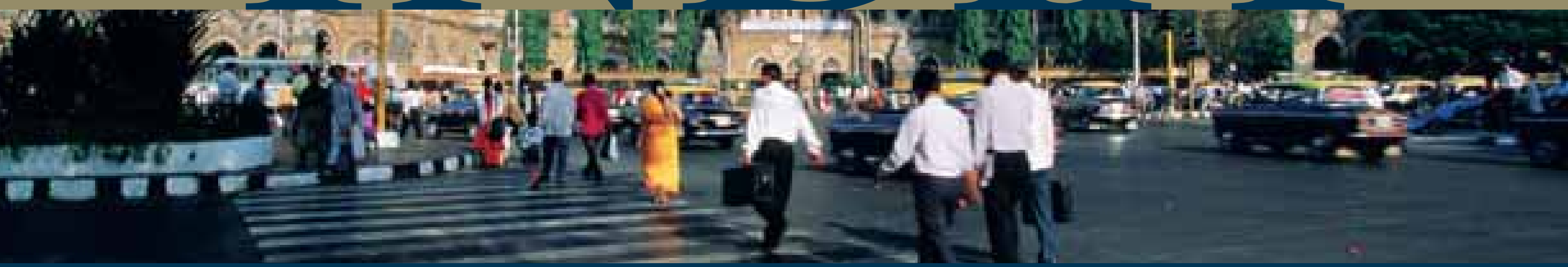
EXPORTING TO INDIA



A GUIDE FOR CANADIAN BUSINESSES

Canada

EDC
Export Development Canada | Exportation et développement Canada

About the Guide

Exporting to India is designed to help Canadian companies learn about the Indian marketplace and how they can do business there. If you've never been an exporter, but you believe that you have a product or service that might do well in India, the Guide will help you decide how – or even whether – you should proceed. Or, if you're already exporting, but haven't as yet ventured into India, it will help you find your way into this promising marketplace.

The Guide concentrates on giving you basic, practical information. At the same time, because there's far more information available than will fit into a single publication, it refers you to dozens of other resources that will help you plan and carry out your Indian export strategy. These resources cover all the stages of selling your goods or products abroad, starting with your initial readiness assessment and basic market research, and ending with product delivery and payment methods.

The Indian market is enormously varied and extremely competitive, and its unfamiliarity can make it intimidating. Nevertheless, plenty of Canadian businesses – of all sizes and in many sectors – are prospering in this remarkable country. Perhaps yours will be the next!

EXPORTING TO

INDIA

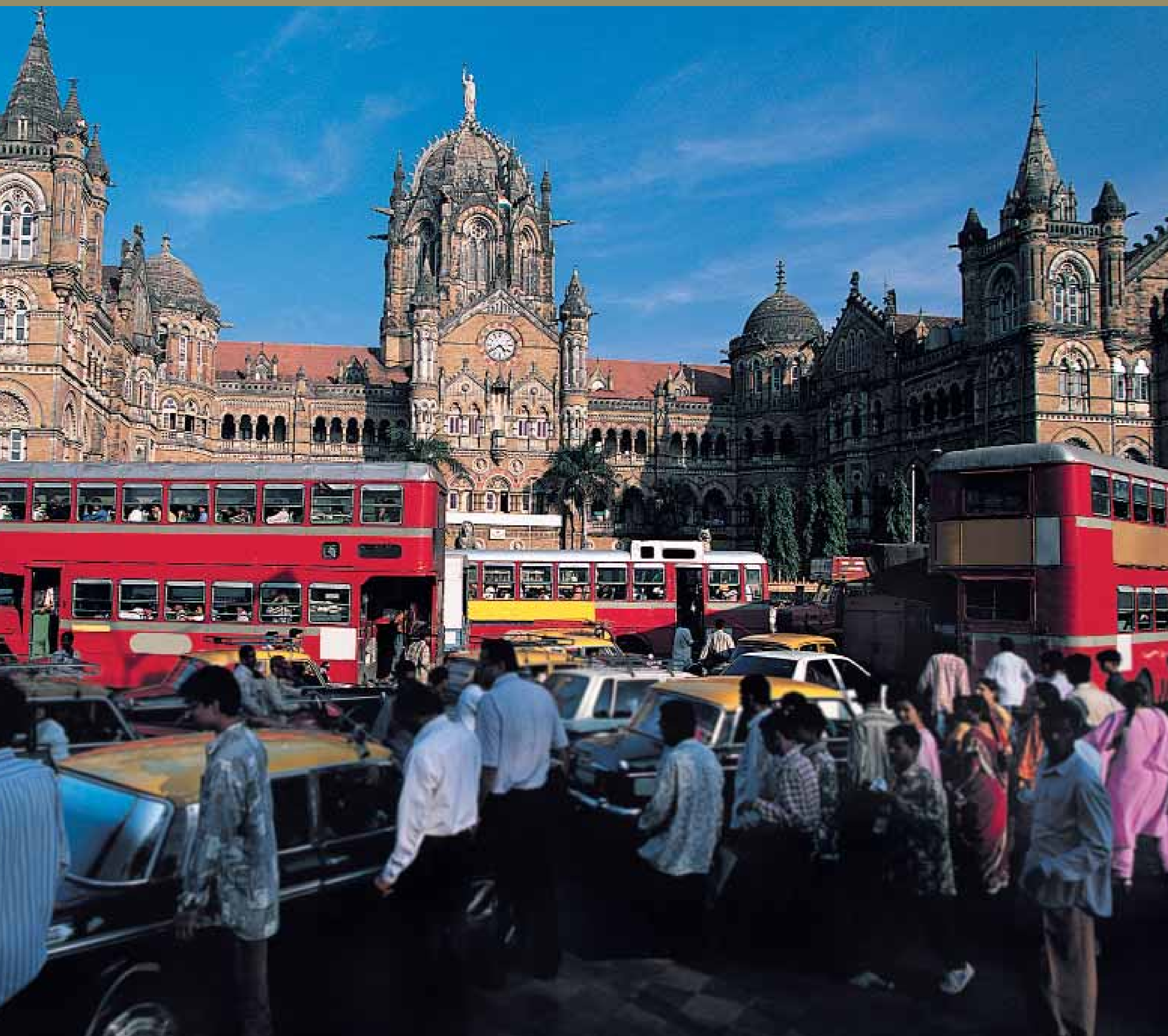
A GUIDE FOR CANADIAN BUSINESSES

CONTENTS

1

Possessors of a rich and ancient cultural heritage, and living in a nation that stretches from the Himalayas to the tropics, India's billion-plus people make up the world's largest democracy and one of the planet's biggest markets. In this section, we'll examine the overall Indian economic picture and Canada's relationship to this vast country.

UNDERSTANDING THE INDIAN MARKET



1.1 The economic environment

India's gross domestic product (GDP) grew by 8.4 per cent in fiscal year 2005–2006.

- Agricultural output rose by 3.9 per cent, bouncing back from the low growth of the previous year, which was the result of poor weather conditions. For Canadian companies selling into the agri-food sector, it's worth remembering that Indian agriculture absorbs two-thirds of the country's labour force, even though it accounts for only 21 per cent of GDP.
- Overall manufacturing output rose by 9.0 per cent as a result of strong domestic and export demand.
- Construction of all types increased by 12.1 per cent. Due to the poor condition of India's housing stock, residential construction has become a government priority.
- Mining and quarrying, based on the country's abundant natural resources, rose by 1 per cent.
- The electricity, gas and water supply sector posted a gain of 5.3 per cent.
- In the services sector, transport and communications services rose by 11.5 per cent, financing and business services by 9.7 per cent and other types of services by 8.2 per cent.

Another strong driver of India's economic growth, which directly or indirectly affects most other sectors, is the expansion of the middle class. This, coupled with the fall in interest rates during the past decade, has stimulated a rapid increase in consumer demand for all kinds of goods and services.

1.1.1 An era of reform

The spark behind this explosion of economic activity was ignited in the early 1990s, when the Indian government began a program of economic liberalization. Among other reforms, it began to deregulate industry sectors, reduce tariffs, cut domestic taxes and implement policies to attract foreign investment. With the help of low interest and inflation rates, such measures have led to an ongoing boom in the Indian economy.

A second factor in the country's economic expansion has been its abundant human capital, as India's excellent schools and colleges continue to produce a large labour force of well-educated, English-speaking workers. Technical education, to take just a single example, is one of the educational system's strengths; literally thousands of engineering colleges offer degrees and diplomas, with at least 800 of these institutions concentrating on advanced computer training. As a result, India's information and communications technology sector is one of the most robust in the world.

1.1.2 Economic prospects

Overall, India's current economic position makes it an attractive prospect for Canadian businesses. But does the longer term hold the same promise?

In a word, yes; India's economic expansion is expected to continue. This will result at least partly from the government's programs to lower the rate of population growth, reduce poverty, increase literacy and emphasize development in key sectors such as agriculture, education and communications.

The ultimate goal of these programs is to transform India into a developed nation by 2020. This will involve some substantial investments, including the following:

- The country's roads, railways, seaports and airports all need upgrading, which will consume hundreds of billions of dollars during the next few years. Canada has plenty of expertise in building such infrastructures.
- The government intends to double India's electricity-generating capacity by 2012, and has opened the country's electricity market to foreign and private-sector investment. It also wants to increase its use of natural gas as an alternative to imported oil, which opens up potential markets for Canadian refining, storage and distribution technologies.
- Alleviating the stress on India's urban environments will require large investments in technology for water treatment, clean transportation, "green" buildings, renewable energy sources and pollution control. Canada has considerable expertise in such technology, which will make this sector an attractive one for us.
- Expansion of agriculture will demand new equipment and new infrastructures for storage, refrigeration and distribution of agri-food products. Canada has been transporting food over long distances for decades, which makes this sector a natural one for us.
- Canadian firms can help India meet its residential construction needs. The country is the largest housing market in South Asia; almost 30 per cent of all Indians live in cities, but the housing stock is inadequate.
- In the near term, the telecommunications sector will probably expand by more than 30 per cent. This presents major opportunities for Canadian manufacturers of telecommunications equipment.

1.1.3 The investment climate and FDI incentives

India now allows foreign direct investment (FDI) in all sectors except arms, nuclear energy, legal firms, railways and certain resource sectors. In another positive move, the Indian government has raised FDI ceilings in a number of sectors including insurance, defence, banking and telecommunications. Canadian stock of FDI in India increased from $207 million* in 2003 to $251 million in 2004.

India offers several incentives to foreign investors. Government approval for FDI is no longer necessary in most sectors; if approval is necessary, the Foreign Investment Promotion Board will usually deal with the situation. Companies can now use non-

* *All currency figures are in Canadian dollars unless otherwise specified.*

Indian brand names and trademarks and can usually repatriate their profits and capital-investments without hindrance. There are also tax incentives in sectors such as electrical power and computer software.

1.1.4 The social and cultural environment

Rapid urbanization, electronic mass communications, better education, more productive agriculture and a rise in consumerism have been transforming India. Much of the change has been urban-centred, but the 70 per cent of India's people who live in rural areas are seeing major changes in their world as well. Rural inhabitants are gaining more access to goods and services because of improvements in distribution channels, and their consumption of both is rising.

The real driver of reform, however, is India's rapidly expanding middle class, whose size has been estimated at up to 300 million people. The increasingly affluent members of this class are a natural market for new products from around the world, which offers Canadian exporters many opportunities for trade and investment.

1.2 Politics and business

India is the world's largest democracy. It's a republic, with a structure based on the British parliamentary system, and is made up of 29 states and six territories. Like Canada, it has three main government branches: an executive branch, a Parliament consisting of an upper and lower house, and an independent judiciary. Unlike Canada, it has more than 100 national, regional and political parties. The two major political players are the Congress Party and the Bhartiya Janata Party (BJP). Indian governments have tended to be stable, despite the occasional need to resort to coalition politics.

The government has been a strong participant in India's business life since the country gained independence from Britain in 1949. Even now, after more than a decade of economic reform, the central and state governments together own several hundred companies. As a result, there is a good deal of excess regulation and bureaucratic red tape.

