products directly from the manufacturer, packing and labeling the products according to their own specifications. They then sell these products overseas through their contacts in their own names and assume all risks.

In transactions with export agents, merchants, or remarketers, your company relinquishes control over the marketing and promotion of your product. This situation could have an adverse effect on future sales abroad if your product is underpriced or incorrectly positioned in the market or if after-sales service is neglected. However, the effort required by the manufacturer to market the product overseas is very small and may lead to sales that otherwise would take a great deal of effort to obtain.

Piggyback Marketing

Piggyback marketing is an arrangement in which one manufacturer or service company distributes a second company's product or service. The most common piggybacking situation occurs when a U.S. company has a contract with an overseas buyer to provide a wide range of products or services.

Often, the first company does not produce all the products that it is under contract to provide, and it turns to other U.S. companies to provide the remaining products. The second U.S. company then piggybacks its products onto the international market, generally without incurring the marketing and distribution costs associated with exporting. Successful arrangements usually require that the product lines be complementary and appeal to the same customers.

Direct Exporting

The advantages of direct exporting for your company include more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace, as well as the opportunity to learn what you can do to boost overall competitiveness. However, those advantages come at a price; your company needs to devote more time, personnel, and resources to direct exporting than it would to indirect exporting.

If your company chooses to export directly to foreign markets, it usually will make internal organizational changes to support more complex functions. As a direct exporter, you'll normally select the markets you wish to penetrate, choose the best channels of distribution for each market, and then make specific connections with overseas buyers in order to sell your product.

Direct exporting allows more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace—as well as an opportunity to learn how you can boost your overall competitiveness.

Getting Organized for Exporting

A company new to exporting generally treats its export sales no differently from its domestic sales, using existing personnel and organizational structures. As international sales and inquiries increase, your company may choose to separate the management of its exports from that of its domestic sales.

Advantages of separating international from domestic business include the centralization of specialized skills needed to deal with international markets and the benefits of a focused marketing effort that is more likely to increase export sales. However, segmentation is sometimes a less efficient use of company resources.

Your company can separate international from domestic business at different levels in the organization. For example, when you first begin to export, you may create an export department with a full- or part-time manager who reports to the head of domestic sales and marketing. At a later stage, your company may choose to increase the autonomy of the export department to the point of creating an international division that reports directly to the president. Many smaller companies absorb export sales into existing functions; such an arrangement works effectively until export sales increase significantly—a happy challenge to look forward to.

Regardless of how your company organizes its exporting efforts, the key is to facilitate the marketer's job. Good marketing skills can help your company operate in an unfamiliar market. Experience has shown that a company's success in foreign markets depends less on the unique attributes of its products than on its marketing methods. Indeed, one of the companies profiled in this book began exporting by arriving in a foreign capital with a local phone book and a smile. You'll not find a section on using phone books in this book, but it worked for the exporter in generating leads and eventual sales.

Once your company is organized to handle exporting, a proper channel of distribution needs to be carefully chosen for each market. These channels include sales representatives, agents, distributors, retailers, and end-users.

Sales Representatives

An overseas sales representative is the equivalent of a manufacturer's representative in the United States. The representative uses your company's product literature and samples to present the product to potential buyers. Ordinarily, a representative handles many complementary lines that do not conflict. The sales representative usually works for a commission, assumes no risk or responsibility, and is under contract for a definite period of time (renewable by mutual agreement). The contract defines territory, terms of sale, method of compensation, reasons and procedures for terminating the agreement, and other details. The sales representative may operate on either an exclusive or a nonexclusive basis.

Agents or Representatives

The widely misunderstood term *agent* means a representative who normally has authority—perhaps even a power of attorney—to make commitments on behalf of the company that he or she represents. Companies in the United States and other developed countries have stopped using that term because agent can imply a power of attorney. Instead, they use the term *representative*. It is important that the contract state whether the representative or agent has the legal authority to obligate your company.

Distributors

The foreign distributor is a merchant who purchases goods from a U.S. exporter (often at a discount) and resells them for a profit. The foreign distributor generally provides support and service for the product, relieving the U.S. exporter of those responsibilities. The distributor usually carries an inventory of products and a sufficient supply of spare parts and also maintains adequate facilities and personnel for normal servicing operations. Distributors typically handle a range of noncompeting, complementary products. End-users do not usually buy from a distributor; they buy from retailers or dealers.

The terms and length of association between your company and the foreign distributor are established by contract. Some U.S. companies prefer to begin with a relatively short trial period and then extend the contract if the relationship proves satisfactory to both parties. The U.S. Commercial Service can help you identify and select distributors and can provide general advice on structuring agreements. It is useful to get some expert legal advice pertaining to the market in which the agreement will be in force. Some countries have complex labor laws that may affect

your ability to terminate agreements, and in the event of a dispute you may want to stipulate how it will be resolved, such as via arbitration or in a U.S. court as opposed to a court in a foreign country.

Foreign Retailers

You may also sell directly to foreign retailers, although in such transactions products are generally limited to consumer lines. The growth of major retail chains in markets such as Canada and Japan has created new opportunities for this type of direct sale. The approach relies mainly on traveling sales representatives who directly contact foreign retailers, although results might also be achieved by mailing catalogs, brochures, or other literature.

The direct mail approach has the benefits of eliminating commissions, reducing travel expenses, and reaching a broader audience. For optimal results, a company that uses direct mail to reach foreign retailers should support it with other marketing activities. For more information, contact the Direct Marketing Association at ***the-dma.org*** or the U.S. Postal Service at ***usps.com***.

Surprisingly, a company's success in foreign markets often depends less on unique products and more on good marketing methods.

U.S. manufacturers with ties to major domestic retailers may also be able to use them to sell abroad. Many large U.S. retailers maintain overseas buying offices and use those offices to sell abroad when practical.

What is the most common and consistent channel for producing the desired result among smaller U.S. exporters? The answer is distributors.

Direct Sales to End-Users

You may sell your products or services directly to end-users in foreign countries. The buyers may be foreign government institutions, businesses, or final consumers via online sales. The buyers can be identified at trade shows, through international publications, by the overseas posts of the U.S. Commercial Service, or may find you via search engine results that you may or may not influence through search engine positioning strategies, purchases of online ads, key word auctions, and the like.

You should be aware that if a product is sold in such a direct fashion, your company is responsible for shipping, payment collection, and product servicing unless other arrangements are made. If the cost of providing these services is not built into the export price, you could have a smaller profit than you had anticipated.

If you choose to use foreign representatives, you can meet them during overseas business trips at domestic or international trade shows. A comprehensive list of upcoming trade shows can be found at ***export.gov/tradeevents***. Another effective method you can use without leaving the United States is e-commerce platforms. Ultimately, you may need to travel abroad to identify, evaluate, and sign up overseas

representatives; however, you can save time by first conducting background research in the country you're targeting. The U.S. Commercial Service can provide the market research you need and introduce you to buyers in more than 125 countries.

Contacting and Evaluating Foreign Representatives

Once your company has identified a number of potential representatives or distributors in the selected market, you should write, e-mail, or fax each one directly. Just as your company is seeking information on the foreign representative, the representative is interested in corporate and product information on your company. The prospective representative may want more information than your company normally provides to a casual buyer. Your company should provide full information on its history, resources, personnel, product line, previous export activity (if any), and all other relevant matters. Your company may wish to include a photograph or two of plant facilities and products—and even product samples when practical. You may also want to consider inviting the foreign representative to visit your company's operations. Whenever the danger of intellectual property theft is significant, you should guard against sending product samples that could be easily copied. (For more information on correspondence with foreign companies, see Chapter 17.)

Your company should investigate potential representatives or distributors carefully before entering into an agreement with them. You also need the following information about the representative or distributor:

- Current status and history, including background on principal officers
- Methods of introducing new products into the sales territory
- Trade and bank references
- Data on whether your company's special requirements can be met

You should also ask for the prospective representative or distributor's assessment of the in-country market potential for your company's products. Such information is useful in gauging how much the representative knows about your industry; it provides valuable market research, as well.

Your company may obtain much of this information from business associates who work with foreign representatives. However, you should not hesitate to ask potential representatives or distributors detailed and specific questions. Suppliers have the right to explore the qualifications of those who propose to represent them overseas. Well-qualified representatives will gladly answer questions that help distinguish them from less qualified competitors. Your company should also consider other private-sector and U.S. government sources for credit checks of potential business partners.

In addition, your company may wish to obtain at least two supporting business and credit reports to ensure that the distributor or representative is reputable. By using a second credit report from a different source, you may gain new or more complete information. Reports from a number of companies are available from commercial companies and from U.S. Commercial Service International Company Profiles. Commercial companies and banks are also sources of credit information on overseas representatives. They can provide information directly or from their correspondent banks or branches overseas. Directories of international companies may also provide credit information on foreign companies.

Once your company has prequalified some foreign representatives, you may wish to travel to the foreign country to observe the size, condition, and location of their offices and warehouses. In addition, your company should meet each sales force and try to assess its strength in the marketplace. If traveling to each distributor or representative is difficult, you may decide to meet each of them at U.S. or worldwide trade shows. The U.S. Commercial Service can arrange the meetings; it also offers videoconferencing, which can, in many instances, replace the need to travel.

Once you've gotten to know potential foreign representatives, it's a good idea—and, in some cultures, expected—for you to visit the country to meet potential business partners, as well as observe the size, condition, and location of their offices and warehouses.

Negotiating an Agreement with a Foreign Representative

When your company has found a prospective representative that meets its requirements, the next step is to negotiate a foreign sales agreement. U.S. Commercial Service offices provide advice to companies contemplating that step. The International Chamber of Commerce (***iccwbo.org***) also provides useful guidelines.

Most representatives are interested in your company's pricing structure and product profit potential. They are also concerned with the terms of payment; product regulation; competitors and their market shares; the amount of support provided by your company, such as sales aids, promotional materials, and advertising; training for the sales and service staff; and your company's ability to deliver on schedule.

The agreement may contain provisions that specify the actions of the foreign representative, such as:

- Not having business dealings with competing companies (because of antitrust laws, this provision may cause problems in some European countries)
- Not revealing any confidential information in a way that would prove injurious, detrimental, or competitive to your company
- Not entering into agreements with other parties that would be binding to your company
- Referring all inquiries received from outside the designated sales territory to your company for action

To ensure a conscientious sales effort from the foreign representative, the agreement should include a requirement that the representative apply the utmost skill and ability to the sale of the product for the compensation named in the contract. It may be appropriate to include performance requirements, such as a minimum sales volume and an expected rate of increase.

In drafting the agreement, you must pay special attention to safeguarding your company's interests in case the representative proves less than satisfactory. (See Chapter 10 for recommendations on specifying terms of law and arbitration.) It is vital to include an escape clause in the agreement that allows you to end the relationship safely and cleanly if the representative does not fulfill expectations. Some contracts specify that either party may terminate the agreement with written advance notice of 30, 60, or 90 days. The contract may also spell out exactly what constitutes "just cause" for ending the agreement (for example, failure to meet specified performance levels). Other contracts specify a certain term for the agreement (usually 1 year) but arrange for automatic annual renewal unless either party gives written notice of its intention not to renew.

In all cases, escape clauses and other provisions to safeguard your company may be limited by the laws of the country in which the representative is located. For this reason, you should learn as much as you can about the legal requirements of the representative's country and obtain qualified legal counsel in preparing the contract. These are some of the legal questions to consider:

- How far in advance must the representative be notified of your intention to terminate the agreement? Three months satisfy the requirements of many countries, but a registered letter may be needed to establish when the notice was served.
- What is "just cause" for terminating a representative? Specifying causes for termination in the written contract usually strengthens your position.
- Which country's laws (or which international conventions) govern a contract dispute? Laws in the representative's country may forbid the representative company from waiving its nation's legal jurisdiction.
- What compensation is due to the representative on dismissal? Depending on the length of the relationship, the added value of the market that the representative created for you, and whether termination is for just cause as defined by the foreign country, you may be required to compensate the representative for losses.
- What must the representative give up if dismissed? The contract should specify the return of property, including patents, trademarks, name registrations, and customer records.
- Should the representative be referred to as an agent? In some countries, the word agent implies power of attorney. The contract needs to specify whether the representative is a legal agent with power of attorney.
- In what language should the contract be drafted? In most cases, the contract should be in both English and the official language of the foreign country. Foreign representatives often request exclusivity for marketing in a country or region. It is recommended that you not grant exclusivity until the foreign representative has proven his or her capabilities or that it be granted for a limited, defined period of time, such as 1 year, with the possibility of renewal. The territory covered by exclusivity may also need to be defined, although some countries' laws may prohibit that type of limitation.

The agreement with the foreign representative should define what laws apply to the agreement. Even if you choose U.S. law or that of a third country, the laws of the representative's country may take precedence. Many suppliers define the United Nations Convention on Contracts for the International Sale of Goods (CISG, or the Vienna Convention) as the source of resolution for contract disputes with buyers of their goods, or they agree to submit contract disputes to binding international arbitration. For more information, please visit ***iccwbo.org***.

Choosing a Foreign Representative or Distributor

Each company should tailor a checklist to its own needs. Key factors vary significantly according to the products and countries involved.

Size of Sales Force

- How many field salespeople does the representative or distributor have?
- What are the short- and long-range expansion plans, if any?
- Would the representative company need to expand to accommodate your account properly? Would it be willing to do so?

Sales Record

- Has the sales growth of the representative company been consistent? If not, why not? Try to determine its sales volume for the past 5 years.
- What is the average sales volume per outside salesperson?
- What are the sales objectives of the representative or the distributor for next year? How were they determined?

Territorial Analysis

- What sales territory does the representative company now cover?
- Is the sales territory consistent with the coverage you desire? If not, is the representative or distributor able and willing to expand the territory?
- Does the representative company have any branch offices in the territory to be covered? If so, are they located where your sales prospects are greatest?
- Does it have any plans to open additional offices?

Product Mix

- How many product lines does the representative company handle?
- Are these product lines compatible with yours?
- Is there any conflict of interest?
- Does it represent any other U.S. companies? If so, which ones (names and addresses)?
- Would the representative company be willing to alter its present product mix to accommodate yours?
- What is the minimum sales volume that the representative or distributor needs to justify handling your lines? Do its sales projections reflect that minimum figure? From what you know of the territory and the prospective representative or distributor, is the projection realistic?

Facilities and Equipment

- Does the representative company have adequate warehouse facilities?
- What is the method of stock control?
- Does it use computers? Are they compatible with yours?
- What communications facilities does it have (fax, modem, e-mail)?
- If your product requires servicing, is the representative company equipped and qualified to perform that service? If not, is it willing to acquire the needed equipment and arrange for training? To what extent will you have to share the training cost? Are there alternative ways in the market to service the product?
- If necessary and customary, is the representative or distributor willing to inventory repair parts and replacement items?

Marketing Policies

- How is the sales staff compensated?
- Does the representative company have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific product lines?
- How does it monitor sales performance?
- How does the representative or distributor train its sales staff?
- Would it pay or share expenses for its sales personnel to attend factory-sponsored seminars?

Customer Profile

- What kinds of customers is the representative company currently contacting?
- Are its interests compatible with your product line?
- What are the key accounts?
- What percentage of the total gross receipts do those key accounts represent?

Principals Represented

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

Promotional Thrust

- Can the representative company help you compile market research information to be used in making forecasts?
- What media does it use, if any, to promote sales?
- How much of the budget is allocated to advertising? How are those funds distributed among various principals?
- Will you be expected to contribute funds for promotional purposes?
- How will the amount be determined?
- If the representative or distributor uses direct mail, how many prospects are on the mailing list?
- What type of brochure does it use to describe the companies and products that it represents?
- If necessary, can it translate your advertising copy?
- Does the representative have a website to promote the product?
- Can it provide product demonstrations and training if needed?

Success Story
Don't Wait—Innovate!
Infinity Air

Repairing and replacing aircraft parts is big business.

The Company

Infinity Air was founded in 1977 by Jimmy Wu, the child of immigrants from China. The company, a manufacturer and distributor of new and refurbished aircraft parts for the commercial aerospace industry, has sold $63 million in products and services to customers in 60 countries. The export of parts alone accounts for more than half of total worldwide sales.

Five aircraft manufacturers, including Boeing, account for 80 percent of Infinity Air's repairs and spare parts. Aircraft serviced are mainly Boeing's 737-600-900 series, 767 twin-aisle, 747-400, and 777 aircraft. Today, the company employs 115 people and operates out of a 160,000-square-foot facility in southern California, with two additional locations in Seattle and Miami.

The Challenge

Because the business is global, Wu has plenty of lower-cost competitors, and he can't compete on a dollar-for-dollar basis with low-wage countries in Asia. His higher costs coupled with fluctuations in the business cycle were constant worries.

The Solution

Wu says that Infinity Air competes on innovation and business process. "Because of these processes," he says, "we perform the service in less time and have a strong reputation for reliability and technical support—that's the key to our international success."

For example, Infinity uses technology to manage customers' procurement and repair. "We constantly try to be imaginative in everything we do—to make the best products, deliver the best service."

Wu said he also relies on free trade agreements to give him a competitive edge, though they are not a substitute for creativity and innovation. While Korea has always been a good market for Infinity Air, it's getting even better now with the U.S.-Korea Free Trade Agreement.

"It put a spring in the step of our business there. Korea is a huge market for us, and with the trade agreement in place, the market just got a whole lot bigger. We've already seen a spike in sales, with new orders coming from the Korean government for maintenance on regional jets, helicopters,

and other aircraft—I wouldn't be surprised to see a 20 percent growth in our sales this year alone, due to the agreement. Prior to the trade agreement, servicing Korea's aviation market required payment of tariffs of up to 15 percent on parts—the customer would have to pay hundreds or thousands of additional dollars just to cover the tariffs. Now, the tariffs have either been removed or are in the process of being phased out, giving Infinity Air more leverage for competitive pricing."

But the FTA was not sufficient to grow the business. Wu turned to the U.S. government, specifically the U.S. Commercial Service, to help find the customers. In 2010 Infinity Air was looking to expand long-term partnership opportunities in Korea and sought counseling from the U.S. Commercial Service in Los Angeles and the U.S. Embassy in Korea. Wu attended a U.S. Commercial Service Aerospace business matchmaking program at the 2010 Singapore Air Show; he was introduced to several airline representatives in meetings prearranged by the U.S. Commercial Service. As a result, he signed a representative agreement with an airline and has greatly expanded Infinity Air's presence in Korea.

"There's no question it would have been much more difficult and time-consuming for us if we'd tried to make this connection on our own. We also got essential firsthand insights into the legal and financial aspects of doing business in Korea. With continued government help we're now making sales to aerospace operators in Turkey, Japan, Vietnam, Singapore, Indonesia, India, and Panama. Exporting has enabled us to buffer the ups and downs of a tough economy, and made us a better company by forcing us to face the reality of global competition. Since 2008 we've doubled our export sales, which shows what can be achieved with a good product and superior customer service."

Lessons Learned

Previously fearful of the threat posed to his business by Chinese competitors, Wu feels he has a more accurate view of what he's up against. "The Chinese don't have the imagination piece. This may be a cultural thing that's very hard to change. We have that in this country. Some countries are good at copying things. They are content takers, not makers. As a result, the takers are hiring Americans to do the imagination part because we are content makers. Just look at Apple. No surprise that most Asian car manufacturers design the cars here. Freedom is an integral part of this, and the Chinese don't have it and probably won't for the foreseeable future."

Hard to say how long the foreseeable is, but Wu plans to keep innovating and not wait to find out. He believes that part of imagination is sustainability and that it should be considered in everything the company does. He says sustainability generates imagination when you are forced to look at the whole process, the whole life cycle, as Infinity does with everything it repairs and sells.

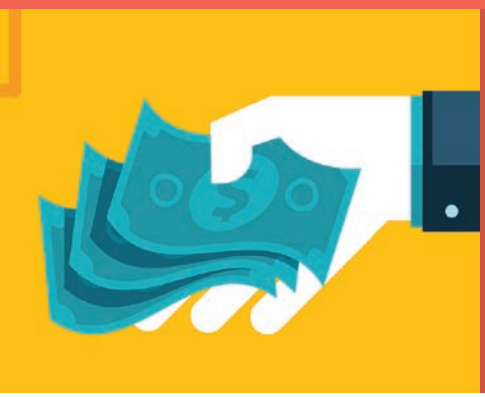
"It's not easy and takes time. We start by telling people that they are unconscious and unskilled, and that at the end of the process they will be conscious and skilled. And finally they will be unconscious and skilled. In other words, looking at things in new ways will become second nature; they won't have to think about doing that."

It may sound "very southern California," but Wu insists it works. "We're all doing it, including me. We think it works. When we say you are unconscious and unskilled, don't take it personally; it's not a criticism. The goal is unconscious and skilled. The goal is for insights to become second nature. It's a long process."

Lastly, Wu has learned to be optimistic about the future of manufacturing in the United States. "It has been more than 30 years since my parents overcame hardships in China to bring our family to the United States. Looking back, I'm so happy to have realized the dream of becoming an American and running an internationally successful business. In fact, I'm living the American Dream every day—and enjoying every second."

Chapter 6

Finding Qualified Buyers



In this chapter . . .

- **U.S. Commercial Service buyer-search programs**
- **U.S. Department of Commerce**
- **Other federal government agencies to assist you**
- **State and local government assistance**

By now, your company has identified its most promising markets and devised a strategy to enter those markets (see Chapters 2 and 3). As discussed earlier, your company may sell directly to a customer, use the assistance of in-country representatives (agents or distributors) to reach the end-user, use one of the omnipresent B2B or B2C e-commerce platforms, or a combination of these. This chapter describes some of the sources that can help you find buyers, evaluate trade shows and missions, and generate sales.

U.S. Department of Commerce Worldwide Buyer-Finding Programs

The U.S. Department of Commerce can help exporters identify and qualify leads for potential buyers, distributors, joint-venture partners, and licensees from both private and public sources. Along with its experts in various products, countries, and programs, the U.S. Department of Commerce has an extensive network of commercial officers posted in countries that represent 95 percent of the market for U.S. products. U.S. Commercial Service officers located in U.S. embassies and consulates are members of regional teams. You might target Bulgaria, but if the market is better in Poland, you'll receive that guidance, as well as customer contacts in Poland.

Programs available through the U.S. Department of Commerce, including those of the U.S. Commercial Service, are listed in this section. Exporters should contact the nearest U.S. Commercial Service office for more information. A list of offices including contact information is available at ***export.gov/usoffices***.

Featured U.S. Exporters (*export.gov/fuse*)

Featured U.S. Exporters (FUSE) is a directory of U.S. products presented on local U.S. Commercial Service websites. It gives your company an opportunity to target markets in specific countries in the local language of business. This service is offered free of charge to qualified U.S. exporters seeking trade leads or representation in certain markets. To find out if your company qualifies and to request a free listing, visit *1.usa.gov/1ylJRks*.

Pre-screened leads save your company time and money, separating serious business prospects from "tire-kickers."

Customized Market Research

Customized market research reports use the U.S. Commercial Service worldwide network to help U.S. exporters evaluate their sales potential in a market, choose the best new markets for their products and services, establish effective marketing and distribution strategies in their target markets, identify the competition, determine which factors are most important to overseas buyers, pinpoint impediments to exporting, and understand many other pieces of critical market intelligence. These customized reports will be built to your specifications. To order a customized market research report, contact your local U.S. Commercial Service office.

Gold Key Matching Service

The Gold Key Matching Service is a customized buyer-finding solution offered by U.S. Commercial Service in key export markets around the world. In addition to orientation briefings, market research, appointments with potential partners, and interpreter services for meetings, the service includes counseling on shipping the goods and export financing. To request a Gold Key Matching Service, contact your local U.S. Commercial Service office.

International Company Profiles

An International Company Profile (ICP) is a background report on a specific foreign company that is prepared by commercial officers of the U.S. Commercial Service at American embassies and consulates. These reports include:

- Information on the company
- Year established
- Relative size
- Number of employees
- General reputation
- Territory covered
- Language capabilities
- Product lines handled
- Principal owners
- Financial references
- Trade references

Each ICP also contains a general report by the U.S. Commercial Service officer who conducted the investigation concerning the reliability of the foreign company.

The ICP service is offered in countries that lack adequate private-sector providers of credit and background information on local companies. Credit reports on foreign

companies are available from many private-sector sources, including (in the United States) Dun & Bradstreet and Graydon International. For help in identifying private-sector sources of credit reports, contact your nearest U.S. Commercial Service office.

International Partner Search

With the U.S. Commercial Service's International Partner Search, teams of experts in more than 75 countries work to find you the most suitable strategic partners. You provide your marketing materials and background on your company. The U.S. Commercial Service uses its strong network of international contacts to interview potential partners and to provide you with a list of up to five prescreened companies. By working only with prescreened companies that are interested in buying or selling your products and services, you save valuable time and money.

The International Partner Search allows you to obtain high-quality market information in 15 days. The search yields information on each potential partner's size, sales, years in business, and number of employees, as well as a statement from each potential partner on the marketability of your product or service. You will also receive complete contact information on key individuals among the potential partners who are interested in your company. To obtain more information or to order an International Partner Search, contact your local U.S. Commercial Service office.

International Partner Search puts U.S. Commercial Service commercial officers and specialists to work for you, in search of the strategic partners that best meet your company's international business needs.

U.S. Department of Commerce Trade Event Programs

Some products, because of their nature, are difficult to sell unless the potential buyer has an opportunity to examine the items in person. Sales letters and brochures can be helpful, but an actual presentation of products in the export market may prove more beneficial. One way for your company to actually present its products to an overseas market is by participating in trade events such as trade shows, fairs, trade missions, matchmaker delegations, and catalog exhibitions.

Trade fairs are "shop windows" where thousands of companies from many countries display their goods and services. They serve as a marketplace where buyers and sellers can meet with mutual convenience. Some fairs, especially in Europe, have a history that goes back centuries. Also, it is often easier for some buyers to gather in Europe than in the United States.

Attending trade fairs involves a great deal of planning. You should consider:

- Choosing the proper fair out of the hundreds that are held every year
- Obtaining space at the fair, along with designing and constructing the exhibit
- Shipping products to the show, along with unpacking and setting up
- Providing proper hospitality, such as refreshments, along with maintaining the exhibit
- Ability to separate serious business prospects from "tire-kickers" (indecisive people who are never satisfied and aren't likely to become buyers)
- Breaking down, packing, and shipping the exhibit home at the conclusion of the fair

A trade magazine or association can often provide information on major shows. Whether privately run or government-sponsored, many trade shows have a U.S. pavilion dedicated to participating U.S. businesses. For additional guidance, contact your local U.S. Commercial Service office or, for a complete list of trade events that you can search by country, state, industry, or date, visit ***1.usa.gov/1x7zuao***.

Examples of annual trade shows are Medtrade, which is geared toward the health care services sector, and the Automotive Aftermarket Industry Week, which is attended by companies in various parts of the automotive industry.

International Buyer Program (*export.gov/ibp*)

The U.S. Department of Commerce's International Buyer Program (IBP) supports major domestic trade shows featuring U.S. products and services with high export potential. Trade specialists located in markets around the world recruit prospective foreign buyers to attend selected trade shows. These shows are extensively publicized in targeted markets through embassy and regional commercial newsletters, catalog-magazines, foreign trade associations, chambers of commerce, travel agents, government agencies, corporations, import agents, and equipment distributors.

U.S. Department of Commerce works with and certifies a wide variety of industry events and in a wide variety of industries. Got a product or service to sell? Somewhere in the world, there's probably an event you can use to promote it.

As a U.S. exhibitor at an IBP event, you will receive many valuable free benefits, such as:

- Opportunities to meet with prospective foreign buyers, representatives, and distributors from all over the world who have been recruited by ITA commercial specialists in more than 150 cities
- Worldwide promotion of your products and services through the Export Interest Directory, which is published by the show organizers and distributed to all international visitors attending the show
- Access to hundreds of current international trade leads in your industry
- Hands-on export counseling, marketing analysis, and matchmaking services by ITA country and industry experts
- Use of an on-site international business center, where staff from your company can meet privately with prospective international buyers, sales representatives, and business partners and can obtain assistance from experienced ITA staff members

Each year, ITA selects and promotes approximately 30 trade shows representing leading industrial sectors, including information technology, environmental products and services, medical equipment and supplies, food processing and services, packaging, building and construction products, sporting goods, and consumer products.

Trade Fair Certification Program (*export.gov/eac/trade_events.asp*)

The U.S. Department of Commerce's Trade Fair Certification (TFC) program is a cooperative partnership arrangement between private-sector show organizers and the U.S. government to increase U.S. exports and to expand U.S. participation in overseas trade shows. Through the U.S. Commercial Service, the program provides Department of Commerce endorsement, show-related services, oversight and coordination of event services, promotional support, exhibitor marketing facilitation, and in-country/show site assistance for private sector organizers to recruit and build a U.S. pavilion at selected foreign trade shows. These shows serve as a vital access vehicle for U.S. companies wishing to enter and expand their presence in foreign markets. The certified show/U.S. pavilion ensures a high-quality, multifaceted opportunity for American companies to successfully market overseas.

Benefits to U.S. exhibitors include:

- Pre-show industry/country market briefing to U.S. exhibitors
- One-on-one counseling for U.S. exhibitors covering such topics as:
  - Market overview, opportunities, challenges, entry strategies
  - How to locate/use an agent or distributor
  - Direct sales and distribution channels
  - Joint ventures and licensing
  - Selling to a foreign government
  - Selling factors and techniques
  - Promotion, advertising, marketing
  - Protection of intellectual property rights (IPR)
  - Pricing strategies
  - Sales service and customer support
  - Due diligence, International Customer Profile (ICP)
  - Business/Cultural nuances and practices
  - Technical standards/documentation
- Coordinating official military or other delegations of foreign buyers to visit U.S. exhibitors, if applicable
- Coordinating efforts of other U.S. government agencies at post to support the event
- Working with the show/pavilion organizer to facilitate optimum space/services for U.S. participants
- Assisting U.S. exhibitors with protecting their (IPR) at the show

Each year the U.S. Department of Commerce certifies more than 100 events in more than 23 countries in a variety of industry sectors, including aerospace and defense; automotive; agribusiness; construction and design; cosmetics; energy; environmental products and services; information, computers, and telecommunications (ICT); marine technology; medical and dental equipment; safety and security; and travel and tourism.

Trade Missions

The U.S. Department of Commerce organizes or supports numerous trade missions each year. The missions involve travel to foreign countries by U.S. companies and U.S. Department of Commerce employees, sometimes led by a senior official such as the secretary or under secretary. Participants meet face to face with prescreened international businesspeople in the market they travel to. Trade missions save U.S. companies time and money by allowing them to maximize contact with qualified distributors, sales representatives, or partners. U.S. Commercial Service missions are industry specific and target two to four countries per trip. U.S. Commercial Service specialists abroad will prescreen contacts, arrange business appointments, and coordinate logistics in advance. This preparatory effort is followed up by a 1-week trip by representatives of the U.S. company to personally meet with the new prospects. The "buzz" generated by missions can help build brands and enhance credibility in the country market.

Face-to-face meetings, especially when facilitated by senior U.S. government officials, can make a huge impression with foreign buyers.

Foreign Agricultural Service (*www.fas.usda.gov)*

Through a network of counselors, attachés, trade officers, commodity analysts, and marketing specialists, the Department of Agriculture's Foreign Agricultural Service (FAS) can help arrange contacts overseas and provide marketing assistance for companies that export agricultural commodities.

U.S. Agency for International Development (*usaid.gov)*

The U.S. Agency for International Development (USAID) administers programs that offer export opportunities for U.S. suppliers of professional technical assistance services and commodities. Opportunities to export commodities are available through the commodity import programs that USAID operates in select USAID-recipient countries and through the agency's direct procurement of commodities. In addition, USAID funds may be available in certain recipient countries to finance developmentally sound projects involving U.S. capital goods and services. For exporters traveling to developing countries in which a USAID program is in place, information is available on funds, projects under consideration, and contacts.

U.S. Department of State

The U.S. Department of State operates the Business Information Database System (BIDS, ***bids.state.gov***), an online trade lead program which collects business opportunities across the U.S. embassy system. All embassies have a commercial section that will provide further information on a given business lead, as well as other assistance about the market.

Millennium Challenge Corporation

The Millennium Challenge Corporation is an agency of the federal government that specializes in assisting the world's poorest countries to develop their economies. Each year, Millennium procures millions of dollars in goods and services for work in participating countries, which must pledge to improve their governance in return for the assistance.

Many U.S. companies get their start in doing business globally by winning a contract from the Millennium Challenge Corporation. In fact, many federal agencies contract with U.S. companies to work abroad. This business is worth many billions of dollars, and the money goes to companies of all sizes. When large companies win bids for larger projects, they often subcontract with smaller specialty companies. Yours could be one of them. That's why it's important to monitor Federal Business Opportunities (FedBizOpps, ***fbo.gov***). Bookmark this site.

Many U.S. companies get their first chance at international business through a contract from the Millennium Challenge Corporation.

U.S. Trade and Development Agency (***ustda.gov***)

The U.S. Trade and Development Agency (USTDA) assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance, USTDA helps American businesses compete for infrastructure and industrial projects in emerging markets.

USTDA's dual mission is to help companies get in on the ground floor of export opportunities and to make them competitive with heavily subsidized foreign companies. Because of its focused mission, USTDA considers only infrastructure and industrial projects that have the potential to mature into significant export opportunities for American companies and to create jobs in the United States. Projects are typically in the areas of agriculture, energy and power, health care, manufacturing, mining and minerals development, telecommunications, transportation, and environmental services.

To be considered for USTDA funding, your product or service must meet these criteria:

- Must face strong competition from foreign companies that receive subsidies and other support from their governments
- Must be a development priority of the country where the project is located and must have the endorsement of the U.S. embassy in that nation
- Must represent an opportunity for sales of U.S. goods or services that is many times greater than the cost of USTDA assistance
- Must be likely to receive implementation financing and must have a procurement process open to U.S. companies

State and Local Government Assistance

Most states can provide an array of services to exporters. Many states maintain international offices in major markets; the most common locations are in Western Europe and Japan. Working closely with U.S. Commercial Service offices located at foreign embassies and consulates, state foreign offices can assist exporters in making contacts in foreign markets by providing services such as:

- Supplying specific trade leads with foreign buyers
- Offering assistance for trade missions in areas such as itinerary planning, appointment scheduling, travel, and accommodations
- Arranging promotional activities for goods or services, including representing the state at trade shows
- Helping with the qualification of potential buyers, agents, or distributors

In addition, some international offices of state development organizations help set up and promote foreign buyer missions to the United States, which can be effective avenues of exporting with little effort. Attracting foreign investment and developing tourism are also very important activities of state foreign offices. More and more cities and counties are providing these services.

Promotion in Publications and Other Media

A large and varied assortment of magazines covering international markets is available to you through U.S. publishers. They range from specialized international magazines relating to individual industries, such as construction, beverages, and textiles, to worldwide industrial magazines covering many industries. Many consumer publications produced by U.S.-based publishers are also available. Several are produced in national-language editions (e.g., Spanish for much of Latin America), and some offer "regional buys" for specific export markets of the world. In addition, several business directories published in the United States list foreign representatives geographically or by industry specialization.

Publishers frequently supply potential exporters with helpful market information, make specific recommendations for selling in the markets they cover, help advertisers locate sales representation, and render other services to aid international advertisers.

Many useful magazines and directories are available at libraries, U.S. Commercial Service offices, or the U.S. Department of Commerce's reference room in Washington, DC. State departments of commerce, trade associations, business libraries, and major universities may also provide such publications.

Who Is the "Ideal" International Buyer?

The short answer: anyone who can afford your product or service and buys it regularly. "Ideal" varies according to export plan and e-commerce goals. But regardless of your approach, treat all buyers as if they mean the world to you. Picture the best customer service experience you ever had and deliver something similar—or better.

Exporting for the Long Term

One of the biggest complaints we hear from buyers is that U.S. suppliers drop international customers when domestic business improves.

A weak dollar means goods produced in the U.S. are cheaper for consumers with stronger currencies; a stronger dollar makes U.S. products more expensive, lowering demand if the product isn't considered essential.

For example, in early 2015 European customers were paying almost a third more for U.S.-made products. Maybe the products are genuinely worth the price premium, and buyers will eat the difference or pass on the cost of the suddenly more expensive import to their customers. But in most cases, such a big price increase will cause you to lose sales.

Buyers Have Long Memories

What should you do? Turn away from the international market?

No. Exchange rate fluctuations are a fact of life, and the most short-sighted thing you can do is abandon international customers. When you need them in the future—when domestic sales are slow and currencies have rebalanced—they'll remember when you stopped answering their messages.

Strategies for Keeping Buyers

Regardless of changes in currency, it probably costs you about the same amount to sell a unit of your product. Show your international buyers you value them as customers—maybe you can trim from your margin so they can afford your product, and in return they'll reward your flexibility with their loyalty. Or, if some of your costs involve imported components, a stronger dollar may make the components cheaper, enabling you to pass savings on to buyers in third countries.

Find ways to make your supply chain more efficient. If fuel prices drop, shipping costs should reduce. And if you and your buyer both save money on shipping, you'll both be happy.

Consider offering longer payment terms. Price shock may be cushioned if the buyer has more time to pay. Call your regional Ex-Im Bank office for support with payment terms, as well as protection against foreign currency losses if you accept payment in foreign currencies.

Help your customer lock in lower exchange rates and order larger quantities (perhaps at a discount) so they won't need to replenish inventory when your product becomes more expensive to them.

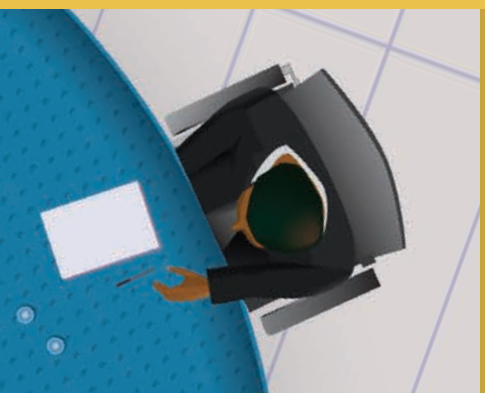
If you treat all your business relationships equally and please all your customers—wherever they are—your domestic and international business together will help keep your profits stable.

But whatever you do, don't sit back and wait for market changes. Take steps now to keep the customers you have, even while looking for new ones who can afford your costlier products.

Because while you're thinking about pulling back, foreign competitors are getting ready to expand.

Chapter 7

Tech Licensing and Joint Ventures



In this chapter . . .

- **Methods of obtaining foreign trade income**
- **Advantages and disadvantages of technology licensing and joint ventures**

There are two additional ways of obtaining international sales income: technology licensing and joint ventures. Although not always the most profitable forms of exporting, these arrangements do offer certain advantages, particularly for small and medium-sized businesses.

Technology Licensing

Technology licensing is a contractual arrangement in which the licenser's patents, trademarks, service marks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee; compensation is negotiated in advance between the parties. Payment may be in the form of a lump-sum royalty, a running royalty (based on volume of production), or a combination of both. U.S. companies frequently license their technology to foreign companies who manufacture and sell products in one or more countries, per the licensing agreement.

A technology licensing agreement usually enables your company to enter a foreign market quickly, and it poses fewer financial and legal risks than owning and operating a foreign manufacturing facility or participating in an overseas joint venture. Licensing also permits U.S. companies to overcome many tariff and nontariff barriers that frequently hamper the export of U.S.-manufactured products. Therefore, licensing can be attractive for small companies or companies with little international trade experience. Technology licensing may also be used to acquire foreign technology through cross-licensing agreements or grant-back clauses that award rights to improved technology developed by a licensee. (Seek legal advice to determine liability.)

Technology licensing is not limited to manufacturing. Franchising is also a form of technology licensing—the franchiser (licenser) permits the franchisee (licensee) to use its trademark or service mark in a contractually specified manner for the marketing of goods or services. The franchiser usually helps support the franchisee through advertising, accounting, training, and related services. The franchiser also often supplies products needed by the franchisee.

Scores of new franchising concepts are converted into profitable businesses every year, and the majority is created in the United States. Recent global franchising successes include personal fitness, flower and candy, and elder care companies. Many franchises are created especially for entrepreneurs in developing countries and feature relatively affordable license fees. Attending the International Franchise Association (IFA) Annual Convention (***franchise.org***) is a good way to learn about trends and new franchising concepts.

As a form of "exporting," technology licensing has some drawbacks. Your control over the technology is weakened because it has been transferred to another company; additionally, licensing usually produces smaller profits for your company than exporting actual goods or services. And in some countries, adequately protecting the licensed technology from unauthorized use by third parties may be difficult.

You should register your patents and trademarks in each country. Copyright is recognized globally, but patents and trademarks are territorial, so rights may vary depending on different countries' legal conventions. (You only need to file your patents and trademarks once with the European Union [EU], as EU laws apply to all EU members. The Patent Cooperative Treaty (PCT) and the Madrid Protocol allow you to apply for patent protection in the EU, as well as in specific countries throughout the world. For more information, visit ***www.stopfakes.gov*** and ***uspto.gov***.

Many small business owners choose franchising over starting a new business because franchising provides easy access to an established product, reduces risk, provides marketing assistance, and, in some instances, offers help in obtaining startup capital.

When considering technology licensing, remember that foreign licensees may attempt to use the licensed technology to manufacture products that compete with your company or other licensees. Often, U.S. licensers may try to impose territorial restrictions on foreign licensees, depending on U.S. and foreign antitrust laws and host country licensing laws. Also, U.S. and foreign patent, trademark, and copyright laws can often be used to bar unauthorized sales by foreign licensees, provided the U.S. licenser has valid protection in the applicable countries.

Many countries, particularly members of the EU, also have strict antitrust laws that affect technology licensing. The EU's block exemption regulation—Commission Regulation (EC) No. 772/2004 of April 27, 2004, dealing with the application of article 81(3) of the Treaty of Rome to categories of technology transfer agreements—governs patent and information licensing agreements, as well as design and model rights and software copyright licenses. If you are currently or considering licensing technology to the EU, be sure to understand and carefully consider the regulation.

Due to the complex nature of international technology licensing, be sure to get qualified legal advice in the United States before entering into an agreement. It's

also often a good idea for U.S. licensers to retain qualified legal counsel in the host country, to be able to obtain advice on applicable local laws and to receive assistance in securing the foreign government's approval of the agreement. Sound legal advice and thorough investigation of the prospective licensee and the relevant practices of the host country will increase the likelihood that your licensing agreement will be a profitable transaction.

Joint Ventures

In some cases, joint ventures provide the best manner of obtaining foreign trade income. International joint ventures are used in a wide variety of manufacturing, mining, and service industries, and they frequently involve technology licensing by the U.S. company to the joint venture.

Host country laws may require that a certain percentage (often 51 percent or more) of manufacturing or mining operations be owned by nationals of that country, thereby limiting U.S. companies' local participation to minority shares of joint ventures. Despite such legal requirements, principals in a U.S. company may find it desirable to enter into a joint venture with a foreign company to help spread the high costs and risks frequently associated with foreign operations. The local partner will likely bring to the joint venture its knowledge of the customs and tastes of local consumers, an established distribution network, and valuable business and political contacts.

There are some possible disadvantages to international joint ventures. A major potential drawback, especially in countries that limit foreign companies to minority participation, is the loss of effective managerial control. As a result, you may experience reduced profits, increased operating costs, inferior product quality, exposure to product liability, and environmental litigation and fines. U.S. companies that wish to retain effective managerial control will find this issue important in negotiations with the prospective joint venture partner and the host government.

Do you have a strategy to protect your company's intellectual property (IP)?

- A foreign company can appropriate your intellectual property in its home country before your company has even marketed in that country—or in the United States.
- The processes for applying for intellectual property protection differ from country to country.

Although effective IP management should be a key element of every business strategy, it is essential for companies doing business internationally.

Visit *www.stopfakes.gov* for more details.

Because of the complex legal issues frequently raised by international joint-venture agreements, you should seek legal advice from qualified U.S. counsel before entering into such an arrangement. Many of the export counseling sources discussed in Chapter 4 can help direct you to legal counsel suitable for your needs.

U.S. companies contemplating international joint ventures should consider retaining experienced counsel in the host country, as well. Since the interests of a prospective partner may not always coincide with your own, relying on a potential partner in a joint venture to negotiate host government approvals and to give advice on legal issues could put you at a disadvantage. Qualified foreign counsel, however, can be very helpful in obtaining government approvals and providing ongoing advice regarding the host country's intellectual property, tax, labor, corporate, commercial, antitrust, and exchange control laws.

Success Story

Cast a Wide Net to Catch New Opportunities

Spancrete Machinery Corporation

The Company

Spancrete Global Services Incorporated, a division of the Spancrete Group, employs 45 people in its Waukesha, Wisconsin, production facility. The company, founded by Henry Nagy, manufactured the first precast hollow-core slabs in North America in 1952. Spancrete sells its equipment worldwide under license agreements and direct sales. In the last 5 years they've entered India, the Middle East, Kazakhstan, and, more recently, the Russian Far East.

The Challenge

Spancrete entered China in the late 1980s. The company wanted licensing agreements, but the Chinese government forbade such arrangements. So the company opted to sell the machinery outright. At first, customers were state-owned enterprises, and the Chinese government encouraged them to expand into the precast construction business, despite their limited knowledge of that sector. Those companies started by producing floor slabs, Spancrete's most basic product, but local architects and engineers had limited experience with precast products of this type. Even in a state-controlled economic system, companies need effective marketing to generate sales.

The Solution

To better support the companies, Spancrete began assisting with seminars for these state-owned enterprises and the construction community in general.

According to Terry Deitrich, the international marketing director, the next achievement was to establish the China Spancrete Association, probably the first organization of its kind. The association is a nonprofit support organization for Spancrete's Chinese customers, assisting them in technical, production, and marketing procedures. "At first, the Chinese didn't understand the concept of a professional association," Deitrich said. "They said, 'Why should we pay dues to belong to something like this? Why should we cooperate with people outside of our own enterprise?'"

