



International Trade Guide

2013
EDITION

2013 International Trade Guide

May, 2013

The Sonoma County Economic Development Board (EDB) is pleased to present the 2013 International Trade Guide.

About this guide

The International Trade Guide 2013 is designed for small business owners and managers in order to encourage them to expand internationally. It aims to link Sonoma County's businesses to resources that will aid them in expanding their business across borders and overseas. The hope is that this guide will provide encouragement and that it will be a valuable asset to any small business interested in international trade.

Using this guide


International operations might appear tedious and intimidating, especially for small businesses. The guide has been prepared with the intent of including the major topics concerning exporting and importing and, within each topic, any website or resource that provides useful information. The 2013 International Trade Guide is broken down into six essential sections, highlighting the major steps to expand business operations and to take part in the global economy. The logical order of the guide shall be seen as reference points on the journey to international trade.

Find out more

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1 Getting started with International Trade

International trade is defined as the exchange of goods, capital, services and knowledge across international borders and territories. It mainly differs from domestic economic exchange in its speed, volume, geographic reach, complexity and diversity. While international trade has always been important throughout history, its economic and political significance is continuously growing in today's globalized world.

Getting started on international trade is a complex undertaking. If your small business is interested in expanding internationally, taking the time and care in research and preparing your business can facilitate your journey to the global marketplace. This step-by-step guide is intended to help you on your way and to describe the most important processes for your success.

- Globalization has made it easier to buy and sell goods in multiple markets.
- Exports and imports are both essential for the development of any country
- Exports accounted for nearly 25 % of U.S. economic growth during the past decade, and they are expected to grow by nearly 10% per year for the next several years.
- Exports play a smaller role in Sonoma County compared to other parts of the U.S., but most of Sonoma's exports go to Europe

Sources: 2012 Ed. of "A basic Guide to Exporting - the official government resource for small businesses"; Census Bureau, Moody's Analytics

More on International Trade in Sonoma County

The Economic Development Board International Trade Report gives you an overview of the County's international ties and the impact on the regional economy. The report is available on the EDB homepage:

>>> http://edb.sonoma-county.org/documents/2008/2008_int_trade_report_vi.pdf



Significant Trends in International Trade

- Globalization
- Free Trade Agreements
- Global Communication and Technology
- International Financial System & Exchange rates

1.1 Why Import and Export

For small businesses, importing and exporting products can be an exciting way to be part of the global economy in order to expand business operations. Furthermore, trading globally gives you access to goods and services not available in the United States. According to the office of the United States Trade Representative, small- and medium sized enterprises account for the largest group of U.S. exporters and are a major user of imported goods.



1 Getting started on International Trade

Important benefits of International Trade

- Enhance your domestic competitiveness
- Exchange technological know-how
- Increase your sales and profits
- Extend sales potential and the quality of the existing products
- Maintain cost competitiveness in your domestic market
- Reduce manufacturing and components costs
- Stabilize seasonal market fluctuations

Sources: 2013, U.S. Chamber of Commerce

The benefits of international trade have been the major drivers of countries' growth. Generally, import refers to a product traded inside a country from any other country, while export refers to a product going out of the country to any other country of the world. Any company can be an exporter and importer.

If your small business is already an exporter, that does not mean that you cannot be an importer as well. It might be costlier to produce an item yourself than importing items. However, the decision to expand internationally by importing or exporting should not be made without careful consideration.

More resources

The following International Trade Centers, Agencies, Chambers of Commerce and other resources assist you in overcoming the barriers of selling and buying internationally:

North Bay Export Assistance Center

>>> <http://export.gov/california/northbay/>

International Trade Center's Forum

>>> <http://www.tradeforum.org>

Small Business Association

>>> <http://www.sba.gov/>

International Chamber of Commerce

>>> <http://www.iccwbo.org>

1.2 Prerequisites and Readiness

If your business is interested in exporting or importing products or services, determining your potential is a crucial first step in the process. Assessing your capabilities and considering prerequisites are the basis for any strategic plan. An accurate assessment could potentially prevent challenges to your business. Every mistake is costly and can negatively impact your business, if planning is not done appropriately.

