

Exporting B.C. Wood Products to China



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PURPOSE

The purpose of this document is to provide Canadian exporters and Chinese importers with a brief overview of the key topics and issues surrounding the trading of B.C. wood products.

Note: The scope of this document does not include an export marketing strategy/plan

INTRODUCTION

B.C. wood products represent a unique value proposition for the China market – the variety, quality, and utility of B.C. wood is something that China’s expanding economy requires in increasing amounts. A better *common* understanding of the import/export process as it relates to wood products can greatly enhance the chances of success for both exporter and importer.

“British Columbia forests cover 60 million hectares (149 million acres), an area bigger than France. The forest industry is the heart of the provincial economy, yet a fraction of one percent of its immense forests is logged each year.”

(http://www.naturallywood.com/uploadedFiles/General/Sustainable_Forests/BC_Forest_Diversity.pdf)

“China is increasingly becoming an important player in the traded component of global forest products’ markets. China will be the main focus of global wood markets in the future. Forest Industry producers from around the world cannot afford to ignore the manufacturing and market potential China offers.”

(<http://www.forestprod.org/internationaltrade06vroege.pdf>)

B.C. WOOD PRODUCT ATTRIBUTES & INFORMATION

Ensuring that both parties’ expectations are aligned is integral to closing deals. The buyer should understand B.C. wood product details prior to negotiations with the seller and the seller should be prepared to educate the buyer on B.C. wood species, product types, specifications, attributes and applications.

Wood Species

The forests of British Columbia are predominately softwood and roughly 96% of the forested land in B.C. is coniferous or softwood. British Columbia's geography divides the province into two distinct forest regions: the Coast and Interior. Coastal forests contain more hemlock than any other species, while lodgepole pine and spruce are the major interior species.

Softwoods are used as a prime material for structural building components. Softwood is also found in furniture and other products such as mouldings, doors, and windows. Hardwoods are not necessarily harder than softwoods. In both groups there is an enormous variation in actual wood hardness, with the range in density in hardwoods completely including that of softwoods.

The distinction between hardwood and softwood actually has to do with plant reproduction. All trees reproduce by producing seeds, but the seed structure varies. Hardwood trees produce seeds with some sort of covering, like an apple or an acorn. Softwoods let seeds fall to the ground as is, with no covering like pine cones that release seeds to the wind or in forest fires.

Softwoods - Coast

- [Amabilis Fir \(Species Mix: Hemlock-Fir\)](#)
- [Western Hemlock \(Species Mix: Hemlock-Fir\)](#)
- [Douglas-Fir \(Species Mix: Douglas-Fir-Larch\)](#)
- [Western Larch \(Species Mix: Douglas-Fir-Larch\)](#)
- [Sitka Spruce \(Coast Sitka Spruce\)](#)
- [Western Red Cedar](#)
- [Yellow-Cedar](#)

Softwoods - Interior

- [Lodgepole Pine \(Species Mix: SPF/Spruce-Pine-Fir\)](#)
- [Subalpine Fir \(Species Mix: SPF/Spruce-Pine-Fir\)](#)
- [White Spruce & Engelmann Spruce \(Species Mix: SPF/Spruce-Pine-Fir\)](#)
- [Ponderosa Pine](#)
- [Western White Pine](#)

Hardwoods

- [Bigleaf Maple](#)
- [Red Alder](#)
- [Trembling Aspen](#)
- [White Birch](#)

Forest Certification / Chain of Custody Certification

Forest certification and chain of custody certification work to demonstrate the sustainability and legality of forest products. Canada's forest industry has developed an international reputation for delivering a stable supply of quality wood products from well-managed forests.

In the case of British Columbia and Canada, forest certification supplements the comprehensive laws that the province has put in place to ensure that its public forests are well-managed. There are three forest certification programs used in British Columbia and Canada – CSA (endorsed by PEFC), FSC and SFI – that offer added assurance of excellent forest practices .

Forest certification is often complemented with a chain-of-custody certification, which is a mechanism used to track wood from a certified forest, providing a link between the certified forest and the certified product. Forest certification programs used in British Columbia and international organizations such as FSC and PEFC rely on chain-of-custody certification to verify the origin of certified products and to back product claims and labels, such as the percentage of certified or recycled content.

A choice of standards in British Columbia increases the availability and choice of certified wood options. For more information, please see the *Third Party Forest Certification Factsheet* - http://www.naturallywood.com/uploadedFiles/General/Sustainable_Forests/Third_Party_Forest_Certification.pdf

Product Types

There are a wide variety of products available in B.C. Below are the key product types.

Lumber

Lumber exported from B.C. typically consists of dimension and metric-sized lumber, as well as lumber for remanufacture.

Engineered Wood

Engineered Wood products from B.C. include:

- Plywood
- Oriented Strand Board (OSB)
- Glue laminated products (glulam)
- Laminated Veneer Lumber (LVL)
- Parallel Strand Lumber (PSL)
- Finger-Jointed lumber
- I-joists/ I-beams

Exterior

Exterior products manufactured from B.C. species include:

- Siding
- Roofing
- Exterior trim
- Decking
- Fencing products
- Poles (mining-timbers, telephone poles, electric power line poles and telegraph poles)

Finished

Finished wood products refers to wood which has been manufactured or worked into a value-added product for a specific use, such as doors, windows, furniture, cabinetry, mouldings or pre-fabricated structures.

Specialty

British Columbia produces many specialty wood products from a diverse range of species. These include wooden toys, musical instruments, and kitchenware such as bowls and platters, carvings and craft products.

Logs

The export of logs from federal/private lands is subject to certain constraints and procedures specified by Provincial and Federal legislation.

Grading

This section is meant to provide a brief overview of the key issues surrounding grading. Researching the various lumber associations and manufacturers grading systems is required in order to understand the intricacies of grading the various species and product types in more detail. This section will provide examples on the grading of softwood lumber, the most common type of lumber exported from B.C.

Potential Issues Surrounding Grading

- The Chinese lumber industry is not self-regulated like it is in North America.
- There are no standardized lumber grading agencies in China like in North America.
- Disagreements over the grading between buyer and seller are common. Many of these disagreements arise from a simple lack of understanding, on the side of the buyer, of the grading guidelines set forth by the different grading agencies.

