



**GREYSTONE COLLEGE**  
OPENING UP GLOBAL CAREER OPPORTUNITIES



# Exporting & Importing

Unit 5

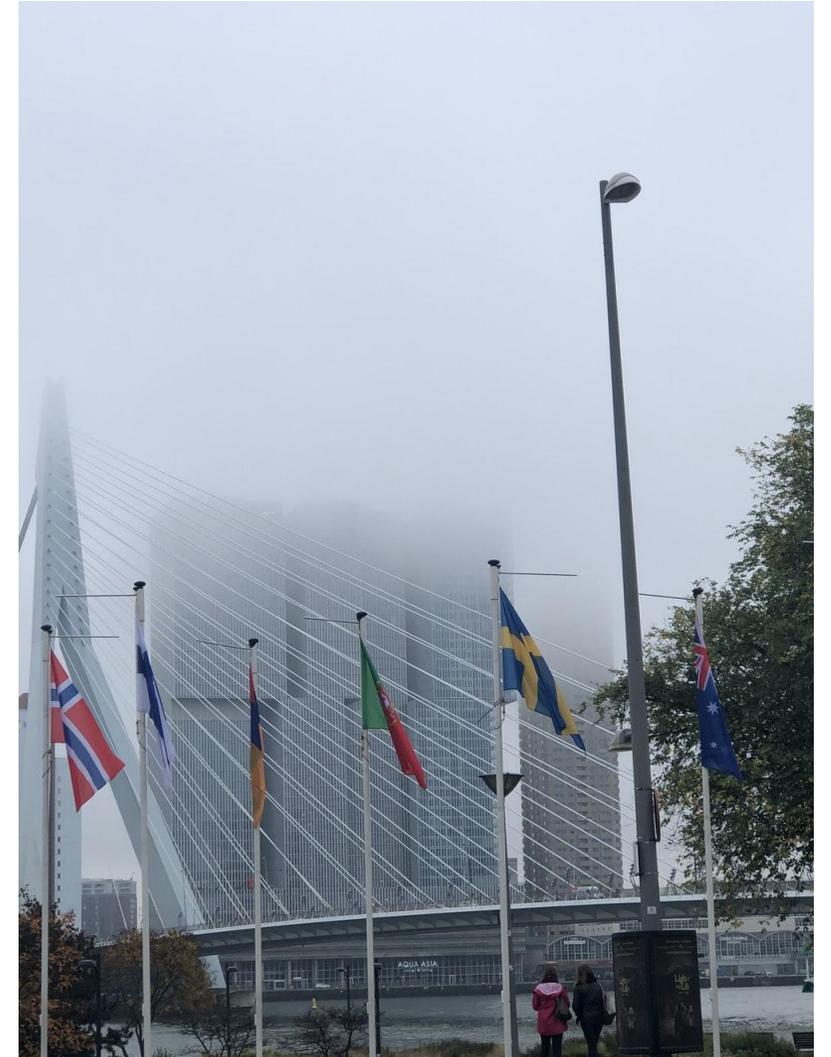
International Business & Logistics

# Reference and complementary reading

- Chapter 14 Exporting, Importing, and Countertrade of Global Business Today 12<sup>th</sup> Edition

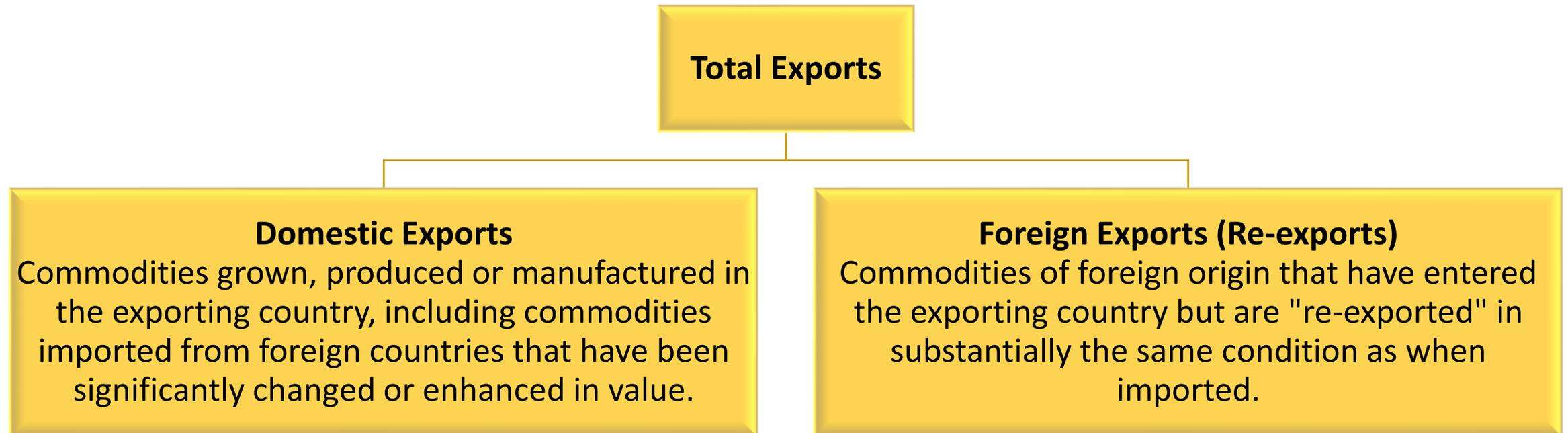
# Definition of Exports

*Exports are goods and services produced in one country and purchased by residents of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone in a foreign country, it is an export.*



# Definition of Exports

- A country's total exports is the sum of two types of exports:



# Definition of Imports

*Imports are the goods and services bought by a country's residents that are produced in a foreign country.*

