

E-Exporting

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Introduction

The existence of your business on the World Wide Web means that it is accessible to anyone in the world with an Internet connection. The international reach of the Internet has opened up a global marketplace, where small businesses can compete with larger corporations on a more level playing field.

Once your site is live, you may receive visitors and orders from around the globe.

Once your site is live, you may receive visitors and orders from around the globe. If you have never sold your products to anyone outside of Canada before, you will have various questions, such as:

- What paperwork do I have to fill out?
- How do I ship my product?
- What taxes and duties will be charged?
- How do I receive payment?

There are many things to consider when exporting. This Info-Guide will help you answer many of the key questions related to e-exporting.

Regulations

There are many regulatory issues that can make exporting quite complicated. Exporting regulations are both product and country specific. Therefore, it is very important that you understand what regulations will concern you. Also keep in mind that you are affected by both export regulations of the country you are exporting from and the import regulations of the country to which you are selling your product. Some of the issues you should think about include:

- **Jurisdictions** - Which nation's laws are to be applied (i.e., who has jurisdiction) will affect how your contract is enforced and the rights of the parties involved.
- **Intellectual property** – A world trademark does not exist. You need to file for a trademark in each country in which you plan to do business. The same holds true for other intellectual property and patents.

- **International trade agreements** – Trade agreements between Canada and the country you wish to export to may subject your products to lower tariffs. To qualify under any trade agreements, you (or the manufacturer) will need to provide a Certificate of Origin proving the country of origin of your product and its components.
- **Standards** – Does your product meet the standards of the destination country? You will need to find out what regulatory bodies in the destination country will control your exports (e.g., Food and Drug Administration (FDA) in the US for foodstuffs).
- **Export controls** – Is your product subject to export controls? Certain products require permits, certificates or inspections before they can be exported. Some software and computer products also fall under this category.

Exporting Information via the Internet

Many products that are traded or sold online never cross a physical border. The customer, regardless of their location, enters their credit card details online, the transaction is processed in real time, and the product is immediately available to them for download. Because information is not a dutiable product if provided via the Internet, it does not require documentation or reporting. However, if you physically send your software product (e.g., on a CD or DVD) to your international customers, then it would be a physical export subject to the following steps.

7 Steps to Exporting

1. Get an import/export account number

You will need an import/export account number to report export revenues to the Canada Revenue Agency (CRA). Application forms are available from all Canada Revenue Agency offices that clear commercial shipments. For more information read the document “Importer/Exporter Account Number,” available at www.cbsc.org/alberta/search/display.cfm?Code=1116&coll=FE_FEDSBIS_E, or call the CRA at 1-800-959-5525.

For export assistance,
access Team Canada Inc.
export information service
at 1-888-811-1119

2. Find the HS code(s) that apply to your products

Harmonized System (HS) codes are used in international trade to simplify the requirements of customs administration, trade statisticians, carriers and producers. The HS harmonizes trade documentation data and provides a standard for designating and coding commodities. You need to know your product's HS code in order to fill out your export declaration and to find out the duty rates that apply to your product by its country of destination.

Statistics Canada allows you to search by HS code or commodity on their website at www.statscan.ca/trade/scripts/trade_search.cgi. The World Customs Organization provides links to tariff information for various countries around the world at www.wcoomd.org/ie/En/en.html. If you require more information, you can contact Canada Border Services Agency's Automated Customs Information Service (ACIS) at 1-800-461-9999.

In the US, an HS code is referred to as an Harmonized Tariff Schedule (HTS) code. To find the HTS Code for your goods, visit one of the following US government sites: www.usitc.gov/tata/hts/bychapter/index.htm or a government database called DataWeb <http://dataweb.usitc.gov/scripts/tariff2004.asp>.

3. Report your exports

You report your exports by submitting, prior to exportation, an export declaration, and when applicable, any required permits, certificates, or licenses for controlled, prohibited, or regulated goods. If your goods are not controlled and you are exporting to the US, you do not need to report your exports. Otherwise, you can file an export declaration for controlled products using one of the following methods:

- **Canadian Automated Export Declaration (CAED) program** – An electronic method for reporting exports
- **Form B13A, Export Declaration** – A paper-based reporting method in which you complete Form B13A and submit a copy to customs prior to exporting each shipment

- **Summary reporting** – Reserved for exporters of low-risk goods who export on a regular basis and who have met specific customs requirements.