Comments

- An obvious solution to the problem of grading misunderstandings would be to translate the grading parameters into Chinese and convert the imperial units to metric units. For a Chinese translation of Canada's grading standards, please refer to: <http://www.canadawood.cn/j/pdf/technical-literature/standard-grading-rules-for-canadian-lumber-2008.pdf>.
- Some lumber companies have their own proprietary grades which would need to be explained to the buyer.
- In Canada, Softwood lumber is graded to comply with Canada's National Lumber Grades Authority (www.nlga.org) and hardwood is graded to comply with the Nation Hardwood Lumber Association (www.natlhardwood.org).

Lumber for Remanufacture and Construction Lumber

For purposes of grading, softwood lumber is broken into two categories of intended use: remanufacture and construction.

Lumber for Remanufacture

- Lumber for remanufacture will undergo secondary manufacturing to create a product that may differ markedly from the original graded piece.
- Remanufacture grading is applied to wood used in industry. There are, for example, pencil stock, barrel stave, ladder rail, and stadium seat stock grades, each emphasizing particular qualities needed by a certain industry.
- 'Clear' wood is the portion of wood without knots and imperfections.
- **Industrial clears** is an example of remanufacture grade used for kitchen cabinets, among other applications.
- The highest remanufacture grade is **Factory or Shop Grade**. The applications within this category include furniture and cabinets. Factory Select or Select Shop is the highest grade within this category; the remaining grades are usually numbered in order of decreasing quality, No. 1, No. 2, and No. 3. To understand the grading you need to know which association's rules are being applied.

Construction Lumber

- Construction lumber is lumber that will function as graded and sized after primary processing - sawing, surfacing, etc.
- The three types of construction lumber are: **dimension, boards, and appearance lumber**.

NOTE: There is often confusion over the actual sizes of the wood shipped to China. While lumber is referred to as a nominal size – 2x4 (2 inches by 4 inches), its actual size is 1 ½ inches x 3 ½ inches (38mm x 89mm).

Dimension Lumber

- This category includes most softwood lumber that is nominally 2 to 4 or more inches thick, referred to as "dimension" lumber.
- Important qualities for dimension lumber include strength, stiffness, and uniformity of size.
- Lumber grades are determined either visually or mechanically to derive working values for properties such as bending stress and modulus of elasticity.
- Not all stud grade studs are exactly the same in appearance, but they all have the same load-bearing capabilities.
- Applications and uses include: studs, framing lumber, joists, plank, trusses, rafters, posts, beams and decking, where various levels of strength are required.

Dimension Lumber	Grade Name
<p>Studs Nominal size in imperial units (2 to 4 inches thick, 2 inches and wider) Actual size in imperial units (1 ½ to 3 ½ inches thick, 1 ½ inches and wider) Actual size in metric units (38mm to 89mm thick, 38mm and wider)</p>	Stud
<p>Light Framing Nominal size in imperial units (2 to 4 inches thick, 2 to 4 inches wide) Actual size in imperial units (1 ½ to 3 ½ inches thick, 1 ½ to 3 ½ inches wide) Actual size in metric units (38mm to 89mm thick, 38mm to 89mm wide)</p>	Construction Standard Utility Economy
<p>Structural Light Framing Nominal size in imperial units (2 to 4 inches thick, 2 to 4 inches wide) Actual size in imperial units (1 ½ to 3 ½ inches thick, 1 ½ to 3 ½ inches wide) Actual size in metric units (38mm to 89mm thick, 38mm to 89mm wide)</p>	Select Structural No. 1 No. 2 No. 3
<p>Structural Joists and Planks Nominal size in imperial units (2 to 4 inches thick, 5 inches and wider) Actual size in imperial units (1 ½ to 3 ½ inches thick, 4 ½ inches and wider) Actual size in metric units (38mm to 89mm thick, 114mm and wider)</p>	Select Structural No. 1 No. 2 No. 3

Boards

- With boards, pieces are graded primarily for serviceability, but appearance is also considered, especially in the higher grades.
- Boards may be sold square-edged, tongue-and-grooved, or ship-lapped.
- Three to five different **Common Grades** are applied to boards in this group depending on the species and the lumber manufacturing association’s grading system.
- In descending order of quality, the Common Grades are No. 1 (Select Merchantable), No.2 (Construction), No.3 (Standard), No.4 (Utility) and No. 5 (Economy).
- The table below uses common lumber grades as a limited example of the attributes associated with different grades (other grades within this lumber category exist – see manufacturer association grading systems for more details).

Boards	Common Grades	Uses / Applications
Load-bearing	No. 1 (Select Merchantable)	Moderate-sized tight knots. Paints well. Used for siding, cornice, shelving, paneling, some furniture.
	No. 2 (Construction)	Knots larger and more numerous. Paints fair. Similar uses as No. 1.
Non-load-bearing	No. 3 (Standard)	Splits and knotholes present. Does not take paint well. Used for crates, sheathing, sub flooring, small furniture parts.
	No. 4 (Utility)	Numerous splits and knotholes. Large waste areas. Does not take paint well. Used for sheathing, sub-flooring, concrete form work.
	No. 5 (Economy)	Larger waste areas and coarser defects. Unable to paint over. Applications are similar to No. 4.