Working through the association, Spancrete pooled the existing knowledge for the benefit of

all members. The association tackled the lack of codes and standards, making recommendations on matters like the loads that floors can safely carry and conducting research on seismic and fire-safety issues. Ultimately, the company, with the association, achieved the registration of Spancrete-China products in the national building and design code.

Business processes are changing rapidly in China, and competitors are getting more aggressive. Also, the economic boom has moved south and west of where it started, creating more opportunities and challenges. Said Deitrich: "Today, China is doing okay businesswise. The long-awaited and sweeping new building code has taken ages to approve. The codes should be released soon, at which time another boom is possible, and we're ready for it. It's not how they operated. Now they can see the value and continue to expand the association's efforts."

Lessons Learned

The big lesson is the importance of thinking globally. Deitrich said there are too few companies that do.

"The mentality of Americans is to be satisfied with the North American market. It's just plan shortsighted. Their competitors in the other markets are making money, and sooner or later they'll be here, more competitive because of their experience in some of these developing markets. Even in a downturn in the domestic economy, getting U.S. companies to go overseas is like pulling teeth. Saudi Arabia has billions of dollars to spend on construction projects. We're not there. The Chinese are there. We're sitting in North America wondering, 'Is it safe over there?'"

To illustrate, he said he brings his suppliers to construction trade shows in the Middle East, and all of them made sales. Dietrich contacted over 100 companies, but only eight committed to coming, and they all made sales. In contrast, he said: "The Germans will bring 300 of their companies to a trade show—lawyers, finance guys. The German prime minister will fly in to cut the ribbon to open the show. We don't have that kind of horsepower going for us."

Despite shortcomings, another lesson for Spancrete is that the world is hungry for U.S. products, technology, and know-how. "Around the world, we see construction design and standards improving. The engineering is becoming more skilled. The public is demanding safer construction. Many developing countries are emulating western and U.S. standards, which are best implemented using U.S. equipment. Markets are demanding faster, cheaper, sustainable. All are strong suits of U.S. suppliers."

Another lesson is the value of working with U.S. and state government export assistance programs. "Recently, I used the Commercial Service's business matchmaking and Single Company Promotion program in seven Chinese cities. The Commercial Service identified local companies interested in purchasing our equipment systems and coordinated meetings with key government officials. They've been helpful in India, Russia, and Kazakhstan. The Service is amazing."

Lastly, Deitrich believes that exporting has made Spancrete a better company. He said: "The experience in international markets has made me a more effective professional and the company more competitive. There's just no doubt that selling overseas has made us a more effective exporter and our products more competitive in all the markets we are in and will be in. We simplified our product right down to our software so everything is easier to operate, no matter the conditions or the language spoken. Our key personnel have grown from the international experience, and we continuously bring ideas back home and apply them throughout the company. Competition is tough in these markets, but that's where the opportunities are. Exporting is no longer an option, and America's export future lies in these markets."

Chapter 8

Preparing Your Product for Export

In this chapter . . .

- **Adapting your product to meet government regulations, country conditions, or preferences**
- **Modifying product labeling and packaging**
- **Planning for installation of your product overseas**

Selecting and preparing your product for export require not only product knowledge but also knowledge of the unique characteristics of each target market. Market research and contacts with foreign partners, buyers, customers, and others should give your company an idea of what products can be sold and where. However, before the sale can occur, your company may need to modify a particular product to satisfy buyer tastes, needs in foreign markets, or legal requirements for the foreign destination.

The extent to which your company will be willing to modify products sold for export markets is a key policy issue to be addressed by management. Some exporters believe that their domestic products can be exported without significant changes. Others seek to consciously develop uniform products that are acceptable in all markets. It is very important to do research and to be sure of the right strategy to pursue. For example, you may need to redesign an electrical product so it can operate on a particular voltage in certain countries, or you may need to redesign packaging to meet labeling standards or cultural preferences.

If your company manufactures more than one product or offers many models of a single product, you should start by exporting the one that is best suited to the targeted market. Ideally, your company may choose one or two products that fit the target market without major design or engineering modifications. Doing so works best when your company:

- Deals with international customers that have the same demographic characteristics or the same specifications for manufactured goods
- Supplies parts for U.S. goods that are exported to other countries without modifications
- Produces a unique product that is sold on the basis of its status or international appeal
- Produces a product that has few or no distinguishing features and that is sold almost exclusively on a commodity or price basis

Questions to Consider

You must consider several issues when you are thinking of selling overseas, including:

- What foreign needs does your product satisfy?
- What products should your company offer abroad?
- Should your company modify its domestic market product for sale abroad? Should it develop a new product for the foreign market?
- What specific features, such as design, color, size, packaging, brand, labels, and warranty, should your product have? How important are languages or cultural differences?
- What specific services, warranties, and spare parts are necessary abroad at the presale and postsale stages?
- Are your company's service and repair facilities adequate?

Product Adaptation

To enter a foreign market successfully, your company may have to modify its product to conform to government regulations, geographic and climatic conditions, buyer preferences, or standards of living.

Your company may also need to modify its product to facilitate shipment or to compensate for possible differences in engineering and design standards. Foreign government product regulations are common in international trade and are expected to expand in the future. These regulations can take the form of high tariffs, or they can be nontariff barriers, such as industrial regulations or product specifications.

International buyers may have different expectations than U.S. buyers. Packaging, advertising, and labeling requirements can all vary between markets.

Governments impose regulations for several reasons:

- To protect domestic industries from foreign competition
- To protect the health and safety of their citizens
- To force importers to comply with environmental controls
- To ensure that importers meet local requirements for electrical or measurement systems
- To restrict the flow of goods originating in or having components from certain countries
- To protect their citizens from cultural influences deemed inappropriate

Detailed information on regulations imposed by foreign countries is available through your local U.S. Commercial Service office. When a foreign government imposes particularly onerous or discriminatory barriers, your company may be able to obtain help from the U.S. government to press for their removal. For more information, call (202) 395-3230 or visit ***ustr.gov***.

You can also contact the Office of Trade Agreements Negotiations and Compliance (TANC). TANC systematically monitors, investigates, and evaluates foreign government compliance with our international trade agreements to ensure that U.S. companies and workers receive the full benefit of these agreements. This free program is available to assist all U.S. exporters or investors facing trade barriers, but it is particularly valuable to small and medium-sized companies, which often lack the resources or expertise to deal with these problems. It is the U.S. government's one-stop shop for getting help reducing or eliminating those barriers.

The TANC website includes a fully searchable database containing the texts of approximately 250 international trade agreements. To assist, TANC provides examples of the most common foreign government-imposed trade barriers at ***1.usa.gov/1yRJbr5***. This service enables U.S. exporters to file complaints about foreign government-imposed trade barriers or unfair trade situations in foreign markets.

Buyer preferences in a foreign market may also lead you to modify your product. Local customs, such as religious practices or the use of leisure time, often determine whether a product is marketable. The sensory impression a product makes, such as taste, smell, or a visual effect, may also be a critical factor. For example, Japanese consumers tend to prefer certain kinds of packaging, leading many U.S. companies to redesign cartons and packages that are destined for the Japanese market. Body size may also be an issue. If a product is made for U.S. body types, it may not work for people of smaller statures.

Market potential must be large enough to justify the direct and indirect costs involved in product adaptation. Your company should assess the costs to be incurred and, though it may be difficult, should determine the increased revenues expected from adaptation. The decision to adapt a product is based partly on the degree of commitment to the specific foreign market; a company with short-term goals will probably have a different perspective than a company with long-term goals.

Engineering and Redesign

In addition to adaptations related to cultural and consumer preferences, your company should be aware that even fundamental aspects of products may require changing. For example, electrical standards in many foreign countries differ from those in the United States. It's not unusual to find phases, cycles, or voltages (for both residential and commercial use) that would damage or impair the operating efficiency of equipment designed for use in the United States. Electrical standards sometimes vary even within the same country. Knowing the requirements, the manufacturer can determine whether a special motor must be substituted or if a different drive ratio can be achieved to meet the desired operating revolutions per minute.

Electrical standards can vary wildly between, and sometimes within, different international markets.

Similarly, many kinds of equipment must be engineered in the metric system for integration with other pieces of equipment or for compliance with the standards of a given country. The United States is virtually alone in its adherence to a nonmetric system, and U.S. companies that compete successfully in the global market realize that conversion to metric measurement is an important detail in selling to overseas customers. Even instruction or maintenance manuals should provide

dimensions in centimeters, weights in grams or kilos, and temperatures in degrees Celsius. Information on foreign standards and certification systems is available from the National Institute of Standards and Technology (***nist.gov***).

Branding, Labeling, and Packaging

Consumers are concerned with both the product itself and the product's secondary features, such as packaging, warranties, and services. Branding and labeling products in foreign markets raise new considerations for your company, such as:

- Are international brand names important to promote and distinguish a product? Conversely, should local brands or private labels be used to heighten local interest?
- Are the colors used on labels and packages offensive or attractive to the foreign buyer? For example, in some countries certain colors are associated with death.

Your U.S. brand name is important to you, but it may be less important to foreign consumers. On the other hand, in some places, it may be more valuable than it is in the U.S.

- Can labels and instructions be produced in official or customary languages if required by law or practice?
- Does information on product content and country of origin have to be provided?
- Are weights and measures stated in the local unit? Even with consumer products, packaging and describing contents in metric measurements (e.g., kilograms, liters) can be important.
- Must each item be labeled individually? What is the language of the labeling? For example, "Made in the USA" may not be acceptable; the product may need to be labeled in the language spoken by the country's consumers. There may be special labeling requirements for foods, pharmaceuticals, and other products.

A visible endorsement from a famous person may get you sales at home, but the same person may be unknown—or, worse, disliked—elsewhere.

- Are local tastes and knowledge considered? A cereal box with the picture of a U.S. athlete on it may not be as attractive to overseas consumers as the picture of a local sports hero.

Installation

Another element of product preparation that your company should consider is the ease of installing the product overseas. If technicians or engineers are needed overseas to assist in installation, your company should minimize their time in the field if possible. To do so, your company may wish to preassemble or pretest the product before shipping or to provide training for local service providers through the web,

training seminars, or DVDs. Zeigler Brothers, the fish food supplier profiled in Chapter 3, uses visual aids to help train people who use their products.

Your company may consider disassembling the product for shipment and reassembling it abroad. This method can save your company shipping costs, but it may delay payment if the sale is contingent on an assembled product. Your company should be careful to provide all product information, such as training manuals, installation instructions (even relatively simple instructions), and parts lists, in the local language.

Warranties

Your company should consider carefully the terms of a warranty on the product (and be very specific about what the warranty covers) because the buyer will expect a specific level of performance and a guarantee that it will be achieved. Levels of expectation and rights for a warranty vary by country, depending on the country's level of development, its competitive practices, the activism of consumer groups, the local standards of production quality, and other factors. Product service guarantees are important because customers overseas typically have service expectations as high as or greater than those of U.S. customers.

Success Story

Working Through the Pain

Avazzia

"Our sales generate increased cash flow that helps us meet payroll; so you might say I'm bullish on our export potential."

—Tim Smith, Chief Executive Officer

The Company

Tim Smith helped put a man on the moon. Given that career highlight, what would be an appropriate sequel for a veteran manager who spent his career at Texas Instruments developing computer chips for the Apollo space program and major military systems?

"My dad taught me all the basics of electronics, so at the age of 12, I was hardwiring circuits in our home," Smith says. "Then in high school I had a great electronics teacher, which motivated me even further and put me on my career path."

After spending 21 years at Texas Instruments in chip design, manufacturing, and research and development, Smith was ready for a change. And after learning that a close friend had diabetic neuropathy, Smith thought he could help. Soon after leaving Texas Instruments, he learned about the Russian space program's use of electronic devices to manage chronic and acute pain.

"Working out of my garage, I familiarized myself with the process of applying electrical signals to humans to turn on the body's neuropeptides—the body's defense systems that promote the healing process and alleviate pain," Smith says. "In doing so, I decided to start my own company, Avazzia, which means 'beauty and freedom of health.'"

For Smith, it wasn't about just making a profit; it was a quality-of-life issue. "One-third of Americans suffer from chronic pain, so there's always a need," he says. "Also, more Americans die from prescription painkillers than from street drugs. There's real opportunity for making a difference in the lives of millions of people."

Smith eventually hired staff and developed 11 varieties of therapy devices and 50 accessories. Marketing to hospitals, doctors' offices, and rehabilitation centers, Avazzia also provides training to medical staff. In the United States, the devices are available only through prescription, whereas overseas, a prescription is not required. To date, his product has proven to be very effective. Smith reports that two-thirds of customers responding to his survey reported reduced use of pain medications and had improved sleep; many no longer needed to take oxytocin.

The Challenge

Smith first looked toward international markets in 2008 by selling to Taiwan. He's also had good success in Canada and Malaysia, and has made sales in Korea, Singapore, and England. To overcome import requirements, he began working with the U.S. Food and Drug Administration (FDA) and International Standards Organization (ISO) to obtain product quality and safety certifications; he also gained the CB internationally accepted approval for safety. With these approvals, his products are usually accepted in most countries, thus removing a major barrier to trade.

About a year ago, Smith started eyeing India as a potential destination due to its large English-speaking population and a growing middle class. But when he previously tried to start doing business in new markets, it took several months and costly trial-and-error to locate distributors. How could he quickly find a good distributor?

The Solution

At a local chamber of commerce event in 2012, Smith was introduced to Trade Specialist Richard Ryan of the U.S. Commercial Service in north Texas. Smith later took advantage of business counseling and learned more about entry strategies. Smith says, "I knew that India's population generally tries to avoid drugs, but the additional market research really reaffirmed the Indian medical community was very receptive to nondrug therapies."

Working with U.S. Commercial Service colleagues in New Delhi, India, Ryan helped Smith seek out potential Indian distributors. Avazzia's needs were matched with several prospective Indian distributors, then Smith flew to India.

"I interviewed several distributors and really 'clicked' with one in particular—we both had similar technology backgrounds," Smith says. "Having U.S. government backing also gave me added credibility with him, so it worked out well, and I ended up signing him as a distributor."

The distributor purchased an initial stock of Avazzia products and showcased them at a trade show. Thirty Indian medical doctors came to Avazzia's booth, generating additional sales that continue to this day. Now, Avazzia is working on selling to a major sports injury rehabilitation clinic that treats 500 patients per week.

Lessons Learned

Smith originally assumed that international customers would be looking to pay the lowest price, regardless of quality. "But what I found is that if you have a quality product, people will lay out the cash to buy it," he says.

So what does the future hold for Avazzia? Smith's company has grown to 15 employees. "Exports account for 20 percent of our overall sales, a figure that could grow to 50 percent within the next 2 years," he says. His next big focus is Mexico, with plans to expand into Latin America, where the United States has several free trade agreements.

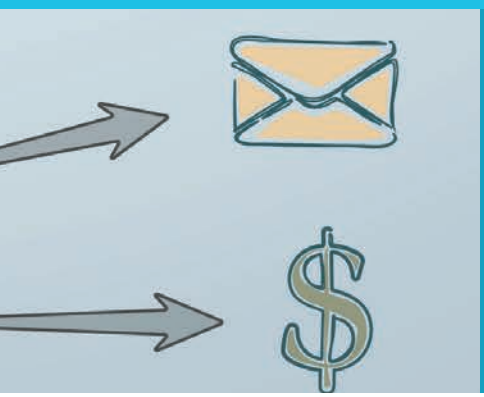
Oh, and what about Smith's friend who suffered from diabetic neuropathy? He continues to use Avazzia technology, which has dramatically reduced his need for painkilling medications.

Action

"If you have no previous international trade or export experience, do your homework first and take advantage of the U.S. Commercial Service. If I had known 10 years ago what I know today, I would have started selling to Europe early on.

"Leverage your business experience; you may have a greater skill set than you realize. For example, if you've sold here in the United States, that's a great asset to becoming a successful exporter."

Chapter 9
Exporting Services



In this chapter . . .

- **Role of the service sector in the United States and in world economies**
- **Differences between service and product exporting**
- **Places where service exporters can find assistance**

The United States is the world's premier producer and exporter of services. As the largest component of the U.S. economy, the service sector includes all private-sector economic activity other than agriculture, mining, construction, and manufacturing. The service sector accounts for 90 million jobs, which is nearly 80 percent of the private-sector gross domestic product (GDP).

In the future, the service sector will loom even larger in the U.S. economy. Small and medium-sized entrepreneurial companies—those employing fewer than 500 employees—overwhelmingly lead this service-driven business expansion. More than 4 million small U.S. service companies account for more than 16 million jobs. Although small service companies make up most of the service sector, many of the most prominent U.S. service exporters are large companies. Seven of the 30 companies that constitute the widely cited Dow Jones Industrial Average are service companies.

The dominant role that services play throughout the U.S. economy translates into leadership in technology advancement, as well as growth in skilled jobs and global competitiveness. U.S. service exports more than doubled between 1990 and 2000—increasing from $148 billion in 1990 to $299 billion in 2000. Growth continued to $404 billion in 2006, $632 billion in 2012, and $682 billion in 2013. Major markets for U.S. services include the European Union, Japan, and Canada. Mexico is the largest emerging market for U.S. service exports.

Service Exports with High Growth Potential

Travel and Tourism

The largest single category within the U.S. service sector encompasses all travel- and tourism-related businesses, including recreational and cultural services. The industry is diverse and

encompasses services in transportation, lodging, food and beverage, recreation, and purchase of incidentals consumed while in transit. Export sales for this sector in 2013 were $140 billion. Recently, there has been an increase in visitors from China.

Environmental Services

The environmental technologies industry incorporates all goods and services that generate revenue associated with environmental protection, assessment, compliance with environmental regulations, pollution control, waste management, remediation of contaminated property, design and operation of environmental infrastructure, and provision and delivery of environmental resources. The industry has evolved in response to growing concern about the risks and costs of pollution and about the enactment of pollution control legislation in the United States and around the world. The United States is the largest producer and consumer of environmental technologies in the world.

U.S. Service Exports by Country (USD Billions, 2011–2014)

Country	2011	2012	2013	2014*
Canada	58.319	61.533	63.281	47.222
United Kingdom	57.314	59.173	60.269	46.729
Japan	43.830	46.529	46.270	35.058
China	28.435	33.090	37.761	31.090
Mexico	26.436	28.205	29.855	22.331
Germany	27.070	27.004	27.529	21.108
Brazil	23.270	25.046	26.640	20.943
South Korea	16.664	17.986	20.904	15.589
France	18.721	17.858	19.488	15.474
India	11.780	12.350	13.470	10.688
Italy	9.199	8.716	9.352	7.387
Saudi Arabia	6.465	7.947	9.240	6.779
All Other Countries	300.280	309.415	323.352	280.398

Source: U.S. Census Bureau. * Data through September 2014

Transportation Services

This sector encompasses aviation, ocean shipping, inland waterways, railroads, trucking, pipelines, and intermodal services, as well as ancillary and support services in ports, airports, rail yards, and truck terminals. Transportation is the indispensable service for international trade in goods, moving all manufactured, mining, and agricultural products to market as well as transporting people engaged in business, travel, and tourism. Well aware that if you are welcoming Asian tourists to your service business, you are generating export sales, the U.S. Commercial Service has a global team dedicated to generating more visits from international travelers. Representatives of this branch of the Department of Commerce will be glad to help you promote your services and make overseas customers even more welcome.

Banking, Financial, and Insurance Services

U.S. financial institutions are very competitive internationally, particularly when they offer account management, credit card operations, and collection management. U.S. insurers offer valuable services, ranging from underwriting and risk evaluation to insurance operations and management contracts in the international marketplace.

Telecommunications and Information Services

This sector includes companies that generate, process, and export such electronic commerce activities as e-mail, funds transfer, and data interchange, as well as data processing, network services, electronic information services, and professional computer services. The United States leads the world in marketing new technologies and enjoys a competitive advantage in computer operations, data processing and transmission, online services, computer consulting, and systems integration.

U.S. Service Exports by Industry (USD Millions, 2012–14)

Industry	2012	2013	2014
Maintenance and Repair	15.115	16.295	18.098
Transportation	83.592	87.267	89.681
Travel (Including Educational)	161.249	173.131	179.038
Insurance Services	16.534	16.096	16.439
Financial Services	76.605	84.066	89.475
Intellectual Property	125.492	129.178	134.897
Telecommunications, Computer Services, and Information Services	32.103	33.409	33.292
Other Business Services	119.892	123.447	125.597
Government Services	24.267	24.522	23.817
Total	**654.849**	**687.411**	**718.333**

Source: U.S. Census Bureau.

Education and Training Services

Management training, technical training, and English language training are areas in which U.S. expertise remains unchallenged. The export market for such training is almost limitless, encompassing most industry sectors for products and services.

Commercial, Professional, and Technical Services

This sector comprises accounting, advertising, and legal and management consulting services. The international market for those services is expanding at a more rapid rate than the U.S. domestic market. Organizations and business enterprises all over the world look to U.S. companies, as leaders in these sectors, for advice and assistance.

Entertainment

U.S.–filmed entertainment and U.S.–recorded music have been very successful in appealing to audiences worldwide. U.S. film companies license and sell rights to exhibit films in movie theaters, on television, on video cassettes, and on DVDs and CDs. U.S. music has been successful in both English-speaking and non-English-speaking countries.

Architectural, Construction, and Engineering Services

The vast experience and technological leadership of the U.S. construction industry, as well as special skills in operations, maintenance, and management, frequently

Exporting services provides unique challenges, because the export is often invisible or intangible. Most likely, this will mean:

- More travel. Without a tangible product, you may have to make special efforts to elevate the profile of your company and the credibility of your statements about its services.
- Awareness of labor requirements. You may be in-country for an extended period of time, or you may need to hire local workers. Be aware of your legal obligations, such as securing work permits.
- More intensive market research. Market research methodologies and business opportunity indicators are unique for service companies, often requiring more in-depth and detailed activities, information, and intelligence than are routine for exporting goods.

give U.S. companies a competitive edge in international projects. U.S. companies with expertise in specialized fields, such as electric-power utilities, construction, bioremediation, and engineering services, are similarly competitive.

E-Business

This sector, which can be service or product oriented, is expected to grow dramatically. It is estimated that there are already 600 million Internet users worldwide—but that figure represents only a small chunk of the world's population. China's B2C e-commerce platforms have become a popular means for Chinese consumers to purchase U.S. brands.

Free Trade Agreements and Service Exports

Most free trade agreements include provisions that make it easier for participants to sell services on a nondiscriminatory basis. The U.S. currently has agreements with 20 countries. Consider targeting some of these countries for expanding your service business beyond U.S. borders. If you are a service provider seeking international contracts, consider letting visitors to your website know that the U.S. free trade agreements make it easy for purchasers in participating countries to work with you.

Aspects of Service Exports

Services can be crucial in stimulating goods exports and are critical in maintaining those transactions. Many U.S. merchandise exports would not take place if they were not supported by such service activities as banking, insurance, and transportation. The many obvious differences between services and products include differences in tangibility and customer involvement.

Because services are intangible, you may find that communicating a service offer is more difficult than communicating a product offer. Also, services frequently must be tailored to the specific needs of the client. Such adaptation often necessitates the client's direct participation and cooperation. Involving the client, in turn, calls for interpersonal skills and cultural sensitivity on the part of the service provider.

Service exports such as banking, insurance, and transportation are essential for many product exports.

The intangibility of services makes financing somewhat more difficult—given that no form of collateral is involved—and financial institutions may be less willing to provide financial support to your company. However, many public and private institutions will provide financial assistance to creditworthy service exporters. Trade organizations offer two important finance services under various terms and conditions. One is a guarantee program that requires the participation of an approved lender; the other program provides loans or grants to the exporter or a foreign government. Exporters who insure their accounts receivable against commercial credit and political risk loss are usually able to secure financing from commercial banks and other institutions at lower rates and on a more liberal basis than would otherwise be the case.

Marketing Services Abroad

Because service exports may be delivered in support of product exports, you might find it sensible to follow the path of complementary product exports. For years, many large accounting and banking companies have exported by following their major international clients abroad and continuing to assist them in their international activities. Smaller service exporters who cooperate closely with manufacturing companies are operating internationally and aim to provide service support for those manufacturers abroad.

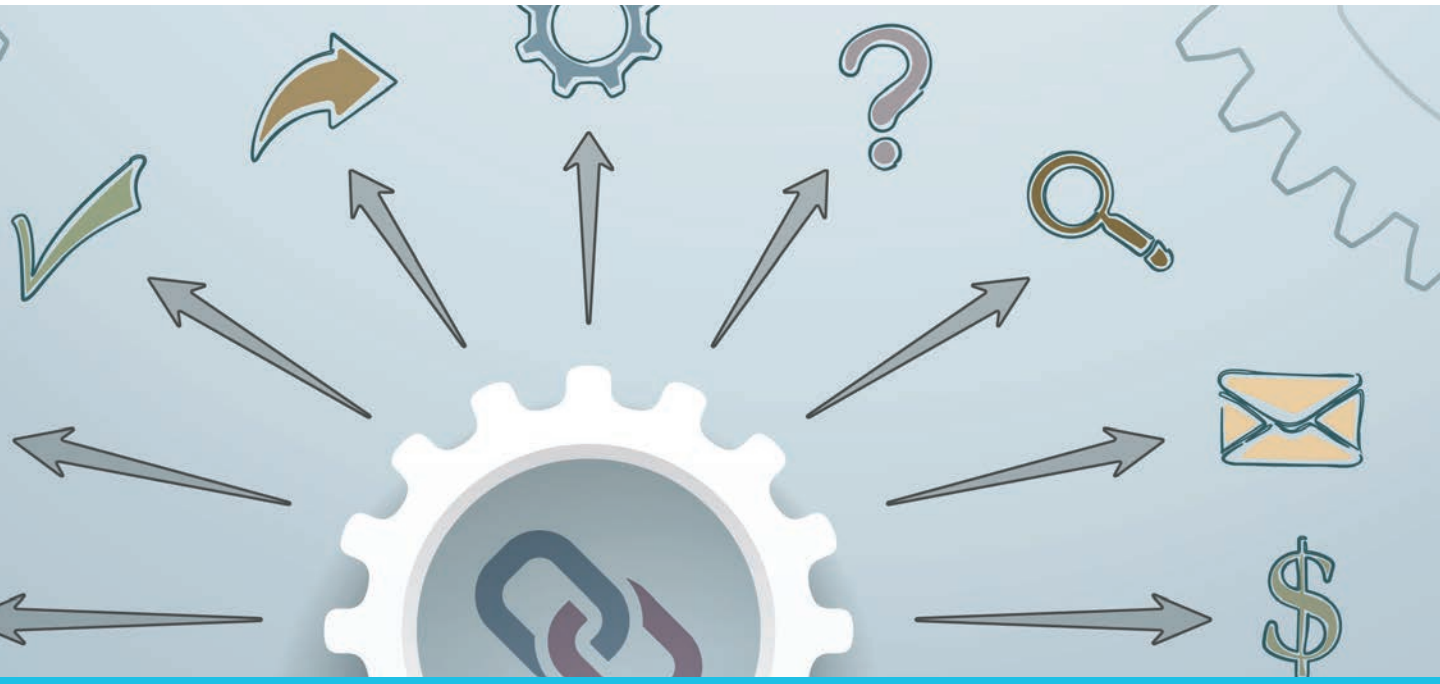
Also, your service company may seek affiliation with a foreign company. An agent, representative, or joint venture relationship could prove beneficial to your company. An indigenous service company already has knowledge of the applicable regulations and restrictions, as well as the identities of primary participants, potential clients, and competitors, and other aspects of marketing in a particular country. In addition, the indigenous company will have market research, exposure, and contacts that you can use to your advantage.

U.S. Commercial Service offices in foreign countries can also help you sell your services in specific markets. Many of the offices have local buyer-focused websites and social media networks that can promote your company.

Obtaining Government Support for Service Exports

The Industry and Analysis unit of the Department of Commerce's International Trade Administration provides support to U.S. services exporters by conducting policy research and industry analysis, coordinating advisory committees, and advocating for U.S. interests in trade negotiations. More information is available at ***trade.gov/industry***.

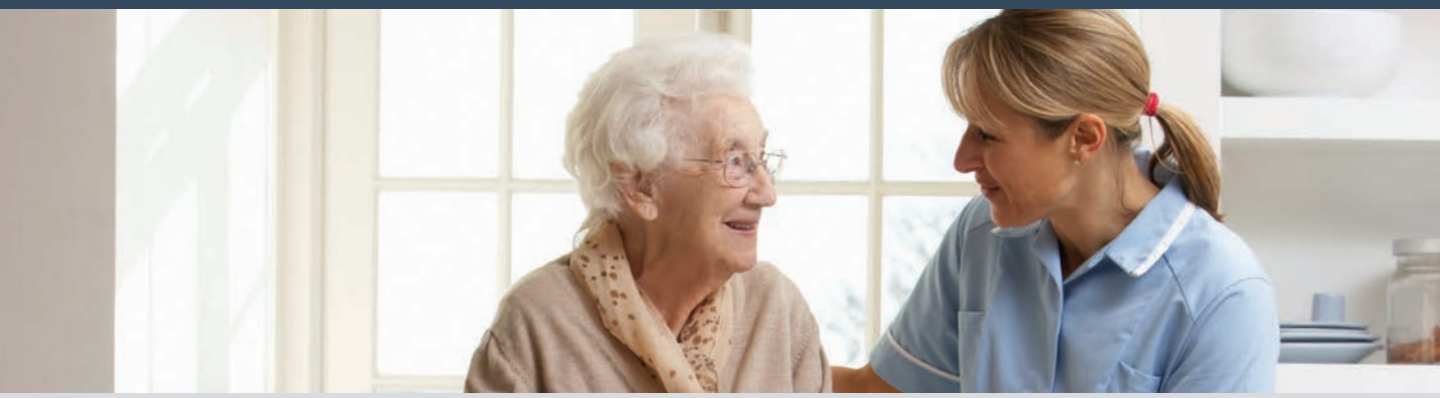
The U.S. Commercial Service, through its network of domestic offices, provides counseling and assistance to services exporters. A list of U.S. Commercial Service offices appears at the end of this book and at ***export.gov***.



Success Story

Recruiting New Franchisees with U.S. Government Help

Home Instead Senior Care



The Company

Home Instead Senior Care, a franchise service company based in Omaha, Nebraska, is a worldwide leader of nonmedical care for senior citizens who choose to remain at home but require personal care. The company was started in 1994 by Paul Hogan, who had an elderly grandmother in her late eighties. She had 15 children and 55 grandchildren. The family did a schedule for round-the-clock care, but there were still gaps. This was the challenge, so in his twenties Paul started a business based on the needs of his grandmother. That was 1994, in Omaha. Home Instead Senior Care expanded to nearly 100 domestic franchise offices in just 3 years, making it one of the fastest growing franchise companies in the U.S.

Having found success in the domestic market, the company began receiving inquiries about taking its franchise concept international. In 2012, Home Instead opened franchise number 1,000. Revenues hit $1 billion in 2011. The company's international success has contributed to its growth, with the development of a new technology department in its international division that has created new jobs at the company's headquarters in Omaha.

The Challenge

According to Yoshino Nakajima, Home Instead's Chief Operating Officer for International Markets, the company targeted Japan because of its aging population and high living standard. But the concept of companionship for senior citizens did not exist in Japan. Nakajima and her colleagues had to focus on educating a community on the expanded meaning of companionship for the elderly, and how our services could help families.

The Solution

She said: "We held a press conference to introduce the new word *konpanyanshippu* to the Japanese community. Together with market research and additional publicity we were able to initiate an effective market-entry strategy. Japan is the world's second-largest economy, and its family-oriented culture and aging population showed strong potential for introducing our services. We signed a master franchising agreement with

Japan's leading service-oriented provider that has generated more than 100 Japanese franchise offices. Interestingly, the new Japanese word is in common use today."

Although the new vocabulary and savvy press helped in Japan, the success enjoyed may not have happened without the help of the U.S. government. The U.S. Commercial Service was engaged to help find prospective partners. According to Nakajima, "They identify potential partners whose profiles parallel the company's ideal qualifications, and prearrange meetings for us. They also help identify key players in senior care policy."

She previously worked with the U.S. Commercial Service when she ran a Blimpie franchise in Poland. "When I got to the United States," she added, "I contacted the U.S. Commercial Service office in Omaha. There I received market research as well as export counseling and requested partner searches that put me on the right path to entering the Japanese market. I went on a franchising trade mission to Japan, where our services were showcased at Japan's largest franchise show. That's where we met our Japanese partners. They are an excellent resource for learning about a country's cultural issues and regulations. We use them to enter all new markets"

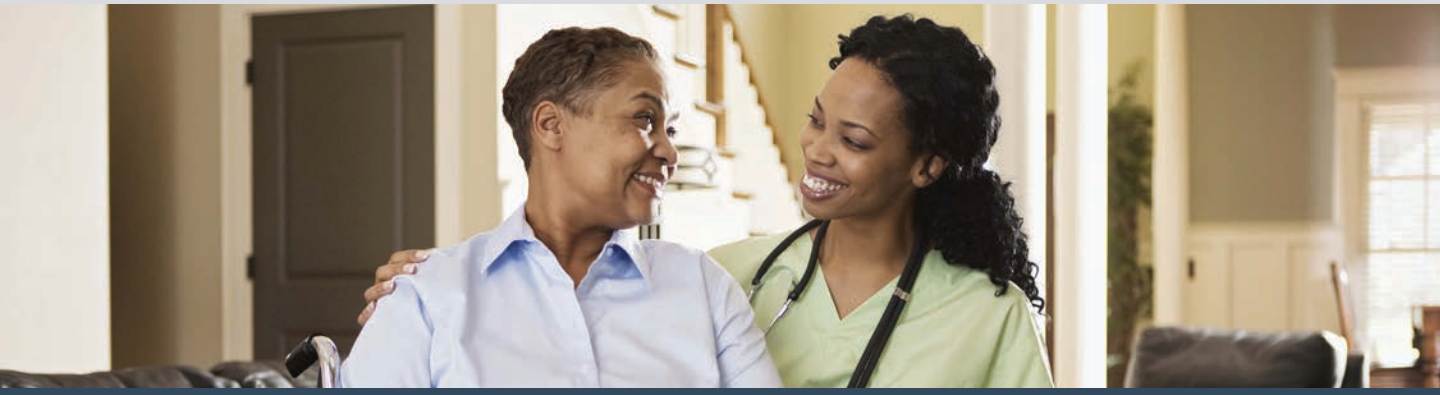
Lessons Learned

What works in one market doesn't always work in a different market. Having succeeded in Japan, Home Instead wanted to enter the Western European market, but faced new hurdles. In Japan, the public was not concerned with the price so much as the type of service, whereas in Europe, price was a major concern. Instead of having to introduce the concept of companionship, they had to reclassify their services into three levels as a way for clients to save money.

"In Portugal, two men approached us about opening a franchise in Lisbon. They had been unable to find the right level of care for their ailing parents without having to pay for unneeded services, and they wanted to help other families with similar problems. The men signed an agreement with the company in 2003 to start their own franchise. This began the company's three-tiered marketing strategy for Europe."

A surprise was that the franchises there didn't suffer because of economic problems in that part of Europe. The debt problems and high unemployment have not negatively affected the demand for care for seniors, in part because pricing and service offerings matched market conditions.

Another lesson is the importance of building a brand in a niche market by positioning the company as a thought leader. Nakajima said: "We conduct and sponsor research. We take this research and share it with people in the communities we serve. We apply other kinds of knowledge, including what's being learned about Alzheimer's and the people suffering from it. We turn this knowledge into training for the people who deliver the services. The challenge is to inform government and policy people of what we are doing and learning."



Chapter 10

International Legal Considerations

In this chapter . . .

- **U.S. regulations and compliance**
- **Procedures for a successful export transaction**
- **Programs and tax procedures to open markets**
- **Intellectual property considerations**

Export Regulations

The Export Administration Regulations (EAR) govern the export and reexport of items for reasons of national security, nonproliferation, foreign policy, short supply, crime control, and anti-terrorism. A relatively small percentage of exports and reexports require the submission of a license application to the U.S. Department of Commerce's Bureau of Industry and Security (BIS). Licensing is dependent on an item's technical characteristics, destination, end use, and end-user. Once a classification has been determined, exporters may consult the EAR, including its single country regulation chart, to decide whether a license is needed to export to a particular destination or end-user. The regulations include answers to frequently asked questions, detailed step-by-step instructions for finding out whether a transaction is subject to the regulations, instructions for requesting a commodity classification or advisory opinion, and directions for applying for a license. If you have questions about whether your products require a license, your local U.S. Commercial Service office can help you.

Antidiversion Clause

To help ensure that U.S. exports go only to legally authorized destinations, BIS generally requires a Destination Control Statement (DCS) on shipping documents. The DCS must be entered for items subject to the EAR, except for items designated EAR99 or that are eligible for certain license exceptions. The commercial invoice and bill of lading (or air waybill) for nearly all commercial shipments leaving the United States must display a statement notifying the carrier and all foreign parties (the ultimate and intermediate consignees and purchaser) that the U.S. material has been exported pursuant to the EAR and may not be diverted. The minimum antidiversion statement for goods exported under U.S. Department of Commerce authority says, "These commodities,

technology, or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law is prohibited."

Exceptions to the use of the destination control statement are listed in Part 758.6 of the EAR. Advice on the appropriate statement to use can be provided by the U.S. Department of Commerce, an attorney, or the freight forwarder.

Antiboycott Regulations

The U.S. has an established policy of opposing restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries friendly to the U.S. This policy is implemented through the anti-boycott provisions of the Export Administration Act of 1979 (EAA)—enforced by the U.S. Department of Commerce—and through a 1977 amendment to the Tax Reform Act of 1976—enforced by the U.S. Department of the Treasury.

Part 760 of the EAR implements the EAA's anti-boycott provisions. U.S. persons are prohibited from taking certain actions with the intent to comply with, further, or support an unsolicited foreign boycott. Prohibitions include:

- Refusing to do business with a boycotted or blacklisted entity
- Discriminating against, or agreeing to discriminate against, any U.S. person on the basis of race, religion, sex, or national origin
- Furnishing information about business relationships with a boycotted country or a blacklisted entity

In addition, the EAR requires a U.S. person to notify the U.S. Department of Commerce if he or she receives a request to comply with an unsanctioned foreign boycott

U.S. Foreign Corrupt Practices Act

Under the Foreign Corrupt Practices Act (FCPA), it is unlawful for a U.S. person or company (as well as any officer, director, employee, or agent of a company or any stockholder acting on behalf of the company) to offer, pay, or promise to pay money or anything of value to any foreign official (or foreign political party or candidate for foreign political office) for the purpose of obtaining or retaining business; authorization of any money, offer, gift, or promise authorizing the giving of anything of value to any person while knowing that all or a portion of it will be offered, given, or promised—directly or indirectly—to any foreign official (or foreign political party or candidate for foreign political office) for the purposes of assisting the U.S. person or company in obtaining or retaining business. "Knowing" includes the concepts of conscious disregard and willful blindness. The FCPA also covers foreign persons or companies that commit acts in furtherance of such bribery in the territory of the United States, as well as U.S. or foreign public companies listed on stock exchanges in the United States or which are required to file periodic reports with the U.S. Securities and Exchange Commission. The FCPA accounting provisions require such publicly listed companies to make and keep accurate books and records and to devise and maintain an adequate system of internal accounting controls. The accounting

provisions also prohibit individuals and businesses from knowingly falsifying books and records or knowingly circumventing or failing to implement a system of internal controls. U.S. persons or companies, or covered foreign persons or companies, should consult an attorney or use the DOJ Opinion Procedure when confronted with FCPA issues.

For more information about the FCPA, visit ***usdoj.gov/criminal/fraud/fcpa*** or ***sec.gov/spotlight/fcpa.shtml***.

Although the U.S. Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the law and about international developments concerning it. For more information, contact the Office of Chief Counsel for International Commerce at (202) 482-0937 or visit ***1.usa.gov/1vCMhf8***.

Import Regulations of Foreign Governments

Import documentation requirements and other regulations imposed by foreign governments vary from country to country. As an exporter, you must be aware of the regulations that apply to your own operations and transactions. For instance, many governments require consular invoices, certificates of inspection, health certification, and various other documents. For sources of information about foreign government import regulations, see Chapter 4.

Also, the large U.S. freight forwarding companies (and their websites) may be able to provide information on the documents you need for specific countries.

North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA), negotiated among the United States, Mexico, and Canada, came into effect on January 1, 1994. It provided for the elimination of tariffs on most goods originating in the three countries over a maximum transition period of 15 years. For more information on all aspects of NAFTA, please contact your local U.S. Commercial Service office.

Tariffs will be eliminated only on goods that originate in one of the four ways defined in Article 401 of the agreement:

- Goods wholly obtained or produced entirely in the NAFTA region
- Goods meeting a specific Annex 401 origin rule
- Goods produced entirely in the NAFTA region, exclusively from originating materials
- Unassembled goods and goods whose content does not meet the Annex 401 rule of origin but contains NAFTA regional value of 60 percent according to the transaction value method or 50 percent according to the net-cost method

Article 502 of the NAFTA requires that importers base their claims of the country of origin on the exporters' written certificates of origin, which may be the certificate of origin approved by the United States (CF 434), the Canadian certificate of origin (Form B-232), or the Mexican certificate of origin (Certificado de Origen). The certificate may cover a single shipment, or it may be used as a blanket declaration for a period of 12 months. In either case, the certificate must be in the importer's possession when the importer is making the claim. See Appendix B for a list of all Free Trade Agreements and what is required to take advantage of each.

U.S. Foreign Trade Zones

As an exporter, your company should also consider the customs privileges of U.S. foreign trade zones (FTZs). These zones are domestic U.S. sites that are considered outside U.S. Customs territory and are available for activities that might otherwise be carried on overseas for customs reasons. For export operations, the zones provide accelerated export status for purposes of excise tax rebates. There is no issue of drawback because duties are not collected when the goods are in the FTZ. For import and reexport activities, no customs duties, federal excise taxes, or state or local ad valorem taxes are charged on foreign goods moved into FTZs unless and until the goods or products made from them are moved into U.S. Customs territory. Thus, FTZs can be profitable for operations involving foreign dutiable materials and components being assembled or produced here for reexport. Also, no quota restrictions ordinarily apply to export activity.

As of January 2014, there were more than 200 approved FTZs in communities throughout the United States. These facilities are available for operation involving storage, repacking, inspection, exhibition, assembly, manufacturing, and other processing. The value of merchandise handled by FTZs exceeds $640 billion. Additional details (as of February 24, 2014) can be found at ***1.usa.gov/1zucnDd***.

Information about the zones is available from the zone manager, from local U.S. Commercial Service offices, and from the Foreign-Trade Zones Board. Additional information is available at ***ia.ita.doc.gov/ftzpage***.

Export Processing Zones

To encourage and facilitate international trade, countries all over the world have established export processing zones (EPZs) of many types, including free trade zones, special economic zones, bonded warehouses, free ports, and customs zones. EPZs have evolved from initial assembly and simple processing activities to encompass high-tech and science parks, finance zones, logistics centers, and even tourist resorts. They now include not only general-type zones but also single-industry zones and single-commodity zones. Both the number of EPZs and the number of countries hosting them have expanded rapidly. There are now more than 600 EPZs in more than 100 countries. Many U.S. manufacturers and their distributors use these zones for receiving shipments of goods that are reshipped in smaller lots to customers throughout the surrounding areas. For more information, contact your local U.S. Commercial Service office.

Customs-Bonded Warehouses

A customs-bonded warehouse is a building or other secured area in which dutiable goods may be stored or manipulated, or may undergo manufacturing operations, without payment of duty. Authority for establishing bonded-storage warehouses is set forth in Title 19, United States Code (U.S.C.), §1555. Bonded manufacturing and smelting and refining warehouses are established under Title 19, U.S.C., §§1311 and 1312.

When goods enter a bonded warehouse, both the importer and the warehouse proprietor incur financial and legal liability under a bond. The liability is canceled when the goods are:

- Exported
- Withdrawn for supplies to a vessel or aircraft in international traffic
- Destroyed under U.S. Customs and Border Protection supervision
- Withdrawn for consumption within the United States after payment of duty

Your company could enjoy several advantages by using a bonded warehouse.

- No duty is collected until merchandise is withdrawn for consumption. An importer has control over use of money until the duty is paid on withdrawal of merchandise from the bonded warehouse. If no domestic buyer is found for the imported articles, the importing company can sell merchandise for exportation, thereby canceling the importer's obligation to pay duty.
- Many items subject to quota or other restrictions may be stored in a bonded warehouse.
- Check with the nearest U.S. Customs and Border Protection office, however, before placing such merchandise in a bonded warehouse.
- Duties owed on articles that have been manipulated are determined at the time of withdrawal from the bonded warehouse.

Intellectual Property Considerations

Intellectual property (IP) refers to a broad collection of rights relating to works of authorship, which are protected under copyright law; inventions, which are protected under patent law; marks, which are protected by trademark law; and designs and trade secrets. No international treaty completely defines these types of intellectual property, and countries' laws differ in significant respects. National intellectual property laws create, confirm, or regulate a property right without which others could use or copy a trade secret, an expression, a design, or a product or its mark and packaging.

The rights granted by a U.S. patent, trademark registration, copyright, or mask work (design of a semiconductor chip) registration extend only throughout the United States. Rights provided by a foreign country may be greater or less than rights provided under U.S. law. There is no such thing as an international patent, trademark, or copyright. Copyright protection depends on national laws, but registration is typically not required. There is no real shortcut to worldwide protection of intellectual property. However, some advantages and minimum standards for the protection and enforcement of intellectual property exist under treaties or other international agreements.

International Agreements

The oldest treaty relating to patents, trademarks, and unfair competition is the Paris Convention for the Protection of Industrial Property. The U.S. and more than 160 other countries are parties to this treaty. The Paris Convention sets minimum standards of protection and provides two important benefits: the right of national treatment and the right of priority.