Getting your business ready might be a time-consuming process as there are many prerequisites that should be addressed. Be prepared to spend some time to get your business ready.

Are you ready to export?

These quick assessments can help to assess your export readiness

>>> <http://export.gov/begin/assessment.asp>

>>> <http://www.fas.usda.gov/agexport/exporttest.asp>

>>> <http://www.tradecomplianceinstitute.org/ERAS/>



Exporter's Resource Database

>>> <http://export.gov/california/sanfrancisco/exportersresourcesdatabase/index.asp>

Center for International Trade Development

>>> <https://sites.google.com/site/californiacitdnetwork/trade-toolbox/start-up-kit>

Some Export Myths

>>> <http://www.saleschase.com/blog/2012/06/28/7-common-myths-export-marketing/>

1 Getting started on International Trade

1.3 Find an Overseas Agent/Partner

As an exporter and importer it may be to your benefit to find a business partner or agent with whom you can easily work. A foreign agent or intermediary does not directly buy products. Your agent or partner will be able to provide you with detailed information about the country and its characteristics and help you during negotiations.

An intermediary or agent may be the best way to enter a new market, especially for businesses new to international trade.

1.4 Doing Business Abroad

Trading across borders means that you will, more likely than not, be targeting a different culture. Understanding other cultures and business practices is a key factor to success! Knowing the customs, demographics and laws of the country you plan to export to could provide a valuable edge to your company's operations.

This information could be especially beneficial if employees or management decide that it would be of benefit to visit and explore the workings of the country you are trading with:

>>> <http://www.state.gov/e/eb/cba/faq/176.htm#>
>>> <http://www.sba.gov/content/resources-doing-business-abroad>

1.5 Developing a Plan and Preparing your Product

In choosing from different channels, markets, and countries, what's the best strategy for your business? Based on the assessment and prerequisites, facts, constraints and goals you can develop an action plan. A high-quality plan assists you as a guideline for the development of your international business. It consists of the identification of markets, goals, activities, and proposed ways of achieving objectives, required resources and expected results. With careful planning and a solid commitment, your company can join the global marketplace.

Looking for an Overseas Partner?

>>> www.usembassy.gov/
>>> export.gov/basicguide/eg_main_038338.asp
>>> www.susta.org/export/intermediaries.html



Useful resources to develop your plan:

>>> <http://strategy.sauder.ubc.ca/antweiler/baim500/exportplan.html>
>>> <http://www.freebizplan.org/export-plan.htm>
>>> <http://www.sba.gov/sites/default/files/SBA%20Export%20Business%20Planner.pdf>



1 Getting started on International Trade

What your import/export plan should contain

- Overview of entry market for imported product
- Opportunities and Risks
- Market entry strategy
- Regulatory and legal issues
- Logistical issues
- Financial plan
- Implementation

Your trade plan has its foundation in your existing business plan. Now might be the right time to review and renew it!

Each market's unique characteristics may require a change in product labeling or advertisement and awareness of environmental laws and government relations. You will need to check if the product you are importing or exporting is competitive in the target market.

Is your product ready?

Analyze your competitiveness:

>>> <http://www.entrepreneur.com/encyclopedia/competitive-analysis#>
>>> <http://www.fao.org/docrep/w5973e/w5973e02.htm>

Remember the basic marketing principles

Remember the basic marketing principles and some simple techniques to make your product ready for export.

- Conduct a SWOT Analysis to understand your strengths, weaknesses, opportunities and threats
- "Porter's five forces" is a helpful framework for industry analysis focusing on five market forces: Suppliers, Buyers, Substitutes, Potential Entrants, Industry rivals

A good plan is build around your research and there are several methods to conduct it. Learn more about the several ways to conduct market research in the next chapter.



2 Market Research

2.1 Methods of Market Research

Although there are many benefits of International Trade, expanding in different markets can be very challenging. Expanding internationally does not only include domestic challenges but also political, economic and cultural issues, different currencies, and other challenges.