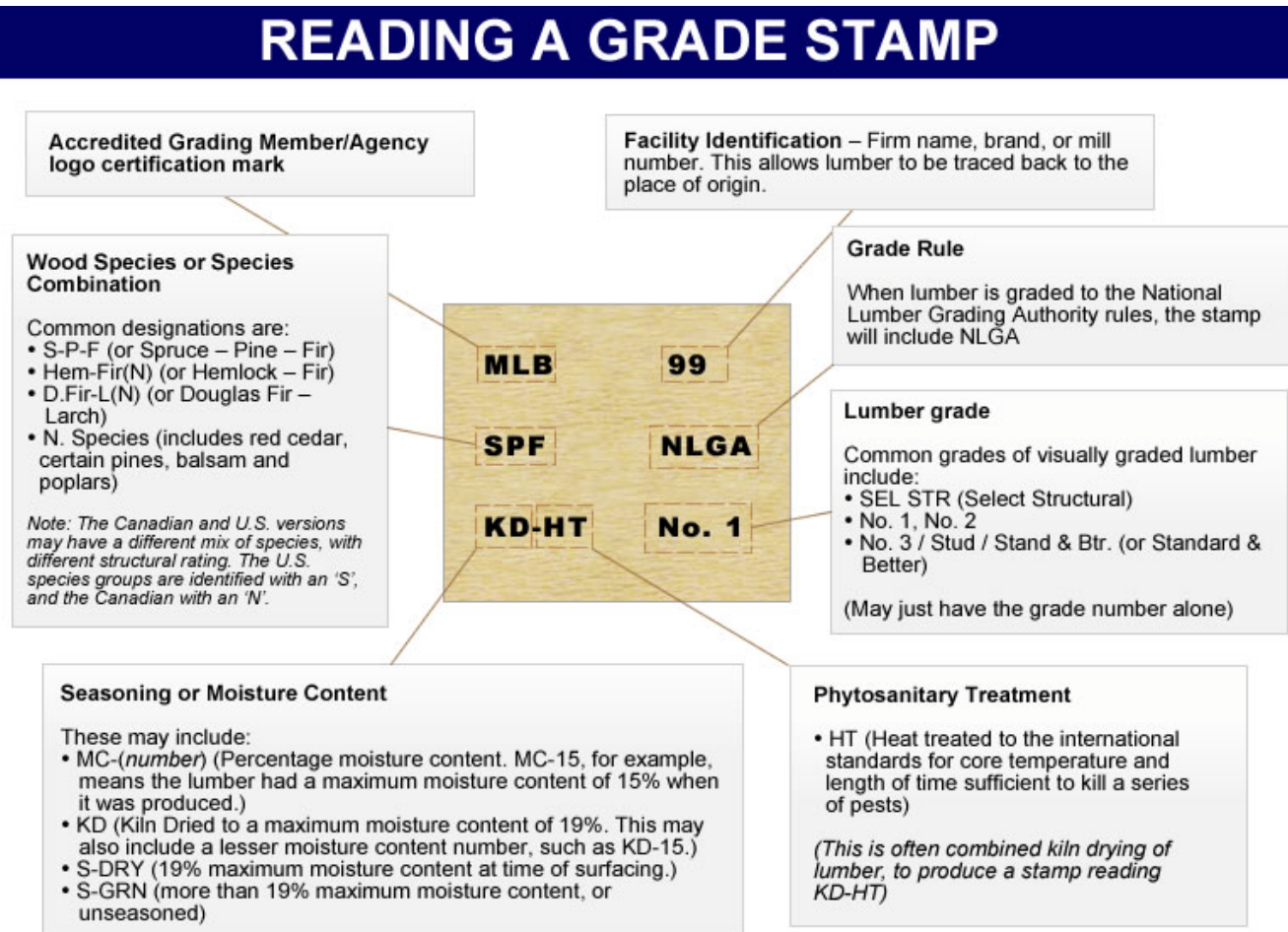
Appearance Lumber

- Appearance lumber is often of same size as the Boards category, but this separate category exists due to the greater importance placed on appearance.
- Boards in this category are mostly used in making quality softwood furniture with a natural finish.
- In addition to boards, this group includes most softwood lumber that has been custom milled to a pattern or otherwise surfaced on all four sides (S4S). Examples are trim, siding, shingles, flooring, casing, base, stepping, and paneling.
- The highest grade of appearance lumber is **Finish**, which is subdivided into grades composed of letters or combinations of letters (B&BTR, C, D) or names such as Superior or Prime, depending on the grading agency.
- The second highest grade of appearance is **Select** which also has grade designations composed of numbers, letters, and names of combinations of them (B&BTR, C Select, D Select).
- Within appearance lumber, differences in grade designations exist for specific wood species and products. Cedar, for example, has separate grade designations than other softwoods due to the difference of color between heartwood and sapwood.
- Below is an example of the attributes of **Select** lumber grades.

Appearance Lumber Grade (Select)	Uses / Applications
A Select	No knots, splits, or other visible defects. Used for fine furniture, exposed cabinetry, trim, flooring.
B Select	A few, small defects but nearly perfect. Used for fine furniture, exposed cabinetry, trim, flooring.
C Select	Small tight knots. It may be nearly perfect on one side. Used for most furniture, shelving, some trim and flooring.
D Select	More numerous "pin" knots and other small blemishes. Used for some furniture, shelving, trim and flooring.

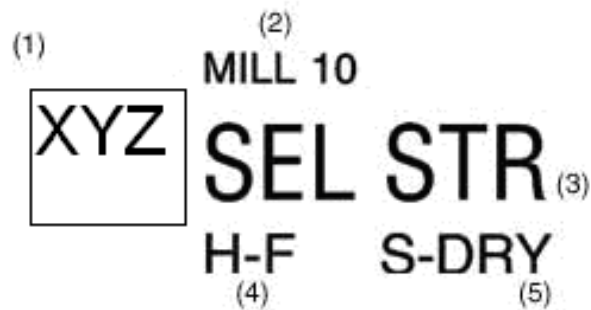
Understanding Lumber Grade stamps

Figure 1 (Sample Grade Stamp)



Source: Canadian Lumber Standards Accreditation Board (www.clsab.ca)

Figure 2 (Sample Grade Stamp)



(1) Certification Mark

The grading agency's registered mark.

(2) Mill Identification

Mill where the lumber originated from and was graded. Grading agencies may be contacted to identify an individual mill whenever necessary.

(3) Grade Designation

This is the grade name, number or abbreviation. In this case, the grade is Select Structural.

(4) Species Identification

This indicates the species by individual species or species combination. In this case, the stamp indicates that this is H-F or Hem-Fir.

(5) Moisture Content & How Seasoned

This stamp indicates the moisture content of the lumber. In this case S-DRY indicates 'surfaced dry' and means that the moisture content is 19 percent or less. A stamp showing S-GRN (surfaced green), means that the moisture content is above 19 percent. K-D indicates lumber that has been seasoned in a kiln to predetermined moisture content, normally 19 percent or less.

Dimensions

As mentioned in the grading section of the guide, it is important to clarify the measurement system being used. Although officially Canada and China both use the metric measurement system, Canada still uses imperial measures colloquially.