National treatment under the Paris Convention means that a signatory country will not discriminate against nationals of another signatory country in granting patent or trademark protection. The rights provided by a foreign country may be greater or less than those provided under U.S. law, but the rights provided will be the same as those that the country provides to its own citizens.

The Paris Convention's right of priority allows the applicant 1 year from the date of the first patent application filed in a Paris Convention country (6 months for a design or trademark) in which to file in other countries. This means that after the first filing, neither publication nor sale of an invention will jeopardize patentability in countries that grant a right of priority to U.S. applicants, as long as their application is submitted before the end of the priority period.

First signed in 1883 and today enforced by the World Intellectual Property Organization, the Paris Convention is today one of the world's most widely adopted treaties.

Not all countries adhere to the Paris Convention, but similar benefits may be available under another treaty or bilateral agreement. These substantive obligations have been incorporated into the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and are binding on WTO members.

The U.S. is also a party to the Patent Cooperation Treaty (PCT), which provides procedures for filing patent applications in its member countries. The PCT allows you to file one "international" application with the U.S. Patent and Trademark Office, to designate member countries in which a patent is sought. Filing the international application extends by 18 months the period in which you may fulfill the national requirements for each country.

Additionally, the Hague Agreement Concerning the International Deposit of Industrial Designs (also known as the Hague system) allows for registration of up to 100 industrial designs in member countries. You can apply using a single application, and in a single language.

The Paris Convention helps with patent and trademark protection because signatory countries are not allowed to discriminate against each others' companies.

The U.S. is also a member of the Madrid system for the international registration of marks, which allows for filing of trademark protection in member countries.

Contact the U.S. Patent and Trademark Office to file a patent, trademark, or design registration application outside the U.S.

International Copyright Law

The U.S. abides by international copyright treaties, which are governed principally by the Berne Convention for the Protection of Literary and Artistic Works, to which

about 160 other nations adhere. The United States is also a member of the Universal Copyright Convention (UCC) and has special bilateral relations with a number of foreign countries. Under the Berne Convention, works created by a national of a Berne Union country, or works first or simultaneously published in a Berne Union country, are automatically eligible for protection in every other country of the Berne Union, without registration or compliance with any other formality of law.

These rules apply to works first published in the United States on or after March 1, 1989. Works first published before March 1989 were protected in many countries under the UCC. Older works may also be protected as a result of simultaneous publication in a Berne Union country or by virtue of bilateral obligations. The requirements and protection vary from country to country, so you should investigate them before seeking publication anywhere.

NAFTA and Agreement on Trade-Related Aspects of Intellectual Property Rights

Both NAFTA and TRIPs establish minimum standards for the protection of intellectual property and the enforcement of those standards. NAFTA and TRIPs ensure that a member state that is party to one or both of the agreements provides a certain level of protection to those individuals or companies protected under that member state's laws. Other free trade agreements involving the U.S. include similar protections, which is another reason to consider FTA countries for inclusion in your export plan.

Patent Law

U.S. patent law now allows a patent to be granted to the first inventor to file a patent application. (Patent applications filed before March 16, 2013 will be subject to the old first-to-invent rules.) U.S. patent law grants a patent to the first inventor. The U.S. provides a 1-year grace period that does not preclude an inventor from obtaining protection after an act that would make the invention public, such as publishing, offering for sale, or use of the invention within the 1-year grace period. Many countries, including most European countries, lack a grace period that allows an inventor to so disclose an invention before filing a patent application. In countries with an absolute novelty rule, the inventor must file a patent application before making the invention public anywhere. Hence, even the publication of an invention in a U.S. patent grant is a disclosure that can defeat the right to obtain foreign patents unless the applicant is entitled to claim the right of priority under the Paris Convention. The America Invents Act (AIA) of 2011 measures the one-year U.S. grace period from the claimed foreign priority date. This means that if an applicant is entitled to a foreign priority, the U.S. filing date for an application's claimed invention can now include the earlier, international application filing date.

Because the United States handles protections differently from most other countries, things you take for granted here in the U.S. might not be the same when you export.

Many countries require that an invention be worked locally to retain the benefit of the patent. Working a patent may require manufacture of the patented goods within the country, or it may be met by importation of goods covered by the patent, depending on the law of a particular country.

For an invention made in the United States, U.S. law prohibits filing abroad without a foreign filing license from the U.S. Patent and Trademark Office unless 6 months have elapsed since a U.S. application was filed. This prohibition protects against transfers of information that might damage U.S. national security. The penalties for filing abroad without following these requirements range from loss of U.S. patent rights to possible imprisonment (if classified information is released). In addition, other export control laws require you to obtain a license before exporting certain technologies, even if no patent application is filed—or the laws may bar the technologies' export. Because the U.S. handles protections differently from some other countries, practices you take for granted at home might not be the same in your export markets.

Trademark Law

A trademark is a word, symbol, name, slogan, or combination that identifies and distinguishes the source of sponsorship of goods and may serve as an index of quality. Service marks perform the same function for businesses dealing in services rather than goods. Additionally, the U.S. provides for protection of a mark, registered or not, if that mark has become well known through domestic or international use. However, in most countries, trademark rights are acquired only through registration, and many countries require local use of the registered mark to maintain the registration. Whether a given mark can be registered in a particular country will depend on the law of that country. For example, some countries do not protect service marks.

Loss of intellectual property may be one of the modern company's biggest fears. When in doubt, don't hesitate to hire counsel specializing in international intellectual property laws.

If your business is expanding, you may face a period of time in which your mark is known and perhaps registered in the U.S., even though you are not quite ready to do business abroad. It is smart to decide early where you will need trademark protection and to protect your rights by filing in those countries. Deciding where to file is a business issue, in which you must balance the expense of registration against its benefit. At a minimum, you will want to file in countries in which you will do business. You may also find it desirable to file in countries that are known sources of counterfeit goods, although some national laws require local use to maintain a registration. Although trademark laws impose no deadlines for registering a mark, a business should register promptly to avoid having its mark registered by someone else.

Even if you're not ready to export, take steps to protect your trademarks in other countries. Impostors can appear and prevent you from doing business later on.

You may find it beneficial to investigate the local connotation of a trademark or trade name before making a major investment in another country. A different language or culture may have unfavorable, humorous, or even rude meanings

for words or symbols with neutral or favorable meanings in the United States. Even packaging colors may connote different meanings in different countries. For example, white often implies purity in the United States, but it is the color of mourning in most of the Far East.

Even if you're not ready to export, take steps to protect your trademarks in other countries. Impostors can appear and prevent you from doing business later on. When in doubt, don't hesitate to hire counsel specializing in intellectual property law.

U.S. Copyright Law Compared to International Copyright Law

A copyright protects original works of authorship. In the United States, this protection gives the owner the exclusive right to reproduce the work, to prepare derivative works such as "spin-offs," to distribute copies, or to perform or display the work publicly.

In the United States, original works of authorship include literary, dramatic, musical, artistic, and certain other creative works. A computer program, for example, is also eligible as a literary work in the U.S. and an increasing number of foreign countries.

In most countries, the place of first publication determines the availability of copyright protection. Some countries require certain formalities (e.g., registration notice) to maintain copyright protection. Other countries offer little or no protection for the works of foreign nationals. Before publishing a work anywhere, you should investigate the scope of protection available, as well as the specific legal requirements for copyright protection in countries where you want it.

For more information on intellectual property, visit ***www.stopfakes.gov***.

Intellectual Property

The formulation of the questions and answers that follow relies heavily, often verbatim, on material developed by the World Intellectual Property Organization (WIPO, ***wipo.int***). The last set of questions and answers deals with filing a patent application in the United States, filing a trademark under the Madrid Protocol, and accessing additional training resources. This is a complex, rapidly changing area of law, and you should obtain competent legal advice.

What is a patent?

A patent is an exclusive right granted for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem. For an invention to be patentable, it must fulfill certain conditions, as listed below under "What kinds of inventions can be protected?"

What does a patent do?

A patent provides protection for the invention to the owner of the patent. The protection is granted for a limited period, generally 20 years.

What kind of protection does a patent offer?

Patent protection means that the invention cannot be commercially made, used, distributed, or sold without the patent owner's consent. These patent rights are usually enforced in a court, which, in most systems, holds the authority to stop patent infringement. Conversely, a court can also declare a patent invalid upon a successful challenge by a third party.

What rights does a patent owner have?

A patent owner has the right to decide who may—or may not—use the patented invention for the period in which the invention is protected. The patent owner may give permission to, or license, other parties to use the invention on mutually agreed terms. The owner may also sell the right to the invention to someone else, who will then become the new owner of the patent. Once a patent has expired, the protection ends, and an invention enters the public domain: that is, the owner no longer holds exclusive rights to the invention, which becomes available to others for commercial exploitation.

Why are patents necessary?

Patents provide incentives to individuals by offering them both recognition for their creativity and material reward for their marketable inventions. These incentives encourage innovation, which contributes to the continuous enhancement of the quality of human life.

What role do patents play in everyday life?

Patented inventions pervade every aspect of life. Patented technologies range from electric lighting (held by Edison and Swan) and plastic (held by Baekeland) to ballpoint pens (held by Biro) and microprocessors (held by several companies, including Intel and Advanced Micro Devices).

In return for patent protection, all patent owners are obliged to publicly disclose information on their invention in order to enrich the total body of technical knowledge in the world. The continuously increasing body of public

knowledge, in turn, promotes further creativity and innovation among others. In this way, patents provide not only protection for the owner but valuable information and inspiration for future generations of researchers and inventors.

How is a patent granted?

The first step in securing a patent is the filing of a patent application. This document, which generally contains the title of the invention, as well as an indication of its technical field, includes the background and a description of the invention, provided in clear language and with enough detail to allow an individual with an average understanding of the field to use or reproduce the invention. Such descriptions are usually accompanied by visual materials such as drawings, plans, or diagrams to better describe the invention. The application also contains various claims: that is, information that determines the extent of protection granted by the patent.

What kinds of inventions can be protected?

To achieve patent protection, an invention generally must be of practical use and must show an element of novelty—some new characteristic not known in the body of existing knowledge in its technical field. (This body of existing knowledge is called *prior art*.) The invention must show an inventive step (one that could not be deduced by a person with average knowledge of the technical field). Finally, its subject matter must be accepted as "patentable" under law. In many countries, scientific theories, mathematical methods, plant or animal varieties, discoveries of natural substances, commercial methods, or methods for medical treatment (as opposed to medical products) are generally not patentable.

Who grants patents?

A patent is granted by a national patent office or by a regional office that does the work for a number of countries, such as the European Patent Office (EPO) and the African Regional Intellectual Property Organization (ARIPO). Under such regional systems, an applicant requests protection for the invention in one or more countries, and each country decides whether to offer patent protection within its borders. The WIPO-administered Patent Cooperation Treaty provides for the filing of a single international patent application, which has the same effect as national applications filed in the designated countries. An applicant seeking protection may file one application and request protection in as many signatory states as needed.

How can a patent be obtained worldwide?

At present, no world patents or international patents exist. In general, an application for a patent must be filed, and a patent will be granted and enforced, in each country in which you seek patent protection for your invention, in accordance with its national law. In some regions, a regional patent office (e.g., EPO or ARIPO) accepts regional patent applications, or grants patents, which have the same effect as applications filed, or patents granted, in the member states of that region.

Further, any resident or national of a contracting state of the PCT may file an international application under the PCT. A single international patent application has the same effect as national applications filed in each designated contracting state of the treaty. However, under the PCT system, in order to obtain patent protection in the designated states, a patent shall be granted by each designated state to the claimed invention contained in the international application. Further information concerning the PCT is available.

Procedural and substantive requirements for the grant of patents as well as the amount of fees required differ from one country or region to another. It is therefore recommended that you consult either a practicing lawyer who specializes in intellectual property or the IP offices of the

countries in which you would like to secure protection. A list of URLs and a directory of national and regional intellectual property offices are available from WIPO.

Where can I find patent information?

To assist people in searching patent applications and granted patents, some national or regional patent offices provide free-of-charge electronic databases via the Internet. A list of URLs of such databases is available from WIPO, which also provides access, in image format, to a comprehensive electronic database, covering published international patent applications filed under the PCT system from 1978 to the present day. In addition, WIPO provides access to fully searchable text of descriptions and claims for PCT International Applications filed since July 1998.

Where web-based databases are not available, patent information may be found in paper documents, on microfilms or CD-ROMs, or at the national or regional patent offices. Searchable Internet patent databases have significantly facilitated access to patent information. However, given the complexity of patent documents and the technical and legal skills required to use them, it is advisable to contact a professional patent attorney to execute a high-quality patent search. WIPO Patent Information Services (WPIS) provides free-of-charge services for users in developing countries who wish to obtain technical search results in relation to their inventions.

How can I find the patent laws of various countries?

The Collection of Laws for Electronic Access (CLEA) provides easy access to intellectual property legislation from a wide range of countries and regions, as well as to treaties on intellectual property administered by WIPO. Many national or regional patent offices provide information concerning national or regional legislation on their websites. WIPO makes available a list of URLs of national and regional intellectual property offices.

Can I obtain a patent for my software-related invention?

Procedural and substantive requirements for the granting of patents differ from one country or region to the next. In particular, practices and case law regarding the patentability of software-related inventions vary significantly across countries. For example, in some countries, inventions within the meaning of patent law must have a technical character, and software as such is not considered a patentable invention; in other countries, however, such requirements do not exist, and thus software is generally patentable subject matter.

It is therefore recommended that you consult a practicing lawyer who specializes in intellectual property or the IP offices of countries in which you wish to obtain protection. WIPO makes available a list of URLs and a directory of national and regional intellectual property offices. On the other hand, computer programs may be protected under copyright. However, according to a well-established principle, copyright protection extends only to expressions, not to ideas, procedures, methods of operation, or mathematical concepts as such.

Can I discuss the details of my invention with a potential investor before filing a patent application?

It is important to file a patent application before you publicly disclose the details of your invention. In general, any invention that is made public before an application has been filed would be considered prior art. (Although the definition of this term is not unified at the international level, in many countries, it means any information that has been made available to the public anywhere in the world, by written or oral disclosure.) In countries that apply the foregoing definition of prior art, the applicant's public disclosure of the invention before filing a patent application would

prevent him or her from obtaining a valid patent for that invention, since the novelty requirement would not have been met. Some countries, however, allow for a grace period, which provides a safeguard for applicants who disclosed their inventions before filing a patent application, and the novelty criterion may be interpreted differently depending on the applicable law.

If, for example, you must disclose your invention to a potential investor or a business partner prior to filing a patent application, that disclosure should be accompanied by a confidentiality agreement.

How do I file in the United States?

Patent applications and supporting documentation can be filed online with the U.S. Patent and Trademark Office. To get started, visit *1.usa.gov/10PdLXk*.

Can I protect my trademark in more than one country at a time?

Yes, the Madrid Protocol provides a vehicle for applying for protection in multiple countries that are signatories to the protocol by filing one application and paying one fee in one national currency. For information on the Madrid Protocol and how to file, visit *1.usa.gov/1zsCqPD*.

How can I learn more about international intellectual property law?

The Global Intellectual Property Academy provides training programs in multilateral and country-specific contacts. For more information, go to *uspto.gov/ip/training*.

How long does it take to get a patent granted?

The wait in the United States is about 36 months. Government officials have stated that this length of time is unacceptable, and efforts are under way to reform the process and reduce wait times. Meanwhile, inventors must make do with a patent-pending designation.

How do I file a complaint if I think my intellectual property has been stolen?

A number of U.S. government agencies have joined forces to investigate and prosecute IP theft. For more information, visit *www.stopfakes.gov*.

Chapter 11
Going Online
E-Exporting Tools for Small Businesses

In this chapter . . .

- **E-commerce defined**
- **Your company's readiness**
- **Steps to going online**

Global web use is booming, and millions of new buyers are logging on each year. Electronic commerce, especially business-to-consumer (B2C) e-commerce, reflects this growth.

The Internet's global reach is a cost-effective means for marketing products and services overseas. Companies that establish a corporate website publicizing their products and services are able to create an electronic mechanism for safe and secure electronic transactions; they can also track orders, provide customer service interface, and list their products' technical specifications. Small and medium-sized companies can broaden their market presence internationally by adopting e-commerce or electronic business practices that are user friendly for non-English-speaking users.

Business-to-Consumer E-Commerce Sales Worldwide (USD Trillions, 2012–17)

Year	Sales	Increase (%)
2012	1.058	23.3
2013	1.251	18.3
2014	1.505	20.2
2015*	1.771	17.7
2016*	2.053	15.9
2017*	2.357	14.9

* Projected

What Is Electronic Commerce?

It is buying and selling online through the Internet. The transaction is completed through an electronic network featuring computer systems—the vendor's, a web host's, and the buyer's—all of which are linked to the Internet.

Business-to-Consumer E-Commerce Worldwide by Region (USD Billions, 2012–17)

Region	2012	2013	2014	2015*	2016*	2017*
Asia-Pacific	301.2	383.9	525.2	681.2	855.7	1,052.9
North America	379.8	431.0	482.6	538.3	597.9	660.4
Western Europe	277.5	312.0	347.4	382.7	414.2	445.0
Central and Eastern Europe	41.5	49.5	58.0	64.4	68.9	73.1
Latin America	37.6	48.1	57.7	64.9	70.6	74.6
Middle East and Africa	20.6	27.0	33.8	39.6	45.5	51.4
Worldwide	**1,058.2**	**1,251.4**	**1,504.6**	**1,771.0**	**2,052.7**	**2,357.4**

* Projected

Business-to-Consumer E-Commerce Sales Growth Worldwide (Percent Increase by Country, 2012–17)

Country	2012	2013	2014	2015*	2016*	2017*
China	93.7	78.5	63.8	43.3	34.4	29.4
Indonesia	85.0	71.3	45.1	37.2	26.0	22.0
India	35.9	34.9	31.5	30.3	24.5	20.0
Argentina	31.1	6.3	24.0	18.0	12.0	10.0
Mexico	55.8	41.9	20.0	14.5	10.0	5.0
Brazil	21.8	16.5	19.1	8.5	6.9	6.0
Russia	34.4	19.4	17.1	10.8	6.9	5.2
Italy	17.0	16.8	15.3	13.5	12.0	10.6
Canada	15.0	14.2	14.0	13.5	12.5	11.5
Spain	10.0	10.0	13.8	11.9	10.0	8.0
Sweden	18.4	16.2	13.3	10.3	9.0	8.4
UK	13.7	13.7	12.2	10.2	8.2	7.3
US	14.2	13.4	11.8	11.4	10.9	10.4
Norway	14.9	12.7	11.0	10.8	8.1	7.2
Denmark	14.3	12.4	10.6	8.9	6.5	5.9
France	32.3	10.3	10.0	9.8	7.6	7.1
Netherlands	12.7	11.4	9.4	8.4	6.3	5.3
South Korea	12.7	9.6	7.4	4.8	4.3	3.6
Germany	25.6	5.7	7.4	6.9	6.5	6.1
Japan	12.3	10.2	7.1	6.7	5.6	5.0
Australia	10.5	6.0	5.7	5.1	5.0	4.2
Finland	4.3	4.4	3.7	3.2	2.7	2.5
Worldwide	**22.2**	**18.0**	**20.1**	**17.6**	**15.9**	**14.8**

* Projected

Use of Electronic Commerce for International Business and Trade

Using the Internet to transact business in the global marketplace offers significant advantages to the small or medium-sized company seeking new outlets for its products and services. More than a billion people throughout the world have access to the Internet. This presence offers a tremendous potential customer base for the entrepreneur. At the same time, business-to-business (B2B) e-commerce has also surged. Corporations in Africa, Asia, Europe, and Latin America are increasingly migrating many of their marketing programs online to seek new business in regions and countries previously thought to be beyond their resources. They also seek new supply sources and services to meet their internal needs and partners to share manufacturing and marketing responsibilities. Some companies, such as GE, have migrated all their sourcing and bidding processes to the Internet.

For certain industries, products, and services, going online reduces variable costs associated with international marketing. Handling tasks such as order processing, payment, after-sales service, marketing (direct e-mail), and advertising online may lower the international market development costs that an enterprise would have incurred by using conventional "brick-and-mortar" market penetration strategies. Be aware of one important caveat: Although English is spoken in many countries, it is still important to consider using the languages prevalent in the countries targeted in your company's e-business strategy. Your website should be designed to reach the widest audience in the languages of that audience.

In the context of the Internet, electronic commerce needs to be viewed beyond the traditional commercial arena. E-commerce affects marketing, production, and consumption. Information gathered from customers through Internet stores can be used to customize products, to forecast demand, and to prepare business strategies. Consumers not only pay online for products and services but also search for information about products, negotiate with vendors, and reveal their preferences through their purchasing patterns.

E-commerce offers much promise to U.S. companies interested in using the Internet as another vehicle for exporting. However, you should be familiar with the steps necessary to make your company's website e-export capable. Many U.S. companies have a website that fulfills one or more marketing functions tailored to their business specialties.

Transactional Website

A transactional website may be an electronic storefront for a brick-and mortar retailer or a catalog business, or it may be a showroom for a manufacturer wishing to sell directly to the public. Transactional websites conduct full "end-to-end" transactions through the website, allowing customers to search for, order, and pay for products online, and to contact the company for after-sales service. The most sophisticated websites create efficiencies by integrating the transaction process with back-office systems such as accounting, inventory, service, and sales.

Informational Website

An informational website generates sales by promoting corporate awareness rather than facilitating online transactions. It functions much like a brochure that provides information about the product or service and gives contact information needed to proceed with a purchase.

Because such a website is often static and does not require the software systems necessary for online transactions, design and maintenance are less expensive than for a transactional website. An informational website is ideal for companies that market products and services that cannot be provided online or goods that cannot be sold online. A modified version of this kind of site permits the buyer to shop online for the best price from competing vendors providing the identical product—for example, authorized car manufacturers. Information on options available for a particular model allows the buyer to visualize the configuration and obtain an estimated price for the vehicle.

E-Marketplaces

These sites are market-makers because they bring buyers and sellers together to facilitate transactions. Participation in a brokerage often provides an efficient way of finding a customer without the expense of building a proprietary transactional website. Types of brokerages include auctions, virtual malls, and matching services. There is a profusion of marketplaces including eBay, Amazon, and China-based Alibaba. As these platforms establish fulfillment centers around the world in their quest to be closer to customers and to deliver orders faster, some of them make bulk purchases from suppliers and arrange all logistics themselves.

Market Development on the Web

As with brick-and-mortar enterprises, market development is an essential ingredient for websites of all types and must be an integral part of your company's e-business presence on the Internet. Your company should consider and evaluate the advantages of advertising online as an extension and a component of your corporate growth strategies. Advertising messages often appear on portals or on other websites that draw viewers with content (e.g., news and information) and services (e.g., e-mail, chat, and forums). You may seek to advertise on search engines that attract high traffic volume or to target a specialized demographic. Some portals sell favorable link positioning or advertising keyed to particular search terms in a user query. Companies may also consider using an advertising network that feeds ads to a network of websites, thereby enabling large marketing campaigns. These options are available in the United States and internationally in English or in other languages.

The CAN-SPAM Act sets requirements for senders of commercial e-mail to consumers. Enforced by the Federal Trade Commission, the law specifies (in part):

- Header information—routing information and information in the "From" and "To" lines—cannot be false or misleading.
- Subject lines cannot mislead recipients about the contents of the message.
- A return e-mail address or other mechanism must be included to allow recipients to opt out of receiving future messages, and opt-out requests from recipients must be honored.
- An included clear notice must advise recipients that the message is an advertisement and must provide a valid physical postal address for the sender.

For more information, visit *ftc.gov/spam*.

Direct e-mail is an inexpensive and efficient way to reach thousands of potential customers. Direct e-mail can be used to promote and enhance web presence, depending on the market, product, or service. However, several countries have legislation affecting unsolicited commercial e-mail that direct marketers must be aware of. The Direct Marketing Association suggests that direct e-mail messages should have:

1. An honest subject line
2. No forged headers or technological deceptions
3. The identity of the sender, which includes a physical address
4. A visible opt-out clause that is easy to use

Before marketing via e-mail, your company should be aware of the potential for backlash against unsolicited e-mails by consumers who feel overwhelmed by the number of such e-mails they receive. Companies should consult the Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 to ensure full compliance with the law.

Assessing Your Company's Readiness to Go Online

Companies who want a web presence must determine whether they have the information technology (IT) solutions needed to execute their online objectives. IT embodies a range of computer systems and software applications for managing websites and other technological resources. And with the rise in cyber attacks on government and corporate sites, investing in security technologies will help protect you and your customers from downtime and identify theft.

An IT assessment should answer questions such as:

- What are your company's current IT needs? Are they currently met? What are the plans for additional IT investment to upgrade existing systems?
- What business applications are best suited to move online for B2B or B2C e-commerce?
- Have you done a cost-benefit analysis of all possible projects involving IT?
- Have you identified current and future security issues, and do you have an action plan for correcting problems?

Steps to Going Online

You must lay the groundwork before your company can transact business on the Internet. Potential customers must know who you are and how to reach you. Then, if they want to buy what your company has to sell, you have to facilitate the exchange of money for your product.

Selecting a Web Address

Your web address—also known as your uniform resource locator (URL) or domain name—is as important for the international market as it is for the domestic. It should be short, simple, descriptive, and memorable to customers in the target market. Every country (plus a few territories) has a reserved, two-letter country-code domain (e.g., the United Kingdom has the two-letter domain ".uk").

Are You Ready to Go Online?

- Who are your target customers? Do they use the Internet?
- What information would your website provide? How can your customers use it?
- How does your e-commerce strategy fit into your overall exporting objectives?
- How effectively can you provide service that is personalized and customized?

An online exporter may choose to purchase web addresses localized for the target markets. Locally branded web addresses may increase brand awareness and web address recall, and they may even influence brand sales and loyalty. In addition, local search engines may give preference to locally relevant content by filtering search results to include only local country-code web addresses. If your company wants to have a local web address, you must research the rules for the particular country, as registration requirements vary.

If your company is seeking foreign customers, you may also consider an internationalized domain name (IDN). An IDN is a web address written partially or fully in a language-specific script or alphabet, such as Arabic, Chinese, Cyrillic, and Tamil, or in English-style letters with features above or below letters, as used in languages such as Spanish, French, Turkish, and Vietnamese. For example, a company called Bright Light Bulbs that wishes to sell in China could have a web address that would use the Chinese characters for "bright light bulbs" in its web address. IDNs allow customers to search and access sites in their native language.

Visibility in Search Engines

Most people use search engines to find information on the Internet, so your website needs to be visible in the necessary search engines—including regional/local search engines catering to local languages.

Major international search engines, such as Google and Bing, constantly seek out new websites on their own and catalog the data they find based on the quality, quantity, and perceived usefulness of content. You should perform your own searches of your company and products to see where you appear in search engine rankings. If you cannot find yourself easily on major search engines, you may need to re-examine your website and its contents, either by performing your own search engine optimization (SEO) or by speaking to a web content or SEO specialist.

Additional search engines often cater to either a region-specific language or to a more local population, and are often intended to showcase content in one or more local languages or dialects. For example, Baidu, a leading Chinese provider of web services, runs the most popular search engine in China.

Different search engines find and display sites in different ways. Always research the search engines used in your target market(s), and if necessary register your site with the search engines so it will appear in search results.

Choosing a Web Host

A web host is a company with a server that maintains the files of websites. A variety of free and subscription-based web hosting services are available, including those offered by many Internet service providers. Web hosting services often go beyond website maintenance to include web address registration, website design, and search engine registration. For some online exporters, it may be most feasible to use a web host in their target market to take advantage of all the localized services the host

offers. The location or nationality of the website host does not typically affect accessibility of the site; however, your company should ensure that the servers of the host under consideration reside within a stable infrastructure and are maintained for optimal reliability.

Localizing and Internationalizing Website Content

Companies seeking foreign audiences with their websites will want to either localize or internationalize their websites. They may also provide a mixture of both processes. Localization consists of adapting one's website to meet the linguistic, cultural, and commercial requirements of a targeted market. Internationalizing a website enables a company to be multilingual and sensitive to cultural conventions without the need for extensive redesign. Localization or internationalization must be part of the online exporter's corporate strategy for website and business development. Features your company should consider include:

- Language
- Cultural nuances, such as differences in color association and symbols
- Payment preferences
- Pricing in the appropriate currency
- Currency converter
- Metric measurements
- Information on duties and taxes assessed on your product by key country market

Promoting Your Website

Setting up shop is no guarantee that customers will come flooding in. If you want a successful website, you must not wait for people to stumble across it. There are a number of ways to promote your site without spending a lot of money:

- Send brief stories about your company and website to trade publications that serve the larger industry or business sector in your target market(s).
- Put your web address on business cards, letterheads, envelopes, packaging, and promotional materials of all kinds.
- Ask foreign visitors if they'd like to receive occasional "opt-in" ads, which are essentially e-mails promoting upcoming sales or new products. Encourage those visitors who consent to receiving the opt-in ads to e-mail them to a friend or relative. People who agree to receive opt-in ads tend to purchase up to seven times as frequently as other visitors.
- Consider sending people who visited or registered on your website but did not buy anything a follow-up e-mail with a coupon for a discount on your products and services.
- Use social media to promote your website, products, and expertise.

Executing Orders and Providing After-Sales Service

Give your online orders similar treatment as your offline orders—be knowledgeable about the topics discussed in earlier chapters, as well as payment modes and terms, shipping and pricing, customer service, and taxation.

Payment Modes and Terms

Companies that use the Internet to reach overseas customers frequently use their website to process orders and accept payments. Since payment practices vary from country to country, it is

important to identify and incorporate the prevalent payment mechanisms into the order-processing component of the website.

Credit Cards

For B2C transactions, many overseas customers use credit cards for online purchases; credit cards, however, are not a universally chosen method of online payment. To offer credit card payment services, a company must establish a credit card merchant account with a bank. The bank will process the transactions in exchange for a fee. Companies should compare the fee structures of banks to determine which would work best for the size and number of transactions expected. The transactions may be fast, but credit cards carry their own risks. Chargebacks can be very costly for online exporters. Common chargeback reasons are fraud, dispute over the quality of merchandise, nonreceipt of merchandise, or incorrect amount charged to the card. If your company accepts online credit card transactions, you should be knowledgeable about the credit card issuers and your bank's policies toward chargebacks and how to avoid them.

Account-to-Account Transfers

Account-to-account (A2A) transfers, in which money is transferred electronically between a customer's and a merchant's bank, are popular in many countries. A2A transactions, which occur in real time, offer the additional advantage of reducing the potential for fraud and chargebacks. Unfortunately, because A2A transactions are rare in the United States, few U.S. banks offer this service.

Person-to-Person Transfers

Many companies offer person-to-person (P2P) transfers, in which funds are sent electronically to a third party, which in turn deposits the funds in the merchant's account. One P2P service provider that conducts cross-border transactions is PayPal. PayPal lets anyone with an e-mail address use a credit card or bank account to securely send and receive online payments. PayPal will also conduct currency exchange, allowing the customer and the merchant to operate in their preferred currency. Google Wallet offers similar service. Other P2P providers, such as Western Union's BidPay, accept a credit card payment from the payer and send a money order to the payee.

Escrow Services

This long-standing payment method is now used for export. By definition, an escrow service, such as ***escrow.com***, reduces the potential risk of fraud by acting as a trusted third party that collects, holds, and disburses funds according to exporter and importer instructions.

Shipping and Pricing

The process of shipping and pricing goods purchased over the Internet is identical to the process for goods purchased by other means, except for digital products

(e.g., music, videos, games, or software) that are downloaded from a website. See Chapter 12 for information about shipping and Chapter 13 for information about pricing, quotations, and terms.

Customer Service

Like offline exporters, online exporters must have an effective customer service program to build and maintain a customer base. Online business poses unique challenges and opportunities for customer service. Customer service should be integral to website design and overall business strategy. Online exporters should consider providing:

- A list of frequently asked questions (FAQs)
- An online interface enabling customers to track orders
- Clearly posted contact information (e.g., address, phone number, and e-mail)
- Delivery of timely, quick, personalized responses to customer inquiries
- Customer testimonials
- Contact information fields to collect foreign address contact information
- Toll-free phone numbers that can be used in Canada
- Information presented in languages other than English

Taxation

Taxation is as relevant to online merchants as to brick-and-mortar businesses. In general, for most overseas markets, a company must have a permanent establishment in a foreign country before that country can subject the company to its general tax jurisdiction. Thus, an American online vendor of digitally or physically delivered goods that does not have equipment or personnel in Japan would not be subject to Japanese taxation. However, there are important exceptions to this general rule. On July 1, 2003, the European Union (EU) member states began taxing sales of electronically supplied goods and services from non-EU companies to customers located in the European Union. Non-EU providers of electronic goods and services are now required to register with a tax authority in the member state of their choosing and to collect and remit value-added tax (VAT) at the VAT rate of the member state in which their customer is located. Although the EU countries have been the first to move toward a system of taxing electronic sales according to customer location (regardless of where the vendor is established), other countries may soon follow suit. Therefore, if your company exports online, you must know about the tax requirements of your target market. You can find more information about online taxation at *1.usa.gov/1saBEoF*.

Tax collection can seem daunting, but remember that your e-commerce provider and the U.S. Commercial Service may know about tools and assistance to help streamline collection and disbursement.

Other Important Sales Considerations

Establishing an international website calls for the consideration of a number of additional factors, particularly as they relate to foreign legal and regulatory requirements.

Privacy

U.S. organizations that collect personally identifiable information online should display their privacy policies prominently and offer their data subjects (e.g., customers, employees, and

other business contacts) options regarding the use of their personal information. Customers should have the opportunity to refuse having their personal information shared with others or used for promotional purposes. Many countries have privacy laws, and organizations should take care to comply or they may face prosecution. For example, the European Union prohibits the transfer of personal data to non-EU nations that do not meet the EU "adequacy" standard for privacy protection. The U.S. Department of Commerce, in consultation with the European Commission and the private sector, has developed a safe-harbor framework that provides U.S. organizations with a streamlined means to comply with the EU requirements. Companies may self-certify to the safe harbor at ***export.gov/safeharbor***.

Security

Consumers often cite security concerns as a reason for not placing orders over the Internet. Compared with other forms of consumer purchasing, the Internet is safe—as long as the online merchant takes prudent business precautions. If your company operates a transactional website as part of its exporting business, you should post a security statement to reassure customers.

Electronic Signatures

In legal terms, an online sale is an enforceable contract, a valid and binding agreement. However, in some overseas markets, a contract is enforceable only if it is signed "in writing." Such jurisdictions do not recognize electronic signatures and, in the event of a dispute, would not enforce an agreement made by e-mail or through a website. Although many countries have modified their laws to recognize electronic signatures, online exporters should check to be sure their target markets accept electronic signatures. If they do, the next step is to determine which, if any, signatures are restricted and which technologies are legally valid.

Unsolicited Commercial E-mail

Unsolicited commercial e-mail (UCE), also known as unsolicited bulk e-mails (UBE) or spam, is relevant to international e-commerce because its use is controversial. Many businesses see UCE as a quick and cheap way to promote goods and services to a broad range of potential customers. However, UCE costs individuals and businesses significant amounts of time, money, equipment, and productivity. Many domestic and international jurisdictions have laws about UCE, and violation may result in penalties. In addition, many e-mail service providers, such as America Online and Yahoo!, have rules of conduct that forbid using their service to send UCE. For more guidance on UCE, please visit ***thedma.org***.

Advertising Content

Most countries have laws about advertising content, which may be applied to websites, banner ads, and marketing e-mails sent from the United States. Online exporters should research the advertising laws of their target market before initiating

a marketing campaign. If you are an exporter of heavily regulated products and services, such as pharmaceuticals or insurance, you may anticipate disclosure requirements and limitations on claims. Companies should avoid:

- Use of comparative advertising (i.e., comparing your company's goods or services with those of a competitor)
- Use of advertising aimed at children
- Use of images or sounds that may be considered intellectual property and may require the permission of the artist
- Use of lotteries, competitions, contests, games, and betting as part of a promotional offer

The International Chamber of Commerce has guidelines on advertising and marketing on the Internet that are available at ***iccwbo.org***.

Jurisdiction

Online exporters must be aware that they are doing business in a foreign jurisdiction, which means the laws and regulations of the target market apply to the goods and services being sold. For example, an online exporter of medical equipment should ensure that the equipment has been approved for use in the foreign market. Companies should also be aware that the transaction itself may be under the jurisdiction of the foreign market. In other words, the foreign market's laws regarding contracts may apply.

Good Faith

Dealing in good faith is perhaps more important for online businesses than for brick-and-mortar operations because customers rely heavily on reputation. Moreover, it is illegal in most countries to behave otherwise. If you engage in online business, your company must:

- Use fair business, advertising, and marketing practices
- Provide accurate, clear, and easily accessible information about the company and its goods and services
- Disclose full information about the terms, conditions, and costs of the transaction
- Ensure that consumers know they are making a commitment before closing the deal
- Address consumer complaints and difficulties quickly and fairly

For more guidance on online good-faith commerce, see the Federal Trade Commission's guide for business at ***1.usa.gov/1xTK95c***.

E-Commerce Marketplaces

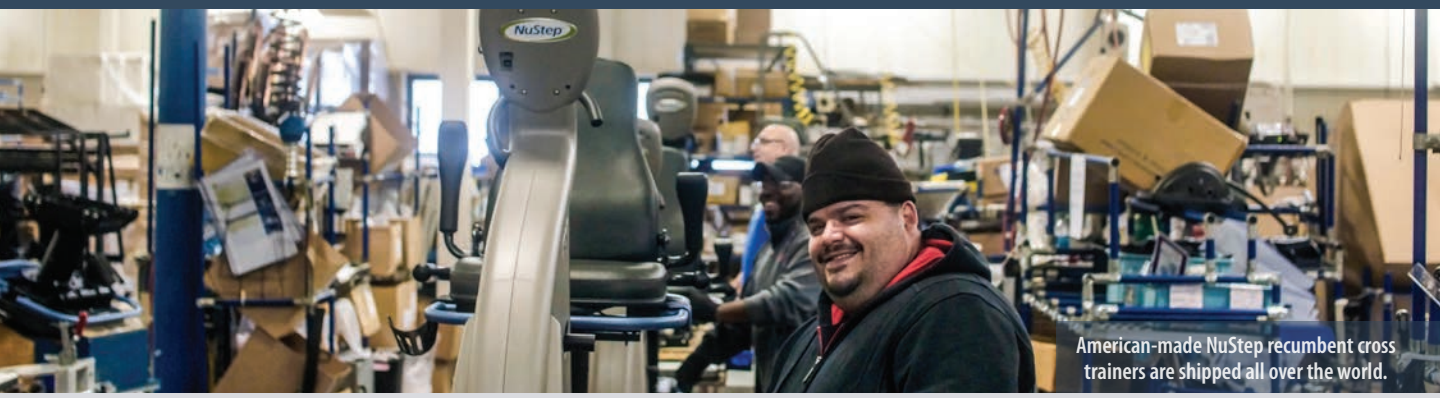
You can, of course, sell exclusively through third-party e-commerce platforms, such as eBay, Amazon, Alibaba, and others. You can use their payment systems and shipping and logistics services. Third-party platforms all provide web-based tools to help you manage sales and costs.

Or, you can experiment with a combination of channels: multiple distributors, your own e-commerce site, and third-party e-commerce sites. Over time, the sales figures will help you determine which options provide the best benefit for your company.

Success Story

Growing Strong with International Sales

NuStep



American-made NuStep recumbent cross trainers are shipped all over the world.

The Company

NuStep was founded about 20 years ago by Dick Sams, a biomedical engineer and creator of one of the first heart-lung machines. He sold a business developed around that device and decided to focus with his next company on the prevention of heart disease. One aspect of prevention is exercise. Sams had an idea: to help change people's lives through exercise and movement. NuStep makes machines for people who have health conditions that make exercise challenging.

The company sells products in 25 countries and the international business is now about 15 percent of total revenue. NuStep has only been exporting for 4 years.

The Challenge

The biggest challenge was where to find international customers. So Sams hired an international sales manager to execute a go-to-market strategy. He recruited Elena Stegemann, a native of Ukraine who speaks several languages and is comfortable getting on a plane and flying to unfamiliar places. She summed up the situation simply: "How is this little company in Ann Arbor, Michigan, going to reach out to the rest of the world? And we had to recognize, that being a small company, we didn't have offices around the world. We didn't have a global team of salespeople who were going to knock on doors and do this on our behalf."

Early on Stegemann made the decision that the company would build a team of what she called "sophisticated visionary-type of distributor companies who really got the idea and understood the challenge that they were going to have in creating awareness for our product in their market but yet saw the huge opportunity for them."

Another challenge is the product can be considered either medical or exercise equipment. If the former, as it is in Europe, there is a different process for qualifying it for sale in those countries; but one only needs to do it once for the 28 member states. Brazil has a different process, and the steps and rules can be daunting without some expert guidance. Again, Stegemann relied on the U.S. embassy team, who provided what she needed to know and do.

The Solution

For help, she turned to the U.S. Commercial Service. The services she used including checking out potential distributors. "They would say, 'Yeah, these guys, you know, whatever weirdness you're getting from them, that's actually how people interact in that part of the world. They're OK.' Or actually, like the people in Brazil, I was able to get some information that the U.S. Commercial Service got from the embassy that really ended up helping me make the decision to not work with people who would have gotten me into trouble. So access to those people on the ground there is like having your own consultant network for free or very low cost. So how great is that?"

She also took the advice to participate in a big German trade show that focuses on medical equipment. She went to MEDICA in 2009 because she wanted sales in European countries. She said: "This was the place where I met a lot of people. We were treated like royalty by the U.S. government staff who worked at the USA Pavilion. We had our own interpreter. He made appointments for us. They brought us coffee. I felt like a CEO, which is the name of the program. We ended up having conversations with distributors from different countries. And as a result of those meetings, we ended up having agreements that are still in place in Germany, Australia, and Italy. So this was the first year that we decided to go international. And if we hadn't gone to MEDICA and hadn't used the U.S. Commercial Service, I think that would have delayed us by several years."

Lessons Learned

She believes that being a global company gives NuStep a competitive advantage over other companies who don't have an international presence. She said: "When you're present and mindful, you see things going on there that are precursors to trends that will eventually come to the U.S. So we sometimes have the opportunity to see the future. It's like a crystal ball, and you have to be observant."

A second lesson was that as a woman she can move in mostly male business circles with confidence and mutual respect. "I was a little bit nervous, I remember, going to Japan for the first time because I had done some homework. I had read up on their culture, how women are still kind of kept out of the corporate world. But when I walked in and I was there to do business and I was excited and happy to be there, I had prepared, I had done my homework, I had shown them respect by taking their culture very seriously—the respect was reciprocated.

"So whatever was going on inside of their heads, whatever discomfort they may have felt at being with a woman—and in fact, the first time I went, I traveled with my boss, a male, who's a VP in our company and they kept on talking to him and asking him questions. And he would then ask me for the answer. And I could see the confusion in their faces the first day or so. They just didn't know how to deal with that. But eventually they got over it. So being a businesswoman and dipping your toe in the waters and stepping out is a transformational opportunity not only for myself, but also for other people that I interact with."

NuStep's products can improve health through exercise, regardless of age or level of function

Chapter 12

Shipping Your Product

In this chapter . . .

- **How international freight forwarders can help**
- **How to pack and label your product**
- **Documentation and insurance**
- **International shipping company services**

The hurdles you have to clear don't end with the sale and the website. You still have to get the goods to the buyer, who is often located thousands of miles away, where different rules may apply. When shipping a product overseas, you must be aware of packing, labeling, documentation, and insurance requirements and regulations. Make sure that the merchandise is:

- Packed correctly so it arrives in good condition
- Labeled correctly to ensure that the goods are handled properly and arrive on time at the right place
- Documented correctly to meet U.S. and foreign government requirements and proper collection standards
- Insured against damage, loss, pilferage, and delay

Because of the multitude of considerations involved in physically exporting goods, exporters often receive assistance from their air carrier or freight forwarder to perform those services.

Freight Forwarders

An international freight forwarder is an agent that ships cargo to an overseas destination.

These agents are familiar with foreign countries' import rules and regulations, the U.S. government's export regulations, different shipping methods, and necessary documents for foreign trade. Freight forwarders are licensed by the International Air Transport Association (IATA) to handle air freight and by the Federal Maritime Commission to handle ocean freight.

Freight forwarders assist exporters in preparing price quotations by advising on freight costs, port charges, consular fees, costs of special documentation, insurance costs, and the freight forwarders' own handling fees. They recommend the packing methods that will protect the merchandise during transit, or they can arrange to have the merchandise packed at the port or put in containers. If the exporter prefers, freight forwarders can reserve the necessary space on a vessel,

aircraft, train, or truck. The cost for their services is a factor that should be included in the price charged to the customer.

Once the order is ready for shipment, freight forwarders should review all documents to ensure that everything is in order. This review is of particular importance with letter-of-credit payment terms. Freight forwarders may also prepare the bill of lading and any special required documentation, including electronic filing in the Automated Export System (AES). After shipment, they can route the documents to the seller, the buyer, or a paying bank. Freight forwarders can also make arrangements with customs brokers overseas to ensure that the goods comply with customs import documentation regulations. A customs broker is an individual or company that is licensed to transact customs business on behalf of others. Customs business is limited to those activities involving transactions related to the entry and admissibility of merchandise; its classification and valuation; the payment of duties, taxes, or other charges assessed or collected; and the refund, rebate, or drawback of those charges.

You are not required to use forwarders, but they can be very helpful. Some of the larger logistics companies, such as UPS, FedEx, and DHL, are also freight forwarders and customs brokers. For more information, visit the National Customs Brokers and Freight Forwarders Association of America at ***ncbfaa.org***. They will recommend brokers/members in your area that can provide assistance with shipping specialized products.

An international freight forwarder acts as an agent of your company and ships your cargo to an overseas destination.