On the positive side, the government has been investing heavily in sectors such as infrastructure and rural development. And, in an attempt to reduce government interference in the economy and to encourage foreign and private investment, it is also allowing more outside participation in key sectors such as telecommunications, insurance, real estate, biotechnology and infrastructure.

Export Development Canada

Export Development Canada (EDC) is a Crown corporation that provides financial services and global market expertise to Canadian companies intending to sell their products and services abroad. Our web site at **www.edc.ca** is an invaluable resource for exporters and offers a great deal of information on India, including many economic research tools such as the Country Information at **www.edc.ca/economics** and links to numerous publications.

1.3 The Indo-Canadian trade relationship

To most Canadians, including Canadian businesspeople, India is a distant and unfamiliar place. This has produced something of a disconnect between the two countries, neither of which knows much about the business potential of the other. Possibly aggravating this, on the Canadian side, is a preconception that India's maze of trade regulations and tariffs make it a closed economy that's unwelcoming to outsiders.

As we've seen, liberalization has made this latter view obsolete. Even so, while India is our biggest trading partner in South Asia, it ranks at a low number 18 among our export markets. This is beginning to turn around, however, as more Canadian companies and investors take the plunge into India. The opportunities range across many sectors, which we'll examine in detail in **Chapter 3**.

1.3.1 Current developments in the relationship

Canadian governments, at both the federal and provincial levels, have been active in fostering trade between Canada and India. Several trade missions and high-level meetings have taken place during the past four years, with more to come. Canadian and Indian institutions such as the Asia-Pacific Foundation of Canada, the Canada-India Business Council and the Indo-Canada Chamber of Commerce are also helping to broaden and deepen the economic and business links between our two countries. These efforts and the initiatives of Canadian exporters have had a range of positive results.

Our domestic-goods exports to India, for example, rose from $667 million in 2002 to $1.03 billion in 2005, an increase of 54 per cent for the period. However, we still have only a small market share in India's economy. In 2004, according to UN Comtrade statistics, India imported US$108 billion worth of goods. Allowing for exchange rates, our share of those imports in the same year was considerably less than one per cent. So there's lots of room to grow.

Export Development Canada's direct representation in India

Recognizing the opportunities for Canadian companies to do business in India, Export Development Canada (EDC) has established a representative in New Delhi. This representative works closely with the Canadian High Commission and the Canadian Consulates in India to develop and enhance EDC relationships within the country, to gather current market intelligence and to help Canadian companies make sales into this market. The High Commission and the Consulates also help raise awareness of the risk-management and trade finance services that EDC provides for Canadian companies and for their Indian customers and partners.

For more information, contact:
Export Development Canada, c/o Canadian High Commission
7/8 Shantipath, Chankakyapuri, New Delhi 110 021 India
Tel.: 011-91-11-4178-2603 | Fax: 011-91-11-4178-2607

QUICK FACTS

Population:	1.05 billion.
Official language:	Hindi, spoken by 30% of the population.
Main imports:	crude oil, machinery, gems, fertilizer, chemicals.
Canadian exports:	pulp and paper, IT equipment, measuring and control instrumentation, mining and minerals, aerospace parts.
Largest import partners:	U.S. 7%, Belgium 6.1%, China 5.9%, Singapore 4.8%, Australia 4.6%, UK 4.6%, Germany 4.5% (2004).
Climate:	Varies from tropical monsoon in south to temperate in north.
Currency:	Indian rupee (INR).
Time difference:	+10:30 hours (eastern standard time)/ +9:30 hours (daylight savings time).
Business hours:	Banks are open from 10 a.m. to 2 p.m. Monday to Friday, and 10 a.m. to 12 noon on Saturday. Some banks are open evenings. Businesses are usually open from 9 a.m. to 5 p.m. Shops and markets open around 10 a.m. (varies with city) and close at 8 p.m.; markets are usually closed on Sunday and public holidays.
Government office hours:	10 a.m. to 5 p.m., Monday to Saturday; closed every second Saturday.

1.4 Resources for exporters to India

There are many resources that Canadian businesses can use to learn about India and how they can do business there. The following list is far from exhaustive, but will give you a good start.

1.4.1 India-specific resources for exporters

- The **Asia Pacific Foundation of Canada** maintains a web site that includes news and information about India and the rest of the Asia-Pacific region. It's at **www.asiapacific.ca**. The site also offers the guide *What Works, What Doesn't in the Indian Market* at **www.asiapacific.ca/analysis/pubs/listing.cfm?ID_Publication=356**
- **The Canada-India Business Council** is Canada's only private-sector, national association of Canadian companies doing business in India. Visit them at **www.canada-indiabusiness.ca**.
- The **Canada-India Business** portal is a specialized service provided by Team Canada Inc. It's packed with India-specific resources; you'll find it at **www.canadaindiabusiness.ca**.
- **The *CIA World Factbook*** has a useful chapter on India; see **www.cia.gov/cia/publications/factbook/index.html**.
- **The Confederation of Indian Industry's** web site provides news and resources about India's industrial sectors; it's at **www.ciionline.org**.
- ***Doing Business in India***, published by Ernst & Young, is a general tax, investment and business guide and is available online at **www.ey.com/global/download.nsf/India/DBI_2005/$file/dbi_2005.pdf**.
- **The Federation of Indian Chambers of Commerce and Industry**, at **www.ficci.com**, is an association of 1,500 corporations and more than 500 chambers of commerce and business associations.
- **The High Commission of India** in Ottawa has a broad range of information about the country, available at **www.hciottawa.ca**.
- **Indiaserver** provides general information, from travel to movies, about India. Visit **www.indiaserver.com**.
- **IndiaMART**, at **www.indiamart.com**, is a major portal to a vast range of information about the Indian marketplace.
- **The Ministry of Commerce and Industry** of India maintains a web site that includes an import-export databank on the country's economic activity; refer to **www.commerce.nic.in**.

1.4.2 General resources for exporters

- **Canada Business** is one of the first places you should go for export information. They're a collaborative network of federal (and in some cases provincial) government services that help Canadian entrepreneurs and exporters build their companies. They're at **www.canadabusiness.gc.ca**.
- **The Canadian Trade Commissioner Service** (CTCS) provides services to Canadian businesses in Canada and abroad, including market research studies and country-specific reports. The Virtual Trade Commissioner, also available though the CTCS, is a personalized, web-based resource that will give you market information and leads specific to your business interests. You can register for the Virtual Trade Commissioner when you visit the CTCS web site at **www.infoexport.gc.ca**.
- ***Canada's International Market Access Priorities***, available at **www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp**, describes the federal government's priorities for improving Canadian access to foreign markets.
- **CanadExport**, at **canadexport.gc.ca**, is a free, online International Trade Canada publication. It provides news about trade opportunities, export programs, trade fairs, business missions and more.
- **Foreign Affairs** Canada provides information about foreign affairs, foreign policy, travel assistance and passport services. They're at **www.international.gc.ca**.
- **The Indo-Canada Chamber of Commerce (ICCC)** at **www.iccc.org** is a privately funded, not-for-profit, business organization representing more than 1,000 members from the Canadian business and professional communities promoting and facilitating trade and commerce between Canada, India and other countries around the world.
- **Industry Canada** is an excellent source of information, offering market reports as well as the Trade Data Online research tool. Refer to **www.strategis.gc.ca**.
- **International Trade Canada** (ITCan) provides information related to the Canadian economy and international trade. Refer to **www.international.gc.ca**.
- **Team Canada Inc** (TCI), at **www.exportsource.ca**, is Canada's most comprehensive online source of export-related information and resources.
- **Statistics Canada**, at **www.statcan.ca**, is your chief source for statistics on Canada's population, resources, economy, society and culture.
- **The U.S. Commercial Service**, at **www.export.gov/comm_svc**, has a range of research tools, including market reports and commercial guides related to India.

2

There's no single, easily defined Indian marketplace. Instead, India contains many different marketplaces, each one distinguished by factors such as religion, geography, ethnic group, income bracket, social status, occupation and political persuasion. In the following section, we'll investigate how this enormous variety will affect your approach to doing business in India.

ENTERING THE INDIAN MARKET

2.1 The Indian mosaic

India's extraordinary mosaic is a product of the country's long history, which has seen a myriad of cultures, states and empires come and go. It's also a result of the country's size; with a population of more than a billion, inhabiting a land that stretches from the Himalayas to the tropics, it's no wonder that people's needs and desires aren't the same everywhere.

Indian markets are highly competitive and price-sensitive, and Indian companies are well-managed, aggressive and very capable of competing against Canadian firms. Indian business connections are also built on personal relationships in ways that are often unfamiliar to Canadians, and establishing such relationships are vitally important if you're going to succeed in India. For these and other reasons, it's essential to do meticulous research into your potential Indian markets and how they do business, and to use this research to develop a detailed business strategy.

If you have little or no experience selling to foreign markets, you might begin your India initiative by consulting some general guides on the subject. The *Step-by-Step Guide to Exporting*, which you can obtain through the Team Canada Inc (TCI) web site at **www.exportsource.ca/stepbystep**, gives an overall picture of what's involved. TCI's *Road Map to Exporting*, at **www.exportsource.ca/roadmap**, also provides a wealth of information to help you get started. Many other general resources are available from TCI; check their web site at **www.exportsource.ca** or call 1-888-811-1119.

You'll also find valuable information about India's Export-Import Policy (EXIM Policy) on the IndiaMART web site at **www.indiamart.com**. Use the "EXIM Guide" link or go directly to the EXIM pages at **www.exim.indiamart.com**. The site covers the country's foreign trade policy, customs regulations, licensing and many other topics.

2.2 Researching and identifying target markets

The first stage of your research is to figure out whether your business does, in fact, have a product or service that people and/or businesses in India will want to buy. A useful first step is to identify the goods that India imports from your industry sector; this information, in basic form, is available from Industry Canada's Trade Data Online tool at **strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html**.

This tool, however, only tells you about Canada's share of these imports. To identify India's total imports for your sector, you can use TradeMap, a free service provided through TCI. You can register as a TradeMap user through the TCI web site at **www.exportsource.ca**.

With this information in hand, continue your online research by using the Canadian Trade Commissioner Service's Indian market studies, available at **infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp**. The same site has the Virtual Trade Commissioner, a personalized service with free registration. Another useful resource, targeted to particular sectors, is the Trade Team Canada Sectors web site at **ttcs.ic.gc.ca**. And, of course, be sure to use the information at the Canada-India Business web portal at **canadaindiabusiness.ca**.

Once you've completed your preliminary research and believe you've identified one or two promising market segments, it's time to move to the next step – figuring out whether your company is, in fact, ready to do business in India.

2.3 Assessing your readiness

It's unpleasant to realize, halfway through a sale, that your company doesn't have the capacity to fulfill its side of the bargain. This is why it's crucially important to determine your export readiness *before* you embark on an overseas venture, especially one to a country that's so different from Canada. Ask yourself questions such as:

- Does my company have enough people to handle the extra work involved in the sale?
- Do we have enough production capacity to meet the additional demands of this market? (And remember how big India is!)
- Can we obtain enough cash to support the export venture until it becomes profitable?
- Foreign rules, culture, laws and accounting practices are different in various parts of the country. Companies should seek expert assistance in all of these areas to ensure they are ready to go to market.

The entry page of TCI's Exportsource web site has tools that will help you work through this stage; try "Export Diagnostic" or, if you're a service business, check out "Export Your Services."

2.4 Creating your export plan

Assuming you do have the capacities you need, the next step is to draft an export plan. This uses the results of your research to refine your business goals and to establish how you'll achieve them. Among many other things, it should cover:

- the products or services you're selling;
- adaptations of the product and its packaging for Indian tastes and conditions;
- your competitive advantages and disadvantages;
- your market research and its conclusions;
- your key markets and their characteristics;
- your pricing strategy and marketing approach;
- tariff and non-tariff barriers;
- your key competitors and market risks;
- your financial strategy for the sale; and
- regulatory environment.

If you need help writing your plan – they do involve a lot of detail – you can download "Writing an Export Plan" from the TCI web site at **www.exportsource.ca/iep**.