You have to report your goods by filing an export declaration prior to export when:

- The goods are valued at **CAN \$2,000 or more**
- The final destination of the goods is a country other than the United States, Puerto Rico, or the US Virgin Islands
- The goods are **controlled, prohibited or regulated**

4. **Get a Certificate of Origin**

According to the Customs Act, every exporter of goods for which a preferential tariff treatment under a free trade agreement applies, must certify in writing that the goods exported to a NAFTA (Mexico, United States), CIFTA (Israel), CCRFTA (Costa Rica) or CCFTA (Chile) country meet the rules of origin as set out in the related free trade agreement. Even if your destination country is not a signatory to these agreements, you should fill out a Certificate of Origin in case your goods fall under other preferential treatment agreements.

Copies of the Certificates of Origin can be downloaded from the Canada Border Services Agency's website at www.cbsa-asfc.gc.ca/import/accountingintro-e.html#P305_26310, or you can contact the CBSA's Automated Customs Information Service at 1-800-461-9999.

5. **Obtain all required export permits from Canada**

Export shipments must be accompanied by certain documents to leave Canada and to enter the destination country. Canada Border Services Agency helps other federal government departments by administering and enforcing regulations on their behalf. If you are exporting goods that are controlled or regulated, you have to submit the appropriate permit, certificate or license *before* you export them, regardless of the destination or value of the goods. Animals (live), cultural products, firearms, some food products, hazardous wastes, narcotics and controlled drugs, nuclear materials, ozone depleting

substances and products, plants and wildlife, and rough diamonds are all examples of controlled goods. For a full listing and the respective government departments that administer the issuance of certificates and permits, visit www.cbsa-asfc.gc.ca/export/ogd-e.html.

If you wish to export other controlled goods, including **portable personal computers and associated software**, you should contact the Export and Import Controls Bureau (EICB) at the International Trade Canada at (613) 996-2387. You can also visit their website at www.dfait-maeci.gc.ca/eicb/menu-en.asp.

Please note that goods manufactured in the US (regardless of whether they are controlled or not) require an export permit (GEP12) to be exported to non-NAFTA countries. Contact the Export Import Controls Bureau at the number mentioned above for more information.

Do you have questions about GST on exports? Visit Canada Revenue Agency's at http://www.cra-arc.gc.ca/E/pub/gp/rc4022/rc4022-17-e.html#P1210_125818

Goods are not the only products that are controlled, however. In some cases, non-regulated goods still require an export permit if they are being sold to a country on Canada's Area Control List (ACL). In most cases, these are countries that Canada has trade sanctions with. Right now they include Cuba, Iran, Myanmar and North Korea, but this list changes so make sure to check if you're unsure about the country you're dealing with.

If you aren't sure whether your goods are controlled in Canada or whether you are dealing with a country on the ACL list, you can apply for an export permit just in case. The permit will be sent back stamped "permit not required" and this can be used to help ease the goods through domestic customs.

6. Obtain other documents required by foreign customs

You should also investigate trade regulations in foreign countries (i.e. required licenses, permits, and/or certificates) prior to shipping any goods. Visit the World Customs Organization's website at <http://www.wcoomd.org> to access customs administration websites worldwide, or the MIGRA database available at your local Canada Business Service Centre.

7. Maintain accurate books and records

In Canada you have to keep accurate books and records of your exporting activities for six years after the end of the calendar year in which you export the goods. You can keep these records on paper or electronically.

Customs Brokers

By now it's probably apparent that exporting can be complicated, involving a sea of paperwork, codes, export regulations and import regulations. Fortunately there are third-party service providers that can assist you with every step of the process. A customs broker can help you fill out the necessary paperwork, find your HS code, and make sense of all the export and import regulations that affect your product. They can also assist with the process of clearing customs. You must remember, however, that you, the exporter, shoulders all the responsibility, so it's important to understand the requirements.