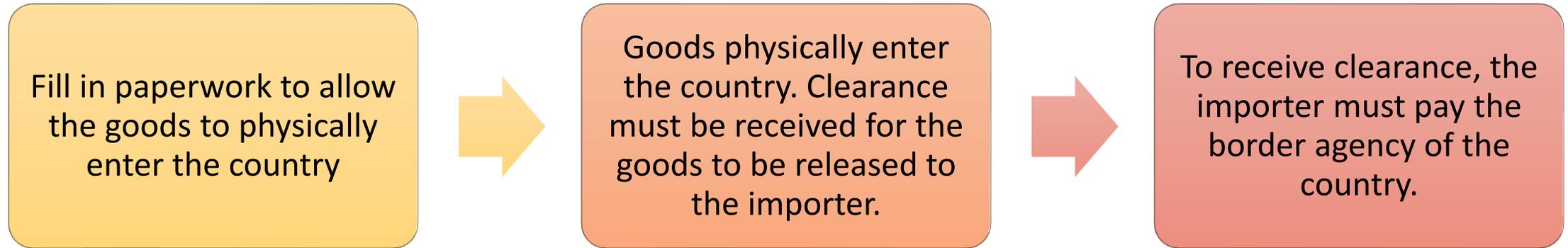
## **General Imports (Total Imports)**

The total value of merchandise shipments that arrive in the importing country from foreign countries, whether such merchandise enters consumption channels immediately or is entered into bonded warehouses or Foreign Trade Zones under customs custody. This includes goods that will eventually be re-exported.

## **Imports for Consumption**

The value of the imports that clears customs, or goods withdrawn from customs bonded warehouses or Foreign Trade Zones, which immediately enter consumption channels.

# Import Process



# Bonded Warehouses

- A secured building or area in a country that is used to keep imported goods that are awaiting payment for customs clearance. It is generally at a place near a port and is licensed to keep the imported goods until custom duty is paid which leads to clearance being given.



Allow companies to import goods, but leave them in the warehouse until they need to formally “enter” the country (this way, the importer doesn’t have to pay taxes immediately)

Present in countries around the world; facilitate free trade

In Canada, a private company can make their warehouse bonded by applying for a license from the CBSA

# Foreign Trade Zones

Canada's **Foreign Trade Zone** allows goods to come into Canada without paying taxes and duties. If the item doesn't leave the FTZ, the following programs are available to the importer

**Duties Relief Program**  
allows duties to not be paid on goods that will be exported within 4 years

**Drawback Program**  
allows a refund of duties for exported goods (within 4 years)

**Customs Bonded Warehouse** defers or relieves duties and taxes as long as they are not significantly changed

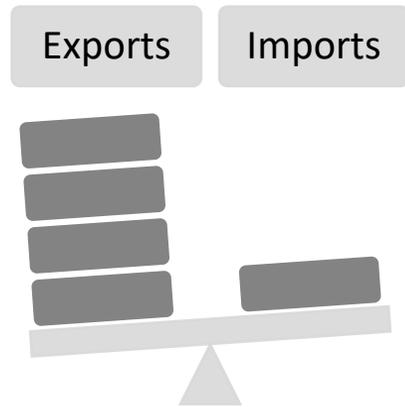
**Export Distribution Center Program** prevents exporters from paying taxes on items that they will not heavily change

**Exporters of Processing Services Program** gives relieves taxes for non-residents. Goods must be re-exported after being changed

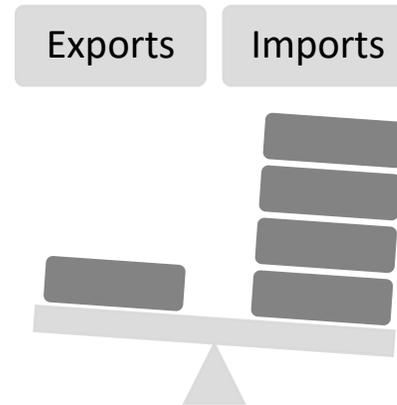
# Trade balance

$$\text{Total Exports} + \text{Total Imports} = \text{Trade Balance}$$

**If exports are higher than imports,  
this creates a trade surplus**



**If imports are higher than exports,  
this creates a trade deficiency**



# Steps to Exporting

An 11-step list to exporting goods from Canada



# Steps to Exporting

- 1. Identify your target market's import regulations**
- 2. Check if your good is regulated, controlled, or prohibited by the Canadian government**
  - Export permits are required if...
    - The destination country is on the [Area Control List](#)
    - The good is listed on the [Export Control List](#)
- 3. Prepare an export declaration (Canadian Export Reporting System)**
  - Unless you're exporting to the US, reporting your exports is mandatory under Canadian regulations
  - <https://www.cbsa-asfc.gc.ca/services/cers-scde/get-started-intro-eng.html#a3>

# Steps to Exporting

## 4. Choose a shipping method

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

# Steps to Exporting

## 5. Choose an Incoterm that best suits your needs

- Incoterms are a set of 11 internationally recognized rules that defines the responsibilities of sellers and buyers
- It tells you who is responsible for paying for and managing the shipment, insurance, documentation, customs clearance, and other activities
- You will see this in your Transportation Logistics, Customs Clearance, Law, and Exportation Costs classes.

# Steps to Exporting

**6. Find freight forwarders and brokers to help reduce your workload**

**7. Label and mark your goods**

- Figure out marking and labelling regulations for your country and the destination country (language, warning labels, gross and net weight, etc.)

**8. Pack your goods**

- The shipping method you choose may determine the type of packaging you use

**9. Fill out a packing list that identifies the content of each container**

# Steps to Exporting

## 10. Get transportation insurance

- International carriers assume only limited liability and make the seller responsible for the goods up to the point of delivery to the foreign buyer. For this reason, you must have international transportation insurance
- Marine transportation insurance protects both ocean- and air-bound cargo. It also covers connecting land transportation
- Goods shipped by sea are typically insured for 110% of their value, to compensate for the extra costs involved in replacing lost goods.

# Three main types of marine transportation insurance

## **Free of particular average (FPA)**

insurance is the narrowest type of coverage. Total losses are covered, as well as partial losses at sea if the vessel sinks, burns or is stranded.

**With average (WA)** offers greater protection from partial losses at sea.

**All risk** is the most comprehensive insurance, protecting against all physical loss or damage from external causes. Once the documents transferring title are delivered to the foreign buyer, you are no longer liable for the goods.