2.5 Preparing to enter your target market

India is a very complex marketplace. Selecting the best target markets from your list of potential opportunities, and devising the best entry strategies for them, will be difficult unless you obtain detailed, up-to-date knowledge about the local business environment. You'll be much more likely to succeed in this if you talk to people who have current, specialized knowledge of the country, and who can review your business plan to see if it matches the realities of India.

The best place to start is your local International Trade Canada Regional Office. Operated by the Canadian Trade Commissioner Service and located in every province (refer to **www.infoexport.gc.ca/regions** for the office nearest you), these offices provide one-on-one export help, specialized market and sector information, leads to trade fairs and missions, and help with export financing.

They can also put you in touch with the CTCS trade teams that work out of Canada's diplomatic offices in India; these teams are located in the Canadian High Commission in New Delhi, the Consulates General of Canada in Mumbai and Chandigarh, the Canadian Consulate in Chennai, the Trade Office of Canada in Bangalore, and the Honorary Consulate of Canada in Kolkata. These on-the-ground teams provide Canadian exporters with:

- local market prospects;
- key contacts searches;
- local company information;
- visit information;
- face-to-face briefings; and
- advice on solving crucial business problems.

You can find out more about Canada's consulates and offices in India from the international section of the Canadian Trade Commissioner Service's web site at **www.infoexport.gc.ca/ie-en/EServices.jsp**.

2.6 Methods of market entry

For most Canadian exporters, direct selling to end customers in India isn't a viable approach; few Canadian companies know enough about the intricacies of the Indian market to do this with any success. Partnerships of one kind or another are almost a necessity, and they're available in several forms.

A good general resource that describes the various types of Indian business entities is the Ernst & Young publication *Doing Business in India*, available online at **www.ey.com/global/download.nsf/India/DBI_2005/$file/dbi_2005.pdf**. For further information, you can also contact the nearest Indian diplomatic office in Canada, as listed in Section 2.8.1, "Entering the country," or request assistance from the Canadian

Trade Commissioner Service.

No matter which approach you choose, however, you should retain the services of a lawyer well acquainted with Indian business law. He or she will not only help you avoid legal pitfalls, but should also be able to advise you on the kind of business relationships that will best suit your company's needs. We'll examine the major types in the following sections.

2.6.1 Subsidiaries

You can establish a subsidiary in India under the provisions of the Indian *Companies Act* of 1956, which governs incorporation. The chief advantage of a subsidiary is that it's the most effective way of doing business in India. If you decide to close it down, though, there will be more complications than with some of the other options.

2.6.2 Branch, liaison and project offices

You can open a branch office of your company by obtaining approval from the Reserve Bank of India (RBI). In this case, the RBI specifies the business activities you're allowed to carry out, which are primarily to:

- represent your Canadian company;
- carry out research;
- import and export goods;
- promote technical and financial cooperation between Indian companies and your Canadian company; and
- provide technical support for products supplied by your Canadian company.

Your company can't engage in manufacturing in the country, but you can subcontract this to an Indian business if you want to.

Liaison offices are more limited. You're allowed to collect information about market opportunities and provide information about your company and its products to potential Indian customers, but you can't carry out any business activities. Nor can you be paid by Indian customers for providing liaison services. The RBI issues approvals for liaison offices.

Project offices, as the name suggests, are set up for specific projects and exist only until the project is completed. The RBI issues approvals for project offices.

2.6.3 Agents and distributors

If you don't want to open an office or subsidiary, you can sell to your end users through an agent or distributor. These individuals or companies – often referred to collectively as representatives – can be instrumental in helping you succeed in India.

Loosely speaking, an agent is an individual or firm you employ, usually on commission, to sell your product or service. A distributor, by contrast, buys your product from you and then sells it on to the end users. Either type of representative, if you get the right one, will be familiar with local conditions and can help you find customers, arrange distribution channels, handle documentation and provide after-sales service. If your sale involves complex contracts, a representative is almost a necessity.

Finding the right representative will take some work. Contacts at trade fairs are one avenue, and you should also check with sources such as the Canadian Trade Commissioner Service, your sector's trade associations and the various Indo-Canadian business associations referred to in **Chapter 1**. Other companies in your sector may also be willing to share information about their experience with particular representatives. Investigative trips to potential markets can be useful, as well.

However you look for representatives, though, be extremely careful to exercise due diligence. For example:

- Be sure they have the marketing savvy, industry expertise, financial capacity and facilities (such as showrooms and staff) required to represent you properly.
- Be sure they're motivated to develop new markets and new customers for you.
- If they represent products that compete head-to-head with yours, find out how they'll resolve this potential conflict.
- Don't hire them merely on the basis of their enthusiasm for your product or their persistence in trying to get your business.
- *Always* check their reputation and references.

2.6.4 Joint ventures

A way to combine the advantages of using a representative with those of setting up a subsidiary company is to establish a joint venture with an Indian firm. Formed under the Indian *Companies Act*, joint ventures can be a good way to enter the market because India encourages them; they foster foreign investment, technology transfer and the import of capital goods.

2.6.5 Franchises

Franchising isn't yet common in India, but is becoming more prevalent. As it's still an evolving business solution, you should be careful when considering it as an option. A potential franchisee absolutely must be financially sound, so due diligence is vital.

2.7 Special Economic Zones

To streamline economic development, the Indian government has established a number of Special Economic Zones (SEZs) and has approved plans and locations for more. Companies setting up in these zones for manufacturing and service activities are eligible for incentives such as duty-free import and procurement of capital goods, and up to 10 years of exemption from income tax on their exports. For more information, refer to the Special Economic Zones in India web site at **www.sezindia.nic.in**.

2

2.8 Going to India

If you're going to export to India, it follows that you'll be spending some time in the country. The following sections examine the essentials of travelling to the country and getting along there.

2.8.1 Entering the country

To enter the country, you'll need a Canadian passport that will be valid for at least six months past the date on which you'll leave India. Since you're travelling on business, you'll also need a business visa, which you must obtain from one of the Indian consular offices in Canada. These are:

The High Commission of India
10 Springfield Road, Ottawa, Ontario K1M 1C9
(613) 744-3751
Email: hicomind@hciottawa.ca
www.hciottawa.ca

Consulate General of India
201-325 Howe Street, Vancouver, B.C. V6C 1Z7
(604) 662-8811
Email: indicacg@telus.net
www.cgivancouver.com

Consulate General of India
Suite 400, 1835 Yonge Street, Toronto, Ontario M4S 1X8
(416) 960-0751
Email: cgindia@cgitoronto.ca
www.cgitoronto.ca

If your visa allows you to be in India for more than 180 days, you have to register, within 14 days of arrival, with the local office of the Foreigners Regional Registration Officer (FRRO) in Mumbai, Kolkata, New Delhi or Chennai, and with the Superintendent of Police in all other districts.

For up-to-date information about travel to India, including health and security issues, refer to Foreign Affairs Canada's Consular Affairs web site at **www.voyage.gc.ca**.

2.8.2 Temporary entry of goods

If you need to bring business tools such as laptops into the country, be sure to have these items endorsed in your passport by a customs official when you arrive (using serial numbers if applicable). When you leave, have an official delete the endorsement. Software is duty-free and will not need an endorsement.

Importing items for demonstration or marketing purposes is allowed only if they'll be used at events approved by the Indian Trade Promotion Organization (**www.indiatradepromotion.org**), and you'll have to post a bank guarantee to the value of the goods. The items have to be re-exported when the events are over.

If you want to bring items into the country for an international exhibition or trade fair, you'll need to show customs authorities a certificate indicating that the exhibition is approved by the Indian government; you can obtain these certificates from the Ministry of Commerce and Industry (**commerce.nic.in**), or from an office of the Indian Trade Promotion Organization. The goods have to be re-exported within six months of entry.

2.8.3 Getting along in India

No guide can hope to prepare any first-time visitor for the extraordinary experience that is India, but the following background may help.

The climate

According to the Indian Meteorological Service, India's four seasons are winter, from December though February; summer, from March through May; the southwest monsoon, from June through September; and the northeast monsoon, from October through November. Depending on season and location, temperatures in India can range from 0°C to 40°C.

Telling time

- Indian Standard Time is 5.5 hours ahead of Greenwich Mean Time. To find out what time it is in various Indian cities with respect to your location in Canada, use the World Clock at **www.timeanddate.com.**
- Retail hours: 10 a.m. to 7 p.m., Monday through Saturday.
- Post office hours: 10 a.m. to 5 p.m., Monday through Friday.
- Government office hours: 9:30 a.m. to 6 p.m., Monday through Friday.
- Bank hours: 10 a.m. to 2 p.m., Monday through Friday.
- Official holidays: January 26 (Republic Day); August 15 (Independence Day); and October 2 (Gandhi's birthday).

Talking with Indians

Hindi is the official language. English, however, is the usual language of government and business. According to the *CIA World Factbook*, there are 14 other official languages in addition to Hindi, not to mention hundreds of regional dialects.

Dealing with money

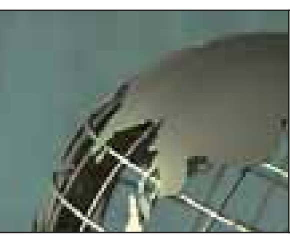
The currency is the rupee, written as Rs, which is divided into 100 paise (p). You can't bring rupees into the country or take them out when you leave. U.S. dollars or American Express travelers' cheques are the best way to carry money in India; when cashing travelers' cheques, you'll save time and paperwork if you use large banks in major cities. Major credit cards are accepted in most cities. In late 2006, one Canadian dollar was worth about 40 rupees.

More than 30 foreign banks operate in India, including five branches of Scotiabank. Most foreign banks maintain ATMs in India, so you can usually access funds in your Canadian accounts through the international ATM network.

2.8.4 Getting around in India

Foreign Affairs Canada's Consular Affairs web site at **www.voyage.gc.ca** will give you detailed, current information about travelling in India. Here are some other basics:

- You can rent and drive a car in India using an international driver's license, but don't be tempted to do this. Driving is dangerous, the roads are congested and people don't obey traffic regulations. If you're unlucky enough to cause an accident, you can be in serious trouble, especially if you've injured a pedestrian or a cow – drivers have been violently attacked in these circumstances. It's much better to hire a car and driver to take you where you want to go.
- Rail travel can be an excellent way to see the real India. You book tickets in advance and can choose among several classes, the top three of which are air-conditioned.
- The major private airline in India is Jet Airways, which is known for its young fleet of aircraft and excellent service levels. Other airlines are the domestic Indian Airlines and the international carrier Air India, which also operates some domestic routes. Fares are cheap by world standards and there are flights to more than 50 cities.



EXPORT*Able?*

EDC provides an effective way of self-assessing your export readiness. Go to **www.exportable.ca** to access the EXPORT*Able?* questionnaire.

2.8.5 Dealing with India's business and social culture

Indian business people are fully aware of internationally accepted business etiquette and are quite comfortable with it. If you understand and conform to certain cultural nuances, though, people will appreciate it. Here are some things to be aware of:

- Exchange of business cards is expected.
- Formal address is preferred. Use surnames and, when applicable, professional titles like "Doctor." Use of first names is not appropriate. Forms of address can also vary according to ethnic group, religion and local culture, so find out what's customary before you meet people.
- Indian men (but few women) will shake hands with foreign men, but a Canadian woman should not offer a handshake. Canadians of both sexes might consider using the "namaste" gesture, bowing slightly with palms pressed together below the chin, instead of proffering a hand.
- Indians are often not punctual by Canadian standards. This is cultural and shouldn't be thought of as rude or inconsiderate.
- Business entertaining is usually done outside the home, but you may also receive invitations to people's residences. Shoes are removed before one enters the house, unless the host or hostess is wearing shoes.
- Gift-giving is accepted, but be careful about what you give to whom. Alcohol is off-limits to Muslims, and leather items should be avoided altogether because the recipient can't be sure whether their sources might be pigskin (offensive to Muslims) or cowhide (offensive to Hindus). Flowers, chocolate and Indian sweets, however, are appropriate.
- Remember that Hindus don't eat beef or beef products, and Muslims don't eat pork or pork products. (Many Indians, incidentally, are vegetarians.) If someone offers you a drink (whether alcohol or not), it's polite to refuse the first offer, but you should accept the second or third.
- Thanking your host for a meal isn't done because it's considered a form of payment. Instead, return the hospitality by offering a dinner or lunch invitation of your own.
- Getting up to leave and saying goodbye to your hosts immediately after finishing a meal is perfectly acceptable. In contrast to western custom, social interaction happens before a meal is served; in fact, it is not appropriate to stay for any length of time after a meal.