Preferably, you should select a customs broker that specializes in your product and has a thorough understanding of the country you wish to export to. You can consult the member directory of the Canadian Society of Customs Brokers to find a suitable customs broker for you at www.cscb.ca.

Freight Forwarders

When mailing a commercial package to another country, your package will go through many steps before it finally arrives at your customer's doorstep. Depending on where it's going, your package may travel by multiple modes of transportation (ship, air, train or truck) and across a number of countries before it finally reaches its destination. Arranging these details and ensuring the required documentation accompanies the shipment is sometimes difficult. Therefore, it is a good idea to hire a freight forwarder to help you ship the goods. A freight forwarder will arrange the most appropriate modes of transportation based on your needs (cost and timing), and offer insurance on the shipment. In your terms of sale, make sure you identify which Incoterm™ your price is based on. Incoterms™ are used to identify which costs and risks the buyer is responsible for, and when these costs and risks are transferred to the seller (such as shipping, customs, duties, insurance). More information about

Incoterms™ can be found on the International Chamber of Commerce website at www.iccwbo.org/index_incoterms.asp.

You also need to be aware of packaging and labeling requirements for export shipments. For example, all goods going to the US must be permanently marked “Made in Canada.” A freight forwarder can help you find this type of information.

Ideally your freight forwarder and customs broker is the same company. This can help prevent any miscommunication that may otherwise occur. On the website of the Canadian International Freight Forwarders Association, www.ciffa.com, you can find a listing of freight forwarders.

Pricing

Now that you are familiar with some of the steps involved in exporting, you may have come to conclusion that your initial profit margin has shrunk significantly. To make exporting a viable business option for you, you will need to seriously consider your pricing strategy. Shipping, duties, insurance, customs brokers and freight forwarders will all increase your costs. Understand that in some countries a quotation represents a legal commitment to sell your goods at the quoted price. To protect yourself, you should be prepared to receive international orders and develop a process in advance that will help you reasonably estimate an accurate price.

On your website you should consider customizing your pricing policy for different markets. To avoid confusion, clearly mark the currency used in your prices. To serve your clients better, you may decide to use several currencies; however, don't use exchange rates. You should set a fixed exchange rate on your website and update that regularly to reflect market changes. Exchange rates are prone to sudden fluctuations, and you may run the risk of not recovering all your costs, let alone making a profit.

Payment Options

Receiving payment is perhaps the most important, and challenging, part of your exporting activity. Ideally you want to receive payment before you ship the goods, although it can be difficult to negotiate such terms. There are different payment options you can consider, such as online payment, letter of credit, open account, staggered payments, documentary collections, and consignment. Before you select the best method for you, carefully assess the risk you are willing to bear and the amount of time you want wait to receive your payments. The most common methods of receiving payment are discussed next. For a complete listing, visit www.cbac.org/alberta/search/display.cfm?Code=8030&coll=AB_PROVBIS_E.

Online Payment

To avoid having to collect payment after the goods have been shipped, online transactions can process payments in real time. Be aware of the risk of credit card fraud because the rate of credit card fraud is much higher with international transactions than with domestic transactions. If a fraudulent transaction occurs, you may be charged a chargeback fee by your Internet merchant account provider. However, if your amount per transaction is relatively low, this may be a calculated risk you are willing to take.

Another widely used online payment option is PayPal. PayPal is a secure and low-cost way of processing online transactions. But keep in mind that PayPal is not available in all countries.

Letters of Credit

For large transactions it is a good idea to arrange a letter of credit. A letter of credit is a legal document to arrange payment between an importer and exporter. It provides security for both parties, giving the exporter confidence that the importer is able to pay for the goods, while assuring the importer that payment will be made to the exporter only after the terms outlined in the letter of credit have been met. For a letter of credit to be arranged, the importer will need to contact his or her bank, who will then contact the exporter's bank.

Avoiding Fraud

Before you complete a large order you should do a risk assessment of your customer and the country of destination (assess both political and economic stability).

Especially when dealing with new customers, you may want to run a credit check on your customer. It may also be a good idea for you to invest in some insurance to protect yourself from fraudulent purchases. Export Development Canada (www.edc-see.gc.ca) can help you with both. You may also decide that it is too risky to export to certain countries, so it is a good idea to clearly display on your website which countries you will and will not export to.