There are many different ways to study markets. Basically, you can distinguish between two main types of research: secondary and primary market research. Broad research can give you confidence about the market you want to trade with.

2.2 Secondary Market Research

Secondary market research involves the summary, collation and synthesis of existing research. It is less resource and time intensive than primary research, where data is collected from samples or experiments. For your secondary research, you can use different kinds of data such as periodicals, studies, reports, books, surveys and statistical analyses. Focus on accurate and current statistics as well as specific industry insights on foreign markets.

Some helpful resources for secondary research

United Nations Commodity Trade Database:

>>> <http://comtrade.un.org/>

WTO Statistics Portal:

>>> http://www.wto.org/english/res_e/statis_e/statis_e.htm

OECD Statistical Portal:

>>> <http://www.oecd.org/statistics/>

Food and Agricultural Trade Data by FAO:

>>> <http://faostat.fao.org/site/342/default.aspx>

U.S. Census Bureau:

>>> <http://www.census.gov/indicator/www/ustrade.html>

World Bank Database:

>>> <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:21685771~menuPK:4777014~pagePK:210058~piPK:210062~theSitePK:239071,00.html>

2.3 Primary Market Research

After completing secondary research, collect market information through direct contact with potential customers, trade partners or other sources. Primary market research is best thought of as research that does not exist and must be collected by you. Therefore it is tailored specifically to your needs. Primary research demands direct and personal involvement through consultations. By using techniques such as focus groups, surveys and interviews you can gain specific information about your target market and industry that may not have been available in secondary research.

These links might help you to conduct primary research:

>>> <http://www.surveysystem.com/sdesign.htm>
>>> http://www.otmmarketing.com/Portals/42226/docs/primary_research.pdf
>>> <http://office.microsoft.com/en-us/word-help/conducting-primary-market-research-HA001123092.aspx>

2.4 Selecting Markets and the Market Entry Strategy

After completing research, choosing the best method to select and enter a market is crucial. Your action plan should be ready in order to start your activities. One way of breaking into overseas markets is to directly export your product. Other possibilities include establishing joint ventures with firms in the target country and product licensing. Choosing what works best for your business will determine exactly how much control you have over the process.

More information about how to select your market and entry strategy:

>>> <http://www.commerce.gov/>
>>> <http://www.iccwbo.org/>

Basic market entry strategies for exporters

- **Partnership**
- **Direct Export**
- **Indirect Export**
- **Acquisition or Investment**

3 Financing Trade

Understanding the risks of financing [international trade](#) is a crucial step. You will need a comprehensive financial plan ensuring that your company has sufficient cash flow or operating lines of credit. Normally, international payments take longer than domestic ones. Furthermore, your plan has to take other risks in account, such as exchange rate fluctuations, exchange controls and transmission delays. There are many different ways to finance your trade and sources offering help. You will have to decide which ones work best for you.

The following ways of financing trade are broadly used.

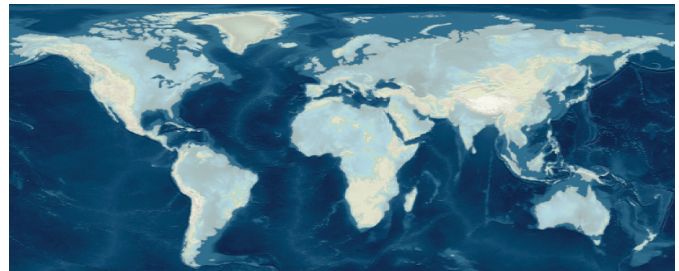


3.2 Letters of Credit (L/C)

The most common method of payment used in international trade is a letter of credit (L/C). Letters of credit are from banks, and guarantee that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer is unable to make the payment, the bank will cover the full or remaining amount of the purchase. L/Cs can be irrevocable which means that they cannot be amended or cancelled without your approval. Furthermore you should let your American bank officially confirm the L/C. Therefore, the most secure letter of credit is both confirmed and irrevocable. However, letters of credit have become less common.