The above doesn't cover nearly all the nuances, but there are numerous web sites that provide information on cultural and business behaviour in India and elsewhere. A good one is Executive Planet at **www.executiveplanet.com**. The best advisor, of course, is likely to be an Indian who lives in India.

2

2.8.6 Tips for succeeding in the Indian market

There's no substitute for direct experience in any market, but here are some pointers that will help you with an Indian export venture.

- There are many Indo-Canadian businesspeople with experience in the Indian market, and they can be an invaluable resource about its needs and subtleties.
- Like people in many Asian cultures, Indians place great importance on personal relationships. This extends to business dealings in a way that isn't common in Canada, and most Indians will want to get to know you as part of doing business with you. Establishing a personal side to your business relationship is part of building mutual trust, and without that trust it will be much harder to negotiate a sale. Always keep in mind that Indians value long-term relationships and will repay your loyalty with their own.
- Tailor your strategies to your market, remembering that India's enormous variety of cultural, ethnic, religious and linguistic groups requires particular sensitivity in everything from product adaptation to packaging.
- Willingness to provide technology and knowledge transfer will increase your attractiveness as a business partner.
- Don't be in a rush. Very few export ventures turn an immediate profit, and even with ultimately profitable ventures you may not get into the black for two or three years. Also be aware that business negotiations in India can take much longer than they do in North America. If you show frustration or discouragement, you may irreparably damage your chances of closing a sale.
- Expect to visit India as often as needed; you won't be able to do everything from home. Sending senior company representatives, rather than junior ones, will also signal your commitment to doing business. This will be important to your prospective customer or partner.
- Setting up a business presence in India can be expensive, slow and confusing. Again, patience and sensitivity are prerequisites for success.
- Don't underestimate your Indian competitors. They know the market better than you do and are quite capable of holding their own in it.

Understanding and growing your exports

For a fast overview of how to get started and succeed in exporting, including links to lots of resources, be sure to look at EDC's online section at **www.edc.ca/exports**.

EDC has also developed a "how-to" guide called Discover New Markets, which outlines the six steps you need to take before you begin exporting. Go to **www.edc.ca/newmarkets** to get your free copy.

3

In the following section, we'll examine the market segments that hold the most promise for Canadian businesses. These segments aren't necessarily the ones from which Canada currently gleans its highest Indian export revenues, but rather those in which EDC expects Canadian companies of all sizes are most likely to prosper.

OPPORTUNITIES FOR CANADIAN EXPORTERS

3

3.1 Agriculture and agri-food

Canada's agri-food exports to India remain relatively small. Our 2004 share of this market was only $111 million; most of these sales were commodities such as dried peas, chickpeas and lentils, for which India is now our largest export customer.

3.1.1 Processed foods

India's agriculture and agri-food sector is forecast to grow steadily during the next few years, and Indian agribusinesses are seeking new markets within the country. One major prospect lies in Indians' increased use of processed foods. A recent Confederation of Indian Industry (CII) study estimated the processed-food market to be worth around US$60 billion at the end of 2005.

Even so, Canadian processed-food companies should be aware that Indians aren't necessarily eager to embrace Western-style products. The country's strong indigenous cuisine emphasizes freshness, which lowers the appeal of prepared foods. Dietary customs are also important; eating beef is taboo for Hindus, while pork, for Muslims, is equally forbidden. As a result, Canadian companies wanting to enter the prepared-food market will have to research all aspects of it – from ingredients to preparation to packaging – very carefully.

3.1.2 Food processing equipment

As the demand for processed food rises, so will India's need for production and packaging technology. This will provide opportunities for Canadian manufacturers of such equipment.

India's agri-food sector is plagued by an inadequate preservation, storage and distribution infrastructure. So much is lost through spoilage that the government is working toward an end-to-end, cold-chain storage system, and Canadian firms with products and expertise in food storage, transportation and distribution may find opportunities in this area.

3.1.3 Agricultural biotechnology

Canadian biotechnology companies may find new markets in India, whose biotech firms are looking for foreign alliances and partnerships. Strong possibilities include genetic engineering, immunological techniques, cell culturing and biological pesticides. Government support is also strong, as several states have announced that they intend to establish biotechnology parks.

3.1.4 Agriculture and agri-food resources

Refer to these resources for more information about the sector:

- Canada Agri-Food Trade Service
  www.atn-riae.agr.ca
- Agriculture and Agri-Food Canada
  www.agr.gc.ca
- Ministry of Agro and Rural Industries
  www.ari.nic.in
- Ministry of Consumer Affairs, Food & Public Distribution
  www.fcamin.nic.in
- Ministry of Food Processing Industries
  www.mofpi.nic.in
- Trade Team Canada Bio-Industries
  ttcbio.ic.gc.ca

3.2 Automotive components

The country's domestic auto industry is up-to-date and manufactures much of what it needs, but there is room for cooperation between Canadian parts makers and compatible Indian companies.

This is especially true because India's vehicle population has been exploding, and demand for spare parts and components is rising almost as fast. The US$9-billion industry grew at an annual average of 17 per cent from 1998 to 2003, and the Indian Auto Components Manufacturers Association has projected that this expansion will continue at about 15 per cent per year until 2012.

3.2.1 Automotive components resources

Refer to these resources for more information about the sector:

- Society of Indian Automotive Manufacturers
  www.siamindia.com
- Automotive Components Manufacturers Association of India
  www.acmainfo.com
- Trade Team Canada Automotive
  ttcauto.ic.gc.ca

3.3 Construction materials and technology

India does not have nearly enough good-quality housing for its people. According to the CII, the country needs 29 million new units and a total investment in this sector of US$25 billion by 2010.

As well, the construction industry as a whole is recognizing the need for more efficient construction practices, especially in the light of India's tight energy supply. This has led to increased emphasis on "green buildings" and energy-efficient technologies. The CII estimates that this sector may be worth as much as US$4 billion by 2010.

Canada can't compete with India's domestic sources of basic construction materials such as cement (our total sales to India of such goods was only $37 million in 2004), but there are potential markets for advanced materials and expertise. These include lightweight steel framing, engineered and recycled wood, building automation systems, and high-efficiency plumbing, cooling and ventilation equipment.

To encourage development in the sector as a whole, the government is now allowing 100 per cent FDI on construction projects.

3.3.1 Construction materials and technology resources

Refer to these resources for more information about the sector:

- Confederation of Indian Industries
  www.ciionline.org
- Building Materials and Technology Promotion Council
  www.bmtpc.org
- Ministry of Urban Development
  www.urbanindia.nic.in
- Trade Team Canada Building Products
  ttcbuildingproducts.ic.gc.ca

3.4 Electrical power technology

India's central and state governments have traditionally controlled the generation and distribution of electricity, with most of the industry organized as publicly owned utilities. However, economic liberalization has opened up a larger role for private and foreign participation across the sector.

The demand for electrical power is skyrocketing because of urbanization, increased industrial activity and the government's policy of promoting rural electrification. To meet demand, according to the CII, the country will have to add at least 100,000 megawatts of electrical generation capacity every year for the next 10 years. Transmission and distribution needs will bring the total required investment to at least US$200 billion. The 2006–2007 federal budget included provision for an increase of 40,000 megawatts in generating capacity during the next three years, and the provision of electricity to 40,000 villages in 2006–2007.

The power sector is also becoming much more aware of environmental issues. This is encouraging the adoption of co-generation technologies to produce both electricity and heat energy (such as steam) that can be used for various purposes. Another trend is for manufacturers to reduce their dependence on the public grid by building private, on-site power plants for their factories. As of 2004, there were at least 1,700 such plants, with more coming.

As a result of these developments, Canadian power equipment suppliers may find willing customers for all types of machinery, including transformers, cables, boilers, turbines, generating sets, controls and components.

3.4.1 Electrical power technology resources

Refer to these resources for more information about the sector:

- Ministry of Power
  www.powermin.nic.in
- Power Grid Corporation of India Ltd.
  www.powergridindia.com
- Trade Team Canada Electric Power Equipment and Services
  www.ic.gc.ca/electrical/ttcwelcome.nsf/Welcome_E

3.5 Environmental technology

The Indian market for environmental technology has been growing at 15 per cent annually for a decade and a half. It now stands at more than US$5 billion a year, with imports accounting for almost half of this amount. The major needs are for equipment and expertise in water and wastewater treatment, solid and hazardous waste management, low-emission urban transportation and renewable energy development. India's dependence on coal as an energy source also suggests a potential market for Canadian pollution-reduction technologies.

3.5.1 Water and waste technology

Lack of clean water is the country's worst environmental problem, and more than a quarter of the total environmental market is devoted to products and services related to the water supply. Opportunities include technologies for water conservation and purification, wastewater treatment, water recycling and desalination.

Dealing with hazardous waste will be another growth sector as India's industrialization continues. India will need facilities, equipment and know-how for storing, transporting and disposing of these substances, as well as resources for monitoring them and for environmental project management.

3.5.2 Renewable-energy technologies

The renewable-energy subsector is driven by India's tight energy supply and the environmental problems related to economic expansion. Canada has considerable expertise in various kinds of renewables, especially hydrogen technologies. Opportunities in the sector include advanced solar water and air heaters, solar power generation equipment and controls, biomass and wind-power expertise, upgrading and modernization of hydroelectric plants, and blended-fuel storage and distribution technologies.

3.5.3 Environmental technology resources

Refer to these resources for more information about the sector:

- Ministry of Environment and Forests
  www.envfor.nic.in
- Federation of Indian Chambers of Commerce and Industries Environmental Information Centre
  www.cleantechindia.com
- Trade Team Canada Environment
  www.strategis.ic.gc.ca/epic/internet/inenva.nsf/en/Home

3.6 Medical equipment

Demand for medical electronics and supplies, patient-monitoring equipment and diagnostic kits is expected to experience double-digit growth during the next few years. India already has about 30,000 medical laboratories, and more are being set up by corporate health providers in villages and small towns. These labs range widely in size and capability, from specialized installations in major hospitals to small establishments offering basic diagnostic services.

Depending on the Indian customer and the medical equipment, import duties can be an issue for a Canadian exporter. Medical equipment tariffs range from zero for life-saving devices and supplies to as much as 50 per cent for other types of equipment. Government hospitals, however, import all medical equipment free of duty.

3.6.1 Medical equipment resources

Refer to these resources for more information about the sector:

- Ministry of Health and Family Welfare
  www.mohfw.nic.in/depth.htm
- WHO Regional Office for South-East Asia
  w3.whosea.org/EN/Section313/Section1519_6810.htm

3.7 Mining equipment

India is the world's fourth-largest producer of iron ore and third-largest producer of coal (which, incidentally, supplies more than 60 per cent of the country's energy). The size of this industry translates into a substantial market for mining and mineral-handling equipment worth US$1.2 billion in 2004–2005. About 30 per cent of this market is satisfied by imports, and Indian mining companies are quite prepared to use foreign equipment if price, quality, service and supplier history meet their requirements. Equipment needs include drills, continuous miners, props, feeder crushers, special stage loaders, electronic instruments and communication and safety systems.

3.7.1 Mining equipment resources

Refer to these resources for more information about the sector:

- Ministry of Mines
  www.mines.nic.in
- Indian Bureau of Mines
  www.ibm.nic.in

3.8 Oil and gas equipment

India depends heavily on imports to meet its appetite for crude oil, and the CII estimates that by 2012 the country will need to import 190 million metric tons of crude per annum. A further 40 million metric tons of refining capacity will have to be added every year to handle the flow of imported and domestic oil.

To reduce dependence on foreign crude, the country is trying to increase its use of natural gas, especially for power generation and in the fertilizer industry. However, its domestic gas production is also inadequate to its needs, making imported gas a necessity.