Potential Issues Surrounding Dimensions

- Confusion over dimensions: while the North American market is accustomed to nominal-imperial-size wood products being milled locally, China historically has imported its wood from Russia, where it is milled exclusively in metric units.
- China does not have standardized dimensional lumber sizes like in North America
- Canadian government agencies have been active in China promoting framing techniques that use North American dimensions. However, the standard North American wood frame house remains uncommon in China.
- There is often confusion over the actual sizes of the wood shipped to China. While boards are referred to as 2x4, their net size is actually 1 ½ x 3 ½. In the past this has been an area of contention between Canadian sellers and foreign buyers, because the foreign buyer has felt cheated because the nominal size differs from the actual size. It should be explained very early on to the buyer that a "two by four" is not 2 inches by 4 inches, but rather 1½ inches x 3½ inches (38mm x89 mm).

Comments

- The seller should not assume that the buyer is looking for North American dimensions or applications, and the buyer should be aware of the North American standards.
- The flexibility to mill lumber outside of the dimensions commonly used in North America would be an asset for companies looking to export.
- The difference between nominal and actual sizes should be clearly explained to potential customers early in the process.

North American Softwood Lumber Sizes	
Nominal Size	Actual Size
1 × 2	$\frac{3}{4}$ in × 1½ in (19 mm × 38 mm)
1 × 3	$\frac{3}{4}$ in × 2½ in (19 mm × 64 mm)
1 × 4	$\frac{3}{4}$ in × 3½ in (19 mm × 89 mm)
1 × 6	$\frac{3}{4}$ in × 5½ in (19 mm × 140 mm)
1 × 8	$\frac{3}{4}$ in × 7¼ in (19 mm × 184 mm)
1 × 10	$\frac{3}{4}$ in × 9¼ in (19 mm × 235 mm)
1 × 12	$\frac{3}{4}$ in × 11¼ in (19 mm × 286 mm)
2 × 2	1½ in × 1½ in (38 mm × 38 mm)
2 × 3	1½ in × 2½ in (38 mm × 64 mm)
2 × 4	1½ in × 3½ in (38 mm × 89 mm)
2 × 6	1½ in × 5½ in (38 mm × 140 mm)
2 × 8	1½ in × 7¼ in (38 mm × 184 mm)
2 × 10	1½ in × 9¼ in (38 mm × 235 mm)
2 × 12	1½ in × 11¼ in (38 mm × 286 mm)
4 × 4	3½ in × 3½ in (89 mm × 89 mm)
4 × 6	3½ in × 5½ in (89 mm × 140 mm)
6 × 6	5½ in × 5½ in (140 mm × 140 mm)
8 × 8	7¼ in × 7¼ in (184 mm × 184 mm)

TRANSPORTATION & LOGISTIC CONSIDERATIONS

Developing a partnership with a strong customs broker helps avoid mishaps and ensures the selection of the most cost effective and risk-free shipment method. Below is the key shipment modes used for wood products:

Rail

Rail Advantages	Rail Disadvantages
<ul style="list-style-type: none">• Capacity to haul long loads over great distances• Freight costs are lower than other transport modes• Less documentation required	<ul style="list-style-type: none">• Slower shipping time• Costs of loading and lashing• Not available in all areas

<http://www.tc.gc.ca/rail/menu.htm>

Road

Road Advantages	Road Disadvantages
<ul style="list-style-type: none">• Quick and flexible routes and times• More flexible pick-up and delivery points	<ul style="list-style-type: none">• Less competitive for large volumes (several trips may be required)• Liability• Traffic

<http://www.tc.gc.ca/road/menu.htm>

Ocean Freight

For more information regarding ocean freight visit various carrier websites

<http://www.maerskline.com/link/?page=home>

<http://www.mscev.com>

<http://www.cosco.com>

MANDATORY DOCUMENTATION

Inaccuracies or omission in the completion of trade documentation can lead to fines or shipment delays. Seeking 3rd party consultation is recommended to ensure full compliance. It should also be noted that most small to mid-sized Chinese companies will use an Import/ Export Agent Broker when importing. In this case, the Import/Export company will act as the buyer on all documentation. However, the goods will be shipped to the actual buyer and the 'Ship to' address will reflect this.

Certificate of Origin: Describes where the products originate from. A Certificate of Origin is certified by your local Chamber of Commerce and is required for exporting. The B.C. Chamber of Commerce (www.bcchamber.org/members/files/BCCC_Certificate_of_Origin_2009.doc) charges members \$25.00+GST and non-members \$50.00+ GST. The seller must contact its local Chamber of Commerce to obtain the required template. Invoices and other shipping documents submitted as supporting documentation should meet the following requirements:

- Exporter's and Consignee's names and addresses must be included.
- Itemized merchandise must match that listed on certificate of origin.
- Country of origin must be listed and match certificate of origin.
- Place and date must be included, and the documents must be signed by an authorized representative.
- All documents must be notarized or a letter of waiver must be obtained.

Phytosanitary Certificate: A phytosanitary certificate is an official document issued by the plant protection organization of the exporting country to the plant protection organization of the importing country. It is the responsibility of the exporter to supply this. It certifies that the plants or plant products covered by the certificate have been inspected according to appropriate procedures and are considered to be free from quarantine pests and practically free from other injurious pests, and that they are considered to conform to the current phytosanitary regulations of the importing country.
LINK TO ACTUAL DOCUMENT - <http://www.inspection.gc.ca/english/plaveg/internat/phytoe.shtml>

Fumigation Certificate:

- All Canadian **logs** exported to China must be treated by debarking or methyl bromide fumigation prior to export, with one exception. The CFIA and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) came to an agreement in 2008 that allows for non-fumigated logs to be shipped exclusively to the Port of Putian, Fujian Province during part of the year – all other ports in China will continue to require fumigation or debarkation. For more details and restrictions with respect to the agreement please follow the link:
<http://www.inspection.gc.ca/english/plaveg/for/cwpc/conchine.shtml>
- All Canadian **green lumber or kiln-dried or heat-treated lumber (KDNT)** exported to China are considered low-risk products and do not require fumigation – a phytosanitary certificate, however, will be required. For more information please contact your local CFIA Office:
<http://www.inspection.gc.ca/english/directory/offbure.shtml>
- It is important to note that all **wood packaging materials**, such as pallets, must be heat treated prior to export. The following is a link to facilities approved for treating pallets:
<http://www.inspection.gc.ca/english/plaveg/for/cwpc/treatface.shtml>
- Your **freight forwarder** will also be able to answer any questions you have regarding fumigation and/or treatment requirements and procedures