>>> <http://www.crfonline.org/orc/cro/cro-9-1.html>

You can always contact a bank of your trust for assistance and more information!



3.1 Working Capital Loans

With a new international contract comes the most challenging task small businesses face in financing international trade: raising working capital. A working capital loan is a short-term business loan that provides your business with necessary cash to bridge cashflow needs. Some suppliers want you to pay cash on delivery while your customer wants to pay you net 30 to 60 days. Meanwhile the labor, packaging and shipping costs have to be met. Working capital can fill that gap.

>>> <http://www.sba.gov/content/export-working-capital-program-fact-sheet-small-businesses>

3 Financing Trade

3.3 Open Accounts

Open accounts require you to ship and deliver goods before payment is due, usually in 30-90 days. That means you are fully exposed to any credit risk until payment is received. However, this high-risk option can boost your competitiveness in the global market. Trade organizations only recommend using open accounts if you have an established and positive relationship with a buyer as you are basically financing the transaction for him or her.

>>>

www.exportfinance.gov.au/Pages/Openaccount.aspx

3.4 Documentary Collections

Documentary collections allow the exporter's bank to collect payment in a timely manner and are very cost-effective. However, with a collection, there is no bank guarantee that you will get paid. In a documentary collection, goods are shipped to the customer. Meanwhile the shipping document is sent from the exporters' to the importers' bank.

>>>

http://www.worldtraderref.com/wtr_site/documentary_collections.html

>>> <http://www.ablv.com/en/services/banking/documentary/collection>

3.5 Other Methods and Resources

There are other methods of financing your trade, although they are less common and few foreign partners are willing to accept them. In order to be as competitive as possible, your company may want to investigate them. For example, cash in advance is a very reliable option as many buyers are willing to accept these arrangements. It eliminates risk of non-payment and adds to the working capital, but it is not a very common method.



More information about how you can finance your trade offers a comprehensive Trade Finance Guide published by the U.S. Department of Commerce:

>>> http://export.gov/static/TradeFinanceGuide_All_Latest_eg_main_043219.pdf

4 Trade Logistics

4.1 Shipping

There are four basic ways of shipping to your customer. Choosing the right shipping method is vital to your success. You want the product to be on time and shipped at the lowest cost. The four basic methods include:

- **Air**
- **Ocean**
- **Rail**
- **Truck**

All of the above four methods have their advantages and disadvantages. In general, shipping by air is the most expensive but also fastest way, while shipping by ocean allows you to deliver larger goods and commodities. Truck and rail are widely used options in North America however, service declines when you go beyond industrialized countries.

Especially for small businesses, logistics is a major concern because of the enormous amount of coordination and cooperation required. Furthermore, you have to be aware of all relevant requirements, regulations and other technicalities. Third-party freight forwarders might be helpful.

Find out more

>>> http://export.gov/basicguide/eg_main_043096.asp
>>> http://export.gov/logistics/eg_main_018125.asp

Port of Entry San Francisco International Airport:

>>> <http://www.cbp.gov/xp/cgov/toolbox/contacts/ports/ca/2801.xml>

Port of San Francisco Foreign Trade:

>>> <http://www.sfport.com/index.aspx?page=1635>

4.2 Packing, Labeling, Documentation

Shipping abroad puts a lot of different requirements on packaged goods. There are four potential problems you should keep in mind when designing a shipping crate:

- **Moisture**
- **Theft**
- **Breakage**
- **Excess weight**



4 Trade Logistics

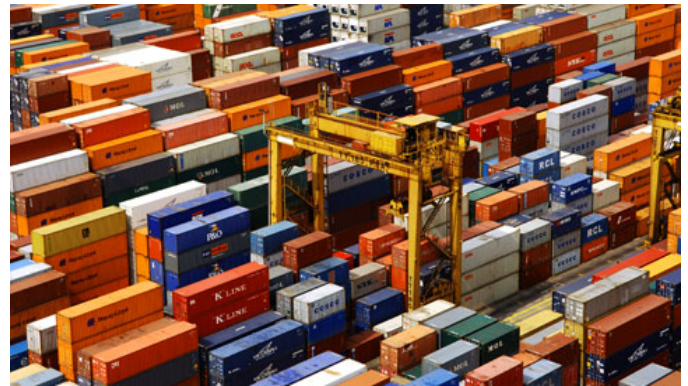
The type of shipping will determine the kind of packing you have to use. Good packaging and labeling can prevent or deter problems while ensuring that your product arrives free of any damage.

