15.0 TRADE, INTERNATIONAL, IMPORT/EXPORT

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15.1 Introduction and Summary

In the modern economy, domestic companies would be well advised to consider trade beyond U. S. borders. The steps required in setting up such trade will often involve agents of foreign manufacturers or governments, departments of the U. S. government and domestic agents or trading companies. In the case of export, the federal government has established organizations to aid domestic manufacturers. The U. S. Chamber of Commerce (uschamber.org and chamberbiz.com) can also provide support.

15.2 Importing Basics

To be successful a company has to provide something the market demands at a competitive price and quality. Many imported products can be less expensive and of higher quality than similar ones manufactured domestically.

15.2.1 Finding products to import can be as easily accomplished by an examination of merchandise in the domestic market, and country of origin markings. The next step will involve the originating country's U.S. consulate to get additional information, such as agents and factories to contact in the foreign country.

15.2.2 Foreign agents generally know factories and what they produce; with an agent it may be possible to set up contacts with a foreign manufacturer without having to visit the country. The agent acts on behalf of the domestic marketer to arrange shipment schedules, quality control testing and adjustments for disputed shipments.

15.2.3 Paying for imports include open credit, or wire transfers. The most common way, however, is with a **letter of credit**. The conditions of the sale are stated on the letter of credit. The importer's bank guarantees the exporter that payment will be made if those conditions are met. The letter of credit has information about the nature of the transaction, the amount to be paid, a description of the merchandise, what documents the beneficiary (exporter) must present to receive payment, and an expiration date.

Most import letters of credit are irrevocable.

A security is established with the letter of credit by virtue of the fact that it is a transaction between two banks - the importer's and the exporter's. While the importer and exporter may not know each other and may not be able to establish creditworthiness, banks generally know each other, have open lines of communication, and can assess each other's creditworthiness readily. The issuing bank sends the importer's letter of credit to the exporter's bank, which delivers it to the exporter. Drafts drawn by the exporter under the letter of credit are charged to the importer's bank for payment upon satisfaction of the stated conditions.

15.2.4 Customs - Individuals or companies can clear their own imports through Customs if the goods are for their business or personal use. No permit or license generally is required, although other government agencies may require these, especially for goods regulated by law such as alcoholic beverages, drugs and firearms. For convenience, however, most companies use a customs broker, since the cost is minimal.

For safety and utility, imported merchandise must meet the same legal requirements that regulate domestic goods. Imports may be restricted because of import quotas, or because they are illegal. For example, Foreign Assets Control Regulations prohibit the unlicensed importation of goods originating or exporting from such countries as Cuba, Libya, and North Korea.

Merchandise that has arrived at the port of entry cannot be entered legally into the United States until authorized by Customs. An entry must be filed, and customs agents may want to examine the cargo.

15.2.5 Duties - When the entry is filed, the importer must indicate the tariff classification and pay the estimated duty, if any. A surety bond is often required, to secure any additional payments that may be required and to ensure the importer's legal conformity. The amount of the bond must be commensurate with the imported merchandise value.

Duties depend on the value and quantity of the merchandise and are fixed for each classification of imported goods by the tariff classification in *the Harmonized Tariff Schedule* of the United States. The tariff schedule can be purchased from the U.S. Government Printing Office.

15.3 Exporting Basics

Typically, exporting does not require much additional overhead expense, credit risks are relatively low, and selling through export management or export trading companies can often lessen the peculiarities of foreign taxes, labor laws and business licensing.

However, becoming an exporter is complicated by several issues that are significantly different from those encountered in domestic markets. These are:

- Marketing and sales;
- delivering product;
- financing customer purchases;
- collecting;
- currency conversion.

15.3.1 Marketing and Sales - We are all familiar with domestic marketing and sales, but it is often not as easy to find customers in a foreign country. Language, cultural differences, shipping and custom requirements complicate the process. One solution is to find a reputable export management company to represent you. Many such companies have elaborate networks of sales representatives, and most are one-stop shops, i.e. they can manage the total marketing and sales process for a price.

15.3.2 Delivering Product - Domestic shipping is relatively simple when compared to delivering your product to a foreign market. If shipping overseas is called for, the preparation of paperwork and securing customer clearance is time-consuming and costly. And, ocean shipping involves unique risks necessitating adequate coverage by marine carriers. Again, export managers can come to the rescue. They can be hired to handle all shipping matters including custom clearance, containerization, shipping papers, freight forwarding, insurance, etc. As with marketing and sales, hiring outsiders increases the cost of your product, but it also relieves the exporter of any worries about complying with local laws and customs, language barriers, and potentially difficult negotiations. These added costs usually can be passed on to the customer in higher selling prices.

15.3.3 Financing Customer Purchases - For the majority of transactions, export credit and guarantees are more plentiful and far easier to arrange than domestic financing mainly because of the continued interest by federal, state and city agencies in promoting export business. A variety of sources are available to help customers finance purchases. High on the list is The Export-Import Bank of the United States (Eximbank). The Eximbank offers comprehensive financing and insurance assistance for U.S. exporters. In addition, it provides a special office whose mission is to encourage small businesses to sell internationally. Transaction financing, letters of credit, and bankers acceptances are also quite common.

15.3.4 Collecting - Checking the credit of foreign customers is difficult. The absence of uniform accounting standards and reporting requirements make credit reports marginally useful, at best. Eximbank, The Overseas Private Investment Corporation and the U.S. and Foreign Service Corporation can be helpful in providing information on foreign customers who have done business with the U.S. government. But, even information from these agencies, more often than not, is out of date. Purchasing U.S. government-sponsored insurance through the Foreign Credit Insurance Association is the best way to protect against nonpayment of export invoices. In addition, insurance letters of credit confirmed by a U.S. bank and bankers acceptance backed by the customer's bank, can be effective for ensuring payment.

15.3.5 Currency Conversion – Further complicating the export picture, only a handful of the thousands of world currencies are convertible to U.S. dollars on the open market, the so-called *hard currencies*. English pounds, German marks, Japanese yen, and French francs are easily convertible. This is not the case with currency from countries such as Venezuela, Saudi Arabia, India, Pakistan, and many of the African countries. The answer is countertrade, or swaps, involving the exchange of goods or services for other goods or services rather than currency. These exchanged goods or services can then be used by the exporter or they can be sold to a third party in exchange for hard currency. Although large corporations are the most frequent users of countertrade, it works just as well for smaller companies.