Collectively, the market for oil and gas equipment is about US$1.8 billion per year. This includes surveying equipment, drilling and well production machinery, floating platforms, explosives, chemicals and pumps. The shift to natural gas opens up further possibilities for Canadian businesses that specialize in gas refining, storage and distribution technologies. Expanding deepwater oil and gas exploration is another area where Canadian expertise can find a market.

Production of coal-bed methane, a gas extracted from coal beds (of which India has a colossal supply) may eventually form the basis of another export market. The government is interested in developing this energy resource because of its potential size and because methane is a much cleaner fuel than oil.

3.8.1 Oil and gas equipment resources

Refer to these resources for more information about the sector:

- Ministry of Petroleum and Natural Gas
  www.petroleum.nic.in
- Oil and Natural Gas Corporation Limited
  www.ongcindia.com
- Oil India Limited
  www.oilindia.nic.in
- Trade Team Canada Oil and Gas Equipment and Services
  www.ttcoilandgas.ic.gc.ca

3.9 Plastic-processing equipment

The Indian plastics industry has grown at an average annual rate of 20 per cent for the past decade, with the suppliers of the raw plastic materials and resins posting yearly revenue increases of up to 22 per cent.

This growth reflects the increased use of plastics in every aspect of Indian domestic life, industry and commerce. In the automotive sector, for example, advances in technology have made it possible to replace numerous metal components with plastic ones. As a result, demand for plastic-processing equipment is likely to show a steady increase. The types of equipment needed include cutters, mixers, pigmenting machines, injection molds and injection molding machines.

3.9.1 Plastic-processing equipment resources

Refer to these resources for more information about the sector:

- All India Plastics Manufacturers Association
  AIPMA House, A-52, Street No. 1, M.I.D.C., Marol, Andheri (East)
  Mumbai 400 093
  India
- Indian Plastic Portal
  www.indianplasticportal.com
- Trade Team Canada Plastics
  www.ttcplastics.ic.gc.ca/epic/internet/inplst.nsf/en/home

3.10 Safety and security equipment

As is true for most other countries, India's government and business sector – as well as its ordinary citizens – are concerned about safety and security. The result has been an upsurge in the market for equipment related to access control, perimeter protection, audio and video surveillance, explosives detection, firefighting, radio communications and traffic monitoring. Users include government installations, banks, hospitals, oil and gas fields and refineries, commercial buildings, airports, airlines, seaports, businesses and private homes. The size of the market has been estimated in the range of US$350–400 million per year for 2006. Most security equipment, about 60 per cent, is imported.

3.10.1 Safety and security equipment resources

Refer to these resources for more information about the sector:

- Institute of Petroleum Safety, Health and Environmental Management
www.ongcindia.com/ipshem.asp
- Loss Prevention Association of India Ltd.
www.lpaindia.org
- Ministry of Home Affairs
www.mha.nic.in

3.11 Telecommunications equipment

India's telecommunications network is the fifth largest on the planet and its growth rate is the second highest in the world. The total number of subscribers is forecast to reach 250 million by the end of 2007, and the total value of the market in 2004 was about US$6.7 billion.

For the Indian telecommunications system, wireless is clearly the wave of the future. The number of wireless subscribers alone almost doubled between 2004 and 2005, from 33 million to 62 million. This makes wireless the current major growth subsector, with more than half of all telephone subscribers using wireless connections. This trend is expected to continue, with a predicted growth rate of around 2.5 million new wireless subscribers per month in 2007.

In 2004, Canada exported slightly more than $32 million worth of telecommunications equipment to India. There's no reason for this not to increase, as opportunities exist for sales of antennas, transmitters, radio and TV broadcast equipment, cable television transmission and receiving equipment, network equipment and switching equipment, and LAN and WAN equipment. There are also niche opportunities for many types of software solutions, such as Internet access gateway applications.

3.11.1 Telecommunications equipment resources

Refer to these resources for more information about the sector:

- Cellular Operators Association of India
  www.coai.com
- Department of Telecommunications
  www.dotindia.com
- Telecom Equipment Manufacturers Association of India
  www.tfci.com/cni/tema.htm
- Telecom Regulatory Authority of India
  www.trai.gov.in
- Trade Team Canada Information and Communications Technologies
  www.ttcinfotech.ic.gc.ca

3.12 Infrastructure

Much of India's road, rail, air and sea transportation infrastructure is dilapidated and needs a great deal of work and investment if it is to encourage India's economic growth rather than hinder it.

This work has already begun. The National Highway Development Project, started in 1998, is designed to expand the capacity of thousands of kilometres of high-use highways. One segment of the project will upgrade 6,000 km of multi-lane arteries connecting the major metropolises of Delhi, Mumbai, Kolkata and Chennai. The North-South and East-West Corridors project will connect other major centres and will span some 7,700 km. Other, lesser projects will add another 1,000 km to this total. The overall cost will be at least US$10 billion.

Increases in seaborne shipping also require major upgrades to India's maritime ports, and the government has adopted a long-term strategy for revitalizing India's shipping industry. As for air transport, the government has initiated plans for major upgrades to the international airports at Delhi and Mumbai.

All these are large undertakings and hold promise for Canadian companies with expertise in heavy construction, project design and project management.

3.12.1 Infrastructure resources

Refer to these resources for more information about the sector:

- Department of Shipping
  www.shipping.nic.in
- Ministry of Civil Aviation
  www.civilaviation.nic.in
- Ministry of Road Transport and Highways
  www.morth.nic.in

3.13 Services

Several sectors of the Indian economy show promise for Canadian service companies. Among these are the financial sector, the engineering and construction sector, the entertainment industry and education. If these seem promising, you can learn more about service exports on TCI's "Exporting your Services" page at **www.exportsource.ca/worldview**.

3.13.1 Financial services

The banking and finance sector has growth potential for large Canadian institutions such as banks and insurance companies. For smaller exporters, the opportunities are most likely to appear in the services that support the activities of this sector, such as communications services, applications software development and systems integration.

3

3.13.2 Educational services

While the Canadian private sector isn't much involved in exporting educational services to India, several of our community colleges are partnering with local Indian schools to help satisfy the enormous demand for technical training programs. This area, accordingly, shows considerable promise not only for Canada's educational institutions, but also for companies that specialize in educational software and other types of learning materials.

3.13.3 The entertainment industry

By some indices, India's film industry is the largest in the world, and it is producing more animated films than ever before. There is a shortage of trained animation talent, however; India has 5,000 animation professionals but could use 30,000.

This presents many possibilities for Canadian animation production companies and animation-software developers. Most of the high-end animation software used around the world is developed in Canada, and these firms are likely to find a ready market for their products and services in India – as are our production companies, which are among the world's finest.

3.13.4 Engineering and construction services

There's considerable promise in this sector because of India's push to upgrade its infrastructure. To help manage the large capital projects associated with these developments, Indian firms are looking for partners that can provide architectural and engineering services, project management, equipment and materials procurement, construction management and project financing.

4

Financing a foreign sale can be complex, and the details are far beyond the scope of this Guide. The broad outlines are fairly straightforward, though, and this chapter will provide you with some essential background on India's financial system and on meeting your financial needs as a Canadian company selling abroad.

FINANCES AND FINANCING

4.1 India's financial system

India's financial system consists of public, private and foreign banks, together with the various types of financial institutions that are common elsewhere in the world. For the most part, these organizations are capable of meeting the needs of borrowers, and – again, partly because of India's economic liberalization – they are working hard to make their financial products attractive.

The central government controls the currency and the policies related to it. The Indian unit of currency is the rupee (Rs), made up of 100 paise (p). Banknotes and coins come in various denominations from 1,000 Rs down to 10 paise. Indian publications sometimes state large sums in *crore*, an amount equal to 10 million; thus a sale worth "Rs 5.5 crore" amounts to 55 million rupees. In late 2006, one Canadian dollar was worth about 40 rupees.

The Reserve Bank of India (RBI) is the central bank and supervises all banking activities in the country. These are carried out by about 80 Indian and foreign commercial banks, more than 350 cooperative banks, 20 land development banks and numerous agricultural credit societies. The largest Indian financial institutions are in the public sector, although some of these are undergoing a certain amount of privatization. In addition, India has almost 40 foreign banks operating about 200 branches among them, mainly in metropolitan areas. A recent policy change will allow foreign banks to set up subsidiaries in the country.

EDC and the Indian market

EDC has been doing business in India for more than 30 years; during that time, it has supported more than $3.5 billion in exports to Indian customers. Now that India is becoming a priority market for Canada, EDC is taking a more proactive approach to doing business there.

Prior to 2004, much of this business related to sovereign risk deals, primarily to support the Indian government's development of its power sector. More recently, however, EDC has become involved in other sectors of the market: in 2004, for example, EDC directly funded a major Indian telecommunications company, Reliance Infocomm, to help it procure telecommunications equipment from Nortel. This transaction was worth US$250 million and was the largest private-sector sale that EDC had funded in India up to that time.

In 2005, EDC completed several smaller financial transactions for small- and medium-sized Canadian companies that were exporting to India. Direct financing of this nature means that EDC now has a commitment to – and an appetite for – commercial risk in India. As far as claims and recoveries are concerned, EDC's Indian experience has been good; between 2001 and late 2005, there were no claims at all.

The RBI also oversees and manages India's foreign exchange regulations and policies, which are governed by its *Foreign Exchange Management Act*. The Act is intended to facilitate external trade payments and help with the development of an Indian foreign exchange market.

Non-Indian banks normally use international auditing firms, but many domestic Indian banks prefer local auditors who don't always comply with international standards. Even so, India's banking system is well regulated, with standards of disclosure and accounting that approach international best practices.

For more information on India's financial system, refer to the online India Finance and Investment Guide at **www.finance.indiamart.com**; for bank information, go directly to **www.finance.indiamart.com/investment_in_india/banks.html**.

4.2 Financing your exports

You may have a marketable product or service, strong customer interest, energetic assistance from trade officers and the best market research available. But without the financial resources you need to support your sale, you won't travel far from square one.

For many smaller businesses, it can be hard to finance an export initiative from company coffers. You may, for example, need new capital to manufacture the goods your customer wants, and to carry you over until you get paid for them. If this applies to you, you'll need to find out what financing is available and how you can obtain it.

4.2.1 Types of financial assistance

As an exporter, you're likely to need one or more of these three types of financial help:

- **Pre-shipment export financing:** This provides you with the means to provide the goods or services your customer wants. You'll need to show the lender that you have a firm export sale and a contract that is acceptable in terms of repayment risk, payment terms, production timeframes and recourse conditions.
- **Post-shipment export financing:** This covers your financial needs from the time you ship the goods until you get paid.
- **Medium-term export financing:** This is often used with capital goods exports and can be obtained for terms of 180 days to two years, sometimes more.

Service exporters tend to have different financial needs than goods exporters. You'll find information about this in TCI's Export Finance Guide **(www.exportsource.ca/finance)**, referred to in the sidebar "How export financing works" on **page 36.**

4.2.2 Sources of financial assistance

Banks, financial institutions and government agencies are the most common sources of export financing.

- **Banks:** Most companies operate domestically with lines of credit and business loans from their banks. Banks also finance export operations, especially if the exporter arranges the support though EDC.
- **EDC:** EDC provides a wide range of financial tools for Canadian exporters and investors, particularly small- and medium-size companies. These include:
  - Accounts Receivable Insurance to protect you if your customer can't or won't pay;
  - Contract Frustration Insurance to cover your risks on a single contract sale (Accounts Receivable Insurance covers all your receivables under all your contract sales);
  - Performance Security Insurance to protect you if your customer cashes in your bond even when you've fulfilled the terms of your contract (this is called a "wrongful call");
  - Political Risk Insurance to protect you against political or economic upheavals in your market;
  - bonding products to help you make the sale when your customer wants a guarantee that you'll deliver on the terms of your contract; and
  - financing solutions to help you with issues such as pre-shipment and customer financing.