The next step is to identify the labeling regulations of the country you are trading with. Basic marking of your container normally includes the name of the buyer, appropriate warnings, the gross and net weight as well as the port of entry into the country. Furthermore you should always prepare a packing list in order to identify the content.

Finally, many different documents may be required for your trade. They can be categorized in two different groups: shipping and collection documents. The U.S. government has an extensive guide explaining all required documentation:

>>> <http://www.unzco.com/basicguide/c10.html#Packing>

>>> <http://www.bizmove.com/export/m7l.htm>



4.3 Freight Forwarders and Brokers

Since it can be complex for most small businesses to manage the facets of international trade consider using freight forwarders and customs brokers, as they make it a lot easier for you! While freight forwarders can help you with your delivery times, the shipping and any other logistics related issue; a customs broker clears goods through customs and assists you with the documentation. Both are great sources of information to help you with the latest requirements.

International Federation of Freight Forwarders Associations:

>>> <http://www.fiata.com/index.php?id=2>

>>> http://export.gov/logistics/eg_main_018144.asp

Main Collection vs. Shipping Documents

Collection Documents:

- Invoice
- Import or Export licence
- Certificate of Origin
- Certificate of Inspection

Shipping Documents Documents:

- Invoice
- Packing List
- Certificate of Origin and Insurance
- Bill of Landing (BOL)

4.4 Insurance

Insurance is an important protection for your trade logistics. Damaging weather conditions, rough handling by carriers and any buyer not paying can have a severe impact. Your shipment can be insured against loss, damage and delay in transit. Minimizing your risk and protecting foreign receivables are essential.

More information about trade insurance:

>>> <http://www.trade.gov/media/publications/pdf/tfg2008ch8.pdf>

>>> http://www.naic.org/committees_g.htm

>>> www.fiata.org/webindex/browse.cgi/International_Finance_Letters_of_Credit_and_Investment/Export_Credit_Trade_Insurance

5 Laws, Regulations and Trade Agreements

Every market has different laws, regulations and standards. Therefore you will have to get familiar with your target market's specific requirements. You might also have to get an accreditation from the country you want to operate with.

5.1 Tariffs, Regulations, Restrictions

The term "tariff" refers to duties and taxes forced on goods traded from one customs area to another. A tariff usually raises the price of an imported good, making it less competitive within the market.

Usually Customs and Border Protection of the United States or any other country will assist you with entry requirements, licenses and other filings specific to the particular commodity you are importing or exporting. Do not hesitate to contact them for assistance and information.



5.2 Trade Agreements and Foreign Trade Zone

Free trade agreements eliminate tariffs, import quotas and other preferences on most goods traded between the participating countries. Under the North American Free Trade Agreement (NAFTA), most tariffs on goods and services traded between the United States, Canada and Mexico have been eliminated. It might be beneficial for your business to check the possibilities of exchanging goods with a free trading partner country.



More information about importing to and exporting from the United States

U.S. Department of Commerce:

>>> www.bis.doc.gov/policiesandregulations/index.htm

U.S. Customs and Border Protection:

>>> <http://www.cbp.gov/>

Some Free-Trading- Partner Countries

- Canada
- Mexico
- Australia
- Bahrain
- Chile
- CAFTA-DR (Dominican Republic-Central America FTA)
- Israel
- Jordan
- Morocco
- Oman

5 Laws, Regulations and Trade Agreements

More information about U.S. Trade Agreements

>>> <http://www.ustr.gov/trade-agreements>
>>> <http://trade.gov/fta/>

A foreign-trade zone is a geographical area, where both domestic and foreign commodities receive the same customs treatment. In order to do so, a specific port of entry is treated as if it were outside the commerce of the United States. Goods delivered in that zone are not subject to customs tariffs until they are formally entered into the United States. This is especially useful for businesses that import. The Port of San Francisco expanded its existing Foreign Trade Zone No. 3 to encompass much of Sonoma County.