*Higher coverage*



# Steps to Exporting

## 11. Prepare your export documentation

- Shipping documentation may include

Commercial  
invoice

Special  
packing or  
marking list

Certificate of  
origin

Certificate of  
insurance

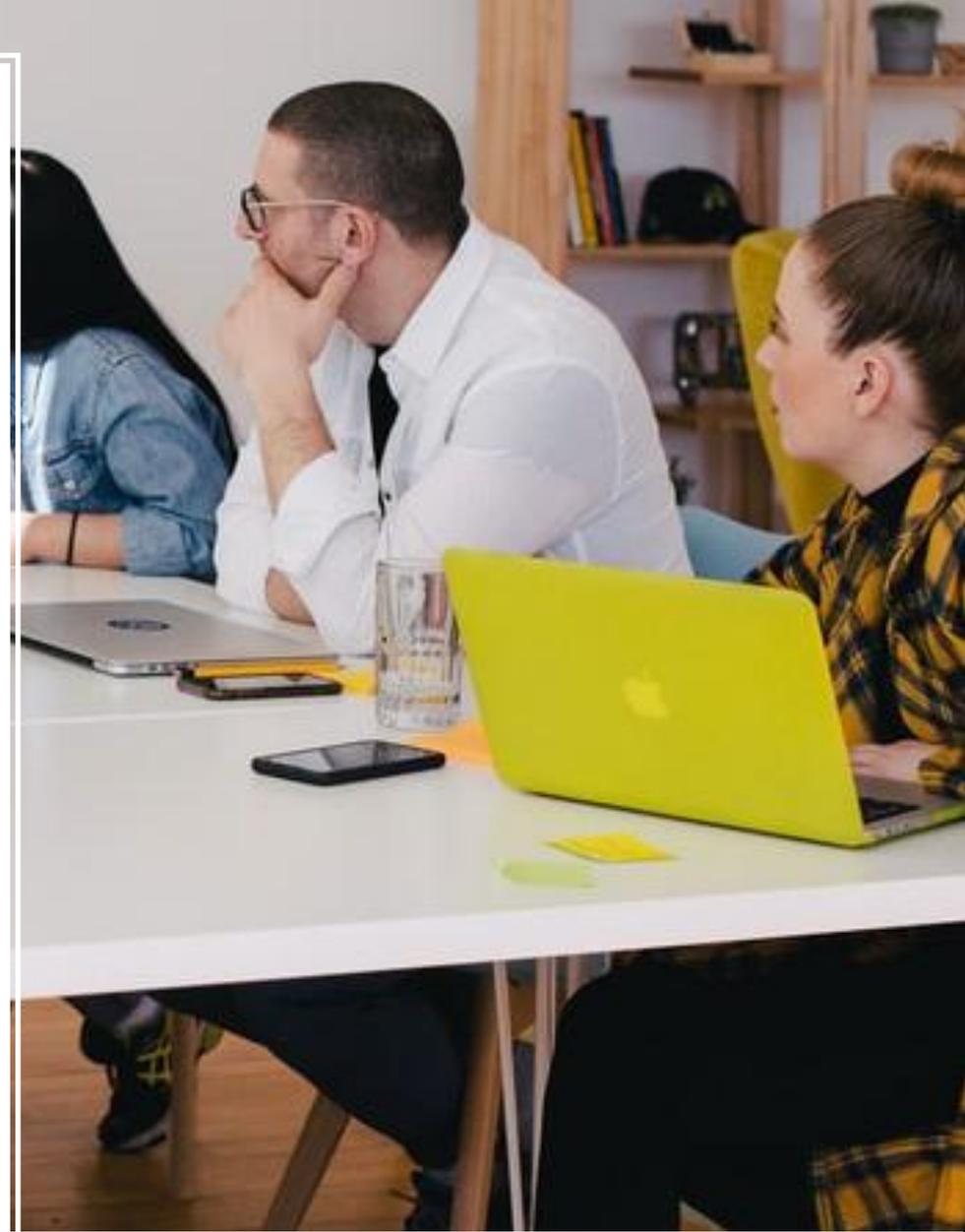
Bill of lading /  
air waybill\*

Certificate of  
inspection

Import and  
export licenses

# Activity: Map the Steps to Export

- You are in charge of advising the CEO of a small company on how to best export one of their many product lines.
- In teams of 3-4, assess and write down each of the eleven steps in the exportation process for one of the following products:
  - Stuffed animals
  - Coffee mugs
  - Sweatshirts
  - Reusable plastic water bottles
  - Frying pans
  - Puzzles
- Upload your document/PowerPoint to Teams.



# The Promises and Pitfalls of Exporting

Examining the benefits and challenges that come up when a company chooses to export



# The Promise and Pitfalls of Exporting

The international market is a much larger market than the domestic market.

Larger firms may be proactive in seeking out new export opportunities, but many smaller firms take a reactive approach to exporting (i.e. only when they get an a request/order).

Unfamiliarity and intimidation may explain why exporters account for a tiny percentage of U.S. and Canadian firms.

Many beginner exporters have significant problems when first trying to do business abroad, discourage them from taking on additional export opportunities.

# Things that can go wrong when exporting

Poor market analysis.

Poor understanding of competitive conditions.

Failure to customize the product offering.

Lack of an effective distribution program.

Poorly executed promotional campaign.

Problems securing financing.

Voluminous paperwork, complex formalities, and potential delays and errors.

***Can you think of the impact of each of these challenges...?***



# Improving Export Performance

Ways to improve chances of success and profit when exporting

# International Comparisons of Support for Exporters

- Many firms fail to consider export opportunities simply because they lack knowledge of the opportunities available.
- Some countries have organizations that help businesses to export their goods from their country.

***Banks, government associations, and trade associations*** in Germany work together to help companies find export opportunities.

Japanese exporters can take advantage of the knowledge and contacts of ***sogo shosha***, Japan's trading houses.

Canadian companies can seek guidance and insurance from ***Export Development Canada (EDC)***

U.S. does not have an institutional structure for promoting exports.

# Information Sources in Canada

## **Export Development Canada (EDC)**

helps to reduce export risks  
through knowledge and expertise



## **Bank of Development Canada (BDC)**

assists Canadian small-medium  
enterprises (SMEs) internally but  
also offer services for companies  
that want to export



# Export Development Canada (EDC)



<https://www.youtube.com/watch?v=OZqU0qvhdhw>

# Work With Service Providers

## Freight Forwarder

- Primary task is to combine smaller shipments into a single large shipment to minimize the shipping costs.

## Export Management Company (EMC)

- Acts as an export marketing department for client firms to assist in selling goods and services in foreign markets.