  Refer to **www.edc.ca** for more information.
- **Business Development Bank of Canada (BDC):** BDC provides flexible financing for the development of international markets, R&D, product modifications and new production equipment or technology. Refer to **www.bdc.ca** for more information.
- **The Canadian Commercial Corporation (CCC):** The CCC is an export contracting agency established by the Canadian government. It offers the Progress Payment Program (PPP), which can provide financial resources for your export contract through commercial lenders. For more information, visit **www.ccc.ca** and click the "Information for" link.
- **Government agencies:** Numerous federal, regional and provincial government agencies offer financial assistance to exporters. To obtain help with finding the ones that may be right for you, begin by contacting TCI's information service at 1-888-811-1119. Your local Canadian Business centre (**www.cbsc.org**) also has information on the subject; refer to the "Exporting Info-Guides" available under its "Exporting" link.

4.2.3 Customer financing

You may find yourself in a situation where Indian businesses would like to buy from you but can't immediately raise the money to do so. EDC may be able to help by providing loans to these customers to enable them to purchase your goods or services. This can be managed in several ways, such as setting up lines of credit with Indian banks so they can lend money to the local businesses, or by arranging direct loans. For more information, go to **www.edc.ca/edcfinancing** or contact EDC's representative in India.

4

4.3 Getting paid

Indian customers are unlikely to pay you for your goods before receiving them. You, similarly, would be unwise to ship the goods without some assurance that the customer has the money to pay for them. The most common way to resolve this dilemma, when exporting to India, is to arrange payment through letters of credit (LCs). LCs provide security for both parties because they designate banks to receive and check shipping documents and to guarantee payment.

4.3.1 Letters of credit

Letters of credit can be "confirmed" or "unconfirmed". A confirmed LC has been issued on behalf of the customer by the customer's bank in India, and its validity has been confirmed by a domestic Canadian bank. If you have a confirmed letter of credit, you are reasonably assured of receiving payment from the Canadian bank even if the foreign customer or the foreign bank defaults.

LCs can also be irrevocable. This means they can't be cancelled or amended without your approval. The most secure form of payment is an LC that's both confirmed and irrevocable.

How export financing works

EDC's online EXPORT *Finance Guide*, which you'll find at **www.edc.ca/efg**, is a good introduction to and sources of export financing. So is TCI's Export Finance Guide, located at **www.exportsource.ca/finance**.

EDC is actively involved in financing Indian buyers who purchase goods and services from Canada. If you think this might be an option worth exploring, please contact EDC's representative in India (refer to **page 57** for contact information).

In practice, an LC works like this:

- Your customer arranges a letter of credit with his or her bank.
- The customer's bank prepares an irrevocable LC. This includes specifications as to how you'll deliver the goods.
- The customer's bank sends the LC to your Canadian bank for confirmation.
- Your bank issues a letter of confirmation and sends the letter and the LC to you.
- You check the LC *very* carefully. In particular, you ensure that it agrees in all respects with the terms of your contract with the customer. If the LC's terms and those of the contract are different, and if you don't meet the LC's terms because you overlooked the discrepancy, the LC may be deemed invalid and you might not get paid.
- You arrange shipping and delivery with your freight forwarder. Once the goods are loaded, you get the appropriate shipping documents from the forwarder; you use these to prove that you have fully complied with the terms of the contract.
- You take these documents to your bank, which sends them to the customer's bank for review. The customer's bank sends them to the customer, and the customer obtains the documents that will allow the goods to be claimed.
- The customer's bank pays your bank, which then pays you.

4.3.2 Tips for using letters of credit

To avoid difficulties, keep the following in mind when using letters of credit:

- Ensure that the LC allows partial shipments and transhipment.
- Make sure you can prove that you shipped the goods by the date specified in the LC.
- Always check shipping conditions with your freight forwarder to make sure that nothing will cause a delay in delivery.
- Present all documents by the dates specified.

EDC and your cash flow

EDC doesn't generally provide direct financing to Canadian companies. Instead, EDC will work with your bank to help you get the cash you need by providing a guarantee to your bank that they'll be paid. This gives the bank the confidence to extend more credit to your company and this, in turn, improves your cash flow so you can take on more business.

5

Canada and India share a legal heritage based on English common law, and in some respects our legal systems are similar. But there are also considerable differences, and Canadian exporters to India will need to keep these differences in mind. In this section, we'll examine some of the key legal requirements for navigating India's business culture.

THE FINE PRINT

5.1 Coping with contracts

As any experienced exporter knows, international trade is inherently more complex than domestic trade, and this complexity is reflected in the structure of international trade contracts.

Perhaps the most basic issue is that these contracts have to comply with two possibly divergent sets of laws, those of the exporter's country and those of the importer's country. This is why it's vitally important to establish clearly which country's law will govern the terms of the contract and any disputes that might arise from it. This is called, in legal jargon, "the proper law" of the contract.

Furthermore, no exporter – to India or anywhere else – should sign any contract until it has been carefully reviewed by competent legal counsel. If you do sign without this advice, you risk disputes and possibly litigation over payment, breaches of contract, breaches of guarantees, ownership of intellectual property, creditors' rights and other difficulties too numerous to mention. Protecting yourself from such problems will definitely require the services of a local legal professional.

Please note that legal issues are complex and subject to change; far beyond the scope of this Guide. Therefore, advice from qualified legal counsel, familiar with Indian business, is essential.

The following are among the most important issues for a contract to cover, but there will certainly be others depending on the nature of the sale and your customer.

- Who is party to the contract?
- What are its validity conditions?
- What goods or services are to be provided and what is the purchase price?
- What are the terms for payment, inspection and delivery?
- What is the contract completion date?
- What warranty and/or maintenance terms and conditions apply?
- Who is responsible for obtaining any import/export licenses?
- Are there contract performance security requirements such as bank letters of guarantee or surety bonds, and what are they?
- What remedies are available if the customer defaults or cancels?
- What provisions exist for independent mediation or arbitration to resolve disputes, and in which jurisdiction would this take place?

As mentioned earlier, contract negotiations in India will go more slowly than they would in Canada – possibly a lot more slowly. Expect this and allow for it in your schedule. The same applies, to an even greater degree, if you're dealing with the Indian bureaucracy.

When negotiating, be aware that your Indian counterparts may not disagree with you directly about contractual or other issues, as this is considered impolite. Instead, they may suggest that the matter can be discussed at another time, or find some other way to avoid outright disagreement.

In any case, your potential customers will be very, very unlikely to commit to a sale during your first meeting. And because negotiations can be protracted, it's a good idea to build some flexibility into your initial position so that you can alter price or contract conditions without giving away more than you should.

5.2 Performance guarantees and bonding

Your Indian customer is likely to require some kind of contract performance security to ensure that that you'll fulfill your end of the bargain. These securities are usually referred to as "bonds" and include standby irrevocable letters of credit, letters of guarantee and contract surety bonds.

If you provide one of these instruments, make sure that your contract clearly stipulates your performance obligations, as well as the conditions under which your customer can make a valid call for non-performance and thus have the security paid out to him. The chief risk associated with a bond is that of a "wrongful call;" for more information on this, refer to **Section 6.4, "Wrongful calls**."

EDC's bonding services

A bond is a financial guarantee to your customer that you'll abide by the terms of your contract. EDC doesn't issue bonds directly to you, but can work with your bank to arrange guarantees or insurance that will protect you.

Before issuing a bond, the bank will require that you provide security by freezing cash in your account. This protects the bank if you fail to perform and if your customer "calls the bond" – that is, if your customer demands that the value of the bond be paid out.

EDC can help you by guaranteeing to the bank that they'll be reimbursed if your customer calls the bond. This frees up your cash flow and, if your customer does call the bond, EDC will pay the bank so you don't have to.

5.3 Litigation and arbitration

If you have legal problems with an Indian customer or partner, don't be in a hurry to turn to the courts. Litigation in India is likely to be time-consuming, expensive and possibly not in your best interests, no matter how justified your position.

A better choice might be arbitration. Also called alternative dispute resolution, arbitration uses a tribunal to consider the questions over which the parties are in conflict and to decide how to resolve them. Increasing numbers of Indian lawyers are working in this field, and some are beginning to specialize in specific industry sectors. You can find out more about this at the International Centre for Dispute Resolution, which is part of the American Arbitration Association. Refer to **www.adr.org**.

5.4 Protecting your intellectual property

Services and tangible goods aren't the only valuable assets your company may possess. Many businesses own proprietary technology such as industrial processes or patented machine designs, and/or intellectual property such as computer software code. These assets may comprise most of the company's value, and losing control of them could have severe repercussions. These kinds of property (collectively referred to as intellectual property or IP) should, therefore, have a level of protection that matches their value.

There are several methods of establishing such protection, primarily by registering patents, trademarks and copyrights with the appropriate institutions and authorities. You can find out more about these protections, and how to register for them, at the Canadian Intellectual Property Office web site at **www.cipo.gc.ca**. In brief, they are as follows:

Patents

Patents are granted for new inventions (such as processes, machines, manufacturing techniques or the composition of substances), or any new and useful improvement of an existing invention, and are intended to prevent people or businesses from making, using or selling them without the patent owner's permission.

Note that having a Canadian patent does not protect your IP in India, so if you market an unprotected product there, any Indian company can copy it. To obtain an Indian patent, you must go through the office of the Controller General of Patents, Designs and Trade Marks, whose web site is at **www.patentoffice.nic.in**. The procedure manual for patenting something (which you can download at **www.patentoffice.nic.in/ipr/patent/manual-2052005.pdf**) is more than 160 pages long, so you'd be well advised to retain a lawyer who is familiar with the process.

Trademarks

Trademarks are words, names, symbols, sounds, or colours that distinguish goods and services from those manufactured or sold by others, and indicate the source of the goods. As with patents, registering your trademarks in Canada doesn't protect them in India, so you'll have to register them there as well, again with the Controller General of Patents, Designs and Trade Marks.

5

Copyrights

Copyrights cover both published and unpublished works. If you own the copyright to a work, you alone are allowed to produce, reproduce, perform or publish the work, or to permit anyone else to do so. Copyrights apply to original works of authorship, including literary, dramatic, musical, artistic, and certain other intellectual works. Your work is protected in Canada even if you don't register the copyright for it, but if the work is going to be sold in India, registration is a good idea. Doing so gives you a certificate that you can use to prove ownership if necessary.

A Canadian copyright, unlike patents and trademarks, does protect your work in other countries, provided they have signed the Berne Copyright Convention or the Universal Copyright Convention. India is a signatory to both, so if you have registered your copyright in Canada, it's protected in India as well.

Overall, India's IP laws and regulations make it a reasonably safe place for intellectual property. That said, however, IP theft does occur there, so you should always protect yourself as comprehensively as you can. Please note that IP protection in India is not the same as in Canada; rather, it is protected under Indian law. Obtaining legal advice about your rights is essential.

In particular, if a contract calls for licensing IP to an Indian client, be sure that the wording is precise about what the licensee can and can't do with the IP. Being vague about this can lead to serious problems and possibly major loss. If the licensee uses your IP to create new products, for example, the inherent value of your asset can be greatly reduced.

5.5 Taxes

This section gives you an overview of the Indian tax system; for more detail, refer to the web site of India's Income Tax Department of the Ministry of Finance, located at **www.incometaxindia.gov.in**. However, since tax regimes tend to be works in progress and are affected by the country's annual budget, be sure to consult legal and accounting professionals before you make assumptions about how Indian or Canadian taxes will affect your export business. The 2006–2007 budget proposed no changes in the Indian rates of domestic personal and corporate income taxes, and there were no changes in tax rates or surcharges for foreign companies.

For current information on the Indian budget, refer to **www.indiabudget.nic.in**.

5.5.1 India's tax system

India's central government levies direct taxes, such as corporate taxes, as well as indirect taxes that include customs duties, excise taxes and sales taxes. The state governments also levy taxes of various kinds. Fortunately for Canadian exporters, the tax regime has been streamlined during the past decade and is simpler than it used to be. India's fiscal year begins April 1 and runs to March 31; the corporate tax year also ends on the latter date.

5.5.2 Corporate taxes

If you've incorporated an Indian subsidiary, this means that your business is considered to be resident in India, and it will pay corporate taxes on the income it receives from all sources worldwide. If your business presence is deemed a non-resident one – for example, if it's a branch or liaison office – you'll be taxed on the income earned by that Indian branch or office. Consult with professional legal and accounting advisors about the application of this to your business.