Packing

Your company should be aware of the demands that international shipping puts on packaged goods. You should also keep four potential problems in mind when designing an export shipping crate: breakage, moisture, pilferage, and excess weight.

Buyers are often familiar with the port systems overseas, so they will sometimes specify packaging requirements. If the buyer does not provide such specifications, be sure the goods are prepared using these guidelines:

- Pack in strong containers that are adequately sealed and filled when possible.
- Make sure the weight is evenly distributed to provide proper bracing in the container, regardless of size.
- Put goods on pallets and, when possible, place them in containers.
- Make packages and packing filler out of moisture-resistant material.
- To avoid pilferage, avoid writing contents or brand names on packages.
- Use straps, seals, and shrink-wrap to safeguard goods.
- Observe any product-specific hazardous materials packing requirements.
- Verify compliance with wood-packaging documentation and markings for fumigation and chemical treatment.

One popular method of shipment is to use containers obtained from carriers or private leasing companies. These containers vary in size, material, and construction. They accommodate most cargo but are best suited for standard package sizes and shapes. Also, refrigerated and liquid-bulk containers are usually readily available. Some containers are no more than semitrailers lifted off their wheels, placed on a vessel at the port of export, and then transferred to another set of wheels at the port of import.

Normally, air shipments require less heavy packing than ocean shipments, though they should still be adequately protected, especially if they are likely to attract pilferage. In many instances, standard domestic packing is acceptable if the product is durable and there is no concern for display packaging. In other instances, high-test (at least 250 pounds per square inch) cardboard or tri-wall construction boxes are preferable.

Finally, transportation costs are determined by volume and weight. Specially reinforced and lightweight packing materials have been developed for exporting to minimize volume and weight while reinforcing the packaging. The proper materials may save money as well as ensure that the goods are properly packed. You should hire a professional company to pack the products if you are not equipped to do so. This service is usually provided at a moderate cost.

Labeling

Export shipping cartons and containers have specific markings and labeling that:

- Meet shipping regulations
- Ensure proper handling
- Conceal the identity of the contents
- Help receivers identify shipments
- Ensure compliance with environmental and safety standards

The overseas buyer usually specifies which export marks should appear on the cargo for easy identification by receivers. Products may require many markings for shipment. For example, exporters need to put the following markings on cartons to be shipped:

- Shipper's mark
- Country of origin (in your case, "U.S.A.")
- Weight marking (in pounds and kilograms)
- Number of packages and size of cases (in inches and centimeters)
- Handling marks (i.e., international pictorial symbols)
- Cautionary markings, such as "This Side Up" or "Use No Hooks" (in English and in the language of the destination country)
- Port of entry
- Labels for hazardous materials (i.e., universal symbols adopted by the International Air Transport Association and the International Maritime Organization)
- Ingredients (if applicable, also included in the language of the destination country)

Documentation

Your company should seriously consider having the freight forwarder handle the documentation that exporting requires. Forwarders are specialists in this process. Several documents are commonly used in exporting, but the ones required in a particular transaction depends on the requirements of the U.S. government and the government of the importing country. (See Appendix D for a collection of sample forms.)

Documentation must be precise because slight discrepancies or omissions may prevent merchandise from being exported, may result in nonpayment, or may even result in the seizure of the exporter's goods by U.S. or foreign customs officials. Collection documents 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 as the exporter, you are ultimately responsible for the accuracy of the necessary documents.

The number and kinds of documents that the exporter must deal with vary according to the destination of the shipment. Because each country has different import regulations, the exporter must be careful to provide all proper documentation. Remember to contact your local U.S. Commercial Service office for up-to-date foreign import information.

Air Waybill

Covers an air freight shipment and can never be made negotiable.

Bill of Lading

A contract between the owner of the goods and the carrier (as with domestic shipments). For shipment by vessel, there are two types: a straight bill of lading, which is not negotiable and does not give title to the goods, and a negotiable, or shipper's order, bill of lading. The latter can be bought, sold, or traded while the goods are in transit. The customer usually needs an original bill of lading as proof of ownership to take possession of the goods.

Commercial Invoice

A bill for the goods from the seller to the buyer. Many governments use commercial invoices to determine the true value of goods when assessing customs duties. Governments that use the commercial invoice to control imports will often specify the invoice's form, content, and number of copies; language to be used; and other characteristics.

Consular Invoice

Required document in some countries. Describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment. Certified by the consular official of the foreign country, it is used by the country's customs officials to verify the value, quantity, and nature of the shipment.

Certificate of Free Sale

Required in some countries for certain kinds of goods. Your state government usually supplies this document, which indicates that the goods you intend to export have been sold in that state.

Certificate of Conformity

Required by some countries, usually for certain kinds of manufactured goods. Exporters are required to have the product analyzed and tested by an authorized third party.

Certificate of Origin

Required by some countries. A signed statement as to the origin of the export item. Certificates of origin are usually validated by a semiofficial organization, such as a local chamber of commerce. A certificate may be required even if the commercial invoice contains the same information.

NAFTA Certificate of Origin

Required for products traded among the signatory countries of the North American Free Trade Agreement (Canada, Mexico, and the United States) if the goods are NAFTA qualified and the importer is claiming zero-duty preference under NAFTA.

Specific certificates of origin are sometimes required for countries involved in special trade agreements, such as the North American Free Trade Agreement (NAFTA), which was signed by Canada, Mexico, and the United States. For example, a NAFTA certificate of origin validates that a good originated in a NAFTA country and is eligible for the preferential duty rate.

Inspection Certification

Required by some purchasers and countries to attest to the specifications of the goods shipped. The inspection is usually performed by a third party, often an independent testing organization.

Dock Receipt/Warehouse Receipt

Used to transfer accountability when the domestic carrier moves the export item to the port of embarkation and leaves it with the shipping line for export.

Destination Control Statement

Appears on the commercial invoice and on the air waybill or bill of lading to notify the carrier and all foreign parties that the item subject to U.S. export controls and cannot be diverted contrary to U.S. law.

Electronic Export Information (formerly known as Shipper's Export Declaration)

Used to control exports and is a source document for official U.S. export statistics. Electronic Export Information (EEI) must be filed electronically by you, your freight forwarder, or another qualified third party whom you designate. EEI is required for shipments when the value of the commodities, classified under any single Schedule B number (the four-digit U.S. extension to the six-digit code under the Harmonized Tariff System), exceeds $2,500. EEI must be prepared and submitted for all shipments, regardless of value, that require an export license or are destined for countries or end users restricted by the U.S. government (see Chapter 10). The U.S. Census Bureau's Foreign Trade Division is the controlling agency for this document, and AESDirect (***aesdirect.census.gov***) allows exporters to file EEI electronically for free. Often, the SED is prepared based on another document: the shipper's letter of instructions.

Export License

A government document that authorizes the export of specific items (including technology) in specific quantities to a particular destination. This document may be required for most or all exports to some countries. For other countries, it may be required only under special circumstances. (See Chapter 2 for more details.)

Export Packing List

Considerably more detailed and informative than a standard domestic packing list. It itemizes the material in each package and indicates the type of package, such as a box, crate, drum, or carton. It also shows the individual net, tare, and gross weights and measurements for each package (in both U.S. and metric systems). Package markings should be shown along with references to identify the shipment. The shipper or forwarding agent uses the list 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.

Insurance Certificate

Used to assure the consignee that insurance will cover the loss of or damage to the cargo during transit.

The Harmonized System (HS) describes products for customs purposes. It is recognized by 179 countries, customs bureaus, or economic unions, representing 98 percent of world trade.

- Six-digit codes are assigned that represent general categories of goods. Countries that use HS numbers are allowed to define commodities at a more detailed level but must "harmonize" the first six digits to the HS framework.
- Using these codes ensures that customs officials are referring to the same item when classifying the product and applying the tariff rate.

Shipping

The handling of transportation is similar for domestic and export orders. Export marks are added to the standard information on a domestic bill of lading. These marks show the name of the exporting carrier and the latest allowed arrival date at the port of export. Instructions for the inland carrier to notify the international freight forwarder by telephone on arrival should also be included. You may find it useful to consult with a freight forwarder to determine the method of international shipping. Because carriers are often used for large and bulky shipments, you can reserve space on the carrier well before the actual shipment date. This reservation is called the booking contract.

International shipments are increasingly made on a bill of lading under a multimodal contract. The multimodal transit operator (frequently one of the transporters) takes charge of and responsibility for the entire movement from factory to final destination.

The cost of the shipment, delivery schedule, and accessibility to the shipped product by the foreign buyer are all factors to consider when determining the method of international shipping. Although air carriers may be more expensive, their cost may be offset by lower domestic shipping costs (e.g., using a local airport instead of a coastal seaport) and quicker delivery times. These factors may give the U.S. exporter an edge over other competitors.

Before shipping, your company should check with the foreign buyer about the destination of the goods. Buyers may want the goods to be shipped to a free trade zone or a free port, where they are exempt from import duties (see Chapter 10).

Two Kinds of Insurance

Damaging weather conditions, rough handling by carriers, and other common hazards to cargo make insurance of shipments an important protection for U.S. exporters. Your shipper or freight forwarder will contract with an insurance company to cover the goods you export. A second kind of insurance, however, also is recommended: The sale must be insured against nonpayment. The buyer's lender and other financial institutions named in your sale terms increasingly require credit insurance to cover risks of nonpayment. Contingencies include default by buyer or lender, political causes, or foreign currency disasters that put your payment at risk.

Cargo Insurance

If the terms of sale make you responsible for insurance, your company should either obtain its own policy or insure the cargo under a freight forwarder's policy for a fee. If the terms of sale make the foreign buyer responsible, you should not assume (or even take the buyer's word) that adequate insurance has been obtained. If the buyer neglects to obtain adequate coverage, damage to the cargo may cause a major financial loss to your company. Shipments by sea are covered by marine cargo insurance. Air shipments may also be covered by marine cargo insurance, or insurance may be purchased from the air carrier.

Export shipments are usually covered by cargo insurance against loss, damage, and delay in transit. International agreements often limit carrier liability. Additionally, the coverage is substantially different from domestic coverage. Arrangements for insurance may be made by either the buyer or the seller in accordance with the terms of sale. Exporters are advised to consult with international insurance carriers or freight forwarders for more information. Although sellers and buyers can agree to different components, coverage is usually placed at 110 percent of the CIF (cost, insurance, freight) or CIP (carriage and insurance paid to) value.

Export Credit Insurance

At least four benefits accrue to exporters who insure themselves against nonpayment.

First, insurance reduces or eliminates the risk of an actual loss of cash income from the export sale. The Export-Import Bank of the United States (Ex-Im Bank) assumes 90 to 100 percent of the risk concerning commercial and certain political risks, such as the inconvertibility of currency, bankruptcy, protracted default, or war. Second, export credit insurance allows exporters to provide qualifying international buyers with advantageous terms of credit. When the buyer's lender is unable or unwilling to loan because of risk, export credit insurance from Ex-Im Bank

covers the risk and enables the lender to extend credit. In that case, the buyer or buyers can purchase more insurance over time.

A third benefit is that a company's working capital cash flow improves when a lender's line of credit is insured. Ex-Im Bank's insurance transforms an exporter's foreign accounts receivables into receivables insured by the U.S. government. A list of qualified participating lenders is maintained at ***exim.gov***. Fourth, new markets open to exporters where Ex-Im Bank offers coverage.

Payment Terms and Policies

Short-term means 180 days or less; this type of insurance typically covers noncapital goods, components, raw materials, spare parts, and most services. In the categories of consumer durables, capital goods, and bulk agricultural commodities, Ex-Im Bank insurance policies extend up to 360 days. The products must be shipped from the United States and have at least 50 percent U.S. content (excluding markup).

Medium-term insurance covers up to 85 percent of the contract value and protects amounts under $10 million on tenors up to 5 years. This financing applies to international buyers of capital equipment or related services.

Be sure to take out the correct insurance policy for your export.

A **Single-Buyer policy** provides credit protection for shipments to one specific buyer. Premium rates are based on tenor, type of buyer, and the risk rating for the buyer's country.

A **Multi-Buyer policy** allows businesses to insure all sales to eligible international buyers to whom they extend "open account" credit terms. Ex-Im Bank provides a 25 percent discount on its short-term multi-buyer export credit insurance to exporters who have an Ex-Im Bank or a Small Business Administration (SBA) working capital loan. Ex-Im Bank's popular Express Insurance product includes a streamlined application, policy quotation, and buyer credit decisions up to $300,000 within 5 working days.

Lender Policies

Ex-Im Bank offers insurance policies for financial institutions that may support exporters' sales. A Bank Letter of Credit policy protects U.S.-based banks against losses on irrevocable letters of credit opened to finance U.S. exports. For example, when a foreign bank fails to make payments or reimbursements, Ex-Im Bank's Bank Letter of Credit will cover 95 to 100 percent.

A policy for Financial Institution Buyer Credit protects lenders that finance international buyers of U.S. goods and services for periods of less than 1 year. The policy covers commercial risks at a rate of 90 percent and 100 percent of political risks for private-sector buyers.

To learn more about comprehensive risk policies underwritten by SBA or Ex-Im Bank, consult your lender or export finance manager by calling (800) 565-3946 or visit ***exim.gov/smallbusiness***.

Tariffs

Because tariffs, port handling fees, and taxes can be high, it is very important for you to consider their effects on your product's final cost. Typically, the importer pays the tariffs. Nevertheless, these costs will influence how much the buyer is willing to pay for your product. You can calculate tariffs and taxes for most commodities to most countries by signing up to use a special database on ***export.gov***.

Major Shippers

International shipping companies have become an excellent resource for exporters. In addition to transporting bulk freight, they now offer assistance with shipping documentation, warehousing in the foreign market, and—in some cases—payment collection from the foreign buyer.

Success Story

Keep Things in Perspective to Taste Success

Bassetts Ice Cream Company

"As my exports continue to grow, so has my confidence in exporting. Truth is, I'm more comfortable shipping to China than Chicago."

—Michael Strange, President

Faith in his product and playing things straight brought Michael Strange all the way to the Great Wall of China.

The Company

When it comes to ice cream, what's your pleasure? Not sure? Michael Strange of Bassetts Ice Cream Company can help—America's oldest ice cream company offers 40 flavors, from French Vanilla and Irish Coffee to Moose Tracks and Rum Raisin.

"We've been here at the same location on Reading Terminal Market at 12th and Arch Streets since 1892. The store was founded in 1861 by my great-great-grandfather," Strange says. "It was a pretty local business until the 1970s, when my mother decided to expand by branching out to the Jersey Shore, New York City, and as far west as Chicago."

Strange had wondered about exporting, but hadn't really given it a lot of thought. That all changed one day when he attended a food expo panel discussion to learn more about local food manufacturers and to network with executives. As luck would have it, he met a Chinese businessperson whose friend was interested in importing American products. Strange was then persuaded to ship samples of his ice cream to China. "I admit I was skeptical," Strange recalls. "After all, China is a long way away—but it cost only $400 worth of products, so I said, why not?" Unbeknownst to him, the distributor had arranged a blind taste test of Bassetts ice cream, pitting it against a major competitor—the renowned Häagen-Dazs brand. "I'm happy to report that our product performed quite admirably," Strange says. "I was told the Chinese also liked the fact that we were family-owned, which goes along well with their high affinity for 'Made in the USA' products."

A few weeks after the taste test, the Chinese distributor placed an order for nine pallets of ice cream in a variety of flavors—Bassetts' first export.

The Challenge

Although elated, Strange had little experience in negotiating long-term deals with international distributors, let alone doing business in China. He also wanted to become a more active exporter, instead of just waiting for orders to come in. "If anyone had told me that China would be my first export market, I would have said 'fat chance,'" he says. "I was looking forward to doing business in

China but needed to do a lot of homework if I was going to successfully grow long-term sales."

He needed a road map of introductions to key public- and private-sector resources, including any available export financing. "In short, I needed to develop a long-term export strategy," he says.

The Solution

Soon after making his first sale to China, Strange met Tony Ceballos, Director of the U.S. Commercial Service in Philadelphia. "This led to a follow-up meeting with CS Trade Specialist Leandro Solorzano regarding my China trade lead," Strange says. "He gave me good insight on navigating the Chinese market, including customs and tariff resources, essential market research, and referrals with export funding providers."

Solorzano arranged a meeting for Strange with the U.S. Commercial Service in Beijing, as well as the Foreign Agricultural Service, which provided a commercial briefing, local contacts, and advice on establishing a market presence in Beijing.

Combined with resources from Ex-Im Bank, the World Trade Center of Philadelphia, and the SBA, Strange's efforts soon culminated in a long-term deal for the sale of more ice cream in China.

Now, 6 years later, exports to China account for nearly 20 percent of Bassetts' overall sales, and they continue to grow. As Chinese consumers nibble away on the tasty treat at restaurants, hotels, independent parlors, and supermarkets, Strange hopes to "melt away" some of the competition by offering newly crafted flavors. "For the Chinese market, we introduced fruit- and nut-based ice creams and green tea and black sesame flavors to go along with traditional vanilla."

Meanwhile, Strange continues to diversify his international portfolio, participating in a Caribbean Buyer's Mission in Miami, where he made additional sales and met new potential international customers. He is also focusing on countries with which the United States has FTAs. "FTAs make it all the better because the importer is not facing stiff product duties," he says. "The opportunities are endless."

Lessons Learned

Reduce risk by purchasing Ex-Im Bank foreign receivables credit insurance. "There's no way I would have the volume of sales in China right now without it," he says. "It costs less than 1 percent of the invoice, but it covers 90 percent of receivables."

"Have confidence in your product or service. If you have a track record of selling in the United States, that's a good prerequisite for exporting," he says. "As my ice cream exports continue to grow, so does my confidence in exporting."

Challenge your logistics expectations. "Ideal shipping and long-term storage temperature for ice cream is –20^{0}F. U.S. common carriers with freezer units rarely maintain temperatures below –15^{0}F, which is fine for most frozen foods but borderline too warm for ice cream. The containers we use to ship ice cream to China, though, are designed to hold temperatures well below –20^{0}F."

Action

Take advantage of all export resources, and attend networking events. "One of the biggest surprises was the whole array of government and quasi-government export resources that are out there."

Be open to other cultures. "There's no way I would have understood Chinese culture had I not exported. My distributor and I have become fast friends. I take him to vendors, and he takes me to his customers. Our relationship couldn't be better."

Look for opportunity in FTA countries. You'll have fewer barriers and greater ease of doing business.

Chapter 13

Pricing, Quotations, and Terms

In this chapter . . .

- **Determining the best price for your product internationally**
- **Handling quotations and the pro forma invoice**
- **Defining the terms of sale**

Pricing your product properly, giving complete and accurate quotations, choosing the terms of the sale, and selecting the payment method are four critical elements in selling a product or service overseas. Of the four, pricing can be the most challenging, even for an experienced exporter. (Methods of payment are covered in Chapter 14.)

Pricing Considerations

These considerations will help you determine the best price for your product overseas:

- At what price should your company sell its product in the foreign market?
- What type of market positioning (i.e., customer perception) does your company want to convey from its pricing structure?
- Does the export price reflect your product's quality?
- Is the price competitive?
- What type of discount (e.g., trade, cash, quantity) and allowances (e.g., advertising, trade-offs) should your company offer its foreign customers?
- Should prices differ by market segment?
- What should your company do about product-line pricing?
- What pricing options are available if your company's costs increase or decrease? Is the demand in the foreign market elastic or inelastic?
- Is the foreign government going to view your prices as reasonable or exploitative?
- Do the foreign country's antidumping laws pose a problem?

As in the domestic market, the price at which a product or service is sold directly determines your company's revenues. It is essential that your company's market research include an evaluation of all the variables that may affect the price range for your product or service. If your company's

price is too high, the product or service will not sell. If the price is too low, export activities may not be sufficiently profitable or may actually create a net loss.

The traditional components for determining proper pricing are costs, market demand, and competition. Each component must be compared with your company's objective in entering the foreign market. An analysis of each component from an export perspective may result in export prices that are different from domestic prices.

It is also very important to take into account additional costs that are typically borne by the importer. These include tariffs, customs fees, currency fluctuation, transaction costs (including shipping), and value-added taxes (VATs). These costs can add substantially to the final price paid by the importer, sometimes resulting in a total that is more than double the price charged in the United States. U.S. products often compete better on quality, reputation, and service than they do on price—but buyers consider the whole package.

When setting international prices, don't forget to factor in tariffs, customs fees, currency fluctuation, transaction costs and shipping, and value-added taxes.

Foreign Market Objectives

An important aspect of your company's pricing analysis is the determination of market objectives. For example, you may ask whether your company is attempting to penetrate a new market, seeking long-term market growth, or looking for an outlet for surplus production or outmoded products.

Marketing and pricing objectives may be generalized or tailored to particular foreign markets. For example, marketing objectives for sales to a developing nation, where per capita income may be one-tenth of that in the United States, necessarily differ from marketing objectives for sales to Europe or Japan.

Costs

The actual cost of producing a product and bringing it to market is key to determining if exporting is financially viable. Many new exporters calculate their export price by the cost-plus method. In that calculation, the exporter starts with the domestic manufacturing cost and adds administration, research and development, overhead, freight forwarding, distributor margins, customs charges, and profit.

Carefully consider how different types of cost-related pricing can affect your competitiveness in international markets.

The effect of this pricing approach may be that the export price escalates into an uncompetitive range. Although an export

product may have the same ex-factory price as a domestic product, its final consumer price may be considerably higher once exporting costs have been included.

Marginal cost pricing is a more competitive method of pricing a product for market entry. This method considers the direct out-of-pocket expenses of producing and selling products for export as a floor beneath which prices cannot be set without incurring a loss. For example, additional costs may occur because of product modification for the export market to accommodate different sizes, electrical systems, or labels. Costs may decrease, however, if the export products are stripped-down versions or made without increasing the fixed costs of domestic production. Many costs that apply only to domestic production, such as domestic labeling, packaging, and advertising costs, are subtracted, as are costs such as research and development expenses if such cost would have been incurred anyway for domestic production.

Other costs should be assessed for domestic and export products according to how much benefit each product receives from such expenditures, and may include:

- Fees for market research and credit checks
- Business travel expenses
- International postage and telephone rates
- Translation costs
- Commissions, training charges, and other costs associated with foreign representatives
- Consultant and freight forwarder fees
- Product modification and special packaging costs

After the actual cost of the export product has been calculated, you should formulate an approximate consumer price for the foreign market.

Market Demand

For most consumer goods, per capita income is a good gauge of a market's ability to pay. Some products create such a strong demand (e.g., Levi's denim jeans) that even low per capita income will not affect their selling price. Simplifying the product to reduce its selling price may be an answer for your company in markets with low per capita income. Your company must also keep in mind that currency fluctuations may alter the affordability of its goods. Thus, pricing should try to accommodate wild changes in the valuation of U.S. and foreign currencies. A relatively weak dollar makes the price of U.S. goods more competitive in many markets around the world, thereby enabling you to compete with domestic producers as well as with other foreign competitors whose production costs are suddenly reflected in their inflated domestic currencies. Your company should also anticipate the kind of customers who will buy your product. If your company's primary customers in a developing country are either expatriates or local people with high incomes, a higher price might be feasible even if the average per capita income is low.

Pricing information can be collected in several ways. Overseas distributors and agents of similar products of equivalent quality are one source. Also, traveling to the country where your products will be sold provides an excellent opportunity to gather pricing information.

Competition

In the domestic market, few companies are free to set prices without carefully evaluating their competitors' pricing policies. This situation, which is found in exporting, is further complicated by the need to evaluate the competition's prices in each potential export market.

If there are many competitors within the foreign market, you may have little choice but to match the market price or even underprice the product or service for the sake of establishing a market share. If the product or service is new to a particular foreign market, however, it may actually be possible to set a higher price than is feasible in the domestic market.

Pricing Summary

It's important to remember several key points when determining your product's price:

- Determine the objective in the foreign market.
- Compute the actual cost of the export product.
- Compute the final consumer price.
- Evaluate market demand and competition.
- Consider modifying the product to reduce the export price.
- Include "nonmarket" costs, such as tariffs and customs fees.
- Exclude cost elements that provide no benefit to the export function, such as domestic advertising.

Quotations and Pro Forma Invoices

Many export transactions, particularly initial export transactions, begin with the receipt of an inquiry from abroad, followed by a request for a quotation. A pro forma invoice is a quotation prepared in the format of an invoice; it is the preferred method in the exporting business.

A quotation describes the product, states a price for it, sets the time of shipment, and specifies the terms of sale and terms of payment. Because the foreign buyer may not be familiar with the product, the description of the product in an overseas quotation usually must include more detail than is required in a domestic quotation. (See Appendix D for form examples.)

A pro forma invoice—a quotation prepared in the format of an invoice—may include many more details than you're used to writing into your quotations, but all that extra detail can save time and prevent errors later on.

The description should include:

- Seller's and buyer's names and addresses
- Buyer's reference number and date of inquiry
- Listing of requested products and a brief description
- Price of each item (it is advisable to indicate whether items are new or used and to quote the price in U.S. dollars to reduce foreign exchange risk)
- Appropriate total cubic volume and dimensions packed for export (in metric units where appropriate)
- Appropriate gross and net shipping weight (in metric units where appropriate)
- Trade discount (if applicable)
- Delivery point
- Terms of sale
- Terms of payment
- Insurance and shipping costs
- Validity period for quotation
- Total charges to be paid by customer
- Estimated shipping date from a U.S. port or airport
- Currency of sale

Pro forma invoices are not used for payment purposes. In addition to the 15 items just listed, a pro forma invoice should include two statements—one that certifies that the pro forma invoice is true and correct, and another that indicates the country of origin of the goods. The invoice should also be clearly marked "pro forma invoice."

Pro forma invoices are models that the buyer uses when applying for an import license, opening a letter of credit, or arranging for funds. In fact, it is a good practice to include a pro forma invoice with any international quotation, regardless of whether this document has been requested. When final commercial invoices are being prepared before shipment, it is advisable to check with your local U.S. Commercial Service office for any special invoicing provisions that may be required by the importing country.

If a specific price is agreed on or guaranteed by your company, the precise period during which the offer remains valid should be specified.

Terms of Sale

In any sales agreement, it is important to have a common understanding of the delivery terms because confusion over their meaning may result in a lost sale or a loss on a sale. Terms of sale define the obligations, risks, and costs of both the buyer and seller involving the delivery of goods that make up the export transaction. The terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings. For this reason, the exporter must know and understand the terms before preparing a quotation or a pro forma invoice.

The most commonly applied terms of sale in the global marketplace are the international commercial terms, or Incoterms. A complete list of these important terms and their definitions is provided in Incoterms 2010, a booklet issued by the International Chamber of Commerce (ICC). To purchase the booklet, visit ***store.internationaltradebooks.org***.

Commonly Used Terms

It is important to understand and use sales terms correctly. A simple misunderstanding may prevent you from meeting contractual obligations or make you responsible for shipping costs you had sought to avoid.

When quoting a price, make it meaningful to the prospective buyer. For example, a price for industrial machinery quoted "EXW Saginaw, Michigan, not export packed" would be meaningless to most prospective foreign buyers. These potential customers might find it difficult to determine the total cost and, therefore, might hesitate to place an order. You should quote CIF or CIP prices whenever possible, to show the foreign buyer the cost of getting the product to or near the desired destination.

If possible, quote the price in U.S. dollars. This will eliminate the risk of exchange rate fluctuations and problems with currency conversion.

U.S. Commercial Service international trade specialists can provide additional help with understanding the definitions and uses of export shipping terms.

If you need assistance in figuring CIF or CIP prices, an international freight forwarder can help. You should furnish the freight forwarder with a description of the product to be exported and its weight and cubic measurement when packed. The freight forwarder can compute the CIF price, usually at no charge.

Cost, Insurance, and Freight (CIF)

Cost, insurance, and freight to a named overseas port. The seller quotes a price for the goods (including insurance), all transportation, and miscellaneous charges to the point of debarkation from the vessel. (The term is used only for ocean shipments.)

Cost and Freight (CFR)

Cost and freight to a named overseas port. The seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation from the vessel. The buyer covers the cost of insurance. (The term applies only for ocean shipments.)

Carriage Paid To (CPT)/Carriage and Insurance Paid To (CIP)

CPT and CIP apply to a named destination. These terms are used in place of CFR and CIF, respectively, for all modes of transportation, including intermodal.

Ex Works (EXW)

Meaning "from a named point of origin"; common variations include ex factory, ex mill, or ex warehouse. States that the price quoted applies only at the point of origin (i.e., the seller's premises). The seller agrees to place the goods at the buyer's disposal at the specified place within a fixed time period. All other obligations, risks, and costs beyond the named point of origin are the buyer's.

Free Alongside Ship (FAS)

Refers to the seller's price quote for the goods, including the charge for delivery of the goods alongside a vessel at the named port of export. The seller handles the cost of wharfage, while the buyer is accountable for the costs of loading, ocean transportation, and insurance. It is the seller's responsibility to clear the goods for export. As the term implies, FAS is used only for waterborne shipments.

Free Carrier (FCA)

Refers to a named place within the country of origin of the shipment. This term defines the seller's responsibility for handing over the goods to a named carrier at the named shipping point. According to Incoterms 2000, the named shipping point may be the seller's premises. In that case, it is the seller's responsibility to clear the goods for export from the United States. The term may be used for any mode of transport.

Free on Board (FOB)

Refers to a named port of export in the country of origin of the shipment. The seller quotes the buyer a price that covers all costs up to and including the loading of goods aboard a vessel. (FOB is used only for ocean shipments.) As with other "F" terms, it is the seller's responsibility to clear the goods for export.

Commonly Used Terms When Chartering a Vessel

Free Out

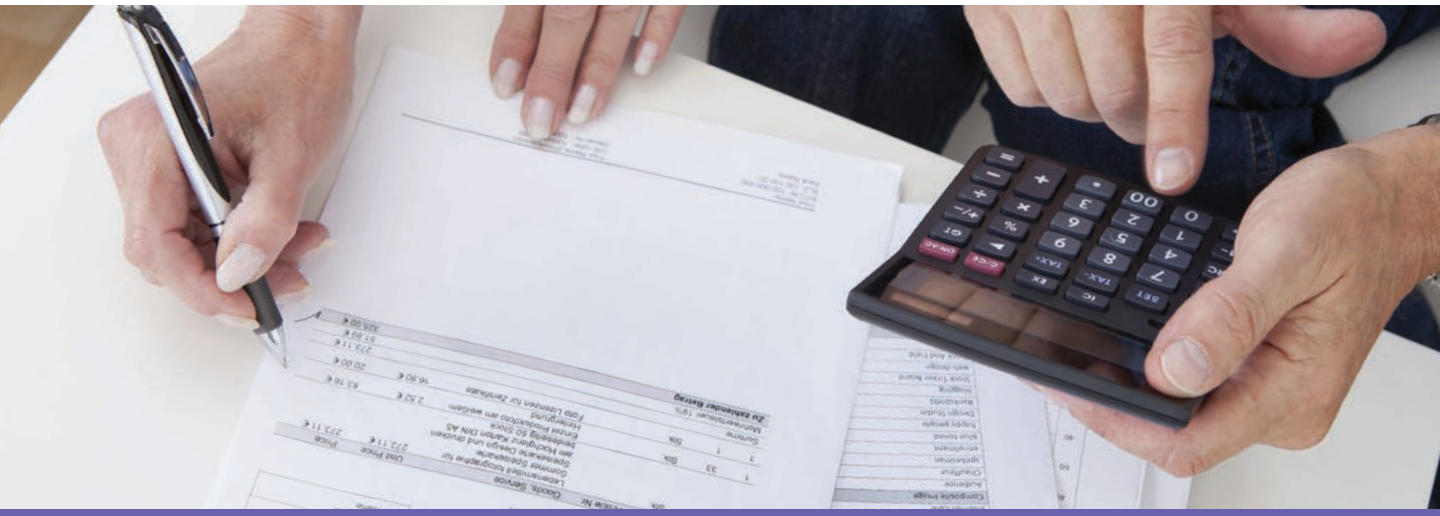
Indicates that the charterer is responsible for the cost of unloading goods from the vessel.

Free In

Indicates that the charterer of a vessel is responsible for the cost of loading goods onto the vessel.

Free In and Out

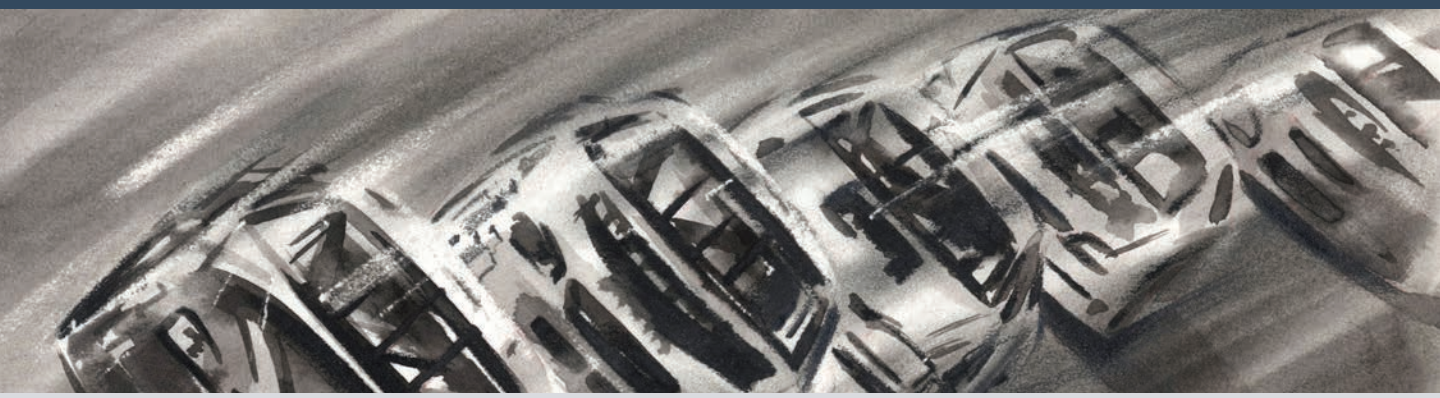
Indicates that the charterer of the vessel is responsible for the cost of loading and unloading goods from the vessel.



Success Story

Aligning Innovation with Global Sales

Alignment Simple Solutions



The Company

It's not hard to find Tess Winningham and Gary Gann—where else but the Birmingham track in Alabama? That's where Gary used to race in NASCAR in the late 1970s and early 1980s and still hangs out. It was there that he first saw demand for a quicker, easier way to diagnose wear and tear on tires and suspension, so he built a prototype system in his garage. Inspired, Tess soon quit her business development job to help him market the product, and presto—the husband-and-wife team formed Alignment Simple Solutions in 2011. They successfully tested the first prototype at the Charlotte Motor Speedway in North Carolina during the Chumpcar World Series of Racing.

"Our 'QuickTrick' compact portable wheel alignment diagnostic systems cost less than 10 percent of traditional fixed state-of-the-art equipment found in most maintenance shops, which run from $10,000 to $100,000," says Tess, who serves as CEO. "Our system weighs only 15 pounds and eliminates the need for a lift, and almost anybody can use it by watching our 5-minute training video."

"In many parts of the world, people are keeping their vehicles longer, and the roads are often rough and the weather uneven, which means gradual wear and tear on suspension and alignment," she explains. "Hobbyist do-it-yourselfers are our largest market, as well as people who run maintenance and alignment shops. We're also selling to a lot of hot-rod enthusiasts."

She also notes the company's product also allows for better preventive maintenance at 7,500 miles. Potential alignment problems can be diagnosed early on, saving an average of 184 sets of tires for every 20,000 vehicles.

The Challenge

Having established itself in the United States, the company made its first international sales in 2010, entering the Australian and Mexican markets via eBay. However, the Winninghams wanted to expand the company's international presence much further. One of their priorities was the European market, and they needed advice

on creating a website and locating a potential distributor in Germany.

The Solution

The U.S. Commercial Service in Birmingham, Alabama, heard about Alignment Simple Solutions through the Alabama Alliance—a collaboration of the local U.S. Commercial Service, State of Alabama Commerce Department, large city Chambers of Commerce through the state, and the Small Business Development Center.

U.S. Commercial Service Trade Specialist Nelda Segars and the Small Business Development Center provided export counseling and guidance on globalizing the company's website. Tess was also encouraged to join an Alabama Department of Commerce trade mission to Bremen, Germany. During the mission, she met several prospective distributors through prescreened meetings arranged by the U.S. Commercial Service at the U.S. Embassy, as well as introductions made by the Alabama Department of Commerce.

"As a result of this overall assistance and new resources and contacts, we developed an enhanced export strategy and within a few months had made sales to more than 30 countries," Tess reports. "We also established a foothold in Germany from where we made new sales to the United Kingdom, Finland, and Norway."

Tess says Europe is a particularly good market because they love cars and keep them forever, and that consumer spending tends to be tighter in Europe than the United States, which bodes well for the company's product because it's so inexpensive.

Alignment Simple Solutions now exports to more than 75 countries, including Panama, Costa Rica, Japan, South Korea, and Thailand, with exports accounting for about 10 percent of total sales.

Lessons Learned

"Without risk, there is no reward. The majority of buyers are outside of the United States. Take that leap of faith and establish relationships with folks early on to mitigate risk.

"Know the consumer market you are selling to, as it may be different than in the United States. For example, in the United States, our major market are males age 40–65 years who don't use a lot of social media. But in Japan, our target audience is much younger, and they use social media and enjoy modifying their cars.

"Consumers in many parts of Europe have high levels of disposable income, so there's lots of different opportunities for different industries. 'Made-in-the-USA' name brands sell well, even in Germany. The population of Europe is less homogeneous than in the United States, and people don't carry as much debt.

"Find out what overseas regulations might apply to your product. For example, since our product has electronics, the European Union regulations require that we have an end-user game plan for disposal at the end-of-product life cycle.

"Early on, talk with your local U.S. Commercial Service office and other contacts at the federal and state level.

"Take advantage of the many trade shows available through the U.S. Department of Commerce, including those in Germany. There's something for just about every business.

"Germany is an excellent springboard for making sales throughout the region, but before you sell to any country, go over there and talk to people.

"Get on board with trade missions and explore the possibility of grants; that's how I was able to participate in the trade mission to Germany."

Chapter 14

Methods of Payment

In this chapter . . .

- **Different ways to receive payment when you are selling products internationally**
- **Selection of a payment method**
- **Foreign exchange risk and payment problems**

Prudent Credit Practices

Experienced exporters extend credit cautiously. They evaluate new customers with care and continuously monitor existing accounts. You may wisely decide to decline a customer's request for open-account credit if the risk is too great, and you may propose instead payment-on-delivery terms through a documentary sight draft or an irrevocable confirmed letter of credit—or even payment in advance. For a fully creditworthy overseas customer, however, you may decide to allow a month or two for payment or perhaps even to extend open-account terms.

Other good credit practices include being aware of any unfavorable changes in your customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with your international banker on how to cope with unusual circumstances or in difficult overseas markets. It is always advisable to check a buyer's credit (even if the safest payment methods are used). A U.S. Commercial Service International Company Profile (ICP) provides useful information for credit checks (see Chapter 6). For a fee, you may request an ICP on companies in many countries. The ICP contains financial background on the company and gives not only its size, capitalization, and years in business, but also such additional pertinent information as the names of other U.S. companies that conduct business with the company in question. You can then contact those U.S. companies to find out about their payment experience with a given foreign company.

Because being paid in full and on time is of the utmost concern, the level of risk you are willing to assume in extending credit in global markets is a major consideration. There are several ways in which you can receive payment for products sold abroad; your choice will depend on how trustworthy you consider the buyer to be. With domestic sales, if the buyer has good credit, sales

are typically made on open account; otherwise, cash in advance is required. For export sales, five other methods of payment are also common.

Listed in order from most secure for the exporter to least secure, the basic methods of payment are:

- Cash in advance
- Letters of credit
- Documentary collections
- Open account
- Consignment

Cash in Advance

Receiving payment by cash in advance of the shipment might seem ideal: Your company is relieved of collection problems and has immediate use of the money. Wire transfer, which is commonly used, has the advantage of being almost immediate. Payment by check may result in a collection delay of up to 6 weeks—perhaps defeating the original intention of receiving payment before shipment.

Many exporters accept credit cards in payment for consumer goods and other products that generally have a low dollar value and are sold directly to the end-user. Since domestic and international rules governing credit card transactions sometimes differ, however, U.S. merchants should contact their credit card processor for more specific information. International credit card transactions are typically handled by telephone or fax. Because those methods are subject to fraud, you should determine the validity of transactions and obtain the proper authorizations before sending goods or performing services.

Consider the level of risk you're willing to assume in extending credit (and possibly increasing overall sales) versus your desire to be paid in full at time of shipment.

Exporters may select escrow services as a mutually beneficial cash-in-advance option for small transactions with importers who demand assurance that the goods will be sent in exchange for advance payment. Escrow in international trade is a service that allows both exporter and importer to protect a transaction by placing the funds in the hands of a trusted third party until a specified set of conditions has been met.

For the buyer, advance payment tends to create cash flow problems and to increase risks. Furthermore, cash in advance is not as common in most of the world as it is in the United States. Buyers are often concerned about the possibility that goods paid for in advance will not be sent; another consideration is the reduction in leverage with the seller if goods do not meet specifications. Exporters who insist on advance payment as their sole method of doing business may find themselves losing out to competitors who offer more flexible payment terms.

Letters of Credit and Documentary Collections

Letters of credit or documentary collections, which are also commonly known as drafts, are often used to protect the interests of both buyer and seller. These two methods require that payment be made on presentation of documents conveying the title and showing that specific steps have been taken. Letters of credit and drafts may be paid immediately or at a later date. Drafts that are paid on presentation are called sight drafts. Drafts that are to be paid at a later date, often after the buyer has received the goods, are called time drafts or date drafts. The parties rely on a transmittal letter, which contains complete and precise instructions on how the documents should be handled and how the payment is to be made (see Appendix D for sample form).

Because payment by these two methods is made on the basis of documents, you should avoid confusion and delay by specifying all terms of payment clearly. For example, "net 30 days" should be specified as "30 days from acceptance." Likewise, the currency of payment should be specified as "US $30,000." International bankers can offer other suggestions.

Banks charge fees—mainly based on a percentage of the amount of payment—for handling letters of credit and smaller amounts for handling drafts. If fees charged by both the foreign and U.S. banks are to be applied to the buyer's account, this term should be explicitly stated in all quotations and in the letter of credit.

The exporter usually expects the buyer to pay the charges for the letter of credit. If, however, the buyer does not agree to this added cost, you must either absorb the costs of the letter of credit or risk losing that potential sale. Letters of credit for smaller amounts can be somewhat expensive because fees can be high relative to the sale.

Letters of Credit

Letters of credit are one of the most versatile and secure instruments available to international traders. A letter of credit is a commitment by a bank on behalf of the importer (foreign buyer) that payment will be made to the beneficiary (exporter), provided the terms and conditions stated in the letter of credit have been met, as evidenced by the presentation of specified documents. A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank) has added its promise to that of the foreign bank (the issuing bank) to pay the exporter. If a letter of credit is not confirmed, it is "advised" through a U.S. bank, and thus the document is called an advised letter of credit. U.S. exporters may wish to have letters of credit issued by foreign banks confirmed through a U.S. bank if they are unfamiliar with the foreign bank or are concerned about the political or economic risk associated with the country in which the bank is located. A U.S. Commercial Service office or international banker can assist exporters in evaluating the risks to determine what terms might be appropriate for a specific export transaction.

Letters of credit, also referred to as drafts, are used to help protect both the buyer and the seller.

A letter of credit may be irrevocable, which means that it cannot be changed unless both parties agree. Alternatively, it can be revocable, in which case either party may unilaterally make changes. A revocable letter of credit is inadvisable because it carries many risks for the exporter.

To expedite the receipt of funds, you can use wire transfers. You should consult with your international banker about bank charges for such services.

A Typical Letter of Credit Transaction

Here are the typical steps in issuing an irrevocable letter of credit that has been confirmed by a U.S. bank:

1. After the exporter and the buyer have agreed on the terms of a sale, the buyer arranges for its bank to open a letter of credit that specifies the documents needed for payment. The buyer determines which documents will be required.
2. The buyer's bank issues (opens) its irrevocable letter of credit and includes all instructions to the seller relating to the shipment.
3. The buyer's bank sends its irrevocable letter of credit to a U.S. bank and requests confirmation. The exporter may request that a particular U.S. bank be the confirming bank, or the foreign bank may select a U.S. correspondent bank.
4. The U.S. bank prepares a letter of confirmation to forward to the exporter, along with the irrevocable letter of credit.
5. The exporter carefully reviews all conditions in the letter of credit. The exporter's freight forwarder is contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the customer is alerted at once because an amendment may be necessary.
6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.
7. When the goods are loaded aboard the exporting carrier, the freight forwarder completes the necessary documentation.
8. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.
9. The bank reviews the documents. If they are in order, the documents are sent to the buyer's bank for review and then transmitted to the buyer.
10. The buyer (or the buyer's agent) uses the documents to claim the goods.
11. A sight or time draft accompanies the letter of credit. A sight draft is paid on presentation; a time draft is paid within a specified time period.

Tips on Using Letters of Credit

When preparing quotations for prospective customers, you should keep in mind that banks pay only the amount specified in the letter of credit—even if higher charges for shipping, insurance, or other factors are incurred and documented.

On receiving a letter of credit, you should carefully compare the letter's terms with the terms of the pro forma quotation. This step is extremely important because if the terms are not precisely met, the letter of credit may be invalid and you may not be paid. If meeting the terms of the letter of credit is impossible, or if any of the information is incorrect or even misspelled, you should contact the customer immediately and ask for an amendment to the document.

You must provide documentation showing that the goods were shipped by the date specified in the letter of credit; otherwise, you may not be paid. You should check with your freight forwarders to make sure that no unusual conditions that would delay shipment can reasonably be anticipated.