## Export Trading Companies

- Export products for companies that contract with them (manage the entire exportation process on their behalf)

## Export Packaging Companies,

- Also known as export packers for short, provide services to package, mark, and label your goods for export.

## Customs Brokers

- Assist companies with customs clearance requirements in the important process to ensure their goods are cleared and correct taxes/duties are calculated.

## Confirming Houses

- Also known as buying agents, represent foreign companies that want to buy products from other countries.

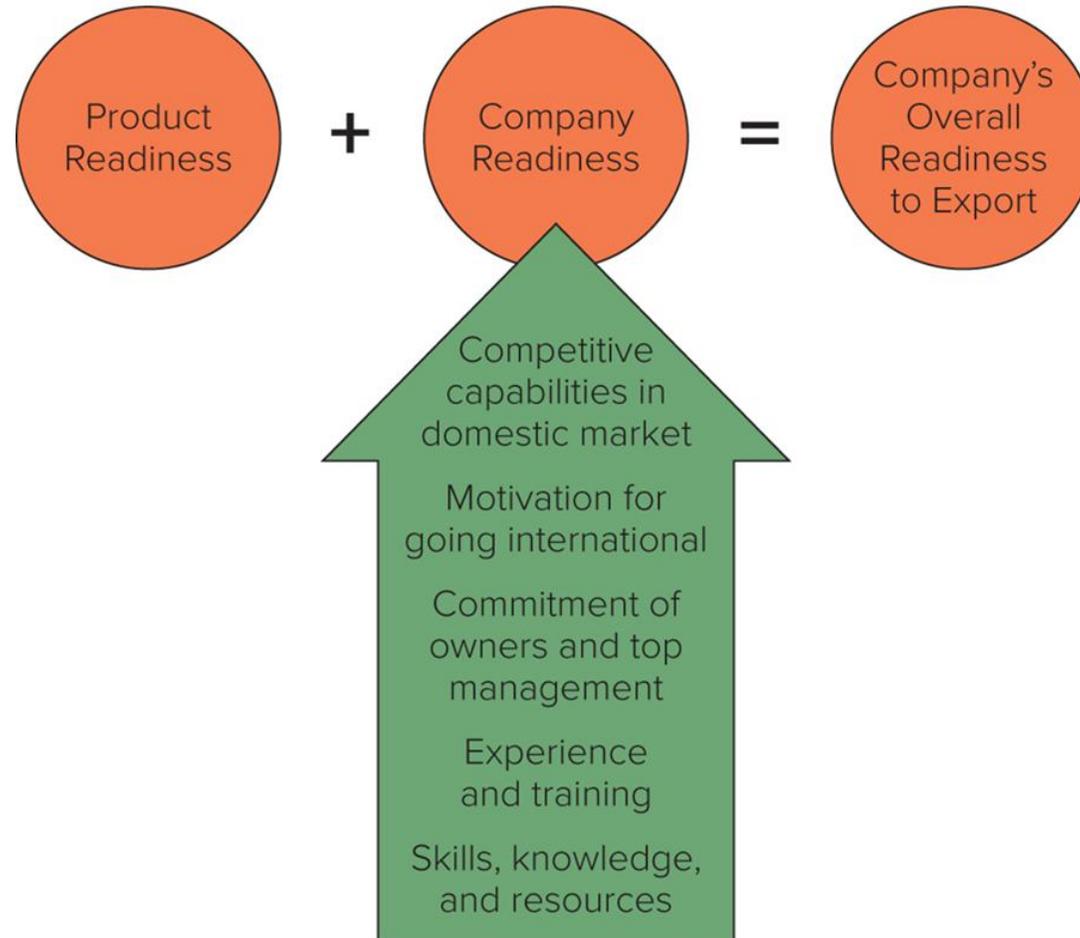
## Export Agents, Remarketers

- Buy products directly from the manufacturer and package and label the products in accordance with their own wishes and specifications. Also known as white-labelling.

## Economic processing zones (EPZs)

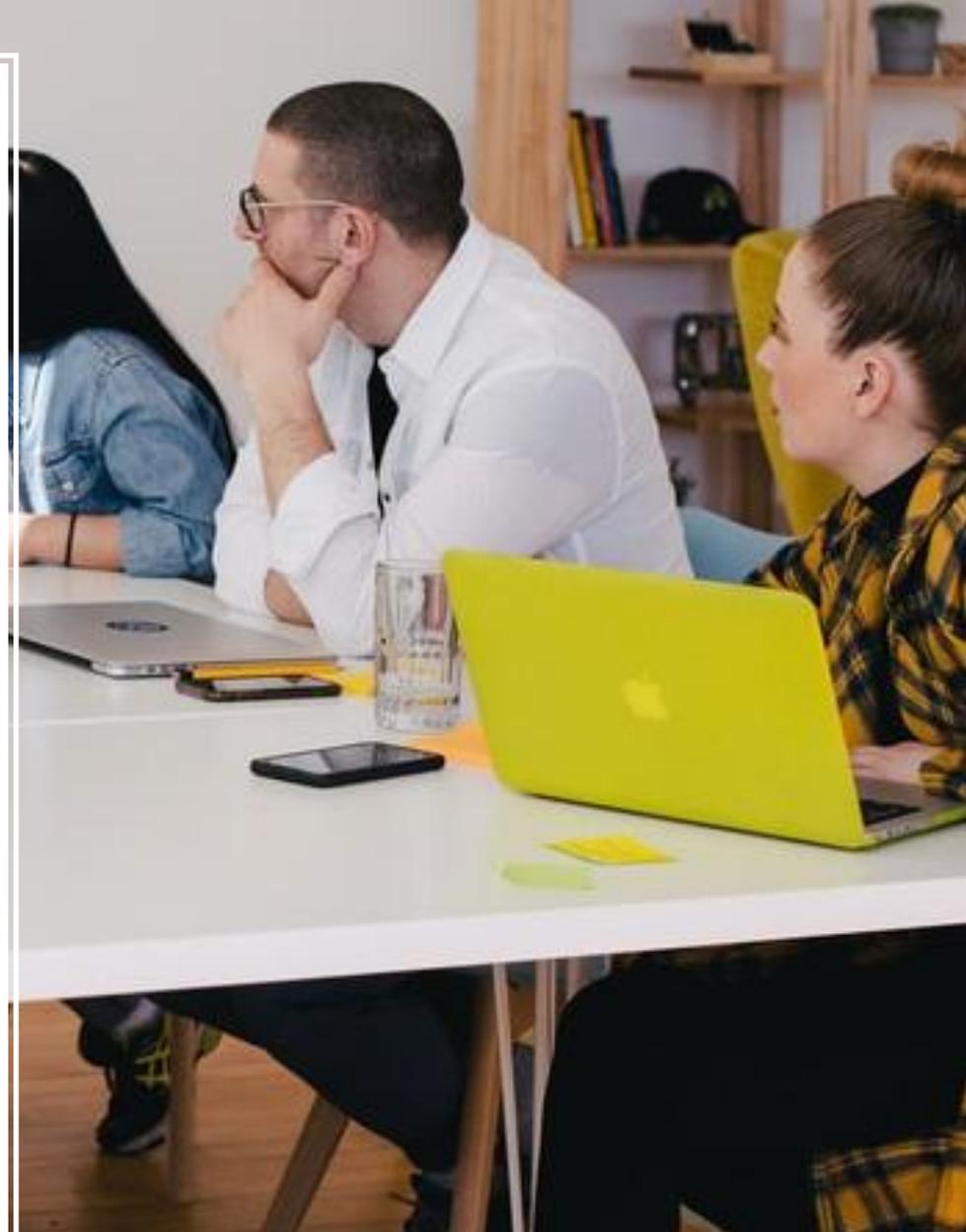
- Include foreign trade zones (FTZ), bonded warehouses, customs zones, and other areas for import/export of goods.