Log Export Permits: Assuming manufactured timber conforms to the requirements under section 127 (b) of the *Forest Act*, an export permit is not required. However, a permit for the export of logs or unmanufactured timber is required for anywhere outside of Canada and the US. Details on the process involved in obtaining the B.C. provincial export permit are available at the link below:
http://www.for.gov.bc.ca/ftp/HET/external/!publish/web/log_prices/p_procedures.pdf

For logs cut from trees harvested from **Provincial Lands**, the process is as follows:

- After the trees have been felled, one must complete the application for exemption (FS 418 form). The following supporting documents are also required as a part of the application: summary of scale (FS 72), covering letter, boom summary, log detail listing, and a length and diameter summary.
- Once these documents have been submitted and approved, logs are included in the Provincial bi-weekly advertising list.
- If no fair offer is submitted for the logs (determined by the Timber Export Advisory Committee), the 'exemption for timber export' is issued.
 - Using the information from the 'exemption for timber export', the application for permit (FS 38 form) is completed and submitted to the applicable Regional Manager for the B.C. Ministry of Forests and Range. The FS 38 must also include an export sales invoice. The export sales invoice must reflect the real export market value of the logs to be exported and should include a description of the logs being sold, including boom numbers, volume, the price paid for the logs indicated in U.S. or Canadian funds, the transaction date, terms of sale and the consignee's name.
- Upon satisfactory completion of the FS 38, the provincial Export Permit (FS 34) will be issued by the Ministry of Forests and Range Regional Office certifying that all legal requirements for export from British Columbia have been met. **Together, these two forms complete provincial export requirements.**
- The final stage involves applying for the Federal Export Permit through EXCOL. Please see below for details.

For logs cut from trees harvested from **Federal/Private Lands** the process involves the following:

- Register with Export Controls On-Line (EXCOL)
http://www.excol-ceed.gc.ca/Home_Accueil.aspx
- Once you are registered with EXCOL, you complete the required forms on-line.
- As with logs from provincial land, after you have applied for an export permit using EXCOL, the logs will be advertised on the Federal Bi-Weekly Advertising list. If you are selling logs from provincial lands you will have already posted through the provincial bi-weekly advertising list and **will not need to post again.**
- If a fair offer is not made, the Federal Government will issue a Surplus Letter to your EXCOL account.
- Using your EXCOL account you can then apply for a Federal Export Permit, which if granted will be credited to your account online.
- For more details contact Export Controls at Foreign Affairs and International Trade Canada, (613) 995-0268.

Customs Documentation: Customs control the goods entering or leaving a country. It is its duty to check all permits, invoices, and other documents. Customs also deals with the taxing of goods. A Custom's broker would be able to arrange this aspect of the export/import process.

- Canadian Customs Documents (B-13A Export Declaration, E-15, etc.)
<http://www.cbsa-asfc.gc.ca/E/pbg/cf/b13a/README.html>
- Chinese Customs Documents (Import Permits, Tariff Documents, etc.)
http://novexcn.com/import_export_duties.html, and
<http://english.customs.gov.cn/Default.aspx?tabid=3972>, and <http://english.aqsiq.gov.cn/>

Packing Slip: A document created by the seller that provides the product description, weight of the goods and quantity shipped. The packing list indicates the number of packs, the contents of each pack and the individual weights and dimensions. This list confirms that the correct number of units have been received. Customs authorities can also easily identify a specific pack they wish to inspect. All imports to China need to show the weight of the goods in net and gross values per unit and the total weight.

Pro forma Invoice/Purchasing Contract: An abridged or estimated invoice sent by a seller to a buyer in advance of a shipment or delivery of goods. It notes the kind and quantity of goods, value, and other important information such as weight and transportation charges. Pro forma invoices are commonly used as preliminary invoices with a quotation, or for customs purposes in importation.
LINK TO ACTUAL DOCUMENT- <http://www.emotrans-canada.com/forms/proforma.pdf>

Commercial Invoice: Document required by customs to determine true value of the imported goods, for assessment of duties and taxes. A commercial invoice (in addition to other information), must identify the buyer and seller, and clearly indicate the (1) date and terms of sale, (2) quantity, weight and/or volume of the shipment, (3) type of packaging, (4) complete description of goods, (5) unit value and total value, and (6) insurance, shipping and other charges (as applicable).
LINK TO ACTUAL DOCUMENT-
http://www.shipnorthamerica.com/htmlfiles/docfiles/FILL_CommercialInvoice.pdf

Waybills/Bill of Lading: issued by the carrier to the shipper and acts as a receipt or proof that the goods will be taken care of by the shipping company.
LINK TO ACTUAL DOCUMENT- -
http://www.shipnorthamerica.com/htmlfiles/docfiles/SNA_BillofLading.pdf

Insurance Certificate: Document issued by an insurance company. It certifies that an insurance policy has been bought and shows an abstract of the most important provisions of the insurance contract. But it is not a substitute for the actual policy, and is normally a non-negotiable document. It cannot be assigned to a third party, and is unacceptable under the terms of a letter of credit and in making a claim.
LINK TO ACTUAL DOCUMENT-
<http://www.shipping-insurance.com/sample-insurance-certificate.html>

CONTRACT ISSUES & PAYMENT METHODS

Incoterms

Importer and exporter responsibilities and costs under FOB Warehouse and FOB local port or CIF and C&F agreements are often confused: ensure you clearly understand the Incoterms agreed upon in the contract.

Incoterms are International Trade terms that divide exporter and importer transaction costs and responsibilities. Incoterms 2000 describes the function of each Incoterm. Please see the link for further information (<http://forwarding.maritima-group.com/ing/incoterms.htm>).

Below are the definitions of the various Incoterms, as well as a table outlining the responsibilities of the buyer and seller in each situation (www.foreign-trade.com/reference/incoterms.cfm).

EXW – Ex Works (named place)

The seller makes the goods available at his premises. The buyer is responsible for all charges. This term may be the easiest to administer, however it may not be in the seller's best interests. There is no control over the final destination of the goods. It may be possible for the seller to negotiate better freight rates than the buyer.

FCA – Free Carrier (named place)

The seller hands over the goods, cleared for export, into the custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of transport, including carriage by air, rail, road, and containerized / multi-modal transport.