As of 2006, the basic corporate tax rates are 35 per cent plus a 2.5 per cent surcharge for resident companies, and 40 per cent plus a 2.5 per cent surcharge for non-resident companies. Both foreign and resident companies have to pay an additional "education cess" (basically a surtax) of 2 per cent on the total tax payable. Other rates can apply depending on the income source and the sector. All these rates can change, so be sure to check with a tax expert or the Income Tax Department to verify them.

You may be able to lighten your tax burden if you're eligible for any of the tax incentives the government offers to various sectors. Among these sectors, as of late 2005, were electrical power generation and transmission, telecommunications, infrastructure, oil and gas production, industrial and scientific research, housing construction, grain transport, biotechnology, and food processing and preservation. The incentives include tax holidays on corporate profits, faster depreciation allowances and deductibility of certain kinds of expenses.

Please note that Canada and India have signed a taxation treaty which aims at reducing the incidence of double taxation for Canadian companies doing business in India. However, under the treaty, there is still the possibility that some taxes could be payable in both countries depending on how you have structured your business arrangements. Tax matters are complicated so it is essential to get appropriate professional advice. You'll find the text of the treaty at **laws.justice.gc.ca/en/1997/27/8250.html**.

5.5.3 Other taxes affecting business operations

India, like most countries, doesn't depend solely on income taxes for its revenue. For example, three other major types of taxes are levied within the country's economy: excise duties, the central sales tax and value-added tax (VAT).

- **Excise duty:** This is an indirect tax applied to the manufacture of goods within India. It is levied by the central government on almost all goods, the chief exception being alcohol, which is subject to state excise duty. As of 2006, the usual rate is 16 per cent and is calculated according either to the value of the goods or to their maximum retail price.
- **Central sales tax:** The central government levies a Central Sales Tax (CST) of 4 per cent on goods sold across state borders in interstate commerce. The CST is not the same as the sales tax, which was formerly levied by the states and is being replaced by the value-added tax (VAT).
- **Value-added tax:** The value-added tax (VAT) was introduced in April 2005. When fully implemented, it will replace the sales taxes formerly levied by the states. It is not applied to goods sold in interstate commerce; the CST still applies in this case.

5.5.4 Indian accounting standards

Companies operating in India must follow the accounting standards set out by the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI). These standards are mandatory and are derived from the International Financial Reporting Standards (IFRS), although the two sets of standards differ in a number of ways. If this may be an issue for your business, consult a qualified accounting professional.

5.6 Standards and conformity

Indian product standards are comparable to international standards and don't usually present difficulties to exporters. India has been developing a system of laws and regulations to establish and enforce these standards and, as a result, they are receiving increased emphasis in the marketplace.

The Bureau of Indian Standards (BIS) is responsible for developing national standards and is the only institution in the country that is permitted to do this. The BIS is also India's World Trade Organization (WTO) Enquiry Point, which is responsible for notifying India's trading partners of new standards and conformity assessment procedures, or of changes to existing ones. The BIS web site is at **www.bis.org.in**.

BIS also operates a system of certification and conformity-assessment labs in India, which can test and certify foreign products for compliance with Indian standards. However, it's not necessary to send your goods to India to have them certified. Instead, you can use the BIS self-certification procedure, which allows you to apply the Indian Standard Mark to your product after it has been found to comply with the applicable Indian standard.

The required assessment is carried out by BIS inspectors who, at your expense, will visit your manufacturing facility in Canada. There's an application fee of $30 and some other fees as well. The BIS web page on foreign certification is at **www.bis.org.in/cert/fm.htm**, with a link to the downloadable application form.

If you want more information on standards from the Canadian perspective, visit the web site of the Standards Council of Canada (SCC) at **www.scc.ca**, which is Canada's WTO Enquiry Point for standards notification. The SCC provides a variety of free information and has a paid custom research service that can give you company-specific data on standards, legislation and certification issues around the world.

The SCC also operates a free service called Export Alert!, which will send you an email warning when foreign regulators are changing the requirements that apply to your products. To find out more or to subscribe, visit **www.scc.ca/en/news_events/subscriptions/export_alert.shtml**.

6

Doing business abroad is inherently more risky than operating in Canada. But you can certainly minimize and manage these hazards, provided you know what they are, and if you understand the level of threat they represent. In this section, we'll explore various ways in which you can protect your company from the risks inherent in the Indian market.

RISK MANAGEMENT

6

6.1 Risk categories for exporters

The major risks for all export ventures fall into a relatively small number of categories. Depending on the country, the severity of these risks can range from very low to very high, but they are present everywhere, and India is no exception.

The categories include:

- customer risk (for example, bad credit or insolvency);
- failure of the customer to pay;
- wrongful calls of bonds;
- political risks;
- corruption; and
- other risks.

6.2 Customer risk

The more you know about a potential foreign customer or partner, the better. In other words, you absolutely must carry out your due diligence to find out about the company's creditworthiness, its financial record, the quality of its management, its business history and its reputation in the Indian and international marketplace.

Here are some ways to check out a prospective customer or partner:

- Contact the Canadian High Commission in New Delhi, the EDC representative in New Delhi or the Consul General in Mumbai to see if they have any information about the company.
- Check with your bank to see if it has a correspondent bank in India or elsewhere that could verify the customer's reputation.
- Does the prospective customer deal with other Canadian firms? If you can find out, canvas their opinions about the company.
- If you're willing to pay, there are many credit-reporting firms around the world that can help you verify a prospective customer's soundness. Such an investment in due diligence, even if expensive, could be worth every dollar if it reveals a major risk to your company.

6.3 Failure to pay

A customer's failure to pay can jeopardize the very survival of your business. And even if you know a company well and it has always paid you promptly, it still could collapse without warning and leave you unable to meet your own bills. EDC has two products to protect you against such unfortunate events:

Accounts Receivable Insurance

EDC's Accounts Receivable Insurance (ARI) will cover up to 90 per cent of your losses if your Indian customer doesn't pay because of bankruptcy, or refuses to pay for no good reason. It also covers you if the customer refuses to accept the shipment or if your import permits are cancelled. And while neither revolution or war is likely in India, ARI will cover you for these, too. You can visit **www.edc.ca/edcinsurance** to apply online or request a free quote, or you can call 1-866-283-2957 to learn more.

Contract Frustration Insurance

EDC's Contract Frustration Insurance (CFI), formerly known as Specific Transaction Insurance, will cover up to 90 per cent of your losses in relation to a specific export contract for services, capital goods or projects. Refer to **www.edc.ca/cfi** or call EDC at 1-866-283-2957.

6.4 Wrongful calls

Suppose you've worked with a bank to post a contract performance bond in the form of a standby irrevocable letter of credit, or a letter of guarantee. Your Indian customer was satisfied by this assurance, and you've fulfilled the contract in all respects. (For information on bonds and what they do, refer to **Section 5.2**, "**Performance guarantees and bonding**.")

But instead of paying you, the customer "calls the bond" – that is, alleges that you haven't met the contract conditions, and demands that your bank pay them the value of the bond. The bank complies, and then comes back on you to recover its loss. The customer's action in this case is known as a "wrongful call" and can cause no end of financial problems.

However, you'll be protected in this situation if you have EDC's Performance Security Insurance (PSI), which will cover up to 95 per cent of your loss when a customer issues a wrongful call and there proves to be no legitimate reason for doing so. For more information, refer to **www.edc.ca/edcbonding** or call an EDC representative at 1-866-283-2957.

Customer checking through EDC

EDC's EXPORT *Check* online service can help you assess a potential customer before you close the deal. Available on a cost per report basis, EXPORT *Check* will provide you with a credit profile of the company and any payment or claims experience EDC has had with it. The service also provides D&B reports on the target business, including credit and financial information, details of the company's history and its management team, and any legal problems the company has. For more information, refer to **www.edc.ca/edcexportcheck**.

6.5 Political risks

India has a history of civil disturbances, although these have usually been confined to one region and have rarely become widespread. Some areas, however, particularly the northeast, are experiencing varying levels of insurgency, and there have been numerous terrorist attacks. In consequence, depending on the type of business you're in and the locations in India where you're operating, you might want to find out what EDC's Political Risk Insurance (PRI) can offer.

EDC's PRI policy covers major risks that include:

- breach of contract by a foreign government or state-owned entity;
- non-payment by a foreign government;
- expropriation of your assets or investments;
- political violence that damages your assets or forces you to shut down foreign operations;
- conversion risk, which keeps you from converting local currency into hard currency;
- transfer risk, which keeps you from moving hard currency out of country; and
- repossession risk, which keeps you from repossessing or re-exporting physical assets you brought into the country.

For more information, refer to **www.edc.ca/pri** or call an EDC representative at 1-888-332-3777.

6.6 Corruption

Corruption, unfortunately, is not uncommon in Indian society. India's Central Bureau of Investigation registers hundreds of corruption cases every year, but the courts are so backlogged that it's difficult for the authorities to make headway.

Most Canadian companies will never run into any trouble when selling goods or services to an Indian corporate customer. However, there are always exceptions, so your best protection is to carry out your due diligence before you engage in any business with an Indian firm. At the very least, you should seek references for the company from:

- the Canadian Trade Commissioner Service at the Canadian High Commission in New Delhi, and/or the various Canadian Consulates in India;
- other Canadian companies doing business in the market;
- industry or business associations such as those listed on **page 56**; and
- local banks.

One especially good sign is a company's pride in belonging to a business chamber or association, and its willingness to refer you to those organizations for references. Competent legal counsel will also help ensure that you don't get involved in unsavoury business dealings.

Although it hardly needs to be said, you should walk away from any sale that suggests even a hint of impropriety. No exporter should ever do business with an Indian company that makes such overtures, and pursuing the relationship can lead to long-term, expensive and damaging repercussions.

6.7 Other risks

Other kinds of risk include foreign exchange risk, which you have to factor into your plans and pricing to allow for fluctuations in the value of the Canadian dollar. There are various methods for handling these risks, such as forward contracts and exposure netting; seek the advice of a financial professional.

Another obvious risk is the loss or damage of goods in transit. Shipping insurance is covered in **Section 7.10, "Insurance**."

Guarding against corruption

Like India, Canada has laws against corruption, including laws against the corruption of foreign officials. Canadians can be prosecuted in Canadian courts if they break these laws or counsel other people to break them. For a plain-language guide to this legislation, download EDC's pamphlet, *Keeping Corruption Out*. It's at **www.edc.ca/anti_corruption**.

7

Even as you negotiate a sale, you'll need to be aware of what will be involved in delivering your goods on time and undamaged. In this section, we'll look at the financial, legal and logistical demands of shipping to your Indian customers.

DELIVERING TO INDIA

7.1 Where to start

Delivering abroad can absorb a great deal of time and energy, especially if you try to cope with all its demands by yourself. While you're doing your research, be sure to contact one of the Indian offices of the Canadian Trade Commissioner Service. The trade team there can tell you the do's and don'ts of moving your products into the country.

You can also contact the Indian customs authority at the following address:

Central Board of Excise and Customs
Department of Revenue, Ministry of Finance
Government of India
Room 156, North Block
New Delhi 110001
www.cbec.gov.in

7.2 Non-tariff barriers to trade

Non-tariff barriers are government measures or policies, other than tariffs, that restrict or distort international trade. In India, these may include the barriers outlined below; be sure to find out whether any of them apply to your exports before you close a sale.

- Standards, testing, labelling and certification requirements exist to make sure that imported goods meet a country's health, safety and quality standards. In India, there are about 130 commodities that must be certified by the Bureau of Indian Standards (BIS) before they can enter the country.
- A particular class of standards, called Sanitary and Phytosanitary Measures (SPS), can affect Canadian exporters of agricultural and other natural-resource products. If you're an exporter of such products, shipping your goods to India may require that you meet these standards, as specified in the WTO Agreement on Sanitary and Phytosanitary Measures. For more information, refer to the WTO web site, specifically the section at **www.wto.org/english/tratop_e/sps_e/sps_e.htm**.
- Like most countries, India sometimes uses various measures to protect its domestic industry from being undercut by foreign products that are sold into the country at a cost below that of production.
- In the Indian service sector, there are some restrictions on foreign activity in insurance, banking, securities, motion pictures, accounting, construction, architecture, engineering, retailing, legal services and telecommunications.