Find out more about the San Francisco Foreign Trade Zone No.3 and your business can benefit:

>>> www.sfport.com/index.aspx?page=1635

5.3 Working with Governments

The U.S. Government has resources to assist you in your journey to international trade. There are many divisions and organizations available for advice. While some might not suit your needs, there will likely be at least one that can help you. Try to contact them early in the process for assistance.

U.S. International Trade Administration:

>>> <http://trade.gov/>

U.S. Embassies and Consulates:

>>> www.usembassy.gov/

U.S. Chamber of Commerce:

>>> www.uschamber.com/international

Business USA:

>>> <http://business.usa.gov/>

U.S. Small Business Administration:

>>> www.sba.gov/



5.4 Incoterms and Other Important Terms

To provide a common terminology for international shipping, the International Chamber of Commerce (ICC) developed "INCO" (International Commercial) terms. First introduced in 1936, Incoterms are nowadays used widely around the world. They streamline part of the shipping process and are important for you to know. Having a resource to find these meanings is very helpful.

ICC Incoterms:

>>> www.iccwbo.org/incoterms/

InfoUSA Glossary:

>>> <http://usinfo.org/enus/economy/trade/acron.html>

The Sonoma County Economic Development Board's Export Assistance Center can assist you in many regards: www.edb.sonoma-county.org

6 Other Valuable Resources

6.1 E-Commerce

If your business already has a web presence and an online model for business operations, you might consider selling your product internationally through the internet. Online business has several advantages, including flexibility, speed and efficiency. E-Commerce should be used in addition to the other strategies presented in this guide.

More information about e-commerce for beginners:

>>> <http://ecommerceforbeginners.com>



Guides, Reports, Websites

Sonoma County EDB:

<http://edb.sonoma-county.org/content.aspx?sid=1033&id=1785>

International Trade News:

<http://www.internationaltradenews.com/en/>

World Trade Organization:

<http://www.wto.org/>

Export Bureau:

<http://www.exportbureau.com/>

Books

- Reuvid, Joanathan & Sherlock, Jim (2011). International Trade: An Essential Guide to the Principles and Practice of Export.
- International Trade Administration (2009). A basic guide to exporting.
- ICC (2012). ICC Guide to Export/Import – Global Standards for International Trade

7 Methodology and Acknowledgements

Methodology

All data contained herein are believed to be accurate, but the Economic Development Board does not guarantee that they are accurate or complete. Use of data from a source does not represent an endorsement of any product or service by the EDB, its members, or affiliates.

The Economic Development Board has developed the 2013 International Trade Guide to provide a basic framework that highlights the key processes related to exporting. The immensity of the internet was pared down to a small wealth of information pertaining to international trade operations. A greater amount of focus was paid to export assistance centers and international ports throughout the world so as to provide the greatest extent of knowledge possible.

Resources were categorized to simplify the process and then compared against each other to sort out accuracy, depth, and breadth of available information. The resource links that the EDB believes to be most supportive of international trade were further organized into distinct groups and sub-groups and subsequently compiled into a more readable report format. This “link-driven” format supplies a basic overview of the topic, followed by links that may lead to more focused information.

Acknowledgements

The EDB’s 2013 International Trade Guide and its resources can help local businesses develop successful export and import operations throughout the future.

This guide – and others like it – would not be possible without the continued support of the EDB’s generous research sponsors, a full listing of whom may be found on the following page. Thanks are also due to the support of the entire EDB board.

Special thanks are due to Marie-Luise Walther for her considerable efforts in seeing the entire production of this guide through to completion. Ms. Walther professionally conducted the research, managed the quantity of resources and compiled the information into an understandable report with a logical design.

With acknowledgement and appreciation to local key businesses supporting Sonoma County Economic Development:

Director



Executive



Sponsors