FAS – Free Alongside Ship (named loading port)

The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export; this changed in the 2000 version of the Incoterms. This is suitable for maritime transport only.

FOB – Free On Board (named loading port)

The seller must load the goods on board the ship nominated by the buyer, cost and risk being divided at ship's rail. The seller must clear the goods for export. This term exists for maritime transport only. It also includes Air transport when the seller is not able to export the goods by the schedule time mentioned in the letter of credit. In this case the seller allows a deduction of sum equivalent to the carriage by ship from the air carriage.

CFR – Cost and Freight (named destination port)

Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods have crossed the ship's rail. This term refers to maritime transport only.

CIF – Cost, Insurance and Freight (named destination port)

Exactly the same as CFR except the seller must also procure and pay for insurance for the buyer. This term exists for maritime transport only.

CPT – Carriage Paid To (named place of destination)

The general/ containerized/ multimodal equivalent of CFR. The seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.

CIP – Carriage and Insurance Paid (To) (named place of destination)

The containerized transport/ multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

DAF – Delivered At Frontier (named place)

This term can be used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs clearance and pays for transportation from the frontier to his factory. The passing of risk occurs at the frontier.

DES – Delivered Ex Ship (named port)

Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a CIF arrangement. Unlike CFR and CIF terms, the seller has agreed to bear not just cost, but also Risk and Title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc. are for the Buyer. It is a commonly used term when shipping bulk commodities, such as coal, grain and dry chemicals where the seller either owns, or has chartered, its own vessel.

DEQ – Delivered Ex Quay (named port)

This is similar to DES, but the passing of risk does not occur until the goods have been unloaded at the port of destination.

DDU – Delivered Duty Unpaid (named destination place)

The seller delivers the goods to the buyer to the named place of destination in the contract of sale. The goods are not cleared for import or unloaded from any form of transport at the place of destination. The buyer is responsible for the costs and risks for the unloading, duty and any subsequent delivery beyond the place of destination. However, if the buyer wishes the seller to bear cost and risks associated with the import clearance, duty, unloading and subsequent delivery beyond the place of destination, then this all needs to be explicitly agreed upon in the contract of sale.

DDP – Delivered Duty Paid (named destination place)

The seller pays for all transportation costs and bears all risk until the goods have been delivered and pays the duty. This term is used interchangeably with the term "Free Domicile". This is the most comprehensive term for the buyer. In most importing countries, taxes such as (but not limited to) VAT and excises should not be considered prepaid being handled as a "refundable" tax. Therefore VAT and excises usually are not representing a direct cost for the importer since they will be recovered against the sales on the local (domestic) market.

Incoterms reference table

Yes= Seller's Responsibility

No= Buyer's Responsibility

	Load to truck	Export duty payment	Transport to exporter's port	Unload from truck at the origin's port	Landing charges at the origin's port	Transport to import's port	Landing charges at importer's port	Unload onto trucks from the importer's port	Transportation to destination	insurance	Entry Customs clearance	Entry taxation
EXW	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
FCA	YES	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO
FAS	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO
FOB	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO	NO
CFR	YES	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO
CIF	YES	YES	YES	YES	YES	YES	NO	NO	NO	YES	NO	NO
CPT	YES	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO
CIP	YES	YES	YES	YES	YES	YES	NO	NO	NO	YES	NO	NO
DAF	YES	YES	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO
DES	YES	YES	YES	YES	YES	YES	NO	NO	NO	YES	NO	NO
DEQ	YES	YES	YES	YES	YES	YES	YES	NO	NO	YES	NO	NO
DDU	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	NO	NO
DDP	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Invoicing

Invoicing is the simplest and least expensive method of payment. However the risk is higher and this method should only be used where a proven and trustworthy business relationship between buyer and seller exists.

Letters of Credit

Letters of Credit are utilized to minimize the risk to the buyer and seller in the payment and receiving of goods. Buyers and sellers should refer to their banks for their appropriate use in various transactions. The fees charged by your bank will depend on the relationship you have with your bank, your credit worthiness and the size of the transaction.

Examples of Letters of Credit

- *Revocable/Irrevocable*- Revocable allows any one member in the transaction to cancel at any time. Irrevocable means that all parties must be consulted before the Letter of Credit can be annulled.
- *Transferable/Non Transferable*- Transferable allows the Letter of Credit to be transferred to another party (e.g. If the exporter has a supplier that it needs to pay it can ask the importer to send payment to the supplier).
- *Confirmed/Non Confirmed*- Confirmed means that the bank in the exporter's country accepts to make the payment. When dealing with third-world countries it is important to have a confirmed Letter of Credit because some banks do not have the money to pay out.
- *Sight/Draft*- Sight payment means the bank will pay with the presentation of the documents. Draft means that a certain amount of time must elapse before the payment will be released.

Step-By-Step Process:

- The (Chinese) buyer and (Canadian) seller agree to conduct business. The seller requests a letter of credit to guarantee payment.
- Buyer applies to his bank in China for a letter of credit.
- Buyer's bank approves the credit risk of the buyer, issues and forwards the credit to its correspondent bank (the seller's Canadian bank). In this case, the Chinese bank would forward the credit to the Canadian bank of the seller's choosing.
- Advising bank will authenticate the credit and forward the original credit to the buyer's bank.
- Seller ships the goods, then verifies and develops the documentary requirements to support the letter of credit.
- Seller presents the required documents to the Canadian bank to be processed for payment.
- Canadian bank examines the documents for compliance with the terms and conditions of the letter of credit.
- If the documents are correct, the Canadian bank will claim the funds by:
 - Debiting the account of the issuing bank
 - Waiting until the issuing bank remits, after receiving the documents
 - Reimburse on another bank as required in the credit
- The Canadian bank will forward the documents to the Chinese bank.
- The Chinese bank will examine the documents for compliance. If they are in order, the issuing bank will debit the buyer's account.

Common Errors in Documentation

- Inconsistent description of goods.
- Bill of Lading evidences delivery prior to or after the date range stated in the credit.
- Stale dated documents.
- Invoice or statement is not signed as stipulated in the letter of credit.
- Letter of Credit has expired prior to presentation of draft.
- Changes included in the invoice not authorized in the letter of credit.
- Insurance document errors.
- Invoice amount not equal to draft amount.
- Documents are inconsistent as to general information such as volume, quality, etc.
- Ports of loading and destination not as specified in the credit.
- Description of merchandise is not as stated in credit.
- A document required by the credit is not presented.
- Ports of loading and destination not as specified in the credit.
- Names of documents not exact as described in the credit. Beneficiary information must be exact.
- Invoice or statement is not signed as stipulated in the letter of credit.

