

Appendix II

TRADING HOUSES

DEFINITION OF A TRADING HOUSE

Trading houses are companies specializing in exporting, importing and third country trading in goods and services produced or provided by other parties, and which provide services related to these activities.

A wide variety of trading houses exist; among the most common are:

- an export management company managing all or part of the export function on behalf of manufacturers;
- an export consortium owned by and managing the export function on behalf of consortium members on an ad hoc or ongoing basis;
- an export co-operative managing the export function on behalf of co-operating members;
- a corporate trading company responsible for the exports of the parent company and other products and/or assuming the parent's countertrade obligations when required;
- a buying house sourcing on behalf of offshore clients;
- a procurement agent sourcing for offshore projects;
- export merchants buying and selling products on their own behalf;
- an export agent acting on behalf of others on a commission and/or fee basis.

SERVICES PROVIDED BY TRADING HOUSES

Canadian companies interested in exporting through a trading house have many kinds of services at their disposal, for example:

- market identification and selection;
- buyer identification, evaluation and selection;
- identification of product and packaging specifications;
- price negotiation;
- evaluation, recommendation and appointment of overseas agents, representative, distributors, services, organizations, etc.;
- negotiating the terms of the commercial contract which includes such things as the obligations of the buyer and seller, terms of payment and how the goods will be shipped;
- financial arrangements;
- promotional support abroad;
- shipping arrangements;
- provision of after sales service;
- preparation of all required export documents;
- protection against export risks (those relating to commercial and political factors, exchange rates, shipping, etc.); and
- satisfaction of claims.

HOW TRADING HOUSES OPERATE

The arrangements that companies enter into with trading houses cover a wide spectrum. At one end are agreements under which the trading houses perform all the functions involved in buying from a producer and reselling abroad. At the other the trading houses simply act as an agent or consultant. This type of work can include identifying potential clients abroad and carrying out certain commercial tasks. Remuneration is usually in the form of a fee or commission. There are any number of other arrangements between these two extremes. But, basically, trading house functions can be divided into three major categories:

1. Trading houses acting for the producer. This includes the commission agents who operate as the "export department" for the principal (now sometimes referred to as a combination export manager or export management company). Also included are commission agents operating on a non-exclusive basis who retain freedom to purchase on commission from suppliers of their choice.

2. Trading houses acting for themselves as principal. Usually termed an export merchant, the export trading house