# Assess Company Readiness to Export



# Activity: globalEDGE's CORE tool

- Visit the globalEDGE™ Exporting Tool
  - Top-ranked, free website for international business resources.
  - Use the Company Readiness to Export (CORE) tool.
    - Assesses company's readiness to export.
    - Assesses product's readiness to be exported.





# Export & Import Financing

Determining how to fund an  
export/import operation

# Export and Import Financing: Risks

- If by chance the first international order is far larger than expected, how is the company going to finance the expansion it needs?
  - This can entail buying more machines or a larger factory to increase capacity, hiring more staff, purchasing more raw materials, etc.
- In the B2B world especially, payments can take months since clients often don't pay for 30-90 days after the sale is made. In the meantime, how can the exporter fund their expansion plans?
- Self-financing a growing export business can be very risky, especially for new or smaller exporters. Fortunately, there are options that can minimize risks and even give a competitive edge.

# Export and Import Financing: Payments

- International trade payments usually take longer to arrive than domestic ones. Just because you make the sale, doesn't mean you are getting the money in your account right away.
- This example is optimistic.... international payments can often take months to finalize, especially for longer transactions. In the meantime, the company needs to have enough cash to pay the bills.

## *Example:*

- You make a sale on January 1<sup>st</sup>
- Your client pays you on February 1<sup>st</sup>
- The funds are received by your bank February 5<sup>th</sup>
- The funds are available in your account by February 10<sup>th</sup>

# Cash Flow Planning

- Cash flow planning involves tracking when cash will be coming in and when it will be going out. Doing so can help when the following issues inevitably occur:

## Exchange rate fluctuations

- You might get less money than you expected, especially if you have billed your client in a foreign currency

## Transmission delays

- Clients may be slow to pay the bill or banks may have delays in processing the payments

## Exchange controls

- Governments may restrict movement of currency between countries which slows down your payments

## Political events

- External factors like this may make your client less able to pay and cause currency issues

## Slow collection of accounts

- It takes time to follow-up on payments with each of your clients – companies will often fall behind or have trouble reaching certain clients.

# International Payments: Lack of Trust

- Exporters and importers from different countries may have trouble trusting each other – they may not know each other and are subject to laws of different countries meaning there is little keeping them accountable.
- Each party has different preferences in resolving this trust issue:

Exporters prefer to be paid in advance, while importers prefer to pay after shipment arrives.

Problems arising from the lack of trust can be solved by using a third party—typically a reputable bank.