Tips for Exporters

- Communicate with your customers in detail before they apply for letters of credit.
- Consider whether a confirmed letter of credit is needed.
- Ask for a copy of the application to be faxed to you, so you can check for terms or conditions that may cause you problems in compliance.
- Upon first advice of the letter of credit, check that all its terms and conditions can be complied with within the prescribed time limits.
- Many presentations of documents run into problems with time limits. Three time constraints must be considered - the expiration date of the credit, the latest shipping date and the maximum time allowed between dispatch and presentation.
- If the letter of credit calls for documents supplied by third parties, make sure that you allow yourself enough time for this to take place.
- After dispatch of the goods, check all the documents both against the terms of the credit and against each other to make sure that every detail is the same.
- Make sure you fully understand the terms of payment. For example, "Clear on sight" means the seller receives payment immediately after submitting mandatory documentation, as opposed to "Net 30 days" or "Net 60 days" which means the seller will have to wait 30 or 60 days until it receives payment.

Time of Delivery

The exporter must provide the goods at the specified time and location. The amount of time required for all aspects of transportation should be considered. The time of delivery is a key factor to satisfying the requirements of the letter of credit.

Currency

The contract must explicitly state what currency the payment will be made in. When choosing a currency, consider fluctuating exchange rates.

Distribution Agreements

Many importers interested in purchasing wood from Canada are looking to obtain the exclusive rights to their market prior to making the initial order. This is understandable – the importer is investing in growing its market, and wants to ensure competition is kept to a minimum. However, Canadian exporters are often reluctant to relinquish exclusivity. Will the importer be making a long-term commitment? Do the importer's volume requirements meet our targets? Drawing up a distribution agreement is a way to satisfy the importer's request for exclusivity while ensuring the exporter's needs are met. Below are some key points to consider when drawing up an agreement:

- **Set competitive pricing.** The exporter should be aware of price points in the importer's country. Assuming North American pricing can be applied in the target market could jeopardize the deal; the exporter's price could be too high or even too low. Researching the market will allow the exporter to assess how competitive it is, and set a reasonable price for the importer.
- **Define the market.** The geographical market and market segment covered in the agreement are actually two different things. Will the importer be given distribution rights for all of China, or select provinces? These are territorial considerations. Will exclusivity be granted for the residential or commercial market, or both? Other markets, such as furniture manufacturing, may come into question. These represent the market segment considerations.
- **Establish achievable sales targets over a realistic time frame.** The exporter generally sets the sales targets and determines the time frame. The time required for the importer to develop the market, and the value placed on the market must be considered prior to setting targets. Again, conducting research into the market in order to understand key market entry considerations is critical. So is healthy dialogue between with the importer and exporter.
- **Offer support.** Building sales or business development support, in the form of funds for advertising or trade shows, into the price is an excellent way for the exporter to motivate the importer, and give them a better chance to succeed.
- **"Incentivize" the agreement.** Offering factory rebates on the price based on certain revenue or volume targets being achieved is another tool the exporter can use to motivate the importer and its sales staff.
- **Stay engaged.** The process of developing a market requires transparency and effective communication from both sides, often across language and cultural barriers. Dialogue is crucial in order to ensure all aspects of the agreement are fully understood and any concerns are addressed.

IMPORT/EXPORT STRATEGIZING

This document is intended as a “how-to guide”. It is not an export development strategy/plan. That being said, how will you know if you have been successful, if you did not set firm objectives? While a one-time sale might be profitable, the real value in international trade comes from building and maintaining successful long term partnerships. For partnerships to be successful, both parties must have a clear and realistic vision of what they want to achieve. Realistic objectives are formed through careful research and planning by both parties.

Critical Questions:

- How large is the market for your products?
- What are the consumer trends?
- What has historical growth in the market looked like?
- What are the forecasts for growth in the market? What trends will impact growth?
- Who are your competitors already in the market?
- What is your competitive advantage?
- Where do your products fit into the market?
- Who is the end-user of your product?
- What distribution channels will your product go through before it reaches the end user?
- What distribution capacity does your export partner have? Is this in tune with your export targets?
- Will you need to make modifications to your product to make it export ready?
- Is your partner a good fit for you and your products?

Common Issues

A successful import or export development strategy can easily be undermined if the implementation process overlooks the following:

- Poor cultural awareness and understanding – all individuals on your team must be fully briefed on the cultural do’s and don’ts.
- The negotiation process can be arduous. If you aren’t experienced in this area, bring people on who are.
- Inadequate legal support – exporting and partnering in foreign markets is very complex, as this how-to guide suggests. Your legal support must be experienced in the target markets.
- Lack of export document preparedness – small omissions or oversights can jeopardize the deal
- The support of a strong customs broker mitigates the risk that your product arrives late or in poor condition.

Control, measure and review – developing an export plan requires careful analysis at all stages in the process from setting your objectives to closing the deal. It is important to periodically review and assess your market and your partnership in order to ensure you are maximizing on the opportunities while minimizing the risks. Be realistic and flexible in your approach.

CONCLUSIONS & RECOMMENDATIONS

Addressing the above topics will minimize the risk to both the importer and exporter and realize the following benefits:

- Better common understanding of product attributes and market requirements
- Ensuring timeliness of delivery and quality service
- Avoidance of unplanned costs and penalties due to errors and omissions
- Enhanced business relationship between importer and exporter
- Mitigation of legal and regulatory risks
- Elimination of payment concerns and delays
- Increased opportunity for repeat sales and ongoing business opportunities

To avoid common pitfalls for both the importer and exporter:

- Ensure full and complete communication with the importer/exporter focusing on providing as much information as possible on terminology and technical information that, if misunderstood, can lead to problems.
- Both importer and exporter must be specific and clear regarding measures, volume and size...including pictures where appropriate. *(Many times importers are unable to recognize their products at the port of entry leading to delays; a photograph can help reduce the problem.)*
- Provide product information, business cards, and quotes in the native language.
- Be aware of and sensitive to local (Chinese and Canadian) business practices.
- Know the rules - familiarize yourself with the key regulatory, legal and payment requirements and ensure you comply with them.
- You must be aware of and understand the applicable Incoterms and your respective responsibilities.
- Be aware of the applicable currency for different phases of shipment. For instance – Charges for Canadian inland transportation are denominated in Canadian dollars, but for ocean freight the US dollar applies.
- Work to a documented plan and use a check-list to make sure nothing is missed - all these activities should be part of a comprehensive export / import strategic plan.
- Make sure that your payment terms are secure. Keep in communication with the importer, and have the paperwork organized and precise.
- Respect contracted delivery and payment dates and times. Delays in the delivery or payment of goods can increase costs considerably, resulting in breach of contract and the letter of credit terms.
- Consider drafting a distributor agreement to ensure a successful, sustainable relationship on both the importer and exporter side.
- Seek out and use the services of 3rd party professionals. The export process is a complex, high risk enterprise and attempting to go it alone is destined for failure.

F.A.Q

Can I export logs to China?

Yes you can, provided that you obtain a permit from the Federal and Provincial governments. Please see details in the section “Permits” under Mandatory Documentation.

What is the step-by-step process for exporting logs & lumber?

- For logs, the first step is for the seller to apply for an export permit.
- For logs and lumber, the buyer and seller negotiate an Incoterm, price, time of delivery/shipping and a method of payment.
- The seller obtains the Certificate of Origin from local Chamber of Commerce.
- The seller creates an invoice and a packing slip.
- The buyer or seller, depending on the contract, hires a shipping company or customs broker to provide the bill of lading, fumigation certificate, customs documentation and insurance certificate (if required).
- If payment is made up front, the seller receives the money and ships the goods as per the terms negotiated with the seller.
- If payment is made using a letter of credit, the following occurs:
 - The seller provides a pro-forma invoice or purchasing contract to the buyer.
 - The buyer takes the pro-forma invoice or purchasing contract to its bank and applies for a letter of credit.
 - > Once the buyer’s letter of credit has been approved, the buyer’s bank forwards the letter of credit to the seller’s bank
 - > The seller then reviews the letter of credit to make sure that it conforms to the prices and terms originally negotiated
 - > If everything is in order, the seller’s bank authenticates the letter of credit and sends it back to the buyer’s bank
 - > The seller ships the lumber to the port or destination stipulated by the letter of credit
 - Once the seller has shipped the product to the required destination, it provides the necessary documentation to its bank and receives payment based on the terms in the letter of credit.
 - Once the buyer has taken over the lumber at the port or destination stipulated by the letter of credit, it forwards the documents to its bank and the buyer’s account is debited.

Does China have self-regulated grading agencies like North America?

No. Each Chinese mill grades lumber to its own standards and prices.

Is wood frame housing construction common in China?

North American style single family homes are not common in China, most people have not been exposed to modern wood building systems, and low-rise apartment blocks made from concrete and brick are the most common form of housing. That being said, Canada is actively promoting the benefits of wood-frame housing in China.

What is the main use of imported lumber in China?

Most lumber imported by China goes to concrete forming and bracing supports used in all segments of construction. The second most common use is manufacturing including furniture, doors, panels, windows, millwork, pallets etc..

Who is the main supplier of lumber to China?

The main supplier of lumber to China is Russia. It is China's most important softwood log supplier, representing nearly 85% of China's total softwood log imports from 2008 through mid-2009. In April 2008, the export tax on unprocessed Russian log exports was increased to 25% of export value, or a minimum of 15 Euros per cubic meter for softwood. The tax was originally scheduled to increase to 80% of value, or a minimum of 50 Euros per cubic meter, for both softwood and hardwood in January 2009, but in November 2008 the Russian government announced a one-year delay in implementation of this higher rate. On October 25, 2009 Russian Prime Minister Vladimir Putin told an international forestry meeting in St. Petersburg that the log export tax will remain unchanged in 2010, and this same level may be extended into 2011. Canada has doubled its volume of softwood sales to China every year since 2005.

Is it necessary to explain the difference between the nominal size and actual size of dimension lumber?

Yes. While in North America it is taken for granted that a 2 X 4 board is actually 1½ x 3½ inches (38cm x 89cm), in China that is not the case. It should be explained very early on that nominal and actual sizes are different.

When the buyer applies for a letter of credit in China, will I be able to choose what Canadian bank acts as the advising bank?

Yes. All Canadian banks are set up to deal directly with any Chinese bank with regards to letters of credit. The seller would be able to use the bank that does its day-to-day banking with, or choose another bank if it wishes.

What fees will be charged by your bank for payment by a letter of credit?

This depends on the relationship that you have with your bank. Factors like your credit-worthiness, current balance and the size of the transaction will all influence what fee is charged. Usually transactions over a million dollars will have a fixed fee while those under a million dollars will be a percentage of the transaction.

Do I need a permit to export lumber to China?

No. Unless you are exporting logs, a permit is not required.

Who should I consult with to understand requirements and/or restrictions on the export of wood products to China?

To understand restrictions and requirements on exporting any wood related products to China, your two key sources are CFIA and your customs broker. Always look for a second opinion on any questions you may have, and be wary of information published on Chinese websites or information provided directly by officials in the China Customs Bureau.

LIST OF WOOD PRODUCTS BANNED BY CHINA

China has placed import bans on some wood products, the most notable being wood chips and railway ties sourced from endangered wood species.

Banned from import are:

HS CODE	Description
4401210010	Chips or particles of coniferous endangered wood species
4401220010	Chips or particles of non-coniferous endangered wood species
4401300000	Sawdust and wood waste or scraps, whether in logs, briquettes, pellets or similar forms
440690010	Impregnated railway or tramway sleepers (ties) of endangered wood species
4805911000	Paper used as interleaf material for the packing of flat glass products, with a resin content of not more than 0.6%

GLOSSARY OF TERMS

Please visit <http://web.cocc.edu/logging/intropg.html>

ADDITIONAL RESOURCES

http://www.export.gov/china/exporting_to_china/customs.asp

<http://english.customs.gov.cn/publish/portal191/>

http://www.novexcn.com/import_export_duties.html

<http://www.chinagate.cn/english/406.htm>

<http://www.infoexport.gc.ca/eng/home.jsp>

<http://www.edc.ca/english/index.htm>