Documents must be presented by the date specified. To ensure that the letter of credit will be paid, you should verify with your international banker that there will be sufficient time to present the documents required for payment.

You may request that the letter of credit specify that partial shipments and transshipment will be allowed. Specifying acceptable practices can prevent unforeseen problems at the last minute.

Documentary Collections

Familiarize yourself with the different tools and options for transmission of payment. Some will save you time and money, others will increase security.

A documentary collection is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment. In exchange for these documents, funds are received from the importer and remitted to the exporter through the banks involved in the collection. Documentary collections involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter specifies the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, documentary collections offer no verification process, and there is limited recourse in the event of nonpayment. Documentary collections are generally less expensive than letters of credit.

Documents against Payment Collection

A document against payment collection, also known as a sight draft, is used when the exporter wishes to retain title to the shipment until it reaches its destination and payment has been made. Before the shipment can be released to the buyer, the original "order" for the ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that the buyer can claim the goods without presenting air way bills. Risk increases when a sight draft is used with an air shipment.

In practice, the ocean bill of lading is endorsed by the exporter and sent by the exporter's bank to the buyer's bank. It is accompanied by the sight draft, invoices, and other supporting documents that are specified by either the buyer or the government of the buyer's country (e.g., packing lists, commercial invoices, and insurance certificates). The foreign bank notifies the buyer when it has received these documents. As soon as the draft has been paid, the foreign bank turns over the bill of lading, thereby enabling the buyer to obtain the shipment.

There is still some risk when a sight draft is used to control the transfer of title of a shipment. For example, the buyer's ability or willingness to pay might change between the time the goods are shipped and the time the drafts are presented for payment. Moreover, the buyer's obligation is not backed up by a bank promise to pay. There is also the possibility that the policies of the

importing country will change. In the end, if the buyer cannot or will not pay for and claim the goods, returning or disposing of the products becomes the problem of the exporter.

Document against Acceptance Collection

A document against acceptance collection, also known as a time draft, is used when the exporter extends credit to the buyer. The draft states that payment is due by a specific time after the buyer has accepted the time draft and received the goods. By signing and writing "accepted" on the draft, the buyer is formally obligated to pay within the stated time. When this is done, the time draft is then called a trade acceptance. It can be kept by the exporter until maturity or sold to a bank at a discount for immediate payment.

A date draft differs slightly from a time draft in that it specifies a date on which payment is due, rather than a time period after acceptance of the draft. When either a sight draft or a time draft is used, a buyer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment, though the document still must be accepted.

Escrow

A number of online escrow services have been created as online alternatives to traditional forms of payment. The third party accepts and holds payment from the buyer until the goods have been delivered.

Open Account

In a foreign transaction, an open account can be a convenient method of payment if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for creditworthiness. With an open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date. Obviously, this option is advantageous to the importer in terms of cash flow and cost, but it is consequently a risky choice for an exporter. Because of intense competition in export markets, foreign buyers often press exporters for open-account terms. In addition, the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may lose a sale to their competitors.

An open account may be a good way to build trust with a regular and reliable customer.

However, there are risks associated with open-account sales. The absence of documents and banking channels, for example, might make it difficult to pursue the legal enforcement of claims. The exporter might also have to pursue collection abroad, which can be difficult and costly. Another problem is that receivables may be harder to finance because of the unavailability of drafts or other evidence of indebtedness. It is possible to substantially mitigate the risk of nonpayment

associated with open-account trade by using trade finance techniques such as export credit insurance and factoring. Exporters may also seek export working capital financing to ensure that they have access to financing for production and for credit while waiting for payment.

Exporters contemplating a sale on open-account terms should thoroughly examine the political, economic, and commercial risks entailed. Exporters who will need financing for the transaction before the issuance of a pro forma invoice to a buyer should consult with their bankers.

Consignment

Consignment in international trade is a variation of the open-account method of payment in which payment is sent to the exporter only after the goods have been sold by the foreign distributor to the end customer. An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter, who retains title to the goods until they are sold. Payment to the exporter is required only for those items sold. One of the common uses of consignment in exporting is the sale of heavy machinery and equipment since the foreign distributor generally needs floor models and inventory for sale. Goods not sold after an agreed-upon time period may be returned to the exporter at cost.

Clearly, exporting on consignment is very risky, inasmuch as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent. However, consignment can help exporters become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor, as well as to mitigate the risk of nonpayment.

Foreign Exchange Risk

A buyer and a seller who are in different countries rarely use the same currency. Payment is usually made in the buyer's or seller's currency or in a third mutually acceptable currency.

One of the risks associated with foreign trade is the uncertainty of future exchange rates. The relative values of the two currencies could change between the time the deal is concluded and the time payment is received. If you are not properly protected, a devaluation or depreciation of the foreign currency could cause you to lose money. For example, if the buyer has agreed to pay €500,000 for a shipment, and the euro is valued at $0.85, you would expect to receive $425,000. If the euro later decreased in value to $0.84, payment under the new rate would be only $420,000, meaning a loss of $5,000 for you. If the foreign currency increased in value, however, you would get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways to avoid the risks associated with fluctuations in exchange rates is to quote prices and require payment in U.S. dollars. Then both the burden of exchanging currencies and the risk are placed on the buyer. However, such an approach may result in losing export opportunities to competitors who are willing to accommodate their foreign buyers by selling in

the counterparties' local currencies. This approach could also result in nonpayment by a foreign buyer who finds it impossible to meet agreed-upon obligations owing to a significant devaluation of his local currency against the U.S. dollar. While losses due to nonpayment could be covered by export credit insurance, such "what-if" protection is meaningless if export opportunities are lost in the first place because of a "payment in U.S. dollars only" policy. Selling in foreign currencies, if foreign exchange risk is successfully managed or hedged, can be a viable option for U.S. exporters who wish to enter the global marketplace and remain competitive there.

You should also be aware of any problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is widely accepted as an international trading currency, and U.S. companies can often secure payment in dollars.

If the buyer asks to make payment in a foreign currency, you should consult an international banker before negotiating the sales contract. Banks can offer advice on any foreign exchange risks associated with a particular currency. The most direct method of hedging foreign exchange risk is a forward contract, which enables the exporter to sell a set amount of foreign currency at a pre-agreed exchange rate with a delivery date from 3 days to 1 year into the future.

If you're able to do business entirely in U.S. dollars, you may be able to avoid many of the difficulties and issues related to currency conversion.

U.S. Department of Commerce Trade Finance Guide

To learn more about methods of payment in international trade, foreign exchange risk, and related topics, you can refer to the U.S. Department of Commerce's *Trade Finance Guide: A Quick Reference for U.S. Exporters* (***export.gov/tradefinanceguide***). This concise, simple, and easy-to-understand guide was designed to help U.S. small and medium-sized U.S. companies that are new to exporting learn how to get paid from export sales in the most effective manner.

Payment Problems

In international trade, it is easier to avoid problems involving bad debts than to rectify them after they have occurred. Credit checks and the other methods discussed in this chapter can limit the risks; normal business prudence is crucial to the exporter.

Whenever possible, try to prevent payment-related issues before they happen.

Nonetheless, just as in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the expenditure of both time and money to collect

payment. This is because the exporter must exhaust all reasonable means of obtaining payment before an insurance claim will be honored. Even after all the insurer's requirements have been met, there is often a significant delay before the exporter receives reimbursement.

The simplest and least costly solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, you may often resolve conflicts to the satisfaction of both sides. This is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though you may be required to compromise on certain points—perhaps even on the price of the committed goods—your company may save a valuable customer and profit in the long run.

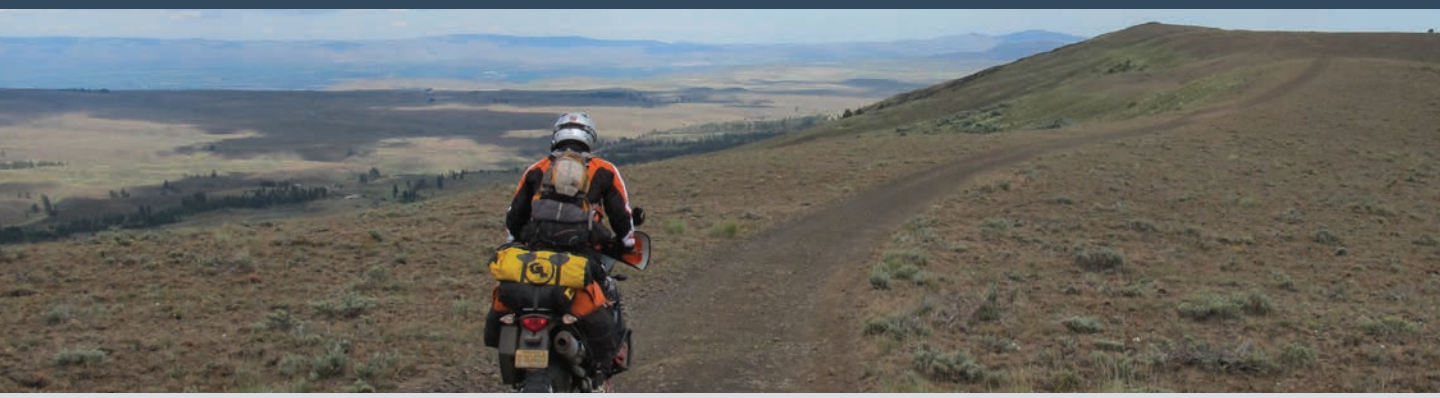
Many issues can be solved with a phone call, either directly or through a hired consulting agency—especially if the heart of the dispute is a simple misunderstanding.

However, if negotiations fail and the sum involved is considered significant enough, your company should get the assistance and advice of your bank, legal counsel, and the U.S. Commercial Service. When all else fails, arbitration is often faster and cheaper than legal action. The International Chamber of Commerce (ICC) handles most international arbitration; ICC arbitration is usually acceptable to foreign companies because it is not affiliated with any single country. For more details, visit ***iccwbo.org***.

Success Story

Preparing to Succeed on the Road Ahead

Giant Loop



The Company

Harold Olaf Cecil was in his early forties when he decided to start his own business in Central Oregon. His initial investment: $2,000. That was back in 2008, just in time for the Great Recession. Six years later, he and a team of five employees are making world-class equipment carriers for motorcycles. Giant Loop is now in 21 countries with sales growing 20 percent per year.

Cecil has been riding motor bikes since he was a kid. Rugged trails in Oregon required rugged equipment. Problem was—there wasn't equipment available that was rugged enough. The metal boxes and racks, for example, would break. Plus, they added weight which made the bikes unstable. So his first product was the Giant Loop Saddlebag made of ballistic nylon. It was horseshoe-shaped and wrapped around behind the seat, bolting to the plastic fender and side panels of the bike. Because his designs position weight closer to the center of the bike, it added stability. Giant Loop now has 25 products, ranging in price from $16 to $700. All are made in the United States, except some specialty straps from Canada.

His biggest markets after the United States are Canada, Germany, Australia, the UK, and South Africa. After that it's Chile, Colombia, Brazil, and Portugal. He also has sales in Italy, Latvia, all the Scandinavian countries, and Iceland. A distributor agreement in Japan is imminent.

The Challenge

"Everything is a challenge," says Cecil. "That's what makes it fun." The biggest challenge was getting the first few international orders. The company is growing with 70 percent of the business in the United States; 30 percent international; 20 percent via the web, mostly B2C and domestic. He says that strategically it's important to have a mix of international and domestic.

Another challenge was finding a manufacturer in the United States. Luckily, Cecil had experience in the outdoor industry and used those contacts to find companies in Arizona and California to make his products. There aren't many of them, he noted,

but they were willing to make the small lots he needed. Overseas manufacturers wanted much bigger orders. "I think it's true that Americans are great at coming up with new ideas and solving problems. Asia will continue to have an advantage making certain kinds of products. That's kind of the global division of labor."

The Solution

When Cecil was looking for his first international sales, he was advised to try trade shows. He found one catering to motorcycles and equipment. One of the best is a motorcycle show in Milan, Italy, called EICMA. Cecil has been to the show for the last 3 years and has come away with distributor agreements every time. He said: "We exhibit in the U.S. Pavilion, and there we meet buyers from all over Europe and many other places. We meet them face-to-face; they can see, feel, and learn about our products; and we can learn about their needs."

Cecil also makes full use of government export assistance agencies. About this assistance he says: "I couldn't have done it with without them. This is my first business. I've been a journalist, an ad copywriter, and a marketer. I've never manufactured anything. As I got started, our local Small Business Development Center helped me learn how to actually run a business. I still meet with one of the counselors every month to get advice."

The U.S. Small Business Administration, which helps support the centers in Oregon and throughout the country, provides a working capital loan guarantee. "They came through when we couldn't get a commercial loan from any bank."

The state of Oregon was a big help through the Business Oregon program. They helped Cecil apply for and get a STEP grant, which partly covered travel to the trade show in Italy and to one in Sweden. In addition, the U.S. Commercial Service in Portland, Oregon, connected Cecil with Commercial Officers and staff supporting the U.S. Pavilion in Milan. Cecil said: "The U.S. Commercial Service has provided great market data and seminars on export mechanics. And government agencies work together to help small businesses like mine. They are invaluable, top notch."

Lessons Learned

Cecil has found that free trade agreements have been very helpful in making his products more competitive in those 20 countries that have agreements with the United States. One benefit of the agreement is that they lower or eliminate altogether import duty rates on products that meet the rules of origin of the particular agreement. This is an advantage of making the product in the United States. Lower duty rates reduce costs to consumers, making those imported products more attractive. Distributors tell Cecil that his product is at the high end of the market because of product costs and shipping. So any way he can shave costs helps offset the pricing disadvantage. He said the "Made in the USA" brand is perhaps worth a 10 percent premium for his type of product. So he has to rely on every advantage in addition to competing on quality, innovation, and service.

So important are his international sales that he vows to never abandon his international markets, no matter how much the domestic market grows.

"We added a full-time employee in January, and we plan to hire more seasonal workers. I feel really good about creating jobs. This part of Oregon was hard hit by the recession. Next, I want to provide a health benefit to my employees. All of us have dependents. The new healthcare law (the Affordable Care Act) will help me provide the benefit. I really look forward to doing it."

Chapter 15

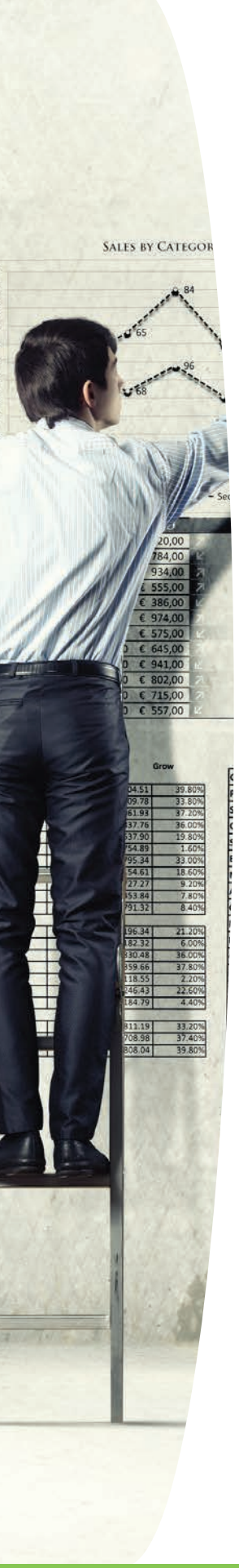
Financing Export Transactions

In this chapter . . .

- **Factors to consider in making financing decisions**
- **Private sources of financing**
- **Government sources of financing**

Export financing is often a key factor in a successful sale. Contract negotiation and closure are important, but ultimately your company must get paid. Exporters naturally want to get paid as quickly as possible, whereas importers usually prefer to delay payment until they have received or resold the goods. Because of the intense competition for export markets, making a sale often depends on your ability to offer attractive payment terms. You should be aware of the many financing options open to you so that you can choose the most acceptable one to both the buyer and your company. In many cases, government assistance in export financing for small and medium-sized businesses can increase your company's options. Before making financing decisions, you should consider:

- **The need for financing to make the sale.** In some cases, favorable payment terms make a product more competitive: A buyer who had preferred buying from someone else might buy your product instead because of shorter or more secure credit terms. On the other hand, a sale can be lost if the competition offers better terms on a similar product.
- **The length of time the product is being financed.** The term of the loan required determines how long you will have to wait before you receive payment from the buyer and influences your choice of how to finance the transaction.
- **The cost of different methods of financing.** Interest rates and fees vary, and an exporter may expect to assume some or all of the financing costs. Before submitting a pro forma invoice to the buyer, you must understand how those costs affect price and profit.
- **The risks associated with financing the transaction.** The riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer's country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment—a letter of credit (possibly confirmed) or export credit insurance or a guarantee.



- **The need for preshipment financing and for postshipment working capital.** Production for an unusually large order or for a surge of orders may present unexpected and severe strains on your working capital. Even during normal periods, inadequate working capital may curb an exporter's growth. However, assistance is available through the public and private sectors. A number of those resources are discussed in this chapter.

Many sources can help in determining which financing options may be best for you:

- Your banker
- Your local U.S. Commercial Service office
- Your local U.S. Small Business Administration office
- Ex-Im Bank
- Your state export promotion or export finance office

Extending Credit to Foreign Buyers

Foreign buyers often press exporters for longer payment periods. Although it is true that liberal financing is a means of enhancing export competitiveness, it is important to carefully weigh the credit or financing you extend to foreign customers. Moreover, the extension of credit by the seller to the buyer is more common outside the United States. U.S. sellers who are reluctant to extend credit may face the possibility of the loss of the sale to their competitors.

Know the options—some work well for small sales, but others are only available for large transactions.

One useful guide for determining the appropriate credit period will be the normal commercial terms in your industry for internationally traded products. Buyers generally expect to receive the benefits of such terms. For off-the-shelf items like consumer goods, chemicals and other raw materials, agricultural commodities, and spare parts and components, normal commercial terms (with few exceptions) range from 30 to 180 days. You may have to make allowances for longer shipment times than are found in domestic trade because foreign buyers are often unwilling to have the credit period start before they have received the goods. Custom-made or high-value capital equipment may warrant longer repayment periods. Once credit terms have been extended to a buyer, they tend to be a precedent for future sales, so you should review with special care any credit terms contemplated for first-time buyers.

When exporting, your company should follow the same careful credit principles it follows for domestic customers. An important reason for controlling the credit period is the cost incurred through use of working capital or through interest and fees. If the buyer is not responsible for paying those costs, then you should factor them into the selling price. Your company should also recognize that longer credit periods may increase the risk of default. Thus, you must exercise judgment in balancing competitiveness against cost and safety. Customers are frequently charged interest on credit periods of a year or longer, this happens less frequently on short-term credit

(up to 180 days). Most exporters absorb interest charges for short-term credit unless the customer fails to pay until after the due date.

Obtaining cash immediately is usually a high priority with exporters. Converting export receivables to cash at a discount with a bank is one way to achieve this goal. Another way is to expand working capital resources. A third approach, suitable when the purchase involves capital goods and the repayment period extends a year or longer, is to arrange for third-party financing. For example, a bank could make a loan directly to the buyer for the product, and you could be paid immediately from the loan proceeds while the bank waits for payment and earns interest. A fourth possibility, sometimes suggested when financing is difficult to obtain, is to engage in countertrade: that is, to accept goods, services, or other instruments of trade in partial or whole payment for the product. Countertrade, thus, provides the customer with an opportunity to generate earnings to pay for the purchase.

Some options may require you to pay interest, fees, or other costs. Other options are only feasible for large transactions. Your company should also determine whether it will incur financial liability if the buyer defaults.

Working with Commercial Banks

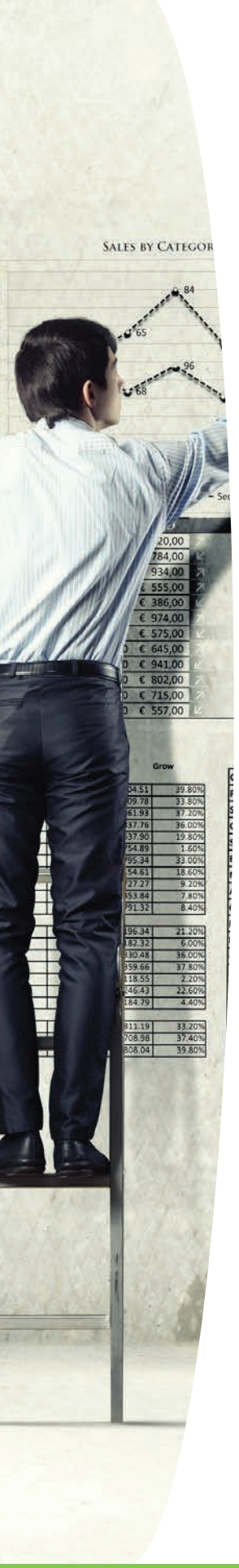
The same commercial bank services used to finance domestic activities, including revolving lines of credit for working capital, are often sought to finance export sales until payment has been received. Banks do not regularly extend financing solely on the basis of an individual order; they prefer to establish an ongoing business relationship.

A logical first step if you're seeking to finance short-term export sales is to approach the local commercial bank your company already uses. If the bank previously has extended credit to your company, it will be familiar with your financial standing, credit need, repayment record, and ability to perform. The bank may be willing to raise the overall limit on an existing working capital line of credit, to expand its scope to cover export transactions, or to approve a separate line specifically adapted to export-related transactions that involve arrangements such as discounting.

If you already have a relationship with a commercial bank, especially one that has a section dedicated to international business, you may be able to save time and effort.

Alternatively, you may wish to approach a commercial bank with an international department. Such a bank will be familiar with export business and will also be in a position to provide international banking services related to documentary collections and letters of credit, including the discounting of drafts. An intermediate approach is to retain a relationship with your bank but seek a referral to a correspondent bank that has an international department.

You should visit the bank's international department to discuss export plans, available banking facilities, and applicable charges. You may wish to inquire about such matters as fees for amending or confirming a letter of credit, fees for processing drafts, and the bank's experience in working with U.S. government agencies that offer export financing assistance. Generally, the bank's representative handling your account will not be located in the international department.



Thus it is in your best interest to create and foster a close working relationship with the international department.

The responsibility for repaying a working capital loan ordinarily rests with you, the seller, even if the foreign buyer fails to pay. The bank takes this contingency into account in deciding on an export working capital line of credit. Both you and the bank will benefit, though, if you improve the quality of the export receivables by using letters of credit, credit insurance, or working capital guarantees from Ex-Im Bank or the U.S. Small Business Administration.

When you ship capital goods, you may want the commercial bank to make medium-term loans directly to the foreign buyer to finance the sale. Such loans are available for well-established foreign buyers in more stable markets. But where there is an element of risk, the bank may require a standby letter of credit, recourse to the exporter in case of default, or similar repayment reinforcement. You should be knowledgeable about loans from your own bank that are backed by Ex-Im Bank guarantees and insurance—assuming that the commercial bank is willing to use them.

Using Discounting and Banker's Acceptances

A time draft under an irrevocable letter of credit confirmed by a U.S. bank presents relatively little risk of default, so you may be willing to hold such a draft until it matures. Unless you have ample funds to use for other purposes, however, holding drafts will use up your working capital.

As another course of action, your bank may be willing to buy or lend against time drafts if you have a creditworthy foreign buyer who has accepted or agreed to pay at a specified future date. Such an arrangement allows you to convert the time draft into immediate cash. The amount that you receive will be less than the face value of the draft. The difference, called a discount, represents interest and fees that the bank charges for holding the draft until maturity. The bank may also require you to reimburse it if the draft is unpaid at the due date.

The creditworthiness of your foreign buyer may contribute to your costs and available options.

In a third option, known as a banker's acceptance, a commercial bank may, for a fee, undertake to accept the obligation of paying a draft. Banker's acceptances are usually in large denominations. Only a few well-known banks are accepted in the market as "prime name" banks for purposes of creating banker's acceptances.

Using Export Intermediaries

In addition to acting as export representatives, many export intermediaries, such as export trading companies and export management companies, can help finance export sales. Export intermediaries may provide short-term financing, or they may

simply purchase the goods to be exported directly from the manufacturer, thus eliminating both risks to the manufacturer that are associated with the export transaction and the need for financing.

Using Government Assistance Programs

Several federal, state, and local government agencies offer programs to assist exporters with their financing needs. Some are guarantee programs that require the participation of an approved lender; others provide loans or grants to the exporter or to a foreign government.

Government programs generally aim to improve exporters' access to credit rather than to subsidize the cost at below-market levels. With few exceptions, banks are allowed to charge market interest rates and fees, including those paid to the government agencies to cover the agencies' administrative costs and default risks. Commercial banks use government guarantee and insurance programs to reduce the risk associated with loans to exporters.

Many companies whose products you use every day take advantage of U.S. government assistance to export more easily, increase sales, and add U.S. jobs.

The Export-Import Bank of the United States

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. government agency that facilitates the export of U.S. goods and services. As the federal government's export credit agency, Ex-Im Bank provides export credit insurance, as well as offering loan guarantees to lenders, direct loans to exporters on market-related credit terms, and loans to foreign buyers.

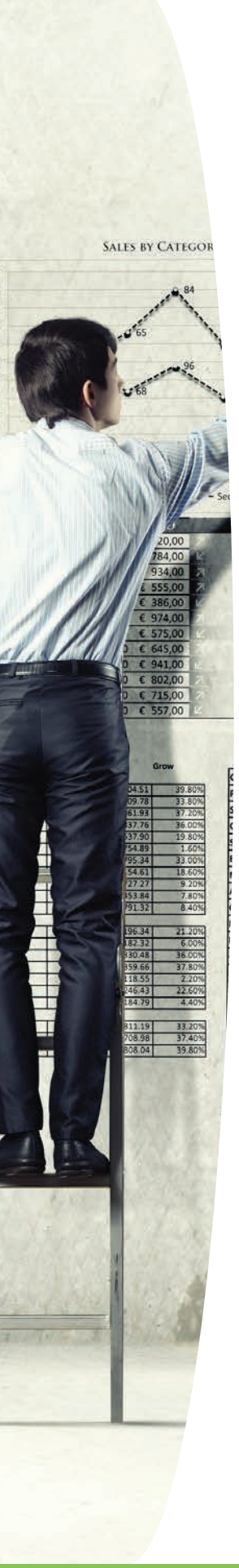
Ex-Im Bank's insurance and loan guarantees are structured to encourage exporters and financial institutions to support U.S. exports by reducing the commercial risks (such as buyer insolvency and failure to pay) and political risks (such as war and currency inconvertibility) of international trade that could result in nonpayment to U.S. exporters by foreign buyers of their goods and services. The financing made available under Ex-Im Bank's guarantees and insurance is on market terms, and most of the commercial and political risks are borne by Ex-Im Bank.

Ex-Im Bank's programs help to reduce your risk, level the playing field, and make U.S. companies more competitive in the international marketplace.

Ex-Im Bank's loan program is designed to neutralize interest rate subsidies offered by foreign governments. Because the bank responds with loan assistance, U.S. financing can be competitive with that offered by foreign exporters.

Preexport Financing

The working capital guarantee enables lenders to provide the financing that an exporter needs to purchase or produce a product for export, as well as to finance short-term accounts receivable. If the exporter defaults on a loan guaranteed under this program, Ex-Im Bank reimburses the lender for the guaranteed portion—generally, 90 percent of the loan— thereby reducing the lender's overall risk. For qualified loans to minority, woman-owned, or rural businesses, Ex-Im Bank can increase its guarantee coverage to 100 percent. The working capital guarantee can be used either



to support ongoing export sales or to meet a temporary need for cash arising from a single export transaction.

The working capital guarantee offers generous advance rates, so that exporters can increase their borrowing capacity. Those rates apply in:

- Inventory—up to 75 percent advance rate (including work-in-process, i.e., material that has been released to manufacturing, engineering, design, or other services)
- Foreign accounts receivable—up to 90 percent advance rate. Guaranteed working capital loans are secured by export-related accounts receivable and inventory (including work-in-process) tied to an export order. (For letters of credit issued under a guaranteed loan, Ex-Im Bank requires collateral for only 25 percent of the value of the letter of credit.)

Postexport Financing

Ex-Im Bank offers export credit insurance to offset the commercial and political risks that are sometimes associated with international trade. Under the majority of policies, the insurance protects an exporter's short-term credit extended for the sale of consumer goods, raw materials, commodities, spare parts, and other items for which payment is expected within 180 days. If the buyer fails to pay, Ex-Im Bank reimburses the exporter in accordance with the terms of the policy. The majority of payment terms are up to 180 days, with some transactions qualifying for terms up to 360 days. Ex-Im Bank insurance is the largest federal program supporting short-term export credit.

Ex-Im Bank insurance policies for exporters include the Small Business policy, the Single-Buyer policy, and the Multi-Buyer policy. With prior written approval, an exporter can assign the rights to any proceeds from an Ex-Im Bank insurance policy to a lender as collateral for financing. Ex-Im Bank's policies generally cover up to 100 percent of defaults caused by specified political risks, such as war and expropriation, and up to 98 percent of defaults arising from commercial risks, such as buyer default and insolvency. Exporters generally must meet U.S. content requirements and, under some policies, must insure all eligible foreign sales.

Several private companies also offer export credit insurance that covers political and commercial risks. Private insurance is available, often at competitive premium rates, to established exporters who have a proven history, although underwriting in particular markets may be limited.

Under a separate program, the Bank Buyer Credit Policy, Ex-Im Bank offers a guarantee to encourage banks and other lenders to make export loans to creditworthy foreign buyers of U.S. goods and services. Ex-Im Bank's guarantee supports either medium-term financing (1–5 years for repayment after delivery or equipment installation) or long-term financing (up to 10 years for repayment) for heavy equipment and capital projects, such as power plants, telecommunications systems, and transport facilities and equipment.

As an alternative to guarantees, Ex-Im Bank also offers medium- and long-term loans. Ex-Im Bank loans are made on the same terms and conditions as guarantees, with an important difference: namely, that the bank sets the interest rate in accordance with international agreements. In many cases, an Ex-Im Bank guarantee results in a cost that is lower than that of an Ex-Im Bank loan.

For more information on Ex-Im Bank's programs, visit ***exim.gov*** or contact your local U.S. Commercial Service office.

U.S. Small Business Administration

The U.S. Small Business Administration (SBA) is another government agency that provides financial assistance to U.S. exporters. Through its partnership with national, regional, and community lenders, SBA provides loan guarantees for export working capital and acquisition of plant and equipment, as well as capital for enabling small businesses to commence or expand export activity.

SBA's Export Working Capital Program (EWCP) will guarantee up to $1.5 million or 90 percent of the loan amount, whichever is less. These loans provide working capital for export transactions and finance export receivables. They can also support standby letters of credit used as bid or performance bonds. The loans can be set up to support individual transactions or as revolving lines of credit. Interest rates are negotiated between the borrower and the lender and may be fixed or variable.

SBA and Ex-Im Bank joined their working capital programs to offer a unified approach to the government's support of export financing. The EWCP uses a one-page application form and streamlined documentation. Turnaround is usually in 10 days or less. A letter of prequalification is also available from SBA.

If a larger loan guarantee is needed, Ex-Im Bank has a similar program to handle amounts in the multimillion-dollar range.

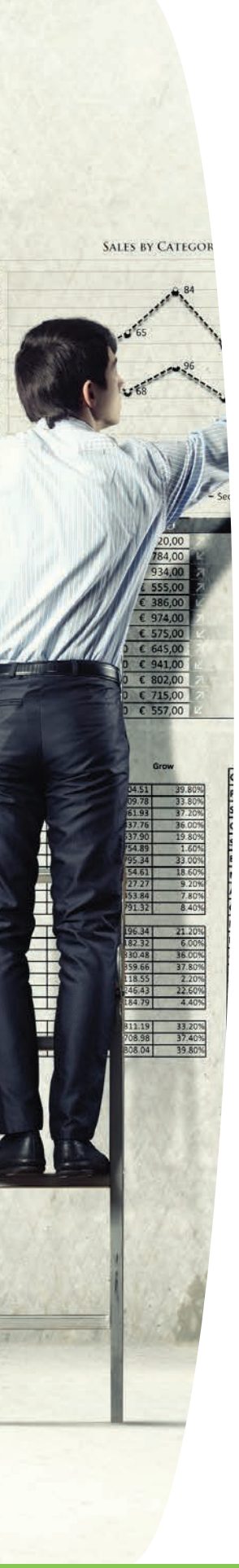
SBA offers many different types of assistance. If after reading this you're not sure what your company may be eligible to receive, remember your local U.S. Commercial Service office has trade specialists who can help.

Under its International Trade Loan Program, SBA can guarantee up to $5 million in combined working capital loans and loans for facilities and equipment (including land and buildings; construction of new facilities; renovation, improvement, or expansion of existing facilities; and purchase or reconditioning of machinery, equipment, and fixtures). Applicants must either:

- Certify that loan proceeds will enable them to significantly expand existing export markets or develop new ones, or
- Show that they have been adversely affected by import competition

Interest rates are negotiated between the small business exporter and the lender.

Export Express is a program that expedites multipurpose loans for small businesses. The U.S. Small Business Administration delegates the authority to approved lenders to unilaterally approve SBA-guaranteed loans. The lenders can use their own forms and can usually approve applications within a week. Export Express loans have a cap of $500,000. Loans of up to $350,000 receive a 90 percent SBA guarantee, and loans over that amount receive a 75 percent SBA guarantee.



To be eligible, a business must have been in operation for at least 1 year and must show that it will enter into or increase its export sales as a result of the loan. SBA's other eligibility requirements also apply. Eligible use of proceeds includes financing of export development activities, transaction-specific financing for export orders, revolving export lines of credit, fixed-asset loans, and financing of standby letters of credit used as bid and performance bonds.

The EWCP, the International Trade Loan Program, and Export Express all require the participation of an eligible commercial bank. Most bankers are familiar with SBA's guarantee programs, but you should ask to speak to the SBA division of the lender you approach.

In addition to these export-oriented programs, SBA offers a variety of other loan programs that may meet specific needs of small businesses. For example, SBA's Surety Bond Program may help small exporters obtain bid or performance bonds that are required on construction contracts and on many service and supply contracts. Bid and performance bonds may be required when a small U.S. company is bidding on a contract with a foreign government or with a foreign prime contractor.

For information on SBA's programs, contact the nearest U.S. Commercial Service office or SBA field office, call 800-U-ASK-SBA (800-827-5722), or visit ***sba.gov***.

U.S. Department of Agriculture

The Foreign Agricultural Service (FAS) within the U.S. Department of Agriculture (USDA) provides several programs to assist in the financing of exports of U.S. agricultural goods.

The USDA's Commodity Credit Corporation (CCC) administers export credit guarantees for commercial financing of U.S. agricultural exports. The guarantees 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.

The USDA may be better known for its domestic programs, but it also offers essential export-related services.

The Export Credit Guarantee Program (GSM-102) covers credit terms up to 3 years. GSM-102 underwrites credit extended by the private banking sector in the United States (or, less commonly, by the U.S. exporter) to approved foreign banks; dollar-denominated, irrevocable letters of credit are used to pay for food and agricultural products sold to foreign buyers.

The Supplier Credit Guarantee Program (SCGP) is designed to make it easier for exporters to sell U.S. food products overseas by insuring short-term, open-account financing. Under the security of the SCGP, U.S. exporters become more competitive by extending longer credit terms or increasing the amount of credit available to foreign buyers without increasing financial risk. Foreign buyers benefit because they

can increase their purchasing power and profit opportunities and can gain significant advantages in cash flow management.

The Facility Guarantee Program (FGP) provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. By supporting such facilities, the FGP is designed to enhance sales of U.S. agricultural commodities and products to emerging markets, where the demand for such commodities and products may be constricted because of inadequate storage, processing, or handling capabilities for the products.

The FAS General Sales Manager (GSM) Online System (***1.usa.gov/1umkzm1***) enables U.S. exporters and U.S. banks to submit required documentation electronically for the GSM-102, SCGP, and FGP.

Exporters who need further information should contact the FAS Contract and Registration branch at (202) 720-3224 or ***askgsm@fas.usda.gov***.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is a federal agency that facilitates U.S. foreign direct investment in developing nations and emerging market economies. OPIC is an independent, financially self-supporting corporation that is fully owned by the U.S. government.

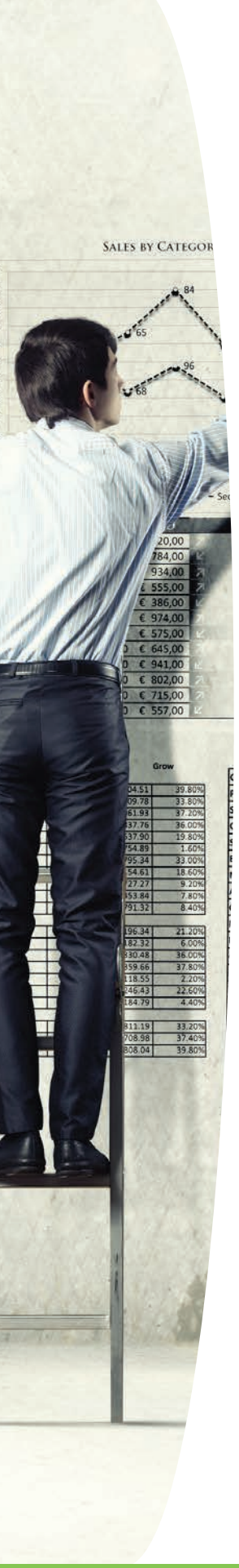
OPIC encourages U.S. investment projects overseas by offering political risk insurance, all-risk guarantees, and direct loans. OPIC political risk insurance protects U.S. investment ventures abroad against the uncertainties of civil strife and other violence, expropriation, and inconvertibility of currency. In addition, OPIC can cover business income loss caused by political violence or expropriation.

Does your international venture require overseas investment? If so, be sure to talk to OPIC.

OPIC can offer up to $400 million in total project support for any one project—up to $250 million in project financing and up to $250 million in political risk insurance. The amount of insurance and financing available to projects in the oil and gas sector with offshore, hard-currency revenues is $300 million per product and $400 million if the project receives a credit evaluation of investment grade or higher from major ratings agencies. However, the maximum support OPIC may offer an individual project is $400 million, either by combined or single OPIC products.

U.S. exporters often can benefit from the construction and equipping of new facilities financed by OPIC, although the recipients of OPIC transactions are U.S. investors. U.S. exporters and contractors operating abroad can benefit directly from an OPIC program covering wrongful calling of bid and providing performance, advance payment, or other guarantees. Under another program, OPIC insures against expropriation of construction equipment temporarily located abroad and spare parts warehoused abroad. It also insures some cross-border operating and capital loans.

In addition, OPIC provides services to facilitate wider participation by smaller U.S. businesses in overseas investment. They include investment missions, a computerized data bank, and investor information services. OPIC has undertaken several initiatives to increase its support for U.S. small businesses in their efforts to invest in emerging markets overseas. The Small and



Medium Enterprise Department and OPIC's Small Business Center were established specifically to address the needs of small and medium-sized American companies and to ease their entry into new markets. A small business insurance "wrap" is offered to companies undertaking projects through the Small Business Center. A partnership with SBA enhances OPIC's outreach to the small business community.

For more information on any of these programs, call OPIC's InfoLine at (202) 336-8799 or the FactsLine at (202) 336-8700, or visit ***opic.gov***.

Obtaining Funding from Multilateral Development Banks

Multilateral development banks (MDBs) are international financial institutions owned by member governments. Their individual and collective objective is to promote economic and social progress in their developing member countries.

Current MDBs include:

- The African Development Bank
- The Asian Development Bank
- The European Bank for Reconstruction and Development
- The Inter-American Development Bank
- The World Bank Group

These institutions achieve their objective by providing loans, technical cooperation, grants, capital investment, and other types of assistance to governments, government agencies, and other entities in their developing member countries. The practical expression of MDB support usually takes the form of a project or study.

Is an MDB active in one of your target markets? If so, it may have programs to help finance your entry or growth.

Increasingly, the MDBs are providing funding to private-sector entities for private projects in developing countries. A growing number of companies and project developers around the world are taking advantage of this funding, which is secured on the basis of the financial, economic, and social viability of the projects in question.

The MDBs have traditionally been heavily involved in infrastructure and poverty alleviation projects. All the banks support projects in:

- Agriculture
- Energy
- Environment
- Finance
- Industry
- Transportation
- Telecommunications
- Health
- Education
- Urban development
- Tourism
- Microenterprises
- The public sector
- Economic reform

All the banks also provide some funding for private ventures.

The MDBs also provide debt, equity, and guarantee financing to eligible private ventures in developing countries. These funds, offered on commercial terms, can be accessed directly by private project sponsors and do not require a government guarantee.

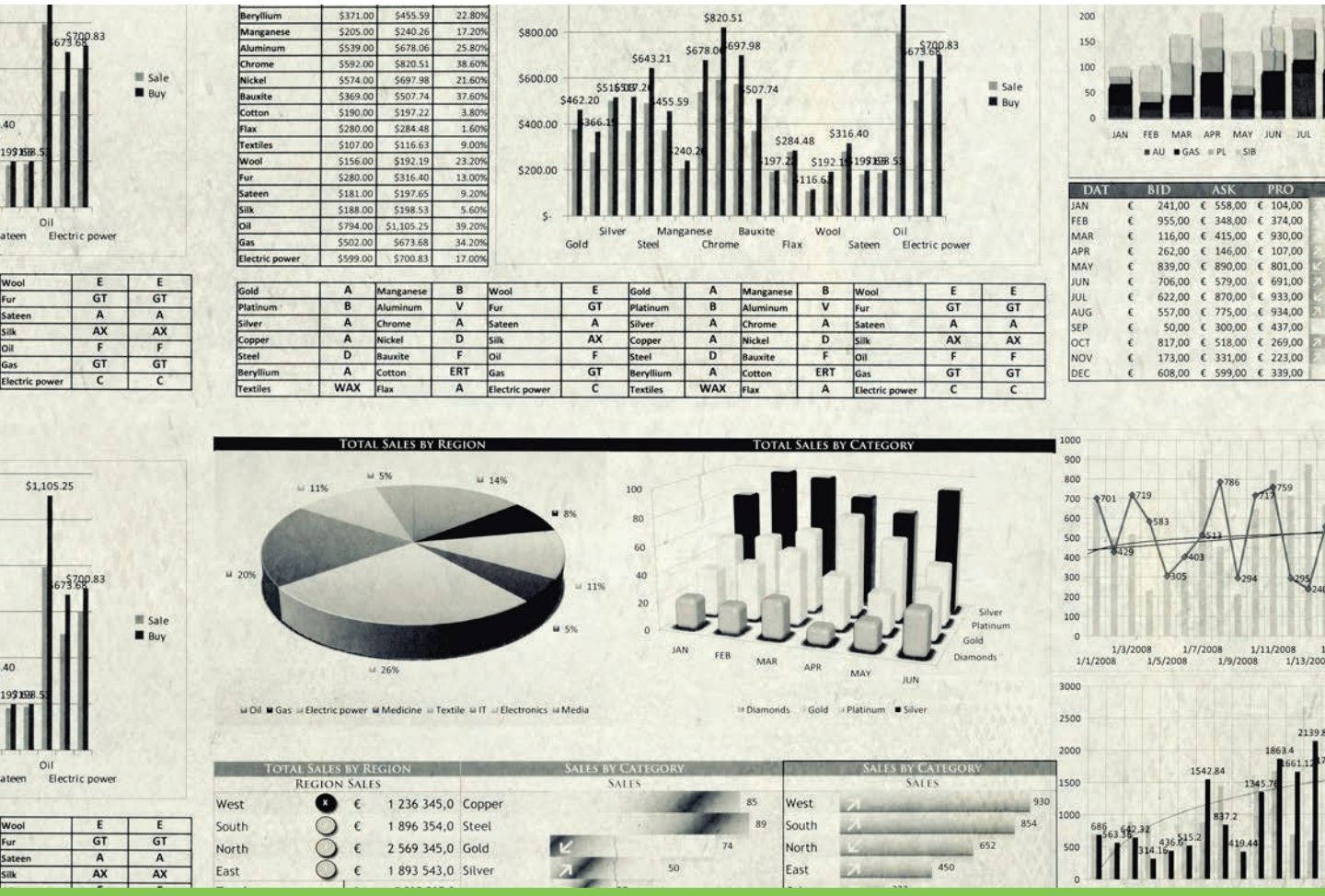
Many opportunities are available to U.S. companies and to increase U.S. business. For more information and for a list of MDBs, visit ***1.usa.gov/1z8asqb***.

Exploring State and Local Export Finance Programs

Several cities and states have funded and operate export financing programs, including preshipment and postshipment working capital loans and guarantees, accounts receivable financing, and export insurance. To be eligible for these programs, an export sale must generally be made under a letter of credit or with credit insurance coverage. A certain percentage of state or local content may also be required. However, some programs may require only that certain facilities, such as a state or local port, be used.

Although not an export finance program, matching grants from SBA's State Trade and Export Promotion (STEP) Program may be available in your state. Grants may be used, for example, to participate in international trade events.

To explore these and other options for financing, contact your local U.S. Commercial Service office or your state's economic development agency.



Success Story

Manufacturing International Success

Patton Electronics Company

The Company

Patton Electronics is an electronics manufacturing company started by Bobby Patton and his younger brother in 1984 when they were computer science students at the University of Maryland. They began by selling small, electronic widgets that would interface between dumb terminals and IBM mainframe computers. They now have about a thousand products in their portfolio, and the biggest selling are in voice-over-IP.

The Challenge

As the company grew, there was a need for sources of reliable buyers and of credit to expand production and to offer terms to new customers. In the IT business, some of the biggest buyers are foreign governments. For an outsider, it's difficult to understand procurement rules and to know whether they are applied fairly, especially if you are not located in the country whose government is doing the purchasing.

The Solution

Patton worked extensively with the Export-Import Bank of the United States, which has become a key component for the company in financing international receivables. "Domestic banks are going to be a little bit nervous about whether or not they'll be able to collect on receivables that are coming from Sri Lanka or some other country in the world that they're not familiar with," he said. "Ex-Im Bank provides some stability for the commercial banks in lending to organizations like mine," he added.