# Lack of Trust Example: U.S. - French Deal

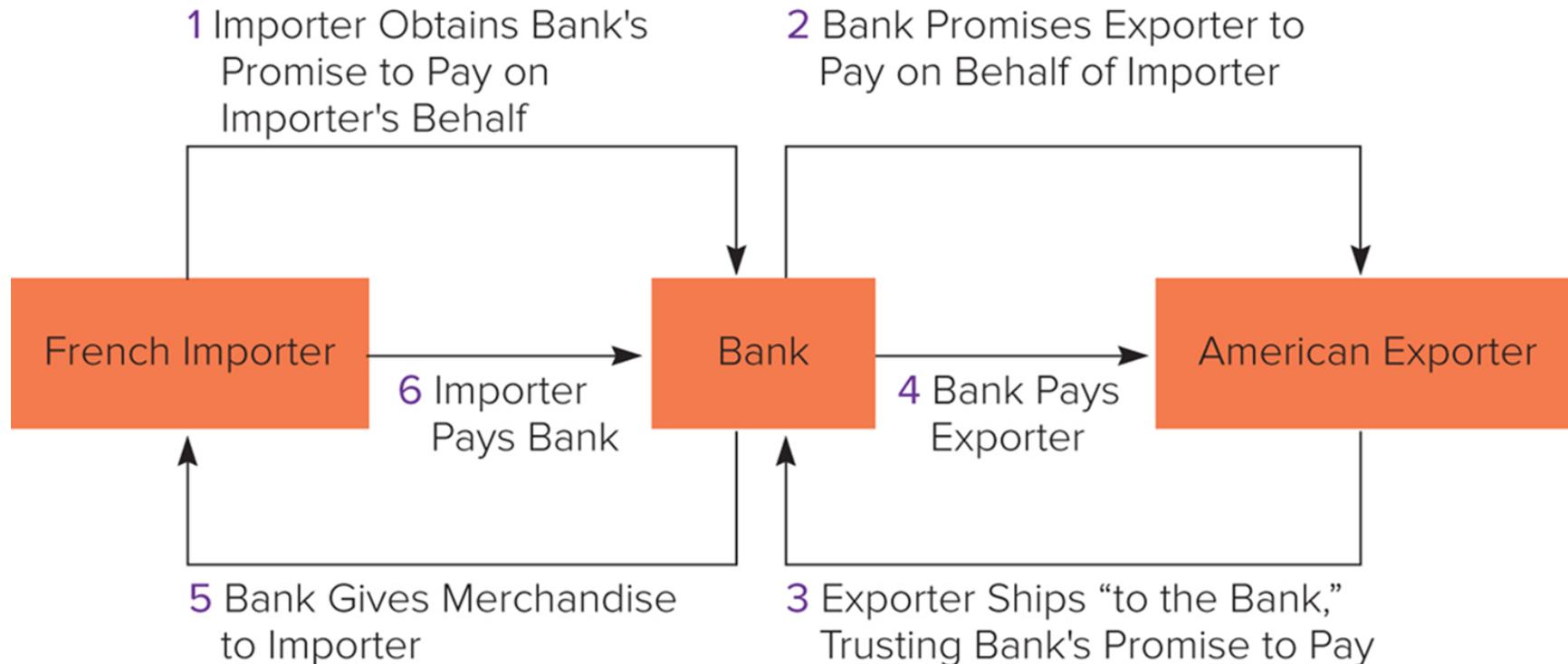
- **Preference of the U.S. Exporter**



- **Preference of the French Importer**



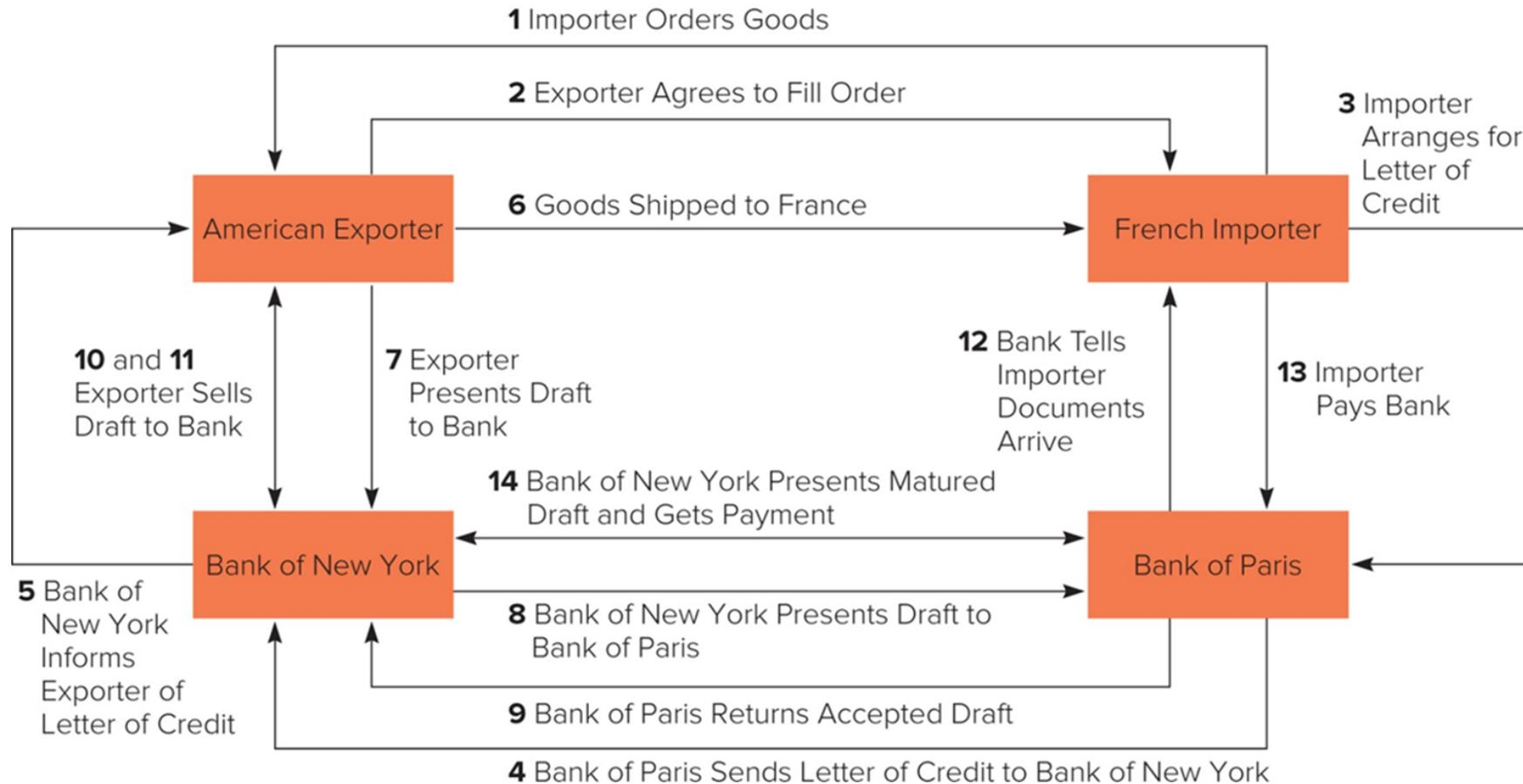
# Lack of Trust Example: The Use of a Third Party



# Third-Party Payments: Letter of Credit

- Issued by a bank at the request of an importer stating the bank will pay a specified sum of money to a beneficiary, normally the exporter, on presentation of particular, specified documents.
- Attractive because both parties are likely to trust a reputable bank even if they do not trust each other.

# A Typical International Trade Transaction





# Export Assistance in Canada & the U.S.

The various organizations that help  
Canadian businesses to export their goods

# Export Assistance

- Assistance for U.S. Exporters
  - They can get financing aid from the Export-Import Bank.
  - They can get export credit insurance from the Foreign Credit Insurance Association.
- Assistance for Canadian Exporters
  - EDC's Accounts Receivable Insurance (ARI)
    - ARI protects against non-payment by covering up to 90% of losses resulting from a wide variety of commercial and political risks. Better still, exporters can free up capital and, possibly, extend more attractive payment terms and credit options to new customers



# Export Assistance for U.S. Exporters

- **The Export-Import Bank**

- **Export-Import Bank (EXIM Bank)** is a wholly owned U.S. government corporation; established in 1934.
- Designed to supplement, not compete, with capital lending.
- Provides financing aid to facilitate exports, imports, and exchange of commodities between U.S. and other countries.
- Has a direct lending operation to lend dollars to foreign borrowers for use in purchasing U.S. exports.