7.3 Import regulations and licensing

India's former licensing controls have been greatly loosened during the past decade. Under the Open General License established by India's EXIM Policy, most goods can be imported without licenses or restrictions.

There are three classes of goods that are regulated, however. These are:

- Prohibited goods that can't be imported into the country (for a current list, refer to the India Finance and Investment Guide pages located at **www.exim.indiamart.com/freedlist/index.html**)
- Restricted goods requiring an import license (for a current list, refer to the India Finance and Investment Guide pages located at **www.exim.indiamart.com/freedlist/index.html**)
- "Canalized" goods that only government monopolies can import (for a current list, refer to the India Finance and Investment Guide pages located at **www.exim.indiamart.com/freedlist/index.html**)

Four institutions are responsible for issuing import licenses. They are:

- the Department of Electronics for computer and computer-related items;
- the Department of Industrial Policy and Promotion for organized-sector firms, except those importing computers and computer systems;
- the Ministry of Defence for defence-related items; and
- the Director General of Foreign Trade for small-scale industries not covered above.

7.4 Tariffs

India levies several types of import duty. The rates vary according to the goods, but the 2006–2007 budget cut the peak import duty to 12.5 per cent from 15 per cent. They are:

- **Basic duty:** This applies to all goods imported into India. It may be calculated either as a percentage of the value of the goods or at a specified rate.
- **Surcharge:** The surcharge is applied at 10 per cent of the basic rate and covers all commodities except crude oil, petroleum products, gold and silver.
- **Countervailing duty (CVD):** This is a duty used to protect Indian industries. It is levied on the cost of imported goods and equals the excise duty applied to the same goods when manufactured domestically. The 2006–2007 federal budget contains a proposal to levy a CVD on 4 per cent on all imports of excisable goods, with a few exceptions.
- **Anti-dumping duty:** Anti-dumping duty applies to specific goods imported from specific countries to prevent harm to domestic industries.
- **Safeguard duty:** If the government establishes that the quantity of a good being imported is high enough to damage a domestic industry, then it can apply a safeguard duty to the good.
- **Education cess:** This is fixed at 2 per cent of the accumulated duty.

For more information about customs and tariffs, refer to the Indian Export-Import Portal at **www.exim.indiamart.com**. For more information about India's federal budget, refer to **www.indiabudget.nic.in**.

7.5 Establishing the importer of record

The "importer of record" is legally responsible for the customs clearance of your goods into India and for paying any tariffs or taxes applied to them. If your customer asks you to assume contractual responsibility for these procedures and costs, and you agree, you'll become the importer of record. There may also be other implications such as responsibility for custom duties, custom clearance and insurance.

You should always refuse to do this, because it means you'll have to shoulder any problems the customer might have with the Indian customs authorities over the shipment. It's much better to stipulate in the contract that your responsibility ends when the goods reach the customer's port of entry. Better yet, try to make the customer responsible for the shipment from the time it leaves Canada. And *never*, under any circumstances, agree to move the goods within India itself.

7.6 Using an agent

Unless you have Indian business partners who can receive your goods in Canada or at the Indian port of entry and take responsibility for them at that point, you would be wise to have a trusted local agent to represent you.

Indeed, even if your customer has agreed to assume control of the goods at the port of entry and is handling customs clearance, tariffs and transportation, having an agent is still a good idea. If all goes well, naturally, there won't be much for your agent to do. But if your customer abruptly decides not to accept the goods, or creates other problems, your agent may be able to save the day. This, in fact, is what your Indian agent is really for: to deal with problems raised by the customer, to oversee transfer of title of the goods, and to pursue payment if necessary.

7.7 Labelling and marking

Be sure you comply with all labelling and marking requirements for your product. An error that may seem unimportant to you can stop a shipment on the dock and leave it in a customs limbo, unable to move either forward or back. The various Indo-Canadian business organizations listed on **page 56** may be able to help you with labels and marks; however, the best way to ensure that you have the correct labelling information is often to ask your customer for it. In addition, to protect yourself contractually, you can get sample labels approved as part of the contract.

7.8 Documentation

Goods imported into India require a commercial invoice, including:

- the country of origin;
- the consignee's name;
- the number and date of the letter of credit and the number of the import licence if applicable;
- the terms of payment;
- the name of the carrier;
- a description of, and identifying marks on, outer containers; and
- a detailed description of the goods including quantity, weight (gross and net), value, shipping charges and insurance.

They also require:

- a certificate of origin;
- a bill of lading; and
- a packing list.

This is a sample of the requirements that need to be completed. You may require expert advice to complete the forms correctly.

7.9 Packing

Remember that India's summer (March to May) is extremely hot and humid, and that your shipment may be stored outside in monsoon rains, so pack accordingly. Containers should be strong and proof against petty theft.

Outer containers should bear the consignee's mark and the port mark and must be numbered in agreement with the packing list. Gross weight must appear on two faces. All imports must show their country of origin.

For general information and instructions on packing and stowage of international cargo, you can download a pair of useful guides from the Canadian Trade Commissioner Service's web site. One is *Safe Stowage: A Guide for Exporters*; the other is *Export Packaging: A Guide for Exporters*. You'll find them at **www.infoexport.gc.ca/shipping/menu-e.htm**.

7.10 Insurance

A shipper assumes only limited liability for goods in transit, so if your business partner is not taking receipt of your goods in Canada, you'll be primarily responsible for your shipment until it arrives at the Indian port of entry. Shipping insurance is an unavoidable expense. The Canadian Trade Commissioner Service's web site provides an overview of shipping insurance at **www.infoexport.gc.ca/shipping/insureship-e.htm**. You can usually obtain insurance through a freight forwarder (see the next section), which is often preferable to doing it yourself.

7.11 Using freight forwarders

For most Canadian exporters, the complications of shipping are more than they want to handle. The solution is to use a freight forwarder.

There are numerous freight-forwarding companies in Canada, many of which have international expertise. You can pick and choose among their various services or have them manage the whole process, starting at your loading dock and ending on the customer's doorstep. They can handle transportation, customs clearance, cargo insurance, document preparation and processing, warehousing, local delivery in India and many other necessary functions.

Choosing a freight forwarder requires its own brand of due diligence. The two most important things to find out are whether the forwarder is experienced in clearing goods into India, and whether it uses an Indian partner with a reputation for competence. Even if it passes those two tests, you should also:

- ask the forwarder for a list of customers and ask those customers about the forwarder's quality of service;
- check the forwarder's credit references;
- find out if the forwarder is experienced in handling your type of product; and
- make sure the forwarder can handle the volume of shipping you expect.

Major Canadian exporters to India

Advanced technology and machinery

MDS (Canada)
Research In Motion Ltd.
COM DEV International Ltd.
Nortel Networks Inc.
UTStarcom ltd.
Husky Injection Molding Systems Ltd.
Brampton Engineering Inc.

Forestry

Bowater Inc.
Kruger Inc.
Tembec Industries Inc.
West Fraser Mills Ltd.
Optimum Trading Corporation

Power

SNC Lavalin Inc.
RSW International
Aecon Inc.

Base and semi-manufactured Goods

Canpotex Ltd.
Steel Canada Ltd.
Tembec Industries Inc.

Surface transportation

Bombardier (Rail Division)

Key Indian and Indo-Canadian business organizations

All India Association of Industries

106, Uttam House, P.D'Mello Rd.
Carnac Bunder
Mumbai 400 009 India
Tel.: 011-91-22-2341-2632
Fax: 011-91-22-2341-5685
Email: info@aiaionline.org
www.aiaionline.org

Asia Pacific Foundation of Canada

890 West Pender St., Suite 220
Vancouver, British Columbia
V6C 1J9 Canada
Tel.: (604) 684-5986
Fax: (604) 681-1370
Email: info@asiapacific.ca
www.asiapacific.ca

Associated Chambers of Commerce and Industry of India

147B, Gautam Nagar, Gulmohar Enclave
New Delhi 110 049 India
Tel.: 011-91-11-2651-2477
Fax: 011-91-11-2651-2154
Email: assocham@nic.in
www.assocham.org

Canada-India Business Council

1 St. Clair Avenue East, Suite 804
Toronto, Ontario
M4T 2V7 Canada
Tel.: (416) 214-5947
Fax: (416) 214-9081
Email: info@canada-indiabusiness.ca
www.canada-indiabusiness.ca

Confederation of Indian Industry (Headquarters)

CII Mantosh Sondhi Centre
23, Institutional Area, Lodhi Road
New Delhi 110 003 India
Tel.: 011-91-11-2462-9994
Fax: 011-91-11-2462-1649
Email: ciico@ciionline.org
www.ciionline.org

Federation of Indian Chambers of Commerce and Industry

Federation House 1 Tansen Marg
New Delhi 110 001 India
Tel.: 011-91-11-2373-8760
Fax: 011-91-11-2332-0714
Email: ficci@ficci.com
www.ficci.com

Indo-Canada Chamber of Commerce

45 Sheppard Avenue East, Suite 900
Toronto, Ontario
M2N 5W9 Canada
Tel.: (416) 224-0090 / (416) 224-0482
Toll Free: 1-866-873-4222
Fax: (416) 224-0089
Email: iccc@iccc.org
www.iccc.org

Key EDC contacts

EDC Head Office
Export Development Canada
151 O'Connor St.
Ottawa, Canada
K1A 1K3
Tel.: (613) 598-2500
Toll free: 1-800-267-8510
Fax: (613) 237-2690
www.edc.ca

EDC in India
Export Development Canada
c/o Canadian High Commission
7/8 Shantipath, Chanakyapuri
New Delhi 110 021 India
Tel.: 011-91-11-4178-2603
Fax: 011-91-11-4178-2607

EDC Regional Offices in Canada
Please refer to:
www.edc.ca/edccontact

Key Canadian contacts in India

Canadian High Commission, New Delhi
7/8 Shantipath, Chanakyapuri
New Delhi 110 021
Tel.: 91 (11) 4178-2000
Fax: 91 (11) 4178-2020
Email: delhi@international.gc.ca

Consulate General of Canada, Mumbai
Fort House, 6th Floor
221, Dr. D.N. Road
Fort, Mumbai 400 001
Tel.: 91 (22) 5549-4444
Fax: 91 (22) 5549-4454
Email: mmbai@international.gc.ca

Consulate General of Canada, Chandigarh
SCO# 54-56, Sector 17-A
Chandigarh 160 017
Tel.: 91 (172) 505-0300
Fax: 91 (172) 505-0320
Email: CHADG-G@international.gc.ca

Canadian Consulate, Chennai
18 (Old 24), 3rd floor YAFA Tower
Khader Nawaz Khan Road,
Nungambakkam
Chennai 600 034
Tel.: 91 (44) 2833-0888
Fax: 91 (44) 5215-9393
Email: cheni@gocindia.org

Honorary Consulate of Canada, Kolkata
c/o RPG Enterprises
Duncan House, 3rd Floor
31, Netaji Subhas Road
Kolkata 700 001
Tel.: 91 (033) 2242-6820 / 2220-8515
Fax: 91 (033) 2242-6828
Email: ccklkta@rpg.in

Trade Office of Canada, Bangalore
103 Prestige Meridian 1
29 M.G. Road
Bangalore, 560 001 Karnataka
Tel.: 91 (080) 2559-9418 / 2558-1116
Fax: 91 (080) 2559-9424
Email: baglr@gocindia.org

Printed in Canada on FSC-certified paper.

Ce document existe également en version française.

Photo Credits: front/back cover, © Gavin Hellier/Getty Images; page 2, © Robert Harding/Getty Images; page 10, © Amit Bhargava/Corbis; page 21, © Indiapicture/Alamy; page 32, © Viviane Moos/Corbis; page 38, © Zubin Shroff/Getty Images; page 45, © Jayanta Shaw/Reuters; page 50, © Wolfgang Kaehler/Corbis.

www.edc.ca