Patton also uses the U.S. Department of Commerce, notably when he's trying to penetrate new markets. He recently opened an office in Hungary, and he worked with the U.S. Commercial Service office at the embassy to understand how best to open up the market in Eastern Europe, especially understanding opportunities in the Balkans, Croatia, Bosnia, and Serbia.

Collection issues are not regular occurrences, but they do happen. Patton recalls a situation with a customer in Algeria, where the bank that

was guaranteeing the debt of the customer was corrupt. The officers of that bank ran away with all the money and left Patton holding the bag. He went to the Department of Commerce who contacted the U.S. ambassador. Patton recalled: "The ambassador went to bat for us in Algeria to try to recover that money. So that was a great benefit."

Patton also had competitive deals in Morocco that looked like they were not so competitive and appeared to be wired for a particular vendor. "We were able to exercise some U.S. Commercial Service consulting to have the U.S. ambassador there also talk to the minister of communications and let him know that the United States was very interested in this particular deal. Just knowing that other people were watching kept that on the up and up and made it possible for us to win some business in Morocco."

Lessons Learned

When the company started, Patton immediately began to look for international buyers. He used a direct mail campaign and also attracted inquiries from his website. Then he got on an airplane and went to Europe to see some of the contacts, and while there he found others in local phone books and called them from his hotel.

At that stage, exporting was a very small part of the business. Now, though, it has become about 75 percent of all revenue. Through persistence and planning, Patton now has thousands of resale channels in about 125 countries on nearly every continent. Devices are made in the United States and shipped around the world.

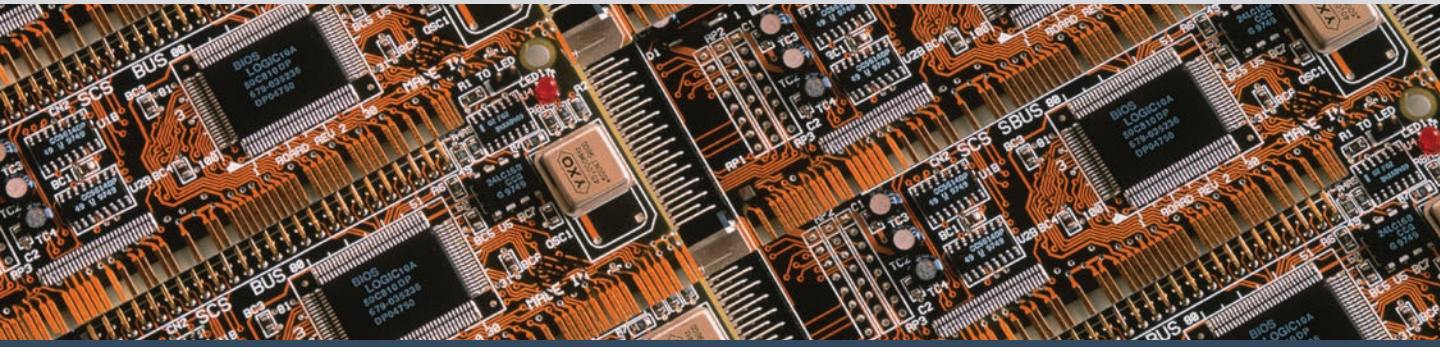
As the business grew, Patton added staff outside of the United States, mostly in sales and technical support roles. He explained: "A big part of our go-to-market strategy is to be able to communicate with our customers in their language. So we have local language capability for technical support and for sales as well."

Patton said he learned a lot about business, including the international side, from his dad, whom he calls "a serial entrepreneur."

"He modeled a lot of things for us. My father has 10 children, so a big family. And we used to gather around the dinner table, and he would have business meetings at the dinner table and a lot of us kids would be listening in. So it was just part of the culture growing up—conducting business at home and working with international reps and channels."

Patton is also an ardent believer in the power of U.S. manufacturing as a powerful brand. "I think the future for U.S. manufacturing is bright."

He said: "We have a competitive advantage just because of our brand recognition. So there's huge opportunity there. And the biggest thing that keeps people from entering into new markets and new spaces is fear. And it's mostly fear of the unknown. What I can say is that people are people everywhere I go, that it's really enjoyable to get to know people in other markets. They have families and kids too, and they are trying to make money, and they have a lot of the same motivations. And it's very easy to get along with people once you start talking the language of commerce."



Chapter 16

Business Travel Abroad

In this chapter . . .

- **Documents you need to travel internationally**
- **Tips for travel and business meetings in your destination country**
- **Cultural factors to take into account**

It is important to visit overseas markets—before any transaction occurs. As discussed in Chapter 3, many foreign markets differ greatly from the domestic market, and by visiting another country you can familiarize yourself with cultural nuances that may affect the design, packaging, or advertising of your product. Traveling abroad can generate new customers. As in the United States, clients and customers overseas often prefer to postpone concluding a transaction until they have conducted business in person with a foreign counterpart.

A successful business trip typically requires substantial planning. This chapter focuses on the many steps you need to take before traveling abroad and offers recommendations that will make your trips more successful.

Obtaining Proper Documentation

All overseas travelers are required to have proper documentation before leaving the United States. You must have a current U.S. passport, visas from certain host countries, and—in some instances—vaccination records. If you're bringing a product for demonstration or sample purposes, an ATA carnet may also be helpful. Businesses should allow 6 to 8 weeks to acquire all the necessary documents.

Carnets

The ATA carnet is a standardized international customs document used to obtain duty-free temporary admission of certain goods. The abbreviation ATA is derived from the French words *admission temporaire* and the English words *temporary admission*. Countries that are signatories to the ATA Convention require the carnet. Under the ATA Convention, commercial and professional travelers may temporarily take commercial samples, tools of the trade, advertising material, and

cinematographic, audiovisual, medical, scientific, or other professional equipment into member countries without paying customs duties and taxes or posting a bond at the border of each country to be visited.

You should contact the U.S. Council for International Business to determine whether the country you are visiting is a member of the ATA Convention. Carnets are generally valid for 12 months. To receive an application or to ask questions, contact the U.S. Council for International Business at (866) 786-5625 or visit ***uscib.org***.

Passports

All travel outside the United States and its possessions requires a valid U.S. passport. Information is available from the nearest local passport office. A wealth of information on passports, applications, and renewals is available online from the U.S. Department of State. You can obtain a nationwide listing of government offices that have passport applications on hand, or you can download a printable application at ***state.gov***. (Express service is available for a fee.)

Visas

Many countries require visas, which cannot be obtained through the Passport Services Directorate. Visas are provided by a foreign country's embassy or consulate in the United States for a small fee. You must have a current U.S. passport to obtain a visa, and in many cases, a recent photo is required. You should allow several weeks to obtain visas, especially if you are traveling to developing nations. Some foreign countries require visas for business travel but not for tourist travel. When you request visas from a consulate or an embassy, you should notify the authorities that you will be conducting business. Check visa requirements each time you travel to a country, since regulations change periodically. Contact a U.S. Commercial Service office to learn about documentation requirements for the countries in which you will be traveling.

Vaccinations

Requirements for vaccinations differ by country. Although there may not be any restrictions on direct travel to and from the United States, there may be restrictions if you travel indirectly and stop over in another country before reaching your final destination. Although not required, vaccinations against typhus, typhoid, and other diseases are advisable. The Centers for Disease Control and Prevention (CDC) maintains a web page to advise travelers of current conditions by country and region at ***cdc.gov/travel***.

Foreign Customs

Because foreign customs regulations vary by country, you are advised to learn in advance the regulations that apply to each country you plan to visit. If allowances for cigarettes, liquor, currency, and certain other items are not taken into account, those items can be impounded at national borders.

Planning an Itinerary

Travel agents can arrange transportation and hotel reservations quickly and efficiently. They can also help plan your itinerary, obtain the best travel rates, explain which countries require visas, advise on hotel rates and locations, and provide other valuable services. Because hotels, airlines, and other carriers pay the fees charged by travel agents, this assistance and expertise may be available at no charge to you.

A well-planned itinerary enables you to make the best use of your time abroad. Although traveling is expensive and your time is valuable, an overloaded schedule can be counterproductive. Two or three definite appointments, confirmed well in advance and spaced comfortably throughout a day, are more productive and enjoyable than a crowded agenda that forces you to rush from one meeting to the next before business is really concluded. If possible, you should plan an extra day to rest to deal with jet lag before starting your scheduled business appointments. As you plan your trip, keep in mind:

- The travel plans should reflect your company's goals and priorities.
- You should obtain the names of possible contacts, arrange appointments, and check transportation schedules before the trip begins. The most important meetings should be confirmed before you leave the United States. The U.S. Commercial Service can offer assistance through programs such as business matchmaking. Refer to Chapter 6 for additional information.
- As a rule, you should keep your schedule flexible enough to allow for both unexpected problems (such as transportation delays) and unexpected opportunities. However, accepting an unscheduled luncheon invitation from a prospective client should not keep you from missing the next scheduled meeting.
- You should confirm the normal workdays and business hours in the countries being visited. In many Middle Eastern countries, for instance, the workweek typically runs from Saturday to Thursday. Lunchtimes that last 2 to 4 hours are customary in many countries.
- You should also contact a U.S. Commercial Service office to learn of any travel advisories issued by the U.S. Department of State for countries you plan to visit. Advisories alert travelers to potentially dangerous in-country situations. The U.S. Department of State also includes travel advisories at ***state.gov***.

Prepare in advance to make your trip smoother and more productive.

- Schedule meetings before leaving the United States. Determine whether an interpreter will be required and, if so, make all necessary arrangements before arriving. Business language is generally more technical than the conversational speech that many travelers can handle—and mistakes can be costly. The U.S. Commercial Service can assist in locating qualified translators.
- Prepare new business cards in as many languages and sizes as necessary. In most countries, exchanging business cards at the first meeting is considered good business manners. As a matter of courtesy, it is best to carry business cards printed both in English and, if applicable, in the language of the country being visited.
- Prepare for different weather conditions. Seasonal weather conditions in the countries being visited are likely to be different from conditions in the United States.
- Address health care issues. Plan appropriately with respect to prescription drugs, health insurance, vaccinations, and other matters, including dietary needs and preferences.
- Find out about the electrical current in each of your destinations. A transformer, plug adapter, or both may be needed to demonstrate company products, as well as your own electronics—such as laptops or tablets for presentations.
- Think about money. U.S. banks can provide a list of automatic teller machines overseas, exchange rates, and traveler's checks.
- Consider transportation. Be aware of public and private transportation available in each country you'll be visiting and have a plan for getting around. Arrange as many needs as possible (e.g., hiring a driver) before you arrive.
- Prepare for differences in culture. Become familiar with basic cultural communication such as hand signals, street signs, and tipping conventions. U.S. Commercial Service commercial officers and specialists can teach you much about new cultures.

Obtaining Assistance from U.S. Embassies and Consulates

As you plan your trip, you can discuss your needs and the services available at particular embassies with the staff of your local U.S. Commercial Service office. You may also find it useful to read the appropriate Country Commercial Guide provided by the Department of Commerce.

Commercial and economic officers in U.S. embassies and consulates abroad assist U.S. exporters by providing in-depth briefings and arranging introductions to appropriate companies, individuals, or foreign government officials. Your local U.S. Commercial Service office can help you access these services, or you can contact embassy and consulate personnel directly; a description of your company and the extent of your international experience will be helpful to in-country U.S. officials. Arrangements should be made as far ahead as possible. Addresses of U.S. embassies and consulates throughout the world are available at ***state.gov***.

Considering Cultural Factors

Businesspeople who hope to profit from their travel should learn about the history, culture, and customs of the countries they wish to visit. Flexibility and cultural adaptation should be the guiding principles for traveling abroad on business. Business manners and methods, religious customs, dietary practices, humor, and acceptable dress vary from country to country. You can prepare for your overseas visits by reading travel guides, which are located in the travel sections of most libraries and bookstores.

Understanding local culture can be the difference between making and losing a sale. And, who knows—you may end up loving the local food, movies, and sports teams!

Some of the cultural differences U.S. companies most often face involve business styles, attitudes toward business relationships and punctuality, negotiating styles, gift-giving customs, greetings, significance of gestures, meanings of colors and numbers, and conventions regarding the use of titles.

The cultural anthropology literature has given us many insights into how other countries do business and how to avoid cultural blunders. To Thais, for example, being touched on the head is extremely offensive. Useful to know? Maybe. But it's hard to imagine in the United States or anywhere else businesspeople meeting for the first time or even after several times and engaging in head touching or hair messing. So by all means read the literature and talk with people who know the culture. But don't be intimidated and don't be reluctant to meet people. And do keep these general rules in mind.

Both understanding and heeding cultural differences are critical to success in international business. Lack of familiarity with the business practices, social customs, and etiquette of a country can weaken your company's position in the market,

Business Culture Tips

Always answer queries politely and promptly. Don't delay when responding to e-mail, fax, and telephone requests for price lists, quotes, and other information. Build your own marketing list from the contacts. Ask for each customer's communication preferences. The query you ignore today might have been your next best source of future business.

Start with what you know. Try beginning with a business culture and system similar to your own. Canada and the United Kingdom are often good markets for beginners.

Learn from your domestic customers. Apply cultural knowledge you gain from selling to customers from different social and ethnic backgrounds than yourself. Preferences, product usage, and business protocol may not translate perfectly to international customers, but helpful information can be harvested here in the United States and applied to market entry efforts abroad.

Be patient. Different cultures have different concepts of time. Few markets have a faster business pace than the United States; many are slower.

Take time to develop personal relationships—especially with distributors or large-volume buyers. Remembering birthdays and other important events is a good intercultural business practice. It's generally not difficult for Americans to be warm, welcoming, respectful, and thoughtful. Be yourself—or even a little more. If you can't, or if the self you know doesn't fit this profile, consider making a trusted employee the primary business contact.

Learn the language. A few words of the native language of your buyers or business associates will go a long way. They will appreciate the effort. Words of welcome on your website, and maybe a currency converter, will further demonstrate your interest in doing business in ways that are mutually respectful.

Get an intern or hire a new employee. As business develops with overseas customers, consider recruiting a student intern or recent college graduate who speaks the language and understands the business culture. Investing in company staffing resources is especially valuable when doing business with customers in Japan, China, and countries in which Arabic is spoken.

Attend a U.S. trade show. Find one in your industry that's attended by foreign buyers. You can make good contacts—even sales—and test the waters before heading overseas.

Attend an international trade show in your industry. U.S. embassies abroad often staff a national pavilion where U.S. sellers and foreign buyers, often from many countries in a region, meet. A great way to understand a different business culture is to do business, not read about how others do it.

Get help. Before you head overseas on a business development trip, contact the U.S. embassy and the U.S. Commercial Service. They'll line up qualified buyers for you to meet, and they'll counsel you on business protocol, market intelligence, regulatory issues, and much more.

prevent you from accomplishing your objectives, and ultimately lead to the failure of your exporting effort.

Americans must pay close attention to different styles of doing business and the degree of importance placed on developing business relationships. In some countries, businesspeople have a very direct style, while in others they are more subtle and value personal relationships more than is customary in most U.S. business relationships. For example, in the Middle East, indulging in small talk before engaging in the business at hand is standard practice.

Attitudes toward punctuality vary greatly from one culture to another, and misunderstanding those attitudes may cause confusion. Romanians, Japanese, and Germans are very punctual, whereas people in many of the Latin countries have a more relaxed attitude toward time. The Japanese consider it rude to be late for a business meeting but acceptable—even fashionable—to be late for a social occasion. In Guatemala, though, people will arrive from 10 minutes early to 45 minutes late for a luncheon appointment.

When cultural lines are being crossed, something as simple as a greeting can be misunderstood. Traditional greetings include shaking hands, hugging, kissing, and placing the hands in praying position. The "wrong" greeting can lead to an awkward encounter.

People around the world use body movements and gestures to convey specific messages.

Misunderstandings over gestures are common occurrences in intercultural communication and can lead to business complications and social embarrassment.

Something as simple and commonplace as a "thumbs up" may be meaningless—or even offensive—in some cultures.

Proper use of names and titles is often a source of confusion in international business relations. In many countries (including Denmark, France, and the United Kingdom), it is appropriate to use titles until use of first names is suggested. First names are seldom used by those doing business in Germany. Visiting businesspeople should use the surname preceded by the title. Titles such as "Herr Direktor" are sometimes used to indicate prestige, status, and rank. Thais, however, address one another by first names and reserve last names for very formal occasions and written communications. In Belgium, it is important to address French-speaking business contacts as "Monsieur" or "Madame," whereas Flemish-speaking contacts should be addressed as "Mr." or "Mrs." To misuse these titles is a great faux pas.

Understanding gift-giving customs is also important. In some cultures, gifts are expected, and failure to present them is considered an insult. In other countries, though, the presentation of a gift is viewed as an offense. Business executives also need to know when to present a gift (e.g., on the initial visit or afterward); where to present the gift (in public or privately); what type of gift to present; what color the gift should be; and how many gifts are appropriate.

Gift giving is an important part of doing business in Japan, where gifts are usually exchanged at the first meeting. In sharp contrast, gifts are rarely exchanged in Germany and are usually not appropriate. Gift giving is not customary in Belgium or the United Kingdom either, although in both countries it's suitable to bring flowers when you are invited to someone's home.

Customs concerning the exchange of business cards also vary. Although this point may seem of minor importance, card giving is a key part of business protocol. In Japan, for example, the Western practice of accepting a business card and pocketing it immediately is considered rude. The proper approach is to carefully look at the card after accepting it, observe the title and organization, acknowledge with a nod that the information has been digested, and perhaps make a relevant comment or ask a polite question.

Attention to detail can go a long way in making you stand out among the competition.

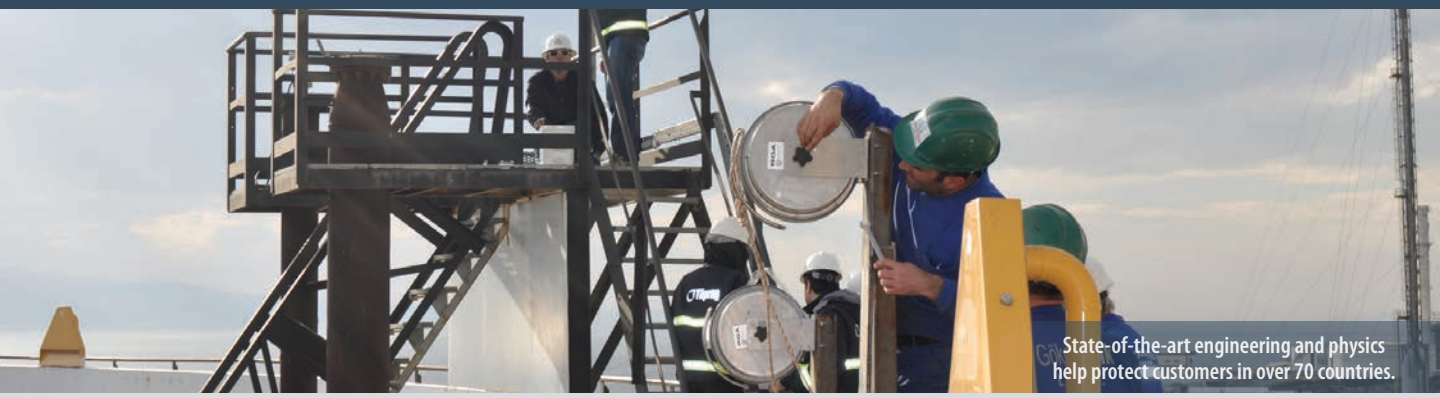
Negotiating is a complex process even between parties from the same nation. It is even more complicated in international transactions because of the potential for misunderstandings that stem from cultural differences. It is essential to understand the importance of rank in the other country and to know who the decision makers are. It is important to be familiar with the business style of the foreign company, to understand the nature of agreements there, and to know the significance of gestures and negotiating etiquette.

Through research or training, you can acquire a working knowledge of the business culture, management attitudes, business methods, and consumer habits before you travel abroad. That knowledge is very likely to have a positive effect on your overseas travel. Your local U.S. Commercial Service office can provide what you need to make a strong first impression.

Success Story

Reducing Risk Through Science and Technology

Lightning Eliminators



State-of-the-art engineering and physics help protect customers in over 70 countries.

The Company

Lightning Eliminators is a Boulder, Colorado, company that does what its name says, according to chief executive Avrum Saunders, who oversees the supply of hardware and related services to protect their oil drilling rigs, storage tanks, airports, schools, prisons, and many other kinds of infrastructure in harm's way. The technology is designed around a principle called charge transfer. Basically, this is how lightning forms: Energy forms from the ground up and from the clouds down; where the two meet, you'll see the lightning strike or flash. Lightning Eliminators' equipment keeps the upward-forming energy from reaching enough strength to attract the downward energy.

The company has made sales in about 70 countries and boasts over 3,000 installations. International sales have comprised 63 percent of revenues and led to 200 percent growth over the past 4 years.

The Challenge

Saunders found that when dealing overseas—particularly in certain countries, such as Nigeria—there can be cultural and legal issues. For example, the Foreign Corrupt Practices Act prohibits U.S. citizens from paying bribes. Competitors may not have such rules or they are not enforced as they are by their governments. Finding new business abroad was a challenge for the company in the beginning. How do you get in front of decision makers in other countries? And when you find them, how do you make sure you get paid? Saunders says that these concerns exist here in the United States but are more complex when dealing in different cultures, countries, and languages. He said: "You've got to understand people's business challenges and needs and models. And once we do that, then you have a conversation to figure out how you can help. But if you're not listening, you're going to miss it."

The Solution

Saunders says that his company has navigated cultural challenges by becoming very good at listening, and that involves "listening for what's not said as well as what is said." To illustrate, Saunders said he's done a significant amount of business in the United Arab Emirates (UAE). He said: "When you first look at UAE, lightning isn't a

particularly intense issue. So the question then is, 'Why are they interested in our equipment?' And that's where you have to start listening. And what we discovered very quickly is, one, they have the money. But they made a decision—a business decision to protect their people. They are going above and beyond the basics. And we had to really understand because in order to sell to a group like that, you have to understand what their business needs are. We've done several millions of dollars' worth of business in the United Arab Emirates."

The U.S. Commercial Service has been helping with the legal, payment, and new business development challenges. Saunders said: "The International Trade Specialists in Denver have been extraordinarily helpful to us. They have helped us open five or six new markets in the last 2 years. In fact my international sales manager was recently in Australia on a trip organized by the Department of Commerce, working with a local staff member in Australia to introduce our technology more fully and to help us find representation. That's been the single most important thing that they've helped us do, is find good representation in a number of different countries. The services they provide, you could not obtain for 20, 30 times the cost it costs us to work with them."

Lessons Learned

Saunders said the company has learned that because of the downturn in 2008–09 companies reduced costs and so can't afford downtime at any of their facilities. Spending now goes toward reducing the risks of a loss in productivity in a climate of reduced costs. Companies that offer solutions will do well internationally.

You need quality representation on the ground in your target markets because you cannot, he argues, "fully comprehend what goes on day-to-day in a place like Nigeria. You just can't do it." He said you also have to focus on details such as financing instruments, including letters of credit and bank transfers. In addition, you have to understand the business culture. "There are things that we are constrained by, such as the Foreign Corrupt Practices Act. Very important to understand in places like Nigeria and other places like that where there are cultural differences that would run afoul of that law. You have to understand what's going on and you have to address those from the outset because otherwise you can get sucked into some very ugly situations."

Saunders says his company has high ethical standards. To his surprise high ethical standards are actually a business advantage rather than working against the U.S. company. What's more, the "Made in the USA" brand in general can be a competitive advantage.

"Foreign buyers really do appreciate, locally, the American technology and quality. We're doing some projects in Nigeria now where they insist on buying American because they've been burned by other companies of other nationalities. They just don't want to risk that. And so we do have that advantage. 'Made in the USA,' overseas, really does have some legs. But you can't do it in an arrogant way. You have to do it in a way that really supports their business models."

Each year, lightning causes billions of dollars in damage and losses.

Chapter 17

Selling Overseas and After-Sales Service

In this chapter . . .

- **Establishing a policy for international inquiries**
- **Researching an international company**
- **Building and maintaining working relationships**
- **Reviewing options for service delivery**

Many successful exporters began selling internationally by responding to an inquiry from a foreign company. Thousands of U.S. companies receive such requests annually, but most companies do not become successful exporters. Generally, successful companies make it a priority to create systems to properly respond to inquiries, conduct research on foreign customers, differentiate between domestic and international sales, and build positive relationships with partners.

Responding to Inquiries

Most, but not all, letters, faxes, or e-mails of inquiry originating abroad are in English. For assistance in translating a letter of inquiry in a foreign language, your company may look to such service providers as banks or freight forwarders. Colleges and universities are also excellent sources for translation services. Most large cities have commercial translators who are hired for a fee. Translation software available online can help you understand basically what is being written, but should not be considered entirely accurate or reliable for business transactions.

A foreign company will typically request product specifications, information, and a price. Some inquiries will come directly from the end-user, whereas distributors and agents who wish to sell the product in their market will have questions of their own. A few foreign companies that are already familiar with your product may wish to place an order immediately.

Regardless of the form of inquiry, your company should establish a policy to deal with it.

Here are a few suggestions.

- Expect some inquiries to have grammatical or typographical errors; the writer may know English only as a second language.
- Reply promptly, completely, and clearly. The correspondent naturally wants to know something about your company before a transaction takes place. The reply should establish your company as a reliable supplier by providing a short but adequate introduction to the company, including bank references and other sources that confirm reliability. Your company's policy on exports should be stated, including cost, terms, and delivery. Your company may wish to respond with a pro forma invoice (see Chapter 13).
- Enclose information on your company's goods or services.
- If the company needs to meet a deadline, send the information by e-mail or, if preferred, fax. Unlike telephone communications, these methods may be used effectively despite differences in time zones and languages.
- Keep a record of foreign inquiries. They may turn into definite prospects as your export business grows. If an intermediary handles exports for your company, the intermediary may use the information.

Think about how nicely you'd like to be treated by another company. Odds are, your international buyers will appreciate similar treatment.

Learning about Potential Clients

There are many ways for a U.S. company to research a foreign company before conducting any formal business. By using available resources, your company can save time and money.

Business Libraries

Several private-sector publications list and qualify international companies. There are also many directories devoted to specific regions and countries.

International Banks

Bankers have access to vast amounts of information on foreign companies and are usually very willing to assist corporate customers.

There are many ways to track and utilize resources. Your local U.S. Commercial Service office can work with you to find a solution that works for your company.

Foreign Embassies

Foreign embassies are located in Washington, DC, and some have consulates in other major U.S. cities. The commercial

(business) sections of most foreign embassies have directories of companies located in their countries.

Sources of Credit Information

Credit information on foreign companies is available from many private-sector sources and from the U.S. Commercial Service. For help in identifying sources of credit information, contact your nearest U.S. Commercial Service office.

U.S. Commercial Service Offices

Experienced U.S. Commercial Service personnel—Commercial Officers and their local staff—can prepare International Company Profiles or help with background reports on foreign companies.

The Internet

You can often find company information through your favorite search engine. However, pay attention to the sources of the information you find, because search engine results may not always be recent or accurate.

Conducting Business Internationally

Companies should be aware of basic business practices that are essential to successful international selling. Because cultures vary, there is no single international business code. The following basic practices, which transcend cultural barriers, will help your company conduct business overseas.

The biggest complaint about U.S. suppliers by foreign buyers? "Failure to ship as promised."

Keep Promises

The biggest complaint foreign importers voice about U.S. suppliers is failure to ship as promised. A first order is particularly important because it shapes the customer's image of a company as a dependable or an undependable supplier.

Be Polite, Courteous, and Friendly

It is important to avoid undue familiarity or slang, which may be misinterpreted. Managers and employees of some overseas companies feel that the usual brief U.S. business letter is lacking in courtesy.

Personally Sign All Letters

Form letters are not satisfactory.

Building a Working Relationship

Once you have established a relationship with an overseas customer, representative, or distributor, it is important to work on building and maintaining that relationship. Common courtesy should dictate business activity. By following the points outlined in this chapter, your company can present itself well. Beyond these points, you should keep in mind that a foreign contact should be treated and served with the same professional considerations extended to a domestic contact. For example, your company should keep customers and contacts notified of all changes, including changes in price, personnel, address, and phone numbers.

Your product may be the best and the cheapest—but if international customers don't like talking to you, you'll lose business.

Because of distance, a contact can "age" quickly and cease to be useful unless communication is maintained. If your company cannot afford frequent travel, consider using e-mail, videoconferencing, faxes, and phone calls to keep the working relationship active and up to date.

Providing After-Sales Service

Quality, price, and service are three factors critical to the success of any export sales effort. Quality and price are addressed in earlier chapters. Service, which we discuss here, should be an integral part of any company's export strategy from the start. Properly handled, service can be a foundation for growth. Ignored or left to chance, it can cause an export effort to fail.

Service is the prompt delivery of the product. It is courteous sales personnel. It is a user or service manual modified to meet a customer's needs. It is ready access to a service facility. It is knowledgeable, cost-effective maintenance, repair, or replacement. Service is location. Service is dealer support. Service is an open line of communication between you—the decision maker—and your customer. This includes listening attentively and actively probing for clues on how to make your service or product even better.

Service varies by the product type, the quality of the product, the price of the product, and the distribution channel used. For certain export products—such as food products, some consumer goods, and commercial disposables—service ends once distribution channels, quality criteria, and return policies have been identified.

Learn about your local competitors. Find out what people like—and don't like—about working with them. Strive to provide an even better experience.

However, the characteristics of consumer durables and some consumables demand that service be available after the purchase has been completed. For such products, service is a feature the consumer expects. In fact, foreign buyers of industrial goods typically

place service at the forefront of the criteria they evaluate when deciding whether to purchase goods or services.

All foreign markets are sophisticated, and each has its own expectations of suppliers and vendors. U.S. manufacturers or distributors must ensure that their service performance is comparable to that of the predominant competitors in the market. This level of performance is an important determinant in ensuring a competitive position, especially if the other factors of product quality, price, promotion, and delivery appeal to the buyer.

You may decide, as part of your exporting strategy, not to provide after-sales service. Your company may determine that its export objective is the single or multiple opportunistic entries into export markets. Although this approach may work in the short term, a buyer who recalls your failure to provide expected levels of service will be less likely to respond favorably to subsequent product offerings. As a result, for any such buyer, your market development and sales expenditures may produce only one-time sales.

Reviewing Service Delivery Options

Service is an important factor in the initial export sale and ongoing success of products in foreign markets. Your company has many options for the delivery of service to foreign buyers.

Build trust with your local partners and let their service handle local issues. You'll save time and money.

Requiring the Buyer to Return the Product

A high-cost option—and the most inconvenient for the foreign retail, wholesale, commercial, or industrial buyer—is for the product to be returned to the manufacturing or distribution facility in the United States for service or repair. The buyer incurs a high cost and loses the use of the product for an extended period, while you must absorb the export cost of the same product a second time when you return it. Fortunately, there are practical, cost-effective alternatives.

Using a Local Partner

For goods sold at retail outlets, a preferred service option is to identify and use local service facilities. Although this approach requires up-front expenses to identify and train the staff for local service outlets, the costs are more than repaid in the long run.

Exporting a product into commercial or industrial markets may dictate a different approach. For the many U.S. companies that sell through distributors, selection of a representative to serve a region, a nation, or a market should be based not only on the distributing company's ability to sell effectively but also on its ability and willingness to service the product. Assessing ability to provide service requires that you ask questions about existing service facilities; about the types, models, and age of existing service equipment; about training practices for service personnel; and about the company's experience in servicing similar products.

Find out what your partner(s) can already do locally. It may save you time and money.

If the selected export distribution channel is a joint venture or other partnership arrangement, the overseas partner may have a service or repair capability in the markets to be penetrated. Your company's

negotiations and agreements with its partner should include explicit provisions for repairs, maintenance, and warranty service. The cost of providing this service should be negotiated into the agreement.

If the product being exported is to be sold directly to end-users, service and timely performance are critical to success. The nature of the product may require delivery of on-site service to the buyer within a very specific time period. You must be prepared to negotiate such issues. On-site service may be available from service organizations in the buyer's country, or your company may have to send personnel to the site to provide service. The sales contract should anticipate a reasonable level of on-site service and should specify the associated costs. Existing performance and service history can serve as a guide for estimating service and warranty requirements on export sales. This practice is accepted by small and large exporters alike.

If your export activity in a particular region grows to a considerable level, it may become cost effective for your company to establish its own branch or subsidiary operation in the foreign market. The branch or subsidiary may be a one-person operation or a more extensive facility staffed with sales, administrative, service, and other personnel, most of whom are local nationals. This high-cost option enables you to ensure sales and service quality, provided the personnel receive ongoing training in sales, products, and service. A benefit of this option is the control it gives you, coupled with the ability to serve multiple markets in a single region. Be sure to investigate the tax and foreign currency consequences of operating a foreign branch office that collects money from buyers.

Depending on your product or service, you may need a local contractor or subsidiary who can meet directly with customers.

If you have neither partners nor joint venture arrangements in a foreign market, you must be prepared to accept return of merchandise that the foreign buyer refuses to take. This situation is not likely to occur in cash-in-advance transactions or with orders entailing a confirmed letter of credit. However, in an open-account or documentary collection transaction, the buyer is in a position to refuse delivery of the goods without suffering financial harm. If you cannot find another buyer in that market or if you elect not to abandon the goods, you will be faced with the fees and charges associated with returning the goods to the United States. Your freight forwarder, who can be of great assistance in this process, should the need arise, can quote you a price for return of the goods.

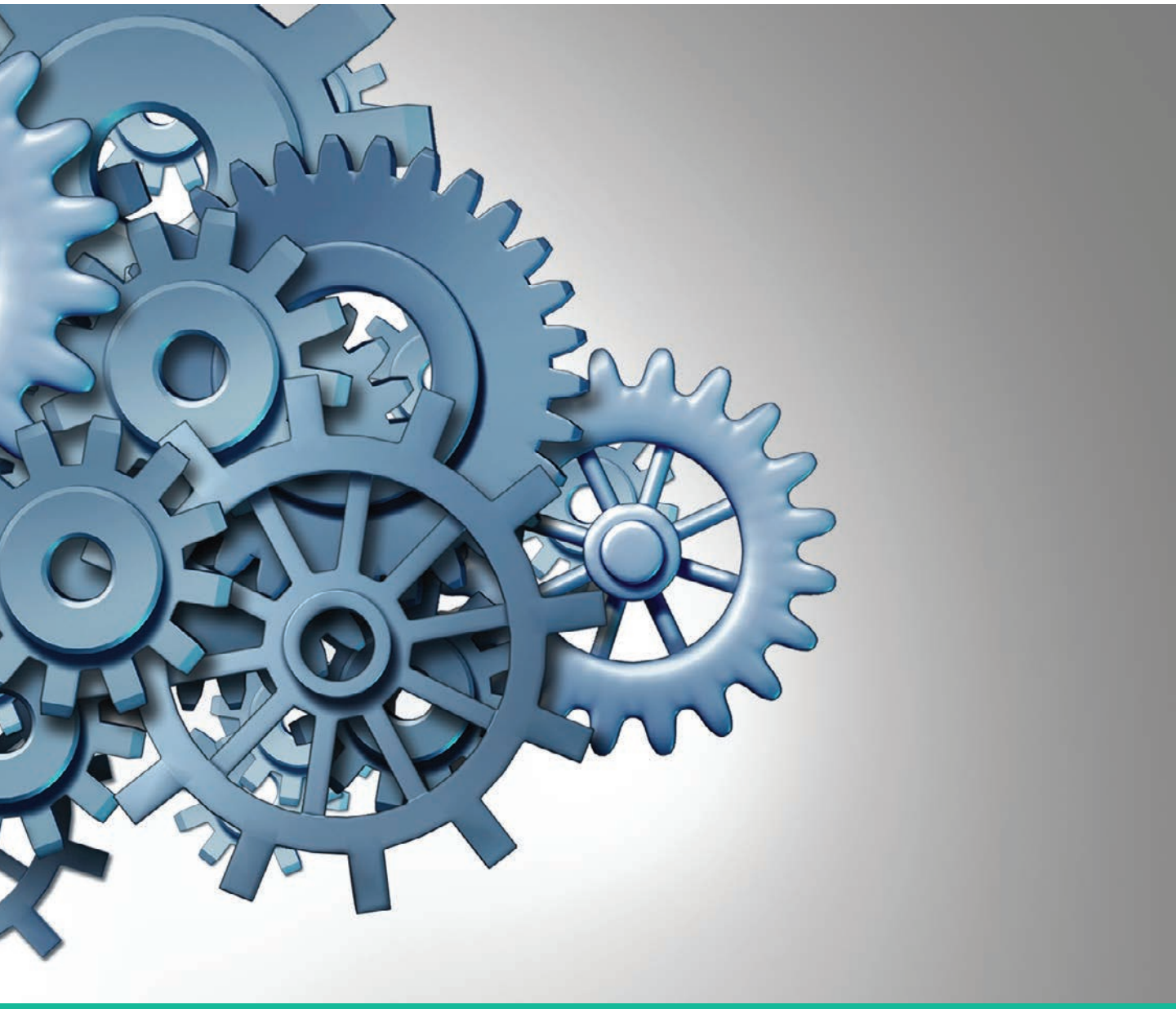
Don't be afraid to set up contingency plans, or to calculate cost-benefit for difficult decisions. Planning in advance will save headaches later on.

Considering Legal Options

Service is an important part of many types of representative agreement. For better or worse, the quality of service in a country or region affects your company's reputation there.

It is imperative that agreements with a representative be specific about the form of the repair or service facility, the number of people on the staff, inspection provisions, training programs, and payment of costs associated with maintaining a suitable facility. The depth or breadth of a warranty in a given country or region should be tied to the service facility to which you have access in that market. It is important to promise only what you can deliver.

Another part of the representative agreement may detail the training you will provide to your foreign representative—for example, how often training will be provided, who must be trained, where training will be provided, and which party will absorb travel and per diem costs.



Chapter 18

Rules of Origin for FTAs

In this chapter . . .

- **The important role of Rules of Origin**
- **Qualifying your goods**
- **Product-specific and percentage-based rules**
- **Doing the math**

One of the key ways to take advantage of the Free Trade Agreement (FTA) is to understand the Rules of Origin (ROOs). Put simply, to qualify for the reduced-duty benefit, the product exported must originate from an FTA party or must contain a specified percentage of U.S. inputs and components. Each FTA has its own Rules of Origin that describe how exported goods shipped to a country or a region may qualify for duty-free or reduced-duty benefits. Because the ROOs are FTA-specific and product-specific, they need to be followed carefully.

The next section presents a general overview of the steps that must be taken before a good can be qualified for an FTA benefit. The different types of ROOs are examined, and the specific ways products may qualify for FTAs are explained. These include the concept of substantial transformation and product-specific and percentage-based formulas used in qualifying products for FTAs. How the ROOs are applied to specific FTAs is explained, and the ROOs for textiles, chemicals, and agricultural products, as well as the de minimis provision, fungible goods, and shipping spare parts and accessories, are all discussed.

To receive preferential treatment under an FTA, the exported good:

1. Must be made in the FTA territory
2. Must meet the appropriate Rule of Origin pertaining to specific products and the specific FTA
3. Must be documented as originating via appropriate certifications or information provided to the importer or its representative broker

Each FTA contains a specific chapter on Rules of Origin Procedures and lists all product-specific ROOs by Harmonized System (HS) numbers. The final texts of all FTAs can be found at *1.usa.gov/1ph6Np9*.

Basic Steps to Qualify a Product for Duty-Free or Reduced-Duty Benefits

1. Obtain the product's HS classification number by locating the Schedule B code at ***uscensus.prod.3ceonline.com***, and use the first six digits of the Schedule B to convert it into the HS number.
   - Note: The product must be made in an FTA country and shipped directly to be considered for an FTA benefit.
2. Determine the duty (tariff) rate. See if there is a duty difference between the standard (Most-Favored-Nation, or MFN) and preferential rates by searching the Customs Information database at ***export.customsinfo.com***, or the FTA Tariff Tool at ***1.usa.gov/1wsnrTj***.
   - If there is no duty advantage—that is, the duty rate is already set at "zero," or if the FTA rate is equal to or higher than the MFN rate—there is no need to qualify the good (unless the importer specifically requests it, in which case the product still needs to "qualify for an FTA preference").
   - Use standard shipment procedures (i.e., regular export documents apply without the need to fill out the NAFTA certificate).
   - Note: For larger shipments to Mexico or Canada, even if there is no tariff advantage, you may still want to qualify a good for NAFTA, since goods accompanied by the NAFTA certificate would get a "break" on the merchandise processing fee.
   - If there is a duty advantage, proceed to qualifying your product for an FTA (step 3).
3. Qualify your product for an FTA.
   - If the product contains all FTA originating inputs and your product qualifies, proceed to certifying the origin (step 6).
   - If the product contains any non-FTA inputs (or unknown origin inputs), identify HS codes for all these inputs and proceed to identifying the specific ROO (step 4).
4. Identify the specific ROO for the final product that you are exporting by consulting the USHTS General Notes or visiting ***export.gov/fta*** and locating a ROOs chapter in the final text of a relevant FTA agreement (the ROOs are listed by HS codes).

U.S. FTA Exports by Country (USD Millions, 2012–14)

Country	2012	2013	2014 (YTD)
Australia	17.818	26.13	31.208
Bahrain	0.684	1.017	1.21
Canada	207.371	301.609	292.443
Chile	1.093	17.514	18.885
Colombia	13.328	18.391	16.394
Costa Rica	4.86	7.223	7.23
Dominican Republic	5.379	7.158	7.097
El Salvador	2.223	3.274	3.09
Guatemala	4.038	5.554	5.913
Honduras	4.064	5.373	5.733
Israel	10.571	13.747	142.701
Jordan	1.078	2.082	1.766
Korea	30.184	41.714	42.317
Mexico	159.435	226.079	216.331
Morocco	1.556	2.482	2.175
Nicaragua	0.654	1.059	1.128
Oman	1.191	1.571	1.747
Panama	6.811	10.563	9.924
Peru	6.783	10.101	9.357
Singapore	20.091	30.671	30.56
Total	**499.213**	**733.312**	**847.21**

5. Determine if the foreign content meets the ROO—that is, if it meets the tariff shift (TS) or regional value content (RVC) rule. You may also determine what content does not meet the ROO and consider making changes so it meets the ROO.
   - If a TS-based rule is the only option for qualifying origin, check if all non-FTA inputs make the required change in HS classification (tariff shift) as they are incorporated into the final product. If not, check if the non-FTA originating inputs make up less than the required de minimis threshold (generally 7 to 10 percent of the invoice value). If you meet the TS-based rule or the de minimis exception, proceed to certifying the origin (step 6).
   - Use the RVC-based rule if necessary. If the TS-based rule cannot be applied or the product does not qualify under the TS or the de minimis exception, see if an RVC percentage part of the rule may apply (assuming it is allowed). This part of a rule will require calculating a minimum percentage of FTA content using a specific formula (transaction value, net cost, buildup, or builddown). A costed bill of material will be necessary to calculate the RVC. If you determine that the product does not meet the ROO, consider changing it so it can qualify for an FTA.
   - Note: Other rules can be used to qualify a product or an FTA preference (e.g., fungible goods, sets, chemical reaction rules, etc.)..
6. Certify the origin for your product. Fill out an FTA-specific Certificate of Origin (COO), or provide required data elements in a free-form format to the requesting party (e.g., the buyer/importer, broker/freight forwarder, customs). The COO must include information on how the good qualifies for an FTA preference—that is, state the preference criterion or include a statement explaining how the good qualifies. This varies among FTAs. Shipments with a low value do not need a COO. It may state on the commercial invoice that a good qualifies.
   - Note: To obtain a sample COO and information on how to fill out a Certificate of Origin or certification information, visit ***export.gov/fta*** and select "FTA country," call 800-USA-TRADE (800-872-8723), or e-mail ***tic@trade.gov***.
7. Retain information on how the product was qualified in case of a customs audit. Most of the FTA agreements require retention of the documents for up to 5 years.

Each FTA has its own ROOs that describe how exported goods may qualify for duty-free or reduced-duty benefits.

Rules of Origin and Why They Matter

ROOs are used to determine whether or not a product qualifies to receive preferential tariff treatment under the FTA. The rules determining country of origin can be very simple if a product is manufactured and assembled primarily in one country. However, when a finished product includes components that originate in many countries, determining origin can be more complex. There are two types of ROOs: nonpreferential and preferential.

Nonpreferential (Generic) Rules of Origin

Nonpreferential ROOs are used to determine the origin of goods exported to countries that are WTO members and therefore grant one another duties (tariffs) on a Most-Favored-Nation (MFN) basis. Under nonpreferential rules, the product must be wholly the agriculture output, product, or manufacture of one particular country. Alternatively, the product with components from more than one country needs to be substantially transformed.

ROOs will help you determine whether or not your product or service qualifies for preferential tariff treatment under an FTA.

Preferential Rules of Origin

FTA ROOs are preferential rules. They are specific to each FTA and generally vary from agreement to agreement and from product to product. They are used to verify that products are eligible for duty-free or reduced duties under U.S. trade preference programs even though they may contain nonoriginating (non-FTA) inputs. As with a nonpreferential ROO, if goods are a "wholly obtained product" establishing the origin is usually fairly straightforward. However, if a good was not entirely grown or manufactured in the targeted country/region, specific ROOs apply. For example, if paper is made entirely in the United States from U.S. trees, the paper clearly originates in the United States. However, if envelopes are folded and glued in the United States from paper made in Brazil, which one is considered the country of origin? The FTA ROOs provide precise answers to such questions.