- **Export Credit Insurance**

- Insures exporter against risk that foreign importer will default on payment.
- Provided by Foreign Credit Insurance Association (FCIA).
- Provides coverage against commercial and political risks.

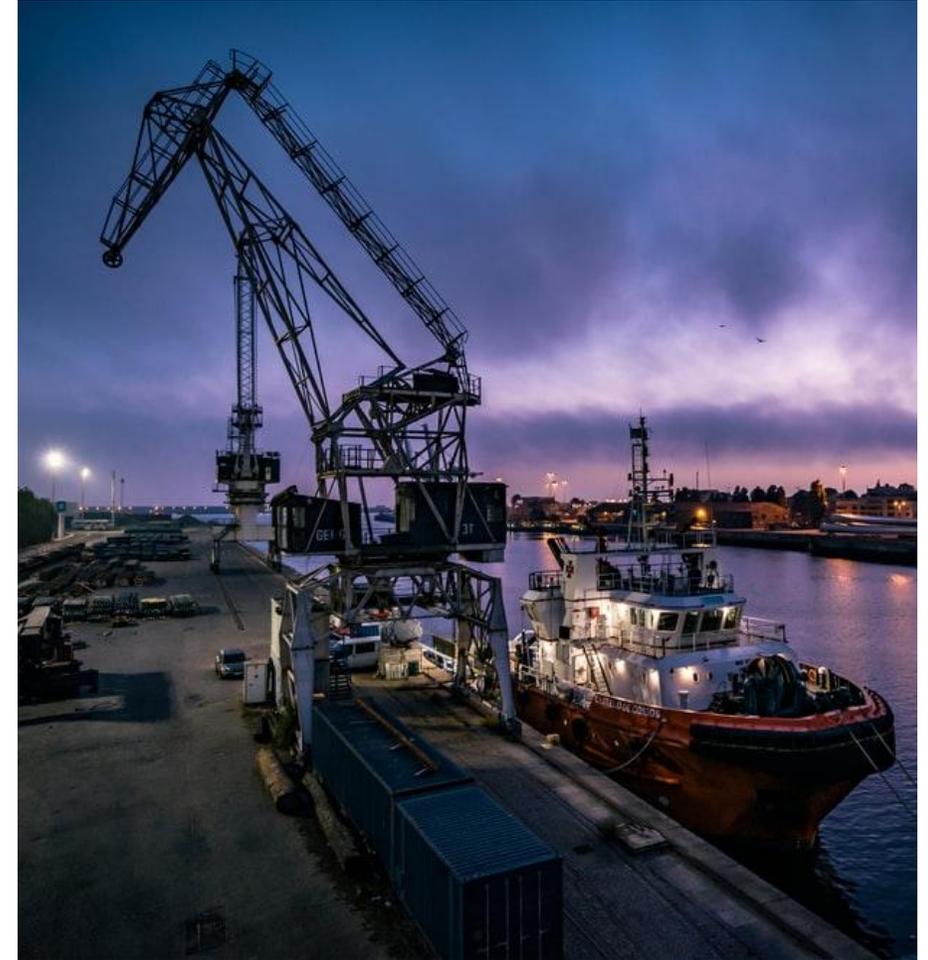


# Countertrade

Alternative forms of compensation (non-monetary) when trading goods between countries

# Countertrade

- Countertrade: A range of barter-like agreements that facilitate the trade of goods and services for other goods and services when they cannot be traded for money.
  - Example: Philip Morris shipped cigarettes to Russia, for which it received chemicals used to make fertilizer. Philip Morris shipped the chemicals to China, and in return, China shipped glassware to North America for retail sale by Philip Morris.
- Exporters use countertrade when conventional means of payment are difficult, costly, or nonexistent.



# History of Countertrade

- In the 1960s, the Soviet Union and the communist states of Eastern Europe, whose currencies were generally nonconvertible (could not be exchanged into other currencies), turned to countertrade to purchase imports.
- A short-term spike in the volume of countertrade can follow periodic financial crises.
  - Notable increase in the volume of countertrade after the Asian financial crisis of 1997.
- Useful when currencies get significantly devalued.

# Types of Countertrade

## Barter

- Direct exchange of goods and/or services between two parties without a cash transaction.
- Used primarily for one-time-only deals in transactions with trading partners who are not creditworthy or trustworthy.

## Counterpurchase

- A reciprocal buying agreement when a firm agrees to purchase a certain amount of materials back from a country to which a sale is made.
- **Example:** Rolls-Royce sold jet parts to Finland. In exchange, Rolls-Royce agreed to use some of the profits from that trade to buy TVs made in Finland from its client.

# Types of Countertrade

## Offset

- Same idea as counterpurchase, however, the company can fulfill its counterpurchase obligation with ANY firm in the country to which the sale is being made.
  - **Example:** Same as previous example but Rolls-Royce can use their credits to buy any Finnish product.

## Switch trading

- A specialized third-party trading house buys a firm's counterpurchase credits and sells them to another firm
  - **Example:** From a previous countertrade, I have credit for 10,000 more bags of rice from a trade partner. I sell that credit to a trading house who in turn sells it to another company who needs the rice

## Compensation or buyback

- A firm builds a plant in a country—or supplies technology, equipment, training, or other services to the country—and agrees to take a percentage of the plant's output as a partial payment for the contract.

# Pros & Cons of Countertrade

- Countertrade allows firms to finance an export deal when other means are not available.
  - Firms that are unwilling to engage in countertrade may lose an export opportunity to a competitor that will.
  - Countertrade may be required by the government of a country to which a firm is exporting goods or services.
- Countertrade can be unattractive.
  - Most firms prefer to be paid in hard currency.
  - May involve exchange of unusable or poor-quality goods that the firm cannot dispose of profitably.
- Countertrade is most attractive to large, diverse multinational enterprises that can use their worldwide network of contacts to dispose of goods acquired in countertrade.
  - Japan's *sogo shosha* are masters at countertrade.