Online Opportunities

Through the web you can reach a huge number of potential customers from around the globe. The web presents some great opportunities to facilitate business across borders and to serve your international customers better. You are able to promote your small business internationally without having a physical presence in other countries.

Some of the other things that the Internet allows you to do include:

Customization

The Internet allows you to localize and personalize your website for different markets. Part of this may include adapting your language, pricing, colour scheme, product offering, and contact details for each foreign market.

Customer Support

Providing customer support to someone in Europe or Africa can be much more efficient when done electronically. You may decide to have help files, a frequently asked question (FAQ) section, or a product manual on your website. You can also respond to client questions from around the world via email and auto-responders.

Marketing

The web can be used to clearly communicate the features and benefits of your product. You can display product photos, detailed product descriptions, videos, and customer testimonials. For some products you can even offer a free trial online to let your customers experience the product before they decide to buy it.

You can also employ your website to promote your company. You have an opportunity to tell potential customers more about your company's history, staff, location, partners, and so on. This will help your customer gain a better understanding of who it is they will be doing business.

E-mail is a convenient way to communicate with your international customers. You can respond to questions instantly, notify your customers of their product shipment status, and send them your latest news or info on special offerings.

International Standards

Your website can also be used to let customers know which international standards your product meets. Products such as medications and toys, for example, are heavily regulated by industry standards in many countries. Make sure you make it obvious which standards, and from which countries, your product meets. Some organizations and government departments offer seals to signify that your products meet their standard specifications and you can display these on your website.

Policies

Clearly mark your pricing, shipping, and return policies, as well as your terms of use on your website. This will help minimize confusion and potential conflict. As mentioned before, a quotation can sometimes represent a legal commitment. Therefore, make sure you carefully prepare your quote and ensure that it accurately reflects transportation costs, duties, and so on for the particular country.

Next Steps

Creating an international market for your product or services might prove to be lucrative for you business, so you may decide to develop this potential market. There are several ways in which you can increase your international presence; some may be more labour and cost intensive than others. Some options to consider include:

- Form a relationship with a trading house in Canada who will buy your product from you. They will then market, sell, and ship your product.
- Seek an agent, who will represent your product in the desired market.

- Form a strategic alliance or joint venture with a company currently serving, or considering serving, the same target market
- Open an affiliate office in the desired market.

Before you decide to develop an international presence, however, you should consult with an expert at Team Canada Inc.'s export information service at 1-888-811-1119. Team Canada Inc. can help you identify the steps and issues involved and recognize potential pitfalls.

Good luck with your e-export pursuits!

Resources

- Alberta E-Future Centre
www.e-future.ca/alberta
- Export Link
www.cbcs.org/alberta/exportlink
- Team Canada Inc. - Export Source
www.exportsource.gc.ca
- Canada Border Services Agency
www.cbsa.gc.ca
- Canadian Society of Customs Brokers
www.cscb.ca
- Canadian International Freight Forwarders Association
www.ciffa.com
- Info Export
www.infoexport.gc.ca
- Stats Canada – HS Codes
www.statscan.ca/trade/scripts/trade_search.cgi
- US Government – HTS Codes
www.statscan.ca/trade/scripts/trade_search.cgi
- US Government - DataWeb
<http://dataweb.usitc.gov/scripts/tariff2004.asp>
- World Customs Organization
www.wcoomd.org
- Department of Foreign Affairs and International Trade
www.dfait-maeci.gc.ca
- International Chamber of Commerce
www.iccwbo.org

Contact Us

The Alberta E-Future Centre, a service initiative of The Business Link, is your first stop for e-business information in Alberta. We offer free, impartial, and easy-to-understand e-business advice and information for small and medium-sized businesses. Our goal is to help entrepreneurs make more informed decisions as they adapt to technological change. If you have any questions, we are only a visit, click or a call away!

The Business Link's Alberta E-Future Centre

Business Information Line: 1-800-272-9675

Edmonton: 100 – 10237 104 Street NW, Edmonton, Alberta T5J 1B1

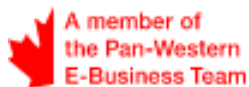
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