Originating Goods

To receive preferential treatment under FTAs, U.S. goods must qualify or "originate." A good is considered to be originating if it is wholly obtained (see the definition of wholly obtained at the end of this chapter) in the territory of one or more of the parties to the FTA. It's also originating if it contains foreign input but meets specific ROOs listed in particular FTA agreements or meets other requirements specified in the agreement.

Locating FTA-Specific Rules of Origin

ROOs are listed in FTA agreements by HS product classification numbers. Therefore, to determine which specific ROO applies, an exporter needs to identify the product's specific HS classification number.

You can locate an HS number by looking up its U.S. Schedule B number. The first six digits of the Schedule B number are usually the HS number, which is recognized by customs officials everywhere. To locate the Schedule B number for your product, visit ***1.usa.gov/1vHzesa***, or call the U.S. Census Bureau at (800) 549-0595 x2.

You will find the most up-to-date ROOs on the U.S. International Trade Commission website under "General Rules of Interpretation" by clicking on "General Note 12" of the rules. The ROOs for all of the FTAs are in one document. The list of 2014 ROOs can be found at ***1.usa.gov/1x20QLD***.

The ROOs are listed by chapters (first two digits of an HS number) and within a particular chapter by the full six-digit HS code. Many of the ROOs refer to a portion of an HS code. Each HS code may be broken up. For example, the HS code 123456 will have chapter 12, heading 1234, and subheading 123456.

The original ROOs are listed in an annex or in the chapter titled "Rules of Origin" of a particular FTA. They may be found at ***1.usa.gov/1ph6Np9***. Another source is ***export.gov/fta***; click on the FTA country you are shipping to and select the "Rules of Origin" link. You may need to consult the most recent rules as opposed to the original ones because the HS codes tend to be revised every few years, necessitating the need to adjust the rules.

Categories of Rules of Origin

Product-specific ROOs are based on changes in tariff classification, RVC, or both. They explain how goods that contain nonoriginating, non-FTA materials or components may still qualify for FTA benefits, an important feature, since many popularly traded items contain inputs from different countries other than those involved in the FTA.

Product-Specific Rules of Origin Based on Tariff Shift

Some product-specific ROOs use a tariff classification change test to determine if a significant change has occurred within the FTA region for the product to qualify for the FTA benefit. Generally, under such a rule, a good qualifies as originating in the FTA region if its final production process takes place within the FTA region and if that results in a significant change in components or materials nonoriginating in FTA country.

Percentage-Based Rules: Doing the Math

Regional Value Content–Based Rule

RVC-based rules require that a good include a certain percentage of FTA content. You can calculate RVC-based rules four ways. Which you use depends on the product and on the FTA.

RVC-based rules are net cost (NC), transaction value (TV), builddown, and buildup.

The net cost rule calculates the RVC as the net cost of the goods minus the value of nonoriginating materials expressed as a percentage.

Net Cost Method

$RVC = (NC - VNM \times 100) / NC$

- The transaction value rule calculates the RVC as the transaction value of the goods minus the value of the nonoriginating material expressed as a percentage.

Transaction Value Method

$RVC = (TV - VNM \times 100) / TV$

- RVC = Regional value content, expressed as a percentage
- TV = Transaction value of the good adjusted to FOB (amount paid or payable)
- NC = Net cost (amount to produce a good)
- VNM = Value of nonoriginating materials used by the producer in the production of the good

Buildup Method

RVC = (VOM / AV) × 100

- RVC = The regional value content, expressed as a percentage
- AV = The adjusted value (the value for customs purposes)
- VOM = The value of originating materials that are acquired or self-produced and used by the producer in the production of the good

Builddown Method

RVC = ((AV – VNM) / AV) × 100

- RVC = The regional value content, expressed as a percentage
- AV = The adjusted value (the value for customs purposes)
- VNM = The value of nonoriginating materials that are acquired and used by the producer in the production of the good. VNM does not include the value of a material that is self-produced.

Regional Value Content–Based Rule

The RVC test allows the good to qualify using either one of two methods. These are the builddown and buildup methods.

Builddown Method

RVC = Adjusted value – Value of nonoriginating materials/Adjusted value × 100

Buildup Method

RVC = (Originating materials / Adjusted value) × 100

Using the example above, then:

We will assume that the adjusted value for the piece of furniture in question is $1,000.

The value of nonoriginating materials used in the production of the good excludes, according to Article 5.5:

1. The costs of freight, insurance, packing, and all other costs incurred in transporting the material to the location of the producer
2. Duties, taxes, and customs brokerage fees on the material paid in the territory of one or both of the parties, other than duties and taxes that are waived, refunded, refundable, or otherwise recoverable, including credit against duty or tax paid or payable
3. The cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-products
4. The cost of processing incurred in the territory of a party in the production of the nonoriginating materials
5. The cost of originating materials used in the production of the nonoriginating material in the territory of a party

Example Rules of Origin

Combining Multiple Rule Types, U.S.–Australia FTA

Rule of Origin

"A change to heading 1902 through 1905 from any other chapter."

Products

Breads, pastries, cakes, biscuits (HS 1905.90)

Non-U.S. or Australian Input

Flour (classified in HS Chapter 11), imported from Europe

Explanation

For all products classified in HS headings 1902 through 1905, all non-U.S. or Australian inputs must be classified in an HS Chapter other than HS Chapter 19 in order for the product to obtain preferential duty treatment. These baked goods would qualify for tariff preference because the nonoriginating goods are classified outside of HS Chapter 19. (The flour is in Chapter 11.) However, if these products were produced with nonoriginating mixes, then these products would not qualify because mixes are classified in HS Chapter 19, the same chapter as baked goods.

Rule of Origin

"A change to subheading 9403.10 through 9403.80 from any other heading; or

A change to subheading 9403.10 through 9403.80 from any other subheading, provided there is a regional value content of not less than

(a) 35 percent based on the buildup method, or

(b) 45 percent based on the builddown method."

Product

Wooden furniture (HS 9403.50)

Non-U.S. or Australian input

Parts of furniture (classified in 9403.90), imported from Asia

Explanation

Wooden furniture can qualify for preferential tariff treatment in two different ways: through a TS or a combination of a TS and an RVC requirement.

Because the non-U.S. or Australian input is classified in the same heading (9403) as the final product in this case, the good does not meet the simple TS in the first rule. Moving down to the second rule though, the good can meet the TS because the nonoriginating component is from a different subheading than the final product. For the good to qualify as originating, however, it must also pass the RVC test.

Our assumed value of nonoriginating materials in this case is $500. Plugging this into the builddown formula:

RVC = ($1,000 – $500)/$1,000 × 100 = 50%

We can see that the percentage is greater than the 45 percent required by the rule. Therefore, the good qualifies as originating.

If instead, we use the buildup formula (i.e., (Value of originating materials/Adjusted value) × 100):

Note: Certain expense may be added (since some are able to be deducted from nonoriginating materials covered above) to the value of originating materials. For more information on valuing materials, refer to Article 5.4 and 5.5 of the U.S.–Australia FTA.

RVC = $500/$1,000 × 100 = 50%

The RVC is again 50 percent and is greater than the 35 percent required by the rule. With either method, the good specified in this example qualifies as originating under the U.S.–Australia FTA.

Rules of Origin Are Product- and FTA-Specific, but Some General Categories Apply

For given product nonoriginating inputs to qualify for particular FTA benefits, the product may need to comply with a tariff classification change (TS)–based ROO or an RVC-based rule or both (TS and RVC). Note: These rules apply only to foreign, non-FTA agreement content, and each rule is product-specific, according to the product and the HS number.

NAFTA, Chile, Singapore, Australia, CAFTA-DR, Colombia, Panama, Korea, and Peru FTAs

All apply TS- and/or RVC-based rules of origin. The TS-based rules vary among FTAs, but the principle of the tariff classification change test remains the same. However, the applicable RVC-based rules may be net cost–, transaction value–, builddown-, or buildup-based, depending on a particular FTA and the particular product. For example, to qualify a product for NAFTA, an exporter may need to apply either the net cost–based RVC rule (requires minimum 50 percent FTA-origin content) or transaction value–based ROO (requires minimum of 60 percent FTA-origin content).

Chile, Singapore, Australia, CAFTA-DR, Peru, Colombia, Korea, and Panama FTAs

Apply the buildup rule (the total value of the originating materials must be greater than 35 percent) or the builddown rule (the subtracted value of the nonoriginating materials must be greater than 45 percent).

Israel, Jordan, Morocco, Bahrain, and Oman FTAs

Apply TS (substantial transformation) + RVC-based rules. A product that meets FTA ROOs qualifies for FTA tariff treatment if it is produced entirely in the United States using only U.S. materials or if it contains at least 35 percent RVC and undergoes substantial transformation.

Other Important Rules of Origin Considerations

De Minimis Rule

In general, the De Minimis Rule allows up to 10 percent (7 percent for NAFTA) of the selling price to be nonqualifying material even though the nonoriginating good may not meet the TS test. However, if a foreign input does not meet the ROO and does not qualify under the De Minimis Rule, then the good does not qualify under the FTA. Note: There are several exceptions to the De Minimis Rule. For example, the De Minimis Rule for textile products is calculated by weight. It is important to consult the text of the agreement for more details.

Accumulation

A good may be produced partly in the territory of one FTA partner and completed in the territory of the other FTA partner. A good may be made from materials produced by one producer from components produced by another producer. To determine whether a good meets an HS classification change, treat all the production done in both countries as if it occurred in one country, and treat the production done by all producers in the FTA region as if it were completed by one. Note: Accumulation can occur within a particular FTA region.

Sector-Specific Considerations

The U.S. industries for autos, chemicals, agricultural products, and textiles have taken a special interest in creating ROOs specifically designed for that industry.

Automobiles

The ROOs for automotive products are based on a tariff change alone or a tariff change and a regional value–content requirement. NAFTA requires that the RVC for these products be calculated using the net cost RVC method only. NAFTA also requires tracing. The provisions for tracing are not used in any other FTAs.

Chemicals

The U.S. chemical industry uses the same ROOs for all agreements. For that purpose they created simplified versions of the rules of origin for Chapters 28 to 39.

Agricultural Products

Some agricultural products may be subject to tariff rate quotas or other restrictions. For qualifying agricultural products for FTA benefits, visit ***www.fas.usda.gov***.

Textile Products

The textile and apparel ROOs are the "yarn-forward" standard, which requires that the yarn production and all operations "forward" (fabric production through apparel assembly) occur in the United States and/or the partner country. However, fibers, yarns, and fabrics determined not to be available in commercial quantities in a timely manner may be sourced from outside the countries for use in qualifying textile and apparel products. For example, a fabric that is determined not to be commercially available may come from a third party, be cut and assembled into a garment in the partner country, and imported to the United States duty-free. Other factors may need to be considered, such as tariff preference levels and safeguards. To look up ROOs for textile products, visit ***otexa.ita.doc.gov*** and click on the specific FTA country or region.

Fungible Goods and Materials

FTAs allow treating "fungible goods or materials" as originating where some goods are FTA eligible but others are not. A fungible good may be considered originating if the importer, exporter, or producer has either physically segregated (originating from the nonoriginating) the fungible good or material or used any inventory management system to segregate what is recognized in the Generally Accepted Accounting Principles.

Indirect Materials

Indirect materials are considered to be originating materials regardless of where they are produced. An indirect material is defined as a good used in the production, testing, or inspection of a good, but not physically incorporated into the good, or a good used in the maintenance of buildings or the operation of equipment associated with the production of a good.

Accessories, Spare Parts, and Tools

Accessories, spare parts, and tools that are delivered with the goods and that form part of the goods' standard accessories, spare parts, or tools, are considered originating if the goods originate and are disregarded in determining whether all the non-originating materials undergo tariff change.

Certifying Origin of a Product for FTA

Depending on a particular FTA, the exporter or importer may need to document the origin of the good. Documenting the origin varies, depending on the FTA. In general, the manufacturer, importer, or exporter will certify that a particular good is FTA-eligible even though it may contain nonoriginating material. The actual certificates may be required forms such as U.S.–Israel FTA or NAFTA. (Note: Customs authorities

now allow the use of an alternative NAFTA form, with prior customs approval.) Other FTAs may not require specific certificates. Claiming preference is done by the importer.

The importer may ask the exporter why a particular good qualifies under an FTA. If this happens, no specific form is required, but the exporter or the producer may need to provide a written statement that includes the necessary information. More details on how to document product origin can be found at ***export.gov/fta***.

In general, most FTAs require these pieces of information if the buyer or the customs officers in the buyer's country requests them:

1. Name and address of the importer
   - The legal name, address, telephone, and e-mail of the importer of record of the good
2. Name and address of the exporter
   - The legal name, address, telephone, and e-mail of the exporter of the good (if different from the producer)
3. Name and address of the producer
   - The legal name, address, telephone, and e-mail of the producer of the good (if known)
4. Description of the good
   - A description of a good that is sufficiently detailed to relate it to the invoice and the Harmonized System (HS) nomenclature
5. HS tariff classification number
   - The HS tariff classification, to six or more digits, as specified for each good in the Rules of Origin
6. Preference criterion
   - States how a particular product "originates," including how it complies with particular ROOs, where applicable. Some agreements use a code system (e.g., preference criterion B), whereas others accept a sentence explaining how a particular good qualifies for an FTA (e.g., Australia).

Know your domestic supply chain backward and forward? Some of that same information may be helpful when filling out your certificates of origin.

Australia

No COO is required.

Bahrain

No COO is required.

CAFTA-DR

No COO is required.

Chile

No COO is required.

Colombia

No COO is required.

Israel

Israel requires a specific (green) certificate. It needs to be purchased from a vendor or U.S.–Israel chamber of commerce.

Jordan

No specific COO is required.

Korea

No specific COO is required.

Morocco

No specific COO is required.

Oman

No specific COO is required.

Panama

No specific COO is required.

Peru

There is no prescribed format. However, specific information is required. See guidance on documenting origin.

NAFTA

COO sample and NAFTA-related videos. See guidance on documenting origin.

Singapore

No COO is required. See guidance on documenting origin.

Generic Certificates

If a good does not qualify for an FTA, a generic COO may be issued.

The exporter should verify whether a COO is required with the buyer and/or an experienced shipper/freight forwarder or the U.S. Commercial Service. Note: Some countries (i.e., several Middle Eastern countries) require that a generic COO be notarized, certified by a local chamber of commerce, and legalized by the commercial section of the consulate of the destination country. For certain Middle Eastern countries, the National U.S.–Arab Chamber of Commerce may also provide such services.

For textile products, an importing country may require a COO issued by the manufacturer. The number of required copies and the language it is written in may vary by country.

In addition, COOs for goods that don't qualify for FTAs can be obtained from a local chamber of commerce or at ***ecertify.com*** (a private vendor). Note that some chambers won't issue COOs or will only issue them to their members. Also keep in mind that certificates will only be issued for goods made in the U.S.

A buyer may also ask you (the exporter) to certify the origin of a product. Here is an example of what's included in such a certificate (in this case, related to the U.S.-Korea free trade agreement):

1. Single shipment
   - Provide the commercial invoice number.
2. Multiple shipments of identical goods
   - Provide the blanket period in "mm/dd/yyyy to mm/dd/yyyy" format (12-month maximum).
3. Authorized signature, company, title, telephone, fax, e-mail, and certification date
   - The signee must have access to the underlying records and the legal authority to bind the company. This field shall include signature, company, title, telephone, fax, and e-mail.
4. Certification

   I certify that:

   The information on this document is true and accurate, and I assume the responsibility for proving such representations. I understand that I am liable for any false statements or material omissions made on or in connection with this document;

   I agree to maintain and present upon request the documentation necessary to support these representations.

   The goods comply with all requirements for preferential tariff treatment specified for those goods in the United States–Korea Free Trade Agreement; and

   This document consists of _____ pages, including all attachments.

   Signature, Date:
   Title:
   Phone Number:
   E-mail Address:

Success Story

Cleaning Up in New Markets

Jet Incorporated

The Company

Jet Incorporated of Cleveland, Ohio, was founded in 1955 to replace septic tanks with advanced technology, treating wastewater using a smaller, cleaner system. Over the years, the company expanded into commercial systems ("small package plants") for decentralized locations such as small villages, hotels, and tourist resorts.

In short, Jet provides biological wastewater treatment solutions. Wastewater enters a tank, solids are digested by aerobic bacteria, and air is injected to promote bacteria growth—speeding up the digestion process.

Company founder David MacLaren made exporting his goal right from the start, and he obtained patents in several countries.

The Challenge

According to Jet's CEO Ron Swinko, the most significant challenge has been servicing international distributors. Because some countries have lax environmental regulations, the distributors must be convinced of the product's merits—and this means educating the distributors.

According to Swinko: "Developing countries may be focused on environmental sustainability, even to a greater extent than we are here in the United States, because of the scarcity of water. But they may not necessarily understand the benefit of regulation or the equipment that's available."

Swinko said it's important to have enough inventory for immediate shipment to meet distributors' demands. It's essential to understand export regulation and documentation requirements for each country, as well as to provide needed technical support for installed systems. Providing support often involves training the distributors to service the equipment, having support personnel available by phone at odd hours, and, if all else fails, being prepared to dispatch technicians from the United States.

Jet discovered the importance of expanding its education program to include local regulators. "In the Cayman Islands and in Kenya, we hosted a seminar on wastewater management for the

Architectural Association of Kenya to at least provide some education into how wastewater treatment systems can generate water for reuse, and how our systems can be incorporated into sustainable projects for dwellings and resorts."

The Solution

Like many other successful small U.S. exporters, Jet turned to the U.S. government for help. "We've used the U.S. Commercial Service quite extensively," said Swinko. "Because our business relies on increasing the number of distributors, we look in developing countries for distribution partners who are technically capable either because they're currently in the water purification or construction business."

Recently, Swinko used U.S. Commercial Service support to expand into Southeast Asia and South America. He recently returned from a trade mission to Brazil that included four meetings with potential distributors in São Paolo. "The trade mission itself was impressive, we met with high-level government officials and high-level management of potential clients. We received very detailed technical presentations on their environmental sustainability programs—and certainly, from our perspective, the mission was well worth the participation and the trip. We've already had detailed discussions with two companies, and three quote requests"

Swinko added that Jet got a lot of new business at very low cost. "The U.S. Commercial Service spends a great deal of time learning about our business, learning about our company and the requirements for distributors in the location, and then evaluates potential distributor partners and partner companies in that area. They set up the meetings after they reviewed our requirements and found good matches in terms of company personality and technical expertise."

The increase in global sales has been a boon for Jet, which has grown to 30 employees including, recently, an engineer focused on international work. And because most of Jet's domestic business depends on residential construction, the export sales helped keep the business growing during the U.S. housing market collapse.

"Today, international business is about 25 percent of total revenue with some nice year-over-year growth in the 30-plus percent range," he said. "The future outlook is maintaining those increases, especially in the markets where we have a significant presence, like Africa, as well as the South American and Latin American countries." Swinko believes there is room for considerable potential for growth in developing countries.

Lessons Learned

There is considerable value in product "Made in the USA." In Swinko's experience: "In many cases the U.S. brand can compensate for the higher price. Overseas buyers greatly respect our emphasis on environmental regulation. And U.S.-made equipment has a very positive reputation." He also says buyers ask about non-U.S. components, so the more U.S. content, the better.

Asked if Jet is a better company because of its international experience, Swinko replied: "We're a better company because each of those countries, while they can use the basic equipment, do require some modification, do require particular levels of service. And so that knowledge has really driven some of our innovation of the equipment systems we produce."

Jet plans to keep working with U.S. government export assistance programs. "'I'm from the government and I'm here to help,' has never been a laugh line for us. Just the opposite—we say, 'Welcome, and let's go.'"

Chapter 19
Conclusion

In summary . . .

- **Exporting companies are the most successful**
- **International buyers probably want your products**
- **The U.S. government offers programs to help you overcome challenges and find success**

U.S. businesspeople have told us that if they knew more about the mechanics of exporting, they would try selling their goods abroad, or, if they've already begun, they'd sell to more countries. In the preceding pages, we've attempted to answer in considerable detail the questions we are frequently asked by thousands of people who want an international sale or have one and are in the midst of figuring out how to get it to the buyer.

While the contents of this book can help move you along in the exporting process, it's not intended to be a substitute for your own good judgment or the considerable range of expertise available in your community via what we referred to as your Global Entrepreneurial Ecosystem (GEE), the range of organizations and institutions that can provide advice, mentoring, and specialized services. Chief among these resources is the U.S. Commercial Service, and a list of offices can be found at the end of this book.

These folks will be happy to introduce you to the export community of practice in your region and state. They will also link you to colleagues wherever they may be who have expertise in your particular business, product, or industry. They will then open the door to our international resources including market and industry experts in more than 75 countries throughout the world. We work with colleagues in the Department of State and the Department of Agriculture, who are posted in just about every other country in the world.

So thanks for taking the time to read this book. We hope you'll refer to it often, and feel free to share it with a friend. As a nation we are well under way to breaking down the distinction between domestic business and international business, as if the latter is somehow worryingly risky or exotic. The time is at hand when all business is, well, just business. But most of all, as a nation that's a leader in so many important categories, we also need to lead in producing more people like you—who are at home in the world.

Appendix A: Glossary of Terms

Advance Payment
See: Cash in Advance.

Air Waybill
Bill of lading that covers both domestic and international flights transporting goods to a specified destination. It is a non-negotiable instrument of air transport that serves as a receipt for the shipper, indicating that the carrier has accepted the goods listed therein, and obligates the carrier to carry the consignment to the airport of destination according to specified conditions.

Antidiversion Clause
To help ensure that U.S. exports go only to legally authorized destinations, the U.S. government generally requires a Destination Control Statement (DCS) on shipping documents. The DCS must be entered for items subject to the EAR, except for items designated EAR99 or that are eligible for certain license exceptions.

Antidumping Duty
Special duty imposed to offset the price effect of dumping that has been determined to be materially harmful to domestic producers. (See also dumping.)

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

Bill of Lading
Contract between the owner of the goods and the carrier. For vessels, there are two types: a straight bill of lading, which is not negotiable, and a negotiable, or shipper's orders, bill of lading. The latter can be bought, sold, or traded while the goods are in transit.

Carnet
Standardized international customs document known as an ATA (admission temporaire or temporary admission) carnet that is used to obtain duty-free temporary admission of certain goods into the countries that are signatories to the ATA Convention. Under the ATA Convention, commercial and professional travelers may take commercial samples; tools of the trade; advertising material; or cinematographic, audiovisual, medical, scientific, or other professional equipment into member countries temporarily without paying customs duties and taxes or posting a bond at the border of each country to be visited.

Carriage and Insurance Paid To (CIP)
Carriage and insurance paid for delivery to a named destination.

Carriage Paid To (CPT)
Carriage paid to a named destination. This term is used in place of CFR and CIF for all modes of transportation, including intermodal.

Cash in Advance (advance payment)
Payment from a foreign customer to a U.S. exporter prior to actually receiving the exporter's products. It is the least risky form of payment from the exporter's perspective.

Central America and Dominican Republic Free Trade Agreement (CAFTA-DR)
One of a series of free trade agreements involving the U.S. and other countries. Benefits include duty-free or reduced-duty access, better overall market access, treatment equal to local companies, and intellectual property protection.

Certificate of Conformity
Signed statement from a manufacturer attesting that a product meets certain technical standards.

Certificate of Free Sale
Signed statement from the producer or exporter attesting that a product has been commercially sold within the country of origin.

Certificate of Origin (COO)
Signed statement required in certain nations attesting to the origin of the export item. Certificates of origin are usually validated by a semiofficial organization, such as a local chamber of commerce. A North American Free Trade Agreement (NAFTA) certificate of origin is required for products traded among the NAFTA countries (Canada, Mexico, and the United States) when duty preference is claimed for NAFTA qualified goods.

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

Confirming House
Company based in a foreign country that acts as a foreign buyer's agent and places confirmed orders with U.S. exporters. The confirming house guarantees payment to the exporters.

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

Consular Invoice
Document required in some countries that describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment. Certified by the consular official of the foreign country stationed in the United States, it is used by the country's customs officials to verify the value, quantity, and nature of the shipment.

Contract
Written or oral agreement that is legally enforceable.

Copyright
Protection granted to the authors and creators of literary, artistic, dramatic, and musical works, sound recordings, and certain other intellectual works. A computer program, for example, is considered a literary work in the United States and some other countries.

Cost and Freight (CFR)
Cost and freight to a named overseas port.

Cost, Insurance, and Freight (CIF)
Cost, insurance, and freight to a named overseas post. The seller quotes a price for the goods shipped by ocean (including insurance), all transportation costs, and miscellaneous charges to the point of debarkation from the vessel.

Countertrade
General expression meaning the sale or barter of goods on a reciprocal basis. There may also be multilateral transactions involved.

Countervailing Duties
Additional duties imposed by an importing country to offset government subsidies in an exporting country when the subsidized imports provide a measurable benefit to a specific enterprise or industry and cause material injury to domestic industry in the importing country.

Customs-Bonded Warehouse
Building or other secured area in which dutiable goods may be stored, may be manipulated, or may undergo manufacturing operations without payment of duty.

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

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

Date Draft
Document used when the exporter extends credit to the buyer. It specifies a date on which payment is due, rather than a time period as with the time draft.

Destination Control Statement (DCS)
Required for all exports from the United States of items on the Commerce Control List that are not classified as EAR99. The statement is added to the commercial invoice.

Direct Exporting
Sale by an exporter directly to an importer located in another country.

Distributor
A merchant in the foreign country who purchases goods from the U.S. exporter (often at a discount) and resells them for a profit. The foreign distributor generally provides support and service for the product, relieving the U.S. exporter of these responsibilities.

Dock Receipt
Receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities.

Documentary Letter of Credit/Documentary Draft
Document used to protect the interests of both buyer and seller. A letter of credit requires that payment be made on the basis of the presentation of documents to a lender conveying the title and indicating that specific steps have been taken. Letters of credit and drafts may be paid immediately or at a later date. Drafts that are paid on presentation are called sight drafts. Drafts that are to be paid at a later date, often after the buyer receives the goods, are called time drafts or date drafts.

Dumping
Sale of an imported commodity at a lower price in one market than in another—i.e., selling at less than "normal value" on the same level of trade, and in the ordinary course of trade. Dumping is considered an actionable trade practice when it disrupts markets and injures producers of competitive products in the importing country. Article VI of the General Agreement on Tariffs and Trade (World Trade Organization) permits the imposition of special antidumping duties on goods equal to the difference between their export price and their normal value.

E-Commerce
Buying and selling over the Internet.

Electronic Export Information (EEI), formerly known as Shipper's Export Declaration

Document used to control exports and act as a source document for official U.S. export statistics. EEI is required for shipments when the value of the commodities, classified under any single Schedule B number, is more than $2,500. EEI must be prepared and submitted, regardless of value, for all shipments requiring an export license or destined for countries restricted by the Export Administration Regulations.

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

U.S. government organization that provides export finance products to U.S. exporters and foreign buyers of U.S. products.

Export License

Government document that authorizes the export of specific items (including technology), in specific quantities, to a specific destination. May be required for most or all exports to some countries, or for other countries only under special circumstances.

Export Management Company (EMC)

Company that performs the functions that would be typically performed by the export department or the international sales department of manufacturers and suppliers. EMCs develop personalized services promoting their clients' products to international buyers and distributors. They solicit and transact business in the names of the producers they represent or in their own name for a commission, salary, or retainer plus commission. EMCs usually specialize either by product or by foreign market. Because of their specialization, the best EMCs know their products and the markets they serve very well and usually have well-established networks of foreign distributors already in place. This immediate access to foreign markets is one of the principal reasons for using an EMC, because establishing a productive relationship with a foreign representative may be a costly and lengthy process.

Export Packing List

List that itemizes the exported material in each package and indicates the type of package, such as a box, crate, drum, or carton. An export packing list is considerably more detailed and informative than a standard domestic packing list. It also shows the individual net, tare, and gross weights and measurements for each package (in both U.S. and metric systems).

Export Processing Zone (EPZ)

Site in a foreign country established to encourage and facilitate international trade. EPZs include free trade zones, special economic zones, bonded warehouses, free ports, and customs zones. EPZs have evolved from initial assembly and simple processing activities to include high-tech and science parks, finance zones, logistics centers, and even tourist resorts.

Export Quotas

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

Export Subsidies

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

Export Trading Company (ETC)

Company that acts as an independent distributor, creating transactions by linking domestic producers and foreign buyers. As opposed to representing a given manufacturer in a foreign market, the ETC determines what U.S. products are desired in a given market and then works with U.S. producers to satisfy the demand. ETCs can perform a sourcing function, searching for U.S. suppliers to fill specific foreign requests for U.S. products.

Ex Works (EXW)

The buyer is responsible for all export procedures, including vehicle loading, transportation, and costs arising after collection of the goods.

Foreign Agricultural Service (FAS)

A U.S. Department of Agriculture bureau with programs related to market development, international trade agreements and negotiations, and the collection of statistics and market information. It also administers the USDA's export credit guarantee and food aid programs, and helps increase income and food availability in developing nations.

Foreign Corrupt Practices Act (FCPA)

Act making it unlawful for persons or companies subject to U.S. jurisdiction to offer, pay, or promise to pay money or anything of value to any foreign official for the purpose of obtaining or retaining business. It is also unlawful to make a payment to any person while knowing that all or a portion of the payment will be offered, given, or promised, directly or indirectly, to any foreign official for the purposes of assisting the company in obtaining or retaining business. "Knowing" includes the concepts of "conscious disregard" and "willful blindness." The FCPA also covers foreign persons or companies that commit acts in furtherance of such bribery in the territory of the United States. U.S. persons or companies, or covered foreign persons or companies, should consult an attorney when confronted with FCPA issues.

Foreign-Trade Zones (FTZ)
Domestic U.S. sites that are considered outside U.S. customs territory and are available for activities that might otherwise be carried on overseas for customs reasons. For export operations, the zones provide accelerated export status for purposes of excise tax rebates. For reexport activities, no customs duties, federal excise taxes, or state or local ad valorem taxes are charged on foreign goods moved into zones unless and until the goods or products made from them are moved into customs territory. Thus, the use of zones can be profitable for operations involving foreign dutiable materials and components being assembled or produced in the United States for reexport.

Free Alongside Ship (FAS)
A seller's price for the goods, including the charge for delivery of the goods alongside at the named port of export. The seller handles the cost of wharfage, while the buyer is accountable for the costs of loading, ocean transportation, and insurance. It is the seller's responsibility to clear the goods for export.

Free In
Pricing term that indicates that the charterer of a vessel is responsible for the cost of loading goods onto the vessel.

Free In and Out
Pricing term that indicates that the charterer of the vessel is responsible for the cost of loading and unloading goods from the vessel.

Free on Board (FOB)
An international commercial term (Incoterm) that means free on board and is used in international sales contracts. In an FOB contract, a buyer and a seller agree on a designated FOB point. The seller assumes the cost of having goods packaged and ready for shipment from the FOB point, whether it is the seller's own place of business or some intermediate point. The buyer assumes the costs and risks from the FOB point, including inland transportation costs and risks in the exporting country, as well as all subsequent transportation costs, including the costs of loading the merchandise on a vessel. If the contract stipulates "FOB vessel," the seller bears all transportation costs to the vessel named by the buyer, as well as the costs of loading the goods on that vessel. The same principle applies to the abbreviations FOR (free on rail) and FOT (free on truck).

Free Out
Pricing term that indicates that the charterer of the vessel is responsible for the cost of unloading goods from the vessel.

Freight Forwarder
Agent for moving cargo to an overseas destination. These agents are familiar with the import rules and regulations of foreign countries, the export regulations of the U.S. government, the methods of shipping, and the documents related to foreign trade.

Global Entrepreneurial Ecosystem (GEE)
A local community support system for small and medium-size exporters.

Gross Domestic Product (GDP)
The total value of all goods and services produced by a country.

Incoterms
See: Terms of sale.

Indirect Exporting
Sale by the exporter to the buyer through a domestically located intermediary, such as an export management company or an export trading company.

Inspection Certificate
Document required by some purchasers and countries to attest to the specifications of the goods shipped. The inspection is usually performed by a third party.

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

Intellectual Property (IP)
Collective term used to refer to new ideas, inventions, designs, writings, films, and so on that are protected by a copyright, patent, or trademark.

International Buyer Program (IBP)
A U.S. Department of Commerce program that matches U.S. exhibitors at select U.S. trade shows with foreign buyers.

International Trade Administration (ITA)
A U.S. Department of Commerce bureau responsible for export promotion programs.

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

Letter of Credit
Instrument issued by a bank on behalf of an importer that guarantees an exporter payment for goods or services, provided that the terms of the credit are met. A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank) adds its promise to pay to that of the foreign bank (the issuing bank). A letter of credit may be either irrevocable, in which case it cannot be changed unless both parties agree, or revocable, in which case either party may unilaterally make changes. A revocable letter of credit is inadvisable as it carries many risks for the exporter.

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

Market Survey
Report that provides a narrative description and assessment of a particular market along with relevant statistics. The reports are often based on original research conducted in the countries studied and may include specific information on both buyers and competitors.

Multilateral Development Bank (MDB)
An institution created by a group of countries to provide development-related financing and professional advising.

NAFTA Certificate of Origin
Used by NAFTA signatories (i.e. Canada, Mexico, and the United States) to determine if goods imported into their countries receive reduced or eliminated duty.

North American Free Trade Agreement (NAFTA)
Trade agreement between the U.S., Canada, and Mexico featuring duty-free entry and other benefits for goods that qualify.

Office of the U.S. Trade Representative
U.S. government agency responsible for negotiating trade agreements.

Packing List
See: Export packing list.

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

Piggyback Marketing
Arrangement in which one manufacturer or service company distributes a second company's product or service. The most common piggybacking situation is when a U.S. company has a contract with an overseas buyer to provide a wide range of products or services. Often this first company does not produce all of the products it is under contract to provide, and it turns to other U.S. companies to provide the remaining products.

Primary Market Research
Collection of data directly from a foreign marketplace through interviews, surveys, and other direct contact with representatives and potential buyers. Primary market research has the advantage of being tailored to your company's needs and provides answers to specific questions, but the collection of such data is time consuming and expensive.

Pro Forma Invoice
Invoice prepared by the exporter before shipping the goods, informing the buyer of the goods to be sent, their value, and other key specifications.

Quotation
Offer by the exporter to sell the goods at a stated price and under certain conditions.

Regional Value Content (RVC)
A technique used to determine whether a product meets a rule of origin.

Remarketer
Export agent or merchant who purchases products directly from the manufacturer, packing and marking the products according to his or her own specifications. Remarketers then sell these products overseas through their contacts in their own names and assume all risks.

Sales Representative
Representative who uses your company's product literature and samples to present the product to potential buyers. An overseas sales representative is the equivalent of a manufacturer's representative in the United States. The sales representative usually works on a commission basis, assumes no risk or responsibility, and is under contract for a definite period of time.

Secondary Market Research
Collection of data from various sources, such as trade statistics for a country or a product. Working with secondary sources is less expensive and helps your company focus its marketing efforts. Although secondary data sources are critical to market research, they do have limitations. The most recent statistics for some countries may be more than 2 years old, and the data may be too broad to be of much value to your company.

Sight Draft
Document used when the exporter wishes to retain title to the shipment until it reaches its destination and payment is made. Before the shipment can be released to the buyer, the original "order" ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that air waybills do not need to be presented in order for the buyer to claim the goods. Thus, risk increases when a sight draft is being used with an air shipment.

Small Business Development Center (SBDC)
National network of counselors for small enterprises. Offers services that can help first-time exporters.

Tariff
Tax imposed on a product when it is imported into a country. Some foreign countries apply tariffs to exports.

Technology Licensing
Contractual arrangement in which the licenser's patents, trademarks, service marks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee for compensation that is negotiated in advance between the parties. U.S. companies frequently license their technology to foreign companies that then use it to manufacture and sell products in a country or group of countries defined in the licensing agreement. A technology licensing agreement usually enables a company to enter a foreign market quickly and poses fewer financial and legal risks than owning and operating a foreign manufacturing facility or participating in an overseas joint venture.

Terms of Sale
Terms that define the obligations, risks, and costs of the buyer and seller involving the delivery of goods that comprise the export transaction. These terms are commonly known as Incoterms.

Time Draft
Document used when the exporter extends credit to the buyer. The draft states that payment is due by a specific time after the buyer accepts the time draft and receives the goods. By signing and writing "accepted" on the draft, the buyer is formally obligated to pay within the stated time.

Trade Fair Certification Program (TFC)
A U.S. Department of Commerce program that certifies international trade events so U.S. companies can know ahead of time if an event is high quality and offers opportunities.

Trademark
Word, symbol, name, slogan, or combination thereof that identifies and distinguishes the source of sponsorship of goods and may serve as an index of quality of a particular product.

Trade Statistics
Data that indicate total exports or imports by country and by product. They allow you to compare the size of the market for a product in various countries. By looking at statistics over several years, you can determine which markets are growing and which markets are shrinking.

Trading House
Company specializing in the exporting and importing of goods produced or provided by other companies.

U.S. Agency for International Development (USAID)
U.S. government agency that procures goods and services from U.S. companies for use in developing countries.

U.S. Central Intelligence Agency (CIA)
U.S. government agency tasked with gathering intelligence and statistics. Publishes the *World Factbook*, an important market research resource.

U.S. Commercial Service (CS)
The trade promotion arm of the U.S. Department of Commerce's International Trade Administration.

U.S. Department of Agriculture (USDA)
U.S. government department responsible for developing and executing federal government policy on farming, agriculture, forestry, and food.

U.S. Department of Commerce (DOC)
U.S. government department responsible for promoting domestic economic growth and handling other commerce-related responsibilities.

U.S. Small Business Administration (SBA)
U.S. government agency that manages programs for U.S. exporters, including finance programs.

U.S. Trade and Development Agency (USTDA)
U.S. government agency that provides grants for feasibility studies in developing countries.

Warehouse Receipt
Receipt identifying the commodities deposited in a recognized warehouse. It is used to transfer accountability when the domestic carrier moves the export item to the port of embarkation and leaves it with the ship line for export.

Appendix B: Definitions of Abbreviations

AV	Adjusted Value
B2B	Business-to-Business
B2C	Business-to-Consumer
BIS	Bureau of Industry and Security
CAFTA-DR	Central America and Dominican Republic Free Trade Agreement
CDC	Centers for Disease Control and Prevention
CEO	Chief Operating Officer
CIA	Central Intelligence Agency
CIF	Cost, Insurance, and Freight
CIP	Carriage and Insurance Paid To
COO	Certificate of Origin or Chief Operating Officer (depending on context)
CPT	Carriage Paid To
CS	U.S. Commercial Service
CTO	Chief Technology Officer
DHL	DHL (formerly DHL Worldwide Express)
DOC	U.S. Department of Commerce
DOE	U.S. Department of Energy
DOS	U.S. Department of State
EMC	Export Management Company
ETC	Export Trading Company
Ex-Im Bank	Export-Import Bank of the United States
EXW	Ex Works
FAS	Foreign Agricultural Service or Free Alongside Ship (depending on context)
FCA	Free Carrier
FedEx	FedEx (formerly Federal Express)
FOB	Free on Board
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GEE	Global Entrepreneurial Ecosystem
IBP	International Buyer Program
ITA	International Trade Administration
LLC	Limited Liability Corporation
LLP	Limited Liability Partnership
MDB	Multilateral Development Bank
NAFTA	North American Free Trade Agreement
NC	Net Cost
ROI	Return on Investment
ROO	Rule(s) of Origin
RVC	Regional Value Content
SBA	U.S. Small Business Administration
SBDC	Small Business Development Center
TANC	Trade Agreements Negotiations and Compliance
TFC	Trade Fair Certification Program
TV	Transaction Value
UPS	UPS (formerly United Parcel Service)
U.S.	United States (of America)
USA	United States of America
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USPS	U.S. Postal Service
USTDA	U.S. Trade and Development Agency
USTR	Office of the U.S. Trade Representative
VNM	Value of Nonoriginating Materials
VOM	Value of Originating Materials
VP	Vice President
WTO	World Trade Organization

Appendix C: Free Trade Agreements Chart

	Year Implemented	Merchandise Processing Fee	Direct Shipment Imported Directly Transit and Transhipment	Rule of Origin Citation	Rule of Origin	Regional Value Content Calculation Method	Automotive Goods	De Minimis	Chemical Reaction and Related Rules of Origin	Special Origination Rules	Drawback Restriction	Documentation Required	Responsibility for Compliance	Repair and Alteration Provision
NAFTA	1994	1	3	GN 12 (b), 19 CFR 181, append. II §4	7,8	14	Yes,20	25	Yes, for certain petroleum products	27	Yes	Yes,31	Exporter	Duty Free
Chile	2004	1	3,4	GN 26 (b), 19 CFR 10.451	7,9	15	No,21	26	Yes, HTS Ch. 27–38, GN 26 (m) (vi)	No	Yes	No,32	Importer	Duty Free
Singapore	2004	1	5	GN 25 (b), 19 CFR 10.531	7,9,10	15	No,21	26	Yes, HTS Ch. 27–40, GN 25 (n) (v)	28	No	No,32	Importer	Duty Free
Australia	2005	1	5	GN 28 (b)	7,9	15 (automotive only)	22	26	Yes, HTS Ch. 27–40, GN 28 (m) (vii)	No	No	No,32	Importer	Duty Free
Israel	1985	1	6	Agreement Annex 3	11	16	No	No	No	29	No	33	Importer	No
Jordan	2001	2	6	GN 18 (b)	11	16	No	No	No	No	No	No,32	Importer	No
Bahrain	2006	1	5	GN 30 (b)	11,12	17	No	No	No	No	No	No,32	Importer	Duty Free
Morocco	2006	2	5	GN 27 (b)	11,12	17	No	No	No	No	No	No,32	Importer	Duty Free
Oman	2009	1	5	GN 31 (b)	11 or 13	17	No	No	No	No	No	No,32	Importer	Duty Free
CAFTA-DR	2006–2009	2	3,4	GN 29 (b)	7,9	18	Yes,23	26	Yes, HTS Ch. 27–40, GN 29 (m) (vii)	30	No	No,32	Importer	Duty Free
Peru	2009	1	3,4	GN 32 (b)	7,9	18	Yes,24	26	Yes, HTS Ch. 27–40, GN 32 (m) (vii)	No	No	No,32	Importer	Duty Free
Korea	2012	1	3,4	GN 33 (b)	7,9	18,19	Yes,23	26	Yes, HTS Ch. 27–40, GN 33 (m) (vii)	No	No	No,32	Importer	Duty Free
Colombia	2012	1	3,4	GN 34 (b)	7,9	18	Yes,24	26	Yes, HTS Ch. 27–40, GN 34 (m) (vii)	No	No	No,32	Importer	Duty Free
Panama	2012	1	3,4	GN 35 (b)	7,9	18	Yes,23	26	Yes, HTS Ch. 27–40, GN 35 (m) (vii)	No	No	No,32	Importer	Duty Free

1 Exempt for Originating Goods

2 No exemption

3 Transhipment—may not leave customs control or undergo production in a third country

4 Transit—may not leave customs control or undergo production in a third country

5 May leave customs control but may not undergo production in a third country

6 May change hands in non-retail sale for re-export; may not undergo further production in third country

7 Wholly obtained or produced

8 Wholly of originating materials, tariff shift, and/or Regional Value Content

9 Wholly of originating materials, tariff shift, and Regional Value Content

10 Sourcing Initiative (ISI)

11 Wholly of Growth, Product, or Manufacture or Value Content plus Substantial Transformation

12 19 CFR 102 or Product Specific Tariff Shift

13 Product Specific Tariff Shift

14 Transaction Value and Net Cost method where there is RVC

15 Build-Up or Build-Down method where there is RVC

16 U.S. materials plus direct cost of processing must equal 35 percent of appraised value (up to 15 percent second market content)

17 U.S./second market materials plus direct cost of processing must equal 35 percent of appraised value

18 Build-Up, Build-Down, Net Cost (limited)

19 Indirect materials are disregarded when computing value of originating materials in Build-Up RVC

20 Tracing the value of certain non-originating materials and net cost required

21 RVC percentage is 30 percent Build-Up or 50 percent Build-Down method where there is RVC

22 Certain tariffs require net cost

23 Automotive goods may use Net Cost, Build-Up, or Build Up for RVC

24 Automotive goods must use Net Cost RVC

25 7 percent of transaction value with exceptions

26 10 percent of transaction value with exceptions

27 Preference Criterion E for certain high-tech goods

28 Integrated Sourcing Initiative for certain high-tech goods imported from Singapore

29 Qualified Industrial Zones: Gaza, West Bank, parts of Jordan

30 Qualifying goods for certain agricultural products

31 NAFTA certificate of origin must be in importer's possession at time of claim

32 Freeform paperwork of required type (certification, supporting statement, declaration) with data elements upon request by Customs

33 Green Form unless approved exporter

Appendix D: Forms

Here, you will find examples of common documents used in the export process. It is not an exhaustive compilation.

Some of these may be examples of things your company would complete; others would mainly be completed by freight forwarders or companies shipping on your behalf.

Prior to shipping an export order, talk to your shipper of choice or your local U.S. Commercial Service office. They can help you determine which specific documents are required.

Air Waybill
Document for air shipments.

Straight Bill of Lading
Required document when goods are shipped by truck, rail, or ship.

Pro Forma Invoice
Price quotation from the seller to the buyer.

Export Quotation Worksheet
Related to the pro forma invoice.

Commercial Invoice
Required document with contact, content, and cost information.

Certificate of Origin
Must be provided if requested by the buyer or a foreign Customs agency.

NAFTA Certificate of Origin
Required if requested when shipping goods to/from Mexico and Canada. Covers qualifying goods only; i.e., goods that meet NAFTA rule of origin. Must be prepared and signed by the exporter.

Packing List
Contents of shipment plus size information.

Insurance Certificate
Documentary evidence that the goods are insured against loss, damage, or theft.

Shipper's Letter of Instructions
Provide if requested. Often prepared by the freight forwarder.

Letter of Credit
Sample letter of credit with instructions. Seller doesn't get paid until the terms are met.