# International Trade in Canada

Understand the export/import  
landscape in Canada

# Top Export Destinations for Canadian Goods (2020)

Rank	Country	Value in USD	% of total Canadian Exports
1	United States	\$287.1 billion	73.5%
2	China	\$18.8 billion	4.8%
3	United Kingdom	\$15 billion	3.8%
4	Japan	\$9.2 billion	2.4%
5	Germany	\$4.8 billion	1.2%
6	Mexico	\$4.6 billion	1.2%
7	Netherlands	\$4.1 billion	1%
8	South Korea	\$3.5 billion	0.9%
9	France	\$2.8 billion	0.7%
10	Italy	\$2.8 billion	0.7%

# Quebec's Top Exports

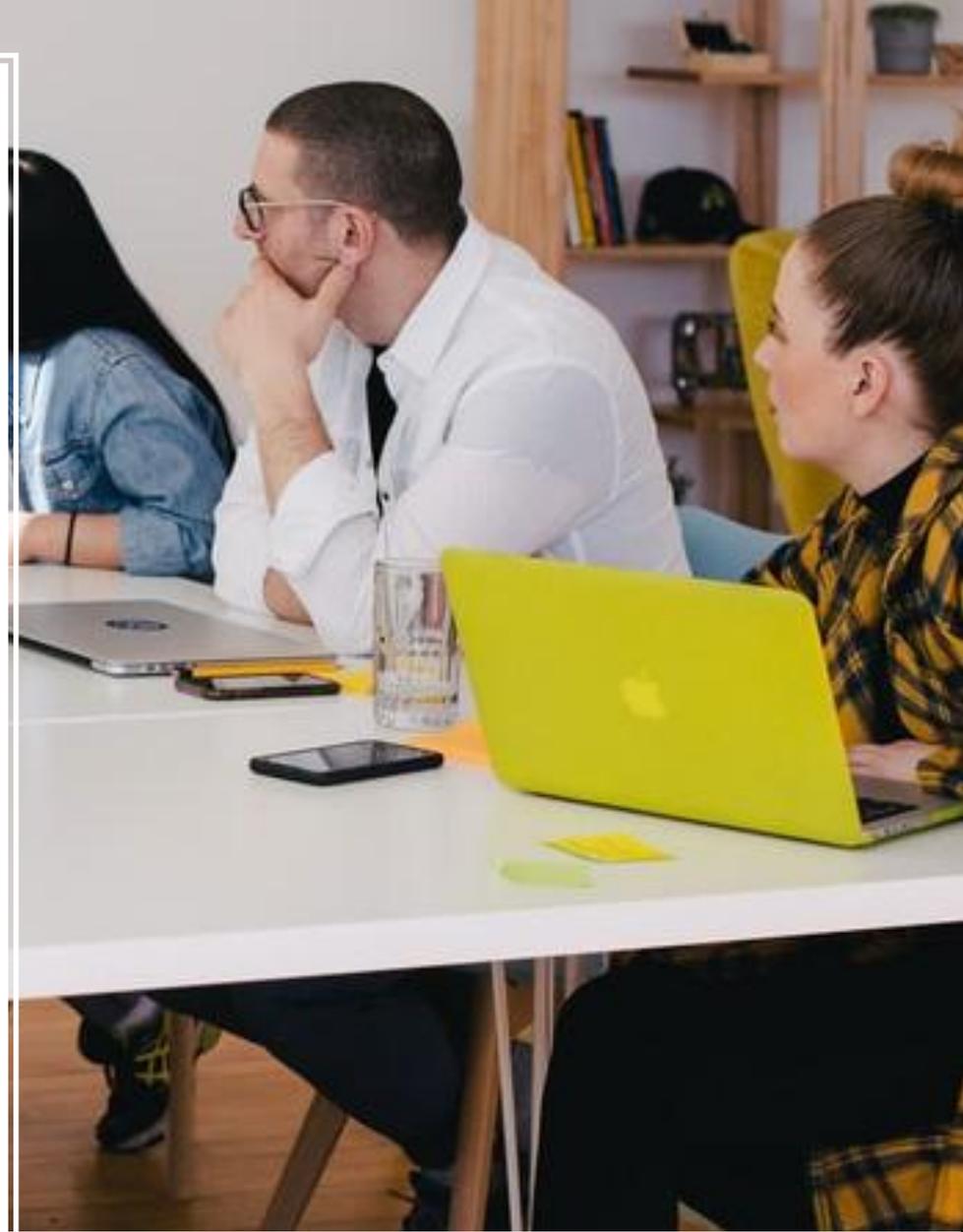
Rank	Country	Value in USD	% of total Quebec Exports
1	Large aircraft	\$3.4 billion	5.4%
2	Unalloyed unwrought aluminum	\$3 billion	4.6%
3	Non-agglomerated iron ores, concentrates	\$2.6 billion	4%
4	Alloyed unwrought aluminum	\$1.7 billion	2.6%
5	Coniferous lumber (sawn, chipped, sliced, peeled)	\$1.2 billion	1.8%
6	Turbo-jets (high-thrust)	\$980.7 million	1.5%
7	Medium-size aircraft	\$905 million	1.4%
8	Unwrought refined copper cathodes, cathode sections	\$897.7 million	1.4%
9	Refined copper wire	\$875.5 million	1.4%
10	Ground flying trainers, flight simulators	\$854.5 million	1.3%

# The Pandemic's Effect on Quebec Economy

- From February to April 2020, the sectors most effected were
  - Construction (-73.6%), accommodation and food services (-63.2%), arts, entertainment and recreation (-53.2%), and mining, quarrying, and oil and gas extraction (-46.9%)
- In December 2020, Quebec's GDP rebounded to 98% of its level in February 2020
- The sectors that surpassed pre-crisis production levels were agriculture, forestry, fishing and hunting; retail trade; finance and insurance; health care and social assistance; and professional, scientific, and technical services
- Those that recovered the least were arts, entertainment and recreation; accommodation and food services; and transportation and warehousing

# Activity: Canada-Brazil Trade

- What are the top exports of Canadian goods to Brazil?
- What are the top imports of Brazilian goods to Canada?
- Is the trade equal? Who has a trade surplus? Who has a trade deficit? By how much?





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