Draft Transmittal Letter
Issued by the exporter to the importer for the purpose of receiving payment.

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House Air Waybill Number

Shipper's Name and Address

Shipper's Account Number

Not negotiable

Air Waybill

(Air Consignment note)
Issued by

Copies 1, 2 and 3 of this Air Waybill are originals and have the same validity

Consignee's Name and Address

Consignee's Account Number

It is agreed that the goods described herein are accepted in apparent good order and condition (except as noted) for carriage SUBJECT TO THE CONDITIONS OF CONTRACT ON THE REVERSE HEREOF. THE SHIPPER'S ATTENTION IS DRAWN TO THE NOTICE CONCERNING CARRIERS' LIMITATION OF LIABILITY. Shipper may increase such limitation of liability by declaring a higher value for carriage and paying a supplemental charge if required.

These commodities licensed by the United States for ultimate destination

Diversion contrary to

United States law prohibited.

Airport of Departure (Addr. of first Carrier) and requested Routing

To	By first Carrier	Routing and Destination	Air Waybill Number	Currency	CHGS Code	WT/VAL PPD	WT/VAL COLL	Other PPD	Other COLL	Declared Value for Carriage	Declared Value for Customs

Airport of Destination	Flight/Date	For Carrier Use only	Flight/Date	Amount of Insurance	INSURANCE: If Carrier offers insurance and such insurance is requested in accordance with conditions on reverse hereof, indicate amount to be insured in figures in box marked "amount of insurance."

Handling Information

No. of Pieces RCP	Gross Weight	kg lb	Rate Class / Commodity Item No.	Chargeable Weight	Rate / Charge	Total	Nature and Quantity of Goods (incl. Dimensions or Volume)

Prepaid | Weight Charge | Collect

Other Charges

Valuation Charge

Tax

Total other Charges Due Agent

Total other Charges Due Carrier

Shipper certifies that the particulars on the face hereof are correct and that insofar as any part of the consignment contains dangerous goods, such part is properly described by name and is in proper condition for carriage by air according to the applicable Dangerous Goods Regulations.

Signature of Shipper or his Agent

Total prepaid | Total collect

Currency Conversion Rates | cc charges in Dest. Currency

Executed on (Date) at (Place) Signature of Issuing Carrier or its Agent

House Air Waybill Number

Form No. 16-810 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

STRAIGHT BILL OF LADING – SHORT FORM – ORIGINAL – NOT NEGOTIABLE

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading, the property described above in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated above which said carrier (the word carrier being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its route, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed as to each carrier of all or any of said property over all or any portion of said route to destination and as to each party at any time interested in all or any said property, that every service to be performed hereunder shall be subject to all the bill of lading terms and conditions in the governing classification on the date of shipment.

Shipper hereby certifies that he is familiar with all the bill of lading terms and conditions in the governing classification and the said terms and conditions are hereby agreed to by the shipper and accepted for himself and his assigns.

From 1

At 2 3 20____ DESIGNATE WITH AN (X) BY TRUCK ☐ FREIGHT ☐ 4

Shipper's No. 5

Carrier 6

Agent's No. 7

(Mail or street address of consignee–For purposes of notification only.)

Consigned to 8

Destination 9 State of _____ County of _____

Route 10

Delivering Carrier 11 Vehicle or Car Initial 12 No. _____

No. Packages	Kind of Package, Description of Articles, Special Marks, and Exceptions	*Weight (Sub. to Cor.)	Class or Rate	Check Column
13	14	15	16	
TOTAL PIECES				

The fibre containers used for this shipment conform to the specifications set forth in the box maker's certificate thereon, and all other requirements of Rule 41 of the Uniform Freight Classification and Rule 5 of the National Motor Freight Classification. Shipper's imprint in lieu of stamp, not a part of bill of lading approved by Interstate Commerce Commission.

23 _____ Shipper, Per

24 _____ Agent, Per 25

Permanent post-office address of shipper 26

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1

Subject to Section 7 of conditions of applicable bill of lading, if this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges.

Per 17 _____
(Signature of Consignor.)

If charges are to be prepaid, write or stamp here, "To be Prepaid." 18

Received $ 19 _____ to apply in prepayment of the charges on the property described hereon.

_____
Agent or Cashier

Per _____
(The signature here acknowledges only the amount prepaid.)

Charges Advanced: 20 _____

C.O.D. SHIPMENT

Prepaid ☐
Collect ☐ $ 21 _____

Collection Fee _____

Total Charges _____

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "Carrier's or Shipper's weight."

†Shipper's imprint in lieu of stamp; not a part of bill of lading approved by the Department of Transportation.

NOTE–Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

THIS SHIPMENT IS CORRECTLY DESCRIBED. CORRECT WEIGHT IS 22 _____ LBS.

DECLARED VALUE PER LB. STATED $_____

Subject to verification by the Respective Weighing and Inspection Bureau According to Agreement.

Per _____

If lower charges result, the agreed or declared value of the within described containers is hereby specifically stated to be not exceeding 50 cents per pound per article.

This is to certify that the above-named materials are properly classified, described, packaged, marked and labeled and are in proper condition for transportation according to the applicable regulations of the Department of Transportation.

27 _____ SIGNATURE

Straight Bill of Lading—Instructions

1. Shipper (From)—Enter the company name and address of the shipper (consignor).
2. Point of Origin (At)—Enter the city and state of the actual shipping point.
3. Date of Shipment—Enter the date of the shipment, the date the carrier took control of the merchandise.
4. Truck/Freight—check the "Truck" block if shipment is to move by truck, or the "Freight" block if the shipment is to move by rail.
5. Shipper's No—Enter a unique control number to reference the shipment with the carrier.
6. Carrier—Enter the name of the company that will take initial control of the shipment and cause its delivery to the consignee.
7. Agent's No.—Enter carrier's control number, if known or required.
8. Consigned to—Enter the full name of the final recipient of the shipment, the ultimate consignee; also enter the mailing or street address of the ultimate consignee, if different than destination, for carrier notification purposes.
9. Destination—Enter the street address, city, and ZIP code where the carrier will make delivery to the Consignee in Field 8.
10. Route—If applicable, enter the route the carrier will take to the consignee. This Field may also be used to specify docks, warehouses, etc., and to specify any intermediate carriers.
11. Delivering Carrier—If applicable, specify the carrier that will deliver the shipment to the ultimate consignee at the destination, but only if different than the carrier entered in Field 6.
12. Vehicle/Car No.—Enter any vehicle identifying numbers or initials, if applicable.
13. No. Packages—Enter the total number of packages per line item; if the packages are consolidated on a pallet or in an outer container, note this information on a second line. For example: 112 PKGS 3 Pall.
14. Description of Shipment—Enter the description of each line item, noting the type of package (carton, barrel, etc.) and the quantity per package. Since the correct freight classification is essential in describing an item, there must be a separate line item for each different freight classification description. If more than one type of packaging is used per freight classification, a separate entry must be used for each type of package. Enter any special package markings, special handling requirements, and delivery instructions. Note: For hazardous material items, special provisions must be met in completing this field.
15. Weight—Enter the total gross weight, in pounds, for each line item. For bulk shipments, the TARE and net weights should also be referenced in the description field. For package shipments, include the weights of pallets and skids. The total weight of the merchandise should be shown after the last line item, with pallet and dunnage weights shown separately.
16. Class or Rate—Enter either the five-digit class (per the Uniform Freight Classification or the National Motor Freight Classification) or a two-digit class rate (a percentage of the first class 100 rate) per line item. This information may be determined by contacting the carrier.
17. Without Recourse—Per standard bill of lading terms, the shipper is ultimately liable for freight charges, even when the shipment is sent on a collect basis to the consignee. By signing this statement, the shipper is released from the liability of freight charges for collect shipments delivered by the carrier to the consignee without the carrier's collecting the freight charges. For prepaid shipments, leave blank.
18. Prepaid Shipments—Enter "Prepaid" if shipment is to be paid for by the shipper. If this field is left blank, the carrier will seek to collect the freight charges from the consignee (see Field 17).
19. Prepayments Received—Carrier enters any payments received in advance from the shipper for the shipment.
20. Charges Advanced—Carrier enters any advanced charges for the shipment, if applicable.
21. C.O.D. Shipment—First, check whether the freight charges are prepaid (the carrier bills the shipper) or collect (the carrier deducts the freight charges from the amount collected from the consignee). Second, enter the amount to be collected for the merchandise itself—be sure to include the freight charges. Third, enter any collection fees, if applicable. Enter total charges to be collected by carrier.
22. Shipment Declared Value—When the weight charged by the carrier is dependent upon the value of the shipment, the dollar value per unit of measure (for example, $100.00/pound) must be stated by the shipper—enter this information in Field 14.
23. Shipper—Enter the company name of the shipper.
24. Shipper's Agent—Enter the signature of the individual preparing the shipment for the shipper.
25. Carrier's Agent—The carrier's agent will sign here prior to taking control of the shipment.
26. Permanent Address—Enter the permanent (business) mailing address of the shipper. This may be the same as for Field 1.
27. Certification—A signature is required by the U.S. Department of Transportation after this statement for all shipments of hazardous material.

PRO FORMA INVOICE/EXPORT ORDER

SHIPPER: Tech International
1000 J Street, N.W.
Washington, DC 20005
Ph. 202-555-1212
Fax 202-555-1111

CUSTOMER:
Gomez Y. Cartagena
Aptdo. Postal 77
Bogota, Colombia

SHIP TO (if different than Customer):

NOTIFY (Intermediate Consignee):

PRO FORMA INVOICE NO. Col.91-14 — DATE July 12

COMMERCIAL INVOICE NO. — DATE

CUSTOMER REFERENCE LTR — DATE July 9

TERMS OF SALE
CIP Buenaventura, Colombia

(INCOTERMS 2000)

SHIP VIA AIR — EST. SHIP DATE 60 DAYS FROM RECEIPT OF ORDER AND LETTER OF CREDIT

PART NUMBER	UNIT OF MEASURE	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL PRICE
2-50	EA	3	Separators in accordance with attached specifications	$14,750.00	$44,250.00
14-40	EA	3	First-stage Filter Assemblies per attached specifications	$ 1,200.00	$ 3,600.00
custom	EA	3	Drive units - 30 hp each (for operation on 3-phase 440 v., 50 cy. current) complete with remote controls	$ 4,235.00	$12,705.00
			TOTAL EX WORKS Washington, D.C. domestic paked...		$60,555.00
			Export processing, packaging, prepaid inland freight to Dulles international Airport & forwarder's handling charges		$ 3,115.00
			TOTAL FCA WASHINGTON DULLES AIRPORT		$60,555.00
			Estimated air freight and insurance		$ 2,960.00
			TOTAL Est. CIP Bueanventura, Colombia		$66,630.00
			Estimated gross weight 9,360 lbs. • Estimated cube 520 cu. meters Export packed 4.212 kg. • Export packed 15.6 cu. meters		

1. All prices quoted herein are US dollars.
2. Prices quoted herein for merchandise only are valid for 60 days from July 12.
3. Any changes in shipping costs or insurance rates are for account of the buyer.

ADDITIONAL CHARGES

FREIGHT ☐ Ocean ☒ Air — INCLUDED
CONSULAR/LEGALIZATION
INSPECTION/CERTIFICATION
SPECIAL PACKING
INSURANCE — INCLUDED

☒ LETTER OF CREDIT — Bank
☐ DRAFT — Terms
☐ OPEN ACCOUNT — Terms
☐ OTHER

CURRENCY OF PAYMENT US DOLLARS

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EXPORT QUOTATION WORKSHEET

DATE _____ REF/PRO FORMA INVOICE NO. _____
COMMODITY _____ EXPECTED SHIP DATE _____
CUSTOMER _____ PACKED DIMENSIONS _____
COUNTRY _____ PACKED WEIGHT _____
PAYMENT TERMS _____ PACKED CUBE _____

PRODUCTS TO BE SHIPPED FROM _____
TO _____

SELLING PRICE OF GOODS: $_____

SPECIAL EXPORT PACKING:
$_____ quoted by _____
$_____ quoted by _____
$_____ quoted by _____ $_____

INLAND FREIGHT:
$_____ quoted by _____
$_____ quoted by _____
$_____ quoted by _____ $_____

Inland freight includes the following charges:
☐ unloading ☐ pier delivery ☐ terminal ☐ _____

OCEAN FREIGHT

	quoted by	tariff item
$_____	_____	#_____
$_____	_____	#_____
$_____	_____	#_____

Ocean freight includes the following surcharges:

☐ Port congestion ☐ Heavy lift
☐ Currency adjustment ☐ Bunker
☐ Container rental ☐ Wharfage
☐ _____ ☐ _____

☐ INSURANCE ☐ includes war risk
rate: _____ per $100 or $_____

TOTAL OCEAN CHARGES $_____
notes:

AIR FREIGHT

	quoted by	spec code
$_____	_____	#_____
$_____	_____	#_____
$_____	_____	#_____

Air freight includes the following surcharges:

☐ Fuel adjustment
☐ Container stuffing
☐ _____

☐ INSURANCE ☐ includes war risk
rate: _____ per $100 or $_____

TOTAL AIR CHARGES $_____ $_____
notes:

FORWARDING FEES: $_____
Includes: ☐ Courier Fees ☐ Certification Fees ☐ Banking Fees ☐ _____

CONSULAR LEGALIZATION FEES: $_____

INSPECTION FEES: $_____

DIRECT BANK CHARGES: $_____

OTHER CHARGES: _____ $_____
_____ $_____

TOTAL: ☐ FOB _____ ☐ C & F _____
☐ FAS _____ ☐ CIF _____ $_____

Form No. 10-020 Printed and Sold by UNZCO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com © Copyright Unz & Co. 2001

COMMERCIAL INVOICE

SELLER: 1	INVOICE No. 4 DATE
	CUSTOMER REFERENCE No. 5 DATE
SOLD TO: 2	TERMS OF SALE 6
	TERMS OF PAYMENT 7
SHIP TO (if different than Sold To): 3	CURRENCY OF SETTLEMENT 8
	MODE OF SHIPMENT 9 BILL OF LADING / AWB

QTY	DESCRIPTION	UNIT OF MEASURE	UNIT PRICE	TOTAL PRICE
10	11	12	13	

PACKAGE MARKS: 15	TOTAL COMMERCIAL VALUE:	14
	MISC. CHARGES: (packing, insurance, etc.)	16
	TOTAL INVOICE VALUE:	

CERTIFICATIONS: 17	I certify that the stated export prices and description of goods are true and correct: _____ (SIGNED) TITLE: _____

Form No. 10-327 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

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Commercial Invoice—Instructions

1. Seller—The name and address of the principal party responsible for effecting export from the United States. The exporter as named on the export license.
2. Sold To—The name and address of the person/company to whom the goods are shipped for the designated end use, or the party so designated on the export license.
3. Ship To (if different than Sold To)—The intermediate consignee—that is, the name and address of the party who effects delivery of the merchandise to the ultimate consignee, or the party so named on the export license or forwarding agent. The name and address of the duly authorized forwarder acting as agent for the exporter.
4. Invoice No.—Invoice number assigned by the exporter.
5. Customer Reference No.—Overseas customer's reference or order number.
6. Terms of Sale—Delivery and payment terms of sales agreement.
7. Terms of Payment—Describe the terms, conditions, and currency of settlement as agreed upon by the vendor and purchaser per the pro forma invoice, customer purchase order, and/or the letter of credit.
8. Currency of Settlement—Currency agreed upon between seller and buyer as payment.
9. Mode of Shipment—Indicate air, ocean, surface.
10. Qty—Record total number of units per description line.
11. Description—Provide a full description of items shipped, the type of container (carton, box, pack, etc.), the gross weight per container, and the quantity and unit of measure of the merchandise.
12. Unit of Measure—Record total net weight and total gross weight (includes weight of container) in kilograms per description line.
13. Unit Price / Total Price—Record the unit price of the merchandise per the unit of measure; compute the extended total value of the line.
14. Total Value of the Invoice—Total value of the invoice.
15. Package Marks—Record in this field, as well as on each package, the package number (for example, "1 of 7," "3 of 7," etc.), shipper's company name, country of origin (for example, "Made in USA"), destination port of entry, package weight in kilograms, package size (length x width x height), and shipper's control number (optional).
16. Misc. Charges: (packing, insurance, etc.)—Record any miscellaneous charges that are to be paid by the customer, such as export transportation, insurance, export packaging, inland freight to pier, etc.
17. Certifications—Any certifications or declarations required of the shipper regarding any information recorded on the commercial invoice.

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CERTIFICATE OF ORIGIN

SHIPPER/EXPORTER 1	COMMERCIAL INVOICE NO. 5	DATE
	CUSTOMER PURCHASE ORDER NO. 6	B/L, AWB NO. 7
	COUNTRY OF ORIGIN 8	DATE OF EXPORT 9
CONSIGNEE 2	EXPORT REFERENCES 10	
NOTIFY: INTERMEDIATE CONSIGNEE 3		
FORWARDING AGENT 4	AIR/OCEAN PORT OF EMBARKATION 11	
	EXPORTING CARRIER/ROUTE 12	

QUANTITY	NET WT. *(Kilos)*	GROSS WT. *(Kilos)*	DESCRIPTION OF MERCHANDISE
13	14	15	16

PACKAGE MARKS: 17

The undersigned 18 _____ (Owner or Agent), does hereby declare for the above named shipper, the goods as described above were shipped on the above date and consigned as indicated and are products of the United States of America.

Dated at _____ 19 _____ on the _____ day of _____ 20 _____

Sworn to before me this _____ day of _____ 20 _____

_____ _____ 20

SIGNATURE OF OWNER OR AGENT

The _____ 21 _____, a recognized Chamber of Commerce under the laws of the State of _____, has examined the manufacturer's invoice or shipper's affidavit concerning the origin of the merchandise, and, according to the best of its knowledge and belief, finds that the products named originated in the United States of America.

Secretary _____ 22 _____

Form No. 19-906 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

Certificate of Origin—Instructions

1. Shipper/Exporter—Name and address of principal party responsible for effecting export from the United States.
2. Consignee—Name and address of the party receiving the merchandise.
3. Notify: Intermediate Consignee—Name and address of the party in a foreign country who effects the delivery of the merchandise.
4. Forwarding Agent—Name and address of the freight forwarder.
5. Commercial Invoice No.—Number assigned by the exporter.
6. Customer Purchase Order No.—Number assigned by the exporter.
7. B/L, AWB No.—Provided by the freight forwarder or carrier.
8. Country of Origin—Actual country of origin of the goods.
9. Date of Export—Date of actual export from the United States.
10. Export References—Any special reference numbers assigned by the exporters.
11. Air/Ocean Port of Embarkation—Port from which the goods are shipped.
12. Exporting Carrier/Route—Name of air carrier or vessel and flight number or voyage number.
13. Quantity—The total number of packages, cartons, boxes, skids, etc., per description line.
14. Net Wt. (Kilos)—Total weight of all packages per description line, excluding outer packaging but including inner packaging, in kilograms.
15. Gross Wt. (Kilos)—Total weight of all packages per description line, excluding outer packaging but including inner packaging, in kilograms.
16. Description of Merchandise—Full description of items shipped, type of container, gross weight per container, and unit of measure of the merchandise. May also include cross-references to purchase order or commercial invoice numbers.
17. Package Marks—The marks recorded on each package, usually including shipper's company name, country of origin (for example, "Made in USA"), destination port of entry, and customer's company name; may also include a shipper's control number and the customer's import license number. "Number" refers to the numbering of the packages in the shipment (for example, – "1 of 30,""2 of 30," etc.).
18. The Undersigned—Name of the individual completing and signing the certificate (see Field 20). May be the exporter or agent of the exporter.
19. Date—Date the certificate of origin was prepared and signed.
20. Signature—The signature of the owner, employee, or agent appearing in Field 18.
21. Chamber of Commerce—Name of local chamber of commerce (and state) certifying the origin of the merchandise.
22. Secretary—Authorized signature of the local chamber of commerce secretary, and that organization's seal.

DEPARTMENT OF HOMELAND SECURITY
U.S. Customs and Border Protection

OMB No. 1651-0098
Exp. 10-31-2016

NORTH AMERICAN FREE TRADE AGREEMENT CERTIFICATE OF ORIGIN

19 CFR 181.11, 181.22

1. EXPORTER NAME, ADDRESS AND EMAIL	2. BLANKET PERIOD
	FROM
TAX IDENTIFICATION NUMBER:	TO
3. PRODUCER NAME, ADDRESS AND EMAIL	4. IMPORTER NAME, ADDRESS AND EMAIL
TAX IDENTIFICATION NUMBER:	TAX IDENTIFICATION NUMBER:

5. DESCRIPTION OF GOOD(S)	6. HS TARIFF CLASSIFICATION NUMBER	7. PREFERENCE CRITERION	8. PRODUCER	9. NET COST	10. COUNTRY OF ORIGIN

I CERTIFY THAT:

- THE INFORMATION ON THIS DOCUMENT IS TRUE AND ACCURATE AND I ASSUME THE RESPONSIBILITY FOR PROVING SUCH REPRESENTATIONS. I UNDERSTAND THAT I AM LIABLE FOR ANY FALSE STATEMENTS OR MATERIAL OMISSIONS MADE ON OR IN CONNECTION WITH THIS DOCUMENT;
- I AGREE TO MAINTAIN AND PRESENT UPON REQUEST, DOCUMENTATION NECESSARY TO SUPPORT THIS CERTIFICATE, AND TO INFORM, IN WRITING, ALL PERSONS TO WHOM THE CERTIFICATE WAS GIVEN OF ANY CHANGES THAT COULD AFFECT THE ACCURACY OR VALIDITY OF THIS CERTIFICATE;
- THE GOODS ORIGINATED IN THE TERRITORY OF ONE OR MORE OF THE PARTIES, AND COMPLY WITH THE ORIGIN REQUIREMENTS SPECIFIED FOR THOSE GOODS IN THE NORTH AMERICAN FREE TRADE AGREEMENT AND UNLESS SPECIFICALLY EXEMPTED IN ARTICLE 411 OR ANNEX 401, THERE HAS BEEN NO FURTHER PRODUCTION OR ANY OTHER OPERATION OUTSIDE THE TERRITORIES OF THE PARTIES; AND
- THIS CERTIFICATE CONSISTS OF _____ PAGES, INCLUDING ALL ATTACHMENTS.

11.	11a. AUTHORIZED SIGNATURE		11b. COMPANY
	11c. NAME		11d. TITLE
	11e. DATE	11f. TELEPHONE NUMBERS *(Voice)* *(Facsimile)*	11g. E-MAIL

CBP Form 434 (11/14)

PAPERWORK REDUCTION ACT STATEMENT: An agency may not conduct or sponsor an information collection and a person is not required to respond to this information unless it displays a current valid OMB control number and an expiration date. The control number for this collection is 1651-0098. The estimated average time to complete this application is 15 minutes. If you have any comments regarding the burden estimate you can write to U.S. Customs and Border Protection, Office of Regulations and Rulings, 90 K Street, NE., Washington DC 20229.

NORTH AMERICAN FREE TRADE AGREEMENT CERTIFICATE OF ORIGIN INSTRUCTIONS

For purposes of obtaining preferential tariff treatment, this document must be completed legibly and in full by the exporter and be in the possession of the importer at the time the declaration is made. This document may also be completed voluntarily by the producer for use by the exporter. Please print or type:

FIELD 1: State the full legal name, address (including country), e-mail, and legal tax identification number of the exporter. Legal taxation number is: in Canada, employer number or importer/exporter number assigned by Revenue Canada; in Mexico, federal taxpayer's registry number (RFC); and in the United States, employer's identification number or Social Security Number.

FIELD 2: Complete field if the Certificate covers multiple shipments of identical goods as described in Field #5 that are imported into a NAFTA country for a specified period of up to one year (the blanket period). "FROM" is the date upon which Certificate becomes applicable to the good covered by the blanket Certificate (it may be prior to the date of signing this Certificate). "TO" is the date upon which the blanket period expires. The importation of a good for which preferential treatment is claimed based on this Certificate must occur between these dates.

FIELD 3: State the full legal name, address (including country), e-mail and legal tax identification number, as defined in Field #1, of the producer. If more than one producer's good is included on the Certificate, attach a list of additional producers, including the legal name, address (including country) and legal tax identification number, cross-referenced to the good described in Field #5. If you wish this information to be confidential, it is acceptable to state "Available to CBP upon request". If the producer and the exporter are the same, complete field with "SAME." If the producer is unknown, it is acceptable to state "UNKNOWN."

FIELD 4: State the full legal name, address (including country), e-mail, and legal tax identification number, as defined in Field #1, of the importer. If the importer is not known, state "UNKNOWN"; if multiple importers, state "VARIOUS."

FIELD 5: Provide a full description of each good. The description should be sufficient to relate it to the invoice description and to the Harmonized System (H.S.) description of the good. If the Certificate covers a single shipment of a good, include the invoice number as shown on the commercial invoice. If not known, indicate another unique reference number, such as the shipping order number.

FIELD 6: For each good described in Field #5, identify the H.S. tariff classification to six digits. If the good is subject to a specific rule of origin in Annex 401 that requires eight digits, identify to eight digits, using the H.S. tariff classification of the country into whose territory the good is imported.

FIELD 7: For each good described in Field #5, state which criterion (A through F) is applicable. The rules of origin are contained in Chapter 4 and Annex 401. Additional rules are described in Annex 703.2 (certain agricultural goods), Annex 300-B, Appendix 6 (certain textile goods) and Annex 308.1 (certain automatic data processing goods and their parts). **NOTE: In order to be entitled to preferential tariff treatment, each good must meet at least one of the criteria below.**

Preference Criteria

A The good is "wholly obtained or produced entirely" in the territory of one or more of the NAFTA countries as referenced in Article 415. **Note: The purchase of a good in the territory does not necessarily render it "wholly obtained or produced."** If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(a) and 415)*

B The good is produced entirely in the territory of one or more of the NAFTA countries and satisfies the specific rule of origin, set out in Annex 401, that applies to its tariff classification. The rule may include a tariff classification change, regional value-content requirement, or a combination thereof. The good must also satisfy all other applicable requirements of Chapter 4. If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(b))*

C The good is produced entirely in the territory of one or more of the NAFTA countries exclusively from originating materials. Under this criterion, one or more of the materials may not fall within the definition of "wholly produced or obtained", as set out in article 415. All materials used in the production of the good must qualify as "originating" by meeting the rules of Article 401(a) through (d). If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(c))*

D Goods are produced in the territory of one or more of the NAFTA countries but do not meet the applicable rule of origin, set out in Annex 401, because certain non-originating materials do not undergo the required change in tariff classification. The goods do nonetheless meet the regional value-content requirement specified in Article 401(d). This criterion is limited to the following two circumstances:

1. The good was imported into the territory of a NAFTA country in an unassembled or disassembled form but was classified as an assembled good, pursuant to H.S. General Rule of Interpretation 2(a), or
2. The good incorporated one or more non-originating materials, provided for as parts under the H.S., which could not undergo a change in tariff classification because the heading provided for both the good and its parts and was not further subdivided into subheadings, or the subheading provided for both the good and its parts and was not further subdivided.

NOTE: This criterion does not apply to Chapters 61 through 63 of H.S. ***(Reference: Article 401(d))***

E Certain automatic data processing goods and their parts, specified in Annex 308.1, that do not originate in the territory are considered originating upon importation into the territory of a NAFTA country from the territory of another NAFTA country when the most-favored-nation tariff rate of the good conforms to the rate established in Annex 308.1 and is common to all NAFTA countries. *(Reference: Annex 308.1)*

F The good is an originating agricultural good under preference criterion A, B, or C above and is not subject to a quantitative restriction in the importing NAFTA country because it is a "qualifying good" as defined in Annex 703.2, Section A or B (please specify). A good listed in Appendix 703.2B.7 is also exempt from quantitative restrictions and is eligible for NAFTA preferential tariff treatment if it meets the definition of "qualifying good" in Section A of Annex 703.2. **NOTE 1: This criterion does not apply to goods that wholly originate in Canada or the United States and are imported into either country. NOTE 2: A tariff rate quota is not a quantitative restriction.**

FIELD 8: For each good described in Field #5, state "YES" if you are the producer of the good. If you are not the producer of the good, state "NO" followed by (1), (2), or (3), depending on whether this certificate was based upon: (1) your knowledge of whether the good qualifies as an originating good; (2) your reliance on the producer's written representation (other than a Certificate of Origin) that the good qualifies as an originating good; or (3) a completed and signed Certificate for the good, voluntarily provided to the exporter by the producer.

FIELD 9: For each good described in field #5, where the good is subject to a regional value content (RVC) requirement, indicate "NC" if the RVC is calculated according to the net cost method; otherwise, indicate "NO." If the RVC is calculated over a period of time, further identify the beginning and ending dates (MM/DD/YYYY) of that period. *(Reference: Article 402.1, 402.5)*

FIELD 10: Identify the name of the country ("MX" or "US" for agricultural and textile goods exported to Canada; "US" or "CA" for all goods exported to Mexico; or "CA" or "MX" for all goods exported to the United States) to which the preferential rate of CBP duty applies, as set out in Annex 302.2, in accordance with the Marking Rules or in each party's schedule of tariff elimination.

For all other originating goods exported to Canada, indicate appropriately "MX" or "US" if the goods originate in that NAFTA country, within the meaning of the NAFTA Rules of Origin Regulations, and any subsequent processing in the other NAFTA country does not increase the transaction value of the goods by more than 7 percent; otherwise indicate "JNT" for joint production. *(Reference: Annex 302.2)*

FIELD 11: This field must be completed, signed, and dated by the exporter. When the Certificate is completed by the producer for use by the exporter, it must be completed, signed, and dated by the producer. The date must be the date the Certificate was completed and signed.

CBP Form 434 (11/14)

PACKING LIST

© Copyright 2001 Unz & Co.

_____ 20 _____
Place and Date of Shipment

To

Gentlemen:

Under your Order No. _____ the material listed below was shipped via

To

Shipment consists of:				Marks
_____	Cases	_____	Packages	
_____	Crates	_____	Cartons	
_____	Bbls.	_____	Drums	
_____	Reels	_____		

* LEGAL WEIGHT IS WEIGHT OF ARTICLE PLUS PAPER, BOX, BOTTLE, ETC., CONTAINING THE ARTICLE AS USUALLY CARRIED IN STOCK.

PACKAGE NUMBER	WEIGHTS IN LBS. or KILOS			DIMENSIONS			QUANTITY	CLEARLY STATE CONTENTS OF EACH PACKAGE
	GROSS WEIGHT EACH	*LEGAL WEIGHT EACH	NET WEIGHT EACH	HEIGHT	WIDTH	LENGTH		

Form No. 30-036 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

ORIGINAL

OPEN POLICY NO. A2310

CERTIFICATE NO. 2952305

FOREMAN'S FUND INSURANCE COMPANY
SAN FRANCISCO, CALIFORNIA
ATLANTIC DIVISION, 110 WILLIAM STREET
NEW YORK, NEW YORK 10038

$125,000.000

The company named above in consideration of premium in the amount of and at rates as arranged and subject to the Conditions and Warranties specified and/or attached hereto, does by this policy insure

ASSURED **Metalworking Machines, Inc.**

as well in their own name as in that of those to whomsoever the subject matter of this Policy does, may, or shall appertain.

IN THE SUM OF **One hundred twenty-five thousand and 00/100----------**

UPON **steel grinders with accessories**

CONTAINER-HOUSE/HOUSE ☐
CONTAINER-PORT/PORT ☐
CONTAINER-OTHER ☐
NON-CONTAINER ☐

VALUED AT SUM OR SUMS INSURED

LADEN (UNDER DECK) ON BOARD THE VESSEL/AIRLINE: **S/L Adventurer** B/L OR SAILING DATE: 9-30-2006

(LOST OR NOT LOST) AT AND FROM (INITIAL POINT/PORT): **Interior USA via Baltimore** TO (FINAL POINT/PORT): Taipei Taiwan via Kaoshiung

LOSS IF ANY PAYABLE TO THE ORDER OF THE ASSURED AT: **destination**

Insured against all risks of physical loss or damage from any external cause irrespective of percentage, but excluding the risks excluded by the "F.C.&S." and/or "S.R.&C.C." warranties on the reverse side of this policy except to the extent that such risks may be specifically covered by endorsement also warranted free from any claim arising out of the inherent price of the goods insured or consequent upon loss of time or market.

This insurance attaches from the time the goods leave the warehouse at the place named in the policy for the commencement of the transit and continues during the ordinary course of transit until the goods are delivered to the final warehouse at the destination named in the policy.

It is a condition of this insurance that there shall be no interruption or suspension of transit unless due to circumstances beyond the control of the Assured.

The risks covered by this policy include loss, damage, or expense resulting from explosion howsoever or wheresoever occurring, irrespective of percentage, but it is especially understood and agreed that this wording is not intended to cover any of the risks excluded by the F.C.&S. and/or S.R.&C.C. Warranties set forth elsewhere in the policy.

In the event of the vessel, wharf, warehouse, conveyance, or other cargo being fumigated by order of property constituted authority and damage arises therefrom to the goods insured hereunder, this Company agrees to indemnify the Assured for such damage irrespective of percentage.

General Average and Salvage Charges payable according to United States laws and usage and/or as per Foreign Statement and/or as per York-Antwerp Rules (as prescribed in whole or in part) in accordance with the Contract of Affreightment.

In cases of any loss or misfortune, it shall be lawful and necessary for the Assured, his or their factors, servants and assigns, to sue, labor, and travel for, in, and about the defense, safeguard, and recovery of the interest insured, or any part thereof, without prejudice to this insurance; to the charges whereof this Company shall contribute according to the rate and quantity of the sum hereby insured; nor shall the acts of the Assured or the Company in recovering, saving, or preserving the property insured, in case of disaster, be considered as a waiver or acceptance of abandonment.

In case of any agreement, act, or omission of the Assured, prior or subsequent to loss, whereby any right of recovery of the Assured for loss or damage to any property insured hereunder against any Carrier or Bailee, is released, impaired, or lost, which would on acceptance of abandonment or payment of loss by this Company have inured to its benefit, but for such agreement, act, or omission, this Company shall pay for the loss only to the extent its right of recovery was not released, impaired, or lost.

This insurance is subject to the American Institute Marine Extension Clauses (1943) and the following American Institute Clauses as if the current form of each were endorsed hereon:
South America 60-Day Clause S.R.&C.C. Endorsement War Risk Insurance

It is hereby understood and agreed that in case of loss and damage to the property insured under this policy, same shall be immediately reported as soon as the goods are landed, or the loss is known or expected, to the nearest agent of this Company as designated on the reverse side hereof.

(See reverse side for further terms and conditions which are hereby made a part of this Policy.)

NOTE—It is necessary for the assured to give prompt notice to underwriters when he becomes aware of an event for which he is "held covered" under this policy and the right to such cover is dependent on compliance with this obligation.

In witness whereof the company named above has caused this policy to be signed by its duty authorized officers, but this policy shall not be valid unless countersigned by an authorized representative of this Company or the Assured.

Secretary President

Endorsement –

Counteragreed at Baltimore MD 9-30-2006
Date

1a. U.S. PRINCIPAL PARTY IN INTEREST (USPPI) (Complete name and address)

ZIP CODE

INLAND CARRIER | SHIP DATE | PRO NO.

2. DATE OF EXPORTATION

3. TRANSPORTATION REFERENCE NO.

b. USPPI'S EIN (IRS) OR ID NO.

c. PARTIES TO TRANSACTION ☐ Related ☐ Non-related

SPECIAL INSTRUCTIONS

4a. ULTIMATE CONSIGNEE *(Complete name and address)*

b. INTERMEDIATE CONSIGNEE *(Complete name and address)*

SHIP VIA ☐ AIR ☐ OCEAN ☐ CONSOLIDATE ☐ DIRECT

5a. FORWARDING AGENT *(Complete name and address)*

SHIPPER'S LETTER OF INSTRUCTIONS

5b. FORWARDING AGENT'S EIN (IRS) NO.

6. POINT (STATE) OF ORIGIN OR FTZ NO.

7. COUNTRY OF ULTIMATE DESTINATION

8. LOADING PIER *(Vessel only)*

9. METHOD OF TRANSPORTATION *(Specify)*

14. CARRIER IDENTIFICATION CODE

15. SHIPMENT REFERENCE NO.

10. EXPORTING CARRIER

11. PORT OF EXPORT

16. ENTRY NUMBER

17. HAZARDOUS MATERIALS ☐ Yes ☐ No

12. PORT OF UNLOADING *(Vessel and air only)*

13. CONTAINERIZED *(Vessel only)* ☐ Yes ☐ No

18. IN BOND CODE

19. ROUTED EXPORT TRANSACTION ☐ Yes ☐ No

20. SCHEDULE B DESCRIPTION OF COMMODITIES *(Use columns 22–24)*

D/F or M (21)	SCHEDULE B NUMBER (22)	QUANTITY – SCHEDULE B UNIT(S) (23)	SHIPPING WEIGHT (Kilograms) (24)	VIN/PRODUCT NUMBER/ VEHICLE TITLE NUMBER (25)	VALUE (U.S. dollars, omit cents) (Selling price or cost if not sold) (26)

27. LICENSE NO./LICENSE EXCEPTION SYMBOL/AUTHORIZATION

28. ECCN *(When required)*

SHIPPER MUST CHECK ☐ PREPAID OR ☐ COLLECT

29. Duly authorized officer or employee

The USPPI authorizes the forwarder named above to act as forwarding agent for export control and customs purposes.

C.O.D. AMOUNT $

30. I certify that all statements made and all information contained herein are true and correct and that I have read and understand the instructions for preparation of this document, set forth in the **"Correct Way to Fill Out the Shipper's Export Declaration."** I understand that civil and criminal penalties, including forfeiture and sale, may be imposed for making false or fraudulent statements herein, failing to provide the requested information or for violation of U.S. laws on exportation (13 U.S.C. Sec. 305; 22 U.S.C. Sec. 401; 18 U.S.C. Sec. 1001; 50 U.S.C. App. 2410).

SHIPPER'S INSTRUCTIONS IN CASE OF INABILITY TO DELIVER CONSIGNMENT AS CONSIGNED:

☐ ABANDON ☐ RETURN TO SHIPPER

☐ DELIVER TO

Signature

Confidential – Shipper's Export Declarations (or any successor document) wherever located, shall be exempt from public disclosure unless the Secretary determines that such exemption would be contrary to the national interest (Title 13, Chapter 9, Section 301 (g)).

Title

Export shipments are subject to inspection by U.S. Customs Service and/or Office of Export Enforcement.

Date

31. AUTHENTICATION *(When required)*

SHIPPER'S REQUESTS INSURANCE

☐ Yes $ _____ ☐ No

If Shipper has requested insurance as provided for at the left hereof, shipment is insured in the amount indicated (recovery is limited to actual loss) in accordance with the provisions as specified in the Carrier's Tariffs. Insurance is payable to Shipper unless payee is designated in writing by the shipper.

Telephone No. (Include Area Code)

E-mail address

BE SURE TO PICK UP TOP SHEET AND SIGN THE FIRST BUFF EXPORT DECLARATION WITH PEN & INK.

Form 19-305 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

INTERNATIONAL BANKING GROUP **ORIGINAL**

Bizbank Corporation

P.O. BOX 1000, ATLANTA GEORGIA 30302-1000
CABLE ADDRESS: BizbC
TELEX NO. 1234567
SWIFT NO. BBZABC 72

OUR ADVICE NUMBER: EA0000091
ADVICE DATE: 08MAR2006
ISSUE BANK REF: 3312/HBI/22341
EXPIRY DATE: 23JUN2006

****AMOUNT****
USD****25,000.00

BENEFICIARY:
THE WALTON SUPPLY CO.
2356 SOUTH N.W. STREET
ATLANTA, GEORGIA 30345

APPLICANT:
HHB HONG KONG
34 INDUSTRIAL DRIVE
CENTRAL, HONG KONG

WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS ISSUED BY:

THIRD HONG KONG BANK
1 CENTRAL TOWER
HONG KONG

PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING:

CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.

2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.

3. PACKING LIST IN 2 COPIES.

EVIDENCING SHIPMENT OF : 5000 PINE LOGS—WHOLE—8 TO 12 FEET
FOB SAVANNAH, GEORGIA

SHIPMENT FROM : SAVANNAH, GEORGIA **TO**: HONG KONG
LATEST SHIPPING DATE : 02JUN2006

PARTIAL SHIPMENTS NOT ALLOWED TRANSSHIPMENT NOT ALLOWED

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARY'S ACCOUNT.
DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.

AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED BY US.

PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR AN AMENDMENT.

U.S. $ 1 _____ 2 _____ 20 _____

3 _____ of this *FIRST* of Exchange (Second unpaid)

Pay to the Order of

4 5 _____ United States Dollars

for Value received and charge the same to account of

To 6 _____

No. 7 _____

8 _____
Authorized Signature

9

10 _____
Date

12

Gentlemen:

We enclose Draft Number 11 _____ and documents below

☐ for collection,

☐ for

☐ for payment/negotiation under L/C

13

BILLS OF LADING	B/L COPY	COMM. INV.	INS. CTF.	CTF. ORIG.	CONS. INV.	PKNG. LIST	WGT. CTF.	OTHER DOCUMENTS

Please handle in accordance with instructions marked "X"

☐ Deliver all documents in one mailing. 14

☐ Deliver documents in two mailings.

☐ Deliver documents against payment if sight draft, or acceptance if time draft. 15

☐ All charges for account of drawee. 16

☐ Do not waive charges.

☐ Protest for non-payment / non-acceptance 17

☐ Do not protest.

☐ Present on arrival of goods. 18

☐ Advise non-payment / non-acceptance by airmail / cable giving reasons. 19

☐ Advise payment / acceptance by airmail / cable

IN CASE OF NEED refer to:

Name 20 _____

Address _____

who is empowered by us:

a ☐ To act fully on our behalf, i.e., authorize reductions; extensions, free delivery, waiving of protest, etc.

b ☐ To assist in obtaining acceptance or payment of draft, as drawn, but not to alter its terms in any way.

OTHER INSTRUCTIONS: 21

Please refer all questions concerning this collection to:

☐ Shipper

☐ Freight Forwarder: 22

_____

_____

23 _____
Authorized Signature

Form No. 20-015 Printed and Sold by UNZ&CO 201 Circle Drive N, Suite 104, Piscataway, NJ 08854 (800) 631-3098 www.unzco.com

Draft Transmittal Letter—Instructions

1. U.S. Dollars—Enter the entire amount to be collected; if not in U.S. dollars, specify currency.
2. Date—enter the date the draft is issued.
3. of this First Exchange (Second Unpaid)—Enter the terms of payment (also called the "tenor" of the draft); at 45 days, at sight, at 30 days B/L, etc. "Second Unpaid" refers to the duplicate copy of the draft ("of this Second Exchange, First Unpaid"); once payment has been made against either copy, the other becomes void.
4. Pay to the Order of—Enter the name of the party to be paid (seller, "payee"); this may be the seller or the seller's bank, and will be the party to whom the foreign buyer's bank will remit payment.
5. United States Dollars—Enter the amount from Field 1 in words; if payment is not to be made in U.S. dollars, block out "United States Dollars" and enter correct currency.
6. Charge to Account of—Enter the name and address of the paying party (buyer "drawee"). For letter of credit (L/C) payments, enter the name and address of the buyer's opening bank as well as the L/C number and issue date.
7. Number—Enter an identification, or draft number, as assigned by the seller to reference the transaction.
8. Authorized Signature—The signature of the authorized individual for the seller or the seller's agents ("drawer").
9. Forward Draft to—Enter the name and address to whom the draft is being sent. Unless this is a letter of credit being negotiated in the United States, this should be the name and address of a foreign bank.
10. Forwarding Date—Enter the date the draft is being sent to the bank in Field 9.
11. Draft Number—Enter the seller's draft number, as noted in Field 7.
12. Purpose of Draft—Check the applicable box if the draft is part of letter of credit negotiation, a collection, or an acceptance.
13. List of Documents—Enter the number and type of each original and duplicate document to be included with this transmittal letter. Any document attached will eventually be released to the buyer.
14. Deliver All Documents—Check either "deliver all documents in one mailing" or "deliver documents in two mailings." Generally, documents are delivered in one mailing.
15. Deliver Documents Against—Ensure that the type of draft attached (Field 3) is compatible with the "deliver against" instructions. Sight drafts should accompany "deliver against payment" instructions, while time drafts should accompany "deliver against acceptance" instructions.
16. Bank Charges—The correspondent bank will not pay unless all charges are collected. Based on your agreement with the buyer, indicate which party is responsible for both the remitting and presenting bank's charges. By checking "all charges of account of drawee," the buyer is responsible for these charges; if the buyer does not pay (or is not to pay) these charges, and if "do not wave charges" has not been checked, the seller will be billed for expenses incurred.
17. Protest—Check "Protest" (specify "for non-payment" or for "non-acceptance," depending on the type of draft attached—see instruction for Field 15) if you wish the correspondent bank to process written, notarized documentation in event that the buyer refuses to pay or accept the draft. Additional bank expenses associated with a protest are usually charged to the seller.
18. Present on Arrival—Check if you wish the draft to be presented on the arrival of the goods to the buyer.
19. Advise—Check the appropriate fields, and block out the non-applicable terms, if you wish to be advised of payment/acceptance or non-payment or non-payment/non-acceptance.
20. in Case of Need—Enter the representative of the seller in the country to which the draft and documents are going, if one exists; check the box which describes the representative's authority.
21. Other Instructions—Enter any instructions to either the remitting or correspondent banks, such as remittance instructions, clarification of protest procedures, multiple-draft instructions, etc.
22. Refer All Questions—Enter the name of the contact, and his/her address and telephone number, in the seller's country; specify if this contact is employed by the shipper (seller) or the seller's agent (freight forwarder).
23. Authorization—Enter the person authorized to sign the transmittal letter (see Field 8), the date prepared, and the authorized person's signature.

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